

Atour Lifestyle Holdings

Fourth Quarter and Full Year 2024 Earnings Conference Call

Opening Remarks

Operator introduction

Ladies and Gentlemen, thank you for standing by, and welcome to the Atour Lifestyle Holdings Fourth Quarter and Full Year 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 Fourth Quarter and Full Year 2024 Earnings Conference Call. Today, you will hear from our Founder, Chairman and CEO, Mr. Wang Haijun, and our EVP, 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 fourth quarter and full year 2024 earnings call today.

Please turn to slide 3 of our 4Q&FY24 results presentation. The year 2024 marked a chapter of innovation and breakthroughs in Atour's three-year strategic roadmap. Guided by our vision of "Chinese Experience, 2,000 Premier Hotels," we continued to expand our brand influence, driving sustained growth in both business scale and operational excellence. As we elevated our experiential offerings, we further deepened the essence of the "Chinese Experience" through a dual-engine business model that seamlessly integrates hotel and retail. In terms of network development, we have successfully curated a diversified hotel brand portfolio, reinforcing our leadership in the upper midscale hotel market. In 2024, we opened 471 new hotels and signed 670 new projects, not only exceeding our initial targets but also solidifying the foundation for achieving our "2,000 premier hotels" target.

Now, I would like to provide more details on our performance for the fourth quarter and the full year of 2024.

Let's begin with our hotel business. Please turn to slide 5. Our RevPAR reached RMB 337 during the fourth quarter, representing 94.1% of 2023's level for the quarter. Specifically, OCC stood at 98.2% of its level for the same period in 2023. ADR endured ongoing pressure due to the high comparison base effect, reaching 96.0% of its level for the same period in 2023.

Please turn to slide 6. Our mature hotels in operation for more than 18 months continued to outperform the Group's hotels' overall performance during the fourth quarter. Same-hotel RevPAR for the fourth quarter reached 96.0% of 2023's level for the same period. Notably, OCC steadily recovered to 99.0% of 2023's level for the fourth quarter, while ADR reached 97.4% of its level for the same period of 2023.

Please turn to slide 7. In 2024, as the Group's brand awareness continued to strengthen, the efficiency of our development team became increasingly evident. For the full year, both new hotel openings and signings reached record highs, accelerating the rapid expansion of our hotel network. In the fourth quarter alone, we opened 111 new hotels, bringing the total number of openings for the year to 471, representing a 63% year-over-year increase. By the end of the fourth quarter, the number of hotels in operation had risen to 1,619, representing a 33.8% year-over-year growth. Meanwhile, the number of hotels under development expanded by 20% year-over-year, reaching 741 as of the end of the quarter, further solidifying the foundation toward achieving our goal of "2,000 premier hotels" in operation by 2025.

Next, I would like to share the latest developments for Atour's hotel brands.

Please turn to slide 8. As our comprehensively upgraded hotel product, Atour 4.0 has consistently reinforced our leadership in the upper midscale segment since its launch, enhancing both our brand strength and product offerings. Currently, there are 16 Atour 4.0 hotels in operation and 67 projects in the pipeline. These hotels in operation have swiftly emerged as top performers in both operating performance and customer experience across key business districts in several higher-tier cities nationwide, further highlighting Atour's dominance in the upper midscale segment. As more of the Atour 4.0 hotels commence operations, we will be well-positioned to deliver an exceptional accommodation experience to an even broader customer base.

Please turn to slide 9. We are delighted to share that, during the fourth quarter, Atour Light 3.0 achieved the significant milestone of 100 hotels in operation. These hotels are strategically located in key business districts across second-tier cities and above. As our next brand poised for expansion to 1,000 hotels, Atour Light continues to gain robust market traction, driven by its distinct product positioning and substantial growth potential.

We have always been deeply committed to strengthening strong brand awareness for Atour Light. Since the debut of Atour Light 3.0, we have closely focused on customer needs, thoughtfully crafted unique touchpoints, and successfully launched a series of brand collaborations that have not only showcased Atour Light's unique identity as an innovative, youth-centric hotel brand but also redefined the personalized accommodation experience through a range of immersive social interactions. With well-defined market positioning and a targeted communication strategy tailored to the younger generation, we have significantly enhanced Atour Light's brand recognition and market penetration. These efforts have laid a solid foundation for Atour Group's expansion in the midscale hotel market.

Moving now to our retail business. Please turn to slide 10. In 2024, Atour's retail business maintained its strong growth momentum, with full-year GMV reaching RMB2.59 billion, representing an impressive 127.7% year-over-year increase. Online channels remained the primary driver, consistently contributing to over 90% of total GMV, fueled by strong sales performance across multiple e-commerce platforms.

With our astute market insights, we remain highly attuned to evolving consumer trends. For the 2024 Double Eleven Shopping Festival, our retail GMV exceeded RMB420 million, reflecting an 80% year-over-year increase and 36% growth compared to the 2024 618 Shopping Festival. During the recent Spring Festival, we once again delivered outstanding results by seizing key marketing opportunities, creatively fostering emotional connections with customers by seamlessly integrating the festive atmosphere with our fresh brand messaging. The ongoing success of Atour Planet's Deep Sleep series further validates our brand's market appeal and the strong growth momentum we continue to generate.

Serving as an innovative interpretation and tangible extension of Atour's signature “Chinese Experience,” our retail business plays a vital role in supporting our strategy. Let me elaborate on our perspectives and key initiatives within the deep sleep sector.

Please turn to slide 11. In recent years, the market potential of the sleep economy has gradually been unlocked. However, the industry faces challenges such as limited brand differentiation, widespread category homogenization, and stagnating product innovation. Against this backdrop, Atour Planet has leveraged a deep understanding of consumer needs to continually elevate to refine its “Natural Deep Sleep” brand concept and enhance product competitiveness. These efforts have positioned Atour Planet as a pioneer at the forefront of emerging trends within the sleep economy.

To fuel our product development, we rigorously analyze customers’ diverse sleep needs and pain points. These insights, coupled with our innovation in technology, craftsmanship, and materials, have led to the creation of an extensive range of premium Deep Sleep products. We continuously refine and iterate these products based on customer feedback. Throughout the brand’s development, Atour Planet has cultivated a distinctive “product philosophy” that drives market success. A prime example of this is the Deep Sleep Memory Foam Pillow PRO series, which has achieved outstanding performance. Through exceptional product quality and a well-executed marketing strategy, we have established a blockbuster product model that aligns perfectly with consumers’ pursuit of superior sleep, as evidenced by the Deep Sleep Memory Foam Pillow PRO series’ annual sales exceeding 3.8 million units. In the pillow segment, Atour Planet has consistently maintained its industry-leading position, further cementing our reputation as the go-to choice for “deep sleep” in consumers’ minds.

Furthermore, through our dedicated efforts in the sleep market and continuous breakthroughs in product innovation, we have developed a sophisticated product development mechanism that has evolved from creating “individual blockbusters” to offering a comprehensive “product category series,” further expanding our Deep Sleep product portfolio. Take our comforter product series, which represents a significant milestone in our category expansion, as an example. In 2024, the Deep Sleep Lightweight Comforter and Deep Sleep Thermo-Regulating Comforter PRO series garnered exceptional market recognition, with annual sales surpassing 770,000 units. As the comforter product line continued to perform strongly, it contributed to over 20% of total retail GMV for 2024, reflecting year-over-year growth of more than 300%. Its success not only serves as an emerging driver of Atour Planet’s ongoing growth but also stands as a testament to our ability to replicate our blockbuster product model across different product categories.

In 2025, we will remain focused on the deep sleep ecosystem, efficiently driving progress in both brand development and product innovation. At the same time, we will further strengthen the fundamentals of our retail business, offering customers a broader array of superior sleep products and enriched experiences to propel the long-term growth of the Atour Planet brand.

We are confident that, as the sleep economy continues to expand rapidly and the industry undergoes accelerating consolidation, our ongoing exploration of scientific sleep solutions will catalyze continuous advancements in industry craftsmanship and quality standards, with Atour Planet leading and shaping the evolution of the customer sleep experience.

Please turn to slide 12. **Last but not least, I would like to share our progress across channel development and our membership business.**

In terms of channel development, our CRS channel accounted for 63.5% of total room nights sold for the fourth quarter and 63.0% for the full year, respectively. Notably, the contribution of room nights sold to our corporate members rose to 21.1% in the fourth quarter, driven by the ongoing growth of our corporate members.

The steady growth of our CRS channel can be attributed to our continuous enhancement of Atour's membership ecosystem and the ongoing expansion of member benefits. By the end of 2024, our registered individual members surpassed 89 million, representing year-over-year growth of more than 40%. In 2024, we also completed a comprehensive upgrade of the ACARD membership ecosystem, seamlessly integrating membership identities and benefits across our two primary service areas. This upgrade reinforced the synergy between accommodation and retail experiences. Additionally, we expanded our APLUS service categories to better cater to the evolving demand for personalized solutions, consistently delivering unique and tailored accommodation experiences to our customers.

Please turn to slide 13. In 2025, we will continue refining and strengthening the ACARD membership ecosystem by expanding value-added benefits across all touchpoints, ensuring that our hotel and retail customers enjoy seamless, high-quality services across various scenarios. Meanwhile, we will consistently upgrade and iterate the tiered benefit system for both corporate and individual members. Additionally, we will strengthen our closed-loop service experience, unlocking the cross-consumption potential between accommodation and retail. Looking ahead, we will continue to widen our membership experience moat and roll out more diverse scenario-based promotional activities, further deepening and expanding the Atour's signature "Chinese Experience" to enrich its meaning and broaden its scope.

Please turn to slide 14. As the final year of our three-year strategic roadmap, 2025 represents a pivotal moment in laying the foundation for our next phase of growth. As the market landscape becomes increasingly fragmented, Atour will remain focused on strengthening its core competencies. Our priorities will remain on amplifying brand momentum, boosting organizational vitality, and advancing digital capabilities. By strategically seizing on development opportunities, we will drive continuous breakthroughs in both scale expansion and quality enhancement across the hotel and retail businesses. Moving forward, with steadfast dedication to achieving our expansion goals, we will continue to establish the benchmark for customer experience, strategically driving sustained, high-quality growth for the long term.

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 fourth quarter and full year of 2024.

Please turn to slide 16 of the results presentation. Our net revenues for the fourth quarter of 2024 grew by 38.5% year-over-year and 9.8% quarter-over-quarter to RMB2,084 million. Net revenues for full year 2024 increased by 55.3% year-over-year to RMB7,248 million. The increases were driven by growth in the managed hotel and retail businesses.

Revenues from our managed hotels for the fourth quarter of 2024 were RMB1,106 million, up by 30.0% year-over-year and down by 6.2% quarter-over-quarter. For full year 2024, revenues from our managed hotels increased by 53.3% year-over-year to RMB 4,149 million. The year-over-year increases were primarily fueled by our ongoing hotel network expansion and the growth of our supply chain business. The quarter-over-quarter decrease was mainly due to a decrease in RevPAR.

Revenues contributed by our leased hotels for the fourth quarter of 2024 were RMB164 million, reflecting 15.9% year-over-year and 13.4% quarter-over-quarter declines. For full year 2024, revenues from our leased hotels decreased by 16.4% year-over-year to RMB702 million. The declines were primarily due to a decrease in the number of leased hotels as a result of our product mix optimization.

Revenues from our retail business for the fourth quarter of 2024 were RMB765 million, reflecting 85.6% year-over-year and 59.5% quarter-over-quarter increases. For full year 2024, revenues from our retail business increased by 126.2% year-over-year to RMB2,198 million. The 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.

Now, let's move to costs and expenses. Please turn to slide 17.

Hotel operating costs for the fourth quarter of 2024 increased by 8.3% year-over-year and decreased by 9.4% quarter-over-quarter to RMB794 million. Hotel operating costs for full year 2024 increased by 38.7% year-over-year to RMB3,108 million. The year-over-year increases were primarily due to the increases in variable costs, such as supply chain costs, associated with our ongoing hotel network expansion. The quarter-over-quarter decrease was due to a decrease

in the number of leased hotels as a result of our product mix optimization. Gross margin of our hotel businesses was 37.5% and 35.9% for the fourth quarter and full year of 2024, compared with 29.9% and 36.8% for the same periods of 2023.

Retail costs for the fourth quarter of 2024 rose by 66.2% year-over-year and 69.8% quarter-over-quarter to RMB386 million. For full year 2024, retail costs increased by 111.1% year-over-year to RMB1,084 million. The increases were associated with the rapid growth of our retail business. The gross margin of our retail business was 49.6% and 50.7% for the fourth quarter and full year of 2024, compared with 43.7% and 47.2% for the same period of 2023. The increases were attributable to the increasing contribution from higher-margin products.

Now please turn to slide 18. Selling and marketing expenses accounted for 17.0% and 13.4% of net revenues for the fourth quarter and full year of 2024, compared with 13.7% and 10.1% for the same period of 2023, respectively. The increases were mainly due to our enhanced investment in brand recognition and the effective development of online channels, in line with the growth of our retail business.

General and administrative expenses, excluding share-based compensation expenses, accounted for 4.8% and 4.5% of net revenues for the fourth quarter and full year of 2024, compared with 6.8% and 6.2% for the same period of 2023, respectively. The decreases were primarily due to improved management efficiency and economies of scale.

Technology and development expenses accounted for 2.2% and 1.8% of net revenues for the fourth quarter and full year of 2024, compared with 1.5% and 1.7% for the same period of 2023, respectively. The increases were mainly due to increased investments in technology systems and infrastructure to support our expanding hotel network and retail business and improve customer experience.

Please turn to slide 19. Adjusted net income for the fourth quarter of 2024 was RMB333 million, representing a 49.9% increase year-over-year. Adjusted EBITDA for the fourth quarter of 2024 was RMB443 million, up by 76.5% year-over-year. Adjusted net profit margin for full year 2024 was 18.0%, representing a decrease of 1.4 percentage points year-over-year. Adjusted EBITDA margin for full year 2024 was 24.4%, a decrease of 1.5 percentage points year-over-year. The decreases in both margins were primarily due to a decline in RevPAR, along with the organic growth in selling and marketing expenses amid our retail business expansion.

Please turn to slides 20. We also maintained a healthy cash position with stable growth momentum. As of December 31, 2024, our cash and cash equivalents totaled RMB3,618 million, with net cash of RMB3,556 million.

Please turn to slide 21. For full year 2025, the Company currently expects total net revenues to increase by 25% compared with full year 2024.

That concludes our financial highlights for the fourth quarter and full year 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.