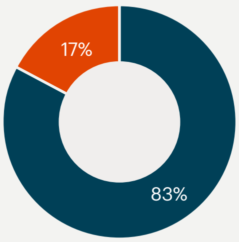
Our business model

We predominantly franchise our brands and manage hotels on behalf of third-party hotel owners.

Revenue from reportable segments[a]

Our revenue is directly linked to the revenue generated by the hotels in our system.

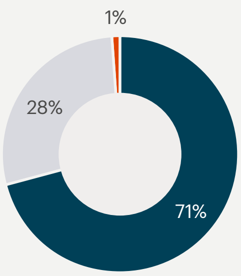


Total rooms

886,036

rooms

Composition of rooms



Our brands are presented as intuitive collections for consumers. For industry segmentation, the collections fall into the following categories: Suites (midscale, upper midscale and upscale), Essentials (predominantly in midscale and upper midscale); Premium (upscale); Luxury & Lifestyle (upper upscale and luxury).

[a] Excludes System Fund and hotel cost reimbursements.

We have 16 brands operating across more than 100 countries in the Suites, Essentials, Premium and Luxury & Lifestyle categories. Supported by a leading loyalty programme, our brands meet clear consumer and corporate demand, and generate strong returns for our owners, which in turn attracts further hotel investment and drives the growth of our estate.

As an asset-light business, we focus on growing our fee revenues and fee margins, with limited requirements for capital. This enables us to grow our business whilst generating high returns on invested capital.

Whether we franchise or manage hotels is largely determined by market maturity, owner preference and, in certain cases, the particular brand. For instance, in more developed markets such as the US and Europe, ~90% of IHG hotels are franchised. These hotels tend to be limited service.

In emerging markets such as Greater China, ~80% of our hotels are managed by IHG, where we look after the day-to-day running of the property on behalf of the owner. Over time, we expect the Chinese market to move towards a franchise model. We launched the first tailored franchise offer for Holiday Inn Express® in 2016, and have since extended this to include Holiday Inn® and Crowne Plaza®.

Our asset-light business model means that we do not employ colleagues in franchised hotels, nor do we control their day-to-day operations, policies or procedures. That being said, IHG and our franchised hotels are committed to delivering a consistent brand experience, conducting business responsibly and delivering our purpose of providing True Hospitality for Good. See Our culture and responsible business section from page 24.

The weighting of our hotel estate towards the midscale segments and the location of our hotels in non-urban locations provides a degree of resilience to cyclical and exogenous events. A weighting to domestic demand also provides resilience.

IHG owner proposition

We focus on ensuring our brand portfolio, loyalty proposition, systems and expertise provide a highly valued and distinctive offer that stands out to consumers and is attractive to owners.

To keep our brands relevant to guests and evolving trends, we commit to developing our established brands with new designs, service enhancements and operational support that drives demand and owner returns.

Through our investments in development resources, we can provide outstanding operational support to owners. We have embedded new processes to help reduce the time taken from hotel signing to ground break and opening. Our hotels also have access to a suite of applications designed to help them manage and improve performance, with the aim of further boosting owner returns.

We have also developed state-of-the-art technology to drive hotel demand, be it through our mobile booking app or cloud-based hotel solutions. Our distribution channels (booking sites, GDS relationships, and call centres through which hotel rooms are marketed and booked) allow hotel owners to reach potential guests at lower costs of sale.

While historically, the vast majority of our signings and openings have come from new-build properties, we see the potential for branded hotel penetration to increase through conversions, given the attractiveness of our scale and brands, and value proposition to owners.

Why owners choose to work with IHG

Hotel owners choose to work with IHG to either franchise or manage their hotels, driven by the trust they have in our brands and our track record in delivering strong returns.

IHG HOTELS & RESORTS

Strength of brands
The breadth and depth of our brand portfolio deliver strong owner ROIs
see page 17

Strong loyalty programme and enterprise contribution
72% of revenues delivered to hotels by IHG's enterprise
see page 17

Digital advantage
Our cloud based IHG Concerto™ platform, including a new Guest Reservation System, provides a strong interface for guests and owners
see page 19

Investment in hotel lifecycle management and operations
We have invested in extensive technology, systems and processes to support our owners

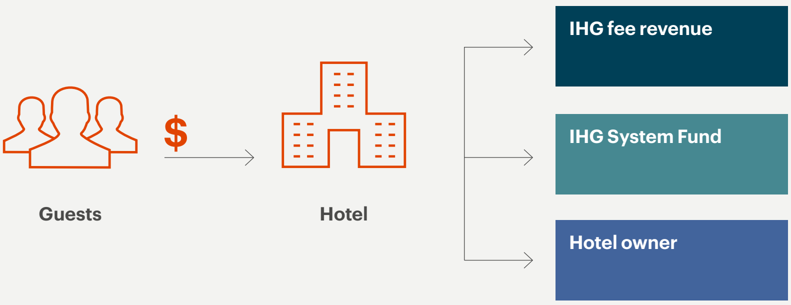
Procurement
We use our scale to reduce costs for owners with procurement programmes for hotel goods and services

Global sales organisation
We have developed a leading global sales enterprise to drive higher quality, lower cost revenue to our hotels

How we generate revenue

Franchised hotels
We receive a fixed percentage of rooms revenue when a guest stays at one of our hotels. This is our fee revenue.

Managed hotels
From our managed hotels, we generate revenue through a fixed percentage of the total hotel revenue and a proportion of hotel profit.



Franchised
RevPAR
X
Rooms
X
Royalty rate

Managed
Fixed % of total hotel revenue as a management fee and typically a share of hotel gross operating profit after deduction of management fees

Owned, leased and managed lease hotels
For hotels which we own or lease, we record the entire revenue and profit of the hotel in our financial statements. Our owned, leased and managed lease hotels have reduced from over 180 hotels 19 years ago, to 23 hotels at 31 December 2020.

Our business model continued

IHG revenue from reportable segments[a] and the System Fund

System Fund
IHG manages a System Fund on behalf of our third-party hotel owners, who pay contributions into it. This includes a marketing and reservation assessment and a loyalty assessment.

The System Fund also benefits from proceeds from the sale of IHG Rewards points under third-party co-branding arrangements.

The System Fund is managed by IHG for the benefit of hotels within the IHG system.

In 2020, IHG recognised $765 million of System Fund revenue, down from $1.4bn in 2019, reflecting lower assessments as a result of the Covid-19 pandemic.

Third-party hotel owners pay:

Fees to IHG in relation to the licensing of our brands and, if applicable, hotel management services.

Assessments and contributions which are collected by IHG for specific use within the System Fund.

IHG revenue from reportable segments[a]

2020: $992 million

Revenue attributable to IHG comprises:

- Fee business revenue from reportable segments:
  - Franchise fees.
  - Management fees.
  - Central revenue (principally technology fee income – see page 67).
- All revenue from owned, leased and managed lease hotels.

System Fund revenues

2020: $765 million

The System Fund is not managed to a profit or loss for IHG over the longer term, but for the benefit of hotels in the IHG system, and comprises:

- Assessments and contributions paid by hotels.
- Revenue recognised on consumption of IHG Rewards loyalty points.

(See page 68 for more information.)

Disciplined approach to capital allocation and managing liquidity

Our asset-light business model is highly cash generative through the cycle and enables us to invest in our brands and strengthen our enterprise. We have a disciplined approach to capital allocation which ensures that the business is appropriately invested in, whilst looking to maintain an efficient and conservative balance sheet. This approach placed our business in a strong position as the depth and scale of the global pandemic became apparent.

Managing liquidity through the pandemic
With occupancies at hotels reaching historic lows, we moved quickly to preserve cash through cost reductions across all our main areas of spend, including capital expenditure and operating expenditure. This meant that during the year the business generated free cash flow of $29m.

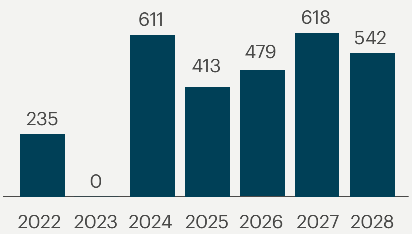
We also took rapid action to strengthen our liquidity, building on our conservative balance sheet approach and the measures we took to reduce costs and preserve cash. This included withdrawing the 2019 final dividend recommendation, and the issuance of £600m of commercial paper maturing in March 2021 under the UK Government's Covid Corporate Financing Facility (CCFF). Furthermore, we issued €500m and £400m bonds maturing in 2024 and 2028 respectively. We concurrently repaid early £227m of our bonds maturing in November 2022. Our next bond maturity is £173m in November 2022, with no further bond maturities until October 2024. As a result, as at 31 December 2020, IHG had available liquidity of $2.9bn.

In addition, we secured covenant waivers up to and including 31 December 2021 for our $1.35bn syndicated and bilateral revolving credit facilities (RCF), further covenant relaxations in 2022 and extended the maturity of the facilities by 18 months to September 2023 (see page 70).

Despite the comprehensive actions we have taken to reduce costs and preserve cash, due to the impact of the pandemic on the profitability of the Group, our net debt: adjusted EBITDA ratio of 7.7x as at 31 December 2020 is outside of our previously stated aim to maintain a ratio of 2.5-3.0x.

Looking forwards, our approach remains unchanged. As the business recovers, our priorities for the uses of cash are consistent: ensure the business is appropriately invested in to drive growth; target sustainable growth in the ordinary dividend and return surplus funds to shareholders, and do this whilst considering our stated aim of a leverage ratio of 2.5-3.0x, and our objective of maintaining an investment grade credit rating.

Bond maturity profile ($m)

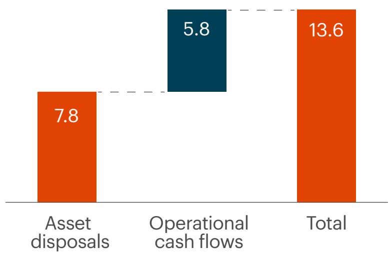


[a] Excludes System Fund and hotel cost reimbursements.

Consistent uses of cash

Our priorities for the uses of cash are consistent with previous years and comprise three pillars:

Shareholder returns (2003-20) ($bn)
Source of returns



1 Invest in the business to drive growth
Whilst having strict control on investments and our day-to-day capital expenditures, we look to strategically drive growth.

2 Target sustainable growth in the ordinary dividend
IHG has a dividend policy where, whilst balancing all our stakeholder interests and ensuring the long-term success of IHG, we would look to maintain or grow the ordinary dividend each year. However, during 2020, as part of our actions to preserve cash and protect the business, a dividend was not paid.

3 Return surplus funds to shareholders
The Group has a strong track record of returning surplus cash to shareholders. Since 2003, including the ordinary dividend, the Group has returned $13.6bn.

Capital expenditure

Spend incurred by IHG can be summarised as follows:

Type	What is it?	Recent examples
Maintenance capital expenditure, key money and selective investment to access strategic growth.	Maintenance capital expenditure is devoted to the maintenance of our systems and corporate offices along with our owned, leased and managed lease hotels. Key money is expenditure used to access strategic opportunities, particularly in high-quality and sought-after locations when returns are financially and/or strategically attractive.	Examples of maintenance spend include maintenance of our offices, systems and our owned, leased and managed lease hotels. Examples of key money include investments to secure representation for our brands in prime city locations.
Recyclable investments to drive the growth of our brands and our expansion in priority markets.	Recyclable investments are capital used to acquire real estate or investment through joint ventures or equity capital. This expenditure is strategic to help build brand presence. We would look to divest these investments at an appropriate time and reinvest the proceeds across the business.	Examples of recyclable investments in prior years include our EVEN Hotels brand, where we used our capital to develop three hotel properties in the US to showcase the brand. Over time, we expect to divest our interest in these hotels.
System Fund capital investments for strategic investment to drive growth at hotel level.	The development of tools and systems that hotels use to drive performance. This is charged back to the System Fund over the life of the asset.	We continue to develop our new pioneering cloud-based Guest Reservation System (GRS), one of IHG Concerto's comprehensive set of capabilities, which we developed with Amadeus.

Dividend policy

The Board consistently reviews the Group's approach to capital allocation and seeks to maintain an efficient balance sheet and investment grade credit rating. IHG has an excellent track record of returning funds to shareholders through ordinary and special dividends, and share buybacks, with the ordinary dividend seeing 11% CAGR between 2003 and 2019.

When reviewing dividend recommendations, the Directors take into account the long-term consequences of any recommendation. The Board looks to ensure that any recommendation does not harm the sustainable success of the Company and that there are sufficient distributable reserves to pay any recommended dividend. The Board will assess the Group's ability to pay a dividend bearing in mind its responsibilities to its stakeholders and its objective of maintaining an investment grade credit rating.

For 2020, given the impact of the pandemic, the Group is not proposing to pay a final dividend. The Board will consider future dividends once the visibility of the pace and scale of market recovery has improved.