

Atour Lifestyle Holdings
Fourth Quarter and Full Year 2023 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 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 Fourth Quarter and Full Year 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 fourth quarter and full year 2023 earnings call today.

2023 was an exceptional year for Atour, wherein we unveiled our strategic vision for expanding our portfolio to 2,000 premier hotels nationwide by 2025 and establishing the "Chinese Experience" as the industry benchmark. Throughout the year, we worked diligently to enhance digitalization, organization and corporate culture, as well as our management and operations capabilities, which have become the pillars of our sustainable growth as an experience-driven business. Today, our signature "Chinese Experience" is resonating deeply with people, evoking a profound collective response. Moreover, we have achieved significant milestones in our hotel network expansion. In 2023, we opened a total of 289 new hotels and signed additional 576 projects, surpassing the targets we set at the beginning of the year and laying a solid foundation for our goal of "2,000 premier hotels" by 2025.

2024 is poised to be a year of innovation and breakthroughs as we build on this success. To advance our "Chinese Experience" strategy, we will remain dedicated to providing our customers with multi-faceted services and exceptional experiences that go beyond accommodation. First, we will promote greater awareness of our cultural, inviting, and interesting experiences, cultivating lasting bonds with our discerning customers. Second, we aim to establish a virtuous cycle fostering seamless customer crossover between retail and accommodation, to bring our unique deep sleep experience to all of our members. Finally, we will continue to advance digitalization, empowering experiential upgrades and elevating the "Chinese Experience" to new heights. In terms of our network expansion strategy, we will continue to solidify Atour's leading position in the upper midscale market while expanding Atour's brand awareness in the midscale market, and establish a sustainable, mutually beneficial franchisee ecosystem to help drive our hotel network's steady growth.

Now, I would like to provide more details on our performance for the fourth quarter and the full year of 2023.

Let's begin with our hotel business. In the fourth quarter, our RevPAR recovered to 109% of 2019's level, with both ADR and OCC exceeding 2019's levels for the fourth consecutive quarter. Specifically, RevPAR's recovery rate for October, November, and December was 109%, 107%, and 110%, respectively, compared with the same periods in 2019. These results underscore the resilience of our hotel business, which is primarily fueled by business travel demand. Additionally, our mature hotels in operation for more than 18 months performed well during the quarter. Their same-hotel RevPAR recovery rate reached 110% of 2019's level in the fourth quarter, aligning with the overall performance of our hotel business.

Meanwhile, we have assembled a highly competitive development team with an efficient organizational structure and a unified development strategy in core business districts to empower the rapid expansion of our hotel network. In the fourth quarter, we opened another 100 hotels, a record high on a quarterly basis, resulting in a total of 289 new openings for the full year. As of the end of 2023, we had a total of 1,210 hotels in operation. Furthermore, our new signings remained robust in the fourth quarter, with our pipeline continuing to expand. As of December 31st, the number of hotels under development reached 617, representing a 70% year-over-year increase.

Atour Light 3.0, our midscale offering, continued to garner market recognition, as evidenced by 27 new signings during the fourth quarter, accounting for over 15% of our total new signings for the period. As of the end of 2023, we had a total of 25 Atour Light 3.0 hotels in operation, which progressed swiftly through the ramp-up phase and began demonstrating robust operational performance upon entering the mature stage. Particularly in the core business districts of higher-tier cities, these hotels have emerged as leaders in both operating performance and customer experiences, highlighting Atour Light 3.0's strength across products, services, and brand influence in the midscale market.

Furthermore, we officially established an independent branding department for Atour Light in the fourth quarter, with a primary focus on crafting a differentiated accommodation brand image preferred by young customers. We introduced a series of distinctive services represented by "Blue Friends," allowing customers to deeply explore local tourism, cultural, and culinary specialties. These initiatives and efforts are dedicated to providing each of our Atour Light customers with a simple, pure and relaxing accommodation experience. In addition, to better cater to young business travelers' preferences, we introduced our innovative, exclusive Atour Light privilege services. Embracing the concept of "Life at Ease," Atour Light 3.0 fulfills young business travelers' demand for a stylish, personalized, and high-quality accommodation experience and is earning increasing recognition among customers. As the next flagship brand we are propelling toward the 1,000-hotel mark, we are confident in Atour Light 3.0's tremendous potential and firmly believe that it will lead the comprehensive upgrade of China's midscale hotel market.

In the upper midscale market, we launched Atour 4.0 in November last year, capturing widespread attention and acclaim from the market upon its release. Guided by even more stringent criteria, we have successfully identified a batch of projects within carefully chosen properties across target cities. The very first Atour 4.0 hotel is progressing smoothly, and is

scheduled to open soon. We are confident that as we gradually unveil Atour 4.0 hotels, they will take our entire upper midscale portfolio to the next level.

Moving now to our prime memberships. Bolstered by Atour's escalating brand recognition, our membership base grew substantially in the fourth quarter of 2023. As of December 31st, our registered members surged by 78% year-over-year, exceeding 63 million. Furthermore, a key digitalization initiative this year is to seamlessly integrate retail scenarios into our membership benefits, and establish a unified OneID Atour membership, which will ultimately encourage mutual access and growth between these two major business segments. Moving forward, we will augment premium benefits across all scenarios, unlock value through smooth integration of our corporate and individual membership ecosystems, and foster deeper brand collaborations across diverse industries.

Despite the softening of leisure travel demand during the fourth quarter, business travel activity remained solid. Atour, as the preferred brand for business travelers, experienced an increase in room nights sold through our CRS to 65.1% for the fourth quarter and 63.4% for the full year. Coupled with the rapid expansion of our corporate membership, the contribution of room nights sold to corporate members rose to 20.8% in the fourth quarter.

Last but not least, our retail business experienced a dramatic surge in 2023, with full-year GMV reaching RMB1.14 billion, approximately three times higher than last year. Online sales accounted for over 80% of the total GMV, with significant breakthroughs on content e-commerce platforms. For instance, GMV contributed by Douyin soared to RMB400 million in 2023, a remarkable 16-fold increase compared with the previous year.

Meanwhile, our deep sleep products emerged as a market powerhouse in 2023. Throughout the year, our retail business concentrated on sleep scenarios to gain a deep understanding of customers' sleep-related needs and address their sleep difficulties, with the goal of offering customers a relaxing and comfortable sleep experience. Atour Planet's product capabilities continued to strengthen in 2023, with several blockbuster launches in our Deep Sleep series. Among them, our Deep Sleep Pillow PRO sold over 1.2 million units across the year, topping sales charts in pillow segments on Tmall, Douyin and JD.com during the Double Eleven Shopping Festival. We also maintained our top position as the most mentioned pillow product on Xiaohongshu. Also, our Deep Sleep Temperature Control Quilt, a key addition to Atour Planet's ever-expanding product portfolio, surpassed 100,000 units in sales in 2023. Fueled by our relentless pursuit of innovation in product development, Atour Planet's Deep Sleep portfolio is poised for further expansion.

We made significant strides in our retail business over the past year as we focused on deep sleep scenarios and curated exceptional experiences. Following our “Chinese Experience” strategy, we achieved an industry-leading shopping experience across leading third-party platforms. Moreover, by merging retail and accommodation scenarios, we offered our customers the opportunity to experience and enjoy the comfort provided by the Atour Deep Sleep Pillow PRO through our A-PLUS services during their stay with us, which has attracted a vast pool of customers and recorded more than 400,000 orders to date.

Leveraging our invaluable “Deep Sleep” insights, we maintained our product growth trajectory in 2023, consistently launching premier products finely attuned to the evolving demands of the era. This strategic approach contributed substantially to the rapid expansion of our retail business. At the same time, we boosted our efforts across brand building and upgrades, as well as product development. Drawing upon extensive feedback from our members’ real sleep experiences, we continually optimize our “Deep Sleep” offerings, thereby amplifying our brand and product strength. As we move into 2024, our focus will remain on brand-driven growth and establishing a comprehensive brand value continuum. We will continue to enhance our products’ competitive edge and expand product categories utilizing our efficient product development mechanism, providing our customers with diverse and superior sleep products. Furthermore, we intend to propel synergistic development between our retail and hotel businesses, leveraging our hotels to create a closed-loop, experiential ecosystem that will allow our customers to engage in a truly immersive sleep experience during their stays.

Over the past year, we have witnessed a gradual recovery in domestic business travel demand, coupled with explosive growth in leisure travel. Looking into 2024, we expect sustained upward momentum in business travel, and the popularity of experience-driven leisure tourism to persist. As a leading upper midscale hotel chain in China, Atour’s unique neighborhood-style services and innovative deep sleep experience will continue to provide customers with unparalleled accommodation experiences, further enriching Atour's brand value and expanding the mindshare of the “Chinese Experience.”

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

Wu Jianfeng:

Thank you, Haijun. Now I would like to present the Company's financial performance for the fourth quarter and full year of 2023.

Our net revenues for the fourth quarter of 2023 grew by 140.4% year-over-year and 16.3% quarter-over-quarter to RMB1,505 million. Net revenues for full year 2023 increased by 106.2% year-over-year to RMB4,666 million. The strong increases were driven by the robust growth in both hotel and retail businesses.

Revenues from our manachised hotels for the fourth quarter were RMB851 million, up by 133.3% year-over-year and 9.0% quarter-over-quarter. For full year 2023, revenues from our manachised hotels increased by 98.8% year-over-year to RMB 2,706 million. The increases were primarily fueled by the ongoing expansion of our hotel network and the increase in RevPAR. The total number of manachised hotels increased to 1,178 as of December 31, 2023, up by 31.0% year-over-year and 9.1% quarter-over-quarter, while RevPAR recovered to RMB353 and RMB371 for the fourth quarter and full year of 2023, respectively.

Revenues contributed by our leased hotels for the fourth quarter were RMB195 million, representing an increase of 40.4% year-over-year and a decrease of 18.1% quarter-over-quarter. For full year 2023, revenues from our leased hotels increased by 51.9% year-over-year to RMB840 million. The increases were primarily due to the increase in RevPAR, which recovered to RMB495 and RMB517 for the fourth quarter and full year of 2023, respectively. The quarter-over-quarter decrease was mainly due to seasonality and the closure of one leased hotel in September.

Revenues from the retail business for the fourth quarter increased by 315.6% year-over-year and 75.3% quarter-over-quarter to RMB412 million. For full year 2023, revenues from our retail business increased by 283.2% year-over-year to RMB972 million. The increases were attributable to widespread recognition of our retail brands and compelling product offerings, as well as improved product development and distribution capabilities.

Now, let's move to costs and expenses.

Our hotel operating costs for the fourth quarter increased by 106.0% year-over-year and 18.9% quarter-over-quarter to RMB733 million. The year-over-year increase was mainly due to the increase in variable costs, such as supply chain costs, associated with the ongoing expansion of our hotel network. The quarter-over-quarter increase was mainly due to an impairment loss of RMB47 million from our leased hotels booked in the fourth quarter of 2023, compared with RMB13 million booked in the previous quarter. Hotel operating costs for full year 2023 were RMB2,241 million, an increase of 60.8% year-over-year. Gross margin of our hotel businesses was 29.9% and 36.8% for the fourth quarter and full year of 2023, respectively, compared with 29.3% and 27.2% for the same periods of 2022, respectively.

Retail costs for the fourth quarter increased by 295.4% year-over-year to RMB232 million. For full year 2023, retail costs increased by 238.1% year-over-year to RMB513 million. The increase was associated with the rapid growth of our retail business. Gross margin of our retail business was 43.7% and 47.2% for the fourth quarter and full year of 2023, respectively, compared with 40.8% and 40.1% for the same periods of 2022, respectively. The increases were attributable to increasing contribution from higher-margin online sales.

Selling and marketing expenses for the fourth quarter of 2023 increased by 283.2% year-over-year to RMB207 million. Selling and marketing expenses for full year 2023 increased by 235.6% year-over-year to RMB470 million. The increases were mainly due to our increased investment in brand awareness and online channel development associated with our retail business.

General and administrative expenses for the fourth quarter of 2023 were RMB105 million, including RMB2 million share-based compensation expenses, compared with RMB217 million, including RMB160 million share-based compensation expenses for the same period of 2022. For full year 2023, general and administrative expenses were RMB451 million, including RMB162 million share-based compensation expenses, compared with RMB350 million, including RMB160 million share-based compensation expenses for full year 2022. The increases, excluding the impact from share-based compensation, were primarily due to increased costs related to management personnel and professional service expenses.

Technology and development expenses for the fourth quarter of 2023 increased by 39.7% year-over-year to RMB22 million. Technology and development expenses for full year 2023 increased by 16.8% year-over-year to RMB77 million.

Adjusted EBITDA for the fourth quarter of 2023 was RMB251 million, up by 116.1% year-over-year. Adjusted net income for the fourth quarter increased by 175.8% year-over-year to RMB222 million. Adjusted net profit margin for full year 2023 was 19.4%, up by 8 percentage points year-over-year. The significant increase in gross profit margin in both our hotel and 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 December 31, 2023, our cash and cash equivalents totaled RMB2.8 billion. Among them, net cash was approximately RMB2.8 billion.