

INTERCONTINENTAL HOTELS GROUP PLC

TOURISM

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COMPANY REPORT

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InterContinental Hotels Group – Time to check-in?

Performance sensitivity in times of a global pandemic

- Our **price target FY21** is **£49.82**, and our **rating is Hold**, with an overall upside of 6.22% compared to current price levels as of December 31st, 2020.
- InterContinental Hotels Group has an **asset-light business model**, focusing on improving their fee revenues and fee margins, with lower capital needs, leading to business growth at the same time as generating high returns on invested capital. With nine openings in 2019, IHG remains the largest luxury hotel brand. The **strong historical growth is expected to continue**, especially in Greater China, with 39 hotels on the IHG luxury brands pipeline.
- In the past few years, **IHG's revenue has been continuously growing** (between 5 to 7%) and, after recovering from the current crisis, we expect this rate to remain at the same level.
- The key risks include **weaker growth figures than estimated** if the **distribution of the Covid-19 vaccine** is slower than projected with renewed lockdown measures, and the **rapidly growing of peer-to-peer accommodation**, such as Airbnb.
- We have weighted the expected share price as per DCF (£48.92) with 75% and the average share price calculated with EV/EBITDA (£52.52) with 25% to reach our target price

Company description

InterContinental Hotels Group PLC, founded in April 2003 and with headquarters in Denham, England, is a British multinational hospitality company. With a presence in more than 100 countries, IHG owns a portfolio of distinct brands divided into three different segments, such as Mainstream, Upscale and Luxury.

Recommendation: **HOLD**

Vs Previous Recommendation **BUY**

Price Target FY21: **£49.82**

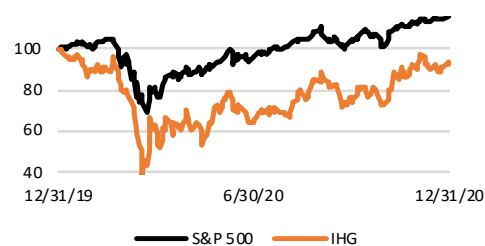
Vs Previous Price Target **£51.39**

Price (as of 3-Jan-21) **£46.90**

Reuters: IHG, Bloomberg: IHG:US

52-week range (£)	21.61-52.68
Market Cap (£m)	8,567
Outstanding Shares (m)	182.66
Shareholder return	7.42

Source: Bloomberg



Source: Reuters

(Values in \$ millions)	2019	2020E	2021F
Revenues	4,648	2,214	2,541
EBITDA	877	558	499
Net Profit	349	143	279
EPS	1.91	0.78	1.53
P/E	36.14	82.00	43.72
EV/Sales	7.30x	14.46x	12.39x
EV/EBITDA	17.34x	25.00x	26.84x
EV/EBIT	24.14x	76.24x	33.36x
ROIC	77.09%	32.36%	91.45%
Net Capex	-129.00	318,80	-156.70

Source: Company Data; Analyst Estimations

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY FRANCISCA FERNANDES & PAULINA MICHEL, MASTER IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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Company Overview

Company description

Founded in 2003, InterContinental Hotels Group PLC is by now one of the world's leading hotel groups. The group's purpose is stated as "providing True Hospitality"¹ for all its guests. As of December 2nd 2020, the company had 5,977 open hotels comprising 889,582 available rooms in approximately 100 countries, divided into three operating regions – Americas, Europe, Middle East, Asia and Africa (EMEA), and Greater China (see Figure 1 - Room distribution per region as of December 2nd, 2020). The Americas region currently had the most significant group revenue percentage in 2019, corresponding to approximately half of the total revenue (see Figure 2 - Group Revenue across the different regions in 2019).

IHG is investing in a diversified portfolio of brands divided into three different segments – mainstream, upscale and luxury. With 15% of the existing global market share by rooms, IHG is a global leader in the mainstream segment. Their mainstream brands include the midscale and upper-midscale market segments. With 4,876 open hotels and 1,838 pipeline hotels, this segment includes Holiday Inn Express, Holiday Inn Hotels & Resorts, Holiday Inn Club Vacations, avid Hotels, Staybridge Suites, Candlewood Suites and Atwell Suites with its first hotels expected to open in 2021. Holiday Inn is the flagship brand of IHG, which generates 36% of total revenues, with 1,256 rooms (21% of the total number of rooms). It targets not only business travellers but also families and leisure travellers. Being considered the fastest-growing segment, IHG offers a wide variety of upscale brands. With a total of 583 open hotels and 254 pipeline hotels, this segment includes Hotel Indigo, EVEN Hotels, HUALUXE Hotels and Resorts, Crown Plaza Hotels & Resorts and voco hotels. Those brands are targeting business travellers and demanding leisure travellers. HUALUXE is a brand designed for the Chinese market and does not exist elsewhere yet. The relatively new brand, voco, is modern, but the branding itself is considered neutral. Therefore, other hotels can easily, and in a considerable short period (around one year), be transformed into voco hotels. With a resilient heritage and know-how in luxury, IHG owns four distinctive brands in this segment. Those include Kimpton Hotels & Restaurants, InterContinental Hotels & Resorts, Six Senses Hotels Resorts and Spas and Regent Hotels & Resorts (acquired in 2018), which

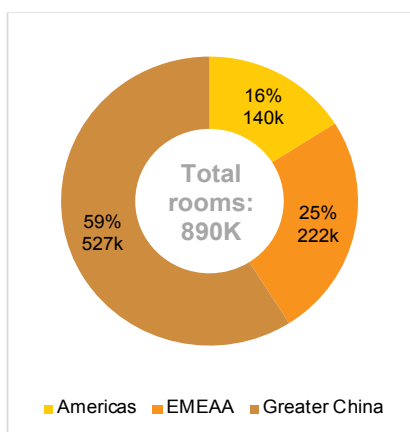


Figure 1 - Room distribution per region as of December 2nd, 2020

Source: Company Data

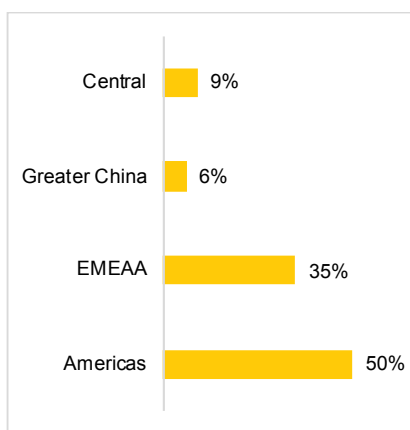


Figure 2 - Group Revenue across the different regions in 2019

Source: Company Data

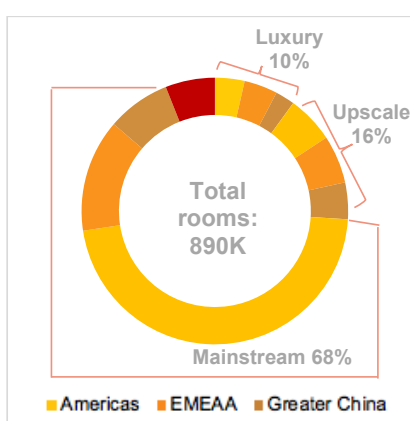


Figure 3 - Room distribution per segment

Source: Company Data

¹ IHG. 2020. Our purpose and culture. Available at: <https://www.ihgplc.com/en/about-us/our-purpose-and-culture>

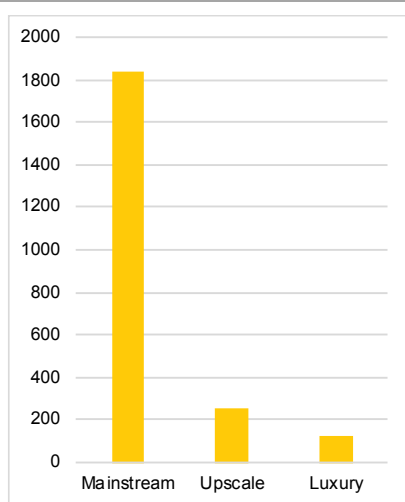


Figure 4 - IHG pipeline segmentation, 2019
Source: Company Data

has helped to build a broad luxury offer, with 302 open hotels in total and 128 pipeline hotels (see Figure 4 - IHG pipeline segmentation, 2019). With nine openings in 2019, their strong historical growth is expected to continue, especially in China (an estimated increase of 6% per year in the number of hotels).

The company has more than 36,000 employees distributed among the different locations. IHG operates hotels in three different ways – as a franchisor, a manager and on an owned and leased basis – this varies depending on market maturity, proprietor preference and, in some instances, the specific brand. For the franchise model, IHG earns a fixed percentage of rooms revenue following a guest staying at a hotel. This model is more common in mature markets such as the Americas and Europe, where over 90% of hotels are franchised. While in emerging markets, such as Greater China, the managed model is typically more predominant, with 80% of IHG Hotels being managed by IHG, and the company revenues are generated via a fixed percentage of the total hotel revenue and a proportion of each hotel's profit. However, over time the company expects the Chinese market to increase their share of the franchised hotels, which attract full franchise fees (see Figure 5 - Hotel's segmentation in Greater China).

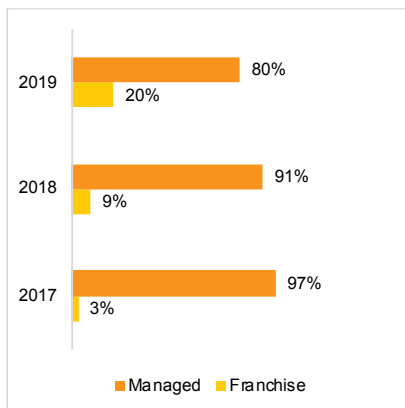


Figure 5 - Hotel's segmentation in Greater China
Source: Company Data

InterContinental Hotels Group has an **asset-light business model**, focusing on improving their fee revenues and fee margins, with lower capital needs, leading to business growth at the same time as generating high returns on invested capital. IHG is not responsible for employing professionals in franchised hotels, neither controlling their day-to-day functions, rules or procedures. Instead, the company and its franchise hotels cooperate in providing a stable brand experience, managing business responsibly. Due to their asset-light strategy, the number of owned, leased and managed leased hotels has fallen significantly, with almost 200 hotels sold since 2003. Those gains have been attributed to the hotel owners and investors in the form of dividends. This model's significance and efficacy are intensified when industry RevPAR² growth slows, a circumstance that appeared in 2019 (see Figure 6 - IHG global RevPAR growth). This trend was strengthened by macro and geopolitical factors, such as the Hong Kong protests, and supply surpassing demand in some markets.

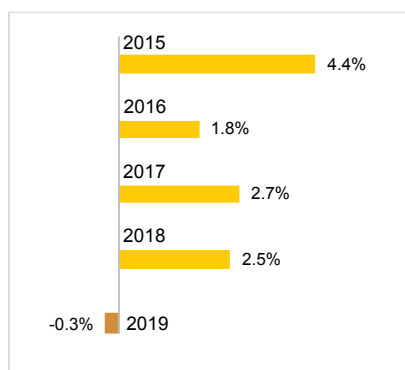


Figure 6 - IHG global RevPAR growth
Source: Company Data

The improvement in innovation and technology to attract more hotel owners to its brands and retain its guests led to a \$5.6bn revenue in digital (web and mobile) in 2019. This result increased by 7% compared to the year before (see Figure 7 - IHG Digital Revenue). The company has recently developed a guest reservation system in partnership with Amadeus, allowing guests to customise their stay's

² Revenue per available room, a product of occupancy rate and the average daily rate

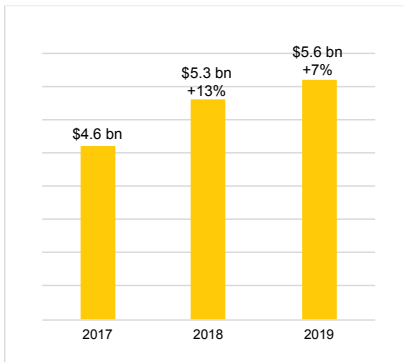


Figure 7 - IHG Digital Revenue
Source: Company Data

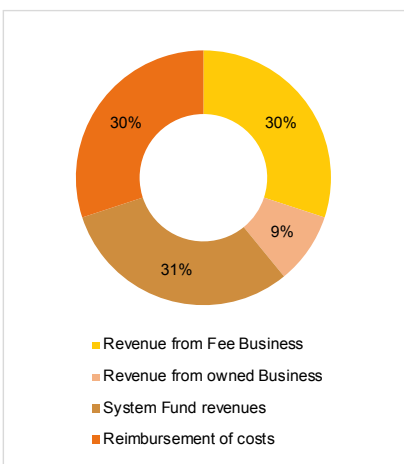


Figure 8 - Revenue split for HY1 2020
Source: Company Data

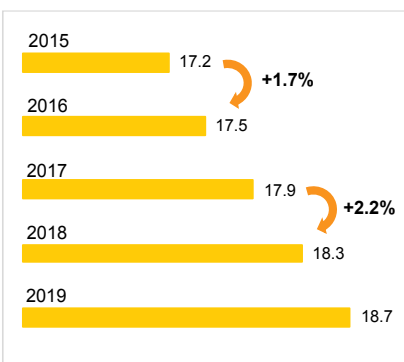


Figure 9 - Global rooms supply (m rooms)
Source: Company Data

specific attributes. At the same time, hotel owners will create more value by finding ways to optimise pricing for desirable items. IHG also manages a system fund to drive revenue for the hotels, which resulted in 30% of total operating revenues in 2019. Total evaluations and contributions given to the fund by hotels are planned to be spent on marketing, IT or the IHG Rewards Club loyalty programme and the guest reservation system. The system fund is designed to operate at break-even and does not result in a profit or loss for IHG. The hotel chain focuses on preserving an efficient balance sheet with an investment-grade credit rating by having a solid long-term approach to allocating capital and reducing the business's asset intensity.

The group's revenues grew 12% in HY1 2019 and -52% in HY1 2020, being massively impacted by the Covid-19 pandemic. IHG revenue is highly dependent on the fee business, accounting for 30% of total revenue for the first half of 2020 and approximately 32% of HY1 2019. Strategies to flatten the cases of corona infections curve have resulted in a temporary closure of many hospitality businesses, which was the case for many IHG hotels, directly impacting its performance in 2020. In 2020 the virus caused the occupancy rates and RevPAR to drop by roughly 50% for the fee business and 70% for the owned business. This difference is explained by the dependency of the owned business on the luxury segment³ and the fact that they were forced to decrease their average daily rate (ADR) by -16%, in the first half of 2020, trying to attract more guests.

Sector Overview

Sector Analysis Before Covid-19 outbreak

Before the global economic backdrop, which has led to a decrease in RevPAR growth, the industry saw an increasing room supply illustrating the sector's positive fundamentals overall. This upwards trend was driven by rising disposable incomes and increasing demand for branded hotels (see Figure 9 - Global rooms supply (m rooms)). The hotel industry summed \$535bn in 2019, having nearly half of rooms associated with a global or regional chain. The United States remains the most extensive hotel market, with 35% of hotel rooms in 2019. However, there is a noticeable growth from Greater China, claiming 14%, having improved +5.3% compound annual growth rate (CAGR) in rooms supply over the past eight years. For the last ten years until 2019, this sector saw RevPAR constantly growing even though the hotel industry is currently facing a slower RevPAR landscape. This is mainly caused by the global economy's slowdown, with 2019 growth corresponding to +1%, slower than what was

³ Approximately 30% of the owned business revenues come from luxury brands.

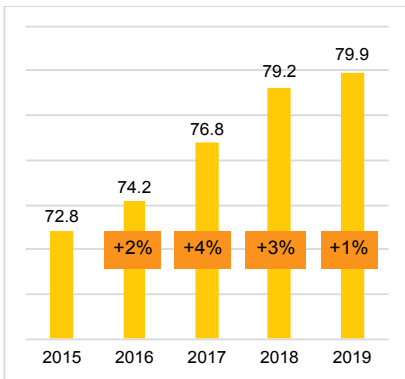


Figure 10 - Global Industry RevPAR (\$)

Source: Company Data

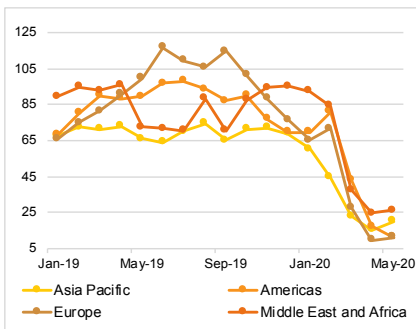


Figure 11 - Covid-19 impact on monthly RevPAR worldwide (\$)

Source: Statista

verified in previous years (see Figure 10 - Global Industry RevPAR (\$)). Instead, hotel groups look for ways to improve their rooms supply as a driver of value creation, with 2019 having a 2% increase in global room supply. Being a cyclical industry, the demand and supply, together with the macroeconomic environment, impact how the RevPAR fluctuates over time.

Pandemic Impact and Post-Covid Scenario

For most travel industry players, navigating the Covid-19 pandemic has been the biggest challenge ever faced. Still, many hotel groups have acted quickly by focusing on innovation and finding ways to improve customer experience. The virus outbreak has put travelling on hold, encouraging people to stay at home with some countries closing their borders to minimise the virus's spread. These measures significantly impacted many businesses, particularly in the hotel and airline sectors, with some temporarily closed hotels. It is clear to verify this impact on the decline of the industry's average RevPAR for the first half of 2020, falling 81% in April compared to the same period a year ago (see Figure 11 - Covid-19 impact on monthly RevPAR worldwide (\$)). STR, a data provider, and Tourism Economics expect US RevPAR to drop by 52% for the full year 2020, forecasting to take until at least 2024 to reach 2019 levels. We agree with the estimation for 2020 as we also expect a recovery in 2024 across the three principal regions (see chapter Revenue Forecast). At the end of 2019, IHG has estimated an industry revenue growth potential of \$20bn until 2025. However, we see this number cut in half due to the pandemic's massing impact in the hotels' occupancy rates and ADR.

Customers are looking to travel again once they are allowed to do so. Still, hotel groups need to invest in adapting to all the necessary safety measures to attract clients, and technology will be a big part of achieving that. Safety and cleanliness have always been the core of this industry. Now, it is time to reassure everyone that hotels continue to be among the safest places for leisure, events, business and employment. The new reality of working-from-anywhere is also shaping this sector, with the possibility to erase the lines between leisure and business travel permanently. The CEO of Delta Air Lines, Ed Bastian, stated in an interview with the Associated Press that business travel could land into a "new normal" level of 10% to 20% lower than it used to be, but some of his peers have a less optimistic view. Southwest Airlines CEO says it could take ten years for business travel to bounce back – it is down more than 80% now. In our opinion, business travel will take until 2024 to pick up to the level that was normal before the pandemic since many companies adopted their meetings to an online version, and they are finding it less time consuming and cost-effective. Travel budgets may not

rebound even after the worst of the pandemic has passed, and business trips might take longer to go back to pre-crisis levels due to the "new normal". This is raising concerns among hoteliers, airline executives and conference organisers.

The threat of remote working is leading to an opportunity for hotels to reinvent their business. Many hotel chains such as Hilton, Accor and InterContinental have started marketing their rooms as temporary workspaces for those who do not have ideal work-from-home conditions. The rate at which a hotel charges for a room transformed into an individual office is generally lower than the average daily rate (see chapter Working Spaces). These lower rates may be filling empty rooms, but we do not think they will deliver the profit margins business guests once offered.

In the post-Covid world, we see companies looking for growth through acquisitions, organic expansion and diversification and increasing competition among branded players. The impact of sustainability, technology and luxury continues to shape how the industry operates, using digital channels leading to a wider competitive environment. Several hotel companies have shifted from owning real estate to managing hotels – roughly 70% of branded hotels were franchised operations in 2010, increasing to approximately 80% in 2019. We see the "asset-light" approach continued to be adopted within the industry during the next years. Hotel companies with more exposure to real estate are subject to more risks while navigating this crisis because they have large outstanding mortgages and are accountable for more people supporting everyday operations at their properties. For this reason, we expect IHG to keep decreasing their number of owned hotels, reaching a 0.24% weight in ten years.

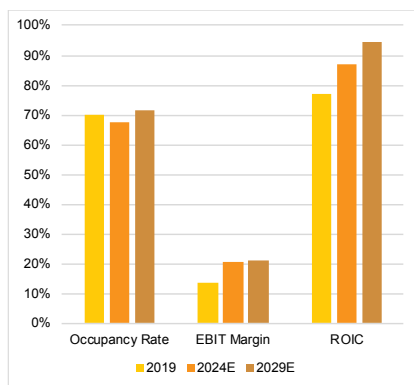


Figure 12 - IHG KPIs pre-Covid versus post-Covid
Source: Analysts

Economic Overview

InterContinental Hotels Group has a market presence across the world. On the one hand, this diversification minimises regional risks. On the other hand, IHG significantly depends on economic and financial market fluctuations such as recessions, inflation, credit availability, and currency changes that can decrease revenues and income. Therefore, it is relevant for our analysis to consider and understand both global and regional economic drivers.

2020 has been marked by a global economic crisis with a virus hitting an already-fragile global economy due to the seen slowdown in GDP in 2019. Hence, it is crucial to evaluate the factors that demonstrate when we can expect a partial recovery from the health crisis and see the last scars of the Covid-19 pandemic. It is crucial to look at the GDP growth to have a better perspective on the impact of this recession. Leisure and business travel is one of the sectors that is quickly

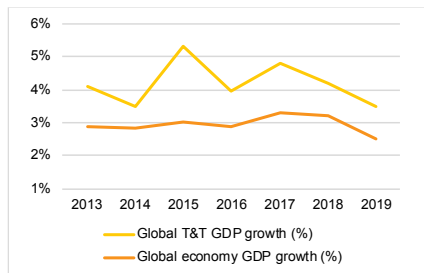


Figure 13 - World's travel & tourism GDP growth versus economy GDP growth, 2013-19
Source: World Travel & Tourism Council

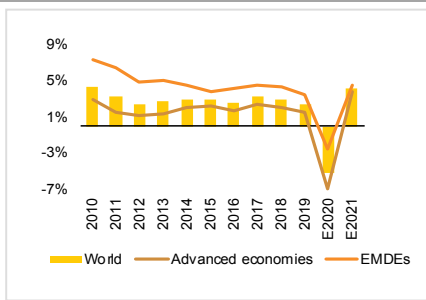


Figure 14 - Global growth according to World Bank estimates

Source: World Bank

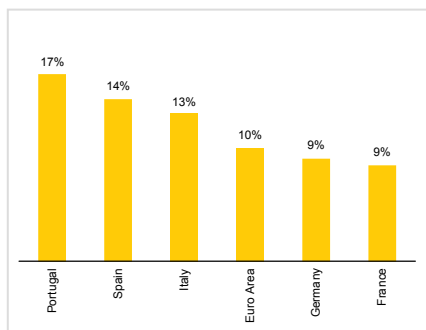


Figure 15 - Europe share of tourism in GDP, 2019

Source: World Bank, World Travel and Tourism Council.

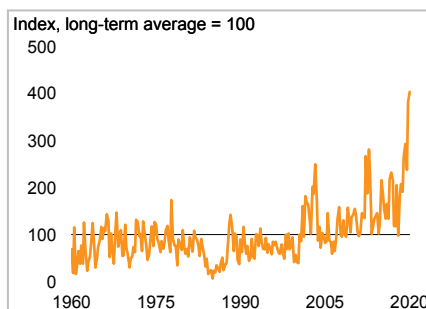


Figure 16 - Global uncertainty

Source: Ahir, Bloom, and Furceri (2018)

impacted by a crisis's consequences as people cut their expenses on non-essential needs such as travelling (see Figure 13 - World's travel & tourism GDP growth versus economy GDP growth, 2013-19). The World Bank Group projects growth to decelerate sharply. In June 2020, it forecasted the advanced-economy output to be drastically below levels seen in 2019 and projected in January, from a 1.6% growth in 2019 to a contraction of -7% in 2020 – 8.4 percentage points below to the predicted rate at the beginning of 2020 (see Figure 14 - Global growth according to World Bank estimates). We agree with this figure due to the significant disruption of domestic demand and supply. Some Euro-area members are heavily dependent on tourism, which was severely affected by travel restrictions and consumers. Portugal and Spain are amongst the most dependent, with the share of tourism in GDP equalling 17% and 14% respectively. This recession has also been marked by a high level of uncertainty concerning global growth forecasts compared to years before (see Figure 16 - Global uncertainty). In China, the first region being massively affected by the coronavirus, these figures look equally dramatic leading to the lowest growth rate in more than four decades, with a decrease from 6.11% in 2019 to 1.85% in 2020, but still being the only major economy to grow in terms of GDP in 2020. We see the GDP growth in 2020 for China to be slightly above this prediction, around 2%, since the development is finally seen in consumption after a state-backed industrial recovery with retail sales rising 3.3% YoY in the third quarter, above what has been predicted. In 2021, we expect growth to be above 2019 levels, around 8%, as economic activity widens to private investment and consumption.

Another significant factor that influences price variables and consequently, the valuation is the inflation rate. In a "normal year" the ADR grows purely from inflation. The general rise in the price level in advanced economies remains below pre-pandemic levels. With the business reopening their doors and consumers start increasing spending on purchases that they were required to delay because of lockdowns, price pressures could increase. The results from monetary policy frameworks can also affect price developments, with inflation expectations increasing very quickly when governments start running large fiscal deficits. The central bank's tool kit has been attempting to minimise the consequences of this health crisis in the economy, from big amounts of asset purchases and lending facilities to assisting a large spectrum of borrowers supporting credit provisions. The Federal Reserve stated⁴ adjustments in its monetary policy strategy, moving to a flexible average inflation target of 2% over time. Similarly, the European Central Bank (ECB) aims for a level below, but

⁴ FOMC Statement, September 16, 2020 – Federal Reserve press release

close to 2%. According to the ECB, an inflation rate of approximately 1.6%⁵ is low enough for the economy to fully secure price stability benefits. China's relatively muted inflation in the region has further facilitated policy efforts, with an inflation target of around 1.9%⁶.

IHG vs Peers

The main peers of IHG are Marriott, Hilton, Hyatt and Accor, since those four are the most comparable to IHG in terms of core business (model), hotel segment, size and portfolio.

	IHG	Hilton	Hyatt	Marriott	Accor in €bn
# Hotels (2019)	5903	6110	952	7349	5036
Revenue 2019 in \$bn	4.6	9.5	5.0	21.0	1.4
EBIT (2019) in \$bn	0.63	1.7	1.0	1.8	-0.1
EBIT Margin	13.7%	17.9%	20.0%	8.6%	-3.9%
# Hotels Owned	26	65	31	73	201
# Hotels Fee Business	5877	6045	921	7276	4835
Fee business %	99.6%	98.9%	96.7%	99.0%	96.0%
Geographic focus	Americas (72.96% of existing hotels)	US (79.34% of existing hotels)	of US (79.34% of existing hotels)	of US (73.42% of existing hotels)	of Europe (60.14% of existing hotels)

Table 1 - Peers Overview

Source: Analysts

The five hotel companies in scope all have in common that they focus on an asset-light approach that expands with relatively low capital expenditure costs since those are born by the franchisors. Nevertheless, IHG is compared to its peers the company with the lowest level of core assets. IHG's operating assets amount to 3,346, whereas the peer ranges between 5,761 (Hyatt) and 24,124 (Marriott) in 2019. In the case of IHG, due to the small difference between assets and liabilities, the core invested capital is relatively low compared to the core result and causes a high return on invested capital (ROIC). Although all hotels in scope have an asset-light business, the other peers have a significantly lower ROIC during the period in scope. In 2019, IHG's ROIC amounted to 77.09% whereas Hilton displayed with 12.14% the next highest one (see Table 2 - ROIC IHG vs Peers). Even though the competitors have comparatively low property, plant and equipment (PPE) levels, their intangibles, especially in the case of Marriott and Hilton are multiple times higher than the one of IHG. Hilton's operating assets are driven by goodwill and brands. In October 2007 the hotel giant became an owned subsidiary of Blackstone. Marriott increased its intangible assets from \$2,394m to \$16,868m by conducting the most extensive merger in the hotel industry with Starwood Hotels in 2016.

Thus, instead of conducting an ROIC analysis based on core invested capital, we considered comparing net operating profit less adjusted taxes (NOPLAT) to core

	2017A	2018A	2019A
ROIC			
IHG	285.56%	64.43%	77.09%
Hilton	13.81%	10.40%	12.14%
Accor	-28.68%	116.76%	6.33%
Hyatt	-0.07%	4.88%	0.71%
Marriott	6.85%	11.85%	9.34%

Table 2 - ROIC IHG vs Peers

Source: Analysts

	2017A	2018A	2019A
ROIC (without Goodwill and Brands)			
IHG	-96.92%	-145.48%	-138.35%
Hilton	-460.08%	-284.63%	-148.10%
Accor	n/m	742.86%	12.01%
Hyatt	-0.08%	5.86%	0.92%
Marriott	-100.82%	-107.41%	-68.58%

Table 3 - ROIC (excl. goodwill and brands) IHG vs Peers

Source: Analysts

⁵ Monetary Policy – European Central Bank

⁶ China Inflation Rate – Trading Economics

invested capital excluding goodwill and brands (see Table 3 - ROIC (excl. goodwill and brands) IHG vs Peers). For Accor and Hyatt, ROIC increases since invested capital remains positive. However, for the other three companies invested capital becomes negative since liabilities exceed assets, leading to a negative ROIC. The ROIC is very sensitive to minor changes in invested capital and thus, very volatile⁷. Hence, also the ROIC excluding goodwill and brands is not an appropriate measure to compare the peers.

in \$m	2017A	2018A	2019A
RoA			
IHG	11.98%	9.38%	8.78%
Hilton	8.99%	5.09%	5.54%
Accor	0.26%	17.66%	4.48%
Hyatt	6.27%	10.75%	8.99%
Marriott	8.10%	6.48%	5.20%

Table 4 - RoA IHG vs Peers

Source: Analysts

However, the five hotel companies can be analysed in terms of return on assets (RoA) when excluding intangible assets to make them more comparable (see Table 4 - RoA IHG vs Peers). Marriott uses its assets the most efficient with an RoA of 17.70% before Hilton (16.83%) and IHG (13.42%). Accor and Hyatt exhibit the lowest KPI, which can be explained on the one hand that those companies are being among those five the asset "heaviest". On the other hand, Accor's total comprehensive income shrank by -72.81% in 2019 (Hyatt -7.91%). However, Accor's revenue has only been that high in 2018 due to selling a majority stake (64.8%) of AccorInvest, resulting in a profit from discontinued operations of €2.4bn.

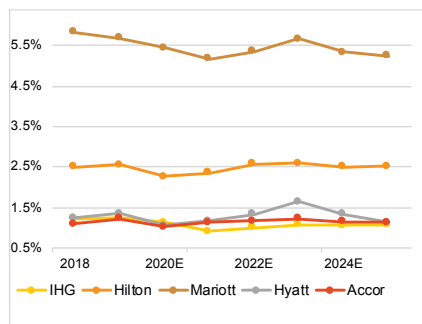


Figure 17 - Market share forecast for IHG and Peers

Source: Analysts

IHG has been gaining market share over the past few years even if remaining lower than its main peers, except Accor. Regarding future projections, we used our forecasts for IHG's revenue with Bloomberg's estimates for the peers' results. We concluded that overall they would all lose market share in 2020 due to the consequences of the Covid crisis. In our view, the reason is that all these groups have a more prominent exposure to business travel, which is currently down more than 80% and will take longer than leisure travel to return to 2019 levels. In contrast, smaller hotels have higher exposure to leisure travelling, which is expected to improve faster. With a rebound in travel, we see a recovery in market share growth in 2021 except for IHG and Marriott, that recover one year later. These two groups are expected to have lost less market share from the pandemic, -10.13% and -4.23% respectively, comparing to the other three peers (Hilton -11.67%, Hyatt -22.64% and Accor -16.10%).

Risk Analysis

- Pandemic Lockdowns

The uncertainty surrounding when we will be able to control the spread of Covid-19 is remarkably high. The projections for recovery depend mainly on public health and economic factors that are naturally hard to predict. It is crucial to

⁷ “Comparing performance when invested capital is low” by Mikel Dodd and Werner Rehm, 2005, McKinsey

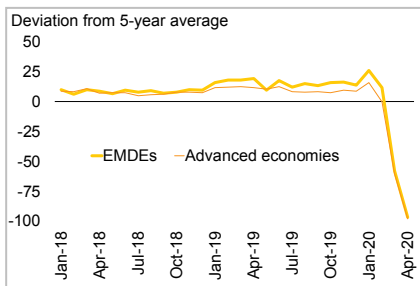


Figure 18 – Monthly tourist arrivals as a share of average since 2015
Source: Haver Analytics; World Bank

analyse the pandemic's path, the required public health response, and the consequent domestic activity disruptions, mostly predominant in contact-intensive sectors.

The global health crisis led to a 'Tourism shock', leading to a sharp drop of approximately 70% in international tourism during the first eight months of 2020, according to the World Tourism Organization (UNWTO). In the first quarter of 2020, according to the World Bank, tourist arrivals declined by nearly 100% (see Figure 18), and the number of commercial flights fell about 70% worldwide since the beginning of the year. These figures reflect the impact of the virus on the hotel's occupancy rate. In May 2020, the hotel occupancy rate in Europe was the highest affected, reaching an average of 13.3%, dropping 61.6 percentage points compared to the same time last year (see Figure 19 - Monthly hotel occupancy rates worldwide, 2018-20, by region).

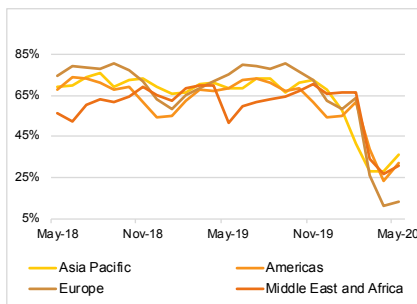


Figure 19 - Monthly hotel occupancy rates worldwide, 2018-20, by region
Source: Statista

We see other lockdowns happening in the first months of 2021, and consequently, all the consumption depending on any social interaction will be suspended once again. External tourism will therefore struggle due to the temporary border restrictions. Looking ahead, the threat from pandemic lockdowns on the hotel industry is not only reflected by the impact it caused on the results for 2020 but also on changes in consumption and work patterns that will cut aggregate demand. Despite the development and distribution of a vaccine, we should expect some social-distancing habits to persist during the next year. For this reason, we see the occupancy rate⁸ of IHG only achieving pre-Covid levels (approximately 70%) between 2024 and 2025, even though the ADR is expected to recover in 2023.

The tourism activity recovery is highly dependent on the confidence level from tourists, with travellers remaining risk-averse, and on the economic rebound, as there is less disposable income due to several job losses⁹. To enable the sector to bounce back in the aftermath of Covid-19 hotel groups should launch global protocols to rebuild confidence amongst consumers to travel safely once all the restrictions are lifted.

The recession caused by Covid-19 will bring massive challenges for cyclical business such as the hotel sector. With higher uncertainty, layoffs, less income, increased cost of debt service, unemployment increase, the suspension of many businesses, the fear of infection, all lead to a reduction of the spend on goods and services, tending to boost saving rates. As a result, liquidity and solvency

⁸ The occupancy rate is computed based on a weighted average calculated through the different hotels across the three analysed regions.

⁹ The US unemployment rate equalled 6.90% in October 2020 versus 3.6% in the year before.

risks rise, putting both jobs and debt at risk. The fact that we are considering a recovery in the economic cycle in the short term (mid-2021) does not mean being back to pre-crisis levels soon, in our view that will take more time (between 2023/24).

▪ Covid-19 Vaccine Developments and Distribution

The vaccine is both the cure to stop the spread of Covid-19 and to rebound tourism activity. Together with lifting restrictions, progress with vaccines and treatments allows activity to return to pre-pandemic levels progressively. The stocks that were hurt the most during the downcycle were also the ones to enjoy substantial gains in the rally of the aftermath of the vaccine news (IHG up 27% and Expedia Group up 41% since end-October). Drug makers Pfizer and BioNTech announced that their coronavirus vaccine is 95% effective and they have already started distributing their vaccine to the UK, EU, US and Japan. Separately, BioNTech will supply 100m doses in China via its partnership with Fosun Pharma. Besides, Moderna Inc. and the University of Oxford with AstraZeneca Plc are also distributing their vaccines. According to the World Health Organization, there are now more than 300 vaccine candidates, using a combination of different techniques to generate antibodies and virus-fighting cells to fend off infection. Figure 20 includes some of the production plans for 2021 and respective efficacy – most of the candidates have not yet confirmed the developed vaccines' effectiveness. The focus is now shifting towards how fast and successfully vaccines can be distributed.

The University of Oxford surveyed about an approved COVID-19 vaccine for the NHS. The results indicated that 72%, out of the 5,114 UK adults representative group, are willing to be vaccinated. A new Marist College poll¹⁰ concluded that 63% of the 1,065 respondents say they want to get the vaccine. The share of Americans wanting to take the vaccine went from 50% in late September to 63% in late November, indicating more substantial trust in the vaccine developments.

In case the safety, efficacy and durability of the distributed vaccines are worse than expected, and with new mutations of the virus, the economic rebound could be slower than forecasted, with renewed social distancing and tighter lockdowns caused by virus resurges. There is also a challenge faced by logistics and storage to the service-delivery model that contributes to a delay in the distribution. In addition to this, two doses are needed per person, delaying the process of global immunisation against the virus. We believe more than 70% of people in developed markets will be vaccinated against Covid-19 by the end of

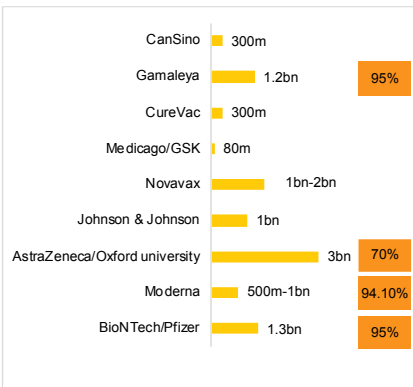


Figure 20 – Candidates’ vaccine production plan for 2021 and respective efficacy
Source: Financial Times

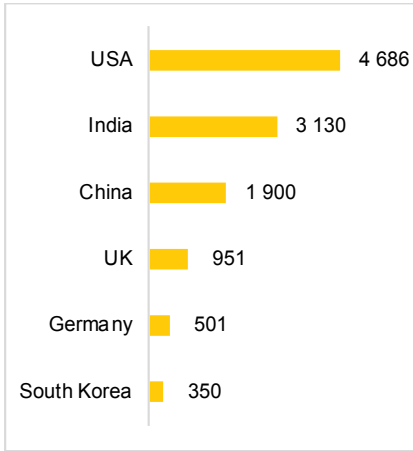


Figure 21 - Estimated production capabilities of Covid-19 vaccine candidates per country for 2020-2021 (in m)
Source: Airfinity Ltd, 2020

¹⁰ Marist Poll sponsored in partnership with NPR and PBS NewsHour conducted from December 1st until December 6th, 2020.

2021. Goldman Sachs Economists Daan Struyven and Sid Bhushan, expects the UK to vaccinate half of its population in March. Additionally, they forecasted that the European Union, Japan and Australia would reach this immunisation level in May.

▪ Peer-to-Peer Accommodation

InterContinental Hotels Group is a considerably large company, but new players have entered the competition as well. Peer-to-peer accommodation is characterised by a person renting an apartment or a room they own to another person. This is usually done through digital platforms such as Airbnb.

Airbnb became public on December 10th, 2020, and the stock rallied 113% on the first day, closing with a market cap above \$85bn (currently \$89.617bn versus IHG \$11.205bn), equivalent to Booking Holdings market cap. Airbnb's shares began trading at \$146, versus its IPO price of \$68 a share (currently trading around \$150).

The listing inventory of Airbnb has rapidly grown surpassing that of the biggest hotel chains, without owning any real estate. Airbnb global internet platform complements a revolutionary difference to travel and approach one of the oldest hospitality methods. These new methods are offering experiences to those travellers that appreciate a home-like stay.

Some studies¹¹ indicate that Airbnb supply increases have affected the ADR growth of hotels negatively. Airbnb has grown to more than 7 million listings by creating a user-friendly technology platform, from 2.9 million hosts, in 220 countries within twelve years. According to company data, approximately 2 million people stayed in an Airbnb every night in 2019. From 2015 until 2019, Airbnb bookings more than quadrupled (see Figure 22). The largest hotel companies have required between 30 to 240 years accomplish similar statistics¹². The rental marketplace company focuses on customising the guest experience, generating a great value proposition for traveller and host.

Equivalent to what happens in hotels, customer reviews play a significant role in the company's success. However, with Airbnb, this method is done differently since hosts and guests review each other. As many costumers do not want to give a poor review encouraging reciprocal retaliation reviews, this can explain the reason why Airbnb's quality score of (4.5) is on average higher than hotels' average (3.8) on Travel Advisor.

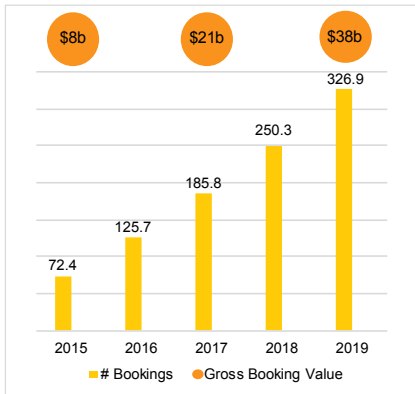


Figure 22 - Number of nights and experiences booked on Airbnb since 2015

Source: Airbnb; Statista

¹¹ “Quantifying Airbnb's disruptive impact on ten key hotel markets” by Tarik Dogru, PhD, CHE and Makarand Mody, PhD and Courtney Suess, PhD.

¹² STR, 2017. Airbnb & Hotel Performance - An Analysis Of Proprietary Data In 13 Global Markets.

In 2017 Airbnb bought Luxury Retreats, becoming a stronger competitor to IHG and some other industry peers. This move originated the Airbnb Luxe brand, which enables Airbnb to lead the luxury home rental space. The threat of new entrants in the hotel industry is low due to the high cost of capital, short access to land, high construction cost and difficulty securing entitlements. Nonetheless, the threat of shared economy substitutes like Airbnb is high, and there is a possibility that companies like Google or Amazon create similar platforms.

During the meeting with Matthew Woollard, he clarified that IHG does not yet see Airbnb as a direct competitor since the client base is different. However, tourists that book an Airbnb will occupy a seat on a plane that could have more IHG "targeted clients", reducing the demand for InterContinental Hotels and other industry peers. Moreover, to compete with this home-like stay, some IHG brands, such as Kimpton Hotels & Restaurants, have initiated a more relaxed service with fewer formalities to provide an experience similar to what Airbnb offers. Other hotels have a more personalised offer; for example, the client can choose whether they prefer a hard or a soft pillow. Such extra services would not be possible for a business model like Airbnb and IHG has the opportunity to deliver additional value in those areas.

Value Drivers

IHG's key value drivers are RevPAR, the number of rooms, the managed and franchised hotels, and the management fee (fee business only). The revenues until 2029 were forecasted by: Revenue per region = RevPAR * (number of rooms * 365) * management fee (if applicable) (afterwards nominal growth).

Hotel Development

With 26 leased and owned hotels and 5,877 managed and franchised ones in 2019, IHG is one of the biggest hotel companies worldwide. Moreover, IHG plans to open 1,918 new hotels within the next years (pipeline as of 2019).

One of the main drivers for any hotel is the number of rooms available since the total revenue increases with the RevPAR and the rooms. For this reason, we have been in contact with Matthew Woollard (IHG Investor Relations Vice President) to clarify how long it usually takes the company to open a hotel from the moment it is added to the pipeline. Moreover, he explained the realised percentage of hotels in the pipeline and how long a hotel is open on average. Due to different ranges, we have assumed in a best-case scenario that 45% of the hotels in the pipeline will be operating, that it takes 2.5 years until the hotel is opened and that it will remain operated for 25 years on average. In the base

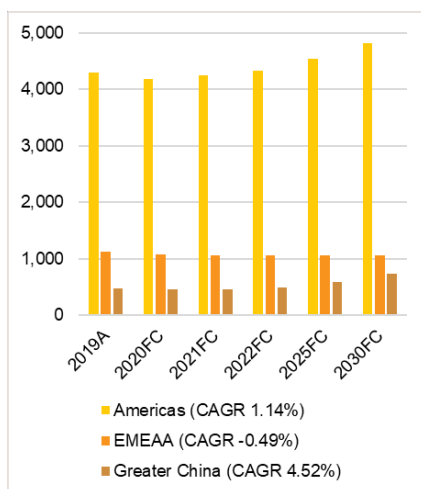


Figure 23 - Number of hotels per region

Source: Analysts

case, 40% of the hotels in the pipeline are completed, a hotel opens after 3.5 years and operates for 20 years. In the following, we will only focus on the base-case since this scenario is where all forecasts are built.

- Americas

Although we saw an increase in the number of managed and franchised hotels from 2016 to 2019 of 9.72%, the pipeline got slightly weaker during the period in scope. On one hand, some hotels were realised or suspended from the pipeline, on the other hand, the Americas is the market, where IHG is the most active (73% of their hotels located there). Therefore, there is less need to expand in this region. Additionally, competition is very high since Hyatt, Hilton and Marriott are also having their main market in that region. Consequently, we see IHG expanding more in other areas such as Greater China. We expect that the Americas pipeline remains relatively stable over a ten-year period and changes from 1,121 in 2019 to 1,018 in 2029. Nevertheless, the system will continue to grow, and IHG is expected to have 4,815 franchised hotels by 2029, representing a CAGR of 1.14% (2019-2029).

Since IHG will continue focusing on their asset-light business model, we do not expect the group to add further owned hotels to the pipeline. Some of the existing seven ones (2019) will close until the end of the forecasting period so that IHG will end up with four owned hotels in 2029.

- EMEAA

The revenues of EMEAA are approximately generated by 50% in Europe, 16% in the Middle East, 16% in Asia (excluding Greater China and Japan), 16% in Australia and Japan, and a negligible amount in Africa¹³. Compared to other hotel chains such as Accor, IHG has a relatively weak presence in Europe. Hence, we see more potential for new hotel openings in this region. Thus, we see the group to maintain the same number of hotels in the pipeline for the next years in EMEAA. Moreover, the company has disclosed to focus on building new voco hotels in Europe and the Middle East. Those new hotels are not only constructed or transformed relatively fast (on average one year) but they also require a relatively small investment by the franchisors since existing hotels are easily converted into voco hotels. Since all voco hotels are in the fee business segment, the expansion costs will not be carried by IHG but by the managers. InterContinental Hotels Group plans to open within the next ten years more than 200 new voco hotels. In 2019, IHG had operated twelve voco hotels and had additional 19 in their pipeline. Assuming that IHG successfully expands this

¹³ According to Matthew Woollard, Vice President IHG Investor Relations.

chain, we see 193 voco hotels in 2029 and IHG will keep after a heavy expansion 20 hotels in their pipeline to ensure substantial growth in the upscale segment and cover hotels to close after 25 years because of expired contracts. We assume that voco will exhibit similar occupancy rates and average daily rates as Indigo Hotels or Crowne Plaza since those are the most comparable ones. Under this premise, we see a \$125.11m revenue in 2029 compared to \$10.81m in 2019. The ROIC of the voco hotels will be above the ROIC of the whole group and the fee business only until 2031. From 2032 onwards the voco-ROIC will be slightly below the fee-business-ROIC (115.42% vs 116.25% in 2034). It is expected that the new openings will add significant value primarily until 2028. Later, they will behave approximately as any other part of the fee business.

Similar to the Americas, we do not expect any further owned hotels to be built. Consequently, the number will decrease from nineteen in 2019 to twelve in 2029. The number of hotels belonging to the fee business will also decrease slightly from 1,107 (2019) to 1,054 (2029). In the last years forecasted, we see approximately 44 hotels opening and 43 closures in the EMEAA region. However, in 2020 and 2021, we have expected more closures than openings, explaining the decreased number after ten years.

- Greater China

In 2020, IHG held a total market share of 3% in the Chinese market. Even though the company has established a solid standing in Greater China, it has still lost parts of its market share to local competition. Nonetheless, the groups share in the luxury segment amounts to 14% but in the major mainstream market, only 2%.

The company is focusing on its continued expansion mainly in Greater China. In 2019, only 6.48% of the total revenue came from Greater China, but approximately a third of the pipeline hotels were designed for that region. Consequently, the Chinese business is forecasted to reach with 731 hotels (vs 2019: 470) 16.26% of the total revenue in 2029 (\$454.68m). Most hotels in the pipeline (60%) are for the mainstream segment (Holiday Inn Express alone 39% of the local pipeline). This intense focus can be seen as a risk due to the lower diversification. Moreover, 87% of hotels in Greater China belonged to the mainstream market in 2019, which makes the competition harder. However, this is the most targeted segment; consequently, a successful expansion will have a significant upside. We see this as likely as the group has substantial experience

in the mainstream market, and Chinese customers have developed a preference for Western, luxury brands¹⁴ that will help IHG boost its popularity.

Beyond the corona pandemic, we expect further GDP growth, improved infrastructure, and a growing middle-class population which will help the domestic travel in Greater China. We see a market, which is growing and less targeted by other Western hotel brands providing more significant benefits than an expansion in the US.

▪ Working Spaces

In 2016 IHG launched \$200m programmes to redesign especially Crown Plaza hotels in the Americas and Europe. IHG invested in reinventing those hotels to meet business travellers' demands with flexible work and meeting spaces. We expect that this concept will be taken to the next level after the Covid-19 pandemic due to the increased home office possibilities. Thus, IHG will transform parts of its standard rooms to office rooms or office-and-bedrooms that can be booked for some days, weeks or even for the longer term.

We expect that working-from-anywhere will be a trend but sustain in the future since many firms will realise that a defined office is not necessary to ensure productivity. Moreover, a home-office solution reduces rent costs and has the potential to increase the work-life balance (see Figure 24 - Workforce expected to work on remote in July 2021). In case a firm requires conference rooms for meetings with clients, such a room can be booked via IHG. With flexible offices in IHG hotels, employees can combine travelling and working. Those flexible office rooms will also increase business travellers' productivity as soon as this rebound, since working before and after meetings will be supported.

We expect that those rooms will be offered to a more considerable extent in 2021. Such office rooms are available already in New York InterContinental Times Square for a discount of 56.51% compared to a standard room which was assumed to be the discount for every region compared to the average rate per room. As the leading competitor, we have identified "WeWork". According to their annual report (2019), the occupancy rate has been 85%. We target this KPI for IHG as well and expect to reach it in 2025. It is assumed that almost all office rooms offered will be fee-based and the same management fee as for the usual rooms will be transferred to the group. By 2029, the revenue of working spaces only will be \$18.37bn, and this segment will exhibit an ROIC of 168.61% (vs fee-business-ROIC of 137.02%). However, in the extended forecasting period, the working-spaces-ROIC will decrease to 114.65% which is slightly lower than the

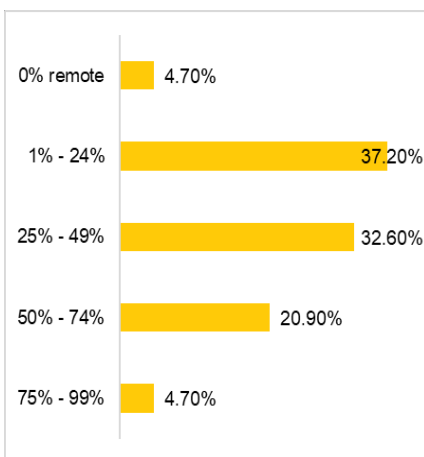


Figure 24 - Workforce expected to work on remote in July 2021
Source: Q4 CNBC Global CFO Council Survey

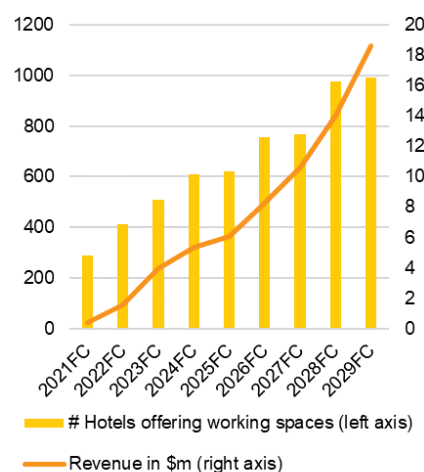


Figure 25 - Number of hotels offering working spaces and revenue from those (right axis)
Source: Analysts

¹⁴ "Opportunity for luxury brands in China." by Ronald Jean Degen, 2009.

ROIC for the fee-business only (116.49%) but still higher than the one for the group (85.79%). Regardless of the still high ROIC, IHG's fee business does not benefit from the working spaces from 2030 onwards, due to a slower-growing NOPLAT. This growth slows down since more hotels have added this new revenue source to their business in the years earlier. However, by 2030 we expect that most hotels interested in working spaces have added those already. The demand for flexible office solutions might be a decade after the pandemic lower than in the early '20s. Assuming IHG shuts down the working spaces in 2030, the ROIC for the fee business will improve from 116.25% to 116.68% in 2034. We do not assume that IHG will shut down the working spaces business immediately. This is mainly because the group might lose some business travellers who have booked a bedroom and a working space, which might lead to an overall lower ROIC. The working spaces ROIC would break even with the fee business if 17,749 instead of 17,467 office rooms were operated or an ADR of \$80.13 instead of \$78.86 was charged in 2034. Hence, IHG might have the power to increase the rate in case the ROIC delivers unsatisfying values.

Valuation Assumptions

Revenue Forecast

Since InterContinental belongs to a cyclical industry, the macroeconomic environment has a significant impact on these estimations. Revenues (and every other prediction) were implicitly forecasted until 2029. For additional five years, an extended forecasting period has been applied.

In the past few years, IHG's revenue has been continuously growing. However, the pandemic has affected the hotel industry due to travel restrictions and governments forcing hotels to close, which has led to occupancy rates falling to levels never seen before. To become more competitive in times that the demand for hotels is deficient, IHG has been forced to decrease its average daily rate (ADR). This figure is only expected to reach 2019 levels once the recovery from this crisis is verified, which we assume to happen in 2023/24. Our model includes the expected effect coming from the recovery after the pandemic and inflation expectations to estimate the change in the ADR.

Since the group's business model is divided into different segments, we have split the forecast applying the same segmentation into revenues from the fee business, from the owned business, from the system fund and the reimbursement of costs. Due to the current circumstances and the need for hotels to reinvent their business, we have added a forecast for revenues from working spaces described in the chapter before. As the tourism industry's future

is highly dependent on the further course of the corona pandemic, we have induced a best-case, base-case and worst-case scenario. The base case has been used for the valuations since the assumptions for this scenario are the ones that are aligned with our expectations. The other scenarios will be examined and explained further in the chapter "Scenario Analysis".

IHG weighted RevPAR¹⁵ declined last year in Greater China by -17.31%, due to both ADR and occupancy declines. This drop was mainly due to the political unrest and demonstrations in Hong Kong. For 2020, we expect this figure to decrease once again due to Covid-19 (-65.37%). Nonetheless, we believe this figure will increase in the years afterwards, mainly because Greater China's economy and tourism activity is expected to grow due to the factors mentioned in the chapter Hotel Development for Greater China. Besides those factors, China is becoming a more and more critical business partner for many Western nations. Hence, we assume that as soon as the pandemic is over and travelling rebounds, many business travellers will come to this country. Even though China has recovered relatively quickly from the pandemic; currently only domestic travelling is allowed there. Consequently, we expect RevPAR to recover to pre-crisis levels between 2022 and 2023 when all other nations visit China and when business travelling becomes more convenient again. We expect Greater China to recover in 2023 and continue growing afterwards with a mentionable pace in revenues. We see Greater China's revenue CAGR for 2022 until 2029 at 21.01% due to realised expansion plans, still increasing occupancy rates, growing business importance and better economic conditions (see Hotel Development – Greater China). This CAGR is mainly driven by strong growth from 2022 until 2026 (between 24.60% to 48.29% YoY).

We have forecasted a moderate increase in RevPAR in the Americas region after the recovery period, driven by an inflation rate of 2.10%. We do not expect any other factors influencing the RevPAR from 2025 onwards since this market is the most saturated and stable. This region contributed to 49.93% of the group's revenues in 2019, and we see this ratio to remain at this level over the years. Even though the system is not expected to grow as much as in the other regions, the Americas still exhibit the highest ADR. As soon as people start travelling again, IHG can charge higher ADRs due to the increased demand. We expect the fee business after a RevPAR drop of -49.66% in 2020 and a recovery in 2023. We see Americas fee business revenue growing with a CAGR of 8.55% from 2022 to 2029. In the next years, we expect the owned business to continue losing importance in this region. We do not expect IHG to open further owned

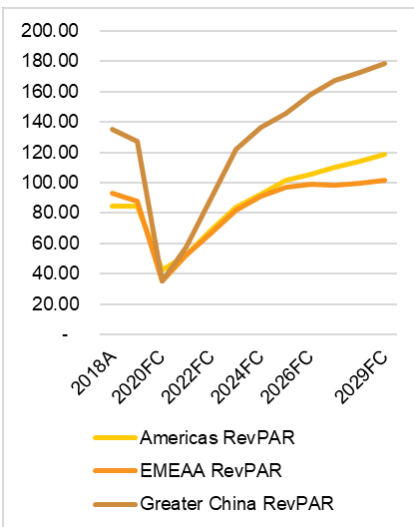


Figure 26 - RevPAR development per region

Source: Analysts

¹⁵ We have calculated weighted RevPAR for three main regions considered based on the number of hotels present in each region.

hotels there since the company has decided to pursue the asset-light strategy and we see this as likely as well, due to promising returns with this strategy in the past. Although we see RevPAR recovering in 2023 for the owned business, the revenue will not reach pre-Covid levels due to seven owned hotels' closures and no further new openings in this segment.

Last year EMEAA RevPAR grew 0.3%, driven by a 0.7ppt growth in occupancy. Revenues are primarily coming from hotels in the United Kingdom and gateway cities in continental Europe, the Middle East and Asia. We expect the slowest recovery in EMEAA due to stricter policies than, for example, in the US and due to a severer pandemic course than in China. The prior levels of revenue and RevPAR will be reached in 2024. After a revenue drop of -65.95% in the fee business in 2020, we expect in 2021 a revenue jump of 53.75% (from \$114.75m to \$176.42m). We see that travelling within most European Union countries should be allowed in the first half of 2021. Many European countries are currently in a second or third lockdown; thus, cases should recover, and restrictions will be eased. Additionally, since a vaccine is available in many countries already, herd immunity can be reached in summer. The most populous European country, Germany, aims to achieve herd immunity in the end of summer 2021¹⁶. For the fee business revenue, we see a CAGR (2022-2029) of 6.17%. Like the US, the owned hotel business will never recover fully, since the system will shrink a bit due to hotels' possible closures without new ones being built.

We do not expect the whole economy to recover from the pandemic only in 2023. Still, due to changes in society, in working circumstances and mindsets, we see the tourism industry to take longer. Many firms will get used to Zoom-meetings and will take some time to go back to the more expensive business travelling. Nevertheless, we see IHG also targeting business travellers in the next years, but with the new flexible working format. The home office trend enables many people to work from anywhere. We expect an \$18.64m revenue from this segment by 2029 due to the factors described in the chapter Working Spaces.

The last two components contributing to the group's revenue are the system fund and reimbursement of costs. Since the system fund revenue is used for marketing and IT, we have forecasted it as a percentage of the fee business's net income (recovery in 2023, CAGR (2022-2029): 8.20%). As mentioned before, the system Fund is designed to operate at break-even and does not result in a profit or loss for IHG. Nevertheless, we ran a scenario analysis with different rates. If the system fund rate increases, more revenue is created on the one hand, which will be spent on the other hand. Consequently, the unlevered free cash flow and

System fund rate scenario analysis

in \$m (2034)	4.49%	4.00%	5.00%	6.00%
Sales	7965	7694	8250	8806
EBIT	1550	1551	1549	1547
Op. FCF	1108	1110	1106	1102
S. price GBP	48.92	49.04	48.79	48.53
Return for Shareholder	5.50%	5.76%	5.22%	4.67%

Table 5 - System fund rate scenario analysis

Source: Analysts

¹⁶ "Herdenimmunität bis Ende des Sommers", dpa, 15th of December 2020

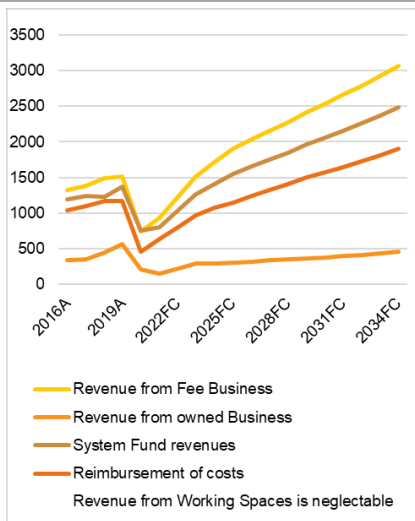


Figure 27 - IHG sources of revenue in \$m

Source: Analysts

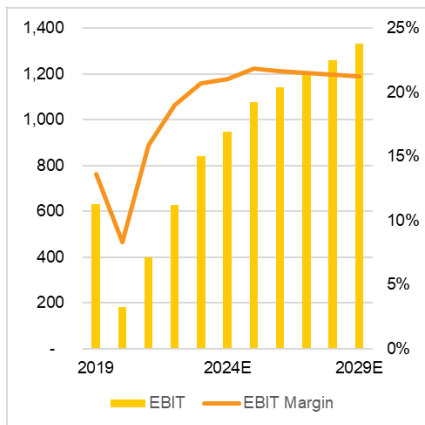


Figure 28 - EBIT and EBIT margin projections

Source: Analysts

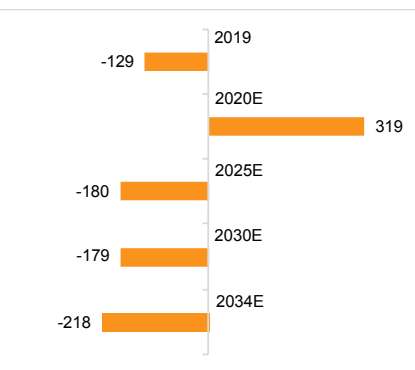


Figure 29 - Net CapEx Forecast

Source: Analysts

the whole valuation remain relatively unchanged (see Table 5 - System fund rate scenario analysis).

Financial Projections

In the past, InterContinental Hotels Group has shown a continuous decrease in EBIT margins with 2019 showing some improvements, decreasing from 18.26% in 2017 to 13.42% in 2018 but gaining 0.2 percentage points in 2019. However, after the sharp decline expected to be seen in 2020 (8.35%) due to the pandemic's impact, we predict a substantial recovery of the EBIT margin in 2022, equalling 19.00% (see Figure 28 - EBIT and EBIT margin projections). We see the profitability margin increasing to a maximum of 21.85% in 2025 because we expect that the revenues increase faster in that period than the cost since IHG will maintain some of their cost-saving measures after the worst of the pandemic is over. In 2019 IHG has had 6.21 managers per hotel, which will be decreased until the occupancy rate is back to pre-crisis levels which will happen in 2024/2025. From 2025 onwards, IHG will operate with on average with 6.05 to 6.11 managers per hotel. Another reason for revenues increasing faster than costs in that period is the management fee. As Matthew Woolard has confirmed, IHG has lowered the management fee during the pandemic. We expect RevPAR to return to normal levels between 2024 and 2025, the management fee is estimated to reach the 2019 levels of 5.28% in 2022 already and will increase to 5.47% in 2024. This is because the management fee in Greater China has always been higher, and the contribution to the group's revenue will increase over time from this area. After that period of EBIT margin growth, it is expected to decrease to a value of 21.26% in 2029. Even though the change in costs will continue to fall until the extended forecasting period in 2030, revenues will grow even slower. The moderately lower increase in costs is due to economies of scale, as even if the number of hotels will be evolving in the future, the expenses for marketing or IT do not grow at the same pace. The slighter decrease in revenues can be explained by a stagnating occupancy rate from 2025 onwards. According to past data, an occupancy rate of around 70.5% is where IHG can expect the highest RevPAR.

IHG's slowdown on expansion during the past years has been characterised by negative but increasing numbers in CapEx due to smaller changes in PPE. In 2018 and 2019, CapEx remained stable since IHG focusses on the fee business. This segment does not lead to higher CapEx. In the future, the figure will move in line with the forecasted number of owned hotels, which we expect to decrease.

Regarding Net Working Capital (NWC), we forecast trade and other payables using the average payable period. IHG took in the past four years 209 days on

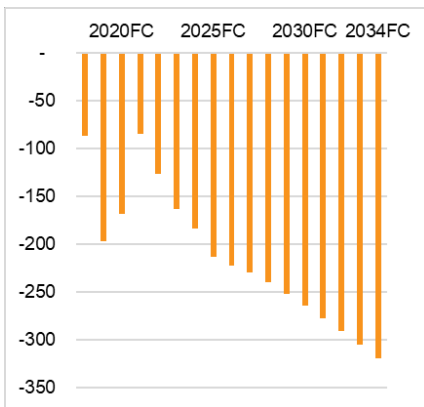


Figure 30 - NWC development
Source: Analysts

average to pay their bills. In contrast, IHG has collected outstanding payments within 52 days. This period is assumed to be kept in the future. Inventories were forecasted based as a percentage of the revenue of the owned business since the inventories for the fee business are on the balance sheet of the franchisors. For that reason, this number is considerably small, and no major changes are expected. To complete the analysis of the change in NWC, the operating cash has been projected. We estimated operating cash and cash equivalents to be 2% of the operating revenue, as we do not assume a hotel needs more cash to handle the daily operations. Since the revenue will grow after the crisis, operating cash does so as well. However, we expect a sharper drop than in the revenues in 2020 (by -79.47%) due to the crisis' impact since we assume that IHG will need some short-term liquidity in that period.

Considering all positions described above, we expect NWC to increase in 2020 and 2021. Afterwards, we expect it to decrease further with the same rate as the revenue grows. IHG used to have and will continue to have a negative NWC since the guests pay in advance (see Figure 30 - NWC development).

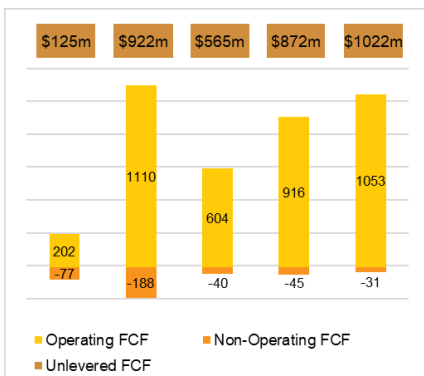


Figure 31 - FCF development
Source: Analysts

The operating free-cash-flow (FCF) of the company in 2020 is forecasted to be \$1,110m, five times higher than in 2019 (see Figure 31 - FCF development). A break on new investments to be able to recover from the crisis causes this development. EBIT is projected to be in this year only half of the previous one. Nevertheless, this development will be driven by a significant increase in net CapEx and NWC to offset the operating decrease. However, in 2021 we expect the operating FCF to decrease to less than 2019 levels, as new investments are projected to come in, especially if the Covid-19 vaccine starts being distributed across the world. Due to periods of more or fewer investments, FCF remains volatile but stabilises around 2027.

Book Values of Debt and Equity

When analysing IHG's balance sheet, one of the most prominent points is the high debt and the corresponding low equity. Such a relationship indicates a high level of risk for investors.

Equity becomes negative if liabilities exceed assets. This does not necessarily mean that the company is over-levered. In the case of IHG, the cause of that relationship is the asset-light business model. With relatively low PPE values, a considerable typical debt ratio compared to the equity market value can lead to a negative book value of equity.

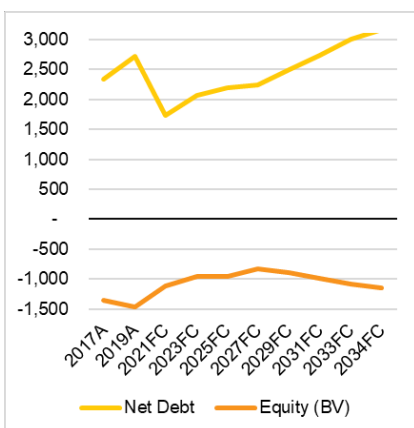


Figure 32 - IHG net debt to equity
Source: Analysts

To assess if the current and future debt level can impose a risk for IHG, the absolute amount of debt and the corresponding level of interest expenses were

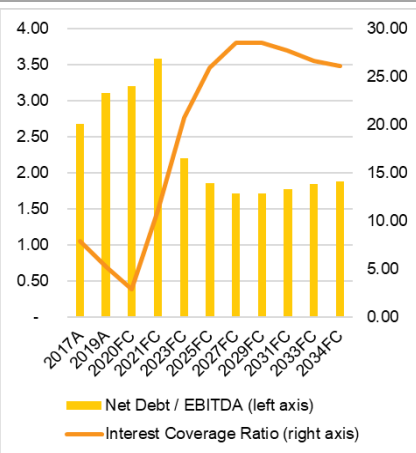


Figure 33 - IHG debt coverage
Source: Analysts

examined. Therefore, we have calculated the net debt to earnings before interest, tax, depreciation, and amortisation (EBITDA) ratio and the interest coverage ratio. When the net debt to EBITDA ratio is higher than four or five, this can be a warning sign, which is the case for IHG in 2020 and 2021 (4.12 and 4.37) due to lower EBITDA caused by the decreased travel activity. However, if IHG manages to increase sales in the next years as predicted, the ratio will move to a healthy range again. The interest coverage ratio is exceptionally high in the future; consequently, IHG should not have problems paying back their interest expenses (see Figure 33 - IHG debt coverage). Those numbers indicate that the group can handle that high debt burden, but IHG should bear in mind that too much leverage can harm the business due to decreased ratings. A reduced rating would lead to higher costs of debt, a higher WACC and a lower valuation. In that case, we still do not expect IHG to struggle with meeting its interest payments, due to the sufficient interest coverage ratio.

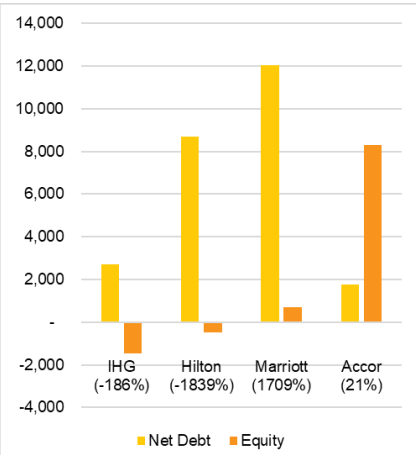


Figure 34 - Peers net debt to equity, 2019 (in \$m)
Source: Analysts

High leverage does not seem to be unusual in the hotel industry. When comparing IHG with its closest peers (see Figure 34), one can see that Hilton and Marriott are firmly levered as well. In Hilton's and Marriott's case, the debt to equity ratio is highly positive (or negative). Due to the low level of assets, the book value of equity becomes very small or negative to balance the balance sheet. Only Accor maintains a capital structure (in book values) where equity exceeds debt. A combination of relatively low financial liabilities with a considerably high level of non-operating cash pushes the net debt down. Despite the asset-light business, Accor's assets do not exceed liabilities and allow the smallest debt to equity ratio (21%) among the peers.

Cost of Capital

To derive the share price of IHG, the Discounted Cash Flow Method (DCF) is considered a suitable approach as the capital structure is not expected to change significantly. Therefore, to discount the expected FCFs, the weighted average cost of capital (WACC) needs to be determined.

First, the Capital Asset Pricing Model has been used to calculate the cost of equity. As a proxy for the nominal risk-free rate (2.38%), we have adjusted the 10y US Treasury Yield (0.91% as of January 3rd, 2021) for inflation. For the estimation of beta, the monthly returns of the MSCI World (in \$) were regressed against the IHG returns from January 2015 until end of December 2020, which led to a levered beta of 1.35 within a confidence interval from 1.01 to 1.69. Considering such a wide interval, we have validated the result by regressing the main competitors of IHG (namely Accor, Hilton, Hyatt and Marriott) against the MSCI World in \$ and € (for Accor only). Those betas were unlevered to enable us

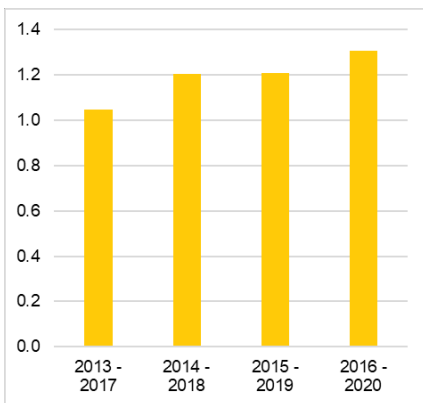


Figure 35 - IHG rolling beta
Source: Analysts

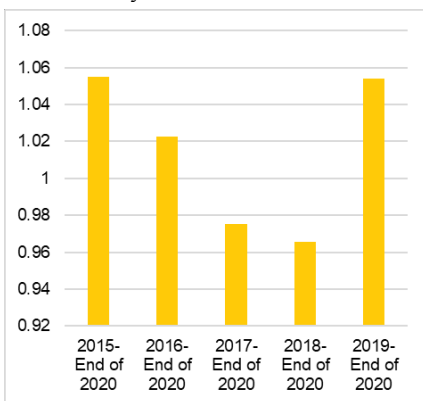


Figure 36 - IHG beta development
Source: Analysts

to analyse them independently of their capital structure. Those competitors reflect the confidence interval and the average re-levered beta amounts to 1.35. Therefore, the beta development for different periods and the rolling beta of IHG (see Figure 35 and Figure 36) and its peers have been examined. The period that was initially chosen (from 2015 to 2020) leads to the highest beta. Although IHG is a cyclical stock by nature, we are concerned that a levered beta of 1.35 can be too high after analysing its development. Especially when only considering only the period 2019-2020, which includes a very volatile period, a beta of 1.35 has also been derived, which makes 1.35 less appropriate as a forward-looking value. Since a period with monthly observations from 2016-2020 is considered sufficient¹⁷, the analysis and further calculations will be based on a levered beta 1.31 and an unlevered one of 1.02 (see Table 6 - IHG beta).

	Unlevered Beta of Peers and IHG (2016-2020)				IHG
	Accor	Hilton	Marriott	Hyatt	
Beta levered	1.37	1.36	1.90	1.583	1.31
Debt Beta	-	0.06	-	0.057	-
D/EV	16%	23%	25%	20.17%	18%
E/EV	84%	77%	75%	79.83%	82%
D/E	18%	30%	34%	25.26%	22%
Beta unlevered	1.15	1.04	1.40	1.253	1.06
Relevered Beta	1.41	1.27	1.72	1.54	1.31
Median unlevered Beta	1.15				
Relevered median beta	1.41				

Table 6 - IHG beta
Source: Analysts

With this beta, a nominal risk-free rate of 2.38% and an expected market return of 6.75% (as suggested by KPMG¹⁸) cost of equity of 11.21% were calculated.

To derive the cost of debt, a long-dated IHG bond (BBB-rating), its yield, default rate and loan recovery rate were considered, and a rate of 1.96% was estimated. Finally, with an E/EV-ratio of 82.19% and a tax rate of 17%, the WACC amounts to 9.50%.

However, one has to keep in mind that most of the inputs were assumptions. For this reason, the sensitivity of the cost of equity in dependence of the risk-free rate and the beta was tested. The values for beta were chosen between the confidence interval (2016-2020). The risk-free rate can change in the future either because the economy needs more stimulus to fight economic consequences of the Covid-19 crisis (decrease) or because the Fed decides to fight potentially increased inflation caused by the higher money supply (increase).

¹⁷ „Valuation: measuring and managing the value of companies” by Tim Koller et al, 2010.

¹⁸ „Equity Market Risk Premium – Research Summary” by KPMG, 2020

		Levered Beta								
Nominal risk free rate		0.96	1.04	1.13	1.22	1.31	1.40	1.48	1.57	1.66
	1.96%	8.42%	9.01%	9.60%	10.19%	10.78%	11.37%	11.96%	12.55%	13.15%
	2.17%	8.63%	9.22%	9.81%	10.40%	11.00%	11.59%	12.18%	12.77%	13.36%
	2.38%	8.84%	9.44%	10.03%	10.62%	11.21%	11.80%	12.39%	12.98%	13.57%
	2.57%	9.03%	9.62%	10.21%	10.80%	11.39%	11.98%	12.58%	13.17%	13.76%
	2.75%	9.21%	9.81%	10.40%	10.99%	11.58%	12.17%	12.76%	13.35%	13.94%

Table 7 - Sensitivity of cost of equity based on the levered beta and risk-free rate

Source: Analysts

Furthermore, the WACC sensitivity with the cost of equity between 9.60% and 12.76% (derived by different levels of beta) and the cost of debt between 1.56% and 2.95% were tested.

		Cost of Equity								
Cost of Debt		9.60%	10.00%	10.40%	10.81%	11.21%	11.60%	11.98%	12.37%	12.76%
	1.56%	8.12%	8.45%	8.78%	9.11%	9.44%	9.76%	10.08%	10.40%	10.72%
	1.76%	8.15%	8.48%	8.81%	9.14%	9.47%	9.79%	10.11%	10.43%	10.75%
	1.96%	8.18%	8.51%	8.84%	9.17%	9.50%	9.82%	10.14%	10.46%	10.78%
	2.16%	8.21%	8.54%	8.87%	9.20%	9.53%	9.85%	10.17%	10.49%	10.81%
	2.35%	8.24%	8.57%	8.90%	9.23%	9.56%	9.88%	10.20%	10.52%	10.84%
	2.55%	8.27%	8.60%	8.93%	9.26%	9.59%	9.91%	10.23%	10.55%	10.87%
	2.75%	8.30%	8.63%	8.96%	9.29%	9.62%	9.94%	10.26%	10.58%	10.90%
	2.95%	8.33%	8.66%	8.99%	9.32%	9.65%	9.97%	10.29%	10.61%	10.92%

Table 8 - WACC sensitivity

Source: Analysts

Intrinsic Valuation

To derive IHG's share price with the DCF Method, the unlevered free cash flows from 2021 onwards are discounted separately with the WACC. Additionally, the terminal value of the last unlevered free cash flow (2034) has been applied with the Gordon Growth Model. The perpetual growth rate (g), as a product of ROIC and reinvestment rate, is equal to the assumed overall nominal growth rate in 2034 (4.92%, weighted average of IHG's regions). In the last forecasted years, sales, core result, investments, and consequently the unlevered free cash flow have stabilised and were all driven by the growth in sales only, which was expected to align with the nominal growth.

The sum of the discounted cash flows and the terminal value amount to an enterprise value of \$13,964m. To derive the equity value and share price, the non-operating enterprise (book) value of 2021 is added, and the net debt (book) value of 2021 deducted. The result is an equity value of \$12,214m, which corresponds to a share price of \$66.85 or £48.92 (see Table 9 - DCF IHG). Since 55.84% of IHG's value is driven by the terminal value, which is highly dependent on g (as a product of ROIC and RR) a sensitivity analysis has been performed on those parameters for the final FCF and consequently the share price (see Table 10 - Sensitivity of g and Table 11 - Share price sensitivity in dependence of WACC and g). The terminal value has significant importance, and hence, it is crucial to building reliable assumptions for an intrinsic valuation.

InterContinental Hotel Group: DCF Valuation

Perpetual Growth	4.92%
WACC	9.50%

in \$m	Discounted Cash Flows													
	2021FC	2022FC	2023FC	2024FC	2025FC	2026FC	2027FC	2028FC	2029FC	2030FC	2031FC	2032FC	2033FC	2034FC
Total Sales	3315	4070	4515	4937	5292	5593	5923	6278	6583	6902	7237	7591	7965	
Cost of Sales and administrative expenses	-246	-298	-329	-352	-381	-406	-432	-460	-482	-505	-529	-555	-583	
Staff costs	-1484	-1795	-1980	-2123	-2298	-2445	-2602	-2769	-2976	-3200	-3443	-3706	-3992	
Other operating costs	-844	-1021	-1141	-1268	-1350	-1418	-1499	-1587	-1613	-1637	-1657	-1674	-1687	
EBITDA	741	956	1065	1194	1263	1323	1390	1463	1512	1560	1607	1655	1703	
D&A	-101	-105	-105	-107	-111	-114	-117	-121	-127	-133	-139	-146	-153	
Operating EBIT	640	852	960	1087	1152	1210	1273	1342	1386	1427	1468	1509	1550	
Operating EBIT Margin	19%	21%	21%	22%	22%	22%	21%	21%	21%	21%	20%	20%	19%	
Notional Taxes	-109	-145	-163	-185	-196	-206	-216	-228	-236	-243	-250	-257	-263	
Adjusted Taxes	-45	-60	-68	-77	-82	-86	-90	-95	-98	-101	-104	-107	-110	
NOPLAT	486	646	728	825	874	918	966	1019	1052	1083	1114	1146	1176.63	
D&A	101	105	105	107	111	114	117	121	127	133	139	146	153	
Gross CF from operations	587	751	834	932	985	1032	1083	1140	1179	1216	1254	1292	1330	
Capex	-234	-235	-182	-180	-172	-165	-174	-182	-179	-188	-197	-207	-218	
Change in NWC	-43	-36	-21	-29	-9	-8	-10	-11	-13	-13	-13	-14	-15	
Change in other operating assets	-159	-156	-113	-108	-88	-78	-89	-95	-106	-111	-117	-123	-130	
Change in other operating liabilities	-38	280	156	161	115	91	106	113	115	120	126	133	140	
Unlevered Operating FCF	113	604	674	776	832	872	916	965	995	1025	1053	1080	1108	
@ WACC	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	
Discount Factor	0.91	0.83	0.76	0.70	0.64	0.58	0.53	0.48	0.44	0.40	0.37	0.34	0.31	
Discounted Cash Flows	103	504	513	540	528	506	485	467	440	413	388	363	340	
Present Value of Terminal Value														7797
Enterprise Value	13,388	14,547	15,325	16,107	16,862	17,633	18,436	19,272	20,138	21,057	22,033	23,074	24,186	25,377
Debt Value acc. to Balance Sheet	1,743	2,069	2,077	2,148	2,218	2,178	2,267	2,410	2,516	2,638	2,766	2,900	3,042	3,192
ΔIEV	13.0%	14.2%	13.6%	13.3%	13.2%	12.4%	12.3%	12.5%	12.5%	12.5%	12.6%	12.6%	12.6%	12.6%

Sum of Discounted Cash Flows	5,591
Terminal Value	7,797
Non-Operating Enterprise Value	576
Enterprise Value	13,964
Minority Interest	8
Financial Debt Value	- 1,743
Equity Value	12,213

Share Price in USD	66.85
Number of shares	182.70
\$/GBP	0.7318
Share price in GBP	48.92
Current Share Price in GBP	46.90
Upside/Downside	4.30%
Return for shareholder incl. dividend	5.50%

Source: Bloomberg

As of 03/01/2021

Table 9 - DCF IHG

Source: Analysts

To analyse the sensitivity of the share price in dependence of g and the WACC, another analysis has been performed. First, the most appropriate values for g were determined with a sensitivity based on ROIC and reinvestment rate (see Table 10 - Sensitivity of g). Those values were used for determining the share price in dependence of g and WACC (range for sensitivity analysis has been specified in Table 8 - WACC sensitivity already).

Reinvestment Rate	ROIC						
	78.18%	80.18%	82.18%	84.18%	86.18%	88.18%	90.18%
4.35%	3.40%	3.49%	3.57%	3.66%	3.75%	3.83%	3.92%
4.85%	3.79%	3.89%	3.98%	4.08%	4.18%	4.27%	4.37%
5.35%	4.18%	4.29%	4.39%	4.50%	4.61%	4.71%	4.82%
5.85%	4.57%	4.69%	4.80%	4.92%	5.04%	5.16%	5.27%
6.35%	4.96%	5.09%	5.22%	5.34%	5.47%	5.60%	5.72%
6.85%	5.35%	5.49%	5.63%	5.76%	5.90%	6.04%	6.17%
7.35%	5.74%	5.89%	6.04%	6.18%	6.33%	6.48%	6.63%

Table 10 - Sensitivity of g

Source: Analysts

Growth Rate	WACC						
	8.48%	8.82%	9.16%	9.50%	9.86%	10.22%	10.58%
3.89%	54.03	49.81	46.14	42.91	39.91	37.25	34.88
4.23%	56.98	52.26	48.19	44.65	41.38	38.51	35.96
4.58%	60.46	55.11	50.56	46.63	43.05	39.92	37.16
4.92%	64.61	58.47	53.31	48.92	44.95	41.52	38.52
5.29%	70.09	62.82	56.83	51.80	47.32	43.48	40.17
5.67%	77.02	68.20	61.09	55.24	50.10	45.77	42.07
6.04%	86.05	75.01	66.37	59.41	53.43	48.47	44.29

Table 11 - Share price sensitivity in dependence of WACC and g

Source: Analysts

Scenario Analysis

As mentioned in the chapter "Revenue Forecast", three scenarios were built that capture the risks and chances depending on the pandemic's further course.

Assumption	Full recovery in...	Fee Business (2029)	Owned Business	Working Spaces
Best Case Vaccine fully developed end of the 2020 which will be broadly available to public in the first half of 2021, fully effective, no further lockdowns and traveling rebounds rather quick	2023	\$ 2,997m	\$ 487m	\$ 64m
Base Case Vaccine fully developed end of 2020, broadly available second half of 2021, 90% effective, until then some further restrictions, rather slow recovery due to increased awareness, mutations and restrictions	2024	\$ 2,416m	\$ 360m	\$ 19m
Worst Case Vaccine rather later broadly available due to supply bottlenecks (2022), some mutations that make a vaccine less effective and further travel restrictions until 2023, rather slow recovery	2026	\$ 1,913m	\$ 290m	\$ -

Table 12 - Scenario overview

Source: Analysts

Depending on the scenario, the pipeline forecast, the ADR and the occupancy rate are changing. In the best case, we assume a hotel to be operated three years after the contract has been signed and that 45% of the hotels in the pipeline are completed. In the base- and worst-case it takes 3.5 years, and they exhibit a completion rate of 40%.

Scenario Summary								
in \$m				Best (50%)	Best (30%)	Worst (50%)	Worst (30%)	Best (20%)
	Base (100%)	Best (100%)	Worst (100%)	Base (50%)	Base (70%)	Base (50%)	Base (70%)	Base (60%)
Total Sales (2034)	7,965	8,995	6,767	8,488	8,280	7,345	7,586	7,913
EBIT (2034)	1,550	1,787	879	1,673	1,625	1,195	1,330	1,444
NOPLAT (2034)	1,177	1,356	668	1,270	1,233	907	1,010	1,096
Operating FCF (2034)	1,108	1,285	611	1,200	1,164	845	945	1,030
Sum of Discounted CFs	5,591	6,553	3,363	6,074	5,881	4,439	4,886	5,297
Terminal Value	7,797	9,043	4,299	8,443	8,190	5,944	6,648	7,247
Enterprise Value	13,964	16,187	8,208	15,100	14,652	10,944	12,101	13,117
Equity Value	12,213	14,455	6,341	13,359	12,906	9,135	10,315	11,346
Share Price in USD	66.85	79.12	34.71	73.12	70.64	50.00	56.46	62.10
Share Price in GBP	48.92	57.90	25.40	53.51	51.70	36.59	41.32	45.45
Return for Shareholder	5.50%	24.99%	-45.45%	15.45%	11.52%	-21.19%	-10.95%	-2.00%

Table 13 - Scenario Analysis

Source: Analysts

In the best-case, the recommendation would change to a buy with a return for the shareholder of 24.99%. The higher upside can be explained by a combination of faster system growth and a more robust recovery in terms of occupancy rates and ADR's. However, if the worst-case would occur, the target share price would change due to the slower and weaker recovery to £25.40, corresponding to a total return of -45.45%.

The best-case scenario seems not to be realistic since it assumes a fast growth, especially in ADR's, which might only be feasible with more substantial growth in travel demand, increased general economic growth, and higher available incomes. To model the possibility that the base case turns out better than expected, the probabilities of base- and best-case were weighted (same for worst-case) (see Table 14 - Best-case scenario). To have a 10.00% upside for the shareholder, and hence, a buy recommendation, the base case needs to turn

Best case	Shareprice in GBP	Upside for Shareholders
0.0%	48.92	5.50%
2.5%	49.39	6.51%
5.0%	49.85	7.52%
7.5%	50.32	8.53%
10.0%	50.78	9.53%
12.5%	51.24	10.53%
15.0%	51.70	11.52%

(While base case = 100% - best case)

Table 14 - Best-case scenario

Source: Analysts

out 22.35% better than expected (meaning a weighting of 22.35% best-case, 77.65% base-case) (for more scenarios see Table 14 - Best-case scenario).

The worst-case scenario is also not considered likely since an effective vaccine is already available and is also announced to be broadly distributed soon. As described in the risk analysis chapter, there is some risk left regarding mutations and supply bottlenecks. That scenario is more severe than the best-case since some of IHG's costs do not change even if fewer hotels are operated (for example for marketing or the guest reservation system). For the shareholder to have a total return of zero (0.07%), the base case needs to turn out 9.70% worse than expected (meaning a weighting of 9.30% worst-case, 90.70% base-case) (see Table 15 - Worst-case scenario). Just slightly better or worse assumptions in one of the value drivers can cause a return for the shareholder of ≤0% or ≥10%. The valuation is thus, highly dependent on the accuracy of our forecast.

Worst case	Shareprice in GBP	Downdside for Shareholders
0.0%	48.92	5.50%
5.0%	47.60	2.64%
10.0%	46.30	-0.17%
15.0%	45.02	-2.93%
20.0%	43.77	-5.64%
25.0%	42.54	-8.31%
30.0%	41.32	-10.95%

(While base case = 100% - worst case)

Table 15 - Worst-case scenario

Source: Analysts

RevPAR Sensitivity

For each of the previously examined scenarios, the most important input is the RevPAR. A DCF was built, starting with the income from fee business, which is split in RevPAR and the management fee, and goes from there to the operating free cash flow. The 95% confidence interval of the past values for RevPAR (2021-2034) has been used for the sensitivity analysis. The management fee values were chosen between the maximum and the minimum amount in our observation period.

		WACC						
		8.48%	8.82%	9.16%	9.50%	9.86%	10.22%	10.58%
RevPAR	87.94	46.24	42.05	38.52	35.52	32.80	30.45	28.39
	90.65	49.67	45.18	41.41	38.20	35.29	32.78	30.57
	93.35	53.10	48.32	44.30	40.88	37.78	35.10	32.76
	96.05	56.53	51.45	47.19	43.56	40.28	37.43	34.94
	98.75	59.95	54.59	50.08	46.24	42.77	39.76	37.13
	101.45	63.38	57.72	52.97	48.92	45.26	42.09	39.31
	104.15	66.81	60.86	55.86	51.60	47.75	44.41	41.50
	106.85	70.24	63.99	58.75	54.28	50.24	46.74	43.68
	109.55	73.66	67.13	61.64	56.96	52.73	49.07	45.87
	112.25	77.09	70.26	64.53	59.64	55.22	51.40	48.05
114.95	80.52	73.40	67.42	62.32	57.71	53.72	50.23	

		Management Fee				
		4.68%	5.06%	5.44%	5.60%	5.76%
RevPAR	87.94	23.30	29.41	35.52	38.08	40.64
	90.65	25.60	31.90	38.20	40.84	43.48
	93.35	27.91	34.39	40.88	43.60	46.31
	96.05	30.21	36.89	43.56	46.36	49.15
	98.75	32.52	39.38	46.24	49.11	51.99
	101.45	34.82	41.87	48.92	51.87	54.82
	104.15	37.13	44.36	51.60	54.63	57.66
	106.85	39.43	46.86	54.28	57.39	60.50
	109.55	41.74	49.35	56.96	60.15	63.34
	112.25	44.04	51.84	59.64	62.91	66.17
114.95	46.35	54.33	62.32	65.67	69.01	

Table 16 - RevPAR and WACC & RevPAR and Management Fee sensitivity analysis

Source: Analysts

One can see that an increase in RevPAR of 5.32% (from \$101.45 to \$106.85) translates ceteris paribus to a rise in the share price of 10.96%. Moreover, the management fee's effect has been investigated, since the franchised business's income makes up 86.44% of the total income in 2034 (excluding system fund revenue and reimbursement of cost). Significantly, the management fee is a rather vague assumption, since IHG does not disclose any information about it and is calculated based on the past management fees. An increase in the fee of 2.93% (from 5.44% to 5.60%) would lead ceteris paribus to a share price increase of 6.04%. A combined effect of a RevPAR rise of 5.38% and fee

increase of 2.97% would result in a share price increase of 17.31%. In case, the RevPAR decreases from \$101.45 to \$98.85 (occupancy rate of 71.73% but a lower ADR of \$137.81 instead of \$141.43), or if the average management fee is 5.30% instead of 5.44%, the shareholder cannot expect any return within one year. However, if the ADR turns out to be \$144.39 or the average management fee increases to 5.56%, the recommendation changes to "buy", leaving the shareholder with a total return of 10.00%. Thus, the share price depends strongly on the RevPAR and management fee assumption and must be treated very carefully.

Relative Valuation

One of the disadvantages of intrinsic valuations became evident in the previous chapter – that the outcome is very sensitive to changes in assumptions and requires a lot of those. Therefore, to validate and complete our results, we have valued IHG using its peers as well. This valuation approach's idea is that companies within the same sector, which have the same core business and are similar in terms of size and portfolio, should also be comparable in valuation (Marriott, Hilton, Hyatt and Accor).

The four companies and IHG were compared in terms of Prices/Earnings (P/E), enterprise value to EBIT (EV/EBIT) and EBITDA (EV/EBITDA). Usually, Earnings before interest, taxes, depreciation, amortisation and rent (EBITDAR) should have been considered for a hospitality company; however, IHG's rent expenses are neglectable since a hotel is either owned or is franchised.

The average of the comparable companies was built to determine the value that reflects the industry the best. The average, instead of the median, was used since those peers are the ones that are very similar to IHG, and the median would only reflect one company. The multiple valuations do reflect the DCF share price. Especially, EV/EBITDA which can be seen (after EV/EBITDAR) as the most appropriate multiple for the hotel industry is in line with the DCF valuation, which confirms the previous assumptions and result. On average, an EV/EBITDA multiple based on the chosen peer group would suggest a share price of £52.52 within a range of £45.50 and £62.11 (DCF: £48.92) (see Table 17 - Comparable Company Analysis).

ROIC comparison of business areas

A company creates value if the investment in the company delivers better returns than an alternative. Thus, a company creates value if the ROIC exceeds the WACC. However, the ROIC of IHG is not meaningful and should not be compared with the WACC since the business is asset-light. The primary source

	Multiple analysis		
	EV/ EBITDA	EV/ EBIT	P/E
IHG	22.90x	28.56x	46.03x
HLT	23.60x	35.06x	56.14x
MAR	23.94x	38.84x	54.13x
H	22.72x	36.87	NA
AC	35.45x	-	-
<i>Excluded in terms of EBIT and P/E</i>			
1st Quartile	22.81x	28.56x	46.03x
Average	25.72x	34.15x	52.10x
3rd Quartile	29.70x	38.84x	56.14x

Multiples	Share Price in GBP		
	25th	Average	75th
EV/EBITDA	45.50	52.52	62.11
EV/EBIT	45.71	56.53	65.58
P/E	38.35	44.66	48.86
Average	43.19	51.24	58.85

Table 17 - Comparable Company Analysis

Source: Analysts

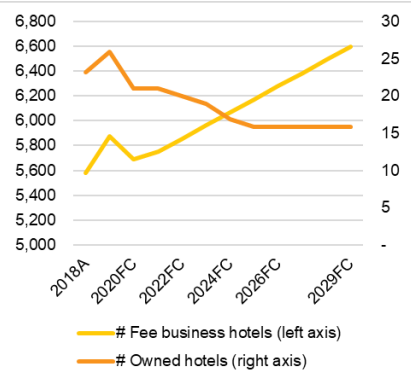


Figure 37 – Number of owned hotels and hotels belonging to the fee business

Source: Analysts

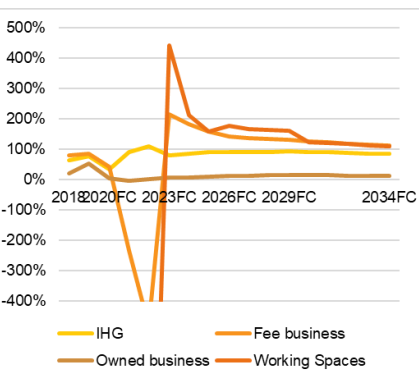


Figure 38 - IHG business units ROIC

Source: Analysts

for NOPLAT is IHG's fee business, which involves almost no assets. Consequently, invested capital is low, which leads to a considerably high ROIC. In 2018 and 2019, ROIC noted at 64.43% and 77.09%. Due to a decreased NOPLAT in 2020, ROIC is expected to be at its lowest point (32.38%). Despite, we expect it to increase the year significantly after (102.34%), due to an all-time low in invested capital in 2020. In that year, IHG is expected to decrease assets and increase liabilities for more liquidity. In the extended forecast period this KPI will stabilise around 87%. This number does not say anything about IHG's value creation; however, business units can be compared.

The owned business ROIC is not eligible to be compared to other business units (such as working spaces or the voco hotels discussed in chapter Hotel Development - EMEAA) due to the asset-heavy business model. However, this unit would have been eligible to be compared with WACC, since this area needs to invest capital to create returns. However, it is a discontinued revenue stream. Hence, there is no focus on value creation. Consequently, also less is invested in renovations or modernisations. Although ROIC exceeds WACC in 2034 (12.07% vs 9.50%), one cannot immediately conclude that this business area creates above-average returns substantially. This business area is sweating the assets and will not exist anymore as soon as all contracts are expired, or major renovations would be needed (see Figure 38 - IHG business units ROIC).

Pre-crisis and from 2023 onwards, the ROIC from the fee business is higher than the total and owned business. It became negative since it is assumed that operating liabilities increase during the pandemic to ensure more short-term liquidity to meet IHG's obligations. Since assets are considerably low for that area, liabilities exceed assets, resulting in a negative invested capital and thus, a negative ROIC. Also, the fee business ROIC turned negative during the crisis; however, for different reasons: The owned business is expected to carry the whole amount of depreciation and amortisation (D&A) since the PPE belongs to this part of the company. The level of D&A is not expected to decrease, resulting in a negative NOPLAT for the owned business. The ROIC for the whole group remains positive during the pandemic since EBITDA is higher. Even after deducting D&A NOPLAT remains positive, and when combining both business areas, assets exceed liabilities due to the PPE from the owned business.

The ROIC development of the last business area, working spaces, has been already discussed in the chapter "Working Spaces". In the long run, it becomes more aligned with the overall fee-business; however, remains in 2034 slightly below (109.86% vs 111.63%).

Recommendation

After analysing IHG into depth, we recommend holding the stock. IHG has been and still is suffering from the corona crisis, and due to the restrictions concerning the travel industry the strongest, the consequences will be felt for a more extended period. However, IHG is in a promising way to return to better levels than pre-crisis. One of the critical factors that will help is IHG's expansion plan. Due to the asset-light business model, the company will not bear the majority of the costs, but the franchisors do. So, a possible expansion comes with little up-front costs. Despite the crisis, the group had in the third quarter of 2020 890k rooms operated and 286k in its pipeline, suggesting a healthy system growth the next years. 34% of the pipeline is planned in Greater China. This area exhibits mentionable growth potential since it becomes an important business partner for Western nations. Moreover, the group already claims 14% of the Chinese luxury market share and tries to establish a similar standing in the major mainstream market.

Significantly, under the assumption that a vaccine will allow travelling to rebound in mid/late 2021, IHG will have upside potential in terms of revenues. We expect those to be back at pre-pandemic levels in 2024 (\$4,500m) and continue growing for the next six years with a CAGR of 5.65% (afterwards growth in line with the nominal growth rate, 4.92%). However, the pandemic will leave some changes in society in the near future. Therefore, it is assumed that the home-office trend will remain, as it is cheaper to not spend money on renting an office. We see business travel to remain lower than in previous years as the corporate world well-accepted alternative solutions. In that case, IHG may profit in the long run from offering flexible working solutions that will enable employees to work from anywhere, which can offset to some extent, changed business travel behaviour. Since 5.53% (management fee) of the working spaces' revenues will be transferred to IHG, this business area will only make up 0.67% of the hotel business's revenues in 2034. Nevertheless, this additional segment will attract business travellers, clients who seek to combine travelling and working, or employees who do not have a fixed office location.

As soon as the Covid-19 vaccine is broadly available, and herd immunity is reached, international travel will rebound, and hotels will be allowed to use their full capacity. There is a risk of mutations or supply bottlenecks in the vaccine distribution. However, we see a chance that travelling will be possible in the second half of 2021 and that people seek to go on vacation as soon as allowed¹⁹.

¹⁹ "International travel to come back strong after Covid-19", consultancy.eu, December 2020.

Another threat is the shift in preferences, that some customers prefer spending their vacation in an Airbnb. Pedro Oliveira²⁰ has mentioned that Airbnb is a powerful competitor that steadily forces IHG to improve and stay worth the money. Approaches to do so include several customisations or investing in new, "easy-going" brands such as voco.

The stock price has not recovered to the pre-crisis levels (around £50) yet, however, we see the share price quoting by the end of 2021 around £47.00 to £53.00.

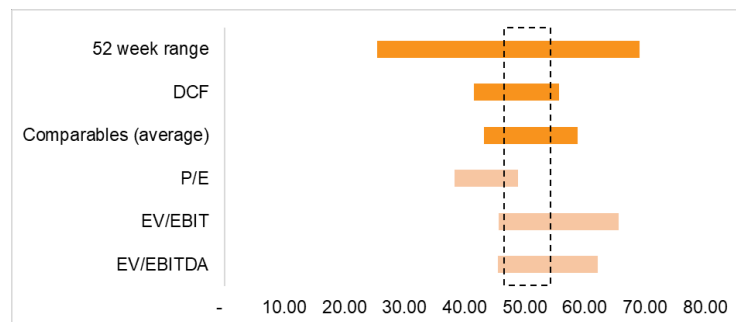


Figure 39 - Football Field: Share price in GBP

Source: Analysts

We consider a share price of £49.82 as target share price. To get to this value, we have weighted the expected share price as per DCF (£48.92) with 75% and the average share price calculated with EV/EBITDA (£52.52) with 25%. We have decided on this split since the DCF is more detailed and forward-looking; however, it relies on many assumptions.

When investing today, as of 3rd of January 2021, in a share of IHG for £46.90, the expected return for the shareholder (including a dividend per share of £0.56 in 2021) over a one-year time horizon would equal 7.42% (pure share price upside: 6.22%).

Final Considerations

A factor that has not been considered in the model yet is a rumour that IHG can merge with Accor. The French newspaper "Le Figaro" has reported in August, that Accor has set up a team to pinpoint possible options. However, neither IHG nor Accor have confirmed those plans. A potential merger would make the new conglomerate to the largest hotel chain worldwide. IHG could benefit in such a scenario from Accor's strong presence in Europe and Accor from IHG's in Northern America. This mega-merger would have a significant impact on IHG's future development. Nevertheless, since it is only a rumour so far, this effect has not been included in the model.

²⁰ Pedro Oliveira, Area Director of Finance and Business Support Iberia, was interviewed by us in November 2020.

Appendix

Financial Statements

Income Statement

InterContinental Hotel Group: Income Statement reformulated														
in \$m	2016A	2017A	2018A	2019A	2020FC	2021FC	2022FC	2023FC	2024FC	2025FC	2026FC	2027FC	2028FC	2029FC
Core Activities														
Revenue from fee business	1,329	1,379	1,486	1,510	748	933	1,228	1,520	1,718	1,906	2,038	2,149	2,277	2,416
Revenue from owned and managed leased hotels	338	351	447	573	217	148	226	297	294	304	323	341	351	360
System Fund revenues	1,199	1,242	1,233	1,373	762	810	1,045	1,264	1,409	1,555	1,660	1,749	1,851	1,962
Reimbursement of costs	1,046	1,103	1,171	1,171	464	642	804	972	1,073	1,150	1,245	1,325	1,410	1,500
Working Spaces	-	-	-	-	-	0	2	4	5	6	8	11	14	19
Total revenue	3,912	4,075	4,337	4,627	2,190	2,533	3,304	4,057	4,500	4,921	5,274	5,574	5,903	6,257
Other operating revenue	9	84	14	21	24	8	11	14	15	17	18	19	20	21
As % of total revenue	0.23%	2.06%	0.32%	0.45%	1.10%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%
Total Operating revenue	3,921	4,159	4,351	4,648	2,214	2,541	3,315	4,070	4,515	4,937	5,292	5,593	5,923	6,278
Cost of Sales and Administrative Expenses	- 299	- 264	- 395	- 440	- 142	- 197	- 246	- 298	- 329	- 352	- 381	- 406	- 432	- 460
Staff cost	- 1,907	- 2,040	- 2,165	- 2,180	- 856	- 1,184	- 1,484	- 1,795	- 1,980	- 2,123	- 2,298	- 2,445	- 2,602	- 2,769
System Fund expenses	- 853	- 937	- 1,032	- 1,109	- 626	- 622	- 810	- 980	- 1,096	- 1,219	- 1,297	- 1,362	- 1,439	- 1,523
Reimbursement costs	- 44	- 47	- 61	- 39	- 20	- 27	- 34	- 41	- 46	- 49	- 53	- 56	- 60	- 64
Depreciation and Amortisation	- 75	- 112	- 115	- 116	- 102	- 98	- 101	- 105	- 105	- 107	- 111	- 114	- 117	- 121
as % of PPE and intangibles	5.87%	6.58%	5.96%	5.33%	5.94%	5.94%	5.94%	5.94%	5.94%	5.94%	5.94%	5.94%	5.94%	5.94%
Total operating income	743	759	583	764	468	413	640	852	960	1,087	1,152	1,210	1,273	1,342
Adjusted taxes	- 195	- 138	- 151	- 198	- 113	- 100	- 154	- 205	- 231	- 262	- 277	- 291	- 307	- 323
Core result after taxes	548	621	432	566	355	314	486	646	728	825	874	918	966	1,019
Non-Core Activities														
Share of losses / gains of associates and JVs	- 2	- 3	- 1	- 3	- 12	- 12	- 12	- 12	- 12	- 12	- 12	- 12	- 12	- 12
Impairment charges	- 16	- 18	-	- 131	- 273	-	-	-	-	-	-	-	-	-
Financial Income	6	4	5	6	6	6	6	6	6	6	6	6	6	6
Fair value on contingent purchase consideration	-	-	- 4	- 27	- 16	-	-	-	-	-	-	-	-	-
Other expectational items	- 13	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-core result before taxes	- 25	- 11	-	- 101	- 263	- 6	- 6	- 6	- 6	- 6	- 6	- 6	- 6	- 6
Non-core tax shield	5	2	-	- 19	45	1	1	1	1	1	1	1	1	1
Other comprehensive income	188	137	34	37	59	-	-	-	-	-	-	-	-	-
Non-core result after taxes	168	146	34	- 119	- 159	- 5	- 5	- 5	- 5	- 5	- 5	- 5	- 5	- 5
Financial														
Interest expense on bonds and syndicated facility	- 71	- 58	- 61	- 78	- 40	- 24	- 21	- 28	- 27	- 29	- 30	- 29	- 30	- 33
Interest expense on lease liabilities	- 20	- 39	- 39	- 41	- 13	- 11	- 13	- 13	- 13	- 13	- 14	- 14	- 14	- 14
Other positions	5	2	1	2	11	-	-	-	-	-	-	-	-	-
Financial result before taxes	- 86	- 95	- 101	- 121	- 64	- 36	- 34	- 40	- 41	- 42	- 43	- 43	- 44	- 47
Financial Tax Shield	17	18	19	23	11	6	6	7	7	7	7	7	8	8
Financial result after taxes	- 69	- 77	- 82	- 98	- 53	- 29	- 28	- 34	- 34	- 35	- 36	- 35	- 37	- 39
Total comprehensive income	647	398	384	349	143	279	453	608	690	785	833	878	924	975

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES FRANCISCA FERNANDE & PAULINA MICHEL, MASTER IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

Balance Sheet

InterContinental Hotel Group: Balance Sheet reformulated														
in \$m	2016A	2017A	2018A	2019A	2020FC	2021FC	2022FC	2023FC	2024FC	2025FC	2026FC	2027FC	2028FC	2029FC
Core Business														
Goodwill and other intangibles	858	967	1,143	1,376	1,101	1,074	1,163	1,250	1,315	1,379	1,435	1,487	1,545	1,607
PPE as stated	419	250	273	309	567	569	541	512	457	429	429	429	429	429
Right of use assets	-	486	513	490	505	511	520	529	539	548	558	567	576	586
Total PPE	419	736	786	799	378	437	571	701	777	850	911	962	1,019	1,080
as % of sales	10.71%	18.06%	18.12%	17.27%	17.27%	17.27%	17.27%	17.27%	17.27%	17.27%	17.27%	17.27%	17.27%	17.27%
Contract costs	45	51	55	67	33	41	55	67	76	85	90	95	101	107
as % of sales from fee business	3.4%	3.7%	3.7%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
Contract assets	185	241	270	311	284	164	215	267	301	334	357	377	399	424
as % of sales from fee business	13.9%	17.5%	18.2%	20.6%	29.3%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
Trade and other receivable	8	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-current assets	1,515	1,995	2,254	2,553	1,797	1,716	2,003	2,284	2,470	2,647	2,794	2,922	3,065	3,218
Inventories	3	3	5	6	4	3	4	5	5	6	6	6	7	7
as % of revenue	0.08%	0.07%	0.12%	0.13%	0.17%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%	0.11%
Trade and other receivable	469	549	610	666	384	361	471	578	642	702	752	795	842	892
Days trade outstanding	44	48	51	52	63	52	52	52	52	52	52	52	52	52
Cash and cash equivalents	78	83	87	93	19	51	66	81	90	99	106	112	118	126
% of total operating revenue	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Contract costs	8	7	5	5	4	5	7	8	9	10	11	11	12	13
as % of non-current contract costs	17.8%	13.7%	9.1%	7.5%	12.1%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Contract assets	13	17	20	23	21	12	16	19	22	24	26	27	29	31
as % of non-current contract assets	7.0%	7.1%	7.4%	7.4%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Total current assets	571	659	727	793	431	432	563	692	768	840	900	952	1,008	1,068
Total operating assets	2,086	2,654	2,981	3,346	2,228	2,148	2,567	2,976	3,237	3,488	3,694	3,873	4,072	4,287
Trade and other payables	526	595	616	568	239	331	415	501	553	593	642	683	727	773
Days payable outstanding	215	239	204	176	209	209	209	209	209	209	209	209	209	209
Deferred Revenue	462	490	572	555	341	394	515	632	701	766	821	868	919	974
as % of revenue	11.8%	12.0%	13.2%	12.0%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%
Total current operating liabilities	988	1,085	1,188	1,123	580	725	929	1,133	1,254	1,359	1,463	1,551	1,646	1,748
Trade and other payables	29	7	125	116	71	92	100	107	113	119	123	128	133	138
as % of goodwill	3.4%	0.7%	10.9%	8.4%	6.4%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Deferred Revenue	852	867	934	1,009	1,234	886	721	876	957	1,047	1,102	1,143	1,192	1,245
as % of revenue	21.6%	21.3%	21.5%	21.8%	56.3%	35.0%	28.5%	21.6%	21.3%	21.3%	20.9%	20.5%	20.2%	19.9%
Non-current tax payable	-	25	-	-	-	-	-	-	-	-	-	-	-	-
Total non-current liabilities	881	899	1,059	1,125	1,305	979	821	984	1,070	1,166	1,226	1,271	1,325	1,383
Total operating liabilities	1,869	1,984	2,247	2,248	1,885	1,704	1,750	2,117	2,324	2,525	2,689	2,822	2,971	3,131
Non-Core Business														
Investments in JVs	111	141	104	110	110	110	110	110	110	110	130	150	170	190
Retirement benefit assets	-	3	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	248	228	260	284	200	168	219	269	299	327	350	370	392	416
as % of revenue	6.3%	5.6%	6.0%	6.1%	9.1%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Derivative financial instruments	-	-	7	-	-	-	-	-	-	-	-	-	-	-
Non-current tax receivable	23	16	31	28	23	26	28	28	28	28	28	28	28	28
Deferred tax assets	69	78	63	66	74	69	69	69	69	69	69	69	69	69
Deferred compensation plan assets	-	-	-	-	129	177	221	263	285	305	316	321	326	331
Compensation plan per employee	-	-	-	-	8,097	8,097	8,097	8,097	8,097	8,097	8,097	8,097	8,097	8,097
Total non-current assets	451	466	465	488	537	550	648	739	791	839	893	938	985	1,034
Current tax receivable	77	101	27	16	-	-	-	-	-	-	-	-	-	-
Other financial assets	20	16	1	4	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	1	1	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	128	85	617	102	530	382	233	233	233	233	233	233	233	233
Total current assets	225	202	646	123	530	382	233	233	233	233	233	233	233	233
Assets classified as held for sale	-	-	-	19	-	-	-	-	-	-	-	-	-	-
Total non-operating assets	676	668	1,111	630	1,067	932	881	972	1,024	1,072	1,126	1,171	1,218	1,266
Provisions	3	3	10	40	27	27	27	27	27	27	27	27	27	27
Derivative financial instruments	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Current tax payable	50	64	50	50	37	53.5	53.5	53.5	53.5	53.5	53.5	53.5	53.5	53.5
Total current liabilities	56	67	60	90	64	81	81	81	81	81	81	81	81	81
Derivative financial instruments	-	-	-	20	-	-	-	-	-	-	-	-	-	-
Retirement benefit obligations	96	104	91	96	47	65	81	96	104	112	116	118	120	121
per employee	2,822	2,989	2,576	2,620	2,969	2,969	2,969	2,969	2,969	2,969	2,969	2,969	2,969	2,969
Provisions	5	5	17	22	33	33	33	33	33	33	33	33	33	33
Deferred compensation plan liabilities	-	-	-	-	129	177	221	263	285	305	316	321	326	331
Deferred tax liabilities	170	95	124	118	74	-	-	-	-	-	-	-	-	-
Total non-current liabilities	271	204	232	256	284	276	335	392	422	450	465	472	479	485
Liabilities classified as held for sale	-	-	-	22	-	-	-	-	-	-	-	-	-	-
Total non-operating liabilities	327	271	292	368	348	356	416	472	503	531	545	552	559	566
Financing Activities														
Loans and other borrowings	106	110	104	87	790	200	200	87	87	80	82	83	85	87
as % of long-term loans and borrowings	6.60%	6.56%	5.45%	4.19%	79.98%	42.08%	4.19%	4.19%	4.19%	4.19%	4.19%	4.19%	4.19%	4.19%
Lease liabilities	-	44	55	65	64	59	60	61	62	63	64	66	67	68
as % of long-term lease liabilities	-	7.47%	8.94%	10.92%	12.70%	10.01%	10.01%	10.01%	10.01%	10.01%	10.01%	10.01%	10.01%	10.01%
Total current financing liabilities	106	154	159	152	854	259	260	148	149	144	146	149	152	154
Loans and other borrowings	1,606	1,678	1,910	2,078	988	1,275	1,441	1,550	1,609	1,674	1,621	1,696	1,826	1,918
Lease liabilities	-	589	615	595	504	590	601	612	622	633	644	655	665	676
Lease liabilities per hotel	-	0	0	0	0	0	0	0	0	0	0	0	0	0
Total non-current financing liabilities	1,606	2,267	2,525	2,673	1,492	1,866	2,042	2,161	2,231	2,307	2,264	2,351	2,491	2,594
Total financing liabilities	1,712	2,421	2,684	2,825	2,346	2,125	2,302	2,310	2,381	2,451	2,411	2,500	2,643	2,748
Equity														
Shareholder Equity	-	1,154	-	1,139	-	1,473	-	1,291	-	1,113	-	1,028	-	959
Non-controlling interest	8	7	8	8	8	8	8	8	8	8	8	8	8	8
Total Equity	-1,146.00	-1,354	-1,131	-1,465	-1,283	-1,105	-1,020	-951	-947	-947	-825	-829	-883	-893

▪ Statement of Cash Flows

InterContinental Hotel Group: Cash Flow Map														
in \$m	2016A	2017A	2018A	2019A	2020FC	2021FC	2022FC	2023FC	2024FC	2025FC	2026FC	2027FC	2028FC	2029FC
EBIT	743	759	583	764	468	413	640	852	960	1087	1152	1210	1273	1342
Notional Taxes	-149	-144	-111	-145	-80	-70	-109	-145	-163	-185	-196	-206	-216	-228
Adjusted Taxes	-47	6	-40	-53	-33	-29	-45	-60	-68	-77	-82	-86	-90	-95
NOPLAT	548	621	432	566	355	314	486	646	728	825	874	918	966	1019
Depreciation and Amortization	75	112	115	116	102	98	101	105	105	107	111	114	117	121
Gross Cash Flow from Operations	623	733	547	682	457	411	587	751	834	932	985	1032	1083	1140
Net Capex	-494	-429	-165	-129	319	-157	-234	-235	-182	-180	-172	-165	-174	-182
Inventories	3	0	2	1	-2	-1	1	1	1	0	0	0	0	0
Trade receivables	469	80	61	56	-282	-23	110	107	63	60	50	43	47	51
Cash and cash equivalents	78	5	4	6	-74	32	15	15	9	8	7	6	7	7
Trade and other payables	526	69	21	-48	-329	92	84	87	52	40	49	41	44	47
Change in Net Working Capital	-24	-16	-46	111	29	84	-43	-36	-21	-29	-9	-8	-10	-11
Change in all other operating assets	-1,117	-166	-210	-289	339	147	-159	-156	-113	-108	-88	-78	-89	-95
Change in all other operating liabilities	1,343	46	242	49	34	-273	-38	280	156	161	115	91	106	113
Operating FCF	330	168	368	202	1110	213	113	604	674	776	832	872	916	965
Non Operating Activities														
Non operating income	-25	-11	0	-101	-263	-6	-6	-6	-6	-6	-6	-6	-6	-6
Taxes	5	2,09	0	19	45	1	1	1	1	1	1	1	1	1
Items that may be reclassified to profit or loss	188	-122	40	-41	101	0	0	0	0	0	0	0	0	0
Items that will not be reclassified to profit / loss	0	-15	-6	4	-42	0	0	0	0	0	0	0	0	0
Other comprehensive income	188	-137	34	-37	59	0	0	0	0	0	0	0	0	0
Change in all non operating assets	-548	-35	89	-34	-9	-14	-97	-91	-52	-49	-54	-45	-47	-49
Change in all non operating liabilities	327	-56	21	76	-20	8	60	56	30	28	14	7	7	7
Non-Operating FCF	-53	-237	144	-77	-188	-10	-42	-40	-26	-25	-45	-43	-45	-47
Unlevered FCF	277	-69	512	125	922	203	70	565	648	750	787	829	872	918
Tax Shield	17	18	19	23	11	6	6	7	7	7	7	7	8	8
Levered FCF	295	-51	531	148	933	209	76	571	655	757	794	836	879	926
Financing Activities														
Interest Expense, Net	-86	-95	-101	-121	-64	-36	-34	-40	-41	-42	-43	-43	-44	-47
Change in Financial Debt	1584	751.76	-269.16	656	-907	-73	326	8	71	70	-40	89	143	106
Change in Shareholders Funds	-1,793	-606.00	-161	-683	39	-101	-368	-539	-685	-786	-711	-883	-978	-984
Financing Free Cash Flow	-277	69	-512	-125	-922	-203	-70	-565	-648	-750	-787	-829	-872	-918

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