IHG PLC 2020 Full Year Results

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Introduction

Stuart Ford

VP, Head of Investor Relations, IHG PLC

Good morning everyone and welcome to IHG's 2020 Full Year Results call. I am Stuart Ford, Head of Investor Relations at IHG and I am joined this morning by Keith Barr, our CEO and Paul Edgecliffe-Johnson, our CFO and Group Head of Strategy. Just to remind listeners on the call that in the discussions today the company may make some forward-looking statements as defined under US law. Do please refer to this morning's announcement and the company's SEC filings for factors that could lead actual results to differ materially from those expressed in, or implied by, any such forward looking statements.

For those analysts or institutional investors who are listening on the webcast to follow the presentation can I remind you that in order to ask questions you will need to dial in using the details on page 12 of the RNS or as supplied in your email invite. If you are dialled in over the phone the presentation can be downloaded, and the webcast can be viewed via ihgplc.com or through the link on page 12 of the RNS.

Opening Remarks

Keith Barr

Chief Executive Officer, IHG PLC

Good morning everyone. Before I get into our presentation, I wanted to first take a moment to recognise the very sad news of Marriott CEO, Arne Sorensen's passing last week. Anyone who knew him or had heard him speak will know how passionate he was about our industry and his company. He was an inspiring individual to so many people. It was a privilege to have known him and it goes without saying that he will be greatly missed. The thoughts of all of us here at IHG are with his wife, his children, and everyone at Marriott.

Over the last year, the Covid-19 pandemic has presented our business and indeed the entire travel and tourism industry with its biggest challenge ever. From the beginning our aim has been to act quickly, effectively and responsibly for all our stakeholders. We have taken steps to significantly reduce cost, preserve cash and maintain substantial liquidity to support our conservative balance sheet approach. We have implemented new safety and cleanliness procedures to protect colleagues and guests, increased resources and support for our teams working remotely, accommodated frontline workers in our hotels and helped the vulnerable in our communities. We have worked hard to support our owners and their cash flow with new operating standards, fee discounts and flexible payment terms. So much important work has been done and it has taken an incredible team effort in close collaboration with our owners, partners and colleagues to achieve it all.

The impact of travel restrictions and physical distancing measures around the world meant demand fell to the lowest levels we have ever seen, with global RevPAR down over 52% for the year. This led to a 75% fall in underlying operating profit. While the effect on our business has clearly been severe, we have also shown resilience, continuing to outperform in key markets and segments, driven by our business model, our weighting to domestic demand, portfolio mix and the strength of our brands.

The decisive actions we took to preserve cash throughout the crisis meant that our free cash flow was a $29 million inflow in the year with a $95-million inflow in the second half. This contributed to closing the year with $2.9 billion of total available liquidity, or $2.1 billion on a pro forma basis for the forthcoming repayment of the CCFF. However, with visibility still remaining limited as to the pace and scale of market recovery, we are not proposing a final dividend today.

Our focus remains on ensuring we are ready to grow strongly as demand returns. Through 2020 momentum for our brands continued with 285 openings and 360 signings, a quarter of which were from conversions.

Our strong positioning for recovery is underpinned by our evolved purpose and strategic priorities

As we reflect on what we have learnt in this period, and what is needed to succeed in this new environment, we entered 2021 with an evolved purpose and a set of clear strategic priorities that underpin our growth ambition. All of which I will talk more about later on. For now, let me hand over to Paul to take you through our full year results.

FY 2020 Financial Review

Paul Edgecliffe-Johnson

Chief Financial Officer & Group Head of Strategy, IHG PLC

Good morning everyone. Firstly, starting as usual with our headline results from reportable segments. Revenue decreased 52% to $992 million and operating profit decreased 75% to $219 million. Excluding the impact of System Fund recognition changes which we announced in December, revenue would have been $20 million lower and operating profit $21 million lower.

On an underlying basis the revenue decrease was also 52%. Underlying revenue from the fee business decreased 45% and operating profit reduced 65% driven by the adverse mix effect of weaker performances in the managed business. As a result, fee margin decreased to 34.1%.

The operating profit performance reflects the decline in the fee business together with the impact of the owned, leased and managed lease estate which went from a $52 million profit in 2019 to a $59 million loss this year. This reflected the majority of these hotels being closed throughout 2020 with those that remained open operating at very low occupancies.

Operating profit on a reported basis included the System Fund in-year deficit of $102 million and operating exceptional items of $270 million. The exceptionals predominantly comprised the impairments already taken in the first half of the year. These are detailed in the Appendix.

Adjusted interest including charges relating to the System Fund reduced by $3 million to $130 million.

Our effective tax rate of 38% differs from our previous mid-20%s guidance range largely due to a significantly reduced level of profit before tax, which resulted in unrelieved foreign taxes and other non-tax deductible expenses.

We estimate our effective tax rate for 2021 to be similarly elevated although forecasting in this area remains challenging given the sensitivities in the calculation and the uncertainties in the near-term outlook.

In aggregate this performance has resulted in an adjusted earnings per share of 31.3 cents.

Looking now at our drivers of performance. Group RevPAR was down 53% on a comparable basis. Our RevPAR definition includes the adverse impact from hotels that were temporarily closed. The travel restrictions and physical distancing measures in our key markets around the world contributed to an occupancy decline of just under 30 percentage points with rate down 17%.

Despite these incredibly tough trading conditions we opened 39,000 rooms in the year, driven principally by our continued focus on the long-term health and quality of our brands and estate, 20,000 rooms exited the system. Towards the end of the year a further 17,000 rooms exited following the termination of management agreements with SVC. These additions and removals brought net system size growth to slightly above flat, or up 2.2% excluding the SVC impact. Our usual summary of total RevPAR growth and total rooms available on an underlying basis can be found in the Appendix.

Looking now at the shape of our performance over the year you can clearly see differing trends in weekly RevPAR movements by region. Greater China saw a trough in early February with performance gradually improving throughout the year. Both the Americas and EMEAA regions declined sharply towards the end of the first quarter. There was then a level of RevPAR recovery in these two regions over the course of Q2 and Q3 before stabilising in Q4, but with the Americas recovering faster and more strongly than EMEAA on account of the latter having a greater impact from government mandated hotel closures, particularly in Europe. I will now take you through our regional performance in more detail.

Starting with the Americas where RevPAR was down 49% for the year, with the US down 47%. In the fourth quarter, US RevPAR was also down 47% which represents relative outperformance against both the overall industry and the segments in which we compete. I will come back to the main drivers of this shortly. We continued to see a divergence in performance between our franchise and managed estate. Our franchise hotels, which are largely in the upper midscale segment and in non-urban locations, saw RevPAR fall 43%. This contrasts with our managed estate which is weighted towards luxury and upscale hotels in urban markets where demand was weaker, and a higher proportion of hotels were closed. RevPAR at managed hotels fell 79%.

We opened 17,000 rooms, over half of which were for the Holiday Inn brand family. This was more than offset by 27,000 rooms exiting including the 17,000 related to SVC. Excluding SVC net rooms growth would have been 1%. Underlying fee business revenue was down 46%, and underlying fee operating profit was down 51%, driven by greater levels of RevPAR decline in our US managed estate which led to incentive management fees being $8 million lower. This impact was offset by the benefit of a $4 million litigation settlement and an $8 million payroll tax credit.

Our owned, leased and manage lease profit was down $64 million to a loss of $27 million due to temporary closures. All six hotels in this portfolio are now back open, albeit trading at very low levels of occupancy.

Looking at our future growth, development activity continued through the year, albeit at a slower pace. We signed 14,000 hotel rooms taking our Americas pipeline to 103,000 rooms.

Our US RevPAR outperformed the industry, driven in part by our weighting to the upper midscale segment which accounts for around 70% of our hotels. I have said many times over the years, this segment has proven to be the most resilient, as we saw during the financial crisis of 2008 and 2009. Whilst we saw deeper levels of RevPAR decline this time round, the trends were similar with Upper Midscale RevPAR outperforming the Upscale and Luxury segments across the industry by around 15 percentage points through the year. The strength of our brands is also clearly evident. We are outperforming in the segments in which we compete, and with Holiday Inn Express consistently outperforming the Upper Midscale segment.

As you can see from the chart on the bottom-left of the slide, we have seen occupancy levels above 50% in nearly 30% of our US estate in the month of December, which is traditionally a low occupancy month. This has been driven by our brands in the Midscale segment, which are heavily weighted to non-urban locations and essential business travel. We are largely skewed to domestic guest stays and our business to leisure mix of demand was broadly unchanged through the pandemic, with the proportion of groups demand naturally declining and the proportion of essential business transient demand increasing.

Moving now to Europe, Middle East, Asia & Africa, where RevPAR was down 65% for the year with the fourth quarter down 71%. In the UK, fourth quarter RevPAR was down 74% while Continental Europe declined 86% given a large proportion of closed hotels. A relaxation of travel suspensions across the Middle East saw fourth quarter RevPAR modestly improved to a 56% decline, while the easing of domestic travel restrictions in Australia saw RevPAR declines improve to 59%.

Underlying fee revenue was down 67% or $220 million with underlying fee operating profit falling $211 million to a loss of $19 million. This was driven in part by performance across our managed estate which is weighted towards Upscale and Luxury hotels which generated $76 million lower incentive management fees.

Hotel closures impacted our owned, leased and managed lease estate with a $47 million fall in profit resulting in an operating loss of $32 million. Looking briefly at the development environment, we opened 11,000 rooms and exited 7,000. We signed a further 14,000 into our pipeline.

Despite the challenges EMEAA has faced in 2020, we remain confident of its continued robust growth potential. We have been growing in each sub-region and the pipelines are particularly large of the existing system in the more emerging markets such as the Middle East and South East Asia. Across the region there is almost 60% of the current supply that is unbranded. We expect a continued shift towards branded players as shown by our share of the pipeline considerably exceeding our share of existing supply.

We made further progress last year through signing high value hotels with over 30% of signings in the Luxury & Lifestyle segment. We continued to develop and expand our brand format including Suites propositions and resort destinations.

Turning to Greater China where the demand environment improved through the year. RevPAR declined 40% for the year as a whole and by 18% in the fourth quarter. Across Mainland China, Tier 1 cities continued to see a greater level of RevPAR decline, down 28% in the fourth quarter given their weighting to international inbound travel. By contrast, RevPAR in Tier 2-4 cities, which are more weighted to domestic and leisure demand, declined by just 8%.

Underlying revenue was down 44% for the year or $60 million and underlying operating profit was down $38 million to $35 million, impacted by $32 million of lower incentive management fee income. Encouragingly as demand returned, we were able to recognise over $14 million in incentive fees in the second half, although this was still down 40% year-on-year.

We opened 11,000 rooms driving net system size growth of 6.4% and signed a further 28,000 rooms into our pipeline, with signings in the fourth quarter up year-on-year.

We have delivered consistent growth in China since we opened our first hotel there in 1984. Since then population growth, urbanisation and rising wealth from an emerging middle class have been driving solid demand for hotel rooms across the region. Significant investment in road, rail and air infrastructure and tourism being one of the five strategic pillars of the Chinese economy mean the long-term tailwind for our industry is strong. Against this backdrop our strategy to grow a sustainable domestic business as our second home market is delivering results.

Critically our brand portfolio in Greater China is well established and has built a strong consumer following. Our Upper Midscale brands, Holiday Inn Express and Holiday Inn, both rank as the most preferred brands amongst their peers and we have the market's leading upscale brand with Crowne Plaza. We are also well positioned in Luxury & Lifestyle with InterContinental and the acquisitions of Kimpton, Regent and Six Senses have further enhanced our offer in this segment.

We were early to identify the potential to expand outside of Tier 1 cities and have been adding hotels in these areas whilst the demand drivers are being built. With over 70% of our open hotels and 85% of our pipeline hotels in Tier 2 to Tier 4 locations, we are well positioned to capture future growth in these markets. We are also adapting our model to take the maximum share of owner demand. In 2016, we launched our tailored franchising solution for Holiday Inn Express and have since opened nearly 100 hotels. This takes us to over 200 Holiday Inn Express hotels in total with a further 205 in the pipeline. In contrast to peers who are using master franchise agreements, we are able to retain the full economic benefit of these fee streams.

Looking now at our overall system size progress and pipeline composition, over the last 15 years we have experienced considerable growth. Since 2016 you can see that we have accelerated our rate of net rooms growth from around 3% to 5.6% in 2019. This was achieved by driving up our gross openings. While we are focusing on growing our system, it is important to highlight our commitment to protecting the quality and consistency of our entire estate. We continue to remove hotels to protect the reputation of our global brands. Since 2006 we have removed nearly 360,000 rooms. In recent years our removals rate has come down to 2% on average. In 2020 our net rooms growth slowed to 2.2% excluding the SVC impact. This consisted of a gross openings rate of 4.5% and 2.3% exits.

As we look ahead our pipeline remains strong. As you can see on the bottom-left chart, 166,000 rooms or over 60% are in the mid and upper midscale segments. This is complemented by a strong pipeline in upscale and luxury. Our total pipeline of 272,000 rooms is equivalent to 30% of our current system size, providing a strong platform for long-term growth. Keith will provide you with more details shortly on our strategic priorities and within this our initiatives across building loved and trusted brands.

Moving to the actions we have taken to manage our cost base across the business. During the year we achieved our target of $150 million of fee business cost savings. As previously described, these savings were driven by temporary scaled salary reductions across all corporate roles, along with cuts to travel and other discretionary spend. As we look ahead our focus has been on ensuring that we have a cost structure appropriate for a recovery-led demand environment, whilst ensuring we continue to invest in growth initiatives that will drive our performance over the long-term. As such we are targeting around $75 million of fee business cost savings being sustainable in 2021 and beyond.

We remain committed to investing in our growth initiatives which included investing behind our newer brands to help them driver owner preference and scale. We also maintained our deployment of key money to sign high value hotels in iconic locations. We continue to support our owners in managing their hotels' cash flows. In return we are seeing good levels of cash collections across the estate, albeit it is still taking a little longer than usual for owners to pay given the challenges they have been facing. As shown on the right side looking at the Americas, we are back to seeing over 90% of billings paid within 90 days of being due. In fact, we get around 85% within 45 days of the due date.

Turning now to capex, during the year we spent gross capex of $148 million and net capex of $67 million, a reduction of $117 million and $144 million respectively. As an asset-light business we have relatively low levels of capital requirements and we will continue to use our balance sheet to invest in growth opportunities, including the strategic use of key money and growing our enterprise capability through System Fund investments. We expect in 2021 to invest net capex of around $150 million which is in line with our medium-term guidance.

For 2020 free cash flow was $29 million with an inflow of $95 million in the second half. We worked hard to proactively manage working capital through extending payment terms with some of our largest suppliers whilst still continuing to support our smaller suppliers, reassessing committed spend across the business and reducing discretionary spending through cost saving measures. In addition to the positive free cash flow, the overall $136 million reduction in net debt reflected the derecognition of lease liabilities from our balance sheet, with these partly offset by adverse exchange movements.

As you know, we have always run the business on a conservative basis, and in addition to managing our cash flow, we have taken proactive steps to strengthen our liquidity position which currently stands at $2.9 billion. That becomes $2.1 billion on a pro forma basis for repayment of the £600 million from the UK government CCFF that matures in March. We have secured further covenant waivers for our $1.35 billion syndicated and bilateral credit facilities up to and including December 2021, with covenant relaxations for June and December 2022.

During the year we also optimised our bond maturity profile. We issued a €500 million bond, a £400 million bond maturing in 2024 and 2028 respectively, at a blended debt cost of 3.0%. This lowered the overall blended cost of our bonds to 3.13%. Following the net issuance and repayment of bonds, 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. We remain well capitalised and are confident in our future cash flow generation.

Finishing then with a reminder of our strategy for uses of cash which remains unchanged. First and foremost, our focus is to reinvest capital to drive growth. Secondly, we want to generate sufficient funds to allow us to restore and support growth in the ordinary dividend. Lastly, when there is further cash available which is truly surplus, we will return this to shareholders, as we have demonstrated over the last decade. We approach this with a continuation of our stated aim of a leverage ratio of 2.5-3.0x and our objective of maintaining an investment grade credit rating. Thank you.

Update on Strategic Priorities

Keith Barr

Chief Executive Officer, IHG PLC

I would like to spend some time looking at the fundamentals of our industry and why despite historic lows we saw last year the longer-term attractive growth characteristics remain unchanged. Prior to Covid-19 our industry saw a decade of consecutive growth with the overall travel and tourism sector outpacing the global economy. The market also continues to shift to brands to scale. The top-three branded global players, of which IHG is one, now have 17% of the open rooms globally and notably 43% of the active pipeline. This means we will continue to collectively take share and increase our relative scale against the rest of the industry.

The resilience of our Midscale and Upper Midscale segments, which represent around 70% of our system and pipeline, is undeniable. In the four years prior to 2020, the segment contributed around 40% of the overall branded industry growth and we have consistently seen that in periods of weaker demand RevPAR in these segments fall less than the industry overall. As economies rebound and populations continue to grow the inherent desires and needs to travel return we also expect that the pandemic will have accelerated trends such as the importance of seamless technology and a growing preference for sustainable practices, both key priorities in our strategy.

As a business we entered 2020 in a strong position having strategically accelerated our rooms growth through the investments made in our brand, guest experience and owner offer. This leaves us well placed to capitalise on strong industry fundamentals.

Before I move on to our strategy, I want to take a moment to talk about purpose. The experience through Covid-19 has outlined the importance of purpose giving new meaning to our potential to effect positive change and highlighted the growing expectation that we must deliver change in a challenging world, which is why we evolved our purpose from true hospitality for everyone to True Hospitality for Good. We remain committed to looking after all those we interact with but now more focused on the difference we can make to our people, guests, communities and the environment.

As we look to the future our ambition to deliver industry leading net rooms growth remains our unwavering focus, which means continuing to leverage our scale, expertise and system in order to grow our brands in the industry's most valuable markets and segments. To help us achieve this we will work as a business towards four strategic priorities that place an even sharper focus on our services, products, returns and reputation.

The first is building loved and trusted brands.

Since 2017 we have added five brands to our portfolio and invested in our existing brands to create a much richer offer. Each brand sits in a high value segment and caters to a different stay occasion which ultimately drives growth. You may have seen recently the change we have made to present our brands in four collections, Luxury & Lifestyle, Premium, Essentials and Suites, alongside a refreshed branding for our loyalty programme, IHG Rewards. This is a more intuitive way to present the breadth of our portfolio to customers and forms part of our refreshed approach to use the IHG Hotels & Resorts master brand to more prominently enhance our brand reputation, sharpen our marketing and thus capture a greater share of demand.

Let me go into each of our brands in a little more detail.

First our newest organic brands which are all rapidly scaling up. Our extensive expertise in the Midscale and Upper Midscale segment has enabled us to successfully launch two brands in these resilient and high-growth areas, avid and Atwell Suites. We expect avid to be our next brand of scale. Its low cost to build and operate together with its competitive price point make it attractive to owners and guests and its appeal is likely to increase in a strained economic environment. Almost 90 hotels are under construction or have plans approved and we expanded beyond the US during the year with our first opening in Mexico and first signings and ground-break in Canada.

In the Upper Midscale segment our all-suites brand, Atwell Suites, is also gaining momentum since launching in late 2019 with 19 signings in vibrant locations and construction underway on our first property in Miami.

After a successful start in EMEAA we launched voco, our upscale conversion brand, in both the Americas and Greater China in 2020, the fastest pace at which any of our brands has gone global, and we are on track to grow to more than 200 hotels within ten years.

The voco brand is now secured in more than 20 countries from resort to all-suite properties and represented 13% of our 91 conversion signings in 2020, with all the other conversions being across our other brands. Notably, the pace at which hotels are converting to our system, a key part of the voco offer, is really helping owners maximise their returns and quickly benefit from our global scale. Take the voco Franklin in New York which signed during the pandemic and opened just three months later. Guests love the brand too. Hotels are seeing increased guest satisfaction scores. For example, the voco Paris seen here, which signed and opened in 2020, saw double-digit uplifts post conversion.

Turning now to our established brands which are driving the performance we see today.

Our Holiday Inn Express brand is a key growth engine of our business and we continue to invest in it to ensure it remains the preferred choice in its segment for our guests and owners. Last year's launch of our evolved Formula Blue public space and guestroom designs in the Americas will help owners better maximise their returns with a new purchase-ready format leveraging our procurement scale and delivering a cost saving of more than 10%. While in Europe we are already seeing uplifts in guest satisfaction from the new room designs that continue to roll out.

The strength of the brand combined with the weighting of our distribution to non-urban locations and domestic demand led to Holiday Inn Express outperforming its segment in the US though 2020. With 132 signings the pipeline represents over 20% of the current system size with a strong growth outlook in all regions.

Moving now to our other established brands, last year Candlewood Suites and Staybridge Suites delivered occupancy levels of around 60%, made market share gains and achieved high customer satisfaction score. These brands offered a great option to guests needing longer stays away from home during the pandemic. Our new prototype designs which offer owners lower build and operating costs, are committed in over 80 Candlewood Suites and more than 100 Staybridge Suites. Momentum for the brands continued with 25 signings across both including a second property in Dubai for Staybridge Suites and its first in Bangkok.

In Greater China we opened three HUALUXE properties including a rebranding in Shanghai, and we grew the estate of our wellness-focused brand, EVEN Hotels, to 16 with the first opening outside of the Americas in Nanjing, Greater China.

Our new-build Holiday Inn prototype which brings fresh and modern designs to our hotels across the Americas, is implemented in around 90 hotels and delivering a five-point uplift in guest satisfaction. In Europe our open lobby concept is being adopted in 90% of the estate generating meaningful uplifts in guest satisfaction and increased food and beverage revenue for owners.

For Crowne Plaza we opened 19 properties in the year, ten of which were in Greater China, marking the 100th for the brand in the region. We added 27 new signings, around a quarter of which were from conversions, and we saw good increases in guest satisfaction scores at properties that have completed renovations to their public spaces and guest rooms.

Our ambition to deliver industry-leading net rooms growth comes at the same time as ensuring we protect the reputation of our brands and the consistent high-quality nature of the portfolio. From 2016 to 2019 our gross openings increased from around 5% to almost 8%, whilst our continued focus on quality led to hotel removals of 2% per year. In recent years those exits have included a larger proportion of Holiday Inn and Crowne Plaza hotels in the Americas which reflects our continued focus on increasing the overall quality of those brands.

Both are powerful global brands with significant further growth prospects but to support this we know we have got to continue to deliver against the high guest expectations for quality and consistency, which have become even more important with Covid-19. Across the two brands we have a total global estate of around 1,700 hotels. There are around 200 that are currently being reviewed, focused on those that are below where we would like them to be in areas such as customer satisfaction and property condition. Those hotels generated 2020 fee income of approximately $20 million.

At a time of lower demand, we will be working very closely with these hotel owners to improve the overall guest experience including through the implementation of service or property improvement plans. We are confident this will support IHG being well placed for the industry recovery and will ensure long-term sustainable growth.

I will now focus on our Luxury & Lifestyle collection and the opportunities we see across these five brands which cater to uniquely different stay occasions.

In the year we opened 32 hotels and now have a portfolio of 431 properties in over 70 countries from urban to resort locations, as owners continue to recognise the long-term attractive returns that assets in this segment offer.

Last year we signed 56 hotels into the pipeline and of these around 30% were conversions, which represents a growing opportunity across the portfolio.

Taking each brand in turn, we signed seven properties for Six Senses including in Italy, Japan and Saudi Arabia, taking the global pipeline to 31.

Since we acquired Regent four properties have been signed taking the pipeline to six with a further seven open.

You will also recall that we are renovating the InterContinental Hong Kong as part of a rebrand back to Regent, intending to open in 2022, making the hotel a global flagship for the brand.

We continue to reinforce the position of InterContinental as the largest global luxury hotel brand. We have got more than 200 hotels in 60 countries and we have re-entered some key markets such as Italy and Morocco in 2020 through conversions of existing assets. More good progress was made with the international expansion of our Kimpton brand with new openings in Mexico, Thailand and Japan and strong signings in key resort locations such as Mallorca. We also added another four deals in the US.

The acceleration of our boutique Hotel Indigo brand continues at pace with ten openings during the year, five of which were in the US, and 22 signings. We now have 125 hotels open and a pipeline of over 100 across 35 countries.

As you can see here, we continue to focus on enhancing our Luxury & Lifestyle offer for our guests and owners, whether it be the pace of conversion such as the Regent Shanghai Pudong, the brand's first opening since acquisition which signed and converted in 45 days, or expanding into new markets such as the Hotel Indigo Cyprus, one of numerous debut locations for the brand.

Moving now to our second priority which is to really make sure that we are thinking like our guests and owners in everything we do, being even more customer-centric in the things we are working on. It is critical that we put our two sets of customers – our guests and owners – at the heart of everything we do. Operating with insight and making informed decisions will allow us to create the tailored services and solutions needed to increase demand, strengthen guest preference and deliver strong owner returns. We saw this come through from our response to Covid-19 which is shown by our guest satisfaction index being net-positive throughout the year, outperforming our competitors.

For our guests a clean and consistent brand experience will continue to be paramount and our enhanced cleaning standards and operating protocols give them the confidence to stay with us. Since launching our IHG Clean Promise, which uses new science-led protocols in partnership with industry-leading experts, we have seen the number of positive third-party social media guest reviews on cleanliness increase by more than 30%.

We understand that our guests need increased flexibility, which is why we launched our Book Now, Pay Later offer and free cancellations. For our corporate guests we launched a new global Meet with Confidence offer which provides clear safety protocols, greater flexibility on cancellations and is now embedding virtual and hybrid meeting solutions.

Our IHG Rewards members traditionally account for around half of our guest stays and proved to be the most resilient during the toughest Covid-impacted periods. We have made sure to look after them by protecting status and points expiry and we enriched our offer with dynamic pricing for Reward Nights. This sets the daily rates for hotels, enabling more than 80% of them to reduce their points pricing and offer 25% more value to guests outside of peak times. We also formed new loyalty partnerships and used our technology investments to offer more targeted and relevant promotions.

When it comes to our owners, we have worked closely with them during these times of low demand to maximise their returns. As new safety and cleanliness protocols bring extra costs, we have worked with them to offset this by adapting operating standards elsewhere and delaying renovations, all whilst maintaining the high quality guest experience. We have also offered flexible payment terms and utilised our scale to drive centralised food and beverage procurement savings, which we are going to extend into other categories of goods and services to deliver additional savings for our owners. Owners have also used our optimised Revenue Management tools to protect pricing and returns during periods of volatile demand.

Our third priority is all about how we create digital advantage as a company. The dynamic environment we are in, requires organisations to rapidly enable new commercial propositions from the products offered, the prices set and the channels in which we operate. Our focus on creating a digital advantage is vital to us enabling a seamless technology experience across the entirety of the guest journey. This will drive direct bookings, create an integrated digital experience for our guests and deliver revenue-enhancing propositions to owners.

Our investment in our cloud-based hotel technology platform, IHG Concerto, allows us to develop and roll out performance-enhancing tools faster and easier than ever before. The next phase of our Guest Reservation System, attribute pricing, is expected to be live across the estate by the end of this year, enabling a tailoring of stays and a selection of add-ons.

Initial pilots in 2020 were conducted in each region, demonstrating to owners the ability to generate maximum value from their hotel's unique attributes.

A seamless technology experience is also integral to the end-to-end guest experience. Leveraging IHG Concerto we have been able to remotely and rapidly deploy technological developments to support a safe and secure guest experience and reduce unnecessary contact. Contactless check-in is receiving strong guest satisfaction scores and is live in over 1,000 hotels, while digital check-out is already live in 4,000 hotels. Linked to IHG Concerto our Owner Engagement Portal provides real-time data on how their hotel is performing on a variety of different measures. Most importantly we will suggest actions on how to improve performance. As we focus on maximising returns in every way we can, we are also enhancing our hotel lifecycle system to accelerate the time taken between planning and opening a hotel.

The final priority area is how we care for our people, communities, and planet. We have ambitious growth plans as a company but equally important to us is how we grow. At IHG we want to make sure we continue to work and grow within a culture that respects and invests in our people, embraces the opportunity to contribute positively to local communities and operates responsibly and sustainably in the world around us. Last week, we launched Journey to Tomorrow, our new 2030 Responsible Business Plan which starts a decade of new commitments.

Starting with our people, it is crucial that we keep investing in our culture, that we support, develop, and empower colleagues, and attract new talent into the business. We are committed to driving gender balance and doubling under-represented groups across our leadership, supporting all colleagues to prioritise their wellbeing, and advancing human rights.

In our communities we want to improve the lives of 30 million people around the world by driving economic and social change through skills training and innovation, supporting our communities when natural disasters strike and collaborating to help those facing food poverty.

With such a global footprint and strong pipeline of hotels it is vital that we work closely with our owners and partners to ensure we operate and grow in a way that protects the world around us. Our new environmental targets include lowering absolute carbon emissions in line with climate science across our owned, leased and managed hotels by 15% by 2030, and reducing carbon emissions per square metre from our franchise hotels by 46%. For new-build hotels our ambition is that within 3-5 years these will operate at very low or zero carbon emissions and maximise the use of renewable energy.

We will also pioneer the transformation to a minimal waste hospitality industry. We are targeting a reduction of food waste through a "prevent, donate, divert" plan and circular solutions for major commodity items. We are also no track to deliver our pledge to remove single-use miniature bath amenities from our hotels by the end of this year.

We will use new tools to reduce the water footprint of our hotels and help secure water access to those in communities at greatest risk. We have done some important work in all of these areas in recent years, and there is a real energy in the business to deliver on these commitments, as well as an understanding of how important these elements are to all of our stakeholders.

To sum it up – last year was like no other and I want to express my thanks to all our colleagues and owners for their unrelenting efforts through the Covid-19 crisis. Their dedication in helping guests and communities around the world brought to life our purpose of True Hospitality for Good.

We also responded quickly and decisively to protect the business, including our actions to reduce costs, preserve cash and increase liquidity, all whilst realising some remarkable operational achievements.

We delivered outperformance in 2020 and demonstrated the resilience of our business model, thanks to the strength of our teams and brands, the segments in which we compete and our weighting towards domestic demand. Voco rolled out globally at record pace and we took our other brands to new markets. We also continued to invest in the business for future growth including the pilot of attribute pricing.

The shape of the recovery thus far has varied globally, and the near-term outlook still has challenges and uncertainties. Long-term confidence remains unchanged and our owners share that view, as reflected in our 285 hotel openings still being achieved in the year and an average of one new signing almost every day in 2020. We will need to be patient but the industry fundamentals are strong and we are well placed to gain further market share with our preferred brands and the largest and most attractive market s and segments, supported by an even stronger technology and loyalty platforms.

Our clear strategic priorities will take IHG forward into the next stage of our journey and as the market continues to recover, support our ambition of industry-leading net rooms growth.

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

Q&A

Bilal Aziz (UBS): Good morning everyone, thank you for taking my questions, just three for me please. Firstly, certainly some of your US peers have talked somewhat explicitly about unit growth expectations for next year. You typically outperformed the market and flagged ambition to do so. How should we think about that either on a gross or net basis for next year please?

Secondly, on the improvement plan you have highlighted for 200 Crowne Plaza and Holiday Inn hotels, I appreciate it is very early in that process right now but what sort of reception have you received from the owners? How long do you expect this process to take place please?

Lastly, on the RevPAR sensitivity we should be thinking about for 2021 of $15 million, can you please highlight if that is relevant for the level of decline you are expecting for the year ahead with potentially some incentive fees in China looking a bit more promising? Thank you.

Keith Barr: Thank you very much. If you think about IHG and the journey we have been on going back to 2017-2019, we announced our strategy to accelerate our growth. You saw our gross opening go from around 5% to 8% and our net going from around 3% to the mid-5%. We had a very clear strategy to accelerate our growth during that time. In fact, in 2019, of the big players, we opened up more hotel rooms than anyone else on a gross basis but still committed to quality and having underlying reductions around 2%. We grew at that pace with our existing ownership base of around 3,500 owners around the world. The vast majority of those owners, a bit like the US, are small business owners. Coming into 2020 we had a gross opening of around 4.5% and then we had the normal removals, and SVC.

Our owners in 2020 have been incredibly focused along with us on operating their hotels. Remember most of our owners have two or three hotels with us. They are small businesses and their focus in 2020 was really not on breaking ground on the pipeline, or necessarily signing new hotels so we saw signings decline. Owners were really focussed on running their businesses and our conversations with them have been very positive. We signed nearly one hotel a day in 2020. However, on a go-forward basis, we are very confident that those owners, which we saw from 2017-2019, will continue to sign and invest in IHG brands, accelerating our growth back to industry-leading. However, we are in a bit of a transitionary period right now with effectively slower ground-breaks taking place in some markets and constructions stopping in a number of markets. We will expect to see acceleration of growth but really 2020 and 2021 are transitionary years.

The added impact there is going to be the Holiday Inn and Crowne Plaza improvement plan. These are both exceptionally strong brands. They have great growth potential across the entirety of the business. We have been very focused on improving them year after year and they had some more removals in the US in particular. We have found about 200 hotels around the world currently are not performing at the level that we would like. We are going to be working with those owners very, very closely to improve performance.

To put it in a bit of context, those 200 hotels on average have lower guest satisfaction scores than the rest of the brand, and in fact in 2019, they more than likely had their guest satisfaction scores go down when the rest of our brands went up. They tend to have lower market share. They tend to be older hotels and tend to have had less adoption of some of the brand initiatives like open lobby and the Crowne Plaza renovation plans too. Owners have received the conversations well. They recognise that we need to improve performance of the Crowne Plaza and Holiday Inn in these hotels for all of our owners because we have all of these wonderful hotels around the world that are new prototypes of Holiday Inn and Crowne Plazas being launched and being the leading brand in China and other markets. Clearly there is going to be some impact on our system because not all of these hotels are going to be able to make the journey. We are not sure about how many. We wanted to flag what the numbers are upfront, but our intention is to work with these hotels, hoping that most of these hotels do not exit, but some clearly will. We will be giving all of you an update more clearly in August at the half-year about our progress on this initiative too.

We're very confident about growth in the medium-term for the company, 2020 and 2021 are transitionary years for a number of reasons we have talked about, but we are very confident about the future. As we showed in 2017, 2018 and 2019 we could do it, we are very confident that growth again in the future.

Paul Edgecliffe-Johnson: We saw in 2020 that the RevPAR sensitivity was about $15 million per point but that is really just based on the shape of the trading across the year. It might be the same in 2021 if you see almost a symmetrical recovery between the franchise estate, and the managed and owned estates. Whether it ends up being $15 million or $14 million it is a little hard to say for now, but those are the sort of parameters that we will be operating within.

Jamie Rollo (Morgan Stanley): First question is perhaps a follow-on from the last one just in terms of the openings profile. I get this year is going to be probably below the 5-8% pre-Covid range but if we look out a few more years, given that signings in the fourth quarter were still down a third, and you terminated 10% of your pipeline, do those not have more of a longer-term or medium-term effect on the openings even after 2021? To add, avid seems to have ground to a halt because the pipeline has not changed in a year. Are you confident in the addressable market for that brand?

Secondly, on the dividend question, could you please be explicit on what financial metrics have to be in place for that to be resumed? Is it just a leverage number below 3.0x or have the covenant waivers got to go as well? Or is there a certain level of EBITDA we have got to think about?

Then a final one, you talked about a slightly lower mix of direct bookings. Could you give us your OTA mix in the year if that is possible? Thank you.

Keith Barr: Thanks Jamie. I think overall from a growth perspective when you look at the strength of our ownership relations particularly in the US and that the midscale segments are what drove a lot of that acceleration in 2017, 2018 and 2019. Clearly we saw, as the industry did, a slowdown in signings in 2020 and we will see probably as an industry see slower signings in 2021, then an acceleration as we get into recovery. When owners move from running their businesses and trying to keep their businesses open to looking at signing new deals and breaking ground. Those owners will come back which will drive our performance going forward there too and as lenders get more confident.

In terms of the pipeline, I believe we terminated about 8,000 more rooms last year than the previous year. We did that mostly in the fourth quarter. We were looking at the pipeline to make sure what was the health of the pipeline. What is the likelihood of these deals taking place? We saw the US pipeline remain fairly consistent in terms of terminations. We saw a little bit of an acceleration of terminations in China and EMEAA and the reason for that is a lot of those projects have really long-term run rate, as you would well know Jamie. The InterContinental Shanghai Wonderland was ten or 11 years from when we signed it to when it opened. However, we now know some of those projects that were signed in those markets are not going to take place. Maybe the development is not going to take place and so forth. I think overall the pipeline is very, very healthy. We made sure of that with how we viewed it last year. We have about 1,800 hotels in the pipeline today. About 40% are under construction and we will see again the gross numbers begin accelerating up into 2022, 2023 and 2024 again driving increase in net rooms growth over that period of time.

Going back to avid, a lot of confidence. We have got about 200 hotels signed right now, a little more than that, around 90 are in planning or under construction and we think that we will continue to see a lot of appetite in that segment. It is a very, very low cost to build, high margin operating model which delivers really strong returns which are quite attractive to owners too. Very confident about getting back to that industry-leading net rooms growth. I think the industry will be growing a little bit slower in the coming years. I think everyone will see that but then again, the focus on the economic activity, the growth in stimulus packages will be benefitting as well.

Paul Edgecliffe-Johnson: There are not any restrictions that are in place with the agreements that we have put in place with the banks around the waivers that would preclude us from paying a dividend but equally, Jamie, you know us, we are conservative so we would want to get dividends back on track when it is appropriate to do so, when the company is generating a sensible amount of free cash flow. Looking at all the factors, I think our track record of returning $13.5+ billion to shareholders over the years has shown that when we have cash that we can hand back to the shareholders, whether that is by ordinary dividends or special dividends, we absolutely do that. No change really in our thought processes or our philosophy around that and there are no specific restrictions.

In terms of your question around the OTA mix, it is actually down year-on-year, but I think that could give you a slight false read. We spoke at the half-year about the fact that more guests post the start of the pandemic were booking directly with the hotels. They were calling up the hotels, so OTA contribution did fall quite sharply then for a while. It then normalised back towards our more normal level. In numerical terms, it fell by over 100 basis points year-on-year, but I would imagine that as we go into 2021 it will all recover. We like OTA business because it is often incremental for us and so no issues at all with OTAs. We have good commission rates with them, and they can deliver incremental business into our hotels.

Jamie Rollo: Thanks. Coming back on the unit growth, even if all of those 200 hotels leave the system you are unlikely to be negative this year. Is that a fair assessment?

Keith Barr: We have to look at it, Jamie. Honestly, I think there is a lot of volatility in terms of openings. We still have construction starts restarting right now. There are some supply chain issues as well, so I think we cannot be really definitive about what the overall growth is going to look like in 2021 until we get further into the year and see how construction reopens in a number of marketplaces and so forth. However, very confident about accelerating into 2022 and to 2023.

Jamie Rollo: Okay, so it could be negative. Thank you very much.

Vicki Stern (Barclays): Morning, firstly on the cost savings, the $75 million, I think many of your US peers are suggesting that in light of their cost savings programmes, margins are going to come out of all this in a structurally higher place than they went in. Would you say the same is true for IHG? Do you look at that $75 million as something that will be permanent even through the real recovery when that emerges?

Second question is similar really on owner margins. To what extent do you think the sudden reduced brand standards that you have been implementing to preserve profits during Covid will stick and then ultimately potentially enhancing the owner margins as we go into recovery?

Then finally, your latest thinking really on the structural business travel reduction. Again, some quite positive comments coming from the US peers, perhaps less so from some of your European peers on any long-lasting impact from reduced trips as people do more Zooms and the like. Thanks.

Paul Edgecliffe-Johnson: The $75 million of savings we have put in place are structural savings. We would anticipate that those are sustainable, hence they would yes increase the margin for the Group over time. That said, we always will invest into the business so if we see an opportunity as things step up over the next few years to invest a little bit more behind our new brands to make them grow even faster then that is certainly something we would consider to effectively put some of that back into the business to stimulate growth. However, absent that, yes, it would be a sustainable step-up in the margin.

Keith Barr: Vicki, if you go back to the second strategic pillar of customer-centricity and thinking about owners, we recognise that the fastest way to accelerate growth is to continue to increase owner returns, which we have proven time and time again we have been able to do in the past. Things like the new Holiday Inn Express room prototype and guest room design, we have reduced the cost to build them by 10% which is going to drive owner return. Similarly, we have done that with new prototypes for Candlewood Suites, Staybridge Suites and the new Holiday Inn prototype, so definitely focused on the cost to build so that owners have more confidence to be able to drive long-term returns.

Then on cost to operate as well. Looking at how do we leverage procurement to reduce the cost to operate. Then operating standards and the things that just do not need to come back in, they continue to drive margins. We are having regular conversations with owners and to the Owners Association to look at all the others things that we have taken out and saying, 'should it go back in? Should it go back in the same way?' We are going to have a relentless focus on reducing costs to operate and cost to build because strengthening those returns is going to accelerate our growth and how we can better leverage technology as well going forward.

In regards to business travel, I said the Mark Twain quote the other day that the announcement of his death was highly exaggerated – but I think the death of business travel has been exaggerated by a number of pundits out there. People are saying it is going to be down 50% or 30%. I think it is going to be impacted on the margin. And the reason is some business trips will be replaced by technology, without question. We have less exposure to that given the core Midscale segments business that we have which has a lot more non-discretionary business travel into it, and a high component of leisure travel. We do not have a big exposure to group as well. I think the vast majority of business travel is going to come back but it is going to be a measured recovery over a number of years. It is not all going to come back at once because some of these things take years of planning for conventions, conferences and big groups. Travel budgets will gradually increase as people have more and more confidence to travel. I am confident in the long-term.

I am actually confident in the medium-term business travel will come back and I think there will be other drivers as well, speaking to a number of CEOs who are now looking at reducing their office space footprint. They are talking about people moving remotely so instead of driving to the office five days a week, they have to fly in once a month. Additionally people are talking about having smaller offices and less meeting space as well so they are going to have to use hotels as gathering places to do things that in the past they have done in their offices, which could be two drivers of demand overall. I think the business recovery will be more robust than people are giving it credit for.

Vicki Stern: Thanks. To follow up on that, does any of that change at all your emphasis across the different brands? Perhaps brands or locations that you would have been pushing for previously that are less attractive, but conversely, some others that become more attractive post all this?

Keith Barr: I think continuing to access leisure we saw it, remember, after 9/11 and the financial crisis. We saw leisure continue to grow. The one thing I can tell you, there is going to be a surge on leisure travel this year because everyone is tired of being locked into their homes and wants to go on holiday. I think that is going to be a trend too of people spending more leisure time. We will be looking at more resort locations and how to pivot into that leisure segment a little bit more. That is an attractive area. There are really no areas that are unattractive right now, other than there is not going to be a lot of big box urban hotels in the developed markets being built but you would not expect that overall. We have not really been pursuing a lot of those. We have been very much focused on that Upper Midscale, Midscale select service space which is incredibly popular with owners because of high returns. Then the luxury and the resort space is delivering as well. With conversions, things like Kimpton, Hotel Indigo and voco are doing really, really well converting too. It varies a bit from market-to-market.

Richard Clarke (Bernstein): Good morning, thanks for taking my questions, I have three if I may. Completing the circle on margin, just crudely deducting EBIT from revenue on your owned and leased portfolio, it looks like costs have come down there by $300 million. Is there a bankable opportunity there? I think the $75 million guidance is just on the fee business so is there an opportunity to save costs there?

Second question on performance into the start of this year, what are you seeing? In particular, any impact from Texas? Are you over-indexed towards Texas and the storms there? Has that been a positive to you within the first quarter?

Then lastly, you said to Jamie that you like OTA business. You have got a couple of new players in the hotel distribution market with Airbnb distributing more and more hotels and then the Tripadvisor Plus subscription product. Are these two things you would think about leaning into and your thoughts on their entry into hotel distribution?

Paul Edgecliffe-Johnson: Richard, yes, in terms of the owned and leased portfolio certainly took out significant amounts of cost. I would have to see as it comes back whether any of those costs can be permanently removed. Remember, most of our owned and leased portfolio is high-end urban hotels and there are expectations as to what we deliver to customers there. That is super, super important to us, but we are always very cost focused and want to ensure that we are making the most of our assets. If there are opportunities, we will certainly take those but nothing I can call out specifically today.

Keith Barr: Richard, on performance more broadly, what we said last year holds true today. Effectively you will see domestic recovery take place first, being led by the midscale segments. Then as restrictions open up, it will move more into leisure destinations and so forth, groups, meetings and events, and then long-haul travel will be probably the last one until borders are reopened. The principle driver in this I think we all would agree is going to be vaccinations. Vaccinations will drive easing of restrictions, travel closures and hotel closures as well. The two things I look at every single day are the pace of bookings and cancellations across all of our business by market and the pace of vaccinations across every single developed country right now, seeing how those two things converge.

Based upon everything you are seeing today from an industry perspective, Q3 and Q4 were broadly similar in the US and I think not a lot has changed heading into Q1 from an industry perspective. It will really be a second half recovery more likely. It is what is going to happen as vaccinations get more broadly distributed and so forth as places like the UK begin opening up in June and then Europe following later on. Then Asia probably being a bit behind that if you look at the pace of vaccination and when they are intending to open up. Some markets may not open up this year at all. Some countries may keep their borders closed for the entirety of 2021.

We are definitely into a recovery year. It is going to be a phased recovery overall, and in regard to Texas, I know that the industry is benefitting from the horrible events that have happened with the number of people that have been displaced out of their homes into hotels. I have not looked at the specific impact on our numbers to-date yet but I know it is impacting the industry on a positive and a negative way because there are people who could not travel that wanted to travel but people have been displaced out of their homes. It could have a longer-term impact too depending on the extent of the damage and the insurance recovery and construction. More on that as we get further into the year.

OTAs, we have a very strong relationship with Booking and Expedia, and we have traditionally had very strategic conversations with them. We have not had a relationship with Airbnb and there has been a reason for that in that we believe in the consistent delivery of a guest experience and brands. While Airbnb is another platform for that, it is a bit in contradiction to what we have been trying to achieve so we have not explored it. The same thing with the Tripadvisor Plus. I think the teams are evaluating it. I am not sure whether we have progressed on that overall but as Paul pointed out, we saw a 100 basis points drop in our OTA contribution last year just due to the nature of how travel evolved with more hotel direct business. It probably will normalise this year as more leisure comes back, and travel restrictions open up.

Alex Brignall (Redburn): Morning, thanks for taking the question. I just have one really. On distribution and loyalty, 2020 has got to have been a very strange year because the denominator was so unusually low. However, yourselves, Marriott, Hilton and Hyatt all showed loyalty contributions going down. I thought yours might be a little bit more resilient just because of the nature of the business travel that you have with more non-urban, lower rent, not to be rude about it. Can you talk about what the main factors were within that and with a normal recovery does it stay a bit lower? What are the derivative impacts that that can have going forward?

Keith Barr: Our view is that it is going to come back and normalise over time because effectively if you break into a couple of different segments you have this discretionary business travel, non-discretionary business travel. The non-discretionary continued on. A lot of the discretionary went away and that is part of our loyalty contribution. There are loyalty members who last year did not stay with us more than maybe a handful of nights, but the previous year would have been with us 50 or 75 nights. We did lose out on that discretionary business travel which will come back over time and leisure continued on. A lot of the leisure customers, some are loyalty members, but some are just infrequent and not brand loyal or big loyalty members too. Really it is just a mix of business effect driving loyalty contribution which we think should normalise itself in the coming years.

Alex Brignall: You seem to be a little bit more bullish on business than many others but if we took a view that the share of leisure increased overall would that lend itself away from direct distribution on balance? Is that a real factor or is the nature of your hotel mix being different in where your leisure bookings come from?

Keith Barr: It is hard to project that to be very open with you, given how the leisure travel is going to evolve. I would expect our mix to broadly stay the same when we normalise and when I talk about normalise it is a couple of years until we normalise this industry in terms of business. I think business travel is going to come back. It is going to take a few years for it to come back. I think leisure travel is going to continue and then things will begin normalising in that mix of business in future years. You have to look at 2021 and 2022 at least as significant transition years out of the pandemic. Touch wood, if everything goes to plan and vaccines work, we will see significant uptick in RevPAR over the next couple of years as an industry. You will see that business travel, groups, meetings, conferences and events come back, and that will drive direct bookings in there too. I am not trying to be evasive on that. I think it is really hard to measure what the impact is going to be in the next two years on some of these metrics because of the nature of how the revenue is going to recover and what segments recover when.

Leo Carrington (Credit Suisse): Good morning. First of all, on the incentive fees, some were still earnt in all regions in 2020 despite the demand mix being weaker in the managed portfolio. Can you outline the mechanics behind these incentives in terms of occupancy or RevPAR and help us understand how they might develop in 2021 probably in relation to a RevPAR recovery in a number of scenarios?

Second question, you mentioned your cost savings are while investing for growth. Do you have anything specifically in mind here to take advantage of changing competitive landscapes or is this about voco rollout, attribute-based pricing and so on?

Paul Edgecliffe-Johnson: The incentive fees we saw come back particularly in the second half were in China. For most of the contracts in China it is a fairly vanilla contract where you have a share of revenues and then you have a share of gross operating profit of the hotel. In other parts of the world the contracts are sometimes a little bit more structured so you might get a share of revenues as your base fee, like a franchise fee, and then sometimes the owner will have an owner’s priority return so you do not get your incentive fee until there is a certain level of profit achieved by the owner. A bit more operational leverage in those fees there. We have particularly called out the incentive fees coming back in China and elsewhere in the world to a minimal extent. They will come back as the profitability of the managed hotels recovers.

Keith Barr: I will talk about GRS briefly and attribute pricing. As you know we are launching what we would call version 2.0 of our Guest Reservation System under IHG Concerto, which is attribute-based pricing. We piloted that alpha and betas last year. We piloted it through the beginning of this year. We are just finishing up the pilot and plan to begin scaling it up globally going forward, having it completed by the end of this year. It is a ramping up though in terms of the rollout, so the vast majority of the rollout happens in the second half of the year into the fourth quarter this year. That will enable us to bring attribute to life through our direct channel, non-room inventory and so forth too, which will add incremental revenue to our owners in terms of how we price, and how we market leveraging those attributes. This will be a great experience for our customers overall too.

In terms of voco what was your specific question on that?

Leo Carrington: Well, it's the cost – the investing for growth – marketing that and building out the brand with new owners.

Keith Barr: We have a number – so in each one of the initiatives for growth. You look at voco which we launched in 2018, has about 50 hotels open and pipeline. avid we launched in 2017 and has about 200 hotels open and pipeline. Atwell Suites we now have about 19 hotels signed. Each one of those we are investing on P&L a set of funds to help develop those hotels, have the teams working on building them, rolling them out and then initially supporting them. As they mature those costs roll over into the System Fund which creates a bit of a virtuous circle for us in terms of being able to reinvest for growth over time. As a new brand that we launch organically matures effectively the costs go down on the P&L, they move over to the System Fund because there are marketing dollars coming in there from the Fund. Our focus right now is going to be on leveraging brands like voco for conversion because it is a significant brand built for that. However, also we are launching conversions in Six Senses and we have InterContinental, Kimpton and Hotel Indigo. We have a wide variety of brands now that are easily converted into and high value for our owners.

Tim Barrett (Numis): Morning everyone. I am looking for a bit more colour on two things. You talked about the average or the medium owner having only 2-3 sites but can you talk a little bit around the shape of your owners base and whether there are any big multiples left, similar to SVC or Eagle Hospitality Trust, those kind of people that you are worried about for 2021?

A similar question around owner finances. Many of them are still burning cash I guess at 40% occupancy. What is your general feeling for how their balance sheets look right now? Thanks very much.

Paul Edgecliffe-Johnson: Now the SVC contract has gone away, the biggest managed owner we have in the US has fewer than ten hotels with us and around the world it is a similar picture. It is very broadly distributed which is one of the massive strengths of the model. We have thousands of owners who are doing everything they can to make their hotels as successful as they can be and putting their attention onto it. However, in terms of portfolios that we could lose going forward there is really almost nothing of scale.

In terms of owner finances, yes, as you point out owners are being very focused on shoring up their balance sheet and making sure that they are not losing cash in their hotels. They have managed to bring down the GOP margins they need to achieve to be at breakeven quite significantly through the year with our support and help. The stimulus packages that have been put out in the US have helped significantly with that, the PPP schemes, grants there that will help subsidise employee wages etc. That has been a big support, something that we have lobbied for and as part of an industry taskforce we have spoken to the White House as to the need for our owners there, given that we are such a huge employer in the US as an industry and as a company. That has been a support, but it will continue to be tough for owners. You will remember that we put in place at the start of the pandemic measures that helped our owners out and that was very much supportive. It has been very good to see that they have continued to have enough financial wherewithal to actually pay us. Our payments are very much current. As I noted in my prepared remarks, 90% of our payments from the US owners are within 90 days and 85% within 45 days or so. That is one of the key things that we continue to monitor. If an owner cannot pay us it is an indication that they may be in some sort of financial distress so, then we talk to them.

Andre Juillard (Deutsche Bank): Morning gentlemen, two question if I may on my side. The first one is about the saving plan and the $75 million you are expecting to be structural. Could you give us some more colour on where they are coming from and how you expect them to be permanent out of additional investment you have eventually mentioned?

The second question is about the development and the pipeline considering that you mentioned that there would be a focus on midscale short-term. Regarding the Upscale segment and Luxury segment which should continue to be negatively impacted in the next few months, what is your perception and are you still confident to continue all the developments you have signed? Thanks.

Paul Edgecliffe-Johnson: Hi Andre. You will remember that in 2020 we took out $150 million of costs and that was addressing every cost category in the business frankly. We reduced the salaries of everybody in the business. Some people sadly had to leave the business as we looked at how we could do things more efficiently. We reduced down all discretionary spend in the business. We reduced down our travel spend, and our corporate bonus scheme did not pay out in 2020. As we look forward into 2021, we are keeping many of those reductions. We have put salaries back up to pre-pandemic levels and we are anticipating and certainly hoping that our bonus plan will pay this year. That drives a level of cost increases versus 2020. We are also reinstating the investment to the full level that we had before behind the new brands. As Keith was just talking about, they are behind voco, avid, Atwell Suites, Six Senses, etc, etc to stimulate additional growth. The combination of all that leads us to being at a $75 million lower cost base than we were back in 2019.

Keith Barr: In terms of development, I think there is still very strong demand in Luxury & Lifestyle right now. We signed last year 56 hotels in the Luxury & Lifestyle segment, seven amazing Six Senses hotels, taking Kimpton to new markets internationally. I think it is due to the long-term nature of asset ownership in this space, where these hotels are being built to be owned for 40, 50, 60 years. Owners who have the properties are seeing through the pandemic and seeing through the returns that they can make so they are continuing to invest in them. Some are very confident, particularly in the resort space which his going to continue to move ahead. Select Luxury & Lifestyle urban projects in the more developing markets overall and then Midscale being again the thing that will restart the growth engine of the company. It is the growth engine of the company and will accelerate going forward. I think definitely you will see a lot taken in that place and the demand for our brands has probably never been any higher than it is today.

Andre Juillard: Okay, thank you. Maybe as a follow-up question on this side, you have been buying some brands over the past few years and I think that Six Senses especially was a great acquisition. Do you see any brands being on the market under difficulty or not at the moment and being potential targets for consolidation?

Keith Barr: We do not ever comment specifically on M&A, but let me talk more broadly. I think that there will be some brands in the market that come to market in the next year potentially because they are under significant pressure due to their geographic mix or asset ownership base and so forth. We are just very focused on our organic growth. If you look at how we have rounded out the brand portfolio since I became Chief Executive with this team. We have added Regent, we have added Six Senses, we have taken Kimpton international. We have got avid, we have got Atwell Suites, we have got voco. We filled the rungs on the ladder that we needed, and we will look to continually organically grow this business. We will always look at inorganic if it makes sense for shareholders but right now, I think we have got a comprehensive brand portfolio that will lead us through the recovery to an acceleration in growth in future years to industry-leading.

Ivor Jones (Peel Hunt): Good morning, thank you. Back to the 200 hotels on the naughty step, was their fee income in 2020 proportional to the level in 2019? What did they earn in 2019?

Secondly, things like Book Now, Pay Later and free cancellations, are they temporary or do you think they are now permanently part of the industry and does it matter? Does it imply higher occupancy and lower price in the recovery?

Finally, I think I understand this but when you talk about discounted Reward Nights does that imply that the System Fund is over-funded with funds to redemption Reward Nights? Is that an opportunity to transfer cash out of the Fund to the Group or does that not matter? Thank you.

Paul Edgecliffe-Johnson: Broadly the 2020 fee impact would be $20 million. You would be talking about $40 million or so on a 2019 basis given what happened to RevPAR so about double.

In terms of the dynamic pricing which I think is what you are referring to on the Reward Nights, this is just looking and saying rather than it being a fixed number of points to buy a room throughout the year, it is more looking at if you were buying it with pounds what would it cost you? Then creating the number of points to that so that it fluctuates with the seasonality and the demand there, making it a more valuable point for our membership base. It does not free up anything in the Rewards programme. It just makes it more valuable for our members.

Keith Barr: Your second question about Book Now, Pay Later, free cancellation is more philosophical. What we are trying to do now is give customers the confidence to travel again when they are ready to travel again. Making sure we have got the right operating processes, standards and cleaning procedures in the hotel, so they have a great safe stay and just have confidence to book. We have put these things in place now so that customers go, 'You know what? I want to be able to book now, stay with an IHG hotel because I know if I cannot travel, if government restrictions come into play, I can cancel'. We are trying to capture as much available demand as we can right now. I do not think it is having an impact on pricing. We have adjusted our Revenue Management systems pretty dynamically this year to make sure we are focusing on driving rate as the recovery returns.

As business returns to normal in future years, we will be putting more restrictions back into place on the consumers but right now we just want to do the right thing by them and give them the confidence to travel.

Ivor Jones: Thank you very much.

Keith Barr: Thanks everyone, I really do appreciate you taking the time to spend with Paul and me. I look forward to catching up with some of you I am sure individually as time goes on and with our shareholders. All I can say, again, incredibly proud of the team and what they have accomplished in 2020. The way they managed the crisis, the way they managed the finances, the way they have looked after people, it is pretty extraordinary, and I give them a huge amount of credit for being a very, very strong executive team. Very focused now on getting our owners through the recovery, capturing more than our fair share of demand, then accelerating back into growth whilst continuing to strengthen our brand portfolio which we have proven time and time again we can do. We will go back to that industry-leading growth in terms of rooms in the future too. 7th May is our Q1 date, so I look forward to catching up with you all then. Until then, Stuart, unless you have anything else everyone please stay safe and look forward to us all having a bit more of a normal life as vaccines continue to scale up. Stuart, anything else?

Stuart Ford: Nothing else from me. Many thanks Keith, thanks Paul, thanks all for joining the call.

Paul Edgecliffe-Johnson: Thanks everyone.

[END OF TRANSCRIPT]