Lisbon School of Economics & Management
Universidade de Lisboa

MASTERS IN
FINANCE

MASTERS FINAL WORK
PROJECT

EQUITY RESEARCH:
INTERCONTINENTAL HOTELS GROUP

RAFAEL DA FONSECA BASTIAS

OCTOBER 2022

Lisbon School of Economics & Management
Universidade de Lisboa

MASTERS IN
FINANCE

MASTERS FINAL WORK
PROJECT

EQUITY RESEARCH: INTERCONTINENTAL HOTELS GROUP

RAFAEL DA FONSECA BASTIAS

SUPERVISOR:
JOSÉ MANUEL DIAS LOPES

OCTOBER 2022

Abstract

The following equity research project presents a valuation of InterContinental Hotels Group (IHG) in respect of ISEG – Lisbon School of Economics and Management's Master's in Finance final work. This document goes in accordance with the recommended format by the Chartered Financial Analyst (CFA) institute.

IHG was chosen because is one of the largest hotel chains in the world, with different brands and services in the Hospitality Industry. With a competitive format it seemed like a challenging process, and one that I would be happy to take.

The recommendation for 2023F is REDUCE, using the WACC Method reaching a price target of $50.79/share, with a 6.47% upside potential, from September 23rd, 2022, presenting a closing price of $47.70. Due to recent macro-economic factors and the industry volatility, it was given a classification of High-Risk for this valuation. In this case there is uncertainty and risks associated to the price target, the COVID-19 pandemic is still not completely contained, but mainly due to the recent war which impacted some market variables like the Risk-Free Rate and the Beta. This volatility in the market is not reflected in the price target due to their recent nature.

It was also performed different valuation methods to complement the analysis, mainly the Dividend Discount Model (DDM), Flow to Equity, the Adjusted Present Value (APV), as well as a market-based relative valuation, based on a selection of peers, P/E, EV/EBITDA, and EV/EBIT were used for this valuation.

JEL classification: F01 ; G10 ; G32; G35.

Keywords: IHG; Equity Research; Valuation; CAGR; Industry; Price Target; DCF Model; Dividends.

Resumo

Este projeto de equity research apresenta uma avaliação da empresa InterContinental Hotels Group (IHG), no âmbito do trabalho final de Mestrado do Mestrado em Finance do ISEG – Instituto Superior de Economia e Gestão. Este documento segue o formato recomendado pelo instituto Chartered Financial Analyst (CFA).

A empresa IHG foi escolhida por ser uma das maiores redes hoteleiras do mundo, com diferentes marcas e serviços no setor hoteleiro. Com um formato competitivo, pareceu ser um processo desafiador e que eu gostava de trabalhar.

A recomendação para 2023F é REDUZIR, foi utilizado o Método WACC para atingir preço alvo de $50,79/ação, com potencial de valorização de 6,47%, na data de 23 de setembro de 2022, apresentando um preço de fecho de $47,70. Devido a fatores macroeconômicos recentes e à volatilidade do setor, foi atribuída a classificação de Alto Risco para esta avaliação. Neste caso há incerteza e riscos associados ao preço alvo, a pandemia do COVID-19 ainda não está completamente contida, mas principalmente devido à recente guerra que impactou algumas variáveis do mercado como a taxa de juro sem risco e o Beta. Esta volatilidade do mercado não se reflete no preço alvo devido a ser um evento recente.

Também foram realizados outros métodos de avaliação para complementar a análise, principalmente o DDM, *Flow to Equity*, o APV, bem como uma avaliação relativa, com base em uma seleção de competidores diretos, P/E, EV/EBITDA e EV/EBIT foram usados para esta avaliação**.**

Classificação JEL: F01; G10; G32; G34.

Palavras-Chave: IHG; Equity Research; Avaliação de Empresas; CAGR; Indústria; Preço Alvo; Modelo DCF; Dividendos.

Acknowledgements

I want to start with saying that it was pleasure reaching this stage, and thank the professors involved in the masters. A big thanks to Professor Victor Barros and my supervisor José Manuel Dias Lopes.

I want to thank my parents, my brother, and his girlfriend, for helping me since the beginning, with a lot of precious advice.

A special thanks to my dear friend Marlene Leitão that was always close and making sure I would keep going and not give up.

I also want to thank Catarina Ye, that also helped me a lot throughout this thesis, thank Tiago Pereira and my close friends that always supported me.

Index

List of Figures

List of Tables

List of Appendices

Abbreviations

ADR – Average Rate
APP – Annual Performance Plan
APV – Adjusted Present Value
CAGR – Compound Annual Growth Rate
CEO – Chief Executive Officer
CFO – Chief Financial Officer
DCF – Discounted Cash Flow
DDM – Dividend Discount Model
EBITDA – Earnings Before Interest, Taxes, Depreciation, and Amortisation
ESG – Environmental, Social and Governance
EPS – Earnings Per Share
EV – Enterprise Value
FCF – Free Cash Flow
FCFE – Free Cash Flow to Equity
FCFF – Free Cash Flow to the Firm
FY – Fiscal Year
F – Forecast
GDP – Gross Domestic Product
IHG – InterContinental Hotels Group
KPI – Key Performance Indicator
LSE – London Stock Exchange
LTP – Long Term Incentive Plan
M – Millions
NYSE – New York Stock Exchange
PT – Price Target
RevPAR – Revenue Per Available Room
SARD – Sum of Absolute Rank Differences
SDG – Sustainable Development Goals
SH – Share
T&T – Travel and Tourism
WACC – Weighted Average Cost of Capital
WTTC – World Travel and Tourism Council
YE – Year End
YoY – Year over Year

Intercontinental Hotels Group

True Hospitality for Good

Reduce | High Risk |
23 September 2022

1.Research Snapshot

We issue a REDUCE recommendation for Intercontinental Hotels Group with a 2023YE PT of $50.79/sh, using a DCF Model, implying a 6.47% upside potential from the September 23rd, 2022, closing price of $47.70/sh, in a High-Risk scenario (Table 1). It was also performed a valuation with different models to complement the analysis (Figure 1).

Table 1 - IHG Valuation Profile

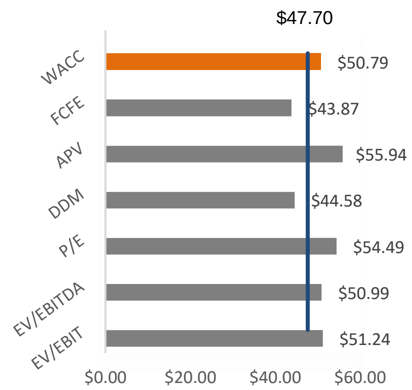
Valuation Profile	
Ticker	IHG
Close Price	$47.70
Price Target	$50.79
Market Cap.	$8.65b
Shares Out.	181.4M
Upside Potential	6.47%

Source: Author Analysis

Recent global scenario

The industry has been challenged with some adversities, the COVID-19 pandemic, and the most recent war in Ukraine. Despite the difficulties, IHG is focused on delivering long-term success for its stakeholders and operating efficiently and sustainably, while improving metrics like KPIs. With a business model mostly applied to an asset-light, fee based and largely franchised, the group had a relatively strong performance, showing an increase in global RevPAR 46% in 2021 YoY, mostly driven by domestic leisure demand, however it is still yet to fully recover to pre-pandemic levels.

Figure 1 - IHG's Price Target ($)



Source: Author Analysis

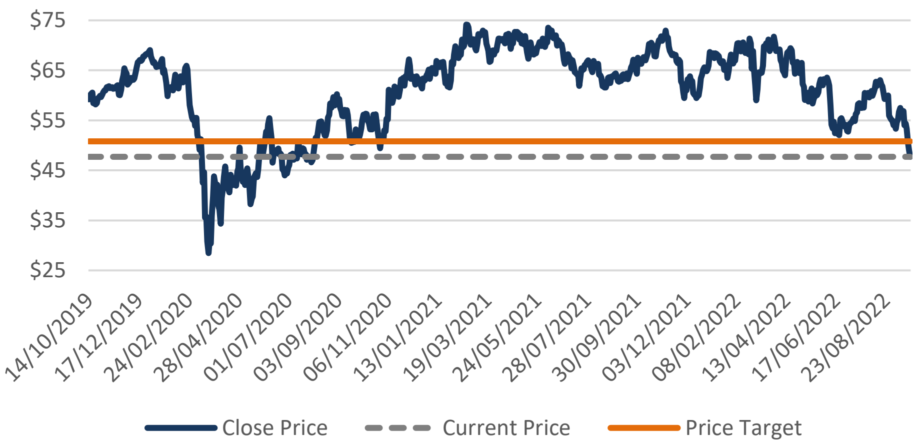
A strong shareholder engagement

Since 2003, the Group has returned $13.6 billion of funds to their shareholders, through ordinary and special dividends, capital returns and share repurchases. The board proposes a final dividend of 85.9¢, as forward payments will reflect the prior approach to the sustainable growth of dividends, reaching a value of $1.26 for the final dividend in 2027F, with a growth of 7.96% (CAGR), while also looking to return any additional capital through special dividends.

Looking forward

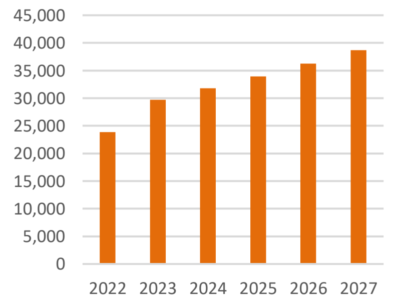
Despite the uncertainty generated by recent macro-economic events, the hospitality industry tends to stabilize over time, as well as IHG's financials, reaching/surpassing pre pandemic levels in 2023F. IHG looks to keep their strategy focused on an asset-light model reaching a 10.14% CAGR on gross revenues (Figure 2), from 2022F to 2027F mostly due to improvement on KPIs, such as number of rooms and RevPAR, with both evolving at the same rate as global GDP Growth.

Figure 3 - 3-year daily stock price



Source: Author Analysis

Figure 2 - Forecasted Gross Revenue Evolution ($M)



Source: Author Analysis

2. Business Description

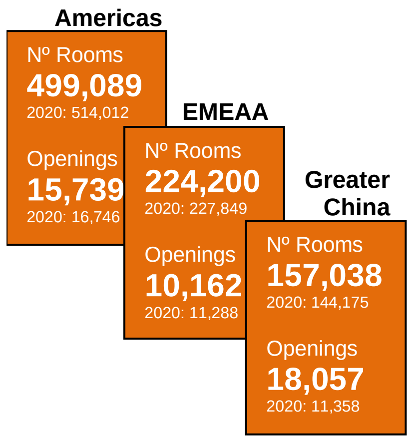
The Company

IHG Hotels & Resorts is one of the largest companies of branded hotels in the world. The company's main headquarters is in Denham, United Kingdom. It is listed in both the NYSE and the LSE, under the symbol IHG, since 2003. It operates globally with 6,028 open hotels and 884,820 rooms, and every year manages its openings and signings to improve company growth (Figure 4 & 5).

The group is an asset-light business, this means that in the franchised hotels the company does not control the day-to-day operations, policies, or procedures. It focuses on, sustainable operations and business, building a stronger, more agile company.

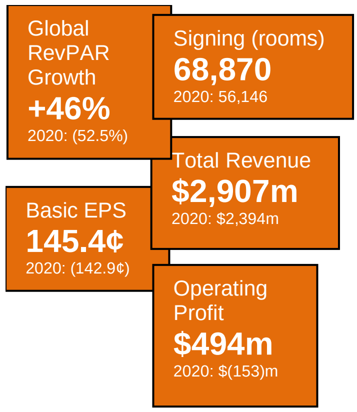
According to the IHG annual report from 2021, the group has 17 brands across more than 100 countries, where the franchise model represents 71% of the rooms, 28% belongs to the managed rooms and 1% of the rooms are owned, leased and managed lease by the company (Figure 6). Different grades of quality divide the rooms, 63% are essentials, 15% are premium, 13% are luxury & lifestyle and 9% are suites (Figure 7).

Figure 4 - Room Information 2021



Source: IHG Annual Report 2021

Figure 5 - Financial Performance 2021



Source: IHG Annual Report 2021

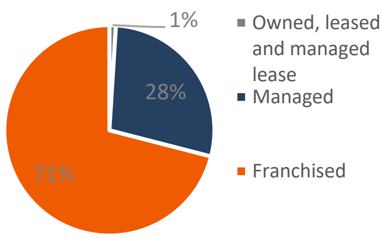
The History

The InterContinental brand is born in 1946 and it is founded by Juan Trippe, in 1949 the first hotel is built in Belem, Brazil. Around forty years later InterContinental is bought by a company called Bass which was founded as a brewery company.

Bass started in 1777, later the company also went into the pub business, acquiring pubs owner Mitchells & Butlers in 1961, in 1967 Bass becomes one of the largest brewers and pub owners in the UK with a merger between Charrington United Breweries. In 1988 Bass started to focus on the hotel industry and acquires Holiday Inn International. Two years later Bass takes full control of the Holiday Inn Brand. In 1997, Bass sells its leased pubs and launches Staybridge Suites diving deeper into the hospitality business, in 1998 Bass buys InterContinental Hotels & Resorts brand.

In 2003 the IHG brand is born and launched Hotel Indigo one year later. In 2005 IHG finally becomes solely a hospitality business by selling its holding Brivic plc, a soft drinks business. In 2012 IHG launches two more brands, EVEN Hotels and HUALUXE Hotels and Resorts in China a hotel luxury brand specifically designed for Chinese guests. Three years later IHG buys the Kimpton Hotels & Restaurants brand, and in 2017, it launches avid hotels a high-quality midscale hotel brand, in 2019 it acquires Six Senses Hotels and Resorts Spas a luxury hotel brand, it also launches Atwell Suites an upper-midscale brand (Appendix 24).

Figure 6 - Room Composition



Source: IHG Annual Report 2021

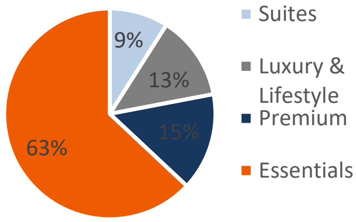
Operational Segments

IHG operates in three different ways, i) as a franchisor, ii) a manager and, iii) on an owned leased basis. The company applies these models depending, mostly, on the market and owner preference. In more mature markets, the franchise model is dominant, while in emerging markets the managed model prevails. An additional segment, System Fund, is managed by the company to benefit hotels (Figure 9).

These segments are a part of the total revenues, which are divided between, revenues from reportable segments; System Fund revenues; reimbursement of funds.

Revenues from reportable segments include revenue from fee business and revenue from owned, leased and managed leased hotels. Most of this revenue comes from the Americas with 56%, following the EMEAA region with 22% and the Greater China region with 8% of the revenues, the last 14% comes from Central revenue (Figure 8).

Figure 7 - Rooms by Type



Source: IHG Annual Report 2021

The brand focus on the midscale, upscale and luxury segments of the hotel industry. Because of their asset-light approach, IHG reduced the number of owned, leased and managed leased hotels from over 180 hotels to just a few today.

Franchised Model

This model allows the franchisee to brand their hotel with any of the well-known brands inside the IHG group, it comprises a powerful loyalty program and a strong reservation system, it also provides a comprehensive set of tools such as revenue management and marketing programs to drive business and new demand.

Revenues come from the franchising fee, a contract normally has a royalty fee of 5-6 percent of rooms' revenue, however, this can vary by brand and country. The fee evolution is driven by room growth, RevPAR and royalty fees.

Managed Model

Management contracts can include two separate fees: base and incentive. The base fee is normally 1-3 percent of the hotel's total revenue, the fee can vary by country and brand. The incentive fee is a share of profits.

System Fund

The group manages this fund for the benefit of all the hotels within the IHG system as well as their third-party owners who pay contributions to it, with the objective of driving revenue for the hotels. The fund is not managed for a profit or loss over the long term, but to collect and administer cash assessments from hotel owners and loyalty program revenues to use in marketing, reservations, and the hotel loyalty program, IHG Rewards.

Key Drivers of Profitability

The group considers some key demand drivers like net room supply, brand portfolio, food and beverage, revenue management, and group scale. The main drivers of the industry are RevPAR, ADR and Occupancy Rate.

RevPAR, is one of the most important drivers for the hotel's revenue, comprising both ADR and occupancy rate, it indicates the value guests ascribe to a given hotel and grows when they stay more frequently or pay higher rates.

$$\text{RevPAR} = \frac{\text{Total room revenue}}{\text{Total number of rooms available}}$$

IHG global RevPAR has been steadily increasing over the years, however with the start of the COVID-19 pandemic there was a significant decrease in 2020, following an improvement in 2021 which recovered the RevPAR to around 70% of the levels in 2019 (pre-pandemic) (Figure 10).

The occupancy rate, a very common term in the hospitality industry, is related to the number of occupied rooms by hotel guests expressed as a percentage of the existing rooms at that time, it shows how much the overall space of the hotel is being used.

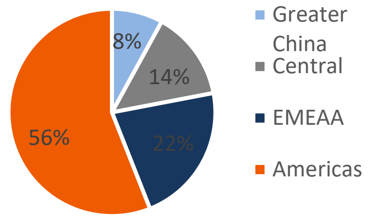
$$\text{Occupancy rate} = \frac{\text{Total number of occupied rooms}}{\text{Total number of available rooms}}$$

Global occupancy in IHG group has been improving since the pandemic with the last quarter of 2021 reaching around 85% of 2019 levels.

ADR is classified as room revenue divided by the number of room nights sold, it gives an idea of how much the guests are willing to pay for certain rooms.

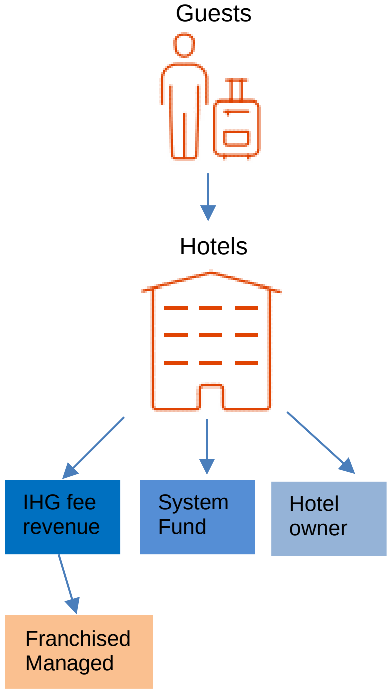
$$\text{ADR} = \frac{\text{Total revenue generated by all occupied rooms}}{\text{Total number of occupied rooms}}$$

Figure 8 - Revenue from Reportable Segments, by region



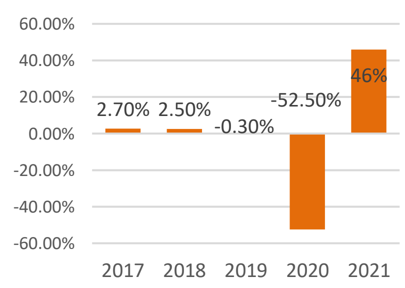
Source: IHG Annual Report 2021

Figure 9 - How IHG Generates Revenue



Source: IHG Annual Report 2021

Figure 10 - RevPAR Growth (%)



Source: IHG Annual Report 2021

Recently IHG implemented an artificial intelligence service to help customers book rooms, raising the average daily rates (Figure 11).

Strategy

The group has had the same ambition for some decades now, it consists in using its scale and expertise to create the best guest experience possible and to provide owner returns needed to grow their brands. Delivered by creating a culture that retains and attracts capable employees. The group plans to do this by implementing some priorities:

Build loved and trusted brands – by having a group of diverse and attractive brands that can meet the needs of both guests and owners. In the past decade, the group has been increasing its portfolio, adding six new brands in the last four years. Alongside this, IHG has invested significantly in the quality, design, service, and technology that holds up the already established brands.

Customer centred – the brand tries to relate to its customers' needs by offering flexibility in their stays and a strong loyalty reward program. It creates attractive investment opportunities with strong returns for the owners, and drives commercial performance and revenue.

Create digital advantage – the group tries to improve the booking experience, marketing, and mobile app functionality, for their guests. For owners, creating revenue advantages through data and technology is a priority.

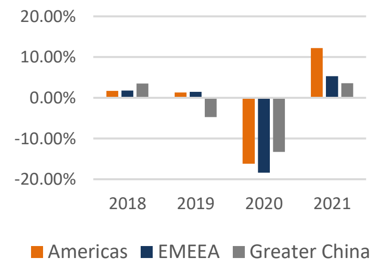
Care for the people, communities, and planet – the group makes sure to have a positive social and environmental impact in the industry. It looks to attract, develop, and retain staff to drive future success for the company, whilst making sure to have a positive, diverse, and inclusive work environment. This is a very important part of the group's strategy since shareholders follow closely the actions of the company.

Shareholder Structure

The group holds an Annual General Meeting (AGM), where retail shareholders can engage with and submit their questions. The board receives regular updates regarding share register movement, relative share price performance, investor relations activities and engagement with shareholders. The holders of ordinary shares are entitled, in respect of their holdings of such shares, to receive notice of general meetings and to attend, speak and vote at such meetings.

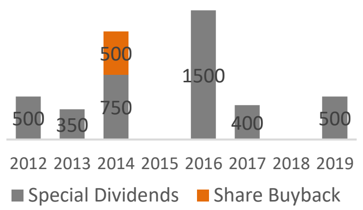
As of 31 December 2021, IHG total shares in issue were 187,717,720 with 32,074 shareholders. The shareholder profile of the company can categorized by type, Nominee companies (NC) have the largest percentage of issued share (ISC) capital with 79.85% and represent 3.50% of total shareholders (TS), followed by Limited and public limited companies (L&PLC) that have 9.44% of shares and are 1.85% of total shareholders, Other corporate bodies (OCB) detain 5.61% of share and consist of 0.36% of shareholders, while Private individuals (PI) have only 4.06% of issued shares, they represent the major percentage of total shareholders with 94.25%, at last Pension funds, insurance companies and banks (PFIC&B) represent the lowest percentage of share capital and total shareholders, with 1.04% and 0.03% respectively (Table 2).

Figure 11 - ADR Growth



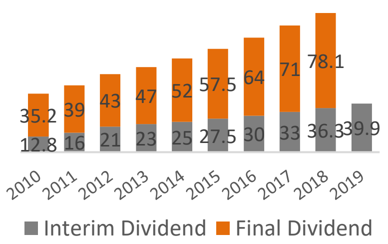
Source: IHG Annual Report 2021

Figure 12 - Special Dividends and Share Buybacks History ($M)



Source: IHG Annual Report 2021

Figure 13 - Ordinary Dividend History (¢)



Source: IHG Annual Report 2021

Table 2 - Shareholder's Structure

	% ISC	% TS
NC	79.85%	3.50%
L&PLC	9.44%	1.85%
OCB	5.61%	0.36%
PI	4.06%	94.25%
PFIC&B	1.04%	0.03%

Source: IHG Annual Report 2021

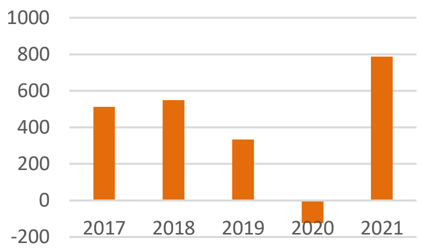
Dividend Policy

IHG returns funds to shareholders through ordinary and special dividends (Figure 12) and share buybacks. The group has a very strong dividend policy, it makes efforts in order to increase the distribution of ordinary dividends every year (Figure 13), however, because of the implications brought by the pandemic in the group financials, throughout 2020FY and 2021FY IHG did not distribute any dividends.

Additionally, having a strong Free Cash Flow (FCF) provides funds to invest in the business, grow the dividend and return any surplus to shareholders, in 2021FY it surpassed 2019 values (Figure 14).

The board is proposing a final dividend of 85.9¢, which is the same amount that was proposed in 2019, this proposal comes in retrospect to a stronger financial improvement in 2021YE, including profitability rebounding and substantial net debt reduction.

Figure 14 - Free Cash Flow to the Firm ($M)



Source: Author Analysis

3. Management and Corporate Governance

Governance Model

The governance framework is headed by the board, it goes under an internal evaluation every year where it is asked to the members the overall effectiveness of the Board focused on specific areas. There is also a full external evaluation made every 3 years. In the year of 2021 the Board met for eight scheduled meetings, to discuss a variety of subjects, inside some key areas, like, finance and performance, strategic and operational matters, Board governance, people and planet.

It is key to ensure that the group continues to have the right mix of skills, experience, and knowledge around the table.

For operational matters, routine business and information disclosure procedures are assigned by the Board to Management Committees.

The Management Committees are comprised of senior executives and are the following:

- **The Executive Committee** is chaired by the CEO, it considers and manages the day-to-day strategic and operational issues facing the group (Table 3). Its area of responsibility includes executing the strategic plan, monitoring the group's performance and provide assurance to the Board regarding performance and risk management.
- **The General Purposes Committee** is composed by an Executive Committee member and attends to items of a routine nature and to the administration of matters.
- **The Disclosure Committee** is chaired by the group's Financial Controller, it ensures that certain procedures are in place for statutory and listing requirements.

Table 3 - Executive Committee

Name	Position
Keith Barr	Chief Executive Officer (CEO)
Paul Edgeciffe-Johnson	Chief Financial Officer (CFO)
Elie Maalouf	CEO, Americas
Claire Bennet	Global Chief Customer Officer
Jolyon Bulley	CEO, Greater China
Yasmin Diamond	Executive Vice President
Nicolette Henfrey	Executive Vice President
Wayne Hoare	Chief Human Resources Officer
Kenneth Macpherson	CEO, EMEAA
George Turner	Chief Commercial and Technology Officer

Source: IHG Annual Report 2021

Board of Directors

The Board is responsible for promoting long-term sustainable success of the group and establishes its purpose, values, and strategy. It is also responsible for reviewing the means for the workforce to raise concerns in confidence and the reports arising from its operation.

It is comprised of 12 members, with 8 Non-Executive Directors classified as independent members and 4 non-independent, the CEO, the CEO in Americas, the CFO and the Non-Executive Chair (Table 4).

Table 4 - Board of Directors

Name	Position
Patrick Cescau	Non-Executive Chair
Keith Barr	Chief Executive Officer (CEO)
Paul Edgeciffe-Johnson	Chief Financial Officer (CFO)
Elie Maalouf	CEO, Americas
Graham Allan	Non-Executive Director (SID)
Ian Dyson	Non-Executive Director
Jo Harlow	Non-Executive Director
Jill McDonald	Non-Executive Director
Daniela Barone Soares	Non-Executive Director
Arthur de Haast	Non-Executive Director
Duriya Farooqui	Non-Executive Director
Sharon Rothstein	Non-Executive Director

Source: IHG Annual Report 2021

The CEO, Keith Barr, leads the development of the Company's strategic direction and implementation of the same strategy. He oversees its business operations and manages its risks as building and leading an effective Executive Committee. The Non-Executive Chair, Patrick Cescau, has a different role, he leads the operation and governance of the Board and its Committees and is responsible for building and maintaining an effective Board. He ensures that Directors receive timely, accurate and clear information keeping them fully informed of relevant matters.

Different committees support the board (Appendix 25), these committees assist the board in carrying out its functions and in the oversight of the delivery of the strategic objectives it sets for management, they are composed by Non-Executive Directors, the committees are:

- The **Audit committee** focuses on the group's material accounting judgements and estimates, risks, internal controls and business continuity, and going concern and viability.
- The **Remuneration committee** focused on incentive plan targets and performance and review of workforce remuneration considerations.
- The **Responsible Business Committee** focused on the delivery of the group's 2030 responsible business commitments (Appendix 26) as well as the annual operational targets.
- The **Nomination Committee** progressed the implementation of Board refreshment plans.

Executive Compensation

In terms of the directors' compensation the remuneration committee applies a policy of fixed and variable income. Fixed income includes the base salary, benefits, and pension benefits. The variable income is presented throughout various forms of incentives and rewards, such as:

- **Long Term Incentive Plan** (LTIP), the award for 2021YE uses a basis of the 2019/21 performance cycle, which was below the threshold for vesting its measures (cash flow, Total Gross Revenue (TGR), Net System Size Growth (NSSG)).
- **Annual Performance Plan** (APP) uses metrics such as, operating profit from reportable segments, openings and signings, resulting in awards for Executive Directors.

The LTIP for 2021 had its targets set pre-pandemic making overall performance below the threshold for vesting its measures, as a result the remuneration committee redeemed that the formulaic outcome does not reflect the reality. The committee exercised its discretion to determine a vesting of 20%, based on cash flow performance.

The APP award would result in a result of 187.3% of target, this would result in 215.4% of salary, due to Directors' Remuneration Policy the awards are capped at a maximum of 200% of salary (Figure 15).

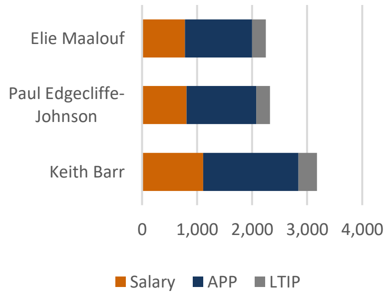
As part of the remuneration report, the committee also develops a survey and makes sure to hear feedback from its employers to better reward the group's subordinates. The results for employee engagement, from hotel and reservations employees and general managers, relating to reward and recognition exceeded the expectations of the company for 2021.

Sustainability and ESG Metrics

The group is committed to ensure its actions go according to United Nations SDGs, out of the 17 SDGs IHG contributes heavily to 5 of these (Figure 16).

IHG sustainability program goes hand in hand with the group's strategy, which implements a 10-year responsible business program (Appendix 26). This program is

Figure 15 - IHG's Executive Compensation



Source: IHG Annual Report 2021

Figure 16 - IHG Sustainable Development Goals 2021

SDG 6 – Clean water and sanitation

SDG 10 – Reduced Inequalities

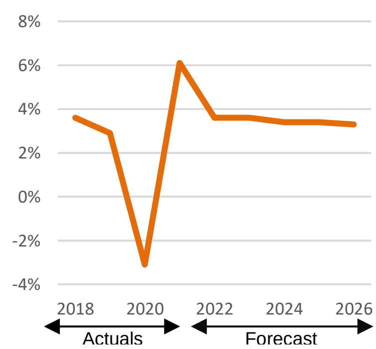
SDG 11 – Sustainable cities and communities

SDG 13 – Climate Action

SDG 17 – Partnerships for the goals

Source: IHG ESG Databook 2021

Figure 17 - Global GDP Growth (%)



Source: IMF

aimed to care for the people and diversity inside the company (by ensuring a safe, fair, and inclusive workplace); to support the communities which the thousands of hotels are part of (fighting food poverty and supporting social and economic change); to reduce the use of energy and carbon emissions (driving energy efficiency in their hotels, switch to renewable energy sources, and develop zero-carbon hotels of the future); to reduce overall waste (eliminating single-use items, minimising food going to waste and achieve circular solutions for hotel commodity items); to limit the amount of used water (implementing tools to reduce water footprint, mitigate water risk; and collaborate to ensure adequate water conditions for their operating communities) (Appendix 26).

The group is assessed externally by ESG rating agencies, receiving an AA rating on a scale of AAA-CCC, by MSCI, Sustainalytics considered IHG a rating of "low" in ESG risk. For the fourth consecutive year, IHG has been listed in the World and European Dow Jones Sustainability Index (DJSI) and it is also recognized as a constituent of FTSE4GOOD Index.

4. Industry Overview and Competitive Positioning

Economic Outlook

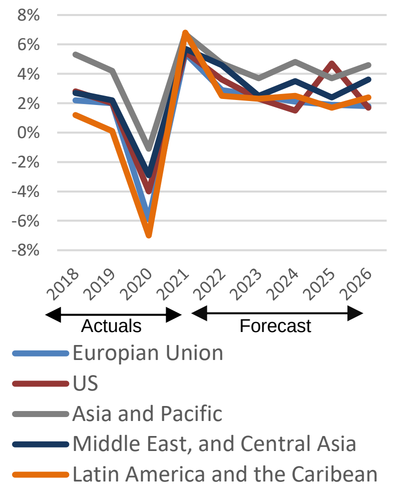
The past two years have been marked by the arrival of the pandemic, which resulted in a devastating effect on the global economy. As the pandemic settled in 2021, the GDP saw a large growth of 6.1% (Figure 17) YoY, however, even with this percentage the global economy did not totally recover.

Regarding the global GDP in 2022, it was projected to grow 3.6%, with the same percentage in 2023F, and 3.4% in the following 2 years, 2026F forecasts a growth of 3.3% (Figure 17). The recovery from the pandemic has been strong, although uneven across different economies (Figure 18), due to: differences in vaccination rates (Table 5), the scale of macroeconomic support, and the ability to reopen contact-intensive activities. Advanced economies are forecasted to exceed pre-pandemic medium-term projections due to the strong rebound in Europe and additional sizable policy support in the US. In contrast, emerging and developing economies are expected to downturn earlier projections because of less policy support and slower vaccines rollouts.

In 2021, inflation increased in advanced and some emerging market economies, in 2022 inflation kept increasing, due to the ongoing recovery from the pandemic and economic damage from the war in Ukraine (Figure 19), with world inflation expected to reach 7.4%YoY by 2022YE. The pandemic restrained demand during 2020 and 2021, as restrictions were eased and vaccination increased, demand accelerated, while supply was slower to respond. The increase in demand resulted in an increase in prices of key commodities such as oil and metals; food prices increased in emerging markets; tensions along the supply chains; and a sharp increase in shipping costs. However, it is not yet clear what impact will be on demand from structural changes brought by the pandemic, such as technology replacing elements of business travel.

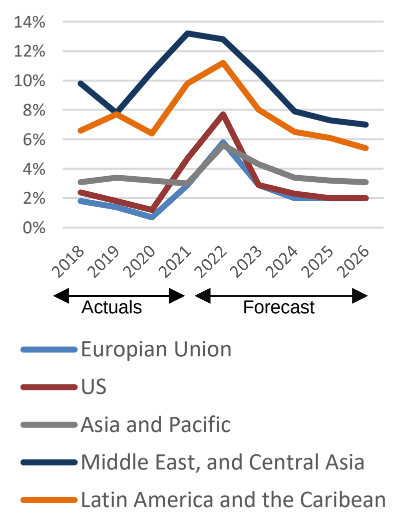
Vaccines against COVID-19 are key to exiting the health and economic crisis brought by the pandemic, since they allow tourism to recover and thus allow a boost in the economic activity, especially in countries that are highly dependent on tourism. Furthermore, equal access to vaccines is highly important, since pandemic spillovers can occur via trade linkages.

Figure 18 - Regional GDP Growth (%)



Source: IMF

Figure 19 - Regional Inflation (%)



Source: IMF

Table 5 - Vaccination Rollout 2021

	First Dose (%)	Primary Series (%)	Booster (%)
World	66	60	166
Advanced Economies	80	75	59
Emerging Economies	74	68	238
Developing Countries	32	27	6

Source: IMF

To conclude, continued policy support by governments, strong international support to low-income countries and a successful vaccination rollout are key to assure a complete and durable global recovery.

Industry Structure

Hospitality is a broad industry, in which accommodation and Travel & Tourism (T&T) segments are strongly linked.

Hotel industry is classified as a monopolistic competition market. It can be categorized by price levels – which ranges from Luxury Segment to Economy Segment, being the high-end segments, the most differentiated in offerings (Appendix 27).

Global Tourism Outlook

The pandemic resulted in devastating effects in many sectors, T&T being one of the most affected due to all the lockdown restrictions which involved international and domestic mobility and so affecting hotels performance. Moreover, the pandemic also highlighted the importance of the sector in socio-economic matters such as job creation, poverty reduction, and driver of prosperity and diversity.

Also, in 2019YE, this sector represented 10.3% of global GDP - that is $9,630 billion (Figure 20). Furthermore, domestic visitor spending reached $4,290 billion, International visitor spending amounted to $1,700 billion (Figure 22), and 1,460 million (+4% YoY) international tourist arrivals were registered worldwide (Figure 23).

With respect to job creation, T&T created 1 in 4 all new jobs between 2014-2019 and incorporated 10% of all jobs - that is 333 million.

In 2020YE these figures changed dramatically. Due to the pandemic, T&T represented 5.3% of global GDP, in nominal terms it was now only $4,775 billion (Figure 20). Regarding job creation, 62 million jobs were lost, leaving just 271 million jobs across the entire T&T ecosystems (Figure 21), mostly supported by government retention schemes and reduced hours. Moreover, 1 billion fewer international tourist arrivals were registered (-73% YoY) (Figure 23), resulting in a fall in international visitor spending of an unprecedented 69.4%, whereas domestic visitor spending decreased by 45%, as result of travel restrictions (Figure 22).

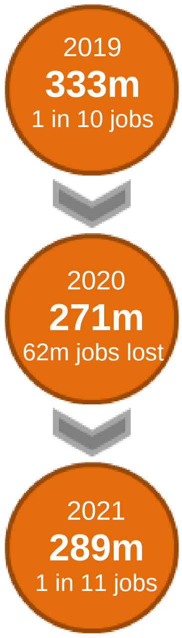
In 2021YE there was a slight recovery of the sector but slower than expected, with a contribution to GDP of 21,7% YoY, mainly driven by domestic spending, reaching 6.1% of the total global GDP (Figure 20). This slower recovery was mostly due to the impact of the Omicron variant and lack of international coordination in terms of mobility. At this time vaccination rates were increasing but at an uneven pace around the globe, a scenario that proceeded to 2022. However, more and more restrictions were lifted, and by the end of this year WTTC predicts a contribution to GDP to grow 43.7% amounting almost $8,400 billion, reaching 8,5% of the total global economic GDP. In terms of job creation in 2021YE, 18.2M jobs were created (Figure 21), representing a rise of 6.7%, followed by an expected growth of 3,5% making up 9,1% of global job market. In the Economic Impact Report WTTC forecasts T&T GDP to grow at an average rate of 5.8% annually, between 2022-2032, outpacing the 2.7% growth rate for global economy. Additionally global T&T is expected to reach pre-pandemic levels by 2023FY.

Demand and Supply

Supply, which is represented as the number of hotels/rooms worldwide, is affected by the availability of capital and interest rates. Considering that hotels are not a flexible asset, the sizable investments, the long periods of time it takes to get a

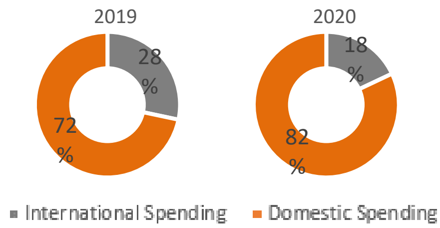
Figure 20 - Travel & Tourism Contribution to Global GDP

Figure 21 - Travel & Tourism Global Employment



Source: WTTC – Global Economic Trends 2021

Figure 22 - Domestic Vs International Spending



Source: WTTC – Global Economic Trends 2021 license to build a hotel, and the difficulty it takes to find a location for it, Supply generally remains stable (Figure 24).

As for demand, and unlike supply, it fluctuates daily, since it has several factors that can impact it, namely:

Events: Sports, music, technology and many other events and conferences held in the hotel area increase international and domestic mobility.

Seasonality: The lodging industry is operated in annual cycles. Throughout the year, hospitality occupancy rates vary due to two seasonality factors (Figure 25): 1) Climate, where seaside destinations are marked by most sales being made in the summer, and 2) Institutional factors, which result from decisions made at national level, school calendar and holidays. For example, the ADR of hotels in Europe tends to be significantly higher in summer months (Figure 26) when the occupancy also increases (Figure 25). Thus, RevPAR also rises (Figure 27).

Economic Conditions: The lodging industry is cyclical and generally follows, on a lagged basis, the overall economy. GDP growth, business investment, corporate profits, employment growth, and purchase power are economic trends that have an impact on the lodging demand. As mentioned, economic conditions are slowly improving which means that the demand is expected to pick up. Hotels benefit from higher occupancy rates when the economy is growing, and the foreign tourist market is expanding. While, in periods of recession and low tourism interest, the occupancy rates will be low (e.g.: During the peak of the pandemic) (Figure 25).

Domestic and international travel: According to Tourism Economics, currently, domestic guest nights have been surpassing international travel. In 2021, 88% of guests' nights worldwide were attributed to domestic stays, and from 2022 onwards this trend is expected to remain high compared to pre-pandemic levels. Nevertheless, with the recent ease of international restrictions and higher vaccination rates, there has been an increase in traveller confidence, which has allowed for higher international mobility. Regarding business travel, although there has been an increase in the events and meetings being held since the pandemic, it is recovering at a slower pace when compared to leisure travel, since people got used to home office and online business meetings.

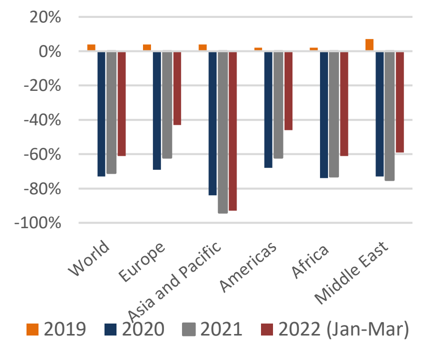
Safety & Security: Terrorist attacks (e.g.: Paris attacks 2015) and natural catastrophes, negatively affect the occupancy rates in hotels. Nowadays, countries with higher vaccination rates may be considered more attractive to travel, which can positively affect the occupancy rates. Also, to regain the confidence of guests, hotels should provide "Safe stay" programs that allow on-site medical care, temperature checks, and hygiene products.

Other relevant factors affecting demand are historical heritage, the way government and public authorities promote tourism, location (i.e.: proximity to major tourist destinations), airport/railway infrastructures and cruise ports, amongst others.

Peers

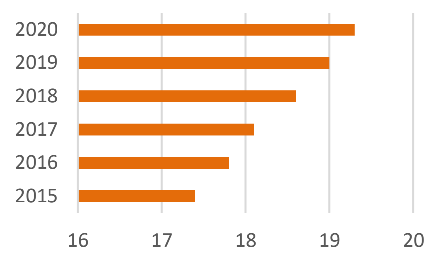
To identify and select IHG industry peers, the SARD approach was utilized. As a starting point it was selected a sample of 35 companies, from the Bloomberg database. Afterwards some variables were calculated as proxies for profitability, risk, and size, them being Net Debt/EBITDA, Market Capitalization, EPS, EBITDA Margin. By applying the method, the companies were attributed a rank and the ones with the least SARD were selected as a peer. The selected peers include 5 different companies: Hilton Worldwide Holdings, Marriott International, Marriott Vacations

Figure 23 - International Tourist Arrivals (YoY)



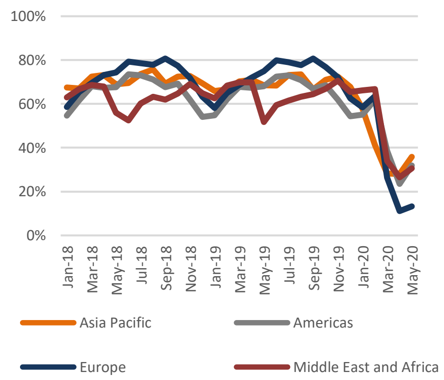
Source: UNWTO

Figure 24 - Global Rooms Supply (M)



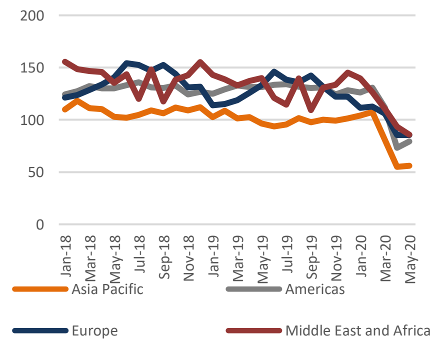
Source: STR

Figure 25 - Monthly Average Occupancy Rates Worldwide



Source: Statista

Figure 26 - Monthly ADR Worldwide ($)



Source: Statista

World, Wyndham Hotels & Resorts, and Travel + Leisure (Table 6). These companies were also used to calculate the Relative Valuation.

Peers Strategy

One common strategy across the selected companies is the use of derivative instruments to manage the exposure to market risks. This strategy gains even more importance in todays' world where uncertainty and risk are at a high level.

Hilton

Hilton strategy looks to expand their global portfolio and fee-based business, to implement strong relationships with their costumers and strengthen their commercial platform. It also aims to retain and attract talent within the industry, to maintain and form new partners and to develop ESG efforts to create long-term value.

Marriott International

Marriott strategy focuses on growing the direct engagement that they have with their costumers, through more destination content for leisure travelers, driving booking to their direct channels and improved search optimization. Sales centered around the costumer, attract third-party owners and franchisees to their platform.

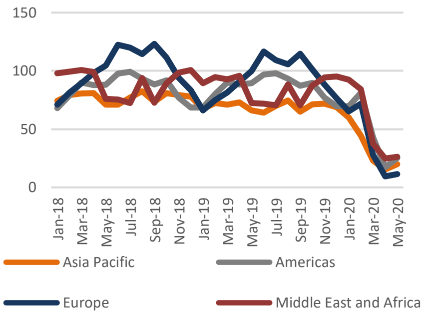
Wyndham

As the largest hotel franchising company by number of hotels, Wyndham seeks to drive net room growth and expand their portfolio to include an economy extended stay brand. It also looks to optimize property revenue and maximize market share.

Travel + Leisure:

Travel + Leisure strategy looks to accelerate growth of their global business, maintain a capital efficient inventory, and attract a diverse cast of employees with different backgrounds and experiences.

Figure 27 - Monthly RevPAR Worldwide



Source: Statista

Table 6 - Peer Group

Company	SARD
INTERCONTINENTAL HOTELS GROUP	0
HILTON WORLDWIDE HOLDINGS IN	20
MARRIOTT INTERNATIONAL -CL A	23
MARRIOTT VACATIONS WORLD	24
Travel + Leisure CO	27
WYNDHAM HOTELS & RESORTS INC	31

Source: Author Analysis

Swot Analysis

Strengths

Strength of brands: it invests highly in the debt of their portfolio of brands and delivers a strong owner return on investment.

Skilled workforce: through successful training programs, IHG focuses on maintaining capable and motivated workforce.

Customer satisfaction: dedicates on keeping a high percentage of customer satisfaction through campaigns, consumer focused surveys and social media engagement.

Utilization of technology: wallet-free experience, well-developed and engaged social media to attract customers and retain current guests.

Acquisition: M&A activities to increase market share and brand value.

Weaknesses

Difficulties in differentiation: the products and services in the market are similar and comparable, it is hard to do further segmentation in the matured traditional hospitality market.

Brand uncertainties: growth and integration of brands depends on market conditions, guest preference and owner investment, which are easily exposed to different risks.

Industry overcapacity: operating results can be affected by overcapacity of rooms and weak demand.

Seasonality of the hotel business and **dependence on tourism**.

Opportunities

ESG focus: it continues to invest in ways to support hotels become more efficient, it also implemented a long run plan focused on environmental help

Diversified offering: It allows to practice different strategies in this new market, it will enable to maintain loyal customers and lure new ones.

Threats

Cyber risk: protecting customer database is necessary along with the technology development.

Highly sensitive to macroeconomic factors: for example, the impact of the covid pandemic decreased the purchasing power of some guests.

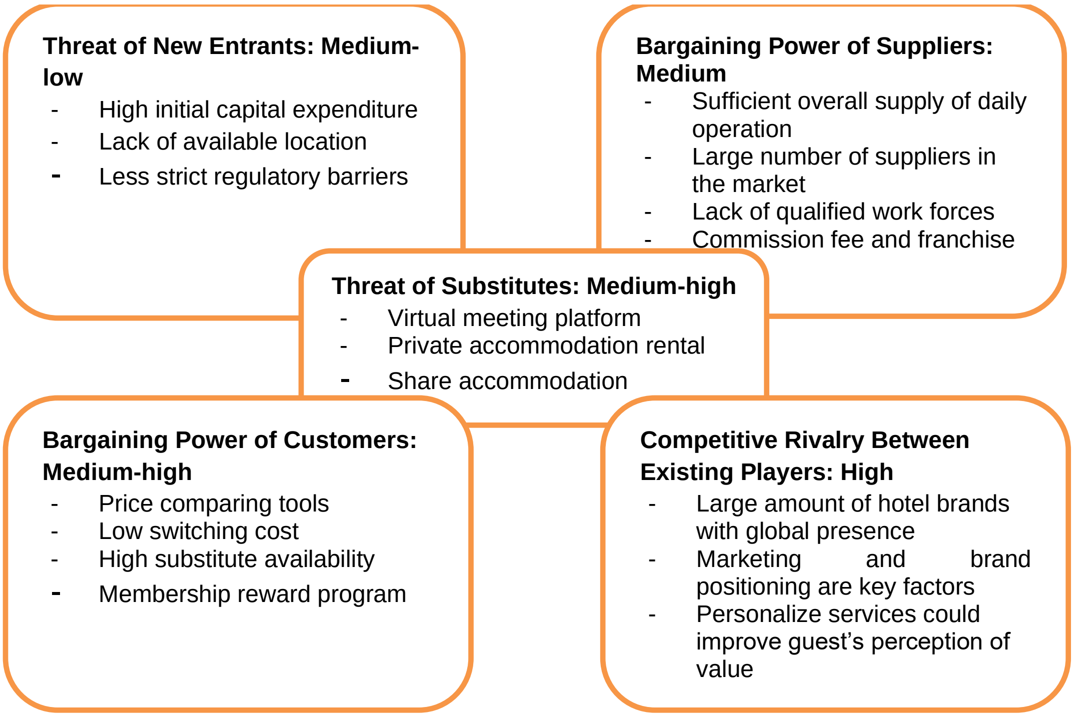
Fierce Competition: business models have changed from traditional hospitality providers to online marketplaces providers (e.g., Airbnb, private accommodation rental, share accommodation).

Changing consumer lifestyles and buying behaviour may lead to different needs and expectation.

Figure 28 - IHG SWOT Analysis

Porter's Five Forces

Figure 29 - Group Porter's Five Forces



Source: Author Analysis

5. Investment Summary

We issue a REDUCE recommendation for Intercontinental Hotels Group with a 2023YE price target of $50.79/sh, using a DCF Model, implying a 6.47% upside potential from the September 23rd, 2022, closing price of $47.70/sh (Figure 30), however with High Risk.

Even though recent studies indicate a scenario where there will be a financial recovery to pre-pandemic levels at 2022YE, the current share price reflects a risky and uncertain market, due to a not fully recuperated post pandemic market and more recently due to the direct consequences of the ongoing war.

Figure 30 - 2023 Price Target

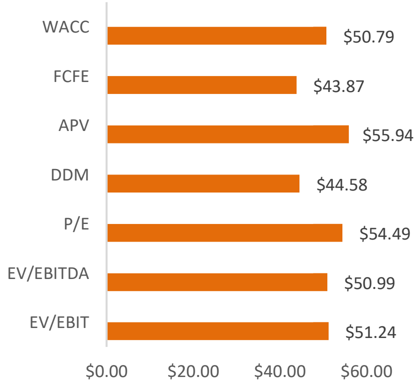
Source: Author Analysis

Valuation Methods

Our target price of $50.79/sh, was obtained through an absolute valuation model, Discount Cash Flow with a Free Cash Flow to the Firm methodology. In addition, the Free Cash Flow to Equity and Dividend Discount Model were calculated achieving a price of $43.87/sh and $44.58/sh respectively.

Regarding the relative valuation, it was applied multiples of EV/EBITDA, EV/EBIT and P/E to reach a PT between $50.99/sh and $54.49/sh (Figure 31).

Figure 31 - Valuation Models



Source: Author Analysis

Investment Risks

When looking at the PT there are several risks behind it that could have a negative impact. For example, IHG revenues are based on the speculation that RevPar will reach 2019YE values in 2023F and growing according to the historical average afterwards, a big part of the Revenues also comes from room growth, which evolves with the global GDP growth. These and more assumptions are related to the macroeconomic risk of the ongoing pandemic which is mitigating and stabilizing.

Workforce-related risks, ESG expectations and regulatory demands are some examples of risks that the company is exposed and can highly impact its long term sustainable growth.

6. Valuation

The presented PT estimated for 2023F, was obtained through a **forecasted period of 6 years, from 2022F to 2027F**. To have a robust result, relative and absolute valuation were computed, with different methods.

WACC Method

The first method and the one used to reach the PT of IHG. The FCFF was computed for the Weighted Average Cost of Capital with a stable growth rate for the terminal period (Appendix 17). This method is deeply influenced by revenue growth, the long run growth rate and the WACC rate assumptions. Using this approach (Appendix 20), a PT of $50.79/sh was reached with an upside potential of 6.47% (Table 7).

Flow to Equity Method

For this method it was considered a cost of equity (Ke) to reach an Enterprise Value using a FCFE approach. This approach is mostly used to valuate financial institutions. It was reached a PT of $43.87/sh, with an upside potential of -8.04% (Table 8/ Appendix 21).

APV Method

With this approach it was presented a PT of $55.94/sh, with an upside potential of 17.28% (Appendix 22).

The Adjusted Present Value was calculated considering Pre-tax WACC to reach unlevered EV, as well as the Cost of Debt (kd) to compute the Interest Tax Shield (Table 9). This method was not chosen to present our PT since it captures the effect of financing and taxes as independent factors, making it a less complete model to valuate our company.

Dividend Discount Model

The group has a strong dividend policy, with a consistent distribution of normal and special dividends, which supports the use of this method. In 2020YE and 2021YE, the company did not distrubuted any kind of dividends, it is however planning to distribute in 2022YE. It was assumed that the company has a stable distribution of dividends through the whole forecasted period, yielding a PT of $44.58/sh, and a upside potential of -6.54% (Table 10/ Appendix 23).

Market Based Valuation

In terms of relative valuation it was used the EV and Price multiples. The first one was EV/EBITDA with a peer average of 15.55x, reaching a PT of $50.91/sh with an upside potential of 6.73%. For the EV/EBIT the peer average was 17.25x and a PT of $51.16/sh with an upside potential of 7.26%. The last multiple used was the P/E where the peers reach an average of 22.67x and it shows a PT of $54.54/sh with an upside potential of 14.34% (Appendix 24).

Forecast Analysis

Revenues

As mentioned before, the recent pandemic affected the financials of most companies, including IHG, based on the latest annual report of the company it is speculated that revenues are to reach pre-pandemic levels in 2023F. From 2023F onwards revenues are to have a growth in line with historical levels before the pandemic. It is based on this assumption that we performed our revenue calculation.

Table 7 – IHG WACC Approach

WACC Method		
Enterprise Value	$M	**11,822**
Debt	$M	3,415
Cash & Equivalents	$M	1,398
Non-Operational Assets	$M	1,044
Non-Operational Liab.	$M	1,629
Non-Controlling Interests	$M	7
Equity Value	$M	**9,212**
Shares Outstanding	M	181.4
Price Per Share		**$50.79**
Close Price		$47.70
Upside Potential	**%**	**6.47%**

Source: Author Analysis

Table 8 - IHG Flow to Equity Approach

Flow to Equity Method		
Equity Value	$M	**7,957**
Shares Outstanding	M	181.4
Price Per Share		**$43.87**
Upside Potential	**%**	**-8.04%**

Source: Author Analysis

Table 9 - IHG APV Approach

APV Method		
Enterprise Value Unlevered	$M	**12,757**
Debt	$M	3,415
Cash & Equivalents	$M	1,398
Non-Operational Assets	$M	1,044
Non-Operational Liab.	$M	1,629
Non-Controlling Interests	$M	7
Equity Value	$M	**10,148**
Shares Outstanding	M	181.4
Price Per Share		**$55.94**
Upside Potential	**%**	**17.28%**

Source: Author Analysis

Table 10 - IHG DDM Approach

DDM		
Equity Value	$M	**8,087**
Shares Outstanding	M	181.4
Price Per Share		**$44.58**
Upside Potential	**%**	**-6.54%**

Source: Author Analysis

The group total revenues are compiled in Hotel Revenues, System Fund Revenues and Reimbursements of Costs. In the forecasted period total revenues have a growth of 9.54% CAGR from 2022F to 2027F (Figure 32).

Both RevPAR and total number of rooms impact hotel revenues. Total number of rooms is divided by brand, and the IHG brands have a global presence the room growth from 2022F-2027F evolves directly with the forecasted world GDP. In 2023F, RevPAR of each brand reaches 2019 levels. From 2024F-2027F this indicator evolves with the world GDP growth. Gross revenues are then calculated as the number of days in the year multiplied by the forecasted RevPAR and the number of rooms (Appendix 10).

System fund revenues

This fund is expected to grow at a 7.92% (Figure 32), reaching 2019YE levels in 2023F and from then on until 2027F the evolution is supported by a historical average from 2017YE-2019YE.

Reimbursement of costs

This segment represents reimbursements incurred on behalf of managed and franchised properties and it is mainly related to payroll costs at managed properties. It has no impact in profit, since there is cost equal to these revenues. These revenues are expected a growth of 10.42% (Figure 32), according to the historical average of 2017YE-2019YE.

CAPEX

To maintain a similar structure of the company investments, a historical average of capital expenditure in relation to revenues was considered. Since complete recovery is set for 2023F, in 2022F forecasted CAPEX uses the average of 2020YE-2021YE. From 2023F to 2027F it uses the historical average of 2016YE-2019YE, it is assumed that from 2023F onwards the company will keep a stable investment in CAPEX, with a growth of 20.83% (Figure 33/ Appendix 12) for the forecasted years.

Payout Policy

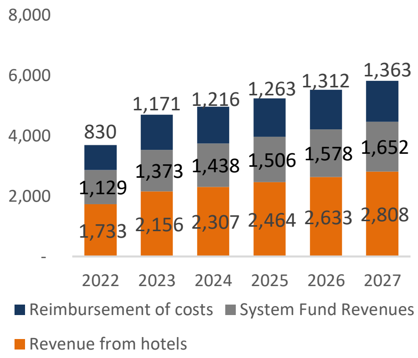
IHG had a strong and stable policy ever since 2003F, however with the pandemic, it had to stop the distribution of dividends in both 2020YE and 2021YE. The group also looks to return any surplus of capital, in the form of special dividends, because there is no explanation, besides generating a surplus of cash, behind the amount of special dividends distributed in a year, we opted for a fixed amount of $250 million every year. The group shows a tendency of strong financials, and believes that it will be able to pay, in 2022F, a normal dividend of 85.9¢, and it is expected a growth of 7.77% 2022F to 2027F (Figure 34), in terms of total ordinary dividends.

WACC Rate Assumptions

The assumptions of the forecast were made with a more conservative background than the one we face today.

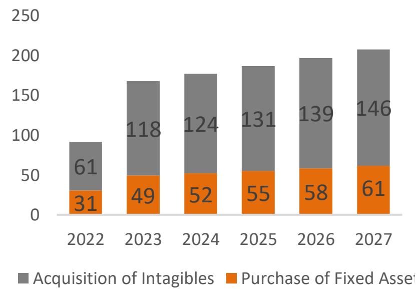
Using the CAPM model it was estimated a cost of equity (Ke) of 9.46%, assuming a Risk-Free Rate of 1.30%, taken from the U.S. department of treasury in the period of September 2021, and a Market Risk Premium of 5.5% derived from Fernandez, Martinez & Acín, 2021. The company's beta was calculated through the unlevered beta corrected for cash from Damodaran 2021. Cost of debt comes from the average of interest expenses divided by total debt, from 2019YE to 2021YE. Considering the market values of debt and equity and a market capital structure of 26%, a WACC of 7.76% was obtained (Appendix 16).

Figure 32 – Forecasted Revenue by Segment ($M)



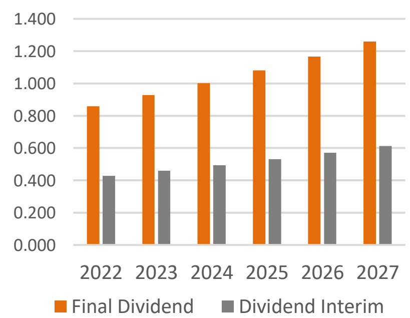
Source: Author Analysis

Figure 33 - Forecasted CAPEX ($M)



Source: Author Analysis

Figure 34 - Forecasted DPS (¢)



Source: Author Analysis

Terminal Value

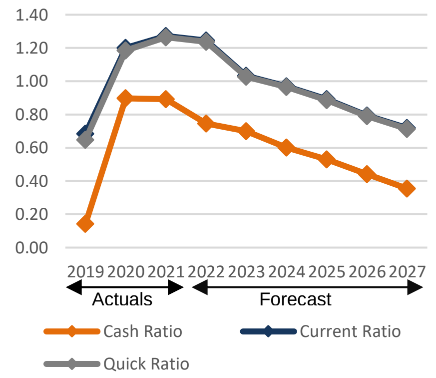
For the terminal period, a stable growth rate a dividend sustainable growth model was computed, as well as an analysis of economic factors. The approach of economic variables was chosen as indicator for the terminal growth rate, this model uses both predicted GDP growth and inflation rate for the regions where IHG operates, U.S., Europe, and China, resulting in a 2.6% growth rate.

7. Financial Analysis

Liquidity

Due to the pandemic, in 2020YE, the group was forced to insure a large debt, causing a sudden increase in liquidity ratios. For the forecasted years these ratios tend to stabilize to 2019YE values, Quick ratio ranges from 1.24x to 0.71x, whilst Cash ratio stays at a low level, from 0.75x to 0.35x, the company usually keeps a low level of cash mostly due to the heavy distribution of dividends, which means the company will have more trouble meeting the short term responsabilities (Figure 35).

Figure 35 - Liquidity Ratios

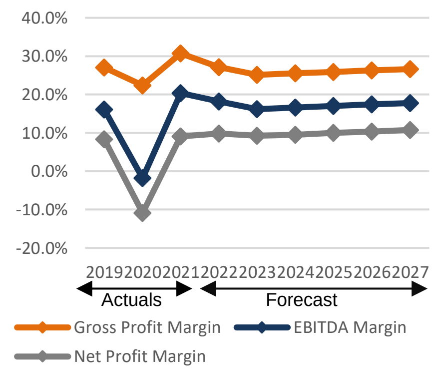


Source: Author Analysis

Profitability

Many profitability ratios dropped substancially during the period of the pandemic, EBITDA margin dropped to negative percentages, from 16.1% in 2019YE to -1.8% in 2020YE. Given the assumption that the economy will stabilze over the upcoming years, in the forecasted years ratios like EBITDA, EBIT and Net Profit margin will surprass 2019YE levels in 2024F, Return on Assets (ROA) presents the same tendency and increases at 11.49% CAGR. Gross profit is projected to reach CAGR of 9.18% from 2022FY to 2027F.

Figure 36 - Profitability Ratios (%)



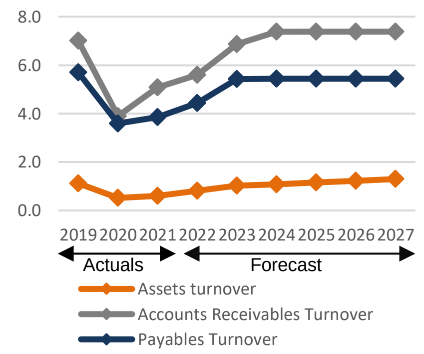
Source: Author Analysis

Efficiency

After sales increased from $3,912 million to $4,627 million, meaning a 5.75% CAGR, over the period of 2016YE-2019YE, IHG suffered the consequences of the pandemic in 2020YE-2021YE. Revenues decreased to $2,394 million in 2020YE, followed by a small increase to $2,907 million in 2021YE. After un upward trend in tourism for the upcoming years sales are expected to increase. While 2022F is still considered a recovery year, with sales still below pre-pandemic levels reaching $3,692 million. Over the period of 2023F-2027F the expects to reach $5,824 million in revenue at the end of the forecasted period.

IHG is able to register an improvement in efficiency, with an increase in asset turnover from 0.8x in 2022F to 1.3x in 2027F (Figure 37).

Figure 37 - Efficiency Ratios



Source: Author Analysis

Solvency

Regarding solvency IHG is expected to have an EBITDA growth of 9% between the forecasted years. The Debt to EBITDA ratio is expected to decrease from 4.5x to 2.8x from 2022F to 2027F. Following the debt schedule of the company long-term debt is projected to decrease at -4.74% CAGR.

8. Investment Risks

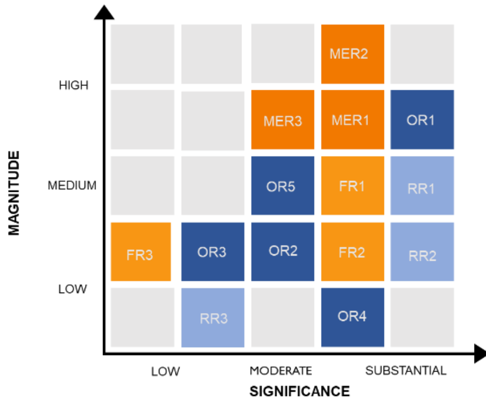
IHG is exposed to both external and internal risks, that can have an impact in its business and share price (figure 38). Even though recent studies indicate a scenario where there will be a financial recovery to pre-pandemic levels at 2022YE, the current share price reflects a risky and uncertain market, due to a not fully recuperated post pandemic market and more recently due to the direct consequences of the ongoing war, with this assessment we consider a High Risk market scenario.

Operational Risks

Data Privacy (OR1)

IHG must have secure server to prevent cyber-attacks and protect the integrity and security of the company, associates, and guest data. A security breach of such sensitive data, can lead to large costs as well as reputational damage.

Figure 38 - Risk Matrix



Label:
Magnitude – probability of risk realization
Significance – dimension of Economic/Financial influence on revenues, efficiency, and market share.

- Market/Economic Risks
- Regulatory Risks
- Operational Risks
- Financial Risks

Source: Author Analysis

Innovation of Operations (OR2)

A failure in keeping up with the newest developments in technology can weaken the hotel's operational and competitive position – to look more appealing hotels should use sophisticated technology and systems in reservations, payroll systems and technologies that are available to guests and associates.

Health and Safety Risks (OR3)

All the risks related to guests' safety (e.g., fire risk, COVID-19). Ways to prevent these risks is ensuring proper equipment, cleaning and disinfecting rooms and hallways, and complying with the measures of public health authorities. Particularly on the light of the recent pandemic, if IHG does not tackle these risks efficiently could result in reputational damage and a lost of confidence in guests.

Managerial Risk (OR4)

Associated with ineffective, underperforming and even destructive management, which can be financial and/or ethical. These behaviors are associated with lack of compliance with rules and regulations, and fraudulent activities. An effective management team can be key in influencing investor's decisions.

Staff (OR5)

It is vital to retain a key quality management and a staff team since hospitality industry is highly competitive and qualified professionals are scarce. A failure to attract, develop and retain talent could lead to increases in labor costs, reducing profits, limiting the ability to grow and expand, and decrease guests' satisfaction. Therefore, IHG must produce retention strategies to keep employees engaged, which remains a challenge in an uncertain economic and highly competitive market.

Market/Economic Risks

Reputation (MER1)

Hotels are highly dependent on the quality and reputation of their brands, and any deterioration could rapidly impact the market share, business, financial condition, or results of operations. Competition from other brands can create intrinsic risks to the attractiveness of IHG's brands.

Macro External Risks (MER2)

Political and economic disruption, risk of infectious diseases (e.g.: Covid-19), acts of terrorism or war, natural or man-made disasters can affect the ability of the company to operate efficiently, to grow and reduce the overall demand.
Covid-19 resulted in travel mobility restrictions, changes in travel patterns, adverse global economic conditions, and a decrease in consumer's levels of confidence when traveling, which are still expected to impact business, financial results, and growth prospects.

Sharing Economy (MER3)

This concept is relatively recent and has gained some importance over the past few years. With low costs and regulations these accommodation companies can lead to direct competition of IHG since it could impact demand for such traditional hospitality services.

Regulatory Risks

Legal, Regulatory, and Ethical Compliance (RR1)

Operating in numerous locations the company is subject to many complex, and frequently changing laws, regulations, and contractual obligations. A non-compliance with those can lead to restrictions in the hotel's business operations, increase in operating costs, increase in exposure to fines and litigations and result in reputational damage.

Environmental Risk (RR2)

Hotels produce a large carbon footprint, and this can be subject to scrutiny by regulators and investor groups that focus on ESG issues. IHG being a global business faces uncertainties relating to evolving environmental trends, the group response has potential to impact performance and growth in key markets, complying with environmental regulations imposed by the country in which they are located is a must.

Tax Rates (RR3)

Tax laws and tax rates can change unpredictably – an increase in these can result in higher tax expenses and liabilities, which will deteriorate financial results.

Financial Risks

Capital/Debt (FR1)

Hospitality industry is capital intensive, and obtaining financing to operate the business, react to economic or industry changes and to fund investments is constrained by capital markets. Therefore, investment effectiveness and efficiency are critical to meet short and long-term strategic needs and to strengthen the competitive position.

Foreign Currency (FR2)

The Group's revenue and cash flows main currency is US dollars, however as consequence of operating in different markets it is exposed to exchange rate fluctuations, currency devaluations or restructurings, this coul lead to lower reported revenues or increase costs. Hedging agreements are a way to mitigate this risk, however this might not be sufficient as it may not include all business currencies, and do not entirely remove the risk for the currencies covered. These agreements are exposed to their own cost and risks - i.e., Transaction costs, credit requirements and counterparty risk.

Liquidity (FR3)

IHG might be forced to delay new investments and business activities, sell assets, obtain funds from capital markets if it is not able to generate sufficient cash flow or obtain additional capital resources to pay its debts when they are due.

Price Target Sensitivity

A sensitive analysis was performed on the achieved PT, where it was performed changes on both WACC and long-run stable growth rate (g).
Considering the Risk Matrix Classification to identify the interval of prices that correspond to each action, Sell, Reduce, Hold, Buy or Strong Buy (Table 11).
The long run sustainable growth rate is set to 2.6% in the base case, with all things remaining equal, it leads to an increase (decrease) of around $0.5-0.6/share, for each increase (decrease) of 10bps.
The WACC rate sits at 7.76% in the base case, with all things remaining equal, for each increase (decrease) of 10bps the rate increases (decreases) around $1.09-$1.55.

Table 11 – Sensitivity Analysis Classification

Risk Matrix Classification - High Risk	
SELL	0%≤
REDUCE	>0% & ≤10%
HOLD	>10% & ≤20%
BUY	>20% & ≤45%
STRONG BUY	>45%

Source: Author Analysis

Table 12 - WACC Vs Long-run Sustainable Growth Rate (g)

	WACC										
	7.26%	7.36%	7.46%	7.56%	7.66%	7.76%	7.86%	7.96%	8.06%	8.16%	8.26%
2.10%	51.94	50.65	49.41	48.21	47.06	45.95	44.88	43.84	42.84	41.87	40.94
2.20%	53.04	51.70	50.42	49.18	47.99	46.85	45.74	44.67	43.64	42.64	41.68
2.30%	54.18	52.80	51.47	50.19	48.96	47.78	46.63	45.53	44.47	43.44	42.45
2.40%	55.38	53.94	52.57	51.24	49.97	48.74	47.56	46.42	45.32	44.27	43.24
2.50%	56.62	55.13	53.70	52.33	51.01	49.74	48.52	47.35	46.21	45.12	44.06
2.60%	57.92	56.37	54.89	53.47	52.10	50.79	49.52	48.30	47.13	46.00	44.91
2.70%	59.28	57.67	56.12	54.65	53.23	51.87	50.56	49.30	48.09	46.92	45.79
2.80%	60.69	59.02	57.41	55.88	54.41	52.99	51.64	50.33	49.08	47.87	46.71
2.90%	62.17	60.43	58.76	57.16	55.63	54.17	52.76	51.41	50.11	48.86	47.66
3.00%	63.72	61.90	60.16	58.50	56.91	55.39	53.93	52.52	51.18	49.88	48.64
3.10%	65.35	63.45	61.63	59.90	58.24	56.66	55.14	53.69	52.29	50.95	49.66

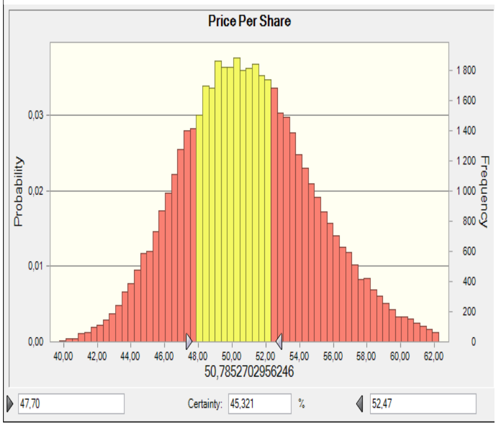
Source: Author Analysis

Monte Carlo Simulation

To complement the sensitivity analysis on the PT, a Monte Carlo Simulation was performed, considering simultaneous changes in variables like WACC, long-run sustainable rate and Tax.

With this analysis we obtained a mean value of $51.00, which is similar to the achieved PT of $50.79, and a 45.32% probability to reduce, supporting our statement of Reduce recommendation.

Figure 39 - Monte Carlo Simulation



Source: Author Analysis

Appendices

Appendix 1: Statement of Financial Position

Balance Sheet In millions of $	2016YE Actuals	2017YE Actuals	2018YE Actuals	2019YE Actuals	2020YE Actuals	2021YE Actuals	2022YE Forecast	2023YE Forecast	2024YE Forecast	2025YE Forecast	2026YE Forecast	2026YE Forecast	2022F-2027F CAGR
Assets													
Total Assets	**2,762**	**3,010**	**4,092**	**4,194**	**5,039**	**4,716**	**4,423**	**4,705**	**4,531**	**4,548**	**4,530**	**4,448**	0.11%
Total Non-Current Assets	**1,966**	**2,147**	**2,719**	**3,259**	**2,796**	**2,650**	**2,607**	**2,643**	**2,683**	**2,727**	**2,775**	**2,828**	1.64%
Goodwill, Net	232	237	313	339	346	341	341	341	341	341	341	341	0.00%
Intangibles, Net	626	730	830	1,037	947	854	826	857	892	930	971	1,016	4.23%
Property, Plant and Equipment	419	425	273	309	201	137	147	174	200	224	248	272	13.12%
Right-of-use-assets	-	-	513	490	303	274	249	227	206	188	171	155	-9.02%
Long Term Investments	359	369	364	394	249	250	250	250	250	250	250	250	0.00%
Long Term Note Receivable	216	257	301	339	326	317	317	317	317	317	317	317	0.00%
Other Long-Term Assets	114	129	125	351	424	477	477	477	477	477	477	477	0.00%
Total Current assets	**796**	**863**	**1,373**	**935**	**2,243**	**2,066**	**1,816**	**2,062**	**1,848**	**1,821**	**1,755**	**1,620**	-2.26%
Cash & cash equivalent	206	168	704	195	1,675	1,450	1,089	1,398	1,147	1,081	975	798	-6.03%
Short Term Investments	20	16	1	4	1	2	-	-	-	-	-	-	n.a
Receivables	482	568	630	689	539	604	716	654	691	729	769	811	2.51%
Current Tax Receivable	77	101	27	16	18	1	-	-	-	-	-	-	n.a
Inventories	3	3	5	6	5	4	6	5	5	6	6	6	0.49%
Other current assets	8	7	6	25	5	5	5	5	5	5	5	5	0.00%
Equity													
Total Equity	**(1,154)**	**(1,308)**	**(1,139)**	**(1,473)**	**(1,857)**	**(1,481)**	**(1,610)**	**(1,683)**	**(1,742)**	**(1,771)**	**(1,772)**	**(1,745)**	1.63%
Common Stock	141	154	146	151	156	154	154	154	154	154	154	154	0.00%
Retained Earnings	(1,861)	(1,913)	(1,744)	(2,051)	(2,297)	(1,635)	(1,764)	(1,837)	(1,896)	(1,925)	(1,926)	(1,899)	1.49%
Other Equity	566	451	459	427	284	-	-	-	-	-	-	-	n.a
Liabilities													
Total Current Liabilities	**1,150**	**1,280**	**1,407**	**1,365**	**1,867**	**1,624**	**1,459**	**1,996**	**1,905**	**2,039**	**2,209**	**2,253**	9.07%
Payables	526	597	616	568	466	579	634	663	696	731	767	805	4.89%
Notes/ST Debt	-	110	104	87	869	292	59	624	467	532	629	596	58.81%
Current Portion of LT Debt	106	16	55	65	34	35	35	35	35	35	35	35	0.00%
Other Current Liabilities	518	557	632	645	498	718	732	673	707	742	778	817	2.23%
Total Non-Current Liabilities	**2,766**	**3,038**	**3,824**	**4,302**	**5,029**	**4,573**	**4,573**	**4,392**	**4,368**	**4,279**	**4,093**	**3,940**	-2.94%
Long-Term Debt	1,606	1,893	2,525	2,673	3,314	2,937	2,937	2,756	2,732	2,643	2,457	2,304	-4.74%
Deferred Income Tax	170	101	124	118	95	93	93	93	93	93	93	93	0.00%
Minority Interest	8	7	8	8	8	7	7	7	7	7	7	7	0.00%
Other Liabilities	982	1,037	1,167	1,503	1,612	1,536	1,536	1,536	1,536	1,536	1,536	1,536	0.00%
Total Liabilities	**3,916**	**4,318**	**5,231**	**5,667**	**6,896**	**6,197**	**6,032**	**6,388**	**6,273**	**6,318**	**6,302**	**6,193**	0.53%
Total Liabilities & Equity	**2,762**	**3,010**	**4,092**	**4,194**	**5,039**	**4,716**	**4,423**	**4,705**	**4,531**	**4,548**	**4,530**	**4,448**	0.11%

Appendix 2: Statement of Financial Position – Common Size

Balance Sheet Common Size	**2016YE** Actuals	**2017YE** Actuals	**2018YE** Actuals	**2019YE** Actuals	**2020YE** Actuals	**2021YE** Actuals	**2022YE** Forecast	**2023YE** Forecast	**2024YE** Forecast	**2025YE** Forecast	**2026YE** Forecast	**2026YE** Forecast
Assets												
Total Non-Current Assets	71.2%	71.3%	66.4%	77.7%	55.5%	56.2%	58.9%	56.2%	59.2%	60.0%	61.3%	63.6%
Goodwill, Net	8.4%	7.9%	7.6%	8.1%	6.9%	7.2%	7.7%	7.2%	7.5%	7.5%	7.5%	7.7%
Intangibles, Net	22.7%	24.3%	20.3%	24.7%	18.8%	18.1%	18.7%	18.2%	19.7%	20.4%	21.4%	22.8%
Property, Plant and Equipment, Net	15.2%	14.1%	6.7%	7.4%	4.0%	2.9%	3.3%	3.7%	4.4%	4.9%	5.5%	6.1%
Long Term Investments	13.0%	12.3%	8.9%	9.4%	4.9%	5.3%	5.7%	5.3%	5.5%	5.5%	5.5%	5.6%
Long Term Note Receivable	7.8%	8.5%	7.4%	8.1%	6.5%	6.7%	7.2%	6.7%	7.0%	7.0%	7.0%	7.1%
Other Long-Term Assets	4.1%	4.3%	3.1%	8.4%	8.4%	10.1%	10.8%	10.1%	10.5%	10.5%	10.5%	10.7%
Total Current assets	**28.8%**	**28.7%**	**33.6%**	**22.3%**	**44.5%**	**43.8%**	**41.1%**	**43.8%**	**40.8%**	**40.0%**	**38.7%**	**36.4%**
Cash & cash equivalent	7.5%	5.6%	17.2%	4.6%	33.2%	30.7%	24.6%	29.7%	25.3%	23.8%	21.5%	17.9%
Short Term Investments	0.7%	0.5%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Receivables	17.5%	18.9%	15.4%	16.4%	10.7%	12.8%	16.2%	13.9%	15.2%	16.0%	17.0%	18.2%
Current Tax Receivable	2.8%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Inventories	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other current assets	0.3%	0.2%	0.1%	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Equity												
Total Equity	**-41.8%**	**-43.5%**	**-27.8%**	**-35.1%**	**-36.9%**	**-31.4%**	**-36.4%**	**-35.8%**	**-38.4%**	**-38.9%**	**-39.1%**	**-39.2%**
Common Stock	5.1%	5.1%	3.6%	3.6%	3.1%	3.3%	3.5%	3.3%	3.4%	3.4%	3.4%	3.5%
Retained Earnings	-67.4%	-63.6%	-42.6%	-48.9%	-45.6%	-34.7%	-39.9%	-39.0%	-41.8%	-42.3%	-42.5%	-42.7%
Other Equity	20.5%	15.0%	11.2%	10.2%	5.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liabilities												
Total Current Liabilities	**41.6%**	**42.5%**	**34.4%**	**32.5%**	**37.1%**	**34.4%**	**33.0%**	**42.4%**	**42.0%**	**44.8%**	**48.8%**	**50.6%**
Payables	19.0%	19.8%	15.1%	13.5%	9.2%	12.3%	14.3%	14.1%	15.4%	16.1%	16.9%	18.1%
Notes/ST Debt	0.0%	3.7%	2.5%	2.1%	17.2%	6.2%	1.3%	13.3%	10.3%	11.7%	13.9%	13.4%
Current Portion of LT Debt	3.8%	0.5%	1.3%	1.5%	0.7%	0.7%	0.8%	0.7%	0.8%	0.8%	0.8%	0.8%
Other Current Liabilities	18.8%	18.5%	15.4%	15.4%	9.9%	15.2%	16.5%	14.3%	15.6%	16.3%	17.2%	18.4%
Total Non-Current Liabilities	100.1%	100.9%	93.5%	102.6%	99.8%	97.0%	103.4%	93.3%	96.4%	94.1%	90.4%	88.6%
Long-Term Debt	58.1%	62.9%	61.7%	63.7%	65.8%	62.3%	66.4%	58.6%	60.3%	58.1%	54.2%	51.8%
Deferred Income Tax	6.2%	3.4%	3.0%	2.8%	1.9%	2.0%	2.1%	2.0%	2.1%	2.0%	2.1%	2.1%
Minority Interest	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%
Other Liabilities	35.6%	34.5%	28.5%	35.8%	32.0%	32.6%	34.7%	32.6%	33.9%	33.8%	33.9%	34.5%
Total Liabilities	**141.8%**	**143.5%**	**127.8%**	**135.1%**	**136.9%**	**131.4%**	**136.4%**	**135.8%**	**138.4%**	**138.9%**	**139.1%**	**139.2%**
Total Liabilities & Equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Appendix 3: Income Statement

Income Statement In millions of $	2016YE Actuals	2017YE Actuals	2018YE Actuals	2019YE Actuals	2020YE Actuals	2021YE Actuals	2022YE Forecast	2023YE Forecast	2024YE Forecast	2025YE Forecast	2026YE Forecast	2027YE Forecast	2022F-2027F CAGR
Revenue, Total	**3,912**	**4,075**	**4,337**	**4,627**	**2,394**	**2,907**	**3,692**	**4,700**	**4,961**	**5,234**	**5,523**	**5,824**	9.54%
Revenue from hotels	1,667	1,730	1,933	2,083	992	1,390	1,733	2,156	2,307	2,464	2,633	2,808	10.14%
System Fund Revenues	1,199	1,242	1,233	1,373	765	928	1,129	1,373	1,438	1,506	1,578	1,652	7.92%
Reimbursement of costs	1,046	1,103	1,171	1,171	637	589	830	1,171	1,216	1,263	1,312	1,363	10.42%
Cost of Revenue, Total	**2,758**	**2,933**	**3,221**	**3,375**	**1,858**	**2,014**	**2,691**	**3,521**	**3,695**	**3,878**	**4,070**	**4,270**	9.68%
Cost of Sales	548	554	671	782	354	486	617	786	829	875	923	974	9.54%
System Fund Expenses	1,164	1,276	1,379	1,422	867	939	1,243	1,564	1,650	1,739	1,834	1,934	9.24%
Reimbursed costs	1,046	1,103	1,171	1,171	637	589	830	1,171	1,216	1,263	1,312	1,363	10.42%
Gross Profit	**1,154**	**1,142**	**1,116**	**1,252**	**536**	**893**	**1,001**	**1,180**	**1,266**	**1,356**	**1,453**	**1,553**	9.18%
Administrative expenses	345	355	415	385	267	300	327	416	439	463	489	516	9.54%
Share of Losses of associates and joint ventures	2	(3)	1	3	14	8	8	8	8	8	8	8	0.00%
Other Operating Income	(9)	(84)	(14)	(21)	(16)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	0.00%
Other Exceptional Items	13	-	-	-	-	-	-	-	-	-	-	-	n.a
Impairment loss on financial assets	-	-	17	8	88	-	-	-	-	-	-	-	n.a
Other Impairment Charges	16	18		131	226	4	4	4	4	4	4	4	0%
EBITDA	**787**	**856**	**697**	**746**	**(43)**	**592**	**673**	**762**	**826**	**892**	**963**	**1,036**	9.00%
Depreciation and Amortization	75	112	115	116	110	98	74	72	76	79	82	86	3.02%
EBIT	**712**	**744**	**582**	**630**	**(153)**	**494**	**599**	**690**	**750**	**813**	**880**	**950**	9.65%
Interest Expenses (Income)	80	91	100	88	127	133	114	106	119	113	112	109	-0.89%
EBT	**632**	**653**	**482**	**542**	**(280)**	**361**	**486**	**585**	**631**	**700**	**768**	**841**	11.61%
Tax	173	118	132	156	(20)	96	123	149	160	178	195	214	11.61%
Profit after tax	**459**	**535**	**350**	**386**	**(260)**	**265**	**362**	**436**	**471**	**522**	**573**	**627**	11.61%
Extraordinary Items	-	6		-	-	-	-	-	-	-	-	-	n.a
Net Income	**459**	**541**	**350**	**386**	**(260)**	**265**	**362**	**436**	**471**	**522**	**573**	**627**	11.61%

Appendix 4: Income Statement - Common Size

Income Statement Common Size	2016YE Actuals	2017YE Actuals	2018YE Actuals	2019YE Actuals	2020YE Actuals	2021YE Forecast	2022YE Forecast	2023YE Forecast	2024YE Forecast	2025YE Forecast	2026YE Forecast	2027YE Forecast
Revenue, Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue from hotels	42.6%	44.2%	49.4%	53.2%	25.4%	35.5%	44.3%	55.1%	59.0%	63.0%	67.3%	71.8%
System Fund Revenues	30.6%	31.7%	31.5%	35.1%	19.6%	23.7%	28.9%	35.1%	36.8%	38.5%	40.3%	42.2%
Reimbursement of costs	26.7%	28.2%	29.9%	29.9%	16.3%	15.1%	21.2%	29.9%	31.1%	32.3%	33.5%	34.8%
Cost of Revenue, Total	70.5%	75.0%	82.3%	86.3%	47.5%	51.5%	68.8%	90.0%	94.5%	99.1%	104.0%	109.2%
Cost of Sales	14.0%	14.2%	17.2%	20.0%	9.0%	12.4%	15.8%	20.1%	21.2%	22.4%	23.6%	24.9%
System Fund Expenses	29.8%	32.6%	35.3%	36.3%	22.2%	24.0%	31.8%	40.0%	42.2%	44.5%	46.9%	49.4%
Reimbursed costs	26.7%	28.2%	29.9%	29.9%	16.3%	15.1%	21.2%	29.9%	31.1%	32.3%	33.5%	34.8%
Gross Profit	29.5%	29.2%	28.5%	32.0%	13.7%	22.8%	25.6%	30.2%	32.4%	34.7%	37.1%	39.7%
Administrative expenses	8.8%	9.1%	10.6%	9.8%	6.8%	7.7%	8.4%	10.6%	11.2%	11.8%	12.5%	13.2%
Share of Losses of associates and joint ventures	0.1%	-0.1%	0.0%	0.1%	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other Operating Income	-0.2%	-2.1%	-0.4%	-0.5%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Other Exceptional Items	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Impairment loss on financial assets	0.0%	0.0%	0.4%	0.2%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Impairment Charges	0.4%	0.5%	0.0%	3.3%	5.8%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	20.1%	21.9%	17.8%	19.1%	-1.1%	15.1%	17.2%	19.5%	21.1%	22.8%	24.6%	26.5%
Depreciation and Amortization	1.9%	2.9%	2.9%	3.0%	2.8%	2.5%	1.9%	1.8%	1.9%	2.0%	2.1%	2.2%
EBIT	18.2%	19.0%	14.9%	16.1%	-3.9%	12.6%	15.3%	17.6%	19.2%	20.8%	22.5%	24.3%
Interest Expenses (Income)	2.0%	2.3%	2.6%	2.2%	3.2%	3.4%	2.9%	2.7%	3.0%	2.9%	2.9%	2.8%
EBT	16.2%	16.7%	12.3%	13.9%	-7.2%	9.2%	12.4%	14.9%	16.1%	17.9%	19.6%	21.5%
Tax	4.4%	3.0%	3.4%	4.0%	-0.5%	2.5%	3.2%	3.8%	4.1%	4.5%	5.0%	5.5%
Profit after tax	11.7%	13.7%	8.9%	9.9%	-6.6%	6.8%	9.3%	11.1%	12.0%	13.4%	14.7%	16.0%
Extraordinary Items	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	11.7%	13.8%	8.9%	9.9%	-6.6%	6.8%	9.3%	11.1%	12.0%	13.4%	14.7%	16.0%

Appendix 5: Cash Flow Statement

Cash Flow Statement Millions of $	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2022F-2027F CAGR
Operating cash flows							
EBIT	599	690	750	813	880	950	9.65%
D&A	135	131	137	142	148	155	2.79%
Tax	123	149	160	178	195	214	11.61%
NWC	43	-34	-30	-31	-32	-34	n.a
Cash From Operating Activities	**568**	**707**	**756**	**808**	**866**	**925**	10.24%
Investing cash flows							
CAPEX	-92	-167	-177	-186	-197	-207	17.76%
Purchase of Fixed Assets	-31	-49	-52	-55	-58	-61	14.87%
Purchase/Acquisition of Intangibles	-61	-118	-124	-131	-139	-146	19.11%
Cash used by Investing Activities	**-92**	**-167**	**-177**	**-186**	**-197**	**-207**	17.76%
Financing cash flows							
Interest Paid	-114	-106	-119	-113	-112	-109	-0.89%
Dividends	-491	-509	-530	-551	-575	-600	4.10%
Change in Debt	-233	384	-181	-24	-89	-186	-4.41%
Cash provided by/used in Financing Activities	**-837**	**-231**	**-830**	**-688**	**-776**	**-895**	1.33%
Net Change in Cash	**-361**	**309**	**-250**	**-66**	**-106**	**-177**	-13.26%
Beginning Cash	1391	1030	1339	1088	1022	916	-8.01%
Ending Cash	1030	1339	1088	1022	916	739	-6.43%
Bank Overdrafts	59	59	59	59	59	59	0.00%
Cash & Cash Equivalents	**1089**	**1398**	**1147**	**1081**	**975**	**798**	-6.03%

Appendix 6: Cash Flow Statement - Common Size

Cash Flow Statement Millions of $	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Operating cash flows						
EBIT	105.5%	97.6%	99.2%	100.6%	101.7%	102.7%
D&A	23.8%	18.6%	18.1%	17.6%	17.1%	16.7%
Tax	21.7%	21.0%	21.2%	22.0%	22.5%	23.1%
NWC	7.6%	-4.9%	-3.9%	-3.8%	-3.8%	-3.7%
Cash From Operating Activities	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Investing cash flows						
CAPEX	-16.1%	-23.7%	-23.4%	-23.1%	-22.7%	-22.4%
Purchase of Fixed Assets	-5.4%	-7.0%	-6.9%	-6.8%	-6.7%	-6.6%
Purchase/Acquisition of Intagibles	-10.7%	-16.7%	-16.5%	-16.2%	-16.0%	-15.8%
Cash used by Investing Activities	**-16.1%**	**-23.7%**	**-23.4%**	**-23.1%**	**-22.7%**	**-22.4%**
Financing cash flows						
Interest Paid	-20.0%	-14.9%	-15.7%	-13.9%	-12.9%	-11.8%
Dividends	-86.4%	-72.0%	-70.1%	-68.2%	-66.4%	-64.9%
Change in Debt	-41.0%	54.3%	-23.9%	-3.0%	-10.3%	-20.1%
Cash provided by/used in Financing Activities	**-147.5%**	**-32.7%**	**-109.7%**	**-85.1%**	**-89.6%**	**-96.7%**
Net Change in Cash	-63.6%	43.7%	-33.1%	-8.2%	-12.3%	-19.2%
Beginning Cash	244.9%	145.6%	177.1%	134.7%	118.1%	99.1%
Ending Cash	181.3%	189.3%	144.0%	126.5%	105.8%	79.9%
Bank Overdrafts	10.4%	8.3%	7.8%	7.3%	6.8%	6.4%
Cash & Cash Equivalents	**191.7%**	**197.6%**	**151.8%**	**133.8%**	**112.6%**	**86.3%**

Appendix 7: Key Financial Ratios

Key Financial Ratios	2016YE Actuals	2017YE Actuals	2018YE Actuals	2019YE Actuals	2020YE Actuals	2021YE Actuals	2022YE Forecast	2023YE Forecast	2024YE Forecast	2025YE Forecast	2026YE Forecast	2027YE Forecast	2022F-2027F CAGR
Liquidity ratios													
Cash Ratio (x)	0.18	0.13	0.50	0.14	0.90	0.89	0.75	0.70	0.60	0.53	0.44	0.35	-13.85%
Current Ratio (x)	0.69	0.67	0.98	0.68	1.20	1.27	1.24	1.03	0.97	0.89	0.79	0.72	-10.39%
Quick Ratio (x)	0.60	0.58	0.95	0.65	1.19	1.26	1.24	1.03	0.96	0.89	0.79	0.71	-10.41%
Profitability Ratios													
Gross Profit Margin (%)	29.5%	28.0%	25.7%	27.1%	22.4%	30.7%	27.1%	25.1%	25.5%	25.9%	26.3%	26.7%	-0.33%
EBITDA Margin (%)	20.1%	21.0%	16.1%	16.1%	-1.8%	20.4%	18.2%	16.2%	16.6%	17.0%	17.4%	17.8%	-0.50%
EBIT Margin (%)	18.2%	18.3%	13.4%	13.6%	-6.4%	17.0%	16.2%	14.7%	15.1%	15.5%	15.9%	16.3%	0.10%
Net Profit Margin (%)	11.7%	13.3%	8.1%	8.3%	-10.9%	9.1%	9.8%	9.3%	9.5%	10.0%	10.4%	10.8%	1.89%
ROA (%)	16.6%	18.0%	8.6%	9.2%	-5.2%	5.6%	8.2%	9.3%	10.4%	11.5%	12.7%	14.1%	11.49%
ROCE (%)	44.2%	43.0%	21.7%	22.3%	-4.8%	16.0%	20.2%	25.5%	28.6%	32.4%	37.9%	43.3%	16.43%
ROE (%)	-39.8%	-41.4%	-30.7%	-26.2%	14.0%	-17.9%	-22.5%	-25.9%	-27.0%	-29.5%	-32.3%	-36.0%	9.83%
Efficiency Ratios													
Assets turnover (x)	1.4	1.4	1.2	1.1	0.5	0.6	0.8	1.0	1.1	1.2	1.2	1.3	9.93%
Accounts Receivables Turnover (x)	8.1	7.8	7.2	7.0	3.9	5.1	5.6	6.9	7.4	7.4	7.4	7.4	5.69%
Collection Period (DSO) (days)	45	47	50	52	94	72	65	53	49	49	49	49	-5.38%
Payables Turnover (x)	5.2	5.2	5.3	5.7	3.6	3.9	4.4	5.4	5.4	5.4	5.4	5.4	4.14%
Payables Period (DPO) (days)	70	70	69	64	102	95	82	67	67	67	67	67	-3.97%
Days in Inventory (DIO) (days)	0.4	0.4	0.5	0.6	1.1	0.8	0.7	0.6	0.5	0.5	0.5	0.5	-5.25%
Cash Cycle (days)	-24	-22	-18	-11	-7	-22	-16	-13	-17	-17	-17	-17	1.01%
Solvency Ratios													
Long Term debt Ratio (%)	58%	63%	62%	64%	66%	62%	66%	59%	60%	58%	54%	52%	-4.85%
Debt to Equity Ratio (x)	-1.5	-1.5	-2.4	-1.9	-2.3	-2.2	-1.9	-2.0	-1.9	-1.8	-1.8	-1.7	-2.23%
Equity Multiplier (x)	-2.4	-2.3	-3.6	-2.8	-2.7	-3.2	-2.7	-2.8	-2.6	-2.6	-2.6	-2.5	-1.49%
Debt to EBITDA (x)	2.2	2.4	3.9	3.8	-98.1	5.5	4.5	4.5	3.9	3.6	3.2	2.8	-8.84%
Interest Coverage Ratio (x)	8.9	8.2	5.8	7.2	-1.2	3.7	5.3	6.5	6.3	7.2	7.9	8.7	10.64%

Appendix 8: Statement of Financial Position Assumptions

Balance Sheet	Unit	2022F	2023F	2024F	2025F	2026F	2027F	
Assets								
Non-Current Assets								
Goodwill, Net	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Intangibles, Net	$M	826	857	892	930	971	1016	See Depreciations & Amortizations Appendix
Property, Plant and Equipment, Net	$M	147	174	200	224	248	272	See Depreciations & Amortizations Appendix
Right-of-use-assets	$M	249	227	206	188	171	155	See Depreciations & Amortizations Appendix
Long Term Investments	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Long Term Note Receivable	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Other Long Term Assets	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Current assets								
Receivables	$M	716	654	691	729	769	811	Average of Receivable days in relation to revenues
Inventories	$M	6	5	5	6	6	6	Average of Inventory days in relation to revenues
Other current assets	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Equity								
Common Stock	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Retained Earnings	$M	(1,764)	(1,837)	(1,896)	(1,925)	(1,926)	(1,899)	Varies with Net Income and Dividends Paid
Other Equity	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Liabilities								
Current Liabilities								
Payables	$M	634	663	696	731	767	805	Average of Accounts Payable days in relation to Cost of Revenue
Notes/ST Debt	$M	59	624	467	532	629	596	See Debt Appendix
Current Portion of LT Debt	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Other Current Liabilities	$M	732	673	707	742	778	817	Average of Other Current Liabilities days in relation to Cost of Revenue
Non-Current Liabilities								
Long-Term Debt	$M	2937	2756	2732	2643	2457	2304	See Debt Appendix
Deferred Income Tax	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Minority Interest	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Other Liabilities	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE

Appendix 9: Income Statement Assumptions

Income Statement	Unit	2022F	2023F	2024F	2025F	2026F	2027F	
Revenue from hotels	$M	1733	2156	2307	2464	2633	2808	See Revenues Appendix
System Fund Revenues	$M	1129	1373	1438	1506	1578	1652	See Revenues Appendix
Reimbursement of costs	$M	830	1171	1216	1263	1312	1363	See Revenues Appendix
Cost of Sales	%	16.72%	16.72%	16.72%	16.72%	16.72%	0.1672	Historical average rate (2016YE-2021YE) as percentage of Revenues
System Fund Expenses	%	32.02%	32.02%	32.02%	32.02%	32.02%	32.02%	Historical average rate (2016YE-2021YE) as percentage of Revenues, less D&A of System Fund
Reimbursed costs	$M	830	1,171	1,216	1,263	1,312	1,363	See Revenues Appendix
Administrative expenses	%	8.86%	8.86%	8.86%	8.86%	8.86%	8.86%	Percentage of Revenues
Share of Losses of associates and joint ventures	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Other Operating Income	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Other Exceptional Items	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Impairment loss on financial assets	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Other Impairment Charges	%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to the nominal of 2021YE
Depreciation and Amortization	$M	74	72	76	79	82	86	See Depreciations & Amortizations Appendix
Interest Expenses (Income)	%	3.48%	3.48%	3.48%	3.48%	3.48%	3.48%	Historical average rate (2018YE-2021YE) as percentage of Total Debt
Tax	%	25%	25%	25%	25%	25%	25%	Historical average (2016YE-2019YE)

Appendix 10: Revenues Forecast

GDP Growth	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
World	3.60%	3.60%	3.40%	3.40%	3.30%	3.30%

Source: IMF

RevPAR Forecast	2018 Actuals	2019 Actuals	2020 Actuals	2021 Actuals	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	
IHG	201.68	196.85	78.34	106.59	144.85	196.85	203.54	210.46	217.41	224.58	RevPAR will reach pre-pandemic levels in 2023F and grow according to forecasted world GDP growth.
Kimpton	275.78	294.01	83.75	144.38	206.03	294.01	304.00	314.34	324.71	335.43	
Hualuxe	117.33	101.10	79.81	59.52	77.57	101.10	104.53	108.09	111.66	115.34	
Crowne	102.60	97.70	41.48	56.68	74.41	97.70	101.02	104.46	107.90	111.46	
Hotel Indigo	107.45	112.79	52.67	67.06	86.97	112.79	116.63	120.59	124.57	128.68	
EVEN	176.64	140.57	0.00	91.51	113.42	140.57	145.35	150.29	155.25	160.38	
HI	76.15	71.95	32.43	48.77	59.24	71.95	74.40	76.93	79.46	82.09	
HIE	69.59	66.84	37.18	56.12	61.24	66.84	69.11	71.46	73.82	76.25	
Staybridge	81.60	83.96	58.30	79.86	81.88	83.96	86.81	89.76	92.72	95.78	
Candlewood	58.90	64.33	59.13	59.88	62.07	64.33	66.51	68.77	71.04	73.39	
Other	37.28	44.16	26.70	45.51	47.15	46.45	48.03	49.66	51.30	52.99	

Room Count by Brand	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	
IHG	71,900	74,489	77,022	79,640	82,268	84,983	Number of rooms will grow according to forecasted world GDP growth.
Kimpton	13,761	14,257	14,741	15,243	15,746	16,265	
Hualuxe	4,769	4,940	5,108	5,282	5,456	5,636	
Crowne	115,180	119,327	123,384	127,579	131,789	136,138	
Hotel Indigo	16,931	17,541	18,137	18,754	19,373	20,012	
EVEN	3,102	3,213	3,323	3,436	3,549	3,666	
HI	232,773	241,152	249,352	257,830	266,338	275,127	
HIE	328,753	340,588	352,168	364,142	376,158	388,572	
Staybridge	35,541	36,820	38,072	39,367	40,666	42,008	
Candlewood	33,178	34,372	35,541	36,749	37,962	39,215	
Other	56,130	58,151	60,128	62,173	64,224	66,344	
Total	**912,019**	**944,851**	**976,976**	**1,010,194**	**1,043,530**	**1,077,966**	

Group Gross Revenue	Unit	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	
IHG	$	3,800,000,000	5,350,000,000	5,720,000,000	6,110,000,000	6,520,000,000	6,960,000,000	=Room number x RevPAR X365
Kimpton	$	1,030,000,000	1,520,000,000	1,630,000,000	1,740,000,000	1,860,000,000	1,990,000,000	
Hualuxe	$	130,000,000	180,000,000	190,000,000	200,000,000	220,000,000	230,000,000	
Crowne	$	3,120,000,000	4,250,000,000	4,540,000,000	4,860,000,000	5,190,000,000	5,530,000,000	
Hotel Indigo	$	530,000,000	720,000,000	770,000,000	820,000,000	880,000,000	930,000,000	
EVEN	$	120,000,000	160,000,000	170,000,000	180,000,000	200,000,000	210,000,000	
HI	$	5,030,000,000	6,330,000,000	6,770,000,000	7,230,000,000	7,720,000,000	8,240,000,000	
HIE	$	7,340,000,000	8,300,000,000	8,880,000,000	9,490,000,000	10,130,000,000	10,810,000,000	
Staybridge	$	1,060,000,000	1,120,000,000	1,200,000,000	1,280,000,000	1,370,000,000	1,460,000,000	
Candlewood	$	750,000,000	800,000,000	860,000,000	920,000,000	980,000,000	1,050,000,000	
Other	$	960,000,000	980,000,000	1,050,000,000	1,120,000,000	1,200,000,000	1,280,000,000	
Total	$	**23,870,000,000**	**29,710,000,000**	**31,780,000,000**	**33,950,000,000**	**36,270,000,000**	**38,690,000,000**	

Revenue	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	
Revenue from hotels	1,733	2,156	2,307	2,464	2,633	2,808	
	7.26%	7.26%	7.26%	7.26%	7.26%	7.26%	Historical average as % of Gross Revenues
System Fund Revenues	1,129	1,373	1,438	1,506	1,578	1,652	
	21.64%	21.64%	4.74%	4.74%	4.74%	4.74%	Will reach pre-pandemic levels in 2023F, and grow according to historical average 2017YE-2019YE
Reimbursement of costs	830	1,171	1,216	1,263	1,312	1,363	
	41.00%	41.00%	3.87%	3.87%	3.87%	3.87%	Will reach pre-pandemic levels in 2023F, and grow according to historical average 2017YE-2019YE
Total Revenue	**3,692**	**4,700**	**4,961**	**5,234**	**5,523**	**5,824**	

Appendix 11: Depreciations & Amortizations

D&A	2019 Actuals	2020 Actuals	2021 Actuals	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Amortizations Intangibles	40	38	32	34	33	34	35	37	38
Depreciations PP&E	38	37	31	19	20	24	28	31	34
Right-of-use Assets	38	35	27	21	19	18	16	15	13
Total	**116**	**110**	**90**	**74**	**72**	**76**	**79**	**82**	**86**
Proportion Amortization Intangibles	4.82%	3.66%	3.38%		Average	**3.95%**			
Proportion Depreciations PP&E	13.92%	11.97%	15.42%		Average	**13.77%**			
Proportion Right-of-use Assets	7.41%	7.14%	8.91%		Average	**7.82%**			

System Fund D&A	2019 Actuals	2020 Actuals	2021 Actuals	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Amortizations Intangibles	47	53	83	56	54	56	58	61	63
Depreciations PP&E	2	5	4	2	2	3	3	3	4
Right-of-use Assets	5	4	3	3	3	3	2	2	2
Total	**54**	**62**	**90**	**61**	**59**	**61**	**63**	**66**	**69**
Proportion Amortization Intangibles	5.66%	5.11%	8.76%		Average	**6.51%**			
Proportion Depreciations PP&E	0.73%	1.62%	1.99%		Average	**1.45%**			
Proportion Right-of-use Assets	1.37%	1.02%	1.20%		Average	**1.20%**			

Appendix 12: CAPEX

Investing cash flows	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
CAPEX	92	167	177	186	197	207
CAPEX % of Revenues	0.0248	0.0356	0.0356	0.0356	0.0356	0.0356
Purchase of Fixed Assets	0.3345	0.2955	0.2955	0.2955	0.2955	0.2955
Purchase/Acquisition of Intangibles	0.6655	0.7045	0.7045	0.7045	0.7045	0.7045

Appendix 13: Debt Schedule ($m)

Debt Schedule	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Long-Term Lease Liabilities	384	384	384	384	384	384
Debt Current						
Finance Lease Obligations						
£400m 3.875% bonds 2022						
€500m 1.625% bonds 2024		565				
£300m 3.75% bonds 2025			408			
£350m 2.125% bonds 2026				473		
£400m 3.375% bonds 2028						537
Commercial Paper						
Bank Overdrafts	59	59	59	59	59	59

Appendix 14: Net Working Capital

NWC	2019 Actuals	2020 Actuals	2021 Actuals	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Assets									
Accounts Receivable	54	82	76	71	51	51	51	51	51
Inventories	3	5	3	4	2	2	2	2	2
Liabilities									
Accounts Payable	61	92	105	86	69	69	69	69	69
Other current liabilities	70	98	130	99	70	70	70	70	70
Changes in NWC									
Assets	740	568	616	727	664	701	739	780	822
Liabilities	1213	964	1297	1365	1337	1403	1472	1545	1622
NWC	-473	-396	-681	-638	-672	-702	-733	-766	-800
Change in NWC	106	77	-285	43	-34	-30	-31	-32	-34

Appendix 15: Dividends Calculation

Calculations of Dividends	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals	2020 Actuals	2021 Actuals	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Total Cash Dividends Paid	-1680	-591	-211	-721	0	0	-491	-509	-530	-551	-575	-600
Total Shares in Issue	206	197	197	187.7	187	187	187	187	187	187	187	187
Dividend Final	0.575	0.64	0.71	0.781	0	0	0.859	0.927	1.001	1.081	1.167	1.260
Dividend Interim	0.3	0.33	0.363	0.399	0	0	0.428	0.460	0.494	0.531	0.570	0.612
Total Normal Dividend	0.875	0.97	1.073	1.18	0	0	1.287	1.387	1.495	1.611	1.737	1.872
Special Dividend	1500	400	0	500	0	0	250	250	250	250	250	250
CAGR (Final Dividend)				0.0796								
CAGR (Dividend Interim)				0.0739								

Appendix 16: Cost of Equity

ke		Source
Risk Free Rate	1.30%	U.S. Department of the Treasury, September 2021
Unlevered Beta	1.1	Damodaran, 2021
Unlevered Beta Corrected for Cash	1.18	
Equity Risk Premium	5.50%	Fernandez, 2021
Company's Beta	1.48	
ke	**9.46%**	

Appendix 17: WACC Calculations

Capital Structure	
Market Capitalization	8,653
Debt	3031
Interest Expense	133
Weighted Average	3.703517588
Kd	3.85%
Debt	3021
E/(E+D)	74%
D/(D+E)	26%
D/E	35%
Tax	25%
WACC	7.76%

Appendix 18: Long-run Sustainable Growth rate calculation

Projection of terminal growth rate: Economic Factors				Source
	US	Europe	China	
GDP growth	1.5%	2.0%	5.1%	IMF
Inflation rate	2.3%	3.0%	2.0%	IMF
Average GDP			2.9%	
Average inflation			2.4%	
g			**2.6%**	

Appendix 19: PRAT Model

Dividend Sustainable Growth Model: PRAT Model	2021 Actuals	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	TV
Net Income (NI)	265	362	436	471	522	573	627	4106
Dividends (D)		241	259	280	301	325	350	2210
Sales (S)	2,907	3,692	4,700	4,961	5,234	5,523	5,824	46362
Assets (A)	4,716	4,423	4,705	4,531	4,548	4,530	4,448	46550
Shareholder's Equity	(1,481)	(1,610)	(1,683)	(1,742)	(1,771)	(1,772)	(1,745)	-16989
(NI-D)/NI	**100%**	**34%**	**41%**	**41%**	**42%**	**43%**	**44%**	**46%**
EBIT(1-t)	363	447	515	559	606	657	708	657
ROA	8%	10%	11%	12%	13%	14%	16%	14%
ROE	**-17.9%**	**-22.5%**	**-25.9%**	**-27.0%**	**-29.5%**	**-32.3%**	**-36.0%**	**-24.2%**
NI/S	9%	10%	9%	9%	10%	10%	11%	9%
S/A	62%	83%	100%	109%	115%	122%	131%	100%
A/E	-318%	-275%	-280%	-260%	-257%	-256%	-255%	-274%
g								**-11.16%**

Appendix 20: Stable Growth Model

Stable Growth Model: Reinvestmnet Rate x ROE	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	TV
CAPEX	92	167	177	186	197	207	1,500
D&A	135	131	137	142	148	155	1,420
Changes in NWC	43	(34)	(30)	(31)	(32)	(34)	(312)
EBIT(1-t)	447	515	559	606	657	708	4,486
Reinvestment Rate	**0%**	**0%**	**2%**	**2%**	**2%**	**3%**	**-5%**
ROE	**-22.5%**	**-25.9%**	**-27.0%**	**-29.5%**	**-32.3%**	**-36.0%**	**-32.3%**
g							**1.67%**

Appendix 21: WACC Method

FCFF Valuation	Unit	2023F	2024F	2025F	2026F	2027F	TV
EBIT	$M	690	750	813	880	950	
Tax	%	25%	25%	25%	25%	25%	
EBIT(1-t)	$M	515	559	606	657	708	
Depreciation/Amortization	$M	131	137	142	148	155	
CAPEX	$M	-167	-177	-186	-197	-207	
Changes in NWC	$M	-34	-30	-31	-32	-34	
FCFF	**$M**	**513**	**549**	**593**	**641**	**690**	**13,727**

PV of Terminal Value	$M	9,449
Present Value of CF	$M	2,373
Enterprise Value	$M	**11,822**
Debt	$M	3,415
Cash & Equivalents	$M	1,398
Non-Operational Assets	$M	1,044
Non-Operational Liabilities	$M	1,629
Non-Controlling Interests	$M	7
Equity Value	$M	**9,212**
Shares Outstanding	M	181.4
Price Per Share	$	**50.79**
Upside Potential	%	6.47%

Appendix 22: Flow to Equity Model

FCFE	Unit	2023	2024	2025	2026	2027	TV
FCFF		513	549	593	641	690	
Interest Expense(1-t)		79	89	84	83	81	
D/V		28.30%	27.21%	27.06%	26.51%	25.33%	
CAPEX		-167	-177	-186	-197	-207	
D&A		131	137	142	148	155	
Changes in NWC		-34	-30	-31	-32	-34	
Net Borrowing		1	3	4	4	5	
FCFE	$M	**435**	**463**	**513**	**562**	**613**	**9,174.60**

PV of Terminal Value	$M	5,839
Present Value of CF	$M	2,119
Equity Value	$M	**7,957**
Shares Outstanding	M	181
Price Per Share	$	**43.87**
Upside Potential	%	-8.04%

Appendix 23: Adjusted Present Value Model

APV Method	Unit	2023F	2024F	2025F	2026F	2027F	TV
FCFF	$M	**513**	**549**	**593**	**641**	**690**	**12,413**
Financial Expenses	$M	106	119	113	112	109	
Tax Rate	%	25%	25%	25%	25%	25%	
Tax Shield	$M	33	32	31	31	29	**2,355**

Present Value of Tax Shield	$M	2,089
Present Value of FCFF Unlevered	$M	10,669
Enterprise Value Unlevered	$M	**12,757**
Debt	$M	3,415
Cash & Equivalents	$M	1,398
Non-Operational Assets	$M	1,044
Non-Operational Liabilities	$M	1,629
Non-Controlling Interests	$M	7
Equity Value	$M	**10,148**
Shares Outstanding	M	181.4
Price Per Share	$	**55.94**
Upside Potential	%	17.28%

Appendix 24: Dividend Discount Model

DDM	Unit	2023F	2024F	2025F	2026F	2027F	TV
		4	3	2	1	0	
Dividends Paid	$M	**509**	**530**	**551**	**575**	**600**	**8,973.60**

PV Terminal Value	$M	5,711
PV of Dividends	$M	2,376
Equity Value	$M	**8,087**
Shares Outstanding	M	181.4
Price Per Share	$	**44.58**
Upside Potential	%	-6.54%

Appendix 25: Market Based Valuation

Company	Ticker	Net Debt/EBITDA	Mkt Cap (USD)	EPS	EBITDA Margin	EV/EBITDA	EV/EBIT	P/E
INTERCONTINENTAL HOTELS GROUP	IHG	2	10,420,000,000	2.24	23.82	12.83	15.4	22.2
HILTON WORLDWIDE HOLDINGS IN	HLT	4.62	35,877,000,000	3.45	23.85	22.81	25.1	37.2
MARRIOTT INTERNATIONAL -CL A	MAR	3.1	50,279,000,000	5.29	16.72	20.76	22.4	29.3
MARRIOTT VACATIONS WORLD	VAC	2.72	5,560,000,000	5.83	20.4	14.8	14.7	21
WYNDHAM HOTELS & RESORTS INC	WH	2.74	5,834,000,000	3.74	38.03	11.72	14.3	17
Travel + Leisure CO		3.9	3,404,000,000	4.16	24.27	10.39	11.6	9.3
					Peers Average	15.55	17.25	22.67

P/E Multiple	Unit	
Peers Average	Units	22.67
Net Income	$M	436.10
Shares Outstanding	M	181.4
Price Target	$	**54.49**
Upside potential	%	14.24%

EV/EBITDA Multiple	Unit	
Peers Average	Units	15.55
EBITDA	$M	762
EV	$M	**11858**
Debt	$M	3415
Cash & Equivalents	$M	1398
Non-Operational Assets	$M	1044
Non-Operational Liabilities	$M	1629
Non-Controlling Interests	$M	7
Equity	$M	9249
Shares Outstanding	M	181.4
Price Target	$	**50.99**
Upside Potential	%	6.89%

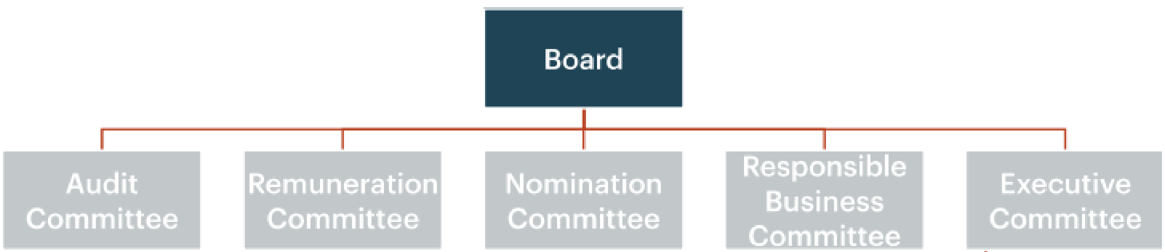
EV/EBIT	Unit	
Peers Average	Units	17.25
EBIT	$M	690
EV	$M	**11905**
Debt	$M	3415
Cash & Equivalents	$M	1397.710884
Non-Operational Assets	$M	1044
Non-Operational Liabilities	$M	1629
Non-Controlling Interests	$M	7
Equity	$M	9296
Shares Outstanding	M	181.4
Price Target	$	**51.24**
Upside Potential	%	7.43%

Appendix 26: IHG Brands

Luxury and Lifestyle	Premium	Essentials	Suites
INTERCONTINENTAL HOTELS & RESORTS	CROWNE PLAZA HOTELS & RESORTS	Holiday Inn Express	STAYBRIDGE SUITES
HOTEL INDIGO	VOCO AN IHG HOTEL	Holiday Inn	CANDLEWOOD SUITES
SIX SENSES	EVEN HOTELS	avid AN IHG HOTEL	Holiday Inn Club Vacations
REGENT	HUALUXE HOTELS AND RESORTS 華邑酒店及度假村		ATWELL SUITES
KIMPTON HOTELS & RESTAURANTS			
VIGNETTE COLLECTION			

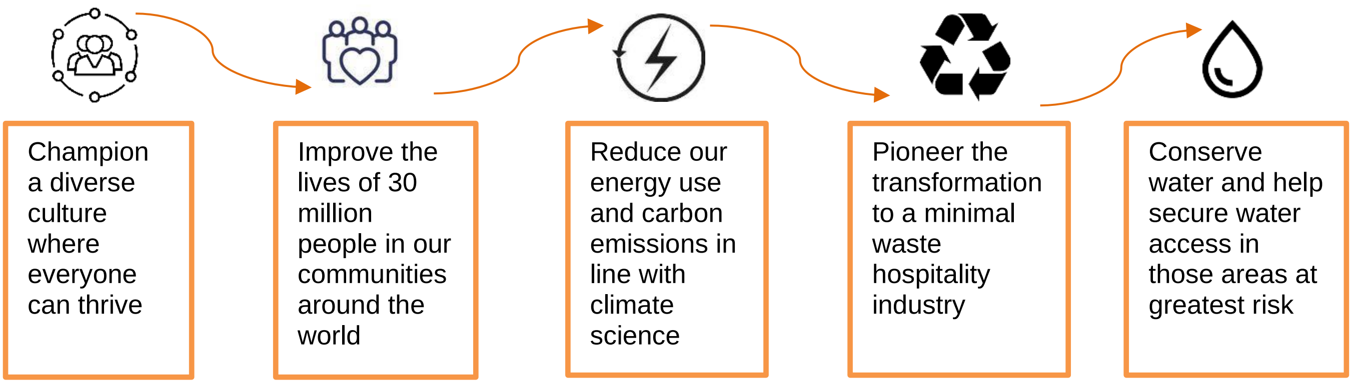
Source: IHG Annual Report 2021

Appendix 27: Board Composition



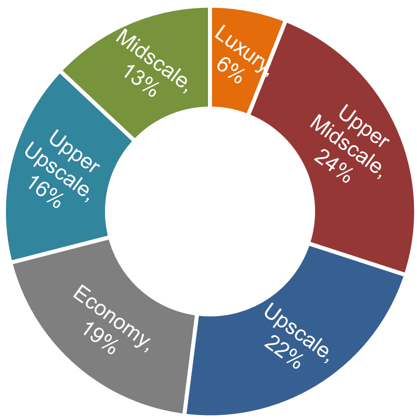
Source: IHG Annual Report 2021

Appendix 28: IHG ESG Goals



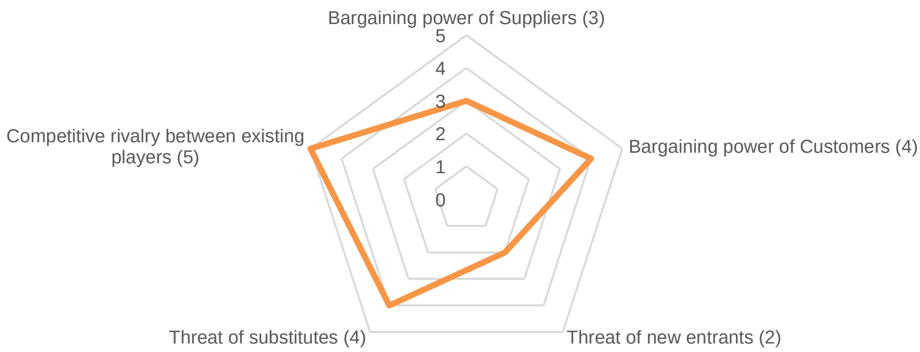
Source: IHG Annual Report 2021

Appendix 29: Hotel Industry per Segment



Source: IHG Annual Report 2020

Appendix 30: Porter's Five Forces



Source: Author Analysis

References

IHG Annual Reports and Form 20-F.
Available at: https://www.ihgplc.com/en/investors

Hilton Worldwide Holdings Annual Reports, Form 20-F and Investors Presentation.
Available at: https://ir.hilton.com/
Retrieved 27 September 2022

Marriott International Inc. Annual Reports, Form 20-F and Investors Presentation.
Available at: https://marriott.gcs-web.com/download-library
Retrieved 27 September 2022

Marriott Vacations Worldwide. Annual Reports, Form 20-F and Investors Presentation.
Available at: https://ir.marriottvacationsworldwide.com/investor-relations
Retrieved 27 September 2022

Travel + Leisure Co. Annual Reports, Form 20-F and Investors Presentation.
Available at https://www.travelandleisureco.com/investors
Retrieved 27 September 2022

WTTC. (2022, September 6). EIR2022-Global Trends.

WTTC. (2022, June 14). EIR2022-global-infographic-2pager-080622.

News article: World Travel & Tourism Council (WTTC). World Travel & Tourism Council. (n.d.). Retrieved June 20, 2022, from https://wttc.org/news-article/travel-and-tourism-sector-expected-to-create-nearly-126-million-new-jobs-within-the-next-decade

Who Covid-19 Vaccine tracker. IMF. (n.d.). Retrieved June 20, 2022, from https://www.imf.org/en/Topics/imf-and-covid19/IMF-WHO-COVID-19-Vaccine-Tracker

Treasury, U. D. O. T. (n.d.). *Average interest rates on U.S. Treasury securities*. U.S. Treasury Fiscal Data. Retrieved December 12, 2021, from https://fiscaldata.treasury.gov/datasets/average-interest-rates-treasury-securities/

Fernandez, P., Bañuls, S., & Fernandez Acin, P. (2021, June 16). *Survey: Market risk premium and risk-free rate used for 88 countries in 2021*. SSRN. Retrieved December 12, 2021, from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3861152

Betas by sector (US). Betas. (n.d.). Retrieved December 12, 2021, from https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/Betas.html

OECD Economic Outlook, Interim Report September 2021: Keeping the Recovery on Track | OECD iLibrary. (n.d.). Retrieved February 20, 2022, from https://www.oecd-ilibrary.org/sites/490d4832-en/index.html?itemId=%2Fcontent%2Fpublication%2F490d4832-en&_ga=2.183545442.558092658.1636023731-1662453882.1633472021

Kose, M. A., & Ohnsorge, F. (2021, June). Global Economic Prospects, June 2021. World Bank Group.

Deb, M. P., Furceri, D., Jimenez, D., Kothari, S., Ostry, M. J. D., & Tawk, N. (2021, October 19). *The effects of covid-19 vaccines on economic activity*. imfsg. Retrieved February 20, 2022, from https://www.elibrary.imf.org/view/journals/001/2021/248/article-A001-en.xml

World Economic Outlook, October 2021: Recovery during a pandemic. IMF. (n.d.). Retrieved February 20, 2022, from https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021

Jus, N., & Misrahi, T. (2021, June). Global Economic Impact and Trends 2021. WTTC.

Jus, N., Misrahi, T., & Poole, J. (2020, June). Global Economic Impact Trends 2020. WTTC.

News article: World Travel & Tourism Council (WTTC). World Travel & Tourism Council. (n.d.). Retrieved November 15, 2021, from https://wttc.org/News-Article/WTTC-research-reveals-Travel-and-Tourism-slow-recovery-is-hitting-jobs-and-growth-worldwide

International tourism highlights, 2020 edition. Default Book Series. (n.d.). Retrieved November 15, 2021, from https://www.e-unwto.org/doi/book/10.18111/9789284422456

World Tourism Organization. UNWTO. (n.d.). Retrieved November 16, 2021, from https://www.unwto.org/taxonomy/term/347

World Tourism Organization. Vaccines and Reopen Borders Driving Tourism's Recovery. (2022, September 26). Retrieved November 17, 2021, from https://www.unwto.org/news/vaccines-and-reopen-borders-driving-tourism-s-recovery

Gibson, A. (2022, March 7). *Hotel revenue management formulas: Kpis, Calculations & use cases ⋆ UpStay*. UpStay. Retrieved November 20, 2021, from https://www.upstay.tech/hotel-revenue-management-formulas-kpis-calculations-use-cases/

(2019, January 31). *Revenue drivers in hospitality*. TravTalk Middle East. Retrieved November 20, 2021, from https://travtalkmiddleeast.com/revenue-drivers-in-hospitality/

All Top Everything. (2022, August 17). *Top 10 largest hotel chains in the world*. All Top Everything. Retrieved November 20, 2021, from https://www.alltopeverything.com/top-10-largest-hotel-chains-in-the-world/

Vaduva, Sebastian & Takacs, Joseph. (2017). A SWOT analysis of the global hospitality industry. Revista economică.

Real GDP Growth. International Monetary Fund - Homepage. (n.d.). Retrieved September 23, 2022, from https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

Inflation rate, average consumer prices. International Monetary Fund - Homepage. (n.d.). Retrieved September 23, 2022, from https://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC/

Published by S. Lock, & 3, F. (2021, February 3). *Hotels: Regional revpar 2020*. Statista. Retrieved November 25, 2021, from https://www.statista.com/statistics/206844/hotel-revpar-by-region-worldwide/

Published by S. Lock, & 3, F. (2021, February 3). *Hotels: Regional ADR 2020*. Statista. Retrieved November 15, 2021, from https://www.statista.com/statistics/206840/average-daily-rate-of-hotels-by-region/

Published by S. Lock, & 13, O. (2022, October 13). *Hotels: Regional occupancy rates worldwide 2022*. Statista. Retrieved November 25, 2021, from https://www.statista.com/statistics/206825/hotel-occupancy-rate-by-region/

Disclosures and Disclaimer

This report is published for educational purposes by Master students and does not constitute an offer or a solicitation of an offer to buy or sell any security, nor is it an investment recommendation as defined by Article 12º A of the *Código do Mercado de Valores Mobiliários* (*Portuguese Securities Market Code*). The students are not registered with *Comissão de Mercado de Valores Mobiliários* (*CMVM*) as financial analysts, financial intermediaries or entities/persons offering any service of financial intermediation, to which Regulamento (Regulation) 3º/2010 of CMVM would be applicable.

This report was prepared by a Master's student in Finance at ISEG – Lisbon School of Economics and Management, exclusively for the Master's Final Work. The opinions expressed and estimates contained herein reflect the personal views of the author about the subject company, for which he/she is sole responsible. Neither ISEG, nor its faculty accepts responsibility whatsoever for the content of this report or any consequences of its use. The report was supervised by Prof. José Manuel Dias Lopes, who revised the valuation methodologies and the financial model.

The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author to be reliable, but the author does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity.

Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%