Interview with Richard Solomons

Guy Johnson
IHG, InterContinental Hotels, says it plans to return $1.5 billion to shareholders in the form of a special dividend. We’re joined now from the London Stock Exchange by the company CEO, Richard Solomons. Good morning Richard. The market was looking for around a billion, you’ve gone for a billion and a half, why the extra size?

Richard Solomons
I think we’ve just completed our disposal programme effectively, having sold our InterContinents in Paris and Hong Kong and we’ve had a good year. We think the prospects look good so we’ve increased our regular dividend by 10% for the year and, as you said, we’re returning one and a half billion dollars to shareholders which in total now will make about $12 billion since we became an independent business. So it’s just another step along the road.

Guy Johnson
You keep obviously along the road of becoming more and more asset light, give us a sense of what you think further disposals will mean for further returns. Give us a trajectory here.

Richard Solomons
Well I think, yes, asset light has been the model that we’ve followed for some time now and I think we’ve demonstrated the success of that. Indeed, our pipeline of hotels signed to join the IHG brand is about 15% of the total in the industry. In last year we signed more hotels than we’ve signed since 2009, more than one a day, so I think it demonstrates the strength of the brands and the strength of the business.

Hans Nichols
Richard, Hans Nichols here in Berlin. One a day, a lot of new sign-ups, but how much are concerns about terrorism? We’ve seen some awful events in, say Turkey, how much of that is weighing on your projection and just the tourism theme out there?

Richard Solomons
Well, you know, sadly we’ve seen either terrorism incidents or natural disasters around the world, we’ve seen quite a lot of that in the last few years. The reality is that travellers, actually, are quite resilient and it doesn’t take them long to come back. Paris is still quite badly affected at the moment but they tend to come back quite quickly. Sadly it’s become a fact of life and for IHG we’re in a hundred countries and any individual incident we obviously deal with, we’re worried about the safety of our employees and our guests but it doesn’t have a big impact on the business.

Hans Nichols
In a hundred countries, most of those, I think most of your hotel rooms, are in the Americas, a lot of your revenues is from there. At what point do you make a shift more to China or do you like your sort of Americas heavy approach right now?

Richard Solomons
About 60% of our business is the US now, if we go back a few years it was a lot higher. Our second biggest market is now China and if you look at the overall fee growth that we’ve seen, China is growing just as fast as the US. So we’re very happy to be in both and in fact they’re not mutually exclusive. So we tend to concentrate our business, about 90% of our growth is going to be in about ten countries, which is where the hotel business is strongest. So we concentrate our efforts but we are the largest global hotel player in China and we signed and opened more hotels last year than any other. So we see that real opportunity there.

Guy Johnson
Richard, talking of the United States do you think RevPAR there is peaking out? Do you think you’ve got room to drive it higher? Give us a sense of the outlook on that front.
Richard Solomons
Yes, we don’t give formal forecasts like some of the American companies do but we saw good growth, over 4% growth, in 2015 after a very strong 2014. Hotel revenues correlate to GDP and we’re continuing to see GDP growth, we’re continuing to see growth going in the future. It might be a little bit slower but growth is growth and you can see in our business how we can turn a reasonable top-line growth into very good earnings per share growth and we’ve got a business model that really works. So we think prospects are good.

Guy Johnson
Sorry, just a follow-up on that, do you think that US growth is slowing now? There’s some talk, and you look at the financial markets and the way that they’re pricing, that the US is heading for another recession. Is that your expectation?

Richard Solomons
I’m not an economist and we don’t see a recession. I think in our industry, look, we’re a cyclical industry, as a company we can very much deal with ups and downs, we have a very resilient business model being franchise, being predominantly mid-market. But certainly if you look at industry forecasts from the experts then they’re looking for continued growth into 2016 and we certainly don’t see a recession on the horizon at this point.

Guy Johnson
You’ve said in the past you think that the business is of a size that you could compete, however we are seeing significant consolidation within the sector, Accor, Marriott etc playing in that part, has that caused you to rethink what you think you need to do on the M&A front? So a couple of questions here, first of all are you looking for M&A targets, and, b, are you beefing up for the possibility that you think that you yourself could be a takeover target?

Richard Solomons
Look, I think we in fact kicked off the consolidation round when we acquired Kimpton Hotels last year which has performed extremely well for us. So I think we are very keen to continue to add brands to our portfolio where we think they’re really high quality, we can grow them and they actually enhance the whole portfolio. That’s much more likely to be add-ons than it is a major transaction. As you said at the beginning, we have a lot of scale, as I said, our pipeline alone is 15% of the global pipeline, we’re opening and signing a lot of hotels. So we are big enough but we can still augment, either by buying a brand like Kimpton or launching new brands as we did recently with EVEN Hotels in the US and HUALUXE Hotels in China. So it really comes from what do our guests want, how do we grow there as opposed to just trying to get big for the sake of being big.

Guy Johnson
Richard, I’ve got the letter in front of me that has been published in The Times of London this morning from business leaders, 200, a third of the FTSE100. I don’t see your name on it and I don’t see Patrick’s name on it either. Is there a reason why you decided not to sign this letter?

Richard Solomons
Yes, we think it’s a decision for the British people and they can make their own minds up. For us as a company we operate in a hundred countries, as I said, and, what, 5% UK, 10% continental Europe. So I don’t think it has a massive impact on us as a company and we think it’s for people to make their own mind up.

Guy Johnson
Richard Solomons, the CEO of InterContinental Hotel Group, thank you very much indeed for your time.

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