

Atour Lifestyle Holdings
First Quarter 2023 Earnings Conference Call

Operator introduction

Ladies and Gentlemen, thank you for standing by and welcome to the Atour Lifestyle Holdings First 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. 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 First Quarter 2023 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 first quarter 2023 earnings call today.

I'm pleased to share with you that Atour commenced year 2023 on a strong note, achieving solid results in both our hotel and scenario-based retail businesses. Our core value proposition

to serve people with exceptional experience continues to guide our steps as we refine and polish our hotel services and lifestyle products to deliver Atour experiences to every customer. These uncompromising efforts combined with our dedication to excellence drove a robust recovery in both the hotel and retail businesses during the first quarter. We continue to execute our 3-year development plan to open 2,000 premier hotels while establishing the “Chinese experience” as the industry benchmark, which we believe will solidify our leading position in the upper midscale hotel industry post pandemic.

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

First, our hotel business development. As we enter into the post-pandemic era, we are seeing a rapid market recovery driven by surging travel and accommodation demand. Embodying our three-pronged mantra, “High Quality, High Value and High Efficiency,” Atour responded quickly to the first quarter’s rising market opportunities and achieved parallel growth in ADR and OCC. Our RevPAR for the first quarter rebounded significantly, to 118% of 2019’s level for the same period, while both ADR and occupancy rates exceeded 2019’s level, demonstrating our exceptional recovery capability. Looking at the first quarter in greater detail, our RevPAR’s recovery rate was 102%, 136% and 119% of 2019’s level for January, February and March, respectively. Furthermore, same-hotel RevPAR for mature hotels in operation for more than 18 months recovered to 118% of 2019’s level in the first quarter, showcasing a vigorous rebound of our business at the operational level.

For the 5-day Labour Day holiday, explosive demand for travel and hotels stimulated further improvement in RevPAR, to 133% of 2019’s level. Notably, RevPAR’s recovery rate soared to over 160% of 2019’s level in various provinces, such as Shandong, Fujian and Hubei, among others.

The pandemic during the second half of 2022, combined with the Chinese New Year Holiday in the beginning of 2023, slightly impeded our overall progress with respect to new openings in the first quarter. However, alongside the market recovery, franchisees’ engagement trends have continued to improve. The number of new hotels we signed in the first quarter reached 94, representing a new record high for single-quarter signings. Furthermore, among our newly signed hotels, the repurchase rate from our existing franchisees was more than 40%, highlighting our product competitiveness and brand premium. It’s also worth mentioning that our Atour Light 3.0 version has quickly gained market acceptance, achieving a remarkable performance with a total of 16 new projects signed by the end of Q1.

Our hotel network continues to grow rapidly. As of the end of 1Q23, we had extended its coverage to 968 hotels, representing a year-over-year increase of 23%. Excitingly, we commenced operation of our portfolio's 1,000th premier hotel today in Lanzhou, officially marking the inception of our “1,000-hotel era.”

Meanwhile, our pipeline remained healthy and continued to expand. As of the end of the first quarter, we had 413 hotels under development. We will continue to peruse and analyze the ever-evolving market prospects alongside opportunities to consolidate the hotel market, as we map our course for opening a total of 280 hotels by the end of this year.

Our **loyalty program** and **Central Reservation System, or CRS**, also maintained their steady growth momentum in the first quarter, benefiting from our high-quality services and premier customer experiences. As of the end of Q1, our membership base surpassed 38 million with an increase of over 2.8 million new members since the end of the previous quarter. Our members are young and engaged, representing the most energetic and promising consumer group in China. Among those members who stayed with us in the first quarter, about 46% of them were aged 30 to 40, and 25% were younger than 30. Meanwhile, the percentage of our nights sold through our CRS exceeded 60% in the first quarter of 2023, sustaining its healthy growth trend.

Now, moving to our scenario-based retail business. As a leading lodging-centric lifestyle brand, the retail business is a natural extension of our expertise in hospitality, reaching beyond accommodation to harmoniously complement our value proposition to serve people who have diverse lifestyles. In the past few years, we have successfully developed three product lines, namely Atour Planet, Z2GO and SAVHE, focusing on sleep, travel and aroma aesthetics, respectively. Through these premium offerings, we deliver Atour’s signature experience of comfort, ease and relaxation to our customers when they are at home as well as on-the-go.

These high-quality lifestyle products, along with our diversified online and offline distribution channels and our continuously improving brand awareness, underpinned the robust growth of our innovative, scenario-based retail business during the first quarter, further solidifying its role as our second growth driver. GMV increased by almost 200% year-over-year to RMB142 million in the first quarter of 2023, propelled by rapid growth in both our online and offline distribution channels. Revenues from our scenario-based retail business for the quarter reached the RMB100 million milestone, reflecting its powerful growth momentum.

Currently, we are purposefully focused on our Sleep category, with Atour Planet products as our cornerstone. In the first quarter, Atour Planet contributed nearly 80% of our retail business' total GMV. In March, we launched the upgraded 2.0 version of our Atour Planet R90 deep sleep pillow following a comprehensive user feedback study. We creatively refined the pillow's design and construction to strike the optimal balance between comfort and functionality. Thanks to these luxurious features, the Atour Planet R90 2.0 version pillow became a popular product quickly after its release and has garnered enormous user recognition, with its sales performance significantly exceeding the level of the 1.0 version for the comparable period.

Our retail business is deeply rooted in our lodging-centric lifestyle brand's philosophy. Adhering to our original goal of bringing the Atour hotel experience into our customers' homes, we remain committed to exploring deep sleep from every angle as we strive to deliver a comfortable and relaxing sleep experience. We are very optimistic about the massive potential and development opportunities in China's sleep market. Moving forward, we will continue to strengthen our insight into users' evolving needs and push the boundaries of product development, providing our users with premier sleep experiences through a diverse and growing suite of sleep-related products. We believe that our ongoing, holistic improvements across our product development capabilities, operational efficiency and brand awareness will establish Atour as an important player in China's sleep products market.

Since our establishment in 2013, we have consistently endeavored to provide our customers with cultural, inviting and interesting experiences throughout every step of their journeys, creating an intimate ambiance where people can warmly connect. Meanwhile, we continuously explore new possibilities and expand our consumption scenarios, catering to the refined expectations of those who demand a high-quality lifestyle. Our value proposition originated with the goal to provide an exceptional experience to customers during their stay with us, which we further elevated to serve people who have diverse lifestyles, has not only elevated our strong performance across both our hotel and retail businesses, it has also become the driving force behind Atour's core competitiveness and our key differentiator. As we move forward, this value proposition will further empower us to drive long-term sustainable growth and create greater value for our customers, franchisees, employees and shareholders.

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 the Company's financial performance for the first quarter of 2023.

Our net revenues for the first quarter of 2023 grew by 71.2% year-over-year to RMB774 million. The strong increase in the first quarter was driven by growth in both the hotel business and the scenario-based retail business.

Revenues from our managed hotels for the first quarter of 2023 were RMB447 million, up by 63.2% year-over-year. This increase was primarily driven by the ongoing expansion of our hotel network and the recovery of RevPAR. As of March 31, 2023, the total number of our managed hotels increased to 935, up by 24.3% year-over-year, while RevPAR of our managed hotels surpassed the pre-pandemic level in 2019, increasing to RMB331 for the first quarter of 2023.

Revenues contributed by our leased hotels for the first quarter of 2023 were RMB187 million, representing an increase of 67.9% year-over-year. The increase was primarily due to the recovery of RevPAR, driven by increased customer traffic and stronger consumption sentiment since the beginning of 2023. RevPAR of our leased hotels surpassed the pre-pandemic level in 2019, increasing to RMB464 for the first quarter of 2023.

Revenues from retail and others for the first quarter of 2023 increased by 109.5% year-over-year to RMB140 million, with scenario-based retail revenue growing by 174.3% year-over-year to RMB113 million. The increase was attributable to the growing recognition of our retail brand and enhanced product capabilities.

Our hotel operating costs for the first quarter of 2023 increased by 18.1% to RMB382 million year-over-year, mainly due to the increase in variable costs associated with the ongoing expansion of our hotel network and recovery of RevPAR. Hotel operating costs accounted for 49.3% of net revenues for the first quarter of 2023, compared to 71.5% of net revenues for the same period of 2022.

Other operating costs primarily consist of costs for our scenario-based retail business and cost of other revenues. Other operating costs for the first quarter of 2023 were RMB72 million, representing an increase of 124.5% year-over-year, driven by increased costs in line with the rapid growth of our scenario-based retail business. Other operating costs accounted for 9.3% of net revenues for the first quarter of 2023, compared to 7.1% of net revenues for the same period of 2022.

Selling and marketing expenses for the first quarter of 2023 increased by 135.6% to RMB56 million, primarily driven by the increased investment in branding initiatives and distribution channel development associated with our growing scenario-based retail business. Selling and

marketing expenses accounted for 7.2% of net revenues for the first quarter of 2023, compared to 5.3% of net revenues for the same period of 2022.

General and administrative expenses for the first quarter of 2023 were RMB193 million. Excluding share-based compensation expenses of RMB141 million, adjusted general and administrative expenses increased by 13.8% year-over-year to RMB52 million for the first quarter of 2023. General and administrative expenses (excluding the impact from share-based compensation expenses) accounted for 6.7% of net revenues for the first quarter of 2023, compared to 10.1% of net revenues for the same period of 2022.

Our technology and development expenses for the first quarter of 2023 were RMB17 million, which were generally in line with the same period of 2022.

Adjusted net income for the first quarter increased by 2114.3% year-over-year to RMB160 million. Adjusted EBITDA for the first quarter of 2023 was RMB231 million, up by 584.8% year-over-year.

Notably, we have maintained a healthy cash position, ended Q1 with RMB2.0 billion in cash and cash equivalents. Among them, net cash was RMB1.8 billion, representing an increase of 24.5% quarter over quarter.