

Atour Lifestyle Holdings
Fourth Quarter and Full Year 2022 Earnings Conference Call

Operator introduction

Ladies and Gentlemen, thank you for standing by and welcome to the Atour Lifestyle Holdings Fourth Quarter and Full Year 2022 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. Queenie Qin, Senior Manager of Investor Relations. Please go ahead, ma'am.

Queenie Qin:

Thank you, operator. Good morning and good evening, everyone. Welcome to our Fourth Quarter and Full Year 2022 Earnings Call. Joining us today are our Founder, Chairman and CEO, Mr. Wang Haijun, and our Co-CFOs, Ms. Zhaorui and Mr. Wang Shoudong.

Before we start, please note the discussion today will include forward-looking statements made under federal securities laws that are subject to numerous risks and uncertainties. Actual results may differ materially from those stated or implied by our comments today. The Company does not undertake any obligations to update any forward-looking statements except as required by applicable laws.

During today's call, management will also discuss certain non-GAAP financial measures for comparison purposes only. For a definition of non-GAAP financial measures and a reconciliation of GAAP to non-GAAP financial results, please see the earnings release issued earlier today.

In addition, 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, Queenie. Hello, everyone, and thank you for joining Atour's fourth quarter and full year 2022 earnings call today.

This is our first earnings call following our successful listing on NASDAQ. Becoming a public company is not just an important milestone for us – it also encourages us to continuously improve our products and customer experiences while building a stronger lifestyle brand. Since its establishment in 2013, Atour has always been positioned as a lodging-centric lifestyle brand. We have endeavored to navigate a fashionable approach to meet the refined expectations of those who demand a high-quality lifestyle beyond accommodation, and to create people-centered and hospitable experiences full of joy for our customers by providing an intimate ambiance where people can warmly connect.

2022 was a challenging year, in which we experienced various degrees of pandemic outbreaks across the country. We were glad to see the new post-pandemic phase emerge at year-end. The three-year pandemic imposed great challenges on the hospitality industry as a whole. As a leading upper midscale hotel chain in China, Atour proactively responded to these challenges, enhancing its efforts to cater to customers' needs during such unusual times with memorable and personalized experiences in a safe and comfortable environment. By refining our lifestyle products and improving customer experiences across various scenarios, we weathered the challenge with fortitude and resilience. We are now even better positioned to pursue sustainable growth as the market rebounds.

Today, we are delighted to announce a solid full-year performance as well as our fourth consecutive year of profitability, with total revenue for 2022 maintaining its growth momentum. I would like to take this opportunity to express our deep gratitude to our customers and franchisees for choosing and trusting Atour. Also, to our employees on the front lines who work tirelessly to ensure a safe and comfortable accommodation experience for our customers, we sincerely thank you for your perseverance and dedication.

To inaugurate 2023, we released a new 3-year development plan that targets to expand our footprint to a total of 2,000 premier hotels by the end of 2025, each offering a host of standardized yet pleasant and personalized experiences. Aligned with our dual-engine development plan encompassing “experience” and “scale”, we are committed to becoming an industry benchmark for the “Chinese experience.”

Now, let me go through the performance details across our business lines.

First, our hotel business development. During the fourth quarter of 2022, our RevPAR achieved approximately 80% of 2019's level for the same period. Following the lifting of the pandemic restrictions in China in November 2022, a large portion of our population contracted COVID, which also disrupted our business operations. However, since the beginning of 2023, pent-up demand for travel and accommodation has started to rebound rapidly. In response to the evolving market conditions, we took the initiative to reduce our number of requisitioned hotels, which is a forward-thinking move that proved very effective. Accordingly, the percentage of requisitioned hotels in our hotel network decreased to 6% as of the end of December 2022 from 32% at the beginning of the month.

As we have progressed through the first quarter of 2023, our RevPAR has increased rapidly, as seen during the 7-day Spring Festival Holiday, when the RevPAR attained 105% of its level for the comparable period in 2019, exceeding the overall industry level. Consequently, we forecast that the RevPAR for the first quarter of 2023 will achieve 115% of its level for the same period in 2019. As this growth momentum builds, we are confident that the Company will continue to pick up in the coming quarters.

As a leading upper midscale hotel chain in China, Atour has earned broad recognition and a sterling brand reputation by virtue of its premium experiences and holistic comprehension of

customers' preferences and desires. Our strategic decision to develop our hotel network mainly in Core Business Districts in first- to second-tier cities not only highlights our extensive experience and deep market insight, but has also empowered our rapid growth and development over the past decade. Today, we have established an effective hotel network with a distinct portfolio of six brands centered on Atour and Atour X, our two upper midscale hotel brands.

In 2022, we opened 191 new hotels while experiencing only four hotel closures from our existing portfolio under the challenging conditions. As of December 31, 2022, our hotel network encompassed 932 hotels with a total of 108,000 rooms, representing a rapid increase of 25% year over year in both hotels and rooms.

Furthermore, we manage a rich and ever-evolving pipeline of hotels under development, positioning the Company to seamlessly capture and maximize future growth opportunities. As of year-end 2022, we had 363 hotels under development. On a related note, we are currently seeing high demand for industry integration as many independent hotels suffered to survive during the pandemic, offering great opportunities to augment our development pipeline. As we identify and acquire suitable properties, we will actively expand our coverage even further and solidify our leadership in the upper midscale segment.

Finally, we completed our product R&D base in Shanghai in 2022, a dedicated facility specializing in the research and development of our hotel products. Following several months of persistent effort, we officially launched the Atour Light 3.0 version on February 22, 2023. This revolutionary product upgrade delivers a higher-quality, more relaxed experience for Atour Light customers while offering franchisees a less capital-intensive investment opportunity. As a midscale hotel brand in our portfolio, Atour Light is an important strategic segment that primarily caters to young urban travelers seeking premier experiences. Through continuous improvements and iterations based on our keen understanding of shifting market demands, we believe we can grow the Atour Light family into our next thousand-hotel brand.

Next, let me share more details on the development of our loyalty program and our Central Reservation System, or CRS. Driven by our quality services and enjoyable customer experiences, our membership base has grown rapidly. By the end of 2022, we had over 35 million members, and our members' repurchase rate for 2022 further increased to 58% from 53% for 2021. User stickiness continues to improve.

To reward our members for their trust, we have consistently enriched our loyalty program. Our goal is to develop a scenario-based membership ecosystem offering rich lifestyle privileges covering culture, consumption, and social interaction. In June 2022, we launched our A-card loyalty program, a new lifestyle membership brand providing unique perks and personalized experiences extending beyond hotel services. We will also amplify our efforts to attract and engage new members through extensive promotion channels, including co- memberships with third parties.

With regard to CRS, the increasing coverage of both individual memberships and corporate customers has accelerated the growth of our CRS' contribution to our overall sales. In 2022, the percentage of our nights sold through our direct sales channels and CRS was more than 80% and close to 60%, respectively. Driven by our continuously updated lifestyle products and customer experiences, we expect CRS's contribution to sales to maintain its growth momentum in the coming quarters.

Moving to our Retail businesses. In addition to offering superb accommodations and pleasant and personalized customer experiences, we have designed our hotels to display and highlight lifestyle products, establishing an innovative scenario-based retail business that guides customers from discovery to purchase, creating a closed loop from lodging to retail. We also integrate our offline scenarios with online channels, including our mobile app and Weixin mini program, as well as other third-party platforms.

As our second growth driver, our retail business performed well in 2022 despite the frequent COVID outbreaks. The full year GMV reached RMB324 million, representing a 42% year over year growth. Online third-party platforms achieved breakthrough growth with an impressive 71% year over year increase in GMV. During the Double Eleven shopping festival, our Atour Planet flagship store was included in the top 8 best-selling pillow brands on renowned eCommerce platforms. Furthermore, our Atour Planet R90 deep sleep pillow has quickly become a blockbuster on Douyin since its launch on October 5, 2022, with peak daily GMV exceeding RMB1 million. Going forward, we will continue to explore customers' diverse demands in sleeping scenarios with exclusive product offerings, delivering a comfortable sleep environment for our customers while creating incremental value for our franchisees.

In conclusion, as we look into 2023, we will continue to expand our hotel network and improve our operating efficiency, ensuring that we consistently deliver Atour's distinctive blend of high-quality accommodations and pleasant, personalized lifestyle experiences to each and every customer. As we reinforce our leading position in China's upper midscale hotel market, we are also becoming ambassadors for the "Chinese experience", setting a new benchmark for ambiance, comfort and style worldwide. For our retail business, we will continue to invest in brand awareness and sales channel development, following a rationale of enhanced profitability. We will also seek new opportunities with promising prospects for our comprehensive growth and development. We remain deeply committed to creating incremental value for our customers, franchisees, employees, as well as our shareholders for the long term.

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

Wang Shoudong:

Thank you, Mr. Wang. Now I would like to present to you the company's financial performance for the fourth quarter and full-year 2022.

Our net revenues for the fourth quarter of 2022 grew by 5.8% year over year to RMB626 million. Net revenues for full-year 2022 increased by 5.4% year over year to RMB2,263 million. These

increases were mainly driven by the escalating revenue contribution from both managed hotels and our retail and others business.

Revenues from our managed hotels for Q4 were RMB365 million, up 5.4% year over year. For full-year 2022, revenues from our managed hotels increased by 11.5% from last year to RMB1,361 million. These increases were primarily driven by the rapid expansion of our hotel network. The total number of our managed hotels increased from 712 as of December 31, 2021 to 899 as of December 31, 2022.

Revenues contributed by our leased hotels for Q4 were RMB139 million, down 10.1% year over year. For full-year 2022, revenues from our leased hotels decreased by 12.3% to RMB553 million year over year. Both decreases were primarily due to diminished customer traffic and weakened consumption demand amid the resurgence of COVID-19 across China in 2022.

Revenues from retail and others for the fourth quarter increased by 34% year over year to RMB122 million. Full-year revenues from retail and others were RMB349 million, an increase of 17.6% year over year. These increases were attributable to the rapid growth of our scenario-based retail business, driven by our hotel network expansion as well as growing recognition of our retail brand and our increasing capabilities in private label product offerings.

Now, let's move to costs and expenses.

Our hotel operating costs for the fourth quarter decreased 9.8% to RMB356 million year over year. Hotel operating costs for the full year were RMB1,391 million, a decrease of 1.9% year over year. These decreases were mainly attributable to our effective control of both expenses and labor costs amid the pandemic's resurgence, along with pandemic-related lease concessions we received from landlords during the period.

Other operating costs for Q4 were RMB68 million, an increase of 32% year over year. Other operating costs for the full year were RMB187 million, up 14.3% year over year. These increases were mainly driven by increased costs alongside the rapid growth of our scenario-based retail business.

Selling and marketing expenses for Q4 increased by 30.7% to RMB54 million. Selling and marketing expenses for full-year 2022 were RMB140 million, an increase of 12.7% year over year. These increases were mainly driven by increased investment in brand promotion and channel development for our scenario-based retail business.

General and administrative expenses for the fourth quarter were RMB217 million. The full year's general and administrative expenses were RMB350 million. Excluding share-based compensation expenses of RMB160 million, adjusted general and administrative expenses decreased by 9.5% year over year to RMB57 million for the fourth quarter and decreased by 3.8% year over year to RMB190 million for the full year.

Our technology and development expenses for Q4 were RMB16 million, down 8.4% year over year. Technology and development expenses for full-year 2022 were RMB66 million, an increase of 27.0% year over year. The year-over-year increase was mainly attributable to our increasing investments in systematic construction in order to better support our expanding hotel network and improve customer experience.

Adjusted net income for the fourth quarter increased by 199.8% year over year to RMB81 million. Adjusted net income for full-year 2022 was RMB259 million, an increase of 85.6% from the previous year.

Adjusted EBITDA for Q4 was RMB116 million, up 82.2% year over year. Adjusted EBITDA for full-year 2022 was RMB424 million, up 41.9% year over year.

Meanwhile, we have maintained a healthy cash position. As of December 31, 2022, our cash and cash equivalents totaled RMB1,589 million with net cash of RMB1,415 million, an increase of 52% year over year.

This concludes our financial highlights for the fourth quarter and full-year 2022. With that, let's open for Q&A.

Queenie Qin:

Thank you once again for joining us today. If you have any further questions, please feel free to contact us. Have a great day.