

Intercontinental Hotel Group

Group is an example of the pain the tourism industry is facing due to COVID-19

MarketLine Case Study

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1. Overview

1.1. Catalyst

The hotel industry has been hit catastrophically with hotels being closed and global travel coming to a halt, upending global travel. Despite IHG only having approximately 15% of its estate closed at the end of April, the financial results showed the impact this had. Q1 showed global RevPAR was down 24.9% with March being the worst month as RevPAR plunged 55%. April was worse with RevPAR down around 80%. IHG has a greater exposure to China compared to competitors such as Hilton and felt the impact of the pandemic earlier. The hotel group stated that it could only survive 18 months with no capacity in its hotels. In China, only 12 of IHG's hotels are closed out of the 470 hotels, showing the situation is improving. IHG has secured new financing arrangements, which include amending its syndicated revolving credit facility to include a waiver of existing covenants until 31 December 2021. Additionally, the Bank of England confirmed IHG as an eligible issuer for the UK Government's CCFF and IHG has issued \$600m (US\$745.2m) in commercial paper under this facility. Intercontinental Hotels announced "substantial decreases" in pay and incentives for its senior executives and the scrapping of the dividend. CEO, Keith Barr highlighted that this is an effort to reduce costs, while being able to retain staff for when operations are running again. The company has also launched a website to support staff.

1.2. Summary

Despite the sharp drops in revenue, IHG highlighted that deals for new hotels were still going ahead. The company continues to sign new properties amidst this crisis, and one of its most recent signings is the Regent Shanghai Pudong. Continuing with deals and acquisitions will allow IHG to regain economic empowerment in the future, the pandemic is temporary, and the hotel industry should continue to consider the future.

☑ Hygiene procedures hold significance now more than ever. IHG states that it provides its hotels with best practices and guidelines. It has also supplemented these resources with additional COVID-19 cleanliness specific guidance, training and information.

Prioritizing loyalty schemes over rate reductions. IHG has lowered entry requirements to get into the next loyalty tier, this means that customers will be more likely to remain loyal. During this period of travel restrictions and lockdowns, customers could be tempted to research a competitor's offerings due to the increased amount of free time available to them. This makes this strategy extremely beneficial for a company during this period of economic decline.

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2. InterContinental Hotel Group Impact

The hotel industry has been hit catastrophically with hotels being closed and global travel coming to a halt, upending global travel. Despite IHG only having approximately 15% of its estate being closed at the end of April, the financial results showed the impact this had. There are various other impacts in which contribute to the financial loss.

2.1. Exposure to China meant impacts were felt earlier compared to competitors

IHG has a greater exposure to China compared to competitors such as Hilton and felt the impact of the pandemic earlier. The hotel group stated that it could only survive 18 months with no capacity in its hotels. In China, only 12 of IHG's hotels are closed out of the 470 hotels, showing the situation is improving. RevPAR had improved from a like-for-like decline of 89% in February to roughly 75% in April. However, 10% of its hotels in the US are currently closed. In the EMEA region, approximately 50% of hotels are currently closed. Occupancy levels in its open hotels are currently in the low to mid 20% range across the business. These figures illustrate that the company is a long way from any kind of recovery, infection rates in the US and Europe need to come down significantly until travel restrictions are lifted and confidence within IHG's target markets is restored.

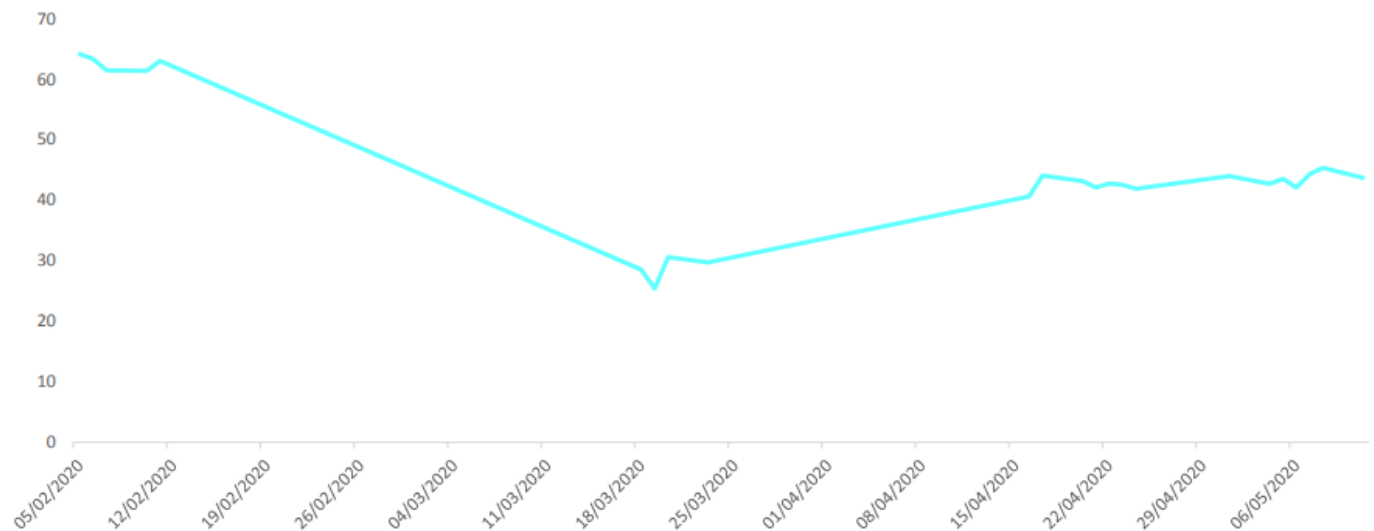
2.2. Massive economic loss creates a need for government support

IHG has secured new financing arrangements, which include amending its syndicated revolving credit facility to include a waiver of existing covenants until 31 December 2021. Additionally, the Bank of England confirmed IHG as an eligible issuer for the UK Government's CCFF and IHG has issued \$600m (US\$745.2m) in commercial paper under this facility. IHG said it now has access to US\$1.4bn of cash on deposit and existing bank facilities are currently US\$660m undrawn, taking total available liquidity to US\$2bn. This amount of resource puts the company in a positive position to deal with the economic impact of COVID-19 and achieve growth when the pandemic is over.

2.3. Supporting staff to return when operations are running

As capacity is slashed, fewer staff are working. IHG announced "substantial decreases" in pay and incentives for its senior executives and the scrapping of the dividend. CEO, Keith Barr highlighted that this is an effort to reduce costs, while being able to retain staff for when operations are running again. The company has also launched a website to support staff. The impact of COVID-19 on employees of the hospitality sector has been disastrous. IHG is offering support to its staff with the launch of the IHG Hotel Colleague Job Centre. The new website aims to connect staff from IHG properties in the US with prospective employers from leading US companies who are looking for employees with the skillset used in the service industry. Amazon, Walmart, CVS, Albertsons, Dominos, Pizza Hut, Lowe's and The Home Depot are just some of the companies that IHG is working with an effort to redirect employees looking for work during this crisis. This means that staff will be able to reduce financial loss and return to IHG once operations are back running.

Figure 1: InterContinental Hotel Group Stock Historical Prices and Data(February and May 2020)



Source: Yahoo Finance

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Figure 2: InterContinental Hotels Group 2020 First Quarter Trading Update (three months ended March 31)

Region	RevPAR	Monthly RevPar January	Monthly RevPar February	Monthly RevPar March
Americas	-19.3%	0.2%	-0.9%	-49%
Europe, Middle East, Asia and Africa	-25.7%	2.1%	-11.3%	-62.7%
Greater China	-65.3%	-24.6%	-89.3%	-81.4%
Global	-24.9%	-1.5%	-10.8%	-55.1%

Source: Intercontinental Hotels

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2.4. A severe economic loss for IHG in 2020 Q1

These results emphasize the economic loss that IHG has suffered. As seen in the chart above, the company registered global RevPAR was down 24.9% with March being the worst month with RevPAR being down by 55%. April was expected to be worse with RevPAR down around 80%. This is because demand has dramatically decreased with approximately 15% (1,000 hotels) of the estate closed as at the end of April. However, IHG is concentrating on reducing costs and is on track to reduce operational costs by up to \$150 million. This will minimize the economic impacts. IHG's business model should provide some protection initially. Despite having over 5,000 hotels globally, the hotel group doesn't actually own many of them so is asset light. The company also has liquidity of \$2 billion and has secured new financing arrangements, which include amending its syndicated revolving credit facility to include a waiver of existing covenants until 31 December 2021. For many major hotel

chains including IHG, China has begun to show improvement, with occupancy approaching 25% at the end of April after reporting single digits at its lowest point.

3. InterContinental Hotel Group Response

Intercontinental has been deploying various strategies to continue business, but overall survival looks difficult. The plan is to continue to do deals and business in similar ways but with an increased focus on hygiene and other worries such as cyberattacks will become increasingly important. It is clear though that despite changes the group will be financially reliant on government stimulus.

3.1. Continuing with deals and business

Despite the sharp drops in revenue, IHG highlighted that deals for new hotels were still going ahead. CEO, Keith Barr stated that it had made several signings for larger hotels in China, including one in Shanghai under the luxury Regent brand. Competitor, Hilton said it opened 8,800 rooms in the quarter. IHG continues to sign new properties amidst this crisis, and one of its most recent signings is the Regent Shanghai Pudong, located in Lujiazui, Shanghai, China, which is due to open following a rebranding in May of this year. This will be the first Regent property to open under IHG since it bought the brand in 2018. Continuing with deals and acquisitions will allow IHG to regain economic empowerment in the future, the pandemic is temporary, and the hotel industry should continue to consider the future.

3.2. Hygiene procedures holds significance now more than ever

According to GlobalData's week 5 COVID-19 consumer survey, 83% of global respondents are either 'extremely' or 'quite' concerned about the global outbreak of COVID-19. A big part of the global concern is the worry of contracting the virus and becoming severely ill, the chance of this happening increases in a hotel. Lodging providers that create new initiatives to improve hygiene and the wellbeing of their guests will be likely to generate an increase in bookings in the short to medium term, which in turn will shorten their length of recovery. IHG states that it provides its hotels with best practices and guidelines. It has also supplemented these resources with additional COVID-19 cleanliness specific guidance, training and information.

3.3. Prioritizing loyalty schemes over rate reductions

Instead of advertising future room rates at discounted prices, offering perks through loyalty schemes means that hotels do not have to give up pricing power. IHG has lowered entry requirements to get into the next loyalty tier, this means that customers will be more likely to remain loyal. During this period of travel restrictions and lockdowns, customers could be tempted to research a competitor's offerings due to the increased amount of free time available to them. This makes this strategy extremely beneficial for a company during this period of economic decline.

3.4. Ensuring protection against cyber attacks

Hackers could take advantage of the situation that many major hotel companies currently find themselves in with potentially increased vulnerability from the use of personal computing devices. Hotel companies are hemorrhaging money at a rapid rate due to COVID-19 created impacts, they cannot afford to be the subject of a high-profile cyber-attack which may involve either a fine that they currently cannot afford, or damage to overall image. IHG has previously worked with payment card networks as well as with cybersecurity experts to eradicate insufficient malware from each location. It has also pushed locations to implement the firm's Secure Payment Solution (SPS).

3.5. Utilizing technology will be beneficial

Technology has a heavy presence in this digital age and can be utilized to provide economic and promotional benefits. Technology has helped reduce costs, enhance operational efficiency, and improve services and customer experience. IHG should embrace AR/VR in order to provide immersive advertisements as customers are spending more time online. It has played an important role in the hospitality and tourism industry over the last decade. Examples of technology used in the industry include virtual reality, augmented reality, artificial intelligence, and technology devices such as smartphones. This concept can be highly effective for combating the impacts of COVID-19. According to GlobalData's 2020 COVID-19 global consumer survey, 57% of respondents highlighted that how enjoyable or unique the product/service always or often influences their choice in the current situation. Also, 31% of respondents said how digitally advanced/smart the product/service is always or often influences their choice in the current situation. This emphasizes there is a demand for unique technology to engage consumers now and can provide benefits in both the short term and long term.

3.6. Recovery will be slow

→ April was worse than March with RevPAR being down around 80%. This is because demand has dramatically decreased with approximately 15% of its hotels closed as at the end of April. However, IHG is concentrating on reducing costs and is on track to reduce operational costs by up to \$150 million. This will minimize the economic impacts. IHG's business model should provide some protection initially. It is very difficult to see how the prognosis could be any different for other major hotels, as future consumer attitudes remain uncertain and government support involves taking on loans that will saddle airlines with mid-to-long-term debt. → IHG also has liquidity of \$2 billion and has secured new financing arrangements, which include amending its syndicated revolving credit facility to include a waiver of existing covenants until 31 December 2021. For many major hotel chains including IHG, China has begun to show improvement, with occupancy approaching 25% at the end of April after reporting single digits at its lowest point. This shows that although slow, recovery can be possible and IHG has been prudent in securing finance to help it navigate the choppy waters.

3.7. Government assistance is key for survival

If the spread of COVID-19 continues to be unpredictable and uncontrollable it is highly likely that travel restrictions will be extended. This will mean continued little to no demand. Disruption to travel over the peak summer months would damage a key revenue producer. Many hotels would not have large enough cash reserves to remain operational and failures would be highly likely. As seen already, IHG is attempting to drastically cut expenses and it has secured help from the UK government. → IHG has secured new financing arrangements, which include amending its syndicated revolving credit facility to include a waiver of existing covenants until 31 December 2021. Additionally, the Bank of England confirmed IHG as an eligible issuer for the UK Government's CCFF and IHG has issued \$600m (US\$745.2m) in commercial paper under this facility. IHG said it now has access to US\$1.4bn of cash on deposit and existing bank facilities are currently US\$660m undrawn, taking total available liquidity to \$2 billion. This amount of cash puts the company in an encouraging position to deal with the economic impact of COVID-19.

4. Appendix

4.1. Further reading

Global, Hotels and Motels (2019) MarketLine Industry Profile

5. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

6. About MarketLine

At MarketLine, we deliver accurate, up-to-date insights on over 100,000 companies, 3,500 industries, 215 countries, and 3,000 cities as well as the latest news and financial deal information from within your market and across the globe.

Established in 1997 when the Internet was in its infancy, we recognized the need for a convenient and reliable data service to help our clients understand local and global markets and the companies operating within them.

In today's information-rich world, sifting fact from fiction to pick out what's relevant and what's up to date has become the new 'holy grail' in business information provision.

Hundreds of dedicated research professionals aggregate, analyze, and cross-check facts in line with our strict research methodology, ensuring a constant stream of new and accurate information is added to MarketLine every day.