

Atour Lifestyle Holdings
Second Quarter 2024 Earnings Conference Call

Opening Remarks

Operator introduction

Ladies and Gentlemen, thank you for standing by, and welcome to the Atour Lifestyle Holdings Second 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 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 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, Alison. Hello, everyone, and thank you for joining Atour's second quarter 2024 earnings call today.

During the second quarter of 2024, domestic travel market demand remained steady, with leisure tourism extending its healthy upward trajectory alongside continuously evolving customer demand. By proactively adapting to these shifting market dynamics, we further strengthened our leadership in the upper midscale hotel market.

We consistently elevated the "Chinese Experience" in our accommodation business during the first half of the year to better address our customers' personalized, diverse, and quality-driven expectations. Meanwhile, we adeptly capitalized on emerging opportunities presented by the latest wave of retail business development. We made substantial headway in propelling holistic, high-quality growth across our business and brand portfolio, while continuously deepening our insight into customer needs and amplifying our brand reputation.

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

Let's begin with our hotel business. Please turn to slide 4 of our 2Q24 results presentation. Our RevPAR reached RMB359 in the second quarter of 2024, representing 93.5% of its level in the same period of 2023. Notably, our OCC growth remained solid, reaching 101.7% of 2023's level for the same period, further underscoring Atour's resilient demand and strong brand influence. ADR was 92.8% of its level in the same period of 2023, largely due to last year's high comparison base effect.

Please turn to slide 5. Our mature hotels in operation for more than 18 months continued to outpace Group's overall performance during the second quarter. Excluding structural impacts such as the ramp-up of new hotels, same-hotel RevPAR in the second quarter of 2024 reached 96.2% of 2023's level for the same period, outperforming the Group's blended performance by 2.7 percentage points. Specifically, OCC increased by 2.2 percentage points year-over-year and ADR stood at 94.4% of the same period in 2023.

Please turn to slide 6. Our synergistic development of Atour and Atour Light has unlocked substantial growth potential for our Group. In the second quarter, we maintained vigorous momentum in our hotel network expansion with 123 new hotel openings, up 76% year-over-year, setting a record pace in new openings for a single quarter. As of the end of the second

quarter, we had a total of 1,412 hotels in operation, representing a 37% year-over-year increase, accelerating our progress toward our goal of 2,000 premier hotels nationwide by 2025.

Please turn to slide 7. Franchisees' confidence remained strong and steadfast this quarter, bolstered by our robust brand influence and product competitiveness. We made significant strides in both the number and efficiency of our new signings, with a notable pipeline expansion. The number of hotels under development reached 712 as of the end of the second quarter, underpinned by a substantial number of high-quality projects, laying a solid foundation for Atour's sustained growth and nationwide expansion.

Next, let me share Atour and Atour Light's latest developments.

Please turn to slide 8. On June 28, to mark Atour's 11th anniversary, we proudly unveiled our first Atour 4.0 hotel in Xi'an. Embodying Atour's commitment to its original aspirations, Atour 4.0 is inspired by Yaduo Village's natural beauty, transforming the hotel into a serene retreat amid the city's hustle and bustle. With extensive upgrades across various aspects of the hotel, including multi-functional workspaces, premium sleep settings in guest rooms, and upgraded dining services, Atour 4.0 adopts an experience-driven approach, aiming to create an enhanced operating model characterized by superior quality, greater pricing potential, and optimized efficiency.

During its first month of operation, Xi'an Nanmen Atour Hotel achieved an OCC surpassing 91% and a RevPAR exceeding RMB710. This exceptional performance not only underscores the market's resounding endorsement of Atour 4.0 but also reaffirms Atour's leading position in the upper midscale hotel market. To date, we have signed 50 Atour 4.0 projects across more than 30 cities nationwide, with flagship projects in core business districts set to be launched successively. As a pioneering product reflecting our deep understanding of customer needs, we believe that Atour 4.0 will propel the upper midscale hotel market into a new stage of high-quality development.

Please turn to slides 9 and 10 for a closer look at Atour Light. Since its launch, Atour Light 3.0, our midscale product, has garnered broad praise and recognition from customers and franchisees. We are confident of growing Atour Light 3.0 into our second 1,000-hotel brand. In the second quarter, a total of 37 new Atour Light 3.0 hotels were signed, accounting for more than 20% of our total new signings for the period. As of the end of the second quarter, we had a total of 54 Atour Light 3.0 hotels in operation. Among those Atour 3.0 hotels that have been in operation for more than 3 months, RevPAR exceeded RMB310 in the second quarter, highlighting Atour Light's strong competitive edge in the midscale hotel segment.

Notably, with the opening of the Atour Light hotel in Liuliqiao, Beijing in late May, Atour Light 3.0 has now established a comprehensive presence across all tier-one cities. In July, Liuliqiao Atour Light Hotel realized an outstanding operational performance, with OCC exceeding 90% and RevPAR surpassing RMB600, setting a new benchmark case for Atour Light 3.0 hotels.

Furthermore, as we expanded Atour Light's various service touchpoints to provide our customers with a superior service experience, we also crafted distinctive marketing campaigns for Atour Light to deepen customer awareness of the brand. In the second quarter, we partnered with renowned cultural IPs to launch a series of summer events at Atour Light 3.0 hotels, fostering stronger connections with customers and further enhancing Atour Light's brand visibility. As we explore and embrace a more vibrant and diversified "Chinese Experience," we have observed a notable rise in the proportion of young and female customers at Atour Light hotels.

Moving now to our retail business. Please turn to slide 11. As our second growth driver, our retail business sustained its outstanding performance in the second quarter, with GMV up by 157.6% year over year to RMB620 million and sales from online channels accounting for over 90% of the total GMV.

Atour Planet excelled once again during this year's 618 Shopping Festival with total GMV reaching RMB310 million, setting a new sales record for shopping festivals and significantly outpacing other brands' year-over-year sales growth across many major e-commerce platforms. Furthermore, our Deep Sleep Lightweight Comforter has garnered extensive acclaim since its release earlier this year, underscored by surging sales momentum during the 618 Shopping Festival, with total sales exceeding 170,000 units, topping the sales charts in its category on Tmall, JD.com and Douyin.

Please turn to slide 12. Atour Planet's impressive growth in the second quarter, despite market softness, stems from Atour's deep insight into and relentless pursuit of the "deep sleep" concept, coupled with an efficient new product development mechanism. This approach has successfully brought multiple blockbusters to market and consistently drives iterative product upgrades based on customer demands. Since the beginning of the year, Atour Planet has achieved significant breakthroughs across research and development, as well as new product launches in the comforter category. Following the Deep Sleep Lightweight Comforter's success, we introduced another groundbreaking product in July, the Deep Sleep Thermo-Regulating Comforter PRO.

This new product features our innovative dual-layer temperature control system, significantly enhancing its warmth and breathability. Crafted from cutting-edge fiber materials, the Thermo-

Regulating Comforter outperforms silk in temperature and humidity variation tests, delivering superior temperature regulation and dryness. Additionally, it adopts our Deep Sleep Lightweight Comforter's highly-praised coverless design, and is also machine washable and dryer-friendly, ensuring a minimalist and authentic deep sleep experience that allows deep sleep to occur naturally.

Looking ahead, we will remain focused on customer needs as we further develop and enrich our Deep Sleep product offerings, enhancing and perfecting the "Atour Experience." Our goal is to bring "deep sleep" into more homes and immerse customers in "Atour Planet" touchpoints, fostering a deeper connection with the Atour brand.

Transitioning to our membership business. Please turn to slide 13. Our consistent refinement of the membership program and the resulting rapid growth of our membership base have dynamically propelled Atour's development. As Atour's brand recognition flourishes and climbs, our membership base has rapidly expanded. As of the end of the second quarter, our registered individual members surpassed 76 million, marking a 72.5% increase year over year. Meanwhile, our CRS channel remained healthy, contributing 62.9% to the total room nights sold during the second quarter. The contribution of room nights sold to corporate members rose to 19.3% during the second quarter, up 0.9 percentage points from the same period last year, further solidifying Atour's leading position as the preferred brand for business travel.

Please turn to slide 14. We launched a series of distinctive events in the second quarter to further enhance membership benefits and experiences. For example, during the Labor Day Holiday in May, we successfully hosted the "Atour Lying-Down Festival" in Nantong, catering to the new wave of tourism consumption and precisely aligned with today's diverse leisure travel demands for comfortable and relaxing travel experiences. Furthermore, we continue to tap into new consumption drivers in the hospitality & lodging industry, such as the "music+" and "sports+" concepts, ensuring that every stay at Atour is memorable and reinforces the distinctiveness of the "Atour Experience."

Please turn to slide 15. Last but not least, I would like to highlight Atour's ESG progress. Following the release of our first ESG report earlier this year, Atour has deepened our commitment to sustainable development, extending our warm, caring efforts to a broader range of communities and natural environments. In June, we proudly launched the "Yuan Meng Project" in partnership with a nonprofit organization. This initiative helps protect the critically endangered Skywalker hoolock gibbon, one of China's rarest and most vulnerable primate species.

The Gaoligong Mountains in Yunnan are one of the last remaining habitats for the Skywalker hoolock gibbon. As one of China's critically endangered species, fewer than 200 of these gibbons remain in existence today. To raise awareness, we have created an exclusive Atour-branded image of the Skywalker hoolock gibbon and are conducting educational campaigns as well as merchandise sales featuring this image, calling on the public to join us in safeguarding one of China's most endangered species. Moving forward, we remain committed to taking tangible steps to preserve biodiversity and protect endangered species.

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 second quarter of 2024.

Please turn to slide 17 of the results presentation.

Our net revenues for the second quarter of 2024 grew by 64.5% year-over-year and 22.4% quarter-over-quarter to RMB1,797 million. The year-over-year increase was driven by robust growth in the manachised hotel and retail businesses. The quarter-over-quarter increase was mainly attributable to an increase in RevPAR, which reached RMB359 for the second quarter of 2024, compared with RMB328 for the previous quarter.

Revenues from our manachised hotels for the second quarter of 2024 were RMB1,027 million, up by 63.9% year over year and 22.8% 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 manachised hotels increased to 1,382 as of June 30, 2024, up by 38.1% year over year. The quarter-over-quarter increase was mainly due to an increase in RevPAR. RevPAR of our manachised hotels was RMB355 for the second quarter of 2024, compared with RMB324 for the previous quarter.

Revenues contributed by our leased hotels for the second quarter of 2024 were RMB180 million, reflecting a 17.9% year-over-year decline but a 7.3% 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 RMB503 for the second quarter of 2024, compared with RMB455 for the previous quarter.

Revenues from our retail business for the second quarter of 2024 were RMB537 million, marking a significant increase of 153.6% year over year and 28.8% quarter over quarter. These increases were driven by widespread recognition of our retail brands and effective product innovation and development as we successfully broadened our range of product offerings. In the second quarter of 2024, comforters sales accounted for over 20% of retail revenues, further accelerating the growth of our retail business.

Revenues from others for the second quarter of 2024 were RMB53 million, up 51.2% year over year and 11.5% quarter over quarter, driven by our fast-growing membership business.

Now, let's move to costs and expenses. Please turn to slide 18.

Operating costs and expenses for the second quarter of 2024 totaled RMB1,400 million, including RMB24 million share-based compensation expenses, compared with RMB816 million, including RMB10 million share-based compensation expenses, for the same period of 2023.

Hotel operating costs for the second quarter of 2024 increased by 52.3% year over year and 17.2% quarter over quarter to RMB776 million. These increases were primarily due to the increase in variable costs, such as supply chain costs, associated with our ongoing hotel network expansion. The gross margin of our hotel business was 35.7% for the second quarter of 2024, compared with 39.8% for the same period of 2023, due to a decrease in RevPAR attributable to 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 second quarter of 2024 rose by 146.4% year over year and 28.6% quarter over quarter to RMB265 million. These increases were associated with the rapid growth of our retail business. The gross margin of our retail business was 50.6% for the second quarter of 2024, compared with 49.2% for the same period of 2023, driven by an increasing contribution from higher-margin online sales.

Now please turn to slide 19.

Selling and marketing expenses for the second quarter of 2024 were RMB225 million, compared with RMB94 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 channel, aligned with the growth of our retail business. Selling and marketing expenses accounted for 12.5% of net revenues for the second quarter of 2024, compared with 8.6% for the same period of 2023.

General and administrative expenses for the second quarter of 2024 were RMB91 million, including RMB15 million share-based compensation expenses, compared with RMB73 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 second quarter of 2024, compared with 5.9% for the same period of 2023.

Technology and development expenses for the second quarter of 2024 were RMB33 million, compared with RMB18 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 1.8% of net revenues for the second quarter of 2024, compared with 1.6% for the same period of 2023.

Please turn to slide 20.

Adjusted net income for the second quarter of 2024 was RMB328 million, representing a 31.6% increase year over year. Adjusted net profit margin for the second quarter of 2024 was 18.2%, representing a decrease of 4.6 percentage points year over year. Adjusted EBITDA for the second quarter of 2024 was RMB443 million, up by 28.6% year over year, with an adjusted EBITDA margin of 24.6%, which decreased 6.9 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 21 and 22.

Operating cash inflow for the second quarter of 2024 was RMB577 million. Investing cash outflow for the second quarter of 2024 was RMB306 million. There were no cash flows from financing activities for the second quarter of 2024.

We also maintained a healthy cash position with stable growth momentum. As of June 30, 2024, our cash and cash equivalents totaled RMB3,323 million, with net cash of approximately RMB3,231 million.

Please turn to slide 23.

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

Please turn to slide 24.

As a part of the Company's ongoing efforts to enhance shareholder value, today we announced a three-year annual dividend policy. Under the Annual Dividend Policy, we plan to declare and distribute dividends with an aggregate amount of no less than 50% of net income for the preceding financial year in each of the three financial years commencing this year.

In accordance with the Annual Dividend Policy, today we declared a cash dividend of US\$0.15 per ordinary share, or US\$0.45 per ADS. The aggregate amount of the cash dividend to be distributed will be approximately US\$62 million.

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

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

Alison Zhang:

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.