

Atour Lifestyle Holdings
Second Quarter 2023 Earnings Conference Call

Operator introduction

Ladies and Gentlemen, thank you for standing by, and welcome to the Atour Lifestyle Holdings Second Quarter 2023 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 Ms. Alison Zhang, Director of Investor Relations. Please go ahead, ma'am.

Alison Zhang:

Thank you, operator. Good morning and good evening, everyone. Welcome to our Second Quarter 2023 Earnings Call. Joining us today are our Founder, Chairman and CEO, Mr. Wang Haijun, and our Co-CFOs, Mr. Wang Shoudong and 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 available on our website at ir.yaduo.com.

Now, I will turn the call over to Mr. Wang, our CEO.

Haijun Wang:

Thank you, Alison. Hello, everyone, and thank you for joining Atour's second quarter 2023 earnings call today.

We are thrilled to report another strong quarter, benefiting from the robust ongoing recovery trend since the beginning of this year. During the second quarter, we achieved remarkable growth and breakthroughs in both our hotel and retail businesses. Our passion for progress and

dedication to providing customers with exceptional experiences continued to differentiate Atour and magnify our competitive advantages, further enhancing our brand awareness and influence. As we look ahead to 2023, we are confident that our core value proposition and commitment to establishing the “Chinese experience” as the industry benchmark will continue to drive our sustainable growth. Additionally, we are steadily executing the plan to grow our portfolio to 2,000 premier hotels nationwide by 2025, which will propel further prosperity across our business.

Now, I would like to discuss our performance in detail across our business lines.

Let’s begin with our hotel business. In the second quarter, the continued recovery in both business and leisure travel stimulated a rapid increase in accommodation demand. Leveraging our optimized customer channel and strong operational capabilities, we achieved robust growth in our hotel business during the quarter. Our RevPAR recovered to 115% of 2019’s level, with April, May and June reaching 120%, 108% and 117%, respectively. Both ADR and OCC fully recovered and continued to surpass 2019’s level this quarter. Furthermore, our mature hotels in operation for more than 18 months continued to outperform, with same-hotel RevPAR recovering to 114% of 2019’s level in the second quarter. This was largely in line with the overall performance of our hotel business, illustrating our products’ enduring competitiveness over a longer life cycle compared with that of the broader industry.

Thanks to our signature experience combining warmth, comfort and ease, we garnered wide recognition from business travelers, who have always been highly engaged with Atour. Meanwhile, we were pleased to see that our exceptional experience continues to attract the attention and praise of more leisure travelers. In July, our ADR exceeded RMB500 and OCC surpassed 84%, each reaching a monthly all-time record high and together driving RevPAR up to 122% of its level in the same period of 2019. The comprehensive recovery in room rate and occupancy further underpins our ability to drive high-quality, sustainable growth over the long run, and we are confident of delivering strong results in the upcoming third quarter.

We also made solid progress with respect to network expansion during the second quarter as market demand trended positively, enhancing franchisees’ confidence and encouraging them to engage more deeply with us. During the quarter, we celebrated 70 new openings and signed a quarterly record high of over 180 new hotels. As of June 30, we had 523 hotels in our pipeline, representing a year over year increase of over 50% and forming a solid foundation to support our mid-term goal of having 2,000 premier hotels by 2025.

With respect to our hotel product offerings, we initiated an upgrade plan for our midscale brand and launched the Atour Light 3.0 version in February this year. Atour Light 3.0 is uniquely positioned to cater to young, urban business travelers who seek quality services and exceptional experiences. With the stylish, fashionable and trendy design, as well as its differentiated market positioning and competitive investment return, Atour Light 3.0 attracted franchisees' recognition shortly after its launch. We signed 30 Atour Light 3.0 projects in the second quarter, accounting for over 15% of the quarter's total signings. Following the gradual openings of our first batch of Atour Light 3.0 hotels since late June, the hotel brand made a comprehensive breakthrough across the midscale market as they quickly gained popularity among young customers and realized rapid operational growth. Atour Light 3.0 precisely captures young customers' aesthetic preferences and caters to their demand for high-quality experiences, creating a brand-new experience for the Gen Z+ demographic in the midscale hotel market while enhancing its brand recognition and value proposition. We believe Atour Light has great potential to become our second brand to reach the 1,000-hotel milestone, given its strong product competitiveness and widespread market recognition.

Following Atour Light 3.0's successful debut, we are proactively developing the next-generation product for our flagship Atour brand in Shanghai. We expect to introduce this product to the market by the end of this year.

Before I move on from hotels, I'd like to touch on our APLUS offerings for A-Card loyalty members. At Atour, customer experience has always been the core competitive advantage that sets us apart from our competitors. We continue to redefine the "ultimate" in customer experiences through our APLUS offerings, which in turn promotes healthy and sustainable growth in our member base. For example, if a customer chooses the Pillow Selection service from the APLUS menu at the time of booking, they will receive a cozy, superior sleep experience with our self-developed Deep Sleep pillow. To date, we have carefully selected and designed over 20 APLUS services for our A-Card members, and we are witnessing an increasing adoption rate. Going forward, we will advance our APLUS product development with "practical, warm and congenial" experiences in mind, as we identify customers' real demands, and provide them with innovative offerings which are standardized yet personalized to ensure an exceptional experience during their stay at Atour properties and beyond.

Our commitment to continuous innovation and consistent delivery of elevated experiences resulted in healthy growth across our membership base. By the end of the second quarter, over

44 million individual members had joined the A-Card membership program. Our ongoing efforts to optimize customer channels, alongside a rising number of both individual and corporate members, propelled an increase in the percentage of room nights sold through our CRS, which reached 63% in the second quarter.

Moving to our scenario-based retail business. We achieved another strong quarter, with GMV increasing almost 3 times year over year to RMB267 million. Our sleep brand, Atour Planet, in particular, demonstrated extraordinary performance, contributing nearly 90% of our total GMV in the second quarter. Total GMV, including both online and offline sales during the 618 Shopping Festival, surpassed RMB130 million.

Today, we have more than 1,000 hotels encompassing 120,000 rooms within our hotel network. Each hotel represents an exhibition hall for our retail products, while each room functions as an immersive shopping destination for our hotel customers. Their feedback enables us to continuously and organically explore customers' ever-evolving demands and expand our retail product categories accordingly. This, in turn, empowers us to extend our exceptional lifestyle experience beyond accommodation to serve more people. Our commitment to continuous product refinement in pursuit of a truly superior sleep experience has made the Atour Planet Deep Sleep pillow a blockbuster product. During the 618 Shopping Festival, Atour Planet topped the best-selling pillow brands with total sales of 220,000 units across multiple mainstream e-commerce platforms. Furthermore, in March 2023, we launched Atour Planet's new product, the Summer Cool Quilt, which has already demonstrated promising growth momentum.

Going forward, we will invest further and expand our penetration in the field of deep sleep, as we continue to leverage big data and customer feedback to advance product development and broaden our offering categories.

2023 is a special year for Atour, as it not only marks the commencement of the post-pandemic era, but also the 10th anniversary of our company. When we first set foot in Yaduo village 10 years ago, we were instantly captivated by its natural beauty, peace, warmth and purity, which subsequently inspired us to choose the name "Atour." Over the past 10 years, our focus has been on providing more than just a comfortable place to stay. We genuinely care about each and every one of our customers, and we strive to ensure that every aspect of their stay with us is exceptional. We are committed to incorporating the essence of the "Chinese experience" into all of our services, from the moment customers check in through the moment they depart, in

each of our 1,000-plus hotels. Our faith in the vision of Yaduo Village has guided us throughout our journey as we extended our footprint across 176 cities nationwide. While we provide customers with premium offerings and exceptional experiences, we also share Yaduo Village's fragrant, special tea as well as its warmth and peace with travelers, creating an intimate ambiance where people can warmly connect.

Before I wrap up, I would like to take this opportunity to welcome our new co-CFO, Mr. Wu Jianfeng. He will mainly be responsible for overseeing the Company's capital market matters, including investor relations and financing management, as well as providing administrative and other support to the Board and assisting in daily operations. I believe his distinguished leadership skills and extensive experience in the capital markets will play an essential role in the Company's long-term sustainable growth as we progress towards our next phase of development.

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

Wu Jianfeng:

Thank you, Haijun. Good evening everyone. Now I would like to present the Company's financial performance for the second quarter of 2023.

Our net revenues for the second quarter of 2023 grew by 112.3% year over year and 41.2% quarter over quarter to RMB1,093 million. The strong increase in the second quarter was driven by the robust growth in both our hotel and scenario-based retail businesses.

Revenues from our managed hotels for the second quarter of 2023 were RMB626 million, up by 112.3% year over year and 40.2% quarter over quarter. This increase was primarily driven by the ongoing expansion of our hotel network and the increase in RevPAR. The total number of managed hotels increased to 1,001 as of June 30, 2023, up by 25.0% year over year and 7.1% quarter over quarter, while RevPAR recovered to RMB377 for the second quarter.

Revenues contributed by our leased hotels for the second quarter of 2023 were RMB220 million, representing an increase of 53.6% year over year and 17.2% quarter over quarter. The increase was primarily due to the rebound in RevPAR, driven by recovering customer traffic and stronger consumer sentiment since the beginning of 2023. RevPAR of our leased hotels recovered to RMB537 for the second quarter.

Revenues from retail and others for the second quarter of 2023 increased by 222.2% year over year and 76.4% quarter over quarter to RMB247 million, with scenario-based retail revenues growing by 297.8% year over year to RMB212 million. These increases were attributable to our ongoing efforts to tap into ever-changing customer needs as well as data-driven product development, which enabled us to consistently launch sleep products favored by users. In addition, we continue to leverage both online and offline channels, expanding our customer base and enhancing our brand recognition.

Now, let's move to costs and expenses.

Our hotel operating costs for the second quarter of 2023 increased by 56.7% year over year to RMB510 million, mainly due to the increase in variable costs, such as supply chain costs, associated with the ongoing expansion of our hotel network. Hotel operating costs accounted for 60.2% of total hotel revenues for the second quarter of 2023, compared with 74.2% for the same period of 2022. The decrease was due to the robust recovery of RevPAR and the economies of scale brought by our rapid network expansion, which led to a significant increase in the gross profit margin of the hotel business.

Other operating costs for the second quarter of 2023 were RMB121 million, representing an increase of 189.9% year over year, driven by increased costs in line with the rapid growth of our scenario-based retail business. Other operating costs accounted for 49.0% of retail revenues and others for the second quarter of 2023, compared with 54.4% for the same period of 2022. The decrease was attributable to the improving profitability of our retail business.

Selling and marketing expenses for the second quarter of 2023 increased by 197.3% year over year to RMB94 million. Selling and marketing expenses accounted for 8.6% of net revenues for the second quarter of 2023, compared with 6.2% for the same period of 2022, primarily driven by the increased investment in branding initiatives and rapid growth of the scenario-based retail business through online channels.

General and administrative expenses for the second quarter of 2023 were RMB73 million. Excluding share-based compensation expenses of RMB9 million, adjusted general and administrative expenses increased by 54.0% year over year to RMB64 million for the second quarter. General and administrative expenses (excluding the impact from share-based compensation expenses) accounted for 5.9% of net revenues for the second quarter of 2023, compared with 8.1% for the same period of 2022.

Our technology and development expenses for the second quarter of 2023 were RMB18 million, compared with RMB16 million for the same period of 2022.

Adjusted EBITDA for the second quarter of 2023 was RMB344 million, up by 232.4% year over year. Adjusted net income for the second quarter increased by 312.9% year over year to RMB249 million. Adjusted net profit margin for the second quarter of 2023 was 22.8%, increasing by 11 percentage points year over year. The significant increase in gross profit margin in both our hotel and scenario-based retail businesses, along with our optimizing operating leverage, led to an improvement in the group's overall net profit margin.

Notably, we have maintained a healthy cash position with stable growth momentum. As of June 30, 2023, our cash and cash equivalents totaled RMB2.53 billion. Among them, net cash was RMB2.46 billion, representing an increase of 39.4% quarter over quarter.

Today, we also declared a cash dividend of US\$0.05 per ordinary share, or US\$0.15 per ADS. The total amount of cash to be distributed for the dividend is expected to be approximately US\$21 million.