Hotels Worldwide Inc.

Executive Summary

Hotels Worldwide Inc. (HWI) is a global hospitality company that is primarily a manager and franchisor of hotels owned by REITs and real estate investors. HWI also owns a select portfolio of hotels. HWI’s footprint is approximately 50% in North America, 30% in Europe, and 20% in Asia.

According to the United Nations, the hotel industry contributes to about 1% of global greenhouse gas (GHG) emissions. As a leading hotel company, HWI undertakes ESG efforts that are representative of its industry.

HWI’s ESG Evaluation score of 78 reflects a number of best practices, including a multiyear ESG initiative, progress on targets related to Environmental (E) and Social (S) Profiles, and strong preparedness. The multiyear ESG initiative focuses on energy consumption, emissions, and water usage, and HWI is reporting various degrees of success on its goals. The company also has assets that demonstrate commitment to E and S reporting. The company has a good governance framework and high levels of transparency, partly offset by some concentration in the shareholder base that could affect governance. The Governance Profile also reflects some vulnerability to cyber risks as evidenced by recent data breaches.

Preparedness reflects relatively high awareness and strategic prioritization of ESG targets, a commitment to reporting, and ESG goals that appear connected to hotel brand standards.

Profile Score

71/100

Preparedness Opinion

Strong

ESG Evaluation

78/100

Entity: Hotels Worldwide Inc.
Location (HQ): U.S.
Primary Operation Location(s): North America, Asia, Europe
Publication date: April 11, 2019
Primary Contact

Company-specific attainable and actual scores

Awareness: Excellent
Assessment: Excellent
Action: Good
Culture: Excellent
Decision-making: Good

ESG 100 represents lower risk exposure.
Component Scores

<table>
<thead>
<tr>
<th>Environmental Performance</th>
<th>Social Performance</th>
<th>Governance Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector/Region Risk Level</strong></td>
<td>44/50</td>
<td>28/50</td>
</tr>
<tr>
<td>Greenhouse Gases</td>
<td>Strong</td>
<td>Workforce &amp; Diversity</td>
</tr>
<tr>
<td>Waste</td>
<td>Lagging</td>
<td>Safety Management</td>
</tr>
<tr>
<td>Water</td>
<td>Strong</td>
<td>Customer Engagement</td>
</tr>
<tr>
<td>Land Use</td>
<td>Good</td>
<td>Communities</td>
</tr>
<tr>
<td>General Factors (optional)</td>
<td>None</td>
<td>General Factors (optional)</td>
</tr>
</tbody>
</table>

| **E Profile (30%)** | 77 | **S Profile (30%)** | 65 | **G Profile (40%)** | 72 |

**ESG Profile (incl. any adjustments)** 71/100

Preparedness Summary

We view HWI’s preparedness as strong. HWI is aware of the impact of its operations in terms of both environmental and social risks. The company has a clear multiyear ESG plan until 2026 to reduce GHG emissions, energy consumption, water usage, and natural asset dependence. The company is committed to transparency and has aligned its reporting with several reputable benchmarks in the ESG space. HWI has also demonstrated success on multiple metrics and has been reporting regularly on its progress. We believe HWI has a culture that emphasizes and incorporates ESG into brand standards. At the same time, we believe ESG accountability among senior management and the board of directors is present but not exceptional at HWI.

**Preparedness Opinion**

Strong

**ESG Evaluation**

| **ESG Profile** | 71/100 |
| **Preparedness Opinion** | Strong (+ 7) |
| **Further Adjustment (if any)** | None |

78/100
ESG Profile

Overview

HWI’s ESG Profile primarily reflects a communicative and reasonably effective plan on E and S goals, and good governance practices that translate into a solid G-Profile.

HWI’s E-profile addresses risks in energy consumption, GHG emissions, and water usage. Energy consumption and emissions are a function of hotel service levels, accommodations for diverse business and leisure travel needs, and around-the-clock operations. Water usage is also a focus given HWI’s hospitality operations. HWI plans to reduce energy consumption and GHG emissions by 20% per square meter by 2026 compared to the base year of 2005, which is significant because we also expect the company’s hotel portfolio to grow during this period. To date, HWI is reporting success on GHG emissions and water usage goals, but lags on energy consumption goals.

HWI’s S-Profile reflects good feedback mechanisms for employees, an emphasis on workforce diversity, and good rankings on popular business press benchmarks, but is partly offset by exposure to social cohesion risks and reliance on unionized labor. The company has a number of feedback mechanisms that engage employees, including risk mitigation committees and periodic surveys. HWI also has a policy that extends to its supply chain, which we partly attribute to some concentration in the supply chain that enables the hotel industry to efficiently manage ESG risks. In addition, HWI upholds an effective corporate policy on human rights, which it incorporates into brand standards.

The G-Profile reflects a governance structure that suggests strong management, transparency, and reporting, notwithstanding the presence of shareholder concentration. We believe a large shareholder could pose some governance risks, although the track record has been demonstrably positive. We believe the company could invest to further reduce its cyber risks given recent attacks and the hotel industry’s vulnerability to data breaches, particularly among large hotel systems.
Environmental Factor Analysis

**Greenhouse Gas Emissions**

- HWI’s GHG emissions goal is to reduce emissions per square meter by 20% in 2026 compared with 2016. HWI is on track to exceed this target and has definitive plans to do so. Progress on emissions reduction is evidenced by HWI’s Scope 1 and 2 emissions intensity (tCO2e/revenues), which has steadily decreased in the last five years. HWI showed success on the emissions goal due to green building investments early in the period that accelerated progress in later years.
- Technological investments in greener HVAC systems have also helped reduce emissions. These systems allow rooms to be climate-controlled at a materially lower emissions rate.
- HWI is making progress to install software that collects ESG data at all its hotels. The software captures key metrics which the company plans to use to build an AI approach to emissions reductions. The software is on track to be installed at all owned locations by Q3 2020.

**Waste**

- Currently HWI’s recycling rates fall below industry peers and its levels of absolute waste are steadily rising.
- The company has instituted goals and policies in the past year in an attempt to remediate performance, including a recycling incentive for guests and employees, but so far this has not made a statistically significant impact on the company’s performance.
- The company has a supply chain audit policy, which covers only tier one suppliers and does not include on-site audits, announced or otherwise.

**Water**

- The water use goal is to reduce withdrawals per guest night by 20% in 2026 compared with 2005. HWI is progressing well toward this goal, with Europe having already exceeded it and North America at 13% reduction. We believe HWI’s water reduction goal is meaningful and attainable.
- However, HWI’s water use intensity is below average for the industry. Water intensity (cubic meters per revenue dollar) decreased over the past five years and is currently below the median for the hospitality sector, which includes hotels, resorts, and cruise lines.
- We believe HWI’s global footprint is a modest challenge to reaching the water use target, because hotels outside North America are less water-efficient. For instance, Asian hotels’ water use per guest night is about 1.25x that of North America, which poses a challenge to balance Asian portfolio growth while reaching water goals. The company has clearly defined strategy for overcoming these challenges, including significant water efficiency investments for hotels in water stressed regions, financed by a green bond issuance.

**Land-use**

- The company has a basic land-use policy in place that addresses greenfield development but does not touch on biodiversity risks, expansion strategy, or environmental impact assessments.
- The company operates in a few regions with significant levels of endangered species.
- The company’s assets are primarily brownfield in urban centers, and it does not have plans to expand to more rural or tropical locations.

**General Factors**

- No adjustment is recommended at this time.

Social Factor Analysis
Workforce & Diversity | Strong
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- The company demonstrates a commitment to periodically monitoring talent management risks and facilitating feedback loops. HWI conducted surveys and focus groups involving 5,000 employees as recently as 2016.
- HWI has a remediation process at the managerial level, through a risk mitigation committee that consists of general managers worldwide.
- The full-time workforce is diverse for this sector with about 55% women. However, gender diversity is lower at the managerial level.
- About 33% of the full-time workforce is unionized, which poses potential headline risk. The media reported on union activity and protests that surfaced in 2018 regarding compensation. We view this as an industry-level risk, because unions contract with multiple hotel companies.
- HWI was among the first major hotel companies to offer paid paternity leave.
- The company is ranked highly by numerous employment-related benchmarks.

Safety Management | Strong
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- We view HWI to be exposed to social cohesion risks related to terror-attacks, geopolitical unrest, and health scares that could have a significantly negative impact on travel demand and financial performance for a period of time. Although HWI demonstrates security standards better than many peers, we believe these risks are ever present and beyond the company’s control.
- HWI shows commitment to safety management internally and in its supply chain. Hotel brand standards incorporate safety criteria for customers and employees. Brand standards include periodic building protection audits, wind impact surveys for roofs and windows, and emergency response plans to weather events.
- HWI requires third-party suppliers of hotel goods and services to comply with a Supplier Manual of Conduct, which contains policies regarding occupational injuries and illnesses and requires the use of systems to track such matters.

Customer Engagement | Good
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- HWI’s customer satisfaction generally ranks among leading services brands. Its Net Promoter Score (NPS) is ‘good’ and typically scores in the 5-15 range. The NPS is somewhat offset by the myriad brands operating under the HWI umbrella.
- We favorably view HWI’s response to several data breaches in the 2005-2018 period. HWI effectively communicated that the breaches occurred because of a concerted effort by attackers and not due to lack of risk management by HWI. HWI demonstrates attention to detail regarding data privacy. The company has multiple Privacy Regulation statements for different regions, including Europe, Asia, and specific countries.

Communities | Strong
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- HWI has a detailed policy on human rights, and has been ranked by the Human Rights Scoreboard. The policy includes a statement on anti-slavery.
- The company conducts regular training on human trafficking. All 70,000 employees have recently participated in such training. The company states that human trafficking training is a brand standard for all of its hotels. The company also supports survivors of human trafficking through philanthropy and employment programs, in regions such as Asia and North America.
- HWI demonstrates a commitment to community activities through corporate giving, which averages $20 million-$30 million annually.

General Factors | None
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- No adjustment is recommended at this time.
Governance Factor Analysis

Structure & Oversight

Good

- The board’s key committees consist of independent directors under SEC standards. The CEO and chairman roles are separate, mitigating perceptions of conflicts of interest.
- We believe the presence of a large activist shareholder with material equity holdings could present governance risks and influence board composition. However, we believe these risks are mitigated because the shareholder is aligned with the wider shareholder base. In addition, the large shareholder has a history of beneficial operational and financial transactions with the company, which increases our confidence about the stability of the current governance framework.
- The board does not have explicitly assigned ESG responsibilities, although semiannual reporting on sustainability occurs.

Code and Values

Good

- We believe HWI's code and values are reflected in its 15-page Manual of Conduct for employees and suppliers. HWI appears to incorporate key values as brand standards, which add to the reputational value of HWI as a services company.
- Several key policies are in place, including insider trading, whistleblowing, political involvement/donations, and public communication.
- However, select codes are missing, including codes on business conflicts.

Transparency & Reporting

Strong

- HWI demonstrates strong transparency and robust reporting, including through periodic CDP, GRI, and self-published corporate responsibility reports. These reports discuss goals, benchmarking, and relative successes and shortcomings.
- Transparency and reporting are further enhanced by HWI’s participation in a number of corporate rankings annually, relatively more so than industry peers.

Cyber risks & Systems

Good

- ▲ Cyber risk is a growing concern for HWI. The hotel industry has a high exposure to cyber risk. HWI has suffered cyberattacks that the popular press reported. Although the company’s reputation was not materially damaged, we believe global hotel managers and franchisors have acute data privacy risks because of their large loyalty programs and hotel portfolios.
- HWI has increased investments in its cybersecurity team and had taken steps to prevent breaches from occurring again. In addition, the company has multiple data privacy policies covering several regions. We believe HWI’s risk management system is in line with the industry, we maintain the view that cyber risk could result in potential black swan events.

General Factors

None

- No adjustment is recommended at this time.
## Preparedness Opinion

<table>
<thead>
<tr>
<th>Preparedness</th>
<th>Low</th>
<th>Emerging</th>
<th>Adequate</th>
<th>Strong</th>
<th>Best-in-class</th>
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<tbody>
<tr>
<td>Awareness</td>
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<td>Excellent</td>
<td></td>
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<tr>
<td>Assessment</td>
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<td>Decision-Making</td>
<td>Developing</td>
<td>Good</td>
<td>Excellent</td>
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### Summary Opinion

We view HWI’s preparedness as strong. The company is aware of and regularly assesses the impact of environmental and social risks on its operations. The company has a clear, multi-year plan through 2026 to meaningfully reduce emissions, energy, and water output, in addition to a number of social goals. HWI benchmarks to and regularly reports on a set of metrics that are frequently cited by best-in-class ESG companies including publishing scenario analysis that considers climate change. The company has also been reasonably successful on its 2026 targets. We believe HWI demonstrates awareness, good assessment, and a track record of action.

We believe HWI has an ESG culture that is reasonably embedded throughout the company and woven into brand standards. We partly attribute the ESG culture to the importance of a leading hotel brand’s reputation. We believe HWI’s scale enables it to address ESG risks in a sophisticated manner, and its brand enables the company to enforce ESG standards vis-à-vis hotel owners. Going forward, we believe HWI could benefit from addressing gaps related to specific risks, such as data privacy.

### Awareness

<table>
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<tr>
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<th>Developing</th>
<th>Good</th>
<th>Excellent</th>
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HWI has a process in place to identify and review risks through its risk mitigation committee. Risks are reviewed regularly and presented to the executive committee. HWI’s board of directors oversees executive risk management and is periodically briefed about the company’s strategy. HWI demonstrates an awareness to prioritize sustainability goals, including emissions, resource scarcity, workforce and diversity, and operational parameters related to natural disaster management, terrorism, cyber risks, labor disruption, and social media risks. HWI also shows awareness about emerging competition from peer-to-peer platforms, and we believe the company is well positioned because global lodging managers are able to provide consistency of service versus the variable levels of quality sometimes associated with online listing services. In addition, HWI addresses the opportunity of changing consumer tastes and preferences, partly by developing a brand portfolio that caters to various price points and standards that track a customer’s lifecycle. These factors are clearly articulated in HWI’s annual report and sustainability-related reports, and the risks and opportunities that the company reviews are updated with each edition of this report. HWI has a track record of increasing awareness internally about emerging risks.
HWI uses widely recognized assessment frameworks. HWI subscribes to the 2 Degree Celsius scenario, which is beyond the action of most hotel industry peers. HWI produces a CDP Response report annually, which requires the company to use scenario analysis starting with 2000 as the baseline year and chart a decarbonisation path in five-year intervals to 2100. As a result, HWI set specific 2026 ESG goals to address long-term sustainability risks. HWI also collects sustainability data using a global environmental management database, which currently covers the majority of its hotels. Because its hotel locations are geographically diverse and face different challenges, HWI uses energy audits to prioritize property-specific projects and location audits to assess water risks. HWI monitors other risks, including competition from peer-to-peer platforms and changing consumer preferences (including those driven by shifting demographics), through strategic planning, focus-grouping, and periodic brand audits.

HWI uses a materiality based approach to manage long-term risks and prioritize the most important issues on which it can have the greatest impact. HWI also has ESG goals that it tracks and reports on annually. However, specific thresholds for materiality have not been disclosed. It is also unclear what systems are in place to translate any risk threshold breaches into action and how the company views being behind on any of its interim sustainability goals. The company has a list of identified risk drivers and plans for managing those risks to reduce their severity, but it is not entirely clear how the company monitors the developments of additional emerging or disruptive risks and what the ability is to quickly react when risks surface, aside from specific emergency response plans to address weather-related events, like hurricanes.

HWI has a reasonably well-established decision-making framework regarding ESG that outlines responsibilities up to and including the board. The process starts with the company’s risk mitigation committee that prioritizes risks, assigns accountability for managing and mitigating risks, and monitors the effectiveness of these activities. Evaluations are presented to the board and an executive committee regularly. Departmental units coordinate with the risk mitigation committee and the corporate responsibility department. Corporate responsibility also works with regional leadership teams to integrate environmental and social commitments into business objectives, daily operations, and broader risk management programs.

HWI has a solid sustainability culture that is woven into the company’s brand standards in a number of ways, although that is partly offset by a lack of direct supervision by senior management. HWI laid out unusually specific 2026 ESG targets. These targets are communicated both within the organization and externally, and the company reports publicly on its progress annually via its sustainability website and reports as well as participation in various trade organizations and external events. Sustainability efforts are also communicated with hotel guests. The CEO and the board oversee the company’s performance with respect to these goals and the corporate responsibility department, risk mitigation committee, and regional leadership teams are responsible for integrating sustainability goals into business objectives. However, we believe direct supervision is limited to the director of Worldwide Corporate Responsibility rather than senior management.

Business units have goals tied to sustainability initiatives and receive monetary incentives for achieving specified goals; this alignment of incentives allows for the ESG goals to translate into
positive impact for the company and brings light to future opportunities that otherwise might be ignored. Employees are also eligible for nonmonetary recognition for environmental stewardship. HWI appears to offer a good amount of training on ESG covering the company’s 2026 environmental sustainability goals, although it is difficult to discern from public information how the training is acted upon at all levels of the organization. We believe sustainability initiatives are well received by HWI’s internal stakeholders, including hotel owners, because they need to acknowledge brand standards prior to contracting with HWI. We also believe employees and managers recognize the importance of sustainability initiatives, because they implement brand standards on a daily basis.

We also believe senior management and regional managers regularly convene to assess emerging risks such as cyber security and competitive risks. Because these risk factors are evolving, they tend to be handled at a strategic level and their planning is less visible other than through communications from senior management.

Decision making

The highest level of direct responsibility resides with the CEO, who is a member of the board, and his responsibilities include overseeing performance related to climate change and setting the vision for ESG targets. The CEO hosts semi-annual reviews with the corporate responsibility office and regional leaders on emerging ESG topics and performance. It appears some level of executive compensation is linked to ESG factors. The director of Worldwide Corporate Responsibility clearly has annual ESG-related goals that are tied to bonuses, but other senior management has a more generic description that 50% of incentive is based on strategic priorities and 50% based on individual management objectives. It is unclear how ESG factors fall into those two categories. The board is responsible for overseeing enterprise risk management, which includes ESG and sustainability efforts, although the oversight appears to be passive monitoring.
Sector/Region Risk

<table>
<thead>
<tr>
<th>Primary Sector(s)</th>
<th>Leisure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary operating Region(s)</td>
<td>North America</td>
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</tbody>
</table>

Sector Risk Summary

We believe the hotel sector has high exposure to social risks related to terror attacks, geopolitical unrest, and health scares that could have a significantly negative impact on travel demand and financial performance for a period of time. We also believe the industry is exposed to environmental risks stemming from emissions, energy, and water usage at hotel properties.

Environmental Exposure

Environmental risks tend to focus on climate change because unfavorable and extreme weather can dampen visitation and thus revenue, or damage and even destroy assets. Ocean warming and acidification is affecting the quality of some locations by damaging marine life, which could affect future demand, although many operators have sufficient geographic diversity to mitigate this. Salt water intrusion into coastal aquifers could raise the cost of water for parts of the hotel subsector, although not significantly at present. Emissions and other waste and pollution regulations have a small, but meaningful impact on a subset of leisure operators, especially cruise operators and leisure goods manufacturers. For example, regulations can increase costs and heighten investment spending to develop more fuel-efficient or environmentally friendly ships.

Social Exposure

Although difficult to predict, events such as terrorism, geopolitical unrest, and health scares can have a significant negative impact on travel demand and leisure activities. Examples include the aftermath of Sept. 11, European terror attacks in 2015 and 2016, and flu scares over the past two decades. Increased regulations to protect local communities from the perceived harmful effects of gaming can also impair profits. Fires and fatalities on cruise ships and in several theme parks around the world illustrate safety risk. Toy and goods manufacturers also face severe reputation and product liability risks because of accidents. As consumer preferences—partly driven by social media exposure—require constant improvement, the industry will require much capital investment particularly for hotels, cruise ships, casinos, and theme parks. Social media regarding negative travel experiences can quickly present a problem for brands. Technology also introduces new ways to purchase travel and new supply in the hospitality market against which traditional leisure providers need to compete.
Sector/Region Risk

Regional Risk Summary

The summary below reflects our country risk summary for the U.S. where the head office is located. The company's exposure beyond the U.S., primarily in Europe and Asia, reflects modest regional risk.

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations and social indicators. Income inequality is higher than in other OECD countries, but has been so for over a century. Social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance, focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. Exchanges requirements mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, establishment of formal requirements on ESG reporting are behind those of European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular, which can create issues regarding management oversight. Remuneration continues to be a contentious point, because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism.