S&P Global
Market Intelligence

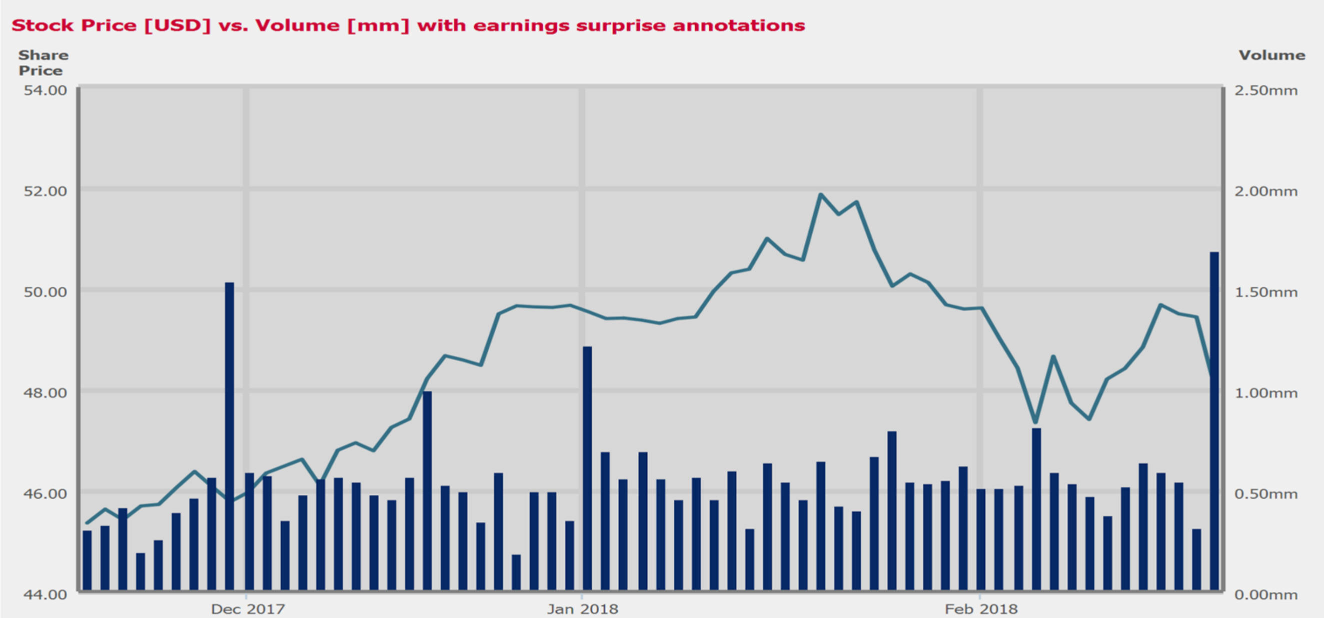
InterContinental Hotels Group PLC
LSE:IHG
FY 2017 Earnings Call Transcripts

Tuesday, February 20, 2018 9:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2017-	-FY 2017-			-FY 2018-
	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.76	2.52	2.56	▲1.59	2.96
Revenue (mm)	-	1792.36	1784.00	▼(0.47 %)	1886.39

Currency: USD
Consensus as of Feb-20-2018 9:07 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2017	2.52	2.56	▲1 1.59 %

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Call Participants

EXECUTIVES

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CEO & Director

Paul Edgecliffe-Johnson
CFO & Executive Director

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Presentation

Operator

Good morning, good afternoon, and welcome to the IHG Preliminary Results. We are now live in an auditorium, where you'll hear holding music until the call begins. [Operator Instructions] Thank you for holding.

Keith Barr
CEO & Director

All right. Good morning, everyone, and thank you for being here. I'm Keith Barr, Chief Executive Officer of IHG. Thank you for joining us today, and welcome to our 2017 full year results presentation. Paul Edgecliffe-Johnson, our Chief Financial Officer, will talk you through some of the financial performance in a moment, but let me first share some highlights.

We delivered another strong year of performance in 2017. Solid RevPAR increases in the U.S. and globally, as well as a 4% net system size growth, our best since 2009, drove underlying fee revenue up 5%. Taking advantage of our global scale, we again expanded our fee margin and increased underlying EPS by 22%, and our disciplined use of capital and high-quality fee streams continue to generate significant levels of cash flow. Reflecting this strong performance and our confident outlook, we have increased our total annual ordinary dividend by 11%.

Back in August last year, when I first spoke to you as CEO, I talked about the success of IHG's strategic model and the crucial role that it has played in our consistent market outperformance over the past few years. I also talked about my intention to work our model harder in the future.

Since then, that's what we've been focusing on, identifying clear ways in which we can leverage the considerable strengths of our business and be more efficient, releasing capacity to better capitalize on opportunities to accelerate our growth. And today, we are announcing a series of strategic initiatives that map across the key elements of our model. These build on our existing strategy and will help us produce even stronger results. These initiatives represent a meaningful change in how we run our business and they're aimed at positioning us to deliver industry-leading net rooms growth over the medium term as well as continued strong returns for our shareholders.

In order to fund these plans, we are undertaking a comprehensive company-wide efficiency program, which we started in August of 2017. The program will release $125 million in annual savings across IHG's P&L and system fund for reinvestment by the end of 2020. Over that period, our disciplined approach to managing our balance sheet and capital allocation will remain unchanged.

We are confident that these actions will enable us to deliver high-quality, long-term sustainable growth in cash flows and continue our record for maximizing shareholder returns.

Before I discuss our initiatives in more detail, let me hand over to Paul, who will first take you through our results for 2017.

Paul Edgecliffe-Johnson
CFO & Executive Director

Thank you, Keith, and good morning, everyone.

We're pleased to report another year of solid financial performance with growth in all our key markets. On a reported basis, revenue increased 4% and operating profit increased 7%. As I've done in the past, I'll focus my commentary on our underlying numbers as this gives the clearest explanation of our financial results.

On that basis, we translated 5% revenue growth into 8% operating profit growth by leveraging the scalability of our asset-light business and continuing our focus on relentless cost management. This allowed us to increase our fee margin by 140 basis points year-on-year whilst continuing to invest for growth.

Interest charges fell by $2 million due to the impact of the weaker pound, a reduction on our bonds coupon following our refinancing in 2016, offset by higher average net debt levels during the year.

Our reported tax rate stayed at 30% and we expect that to come down for 2018 due to U.S. tax reform. I'll talk more about that later.

The weighted average numbers of shares decreased by 9% due to the cumulative effect of a share consolidations following the special dividend payments made in May 2016 and May 2017. In aggregate, this performance enabled us to increase our underlying earnings per share by 22%.

Looking now at our levers of growth. We added 48,000 rooms to the system. At the same time as adding these new high-quality representations of our brands, we remain focused on removing underperforming properties, exiting 17,000 rooms. This is at the low end of the 2% to 3% range that we typically expect, but will tick back up slightly in 2018 before trending back down again over the medium term. This brought net system size growth to 4%, our best performance in 8 years. Combined with RevPAR growth of 2.7%, this drove total underlying fee revenue up 5%.

On-screen now is a new slide. I am aware it contains a lot of information, but I thought it would help to explain our underlying performance more clearly. The drivers of our fee-based model are well-understood. Fee revenue growth is achieved by opening more rooms and leveraging the power of IHG's enterprise to grow the average revenue generated per open room. Standard industry metrics of annual rooms growth and comparable RevPAR growth are good properties to understand how this translates into incremental fee revenue over time. However, they do not reflect several factors that impact overall in the year fee growth: the phasing of openings and removals; changes in relative brand and geographic mix' and the ramp-up of newly opened hotels. So what we have also provided in this hotel is rooms available and total RevPAR growth. These provide a much more linear relationship with fee revenues.

Rooms available measures the aggregate number of rooms available for sale throughout the year and so reflects the phasing of costs -- of hotels coming in and out of our system. Total RevPAR includes rooms that have opened or exited in the last 2 years, and therefore, reflects our change in mix. Our focused growth strategy means that we direct our efforts on not just the largest markets but those which are the fastest growing. This often means that we're adding hotels at the same time as the demand drivers in these markets are still being built, which inevitably means lower levels of absolute RevPAR, especially in the early years.

For us, the distinction is most evident in Asia, Middle East and Africa and in Greater China, where we have been way ahead of the competition when it comes to growing our business to ensure it's aligned with future demand. The faster we expand in developing markets in these regions, the more we will see this dynamic in our fee revenue growth. But these fees are, of course, incremental to those we receive in established markets. So this will continue to be positive for our top line.

In the long time -- in the long term, as these markets mature, they will support sustained RevPAR growth. To demonstrate this, we have analyzed the performance of the 460 hotels that entered our system in 2012 and 2013. By 2017, these hotels will have been fully operationally ramped up, and we can see that, as expected, the absolute RevPAR generated by the developing market cohort was significantly lower than those in the more established markets.

Critically, however, the RevPAR growth rate achieved by the developing market properties over the same time period was twice as fast as the growth achieved by those in the established markets. And as these markets continue to mature, we would expect them to drive even more RevPAR growth, demonstrating their long-term viability and value.

I will now take you through our 2017 performance in each of our regions in more detail. Before I do so, you may have seen that on the 17th of April, we will be issuing restated comparatives to reflect some changes to our reporting from the 1st of January, 2018. This includes the impact of IFRS 15 and our new regional structure, which Keith will talk more about later. I will be hosting a seminar the same day to go through all of this in detail.

So moving on to trading and starting with the Americas, where U.S. industry demand has been at record levels for 80 of the last 82 months. Consequently, our hotels in the region are continuing to drive record occupancies of nearly 70%. This meant predominantly rate-driven RevPAR increases, with the Americas up 1.6% and the U.S. up 1.2%. In the fourth quarter, the U.S. was up 3% with continued noise from the ongoing impact of Hurricanes Harvey and Irma and the shift in timing of Jewish observances into September.

What we do know, however, is our underlying U.S. performance marked a significant step-up from that in the third quarter. Underlying franchise profit grew 1%. Good growth in royalty revenue was partly offset by the impact of the financial incentives associated with our Crowne Plaza Accelerate program, the annualized cost of up-weighting our development resource and the delayed payroll tax credit, which we now expect to recognize in 2018.

Underlying managed profit was up 11%, although this is a little misleading. Our calculation of underlying is designed to normalize the year-on-year foreign exchange movements by restating our results at the prior year FX rate. This normally works well. But in the case of our income derived from Venezuela, whilst having no impact on our reported result, the extreme currency fluctuations have distorted this underlying calculation. Adjusting for this, true underlying managed profits were up 2%, driven by 5% rooms growth and lower costs associated with our 20% interest in the InterContinental New York Barclay. These benefits were partly offset by lower hotel termination fees and challenging trading conditions at one property.

Regional overheads benefited from lower-than-anticipated claims in our U.S. health care program, something we don't expect to continue into 2018.

We opened 22,000 rooms, our highest level since 2010, and we signed 37,000 rooms, including 16,000 for Holiday Inn Express, up 15% from last year; and 4,000 rooms for avid hotels in its first 3 months of franchise sales. It is pleasing to note that as we had expected, our avid signings do not appear to be slowing the growth in Express.

Moving now to Europe, where RevPAR was up 6.3% for the year. In the U.K., RevPAR was up almost 5% in both London and the provinces, with some slowing of growth in the capital in the fourth quarter due to strong comparables and a reduction in U.S. inbound travels as the pound strengthened against the dollar.

In France, RevPAR was up 7% with double-digit growth in Paris as demand continued to recover following the terrorist attacks in 2015 and 2016. This strong RevPAR performance, combined with 3% rooms growth, translates into underlying revenue growth of 10% and profit growth of 16%.

We opened 5,000 rooms and signed a further 9,000, almost half of which were in Germany, marking our fourth record year of signings in Europe's second-largest lodging market.

Looking now at our Asia, Middle East and Africa regions, where RevPAR was up 1.5%. In the Middle East, RevPAR declined 4% in the year, primarily due to the ongoing impact of industry-wide supply growth. Performance in the rest of the region was strong with RevPAR up 4%. On an underlying basis, revenue was up 5% and operating profit up 12%, driven by double-digit rooms growth and a reduction in overheads.

We opened a record 11,000 rooms, including 3,500 rooms in Makkah, Saudi Arabia. These rooms relate to the remaining portion of the 5,000-room signing that we announced in 2015. On an annualized basis, we continue to expect these rooms to generate around $1 million in fees, given the highly seasonal market they operate in. We signed 13,000 rooms in the year, our highest since 2008.

Finally, moving to Greater China, where we continue to outperform the industry. RevPAR in Mainland China grew almost 7%, benefiting from strong transient meetings and corporate demand in Tier 1 cities. Tier 2 and Tier 3 cities were also strong, driven by good meetings business and helped by some weak comparables in the second half. Improved trading conditions in Hong Kong and Macau led to RevPAR growth of 3% and 11%, respectively.

The combination of strong RevPAR and net rooms growth increased underlying revenue by 9%. Underlying profit grew 6% -- grew 16% as we continue to leverage the scale of the operational platform we have built in Greater China. Room openings totaled a record 11,000, taking our system size in the region to over 100,000 rooms and 300 hotels. Within this, we now have more than 100 Holiday Inn Express hotels open, of which 7 are under our Franchise Plus model. Demand for this new format continues to be strong, with 54 signings during 2017. Total signings for the region of 24,000 rooms represents our best in 10 years, taking the total signs in the past 3 years to more than 62,000 rooms.

At the end of December last year, we published guidance on the impact of the U.S. tax reform bill. We continue to expect this to benefit our group effective tax rate by mid- to single-digit percentage points from the 1st of January, 2018, taking it to the mid- to low 20s. This benefit will flow through to our cash tax rate, which we now expect to be in the high single-digit percentage rate in 2018 due to tax payments made on account in 2017. This will trend up closer to the P&L rate over time.

The measures outlined in the U.S. tax bill also resulted in a one-off exceptional credit to the P&L of $108 million in 2017, most of which relates to the rebasing of our deferred tax liabilities. This will be realized in cash terms over a long period from 2018.

In recent years, we have maintained a relentless focus on removing costs from the business to improve our efficiency levels and allowing us to invest to support future growth and drive margin accretion. We've taken many actions, including the establishment of a centralized procurement function, off-shoring certain back office roles such as our centralized accounting services and adopting a zero-based budgeting process. These actions have been highly effective, driving a 10% reduction in our gross overheads over the past 3 years and delivering material fee margin gains over the same period. So our steps to date have had a big impact. But there is a limit to what we can deliver each year without making broader structural and process changes to our business. This is what we have now been working on.

As Keith mentioned in his introduction, new strategic initiatives are designed to drive industry-leading net rooms growth over the medium term. But the reality is that in this business, there's a requirement to invest ahead of profit delivery. It takes time to generate meaningful new fee streams. And we are focused on ensuring that such investments for the medium term does not lead to an erosion of short-term profitability.

To deliver this, we are implementing a significant restructure of the group. We will be simplifying our organizational structure, making it leaner and flatter. We will outsource more non-core activities, introduce increased levels of automation through more self-service reporting through to using robotics for manual processing activities. We will also be pooling our expertise into global centers of excellence, removing areas of duplicated activity and maximizing our scale benefits. This will realize -- this will release $125 million of additional capacity for reinvestment into our strategic initiatives across IHG's P&L and the system fund by 2020.

Our plan is that on an annual basis, the delivery of these savings matches the ramp-up of spend on the new initiatives. As a result, on a full year group-wide basis, the net impact of new investments and of the savings overall should be minimal, although there could be some noise from half to half due to phasing. We are confident that these changes will ensure the delivery of industry-leading net rooms growth over the medium term. We are also confident that we can continue to drive strong fee margin growth into the future by our ongoing relentless focus on cost efficiency.

Looking at the efficiency program on a more granular basis, we expect $50 million of the capacity for reinvestment come from savings in our P&L with the remaining $75 million from savings in the system fund. Keith will talk in more detail about the initiatives later, but in broad terms, within our P&L, we expect our central functions to realize around 2/3 of the savings, with the remaining 1/3 coming from the regions. This capacity will be used to fund the evolution of our owner proposition and the launch of new brands.

In the system fund, the increased capacity will be used to strengthen our loyalty offering, enhance revenue delivery and drive growth in our existing brands. The savings themselves will start in 2018 with approximately 80% achieved by 2019 and the full benefit realized across both P&L and system fund by 2020.

Given the comprehensive nature of these actions and the structural and process changes to the organization that are required to be implemented, we expect to incur around $200 million in exceptional cash costs in relation to the program. These costs will be charged to the P&L and system fund, broadly in line with the savings delivered. To date, $31 million of this total has been spent, with most of the remaining balance expected in 2018.

Moving on now to cash flow. Our business model continues to generate significant amounts of cash, with underlying free cash flow in 2017 of $516 million. This was broadly flat year-on-year after adjusting in 2016 for the $95 million receipt related to credit card partnership agreements and the $31 million cost incurred in relation to our efficiency program. Over time, we've built out a system fund surplus, which we have now started to spend down, with $67 million reinvested behind marketing, loyalty and technology in 2017 and a further $60 million expected in 2018. We intend to fully spend the remaining surplus in 2018 with the balance included within the exceptional cash cost associated with our efficiency program.

Our growth CapEx was covered 1.8x by our underlying operating cash flows, whilst our permanently invested maintenance capital and key money covered 5.5x. The net cash movement and regearing of the balance sheet enabled us to pay a $400 million special dividend to shareholders in May. Importantly, this was our first special dividend to be funded fully from operations. After taking into account a $120 million adverse impact from currency translation, net debt increased by $345 million to $1.85 billion.

I've talked on many occasions about our priorities for uses of cash. Our first focus is to reinvest capital to drive growth. The capital expenditure needs of the business have not changed. We continue to execute against the approach that we set out previously with growth CapEx of $342 million and net CapEx of $227 million during 2017. Maintenance and key money capital expenditure totaled $115 million. Recyclable investments of $85 million were offset by net proceeds of $79 million, most of which was from the sale of our stake in Avendra. Gross system fund capital expenditure totaled $142 million, with $36 million of system fund depreciation and amortization received through working capital.

Our medium-term guidance remains unchanged at up to $350 million gross per annum, and we expect our recyclable investments to even out over the medium term, resulting in net CapEx of $150 million per annum. In the short term, this type of expenditure will continue to be lumpy.

As well as using cash to reinvest behind our long term, we want to generate sufficient funds to support growth in the ordinary dividend. We have announced today that the 2017 final dividend will increase by 11% to $0.71 per share. This brings the total dividend for 2017 to $1.04 per share, also up 11%, and takes the total return to shareholders to $13 billion, 40% of which has been generated from operational cash flows.

Looking forward, our long-term funding sources are secure with our first bond maturity not until 2022. We also have access to a $1.4 billion revolving credit facility for additional cash requirements, of which only $300 million is currently utilized.

Lastly, whether it's further cash available, which is deemed through the surplus, we will return this to shareholders as we have demonstrated over the past 14 years. This is all in the context of our commitment to an investment-grade credit rating, the best external proxy for which is net debt-to-EBITDA of 2 to 2.5x. We are happy to be at the top end of this in the current economic climate.

The efficiency program we are undertaking will free up capacity to reinvest to drive sustained growth into the future. The costs we will incur to achieve this in 2018 means that the surplus fund we will have available will not be of a quantum that would justify paying an additional capital return to shareholders this calendar year but we remain committed to doing so in the future.

Thank you, and I'll now hand you back to Keith.

Keith Barr
CEO & Director

Thanks, Paul.

I now want to spend a moment giving you a sense of the broader context against which we're announcing our strategic initiatives. The success of our strategy to date has been borne out in our financial results. We've grown our rooms asset in the industry, driven double-digit fee revenue growth and increased earnings per share more than 50% over the past 3 years. We've also consistently delivered against our key commercial metrics, driving meaningful improvements in Guest Love, loyalty contribution and system delivery, which has driven superior returns for our hotel owners.

But we are not complacent. We know that we must continue this strong performance for years to come. Our sector is as dynamic and fast changing as ever and it's supported by significant tailwinds that will drive up demand for hotels over the next few decades. These tailwinds cover everything from the globalization of travel and positive demographic trends to the attractiveness of the branded hotel industry to owners and investors. And having scale is crucial. The big 5 branded global players, of which IHG is one, now have 24% of the world's rooms, and crucially, 60% of the active pipeline, meaning they will collectively continue to take share and increase their relative scale against the rest of the industry.

We also know that the vast majority of high-value guests prefer branded hotels as they are more confident of the experience they will receive and the value they will get.

When it comes to hotel owners, big branded players are appealing for several reasons. They have the scale and the resources to provide operational support, the specialist expertise and technology solutions required to deliver low-cost revenue to hotels and the capacity and capability to maintain and grow a compelling portfolio of brands. With our powerful global enterprise, which is driving strong performance across our full estate, IHG is well positioned to continue to grow, but the competition is not standing still. That's why we're implementing new strategic initiatives to accelerate our growth, find efficiencies to fund that growth and ensure that we secure our position as one of the industry leaders for years to come.

We will do this by making each element of our model work harder. You'll recognize our model here on the slide, which we have evolved and fine-tuned as we look to accelerate our growth and at which I mentioned earlier, maps across to each of our strategic initiatives. I'll talk about each of these in more detail in a moment, and they revolve around the following: focusing and redeploying resources to better leverage our scale; strengthening our loyalty program; enhancing revenue delivery by continuing to prioritize digital and technological innovation; evolving our industry-leading franchise proposition; strengthening our existing brands; and adding new ones where we see the greatest potential for growth.

It goes without saying brands are at the heart of everything we do in that every single part of our model ultimately evolves -- revolves around our brand portfolio.

Back in September 2017, we announced several changes to our operating structure, which became effective on the 1st of January this year. Firstly, within our regional operations, we brought together 2 of our current divisions, Europe and Asia, Middle East and Africa, whilst leaving Greater China and the America regions largely unchanged. This structure allows us to focus on those markets that matter most whilst leveraging best practices to drive growth. Kenneth Macpherson, previously our CEO for Greater China, leads the new EMEAA region based out of the U.K. Jolyon Bulley has taken over from Kenneth in China. Jolyon has a long and very successful career in the hospitality industry, during which he has had experience of running hotel operations in Asia and China and most recently was our Chief Operating Officer for our Americas region.

Looking at each of the regions in turn and starting with the Americas, which is our most important geography. It compresses more than 60% of our open rooms and 45% of our pipeline and delivers almost 3/4 of group operating profit. It's predominantly a franchise business. We've delivered double-digit growth there in the past 3 years, and this momentum looks set to continue. It's a $190 billion market expected to grow by almost 50% over the next 8 years. Almost 2/3 of that market is branded and IHG has a 7% of the current industry room supply but 13% of the active pipeline so we're well positioned for future growth.

Moving to Greater China, and whilst it only represents a relatively small portion of our open rooms and profits today, it has been growing quickly and accounts for nearly 30% of our pipeline, so will be increasingly important to the group as a whole in the future. The market potential is also significant. The Chinese hospitality industry is set to grow by 60% in the next 8 years and we'll take a considerable share of that with 21% of the active industry pipeline. That's more than 5x our current supply share. Our strategy for this region is to drive further system size growth and to increase profitability by introducing new operating models such as franchising for some of our full-service brands and bringing new brands to China where we see opportunities. And we'll continue to build on our successful strategy to penetrate and build scale and presence in Tier 2 and Tier 3 cities.

Looking at our newest region, EMEAA, this covers a sizable geographic area, encompassing 72 countries across 4 continents. It represents around 1/4 of our rooms and pipeline and contributes 20% of the group's profits. The size of the overall EMEAA market, as well as its future growth potential, is actually larger than that of the Americas.

In what is a highly fragmented region, accessing this growth means up-weighting our investments in those individual submarkets that matter the most to IHG, both in terms of overall value but also where we can leverage our scale to accelerate our growth. To be clear, our enterprise will continue to effectively support hotels across the nearly 100 countries we operate in, but going forward, will be much more focused and targeted increasing our investments and the level of support against the markets with the greatest growth potential.

Moving back to the broader organizational changes. We've also created a new integrated commercial and technology organization under the leadership of Eric Pearson, who was previously our Chief Information Officer. He has extensive experience across the marketing and digital, so is uniquely qualified for the job. This change brings together our sales, channels, revenue management and technology capabilities into one function, maximizing revenue delivery into our hotels. It also allows us to free up capacity to drive efficiencies and will enable us to bring new products and services to the market much more quickly.

Claire Bennett, our new Chief Marketing Officer, joined IHG from American Express in October, and she's already making a significant impact on the business. Her new global marketing organization brings together and strengthens our brand, loyalty and marketing capabilities to drive greater agility and efficiencies. Claire has a proven track record of running marketing functions across B2B and B2C businesses and has a strong understanding of the travel sector from her time with American Express.

We worked hard to shape and evolve our brands in recent years to make sure they're fit and ready for future growth. And as you can see from today's results, they performed well and driven strong performance across the group. But if I'm completely frank, which I can be as I used to run that part of the organization, we still have a significant opportunity to drive even better performance here. We can improve the efficiency of our spend, increase the impact of our marketing initiatives and better leverage technology and data to drive even stronger performance. This new structure empowers global brand category leads who will be accountable for delivering global brand performance and growth. And by enabling a shared services model means we can make the most of our scaled benefits in delivering cost-effective, high-quality marketing.

The changes we're making are not limited to commercial, tech and marketing. The executive committee has worked together across the whole organization, is structured in a way that best supports our growth plans while freeing up capacity for reinvestment to drive growth.

Moving on to IHG Rewards Club, which is one of our greatest assets. By building long-term and trusted relationships with our guests, we drive highly profitable revenue into our hotels. Our loyal program members are 7x more likely to book through IHG's direct channels, bringing significant distribution cost savings to our owners. These strong relationships also provide us with incredibly rich and valuable data to help us market more efficiently and effectively across the entirety of our customer base.

Our focus on loyalty also brings marketing efficiencies for IHG and owners. Around 75% of point-earning revenue comes from those members who have opted in to engaging with us more proactively, which allows us to deliver a more personalized and tailored offer. These guests require little additional marketing cost to engage with, so we can use our funds instead to acquire further high-value customers.

As you can see, loyalty is an important driver of hotel revenues and we've taken significant actions over the past couple of years to enhance IHG Rewards Club. In 2015, we introduced Spire Elite, a new top tier for our most valuable and loyal guests. We also restructured the other IHG Rewards Club tiers so it's easier for members to reach elite status. We want to build genuine loyalty with as many guests as possible and this move has made these levels even more attainable. These changes have yielded some great results with 17% increase in our Spire Elite members, who now deliver 1/4 of our loyalty revenue.

In 2016, we started to roll a member-exclusive preferential rate, Your Rate by IHG Rewards Club, which members receive when booking through our direct channels. We completed the rollout during last year, and in the 12 months after launch, we drove direct channel growth up more than 3 points and the retail segment growth up 2 points.

During 2017, we focused on launching new strategic partnerships that provide extra benefits for our loyalty members. These included partnerships with Amazon, Kindle, Shell, OpenTable, Grubhub, as well -- and the ride-hailing service, DiDi, in China. These actions have been very successful, helping to drive our loyalty contribution up 3.5 percentage points over 3 years.

Looking ahead, further strengthening IHG Rewards Club to drive contribution even higher is one of our priorities. We will continue to focus on creating a more differentiated loyalty offer and will be looking at further potential opportunities to secure more strategic partnerships to enhance the value of the program.

IHG's revenue delivery enterprise supports our entire global estate. This covers everything from our channel distribution system and digital marketing to our revenue management tools and operating expertise. On average, IHG delivers 76% of rooms revenue to our hotels in our system, up 5 percentage points over the last 3 years. Within this, digital is our largest channel and comprises revenues from our web and mobile devices, including our apps. 22% of rooms revenue to our hotels, totaling $4.6 billion, is now delivered via our digital channel. And we've more than doubled mobile revenue in the last 3 years to over $2 billion today. Looking ahead, we will continue to prioritize digital and technological innovation to drive increased direct revenues.

IHG has a long history of leading the industry when it comes to guest reservation and revenue management technology. Introduced in 1965, Holidex was the industry's first reservation system. In the early '90s, we developed one of the first automated solutions for looking at future demand patterns to determine pricing structures. This has evolved into the revenue management systems that we have today.

We have continuously refined our technology over the years and we're now in the process of rolling out our most recent update, our new Guest Reservation System, which we have developed in conjunction with Amadeus. GRS will sit together with our enhanced proprietary revenue management system on our new cloud-based technology platform, IHG Concerto.

IHG Concerto will incorporate a comprehensive set of capabilities into a single seamless hotel management tool. Its initial functionality is GRS and revenue management, which in the future will be joined by an entire suite of hotel solutions, including property management, sales and catering and point-of-sale systems. IHG Concerto is now online in more than 225 hotels worldwide, and we're on track to complete rollout by the end of 2018 into early 2019. Hotels are already reporting efficiencies from the modern intuitive interface. On the top right of the screen, you can see the general manager's dashboard, which lets them better manage their hotel performance.

We have built a strong digital and technology platform across the board in recent years and we're continuing to innovate, focusing our resources on initiatives that we can scale and which can make the biggest impact on our owners and guests. We now have mobile checkout live in more than 3,000 hotels across the U.S. with 90% of guests reporting an improved checkout experience. We're currently looking at scaling this functionality globally. We were the first global hotel company to sign a global partnership with Alipay, giving Chinese guests the ability to pay via this method through all of our online and mobile channels. IHG Connect, our seamless WiFi guest login, is now in place for being installed in over 3,000 hotels in the Americas and we're now preparing for global implementation. This is making a significant difference to our guests, driving Guest Internet Love up by 5 points.

Moving now to the proposition we provide for our owners, and IHG has a long history of franchising hotels. Holiday Inn was the original franchise hotel brand with Kemmons Wilson providing the first hotel franchise over 60 years ago.

It takes an immense amount of expertise, tools and scale to get franchising right and to ensure that our owners have the support they need to drive superior guest experiences, revenues and returns. We have a winning formula and have created what we believe is the best franchising platform in the industry built around 3 key elements: firstly, high value brands. Owners want household name brands such as ours that appeal to guests, appeal to lenders and that are easy and cost efficient to build. We provide flexible design solutions with dedicated design and engineering support and procurement functions heavily involved in sourcing for build-out.

Secondly, owners want low operational costs. We have an owner-centric support structure, which allows frequent and insightful communication. We also have intuitive and prescriptive operational support tools, which help our owners and GMs run their hotel successfully. These include our IHG Marketplace purchasing platform and our IHG Green Engage online sustainability tool.

Finally, owners want high-quality, low-cost revenue generation. We provide this through our enterprise delivery system, all the tools I've just talked about, including the loyalty program and distribution channels.

These 3 elements together provide an end-to-end solution which generates high returns and drives asset values for our owners. This is an area we have focused on heavily in recent years and which has helped drive our net system growth from 2% in 2013 to 4% in 2017.

But there's always an opportunity to do more to enhance and expand our owner proposition to unlock even more growth. We want to deepen the penetration of our brands in the highest value markets, so we will be investing in more people on the ground in our focus markets to support the expansion of our brands and in more hotel developers to win more deals with more owners. This will build on the successful investment we made in the Americas, which helped drive a 10% increase in the number of hotels we signed in 2017.

We have also identified an opportunity to add in more resources to support owners through the hotel life cycle. This should help decrease the time taken between generating leads, signing and opening hotels, and therefore, help accelerate our net rooms growth.

There is also a significant potential for us to expand our franchise offer into new markets and brands. We launched Franchise Plus for Holiday Inn Express in Greater China in May of 2016 and have since signed up 74 hotels to the new format, including 54 in 2017. We expect this strong momentum to continue into 2018.

Building on this success, at the end of last year, we announced that we would expand our leading franchise offer, the Holiday Inn and Crowne Plaza brands, in Greater China. We've got 4 -- we've got agreements for 4 hotels to sign up for the full new format to date, including the Holiday Inn Beijing Lido, which was IHG's first ever hotel in China back in 1984. Over time, this will create significant opportunity for IHG but we are taking a measured approach working with established strategic partners who have proven track records of superior hotel management and operations experience.

We're also looking at how we can evolve our operating model and owner proposition for Kimpton. This will allow us to further accelerate its growth, both within its home U.S. market and globally. We're currently looking at potential options for this and will have more news on this in due course.

Moving on to our brands. As I touched on earlier, we have evolved the marketing function so that we now have one comprehensive global approach led by our new Chief Marketing Officer and category leads who are responsible for the performance of the entire category of brands. We now have one central team that brings together everything relevant to our brands: positioning, pricing and priorities. This will help us deliver a more coordinated approach to the marketing and brand development activities, allowing us to eliminate duplication of effort and create significant efficiencies.

In recent years, we've developed a strong and differentiated brand portfolio, which appeals to our guests and owners, and I want to spend a few minutes talking about how we see brands today, and what we're doing to strengthen them. And then I'll touch on the opportunities we seek to augment our portfolio.

Starting with our mainstream brands, these are at the core of our business, dominated by our Holiday Inn Brand Family and deliver some $14 billion of annual rooms revenue. Holiday Inn is an iconic brand built over 60 years. It is the industry leader in full-service mid-scale with over 1,200 open hotels. Our innovation program to keep our offer relevant to changing guest demands is progressing well.

Our new modern guest room design is in over 75 open and pipeline hotels in the Americas and we're now scaling this concept for global rollout. Our high impact public space design, Open Lobby, is in 70 European hotels with almost 80% of the estate in the region already committed to the upgrade. And the response from guests has been very positive, with a 7-point uplift in Guest Love and a 15% increase in food and beverage profit in the pilot hotels. We are launching Open Lobby in the Americas in the first quarter of 2018. We're also launching new food and beverage solutions to the brand accompanied by new standards and training to enhance guest experience and owner returns.

Moving on to Holiday Inn Express, which was launched in 1991 and is now the industry's largest brand, with 2,600 hotels open and a further 766 in the pipeline, it is a real category killer. I talked at some length about our new innovations for this brand at our results in August. Our new guest room design is driving great results across the Americas and Europe, delivering meaningful Guest Love uplifts. Breakfast is a key differentiator in the limited service space and our new offering provides higher-quality food options at a better cost for owners. In the U.S., we're planning a complete overhaul of the breakfast offer across the estate during 2018, and in the U.K., it's now in place across all hotels and driving great results.

The extended stay segment continues to be extremely popular, with double-digit RevPAR growth in the U.S. over the past 4 years. Guests love the home-from-home positioning and owners love its high operating margins due to its efficient manning model. We have a strong and growing presence in this space. We've more than tripled the size of our U.S.-focused Candlewood Suites brand, since we acquired it in 2004, demonstrating the power of IHG systems and our ability to plug-in new brands and drive their growth.

2017 marked our best year for opening for Staybridge Suites since 2009 and our international expansion for this brand is making steady progress. We now have 11 hotels open across our EMEAA region and a further 14 hotels in the pipeline, including our first in Southeast Asia, which will open in Thailand in 2019.

Looking ahead, in order to drive more growth for both brands we're working on a comprehensive interior design update, and we'll be investing more marketing dollars to drive even better guest awareness.

Moving on to upscale brands, and Crowne Plaza has a position of strength in our Greater China and EMEAA regions. The steps we've taken to strengthen the brand in the Americas are yielding strong results. Our $200 million Accelerate program is driving meaningful improvements in RevPAR and Guest Love, and we've significantly -- RevPAR index and Guest Love, and we've significantly upweighted our marketing spend, launching Crowne Plaza's largest multimedia brand campaign in 10 years. But we're not stopping here. We're now looking to take some of the design innovations that we've originally developed in the U.S. to other markets globally.

Plaza Workspace, our technology-enabled public spaces designed for solo work and for small groups, this drives incremental revenue for our owners from previously underutilized hotel space. And after a successful trial in the Americas, they'll be launched in all regions during 2018. The WorkLife room has been designed to create a more unique space for guests to work, socialize and rest, all in the same room. Following a successful pilot in the Americas and Greater China last year, this will be extended across the globe in 2018.

HUALUXE is a brand close to my heart as I was heavily involved in the 2012 launch when I headed up the Greater China region. When the brand was developed, 1 element of its proposition was oriented towards food and beverage culture, which existed at that time in China. The culture has changed significantly in recent years, so we've taken and had to adapt the brand to ensure it remains competitive and appealing to both guests and owners in the future. Therefore, after somewhat of a pause for breath, we're now in a strong position for which to accelerate growth with 7 hotels opened and 21 in the pipeline. The hotels that are open are performing strongly, growing revenues 15% year-on-year and the brand has the best Guest Love scores out of all our hotels in the Greater China region.

EVEN Hotels and Hotel Indigo appeal to guests wanting a more personalized experience. EVEN has also had a slower start than we would have liked, as owners have taken time to become familiar with the concept and understand the returns the brand can deliver. But we're now really building on the brand's credibility with great properties such as our owned hotel in Brooklyn, New York and our managed hotel in Times Square, which continues to win impressive third-party accolades. We're also gaining momentum internationally, having launched the brand outside the U.S. in 2017, with our first signing in Auckland, New Zealand. This is part of a multi-unit agreement with our great partners, Pro Invest, to build 10 or 15 hotels for the brand across Australia and New Zealand. We also signed 3 EVEN hotels in Greater China, with properties set to open over the next few years in Shanghai, Sanya and Jinan.

Hotel Indigo is going from strength to strength for this local neighborhood positioning, really resonating with guests and owners. In 2017, the brand saw its highest level of openings in 5 years, including an iconic property in downtown Los Angeles and our first resort for the brand in Bali. We're also accessing more prime locations globally with our first signing in Japan and our fourth for London at #1 Leicester Square, an excellent location, which is due to open in the next few months.

Moving to our luxury category and the world's biggest luxury hotel brand, InterContinental Hotels and Resorts. We now have almost 200 hotels open and more than 60 in the pipeline. We opened 8 hotels in 2017, including a stunning property in Los Angeles with 72 floors and a rooftop bar. I was there just a few weeks ago and it really is a flagship for the brand. InterContinental continues to receive industry accolades, including jumping up 64 places in the Nunwood Customer Experience ranking in the U.S. This means it's now in third position in between Disney and Amazon, quite an achievement.

We're building on the strong position with a number of initiatives in 2018. These include enhancing our Club InterContinental experience globally to drive consistency and increased luxury perception and the continuation of our integrated global campaign, Live the InterContinental Life, which is designed to build a more emotional connection with our target guest.

Since purchasing Kimpton at the end of 2014, one of our key objectives has been to take the brand global. We've made some good progress on this in 2017. We opened the doors of our first property for the brand outside of the Americas in May, the Kimpton De Witt, in Amsterdam. The brand will soon make its debut in Asia and Greater China with signings in Bali, Shanghai, Sanya and Taiwan in 2017. We're working on several further deals, which will secure Kimpton's presence in 10 key markets around the world.

We're also working to leverage the benefit of Kimpton's unique offer across IHG's system as a whole. This is particularly the case for their unrivaled food and beverage expertise, which we're now using to inform many of our innovations across our other brands. And earlier this year, we completed the integration of Kimpton's loyalty program, Karma, into IHG Rewards Club, bringing together breadth of hotel options and redemption possibilities for members of both programs.

I have talked before about the potential to add new brands to broaden and strengthen our portfolio. We have always done this in a highly-targeted, rigorous and insights-driven way. This includes tapping into those segments that are both already high in value and have significant potential for growth. We make sure it's an opportunity that is very attractive for our owners, allowing them to add material supply at a high level of return. And finally, IHG must have a clear advantage to win in the identified space. We must be able to deliver superior revenue at price premium. These things together allow us to create the optimum positioning of a brand to both our owners and our guests. This is the approach we took with our new avid hotels brand, which I'll talk more about in just a moment. But first, I'm going to touch on the other opportunities we've identified.

The first is the $40 billion upscale segment, which is expected to grow by 50% over the next 10 years. Our guest research has highlighted that many consumers are looking for something other than traditional, big-box upscale hotels; they want a more unique experience. We think there's a real opportunity for an upscale brand that offers our guests something more informal and differentiated, combined with the reassurance and quality standards of a branded chain.

From an owner perspective, they want a brand that can be easily financed and provides a strong return on investment. They want rapid access to the revenue delivery benefit of IHG's global branded system, such as access to favorable negotiated rates with OTAs, strong direct channel contribution, access to IHG Rewards Club, a leading marketing capability and strong business-to-business sales platform.

So later this year, we'll be launching an upscale conversion brand that ticks all of those boxes. This will offer a new guest proposition, which delivers a strong visual identity through a focused set of high-value brand standards, which, from an owner's perspective, requires a limited upfront capital outlay and are efficient to operate.

The rollout will be led from our EMEAA region where we know there are a number of independent hotels and those belong to small brands, which would benefit significantly from coming into the IHG system. After initial period, we also plan to extend the brand to our other 2 regions.

The second new opportunity is within the $60 billion global luxury segment, which is expected to grow by 50% over the next 10 years. We see a real opportunity to round out our portfolio and add other luxury brands at a price point above InterContinental and potentially also in the resort space.

Luxury brands appeal to owners with both existing brands and new build opportunities, looking for a high-end product that generates profitable returns. A more comprehensive luxury offer will have numerous halo benefits, including helping us strengthen our loyalty offer and attracting more B2B customers. It will further strengthen our owner proposition, giving us the ability to deepen our relationship with those who want to work with us across a broader range of segments and allowing us to fill a portfolio gap that many of our owners have.

It also gives us the opportunity to build our presence at a higher price point and meet the demands of high-value consumers, whose needs our current portfolio brands doesn't quite capture. Whilst we already have considerable expertise in this area, we'll be upweighting our capabilities in the creation of a new luxury division with a center of excellence, focused on the capabilities needed to win in luxury. By creating this bespoke and dedicated division, we'll be bringing together some of the most experienced and respected people in the industry across branding, luxury, operations, design, development and customer experience.

Collectively, they will help us drive our offer ensuring that our existing luxury brands continue to evolve and allowing us to rejuvenate any new brands that we acquire in the future. On that point, we are currently looking to acquire 1 or 2 small, luxury, asset-light brands that we would incubate and grow in order to access these significant opportunities.

Earlier, I mentioned the launch of avid hotels, which is the most recent addition to our brand portfolio. Our consumer insight showed that 14 million guests spend $20 billion in annual industry revenues in this segment in the U.S. alone. These guests are feeling underserved by the existing midscale brands in the price point below Holiday Inn and Holiday Inn Express. They are traveling for both business and leisure and they're looking for consistency, a clean, safe environment and good value. They want the basics done exceptionally well, at the right price and don't want to feel they're paying for things they don't need.

Avid hotels has been designed to meet those consumer expectations. Our deep insight and our proven strength in the mainstream segment present owners with a compelling proposition. They will get a distinctive brand linked into a powerful revenue delivery system with a low-cost operating model and design engineering that will drive a high return. The brand is targeted at a $95 to $105 rate, which is a 10% to 15% discount to Holiday Inn Express. At this targeted price point, with an appropriate room size, suitable fixtures and fittings, relevant public spaces and a lean extended-stay style operating model, we will deliver cash-on-cash returns equal to Holiday Inn Express. In turn, we can justify a royalty rate of 5%.

This is an incredibly enticing proposition for around 2,000 existing Holiday Inn Brand Family franchisees who are ideal owners for this new brand and who are heavily involved in the key areas of its creation. The demand for this compelling offer is clear. We only officially launched the brand in September last year and since then, we've signed 75 hotels into the pipeline, including our first in Canada. We had our first groundbreak in December. And that hotel is due to open in Q3 of this year. We're also launching the brand in Mexico and are planning a global launch of the brand at some point in the future. Here are some renderings what the new brand will look like.

Avid is a perfect example of how, over a short period of time, we identified a unique opportunity, engaged potential owners, developed a successful concept and brought it to market.

So in summary, we have delivered a strong performance in 2017 and are confident in our ability to continue to accelerate our growth. The fundamentals for our industry remain strong, and our scale is at significant competitive advantage. We have the right strategy and we are committed to making our model work harder.

We are reorganizing the company to create efficiencies, which we will reinvest behind the new strategic initiatives we've announced today. We are confident that these will deliver industry-leading and highly profitable net rooms growth over the medium term. This in turn will lead to significant cash generation, and in line with past practice, we remain committed to returning any surplus funds to our shareholders. Thank you, and with that, Paul and I will be happy to take your questions. You can ask Paul first.

Question and Answer

Keith Barr
CEO & Director

Jamie.

Jamie David William Rollo
Morgan Stanley, Research Division

Jamie Rollo from Morgan Stanley. Just maybe starting with the position to cut quite a bit of cost and reinvest that, it's not something your [others] or big asset-light peers have done recently. So my questions are, first, do you think that risks the core business at all in terms of about 10% of your central costs being cut initially? Secondly, is the additional spend going in, is that a sign of the company, perhaps, underinvesting, historically, or indeed a sign of greater competition? And then the third and last question is, are you prepared to give any targets on room openings? I'm thinking probably sort of 6% is the number you're thinking about in terms of best-in-class. And what's the phasing of that? I think you said this year will be higher on removals.

Keith Barr
CEO & Director

All right, maybe I'll start on the third one going there. So when we were developing the strategy and thinking about how we would accelerate our growth, we recognized we wanted to be industry-leading in terms of net rooms growth. And so today, industry-leading is 5.5% to 6.5%. Now I don't know what industry-leading will look like in years to come, because I can't forecast the macroeconomic environment, the financing environment and what will be out there, though, but we believe through the new initiatives we've identified, we'll be able to continue to accelerate our growth and stay in that leading pack of net growth going forward. I guess the question is the spend kind of underinvestment. This is effectively just a reallocation of resources. We've made significant investments over the recent years around technology and brands and markets. And as the business has matured, we now recognize that we can reallocate those resources to high-growth areas, too. So it's, literally, we're not taking it up just to drive bottom line profit; it's to take the cost out and reallocate it against new parts of the business to accelerate growth. So I don't think it's a reflection of any underspend, whatsoever. And in terms of the quantum of the cost being as a percentage of the base...

Paul Edgecliffe-Johnson
CFO & Executive Director

I guess the way we'd look at it is if you look at what Hilton did when it was under private equity ownership, there was a lot that they did to the business, obviously, out of the public eye. And actually, you look at what Marriott did a few years ago, they did take out quite a lot of cost from SG&A and they put it into their development function, quite a significant amount. And then you look at what happened a few years on from that in terms of the step-up that they saw in their openings, which is from capturing a higher share of signings. So it's the right time for us to do it now that we've got various programs like GRS [handles] the market that we're putting in place. All the platforms allow us to now step things up a bit. So I don't see it as a risk to core competence. We're pretty buttoned up in terms of how we'll do it and it will take a little while to come through, but it'll be done in a very measured way.

Jamie David William Rollo
Morgan Stanley, Research Division

Just on the sort of bridge from 4% last year to say 6%, this year sounds like it's going to be towards the low end of that sort of gap, given the removals are a bit higher. Is that right, and you're not going to get the full benefit of the costs reinvest until 2020? So if, at the first year, we should expect you to hit the 5.5% to 6.5%, if that's the industry number then.

Paul Edgecliffe-Johnson

CFO & Executive Director

Well, it's hard to predict exactly year-on-year and I think we said in 2017 that we wanted to see progression and I think that the 4% that we've delivered, we were happier with that. As we're heading towards industry-leading over the medium term, so it's going to take a few years to get there, but I would still hope to see progression in 2018 towards that number. So I'd hope to do better in 2018 than we did in 2017.

Richard J. Clarke
Sanford C. Bernstein & Co., LLC., Research Division

Richard Clarke from Bernstein. Three questions from me, please. The first one is just on the lack of a cash return. You mentioned, I think in the initial release, you said, the main reason is you're spending this $200 million exceptional cost, but, Paul, you said $120 million -- about $120 million of that will have to be paid by the system fund rather than IHG. So -- and if you've paid $35 million last year, you've only got $45 million to spend. So it doesn't seem like that should have held you back on doing the cash return. Is this you holding money back for the M&A you've talked about? Or is there something else going on I'm missing there? Second question, your guidance seems to be you can continue to grow margin at 135 basis points a year. You're taking out more central costs, so it doesn't look like you'll be able to drive it from there. So can you maybe talk about where does margin expansion come from in the regions, if not centrally? And then the third one, something you didn't touch on, but it's in your release is that you've grown your credit card sales by 14.5%. If my maths are right, you're getting about $125 million, somewhere about that, maybe I've got that wrong, of revenue from that. That's going to come on to your income statement this year. What's the drop-through on that? Will you make a profit on that? Or does that go back into the system fund in some way?

Keith Barr
CEO & Director

On the first one, in terms of the cash return, I mean, when we think about how we invest cash as a company, fundamentally, it's first to grow the business, then it is to maintain the sustainable dividend and then returning surplus cash to shareholders. You look at it right now, we're making significant investments in the business today in multiple areas, one is around technology. So this is a significant year for GRS in terms of deployment, which is utilizing cash to get that out into the business. We're investing behind launching new brands like avid. And then there are costs related to the [exceptional] piece to it. And so when you factor those things in and I'll let Paul add some color if needed, when you get down to a smaller cash return, then it's really just kind of not really worth it to do something that's only a small cash return. So we want to make sure that when we -- because there's a cost associated with every time we do a cash return special dividend. So making sure going forward that when we have surplus cash, we'll return to shareholders but of a sizable nature that makes sense to do it.

Paul Edgecliffe-Johnson
CFO & Executive Director

And in relation to the system fund, it is a bit complex, that all the system fund accounting and how the cash gets in the system fund and I'll talk more about it on the 17th of April when we do our teaching around it, all right. Because it continues to get more complex [indiscernible]. If you think that -- the cash that's going to be spent by the system fund is still cash that goes out the door and cash is fungible. So cash is all-cash. So yes, it will go out of the door and it will actually extinguish the vast majority of the system fund surplus that's built up over time. So you have to sort of think about it in that context. It does still absorb cash that would otherwise have been available. Look, in terms of M&A and what we might do there, I mean, we have said that it would be a small acquisition that we're looking at. So it's not war chesting. It's not holding money back for that. This is genuinely that -- we could have done a small return instead, but there is some cost in doing every return that we do together with the share consolidation. So it would be better to wait until it's of a significant magnitude, more significant magnitude and then raise it then. In terms of your question on guidance, I think we've done a pretty good job over the last 13 years, on average 135 basis points accretion to margin and there's lots of things that we have done in terms of using procurement better in terms of zero-based budgeting, in terms of offshoring, outsourcing, et cetera, and there's more that we can do there even after this program. So we do believe that going forward, post this, there's still an ability how to drive margin. Part of it is helped by the fact that our business -- in a franchising environment, as you're bringing more revenue, you don't actually a lot more cost that comes in, so there's natural margin accretion that comes in there together with the very strong discipline we have around costs. And in terms of credit cards, you're the expert at that, Keith.

Keith Barr
CEO & Director

Yes, I mean, so clearly, we're continuing to grow and accelerate the credit card offer that we have with the co-brand and looking to expand that co-brand offer going forward. Then that benefit that just flows into the system fund and so that gives us increased marketing capacity. So we've had great results, I expect that we, I think, doubled the amount of net capacity that credit card creates for us over the last 3 to 5 years, but that will continue to grow, but it stays within the system fund to support royalties, to support marketing and drive investment there.

Jarrod Castle
UBS Investment Bank, Research Division

It's Jarrod Castle from UBS. Can you say anything on wage inflation in the U.S., whether it's a positive or a negative, especially with the tax cut? Secondly, I take it the answer's no, but you're obviously adding brands to the portfolio. Are there any brands which are under review, which potentially, you're not happy with? And then just also kind of back to Jamie's question of that. I mean you want to accelerate growth. How are you going to make sure that the quality of the pipeline is strong, especially if the downturn does or doesn't come over the next few years?

Keith Barr
CEO & Director

Again, I'll take those in reverse order. Accelerating our growth, I mean, fundamentally, we've spent the last decade strengthening the quality of the brands in IHG, and so we want to make sure that as we continue to accelerate growth, we don't take a step backwards. I mean this not just about short-term gains; this is about long-term sustainable growth and building high quality brands. So 2 aspects to it, one is we mentioned we're investing more in owner life cycle, so that how can we take from a lead to signing to breaking ground to opening being even faster and better managed to ensure high quality hotel, so we'll be upweighting resources in that space. And the focus of how we're building out the brand standards, high-quality hotels, great brand experience is core to who we are and we wouldn't put Guest Love up there every year and talk about the movement in that metric if we weren't committed to building quality brands. And so that's committed from the board level and the executive all the way through the business, that's what we do. We're not thinking about exiting any brands. We definitely are going to continue to round out the brand portfolio over time to strengthen the customer proposition and the owner proposition. And in terms of inflation in Europe, do you mean in terms of the macroeconomic environment for trading or...

Jarrod Castle
UBS Investment Bank, Research Division

[indiscernible]

Paul Edgecliffe-Johnson
CFO & Executive Director

Labor costs is it?

Keith Barr
CEO & Director

Labor costs.

Paul Edgecliffe-Johnson

CFO & Executive Director

Yes, I guess, there are positives and negatives, I guess, you could say. For owners, it will come through as higher costs in the hotel. Equally, a lot of our brands are very -- they're lower labor cost brands. So if you look at what's driving the very strong demand for say Holiday Inn Express, for avid, for our extended stay brand, people are looking for lower cost -- lower labor cost opportunities, so it does play to our strengths there.

Timothy Ramskill
Crédit Suisse AG, Research Division

Tim Ramskill from Crédit Suisse. I've got 3 questions as well, please. Just firstly, in terms of the upscale conversion brand, I appreciate, there's more to follow on that, but is it fair to assume that the fee structure on a conversion brand may be a little lower than the average? But also, could you talk about the speed to market given it's a conversion brand rather than a new build product? Second question, just coming back to the sort of acceleration of growth and your comments about margins. Given you're aiming to deliver this improved growth, basically, on the same cost base, is that partly why you expect that margin enhancement over time, there should be a sort of stronger drop through from new fees from new rooms? I tend to think we think about gearing on RevPAR but less on space. And then the final question was just you talked about evolving the proposition for Kimpton. Can you just expand a little bit on what exactly you mean by that?

Keith Barr
CEO & Director

Yes, absolutely. In terms of the conversion brand, when we're thinking about, a, speed to market, it's going to be a very quick to market, because it's an existing hotel that we'll be converting over to a brand. So we're not having to break ground and build. So it gives us the opportunity to convert so you would expect us to be able to see that pipeline be well-established and then grow quickly, with lower times to convert once they come into the pipeline. So I think that's generally fairly common with that sort of brand overall, too. In terms of the fee structure, long term, we've been -- maintained a fairly consistent fee structure across all of our brands because of the value of the system. And so there may be initially some structures as we're ramping it up, but long term, sustainably, you'd want to see that a fee structure commensurate with our other brands. I think in margin enhancement, to Paul's point, it's the model, fundamentally. I mean with a large scale business and a big franchise business, as that gets bigger, you just get the natural drop through in terms of margin enhancement overall. And then the disciplined cost management, you look at what we've been able to do in the last 5 years of controlling cost and then flowing that through to future discipline should cause us to have true confidence in meeting that margin growth period over time. And in the Kimpton proposition, it's not that we're going internationally, it's really trying to understand what -- how can that -- how can we accelerate it further both domestically and internationally. That could look at things like different propositions around Kimpton, spinning off from that, it could look at do we -- would we consider anything like franchising in the future. So it's really different owner offers and different models and to figure out how we could -- and we have a very clear vision. It's an exceptional brand. You've seen great momentum taking place in that right now with the launches now happening in Asia. It is just how do we -- again, the fundamental premise we have as an executive team now is leveraging all of our assets which are our brands and how do we accelerate our growth with those, again in a sustainable way. And so thinking creatively about Kimpton now that we understand it better. We've had it for a number of years. We understand how -- what the owner offer is, the development offer is and can kind of tweak that to grow it. I'll just kind of work the room.

Monique Pollard
Citigroup Inc, Research Division

Monique Pollard from Citi. Three questions from me. Firstly, on the potential acquisition for small and luxury brands, could you give a bit more detail and sort of what types of geographies and sizes of brand could interest you there? Secondly, on U.S. RevPAR, ex the sort of benefit you've seen from hurricane displacement, could you talk about whether you're seeing any underlying pickup in RevPAR in the oil states? And then finally, again on U.S. RevPAR, have you seen any change in international demand on the back of the weaker dollar?

Keith Barr
CEO & Director

So in terms of acquisition of luxury brands, the way we think about it, there are probably 3 distinct ways you can build a luxury brand from 0, so you can decide that you're going to build their brand concept and then buy some assets or -- and that's pretty capital-intensive and slow. The other way is to go out and buy a very big luxury brand company which wouldn't be consistent with what we've strategically done over time and so we are very focused on the sweet spot of acquiring an asset-light, small luxury brand company or companies with a strong customer proposition, strong owner proposition that we can grow. There are a number of those located throughout the world right now that we've had conversations with that are interesting, but we recognize that's the way of leveraging the IHG enterprise and it's close to organically growing a business that you can do in the luxury space. And in terms of geographic, there are a number of locations, but it will be very, very small and distinctly focused. U.S. RevPAR, I think when you look at Q4, U.S. RevPAR was at 3% in total. Lots of noise in Q4, though, let's be candid about it. You still have the impacts of the hurricanes. You have the shifting of the Jewish observance and so forth. So stripping that, underlying what was the Q4 performance, it was definitely stronger than in Q3 and an acceleration. And if you look at the second half of the U.S. RevPAR performance, it was 1.7% on a full year of 1.2%. So you're definitely seeing more momentum in the U.S. in Q4.

Monique Pollard
Citigroup Inc, Research Division

Any understanding of the oil states sort of ex the hurricane displacement, whether you're seeing a pick up there?

Keith Barr
CEO & Director

Well, that's the challenge with the oil states, because the oil states are actually the hurricane states and so you're seeing more rigs being spun up. But to the hurricane effect, it is just noisy and so -- but again, I think whatever the underlying is, the underlying is stronger than it was in Q3 and you're seeing that momentum, so which is good. And international, I think, generally positive trends, I mean, across most markets, except Middle East is probably the one market that's still continuing with the restructuring and the price of oil, but in general, you're seeing positive RevPAR trends in demand.

Angus Vere Tweedie
BofA Merrill Lynch, Research Division

Angus Tweedie from Merrill Lynch. Could I just ask on the conversion brands, why are you launching in Europe first? I don't think that's that typical. And how that's going to fit with Holiday -- sorry, Crowne Plaza, within the portfolio? And then secondly, on the Concerto launch, just a few comments about yield optimization. Are there any KPIs you might give us on the first hotels that you've opened it out in?

Keith Barr
CEO & Director

When we looked at the conversion brand, well a, we've got the U.S. team is a bit busy with avid at the moment and seeing that brand take off. It was really about the opportunity. You've got 60% of the portfolio -- of the market in Europe is unbranded. And so versus the U.S. unbranded, it is 20%. So a much bigger pool to go fishing in for Europe and also a lot more pricing pressure on distribution costs in Europe than in the U.S. So it was really -- this is where there's a significant market opportunity to be able to launch a conversion brand and fine-tune it. Also, I have a team here that actually is entitled to doing avid hotel, so we have the ability and the bandwidth. It's going to sit adjacent to Crowne Plaza. We're being very thoughtful with the Crowne Plaza Accelerate program, $200 million going behind that in the U.S., really strengthening that brand. I mean Crowne Plaza has a very strong position in China going out through Asia and into Europe. We're strengthening it in the U.S. I want to keep the conversion brand focused on Europe right now, getting that proved out, so it can sit alongside Crowne Plaza globally in a non-cannibalistic way. Concerto, I mean, what have we seen so far in the pilot hotels? We've seen great satisfaction from the users at the property level, because the user interface is so transformational, the ease-of-use and so we're seeing definitely uplift in satisfaction, decrease in time to do things. We're seeing better revenue performance in some hotels. It's still a bit early days to see what's going to happen. And it will be the whole leveraging of the package, whereas Concerto is a user interface, the packaging and revenue management and GRS. Just as hotels get more and more used to using it how will that better drive performance, and candidly, this is version 1. And we're going to be regularly updating GRS with more and more functionality and that's what's going to drive the real revenue uplifts over time. So this is the foundational piece and then more to come.

Timothy William Barrett
Numis Securities Limited, Research Division

Tim Barrett from Numis. Just a quick question, a broad question about owners and franchisees, how they're feeling at this point in the cycle. And do you expect most of the accelerated growth to come from basically people you already know, expanding their businesses?

Keith Barr
CEO & Director

Well, we'll use avid as case in point. So we had a record year for signing for Holiday Inn Express whilst signing 75 avid hotels. So I think that proved our point that there was going to be little to 0 cannibalization between those 2 brands. And the 75 hotels were signed with existing Holiday Inn, Holiday Inn Express and Staybridge and Candlewood Suites owners. So they had a demand, and it's because of the way we thought about designing that product. It works on a different footprint in terms of land and different cost per key, so it's really accretive. And so we think fundamentally -- and that space will come from existing owners because they have that. Similarly, we're seeing and having conversations about the conversion brand opportunity, we've been already speaking to owners and they are existing owners. They want to do something with us where we haven't had a brand. And that's the thing about leveraging our scale of our ownership base is when we come up with a new product, we have the ability to kind of deploy it against all those different owner customer segments as well, too. So I would think a significant portion of our growth could come from -- or will come from existing owners. And so we'll go up and then come back.

Sophie Aldrich

Sophie Aldrich from Aberdeen Standard Investments. Just a quick question on acquisitions. Aside from the current focus of 1 or 2 much more luxury brands, could you elaborate on your acquisition strategy more generally on financing preferences and how is it for your leverage target priority?

Keith Barr
CEO & Director

I mean, the way we thought about this business over an extended period of time in our strategy, I think we've been consistent, and if not, a broken record about it. And that the fastest way to grow this business in an asset-light strategy is through by developing organic brands. And we recognize that plays to our strength, and then it will also be potentially acquiring companies that fill white spaces that are aligned with overall view on how to leverage and use the balance sheet. Right now out there, how would you say asset prices are right now, Paul?

Paul Edgecliffe-Johnson
CFO & Executive Director

Yes, it's very high.

Keith Barr
CEO & Director

Yes, I mean right now, multiples are significantly high, at this point in the cycle, so we're focusing on using our capacity to invest in ones with the highest growth areas that are aligned to creating value for our shareholders. And so, I mean, we look to acquire small company in luxury. Because we can do that in a very, very thoughtful way. But again, we're very focused on leveraging the core of this business to grow and not feeling that we have to do major acquisition to achieve that. Have we got the last question because we have to run? Give me -- I'm sorry.

Jeffrey Robert Harwood
Stifel, Nicolaus & Company, Incorporated, Research Division

Jeffrey Harwood from Stifel. Two questions. First of all, there's obviously a lot of new initiatives discussed this morning. How far up the to-do list is an acquisition of a luxury hotel group? Because it seems to me that, that probably presents the highest risk. And secondly, looking at the dividend policy, how should we view the disconnect between EPS growth and the dividend growth this morning?

Paul Edgecliffe-Johnson
CFO & Executive Director

In terms of the to-do list, yes, there is quite a lot that we're saying that we're doing. And -- but they are different teams that have been working on it. And as you can imagine, we've been thinking about how do we expand further into the luxury space for a while. We are the largest -- we have the largest luxury brand in the industry with InterContinental already where we have a great deal of capacity. We have a lot of owners who want to do more with us. So I wouldn't characterize it actually as a high risk. And I think it's when you go into something you don't know about, that tends to be higher risk. This is an absolute sweet spot of IHG, just we need another brand in the space. I think we've demonstrated with avid. In the mainstream we're already the leader there. We have another brand that's coming in and it's roared away. I think that when we bring in another brand there, there'll be an awful lot of demand there. So we are looking for the right thing at the right price to bring in that we can then incubate probably, as Keith said, small, but then we can grow out from there. And it's absolutely one of our key priorities that we've talked about. But it will need to be the right thing. In terms of the dividend policy, when you look at the underlying growth in the earnings of the business, I think you need to strip out the impact on earnings per share of the share consolidation, which has reduced the share count by 9% over a period of time. That's coming into this. So I would look more at the growth in EBIT compared to the dividend growth. And then I think you'll see that's much more in line, and it's in line with what we've done over the last 13 years, I think. The dividend policy hasn't changed. Thanks, Jeff.

Keith Barr
CEO & Director
Thanks, everyone. We have to wrap up now. So appreciate your time.