INTERCONTINENTAL HOTELS GROUP PLC /NEW/
Form 6-K
August 19, 2003
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 AND 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Dated August 15, 2003

INTERCONTINENTAL HOTELS GROUP PLC

(Registrant s Name)

20 NORTH AUDLEY STREET, LONDON W1K 6WN, ENGLAND

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable

Table of Contents

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

The interim results for the six months ended March 31, 2003 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934). Such statements include, but are not limited to, statements made in the Operating and Financial Review. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate , target , expect , estimate , intend , plan , goal , believe , or other words of meaning.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements, including, but not limited to: events that impact domestic or international travel; levels of consumer and business spending in major economies where InterContinental Hotels Group PLC (IHG) does business; changes in consumer tastes and preferences; levels of marketing and promotional expenditure by IHG and its subsidiaries (together, the IHG Group) and its competitors; significant fluctuations in exchange, interest and tax rates; the effects of future business combinations, acquisitions or dispositions; legal and regulatory developments, including European Union employment legislation and regulation in the leisure retailing industry in countries in which IHG operates; the impact of the European Economic and Monetary Union; the ability of IHG to maintain appropriate levels of insurance; and changes in the cost and availability of raw materials, key personnel and changes in supplier dynamics.

Other factors that could affect the business and the financial results are described below in Risk Factors .

RISK FACTORS

This section describes some of the risks that could materially affect the IHG s businesses. The factors below should be considered in connection with any forward-looking statements in this Form 6-K.

The risks below are not the only ones that IHG faces. Some risks are not yet known to IHG and some that IHG does not currently believe to be material could later turn out to be material. All of these risks could materially affect IHG s businesses, turnover, operating profit, earnings, net assets and liquidity and capital resources.

Unless otherwise stated in this section or unless the context requires otherwise, references in this section to the Group refer to IHG and its subsidiaries. In this section, Britvic refers to Britannia Soft Drinks Limited, in which IHG holds a controlling interest, and Britvic Group means Britvic and its subsidiaries.

The Group is exposed to the risks of economic recession

The Group is exposed to the risks of either a global recession or a recession in one or more of its key markets that could lower revenues and reduce income. A recession would adversely affect room rates and/or occupancy levels and other income generating activities resulting in deterioration of results of operations and potentially affecting the value of properties in affected economies.

The Group is exposed to the risk of events that adversely impact domestic or international travel

The Group s room rates and occupancy levels could be adversely impacted by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics, travel-related accidents, travel-related industrial action, increased transportation and fuel costs and natural disasters resulting in reduced worldwide travel or other local factors impacting individual hotels.

The terrorist attacks of September 11, 2001, their immediate aftermath and other subsequent national and world events, including the bombings in Bali on October 12, 2002, in Mombasa on November 28, 2002, in Morocco on May 16, 2003 and the activities in Iraq and the Middle East in 2003 have created a significant amount of uncertainty about future prospects and national and world economies. The overall long-term effect on the Group and the hotel industry is also uncertain. Domestic and international business and leisure travel, which were already adversely affected by a downturn in the global economy, have been further affected and are likely to remain

Table of Contents

depressed over the near-term as potential travelers reduce or avoid discretionary air and other travel in light of increased safety concerns and anticipated travel delays. The attacks have also decreased consumer confidence, and a resulting further decline in the United States and global economies could further reduce travel. At the present time, however, it is not possible to predict either the severity or duration of such declines, but weaker hotel performance will, in turn, have an adverse impact on the Group s business, financial condition and results of operations.

The outbreak of Severe Acute Respiratory Syndrome (SARS) dramatically reduced travel to Toronto, Hong Kong, Singapore, China and to other destinations in Asia. If the recent apparently successful efforts to control the disease are not maintained and the disease reappears or spreads beyond previously affected areas to other parts of our markets, particularly in the United States or Europe, the resulting decline in travel could have an adverse impact on the Group s business, financial condition and results of operations. Additionally, future epidemics such as the SARS epidemic could materially harm the Group s future financial results.

The Group is exposed to political and economic developments and currency exchange rate fluctuations

Global political and economic developments and currency exchange rate fluctuations may impact results of operations. In addition, local economic factors such as local interest rates, risks of hyper-inflation or deflation and political developments in some countries could adversely impact the Group s results of operations. Political or economic factors could effectively prevent the Group from receiving profits from, or from selling its investments in, certain countries. In addition, fluctuations in currency exchange rates between the U.K. pound sterling, the currency in which we report our financial statements, and the U.S. dollar and other currencies in which the Group s international operations or investments do business, could adversely affect the Group s reported earnings and the value of its businesses.

The Group is dependent upon recruiting and retaining key personnel, and developing their skills

In order to develop, support and market its products, the Group must hire and retain highly skilled employees with particular expertise. The implementation of the Group s strategic business plans could be undermined by failure to recruit or retain key personnel, the unexpected loss of key senior employees, failures in the Group s succession planning, or a failure to invest in the development of key skills. Additionally, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Group risks losing accumulated knowledge if key employees leave the Group.

Table of Contents

The Group is exposed to certain risks in relation to technology

A failure by the Group to take advantage of new technology and developments could put the Group at a competitive disadvantage in the field of e-commerce and business-to-business hospitality or supplier procurement or any other aspect of the Group businesses dependent upon its technology infrastructure. The Group may have to make substantial additional investments in new technologies to remain competitive. The technologies that the Group chooses may not prove to be commercially successful or the information technology strategy employed may not be sufficiently aligned or responsive to changes in business strategy. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs in order to maintain its customer base or face other losses.

Failure to develop an appropriate e-commerce strategy and select the right partners could erode the Group s market share. Loss of key communications linkages or key parts of the IT infrastructure for a prolonged period or permanently may result in significant business interruption and subsequent impact on reserves.

The Group may be unable to implement new organizational structure or cost-saving strategies

The Group has committed to the implementation of a new organizational structure and certain cost-saving strategies relating to its non-hotel cost base. There is no assurance that implementation costs will not exceed original estimates or that expected cost-savings will be realized, which could adversely affect the financial performance of the Group.

The Group may be unable to make disposals of hotel assets

The Group is conducting a review of its asset base for the possible disposal of assets that do not have strategic value, either with or without brand representation. To the extent that a review concludes that a disposal is appropriate, there can be no assurance that the Group will be able to complete any such selected disposals on commercially reasonable terms, or at all.

The Group is exposed to regulatory action

Both in the United Kingdom and internationally, the Group s operations are subject to regulation, and further changes in regulation could adversely affect results of operations. Examples of such regulatory changes could include:

•

Further employment legislation which could impact labor costs such as minimum wage and maximum working hours, overtime, working conditions, recruiting and terminating employees and work permits.

- Changes in tax legislation and practice.

Table of Contents

- Future legislation or regulation or different enforcement of current legislation or regulations, particularly in the areas of competition law, consumer protection, nondiscrimination, franchise and environmental law could adversely affect the Group s operations. The Group s operations are exposed to governmental actions in almost 100 countries and territories. The hospitality industry is heavily regulated, including with respect to food and beverage sales, employee relations, diversity and access for the disabled, construction and environmental concerns. Compliance with these laws could reduce revenues and profits of properties owned or managed by the Group. The Group and its various properties are subject worldwide to numerous laws, including those relating to the preparation and sale of food and beverages, such as health and liquor license laws. Additionally, the success of the Group s strategy in relation to the expansion of its existing properties may be dependent upon obtaining necessary building permits or zoning variances from local authorities. The Group is also subject to foreign and U.S. federal, state and local laws and regulations relating to the environment and the handling of hazardous substances which may impose or create significant potential environmental liabilities, even in situations where the environmental problem or violation occurred on a property before the Group acquired it.

Adverse regulatory developments could limit or prevent the Group receiving profits from, or limit its ability to sell, the properties affected by the regulatory change.

The Group may face difficulties insuring its businesses

Historically, the Group has maintained insurance at levels determined by it to be appropriate in light of the cost of cover and the risk profiles of the businesses in which it operates. Following the effects of the September 11, 2001 terrorist attacks and subsequent events, companies in general are facing increased premiums for reduced cover as the insurance market has hardened. The Group will continue to explore ways of sensibly insuring risk. Generally, the Group may have to pay higher premiums or in some cases take out less, or a lower quality of, cover. This could adversely affect the Group by increasing costs or increasing the exposure of the Group to certain risks.

The Group is reliant on the reputation of its brands and the protection of its intellectual property rights

An event that materially damaged the reputation of one or more of the Group s brands and/or failure to sustain the appeal of the Group s brands to its customers could have an adverse impact on the value of that brand and subsequent revenues from that brand or business. Given the importance of brand recognition to the Group s businesses, the Group has invested considerable effort in protecting its intellectual property, including by registration of trademarks and domain names. If the Group is unable to protect its intellectual property, any infringement or misappropriation could materially harm its future financial results and ability to develop its businesses.

Table of Contents

The Group is exposed to changes in consumer perception and preference adversely affecting its brands

The Group s range of brands and relevance to the sectors of the markets in which it operates may be adversely affected by changes in taste, commoditization or other factors affecting consumers willingness to purchase goods or services, including any factor which adversely affects the reputation of those brands.

The Group is exposed to funding risks in relation to the defined benefits under its pension plans

The Group is required by law to maintain a minimum funding level in relation to its ongoing obligation to provide current and future pensions for the members of its pension plans who are entitled to defined benefits. In addition, if any plan of the Group is wound up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of these defined benefits to a level which is higher than this minimum. The contributions payable by the Group must be set with a view to making prudent provision for the benefits accruing under the plans of the Group.

Some of the issues which could adversely affect the funding of these defined benefits (and materially affect the Group s funding obligations) are: (i) poor investment performance of pension fund investments; (ii) long life expectancy (which will make pensions payable for longer and therefore more expensive to provide); (iii) adverse annuity rates (which tend in particular to depend on prevailing interest rates and life expectancy) as these will make it more expensive to secure pensions with an insurance company; (iv) clarification of the U.K. law that might require guaranteed minimum pensions relating to service prior to April 6, 1997 to be equalized as between men and women; and (v) other events occurring which make past service benefits more expensive than predicted in the actuarial assumptions by reference to which the Group s past contributions were assessed.

Changes to the U.K. statutory requirement regarding funding were announced on June 11, 2003. From this date a solvent employer which winds up a pension scheme must fund that scheme such that all accrued benefits can be secured with an insurance company.

As with many other plans throughout the United Kingdom, there is the possibility of future claims being brought against the Group alleging unlawful indirect sex discrimination contrary to Article 141 of the European Treaty on the grounds of the plan s former exclusion of part-time employees. The chances of success for such claims are uncertain owing to issues of law that are presently unresolved.

Table of Contents

The Group s indebtedness could adversely affect its financial position

The Group has put in place borrowing facilities to meet its expected capital resource requirements. The Group s ability to borrow under these and any other additional facilities which it might seek to establish will require that the Group be able to comply with certain financial and other covenants contained in the relevant facility documentation. If the Group s revenues, cash flow or credit ratings do not meet expectations, the Group may lose its ability to borrow money or to do so on terms it considers to be favorable. Conditions in the capital markets will also affect the Group s ability to borrow funds or to raise equity financing, as well as the terms it may obtain. All of these factors could also make it difficult or impossible for the Group otherwise to raise capital needed to pursue its strategy.

The Group cannot assure investors that it will be able to arrange any additional financing or refinancing needed to fund its capital resource requirements on acceptable terms, or at all. As the Group s levels of debt increase, its business may not be able to generate sufficient cash flow to service its debt and/or continue its investment program.

The Group is exposed to the risks of the hotel industry supply and demand cycle

The Group s future operating results could be adversely affected by industry over-capacity (by number of rooms) and weak demand. Reductions in room rates and occupancy levels would adversely impact the Group s results of operations.

The Group may not be able to increase or maintain the number of its properties operated by its franchisees or pursuant to its management contracts.

Competition may generally reduce the number of suitable management, franchise and investment opportunities offered to the Group, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. There can be no assurance that the Group will be able to identify, retain or add franchisees to the Group system or to secure management contracts. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Group. Changes in legislation or regulatory changes may be implemented that have the effect of favoring franchisees relative to brand owners.

The Group is exposed to risks of failures within its HolidexPlus and other centralized systems

The Group is heavily reliant on (i) its HolidexPlus and other reservation systems, which receive reservation requests entered on terminals located at the vast proportion of the Group s hotels and reservation centers as well as from a number of major corporations, travel agents and U.S. domestic airlines; (ii) other centralized systems (for example, its IT networks); and (iii) bookings received via its website. If

Table of Contents

HolidexPlus or any other critical system were to fail, the Group s occupancy levels and results of operations could be adversely affected.

The Group is exposed to the risk of increased use of intermediaries reservation channels

The value of the Group s brands is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservation system. In recent years there have been very rapid changes in the ability to choose and book hotel rooms, partly driven by the internet, with the emergence of intermediaries which market hotel rooms in such a way that there is the risk of commoditization of hotel rooms. Some of the emerging business models and intermediaries could have a significant impact on the ability of the Group to continue to drive reservations, and hence have an impact on the value of the Group s brands. Additionally, these channels, including off-line intermediaries and travel agents, are becoming more consolidated which may lead to higher costs of distribution for the Group, for example by intermediaries being able to demand higher commissions. Although the Group is actively taking steps to adapt to the changing environment (by developing competitive internet reservation systems for its own benefit), because of the very high pace of change in this area there is a risk that the Group will not adapt quickly enough.

The Group may experience a lack of selective acquisition opportunities

While the Group s strategy is to extend the hotel network through activities that do not involve significant capital, in some cases the Group may consider it appropriate to acquire new land or locations for the development of new hotels. If the availability of suitable sites becomes limited, this could inhibit and adversely affect its results of operations.

The Group is exposed to the risk of litigation

The Group could be at risk of litigation from its guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it for breach of its contractual or other duties. Claims filed in the United States may include requests for punitive damages as well as compensatory damages.

Exposure to litigation may affect the Group s reputation even though the monetary consequences are not significant.

Table of Contents

Additional Risks of the Group Relating to the Britvic Group

The Britvic Group is exposed to risks related to possible product contamination

The Britvic Group, like all beverage producers, has been and will continue to be vulnerable to accidental or malicious contamination of its products or base raw materials. Any such contamination could result in recall of the Britvic Group s products, the Britvic Group being unable to sell its products, damage to brand image and/or civil or criminal liability, which could have a material adverse effect on the Britvic Group s operations and financial performance.

The Britvic Group is reliant upon certain suppliers

The Britvic Group is reliant upon fruit juice concentrates, sugar and other fruit juice raw materials as necessary ingredients for many of its products. In the event the Britvic Group is unable to obtain an adequate supply of these raw materials or fails to negotiate the purchase of these materials on a reasonable commercial basis, this could have a significant adverse impact on the Britvic Group s financial operations.

The Britvic Group is exposed to significant competition

The Britvic Group operates in a highly competitive market sector in which large competitors such as Coca-Cola Enterprises are active.

A change in the level of marketing undertaken by competitors or in their pricing policies, the growth or strengthening of existing retailers of beverage products, the introduction of new competing brands or products or increased purchasing power pressure from customers could have a material adverse effect on the Britvic Group s operations and financial performance. Conversely, competition law may regulate the Company s ability to participate in industry consolidation at a strategic level.

Adverse weather conditions could reduce demand for the Britvic Group s products

Demand for the Britvic Group s products may be affected by weather conditions, especially in the summer months, when unseasonably cool or wet weather can affect sales volumes and therefore the results of the Britvic Group s operations for the year.

8

Table of Contents

OPERATING AND FINANCIAL REVIEW

Introduction

On October 1, 2002, the Board of Six Continents PLC announced its intention to separate the Hotel business and Soft Drinks business from its Retail business (the Separation) and to return £700 million of capital to its shareholders. The Separation was completed on April 15, 2003 and resulted in two new companies, InterContinental Hotels Group PLC (IHG) and Mitchells & Butlers plc (M and B).

Accounting Principles

The following discussion and analysis is based on the Unaudited Condensed Consolidated Financial Statements of the Six Continents Group, which are prepared in accordance with UK GAAP. The principal differences between UK GAAP and US GAAP as they related to the Group are described in Note 32 of Notes to the Financial Statements included in the Six Continents Form 20-F, together with Note 17 of Notes to the Condensed Consolidated Financial Statements included elsewhere in this report on Form 6-K.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditure of the period. Actual results could differ from those estimates. The critical accounting policies requiring significant judgment and/or the greatest use of estimates remain those set out in Item 5 of the Six Continents Form 20-F.

CONTINUING OPERATIONS

INTERCONTINENTAL HOTELS GROUP

This operating review discusses the performance in the six months ended March 31, 2003 of the elements of the group that form the ongoing business of IHG following completion of the Separation on April 15, 2003 of the Retail business and Standard Commercial Property Developments (SCPD) which now comprise M and B.

IHG turnover increased by 0.4% on the same period in the prior year, with Hotels turnover increasing by 7.5% in US dollar terms but declining by 2.0% to £724 million in sterling terms. Total Hotels operating profit of £79 million was 27.5% down on the prior year.

Within Soft Drinks, sales volumes and profit were both ahead of the prior year, a year in which the business saw record results.

9

Table of Contents

HOTELS

Hotels results

	Three months to				Six months to		
	December		**March**		**March**		**%**
	2002	**2001**	**2003**	**2002**	**2003**	**2002**	**change**
	(£ million)						
Turnover:							
Americas	142	142	130	138	272	280	(2.9)%
EMEA	206	201	181	191	387	392	(1.3)%
Asia Pacific	35	34	30	33	65	67	(3.0)%
Total turnover	383	377	341	362	724	739	(2.0)%
Operating profit:							
Americas	35	37	33	38	68	75	(9.3)%
EMEA	20	28	12	22	32	50	(36.0)%
Asia Pacific	10	6	6	8	16	14	14.3%
Other	(19)	(11)	(18)	(19)	(37)	(30)	(23.3)%
Total operating profit	46	60	33	49	79	109	(27.5)%

The table above shows operating results by quarter for Hotels. Encouraging trends in the first quarter (three months October to December 2002) were subsequently eroded in the second quarter (three months January to March 2003). The benefits of refurbishment programs and the decision to increase investment in sales, marketing and technology were particularly evident in the first quarter but planned cost increases and the loss of trading profit from hotels in renovation reduced profits. In the second quarter, profits were also down on the prior year as the global downturn in travel took effect, particularly impacting Europe, the Middle East and Africa (EMEA) and Asia Pacific. The operating mix of the business did provide some resilience to the difficult trading conditions, with the franchise and management contract income streams being less affected than the owned and leased (O&L) business.

Table of Contents

Americas

Americas results	Three months to		Six months to		
	December 2002	March 2003	March 2003	March 2002	% change
			($ million)		
Turnover	221	207	428	401	6.7%
Operating profit:					
Owned & leased	4		4	4	
Managed & upscale franchise	9	7	16	20	(20.0)%
Midscale franchise	42	45	87	83	4.8%
Total operating profit	55	52	107	107	

The table shows operating profit by quarter for the Americas region. Despite all the negative influences on the hotel industry, total operating profit at $107 million for the six-month period was the same as in the prior year.

Americas RevPAR growth on previous year	Three months to		Six months to
	December 2002	March 2003	March 2003
InterContinental Owned & Leased	20.8%	1.8%	11.3%
Holiday Inn Franchise	2.1%	(2.0)%	
Holiday Inn Express Franchise	3.3%	(0.6)%	1.3%

The Americas O&L estate is heavily weighted towards upscale properties in key markets that were disproportionately affected by the events of September 11, 2001, hence the initial revenue per available room (RevPAR) recovery of 20.8% in the quarter to December 2002. In particular, the results from the InterContinental hotels in New York, Chicago, San Francisco and Miami reflected the investment in renovations at these properties, with RevPAR growth at these properties being ahead of their relative markets. RevPAR for the total O&L InterContinental estate was up 11.3% on the prior year, with occupancy 6.3 percentage points higher and average daily rates 0.4% higher. Overall, O&L operating profit was $4 million, the same as in 2002, primarily because RevPAR growth was occupancy driven.

Operating profit for the Americas midscale franchise estate at $87 million was 4.8% higher than 2002. RevPAR was level with the prior year for Holiday Inn and 1.3% up for Holiday Inn Express. We believe performance is a demonstration of the strength, scale and resilience of our midscale franchise business and its strong presence in the drive to market in the United States, which is not reliant on international travel. For the six month period ended March 31, 2003, Express continued to outperform the market and Holiday Inn performance was in line with the market.

Operating profit for the managed and upscale franchise business was $16 million compared with $20 million for the first half of 2002, reflecting in particular the difficult economic environment in Latin America.

Table of Contents

Europe, the Middle East and Africa (EMEA)

EMEA results	Three months to		Six months to		
	December 2002	March 2003	March 2003	March 2002	% change
			(£ million)		
Turnover	206	181	387	392	(1.3)%
Operating profit:					
Owned & leased	14	6	20	37	(45.9)%
Managed & franchise	6	6	12	13	(7.7)%
Total operating profit	20	12	32	50	(36.0)%

EMEA has been impacted significantly by the fall in international travel as a consequence of the sustained weakness of the global economy and the threat of, and subsequent war in, Iraq. All of these factors have particularly affected key gateway cities in which EMEA s upscale properties are concentrated. Overall, EMEA operating profit for the six months was £32 million, substantially lower than last year.

EMEA RevPAR growth on previous year	Three months to		Six months to
	December 2002	March 2003	March 2003
InterContinental owned & leased	12.8%	(6.1)%	3.3%
Crowne Plaza owned & leased	2.0%	(1.6)%	0.3%
Holiday Inn UK London	12.8%	0.3%	6.8%
Holiday Inn UK Regions	3.5%	1.2%	3.7%

In the O&L estate, InterContinental hotels in London, Paris, Frankfurt and Rome were all adversely impacted by the reduction in international airline travel, particularly in-bound from the United States. InterContinental RevPAR (excluding the InterContinental Le Grand Hotel Paris) for the first quarter was up by 12.8% on the prior year but the second quarter to March 2003 saw RevPAR decline by 6.1% against the same period in 2002. The InterContinental Le Grand Hotel Paris closed as planned in December 2001 for its major refurbishment and 234 rooms were re-opened by the end of April 2003. The hotel will be fully functional from late October 2003 with all 478 rooms open.