

Atour Lifestyle Holdings
Third Quarter 2024 Earnings Conference Call

Opening Remarks

Operator introduction

Ladies and Gentlemen, thank you for standing by, and welcome to the Atour Lifestyle Holdings Third Quarter 2024 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a Q&A session. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Luke Hu, Senior IR manager. Please go ahead, sir.

Luke Hu:

Thank you, operator. Good morning and good evening, everyone. Welcome to our Third Quarter 2024 Earnings Conference Call. Today, you will hear from our Founder, Chairman and CEO, Mr. Wang Haijun, and our Co-CFO, Mr. Wu Jianfeng.

Before we continue, please be aware that today's discussion will include forward-looking statements under federal securities laws. These statements are subject to various risks and uncertainties, and actual results may differ significantly from what is stated or implied in our comments today. The Company is not obligated to update any forward-looking statements except as required by applicable laws.

Additionally, during this call, our management will discuss certain non-GAAP financial measures solely for comparison purposes. For a clear understanding of these measures and a reconciliation of GAAP to non-GAAP financial results, please refer to the earnings release issued earlier today.

Furthermore, a webcast replay of this conference call will be accessible on our website at ir.yaduo.com, where a copy of the results presentation is also available. Now, I will turn the call over to Mr. Wang, our CEO.

Haijun Wang:

Thank you, Luke. Hello, everyone, and thank you for joining Atour's third quarter 2024 earnings call today.

In the third quarter of 2024, domestic travel demand demonstrated steady growth. Leisure tourism remained highly active, highlighting the strong resilience of the service consumption market. Following last year's surge in pent-up travel demand, consumer behavior returned to a more rational pace this summer, with a more diverse array of tourism hotspots emerging.

In response to a fluctuating market environment and evolving consumer demands, as a leading lifestyle brand, we will continue to innovate and elevate our hotel offerings while strengthening our service advantages to deliver a superior customer experience. Additionally, we will drive high-quality growth in our retail business, centered around our deep sleep products, to reinforce Atour's distinctive competitive edge.

Now, I would like to provide more details on our performance for the third quarter of 2024.

Let's begin with our hotel business. Please turn to slide 4 of our 3Q24 results presentation. Our RevPAR reached RMB380 in the third quarter of 2024, representing 89.5% of its level for the same period of 2023, with OCC and ADR achieving 97.5% and 92% of their levels for the same period in 2023, respectively. Due to the high comparison base effect, ADR faced certain pressure this summer, while OCC also experienced a year-over-year decline amid the shift to outbound tourism.

Please turn to slide 5. In the third quarter, our mature hotels in operation for more than 18 months continued to deliver solid operational performance. Excluding structural impacts such as the ramp-up of new hotels, same-hotel RevPAR in the third quarter of 2024 reached 91.6% of 2023's level for the same period, outperforming the Group's blended performance by 2.1 percentage points. Specifically, OCC and ADR stood at 98.3% and 93.4% of their levels for the same period in 2023, respectively.

Please turn to slide 6. Travel and accommodation demand surged during the National Day holiday this year, driving steady growth in OCC, which achieved 105% of its level during the

2023 Mid-Autumn Festival and National Day holiday. ADR was 92.1% of its level in the same period of 2023, while RevPAR reached 96.1% of its level in the same period of 2023.

Please turn to slide 7. Driven by our growing brand influence, our hotel network expansion continued to gain traction. In the third quarter, we accelerated our hotel network expansion with 140 new hotel openings, up 72.8% year over year, once again setting a record quarterly pace in new openings. As of the end of the third quarter, we had a total of 1,533 hotels in operation, representing a 37.9% year-over-year increase.

Please turn to slide 8. Franchisees' confidence remained resolute in the third quarter, further affirming our strong competitive edge and brand recognition. The number of hotels under development reached 732 as of the end of the third quarter, underpinned by a significant portfolio of high-quality projects, generating sustained momentum to support Atour's thriving brand vitality.

Next, I would like to share the latest developments for the Atour and Atour Light brands.

Please turn to slide 9. As our elevated upper midscale offering, Atour 4.0 continues to gain favor among both consumers and franchisees, driven by its exceptional experience and outstanding operational model. To date, Atour 4.0 has over 60 projects in pipeline, with 6 hotels in operation. Product innovations embodied in Atour 4.0 continued to set the standard for experience upgrades in the upper midscale hotel market, driving rapid growth in occupancy rate for Atour 4.0 hotels in operation and highlighting the brand's robust competitive advantages.

Please turn to slide 10. Atour Light 3.0 also continued to perform strongly this quarter, further solidifying its competitive edge in the midscale market. During the third quarter, Atour Light 3.0 signed 38 new projects, continuing to account for more than 20% of our total new signings. By the end of September, the number of Atour Light 3.0 hotels in operation reached 76, primarily located in key business districts of second-tier cities and above.

Atour Light 3.0's success stems from our keen ability to capitalize on strategic property upgrade opportunities in core business districts, along with our continued focus on and swift response to the evolving business travel market. Since the launch of Atour Light 3.0, we have consistently achieved brand-signature innovations and breakthroughs across various dimensions, including

operations management and customer experience. Moving forward, Atour Light 3.0 will continue to uphold our ethos of “Life at Ease,” delivering a more diverse, elevated travel experience for a wide range of customers, including younger business travelers.

Please turn to slide 11. Now, I’d like to introduce our recently launched upscale lifestyle brand, SAVHE Hotel. “SAVHE” means “breath” in the Lisu language, symbolizing the power of life. Inspired by this concept, we have meticulously crafted a hotel product rooted in Eastern aesthetics.

The launch of SAVHE Hotel not only presents a powerful product model that seamlessly integrates Eastern aesthetics, high-end experiences and superior operational efficiency, but also pioneers a new form of upscale hospitality, transforming the industry’s structural challenges into opportunities. Looking ahead, we will continue to employ a long-term approach to the upscale market, providing the new generation of consumers with a tranquil retreat that prioritizes emotional connection and immersive experiences.

Moving now to our retail business. Please turn to slide 12. Our retail business sustained its strong momentum in the third quarter, with robust GMV growth of 107.7% year over year, reaching RMB566 million, and sales from online channels accounting for around 90% of the total GMV. Notably, we delivered another remarkable performance during this year’s Double Eleven Shopping Festival, as we topped the pillow and comforter sales chart across various third-party e-commerce platforms. This impressive performance clearly reflects Atour Planet’s continuously strengthening brand awareness.

Please turn to slide 13. I am proud to share that we revisited Yunnan Province this fall in October and successfully held our first “Deep Sleep Conference,” centered around the concept of “natural deep sleep.” At the Conference, we addressed the widespread issue of sleep disorders in today's society and presented a detailed overview of Atour Planet's effective and systematic deep sleep idea.

We spotlighted several blockbuster products at the Conference, including the innovative Atour Planet Deep Sleep Memory Foam Pillow PRO 2.0. The launch of this product not only enhances the Atour-signature deep sleep experience but also showcases our advanced and efficient new product development mechanism. The updated pillow features a patented spring memory foam material and a three-layer design with foams of varying firmness and curvature. Its unique R-

shaped partition structure and ergonomic angle design significantly enhance its rebound and support, promoting greater relaxation of the shoulders and neck to help users naturally achieve deep sleep. As a result, the Atour Planet Deep Sleep Memory Foam Pillow PRO 2.0 has received widespread acclaim since its release in July this year, with total sales exceeding 800,000 units.

Meanwhile, in tune with the changing seasons and our ongoing exploration of natural deep sleep, we officially launched the Deep Sleep Thermo-Regulating Comforter PRO (Winter Season), another breakthrough in our comforter product line following our best-selling Deep Sleep Lightweight Comforter and Deep Sleep Thermo-Regulating Comforter PRO (All-Season). The Winter Comforter adopts elements of the Deep Sleep Thermo-Regulating Comforter PRO's highly praised design, such as its dual-layer temperature control system, coverless design and machine-washable, dryer-friendly materials, while offering an enhanced heat storage layer, providing improved breathability and extended heat preservation for a more comfortable and cozier deep sleep experience during the cold winter. Notably, the Atour Planet Deep Sleep Thermo-Regulating Comforter PRO series has accumulated sales of 200,000 units since its launch.

Our Deep Sleep Conference transcended a mere product showcase, embodying our deep understanding of sleep science and customer needs. We are confident that through relentless innovation and groundbreaking advancements, Atour Planet will continue to set benchmarks in the “deep sleep” segment, providing a natural and comfortable deep sleep experience to everyone.

Please turn to slide 14. **Moving to our membership business and channel development progress.** Bolstered by our ongoing enhancement of Atour's membership program and overall member experience, our membership base has expanded rapidly. As of the end of the third quarter, our registered individual members exceeded 83 million, marking a 53.7% increase year over year. Meanwhile, despite the structural impacts of holiday travel demand, our core CRS channel remained healthy and efficient, accounting for 61% of total room nights sold during the third quarter. The contribution of room nights sold to corporate members was 18.6% during the third quarter.

Please turn to slide 15. Next, I'm pleased to share the progress we have made in developing our ACARD membership ecosystem. We recently unified the membership systems and points

benefits of our hotels and Atour Planet across various platforms for a seamless member experience. To enhance this integration, we also revamped the Atour Mini Program to deliver a consistent experience for both hotel and retail members. As we move forward, we will continue to promote the synergistic growth of our hotel and retail businesses, deepen the integration of our membership system and its operational pathways, and optimize membership benefits. Ultimately, we aim to create a smooth consumption experience across diverse scenarios, boosting member loyalty and reinforcing our brand's competitive advantage.

Last but not least, a brief overview of Atour's accomplishments across our ESG initiatives during the third quarter. Please turn to slide 16.

As a dynamic spiritual oasis and gateway to human connection within our hotels, the Bambook Library has evolved beyond a traditional library to become a platform for cultural communication and connection. We aim to advance this evolution, integrating additional local cultural elements to transform each Bambook Library into a cultural interaction space that uniquely reflects the character of its city.

To that end, we recently launched the Bambook Library "One City, One Library" initiative, with the first opening at the Xi'an Nanmen Atour 4.0 Hotel. Through partnerships with renowned cultural brands, we've introduced a series of themed events, such as "Book-for-Book" exchanges and cultural salons, using books as a medium to connect customers with the rich culture of Xi'an. To date, Atour has established over 1,500 Bambook Libraries in more than 200 cities across China. Moving forward, Atour plans to expand this initiative to more cities, fostering deeper connections among customers, local communities, and regional cultures, and contributing positively to cultural exchange and community engagement.

Now, I'll turn the call over to our Co-CFO, Mr. Wu Jianfeng, to discuss our financial results.

Wu Jianfeng:

Thank you, Haijun. I'd like to present the Company's financial performance for the third quarter of 2024.

Please turn to slide 18 of the results presentation.

Our net revenues for the third quarter of 2024 grew by 46.7% year-over-year and 5.7% quarter-over-quarter to RMB1,899 million. The year-over-year increase was driven by robust growth in the managed hotel and retail businesses. The quarter-over-quarter increase was mainly attributable to an increase in RevPAR, which reached RMB380 for the third quarter of 2024, compared with RMB359 for the previous quarter.

Revenues from our managed hotels for the third quarter of 2024 were RMB1,179 million, up by 51.0% year-over-year and 14.8% quarter-over-quarter. The year-over-year increase was primarily fueled by our ongoing hotel network expansion and the rapid growth of our supply chain business. The total number of managed hotels increased to 1,504 as of September 30, 2024, up by 39.3% year-over-year. The quarter-over-quarter increase was mainly due to an increase in RevPAR. RevPAR of our managed hotels was RMB376 for the third quarter of 2024, compared with RMB355 for the previous quarter.

Revenues contributed by our leased hotels for the third quarter of 2024 were RMB190 million, reflecting a 20.4% year-over-year decline but a 5.1% quarter-over-quarter increase. The year-over-year decline was primarily due to a decrease in the number of leased hotels as a result of our product mix optimization, as well as a decrease in RevPAR. The quarter-over-quarter increase was driven by an increase in RevPAR. Our leased hotels' RevPAR was RMB527 for the third quarter of 2024, compared with RMB503 for the previous quarter.

Revenues from our retail business for the third quarter of 2024 were RMB480 million, reflecting a 104.0% year-over-year increase but a 10.6% quarter-over-quarter decline. The year-over-year increase was driven by widespread recognition of our retail brands and effective product innovation and development as we successfully broadened our range of product offerings. The quarter-over-quarter decline was primarily attributable to the seasonality of our retail business.

Revenues from others for the third quarter of 2024 were RMB50 million, up 26.4% year-over-year and down 5.4% quarter-over-quarter. The year-over-year increase was driven by our fast-growing membership business.

Now, let's move to costs and expenses. Please turn to slide 19.

Operating costs and expenses for the third quarter of 2024 totaled RMB1,442 million, including RMB3 million share-based compensation expenses, compared with RMB959 million, including RMB10 million share-based compensation expenses, for the same period of 2023.

Hotel operating costs for the third quarter of 2024 increased by 42.1% year-over-year and 12.9% quarter-over-quarter to RMB876 million. These increases were primarily due to an increase in variable costs, such as supply chain costs, associated with our ongoing hotel network expansion. The gross margin of our hotel business was 36.0% for the third quarter of 2024, compared with 39.5% for the same period of 2023, due to a decrease in RevPAR attributable to the high base effect in the same period of 2023, as well as an increased share of revenue generated by the lower-margin supply chain business.

Retail costs for the third quarter of 2024 rose by 102.3% year-over-year and decreased by 14.3% quarter-over-quarter to RMB227 million. The year-over-year increase was associated with the rapid growth of our retail business. The gross margin of our retail business was 52.7% for the third quarter of 2024, compared with 52.3% for the same period of 2023.

Now please turn to slide 20.

Selling and marketing expenses for the third quarter of 2024 were RMB218 million, compared with RMB112 million for the same period of 2023. This increase was mainly due to our enhanced investment in brand recognition and the effective development of online channels, aligned with the growth of our retail business. Selling and marketing expenses accounted for 11.5% of net revenues for the third quarter of 2024, compared with 8.7% for the same period of 2023.

General and administrative expenses for the third quarter of 2024 were RMB82 million, including RMB3 million share-based compensation expenses, compared with RMB79 million, including RMB9 million share-based compensation expenses, for the same period of 2023. Excluding share-based compensation expenses, the increase was primarily due to an increase in labor costs. General and administrative expenses, excluding share-based compensation expenses, accounted for 4.2% of net revenues for the third quarter of 2024, compared with 5.4% for the same period of 2023.

Technology and development expenses for the third quarter of 2024 were RMB30 million, compared with RMB20 million for the same period of 2023. This increase was mainly due to increased investments in technology systems and infrastructure to support our expanding hotel network and retail business and improve customer experience. Technology and development expenses accounted for 1.6% of net revenues for both the third quarters of 2024 and the same period of 2023.

Please turn to slide 21.

Adjusted net income for the third quarter of 2024 was RMB384 million, representing a 41.2% increase year-over-year. Adjusted net profit margin for the third quarter of 2024 was 20.2%, representing a decrease of 0.8 percentage points year-over-year. Adjusted EBITDA for the third quarter of 2024 was RMB532 million, up by 40.0% year-over-year, with an adjusted EBITDA margin of 28.0%, which decreased 1.4 percentage points year-over-year. The decreases in both margins were primarily due to a decline in RevPAR and an increased revenue contribution from lower-margin supply chain business, along with organic growth in selling and marketing expenses amid our retail business expansion.

Please turn to slides 22 and 23.

Operating cash inflow for the third quarter of 2024 was RMB433 million. Investing cash outflow for the third quarter of 2024 was RMB572 million. Financing cash outflow for the third quarter of 2024 was RMB421 million.

We also maintained a healthy cash position with stable growth momentum. As of September 30, 2024, our cash and cash equivalents totaled RMB2,741 million, with net cash of approximately RMB2,649 million.

Please turn to slide 24.

For the full year of 2024, we currently expect the Company's total net revenues to increase by 48% to 52% compared with full year 2023.

That concludes our financial highlights for the third quarter of 2024.

Now, let's open the floor for Q&A.

Luke Hu:

Thank you for joining us today. If you have any further questions, please feel free to contact our IR team. We look forward to speaking with you again next quarter. Thank you, and goodbye.