# Analysis of Atour Lifestyle Holdings Limited and Its IPO

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**Abstract:** As the leader of the newly rising industry in China, Atour's has brought the Chinese hotel market with a possibility. The mid-upper-class hotel and combined signed brand hotel. In November 2022, they announced IPO in NASDAQ and raised capital with 52 million dollars. In this paper, Atour's main business, specialties, the analysis of its IPO event will be discussed. The aim is to provide investors with an idea whether Atour stock is a good stock to invest, why they success and the further improvement and challenges for them. Within the paper, SWOT is used to analysis the IPO event of Atour. Atour has a lot of specialties which makes them occupied the most market share in 2021. However, at the current environment, pandemic strikes back and forth, the ambitious plan of their competitors and even serious inside secret worries. Atour are facing challenges. Whether they could maintain the performance, maintain the best customers' experience, lower the operating cost, expand with faster speed will be the further consideration for Atours' management team.

**Keywords:** IPO, Mid-upper-class hotel market, SWOT analysis.

## 1. Introduction

Atour Lifestyle Holdings Limited (Atour will be used as short in the remaining article). The Corporation was founded in 2013. The founder of Atour accidentally went into a small village named Atour, he was touched by the nature, simple and the relationship between every villager, to be thankful and always keep happiness. Hence, the name "Atour" appeared. This is also their aim, that Atour is looking forward to bringing happiness, comfortable and all the best thing to every customer [1] and the founder, Haijun Wang, concluded their standard as mid-upper, minority luxury.

Atour has various product lines: Atour Hotel, Atour S Hotel and Atour light. These are all different types of hotels which S stands for super and is an upgraded version of the previous. Atour light is developed with "light", light life and light social, this is to provide the younger group with extra social opportunities and gather them all together to communicate and live.

Besides, A.T. House and Zhotel are two of their special purposes' hotels, both have their specialties, aiming to provide customers with not only hotel living experience but also other creative experiences, such as, music, art, specially designed room, and delicious foods.

SAVHE and A.T.living are two of the high standard hotel and apartment services that Atour is providing. SAVHE is a resort hotel and A.T.living contains multiple services that a five-star rated hotel provides and even more. In 2016, Atour begin to set up IP hotels. They corporate with other brand or famous person to build the hotel that is highly correlated to them which provide a high level of privatization and attract even more customers. So far, they have corporate with a lot of brands, for example, NetEase music, Tencent, Hoop China and so on.

Apart from hotel services, Atour found out that they could sell accessories within the hotel to their customers for more revenue. Customers can purchase them online or in hotel. The revenue of this retail section is steadily growing, although it's not a high percentage, but the creative thought could bring them more revenue with no extra cost.

As of March 31, 2021, Atour Group has opened 608 hotels, covering 131 cities in China, with 71,121 guest rooms and more than 25 million registered individual members [1]. In terms of main business, Atour Group mainly makes profits from three aspects. The first is to manage hotels. From 2019 to 2021, the revenue of hotels under management is 840 million yuan, 920 million yuan and 1.22-billion-yuan, accounting for more than half of the total revenue. Atour has opened 600 branches in China in seven years, making Atour consumers become investors of Atour through capital raising [2][3]. Atour sends management to manage hotels, and the franchisees only need to pay the joining

fee. The second is to rent hotels, which is the traditional hotel business. The concept of Atour is to use the price of three-star hotels to build the quality of five-star hotels. Therefore, the cost of Atour hotels is higher than that of other hotels, this part is accounting for about 40% of the total revenue. accounting for about 40% of the total revenue. Finally, the retail revenue. Atour launched "What You See Is What You Get". The products with good experience in Atour hotels can be purchased on Atour's official website, such as mattresses, memory pillows, toiletries, etc. This has also brought a lot of revenue to Atour, accounting for about 10% of the total revenue (please see Figure 1) [3].

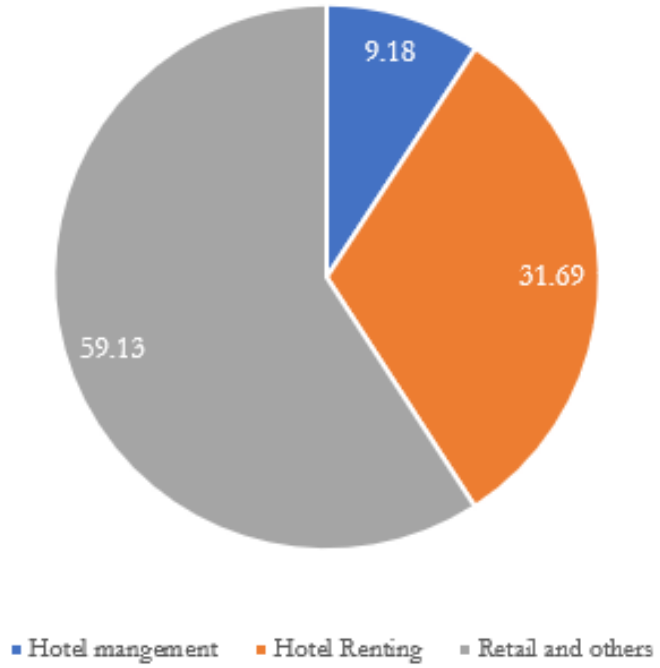



**Figure 1.** Components of revenue constructions(%) of Atour in 2020

Photo credit: Original

Data source: IPO prospectus

The special combination of retail and hospitality has brought Atour some benefits, however their operating cost is significantly higher than normal as well.

The founder, Haijun Wang, noticed early in 2012 all the economy hotels are extremely similar from every perspective. The outfit, services, standards are all extremely similar therefore they are playing the price war all the time. As economy developing at a rapid speed, people are not satisfying with low price but also the experience of living. After carefully consideration, Wang thinks he could make some difference, Atour jumped into the market. Atour has its special services, every hotel contains more than a thousand books for customers to read, customers can enjoy the local photography works inside hotels. Consider of the customers of their hotel, Atour provides meals from 5:30 in the morning, even 2:00a.m. early in the morning you will be able to have your late supper in the hotel. This kind of humanized services touched a lot of customers. Now it’s time for them to become “well-known”. Atour raised capital to build hotels from crowdfunding platform, the money sometime exceeds the expectation. After a few times, they have attracted some other company’s attention and gained the opportunity to corporate with them. Besides, those who invested in the hotels will be able to use the invested capita to consume at the hotel and become a member of Atour and gain a lot of benefits. This helped Atour to lock their customers. After that, in 2016, Atour worked with famous person, brand and company to produce different theme hotel. In the environment of incredible developing speed of internet, Atour become famous with “light speed”.

In the following paper, I will explain the challenges that Atour is facing. From the fundamental economic environment, Atour’s competitors and other perspectives. After that, I will also discuss the IPO of Atour in November 2022. It’s advantages, disadvantages, further opportunities and so on. In the end, I will provide with my personal views for Investors and the management team of Atour.

## 2. Analysis of Market Factors

### 2.1. Covid-19 Pandemic

In December 2019, an unknown virus strikes. People are restricted to stay home, everyone is panic, travelers and tourists is decreased to almost "0". Hotels are used to quarantine all those infected and there is still not enough space.

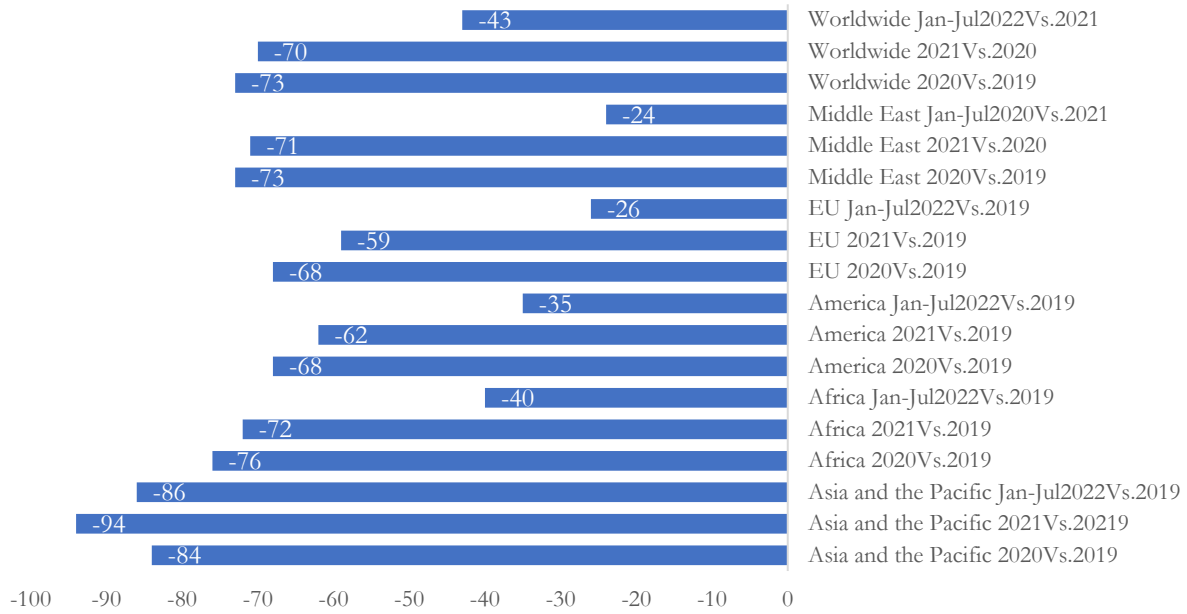



**Figure 2.** Percentage change in international tourists due to Covid-19 from 2020 to 2022

Photo credit: Original

Data source: UNWTO @ Statista 2022/worldwide 2020 to 2022; percentage change over 2019 [4].

Figure 2 shows the data of percentage change in international tourist arrivals worldwide due to the pandemic, as we can derived that the most harmful region is in Asia and Pacific region, which included China. According to Department of Finance, Ministry of Culture and Tourism, the number of tourists has dropped to 3.22 billion which, compared to last year, decreased 52.1%. Especially the first quarter, the darkest time, the percentage decrease has reached 83.4 [5].

Firstly, the hospitality department relies on tourists and business trip, but in accordance with government restrictions and safety instructions, delay in work resumption, cutting business trips, extra proportion of online working, hospitalities industries are suffering and living beyond income.

Secondly, the income is reducing with disproportionate reduce in cost. Hotels are operating with the cost of employment, asset management, renting, energy and so on. This part of cost is not reducing as less occupancy rate. In addition, in some high affected rate area, hotels are required to purchase additional equipment to be prepared for the pandemic. This situation has caused many hotels fall into bankruptcy. According to *2021 China Hotel Industry's development report* published by China Hospitality Association, in year 2020, 59,000 hotels that owns more than 15 rooms are closed [6]. Although the pandemic seems to become weaker than the beginning, how long could this situation last? Let's take Beijing as an example, the pandemic strikes back and forth for at least three times until now. Each time is a disaster for hospitality industries. Beyond that, the virus still exists globally, it must delay the "reborn" of the whole industry. The imbalanced balance sheet will eventually bring an enormous number of hotels to an end.

Thirdly, it's hard to get financing. In the current period, it's very difficult to raise capital. Investors are hesitating, because of the economic environment are keeping cashflows and waiting for a better chance. Therefore, it's very difficult to get financed at current. However, newly rising hotels must raise enough capital to be able to provide best quality services, build their own brand, choose a good

location, hire more talents and so on. However, hospitalities industry in current period are not able to earn enough revenue to attract investors. Therefore, financing is another issue for them.

What problems can they obtain from the pandemic? First. Lack of emergency measurements. This kind of pandemic may happen at a very little probability, but most hotels are not considering it as vital. Management team do not have the ability to deal with relative emergency issue. They should introduce a department to, solely, deal with emergency and formulate contingency plan which can react effectively and in time.

Second. Resource's allocation issue. Part of hotels are not allocating adequate technique and regime. It may seem fine during normal period but will eventually goes wrong during abnormal time.

Third. Optimality in services and products. During the pandemic, customers considered more on safety rather than price. This will lead those hotels that doesn't have good services and products to a vicious circle, keep lowering price to attract customers and still lack of occupancy and lowering price which finally lead to bad services and even bankruptcies.

In the future, coming to an end to the pandemic, citizens are not restricted at home, economic environment is getting better and even revenge consumption becoming more and more common, hospitalities are possibly greeted with a peak in revenue. Hence, this shall be the chance for them to ascend. The ability to solve the above-mentioned problems will be important for them.

In conclusion, Covid-19 caused deadly damage for most of hotels, lot of bankruptcies are due to the lack of management and emergency measurements. If they want to develop in a rapid speed, they must optimize themselves and always be ready for such emergencies and maintain their development sustainability.

### 2.2. Competitors

According to prospectus published by Atour, net profit of Atour in 2019,2020 and 2021 are 3.9%,2.4% and 6.5% [3]. However, the competitors of Atour——B.T.G. Hotels and H World Group Ltd. Their net profit for these three years is 11.06%, -10.06%, 0.16% and 15.71% with two following negative net profit figures [7]. (fig.1) Although, the net profit is not high, but we can say it is very constant. The reason of this could be a large proportion of franchise hotels. They don't need to suffer from the economic environment as much as their competitors.

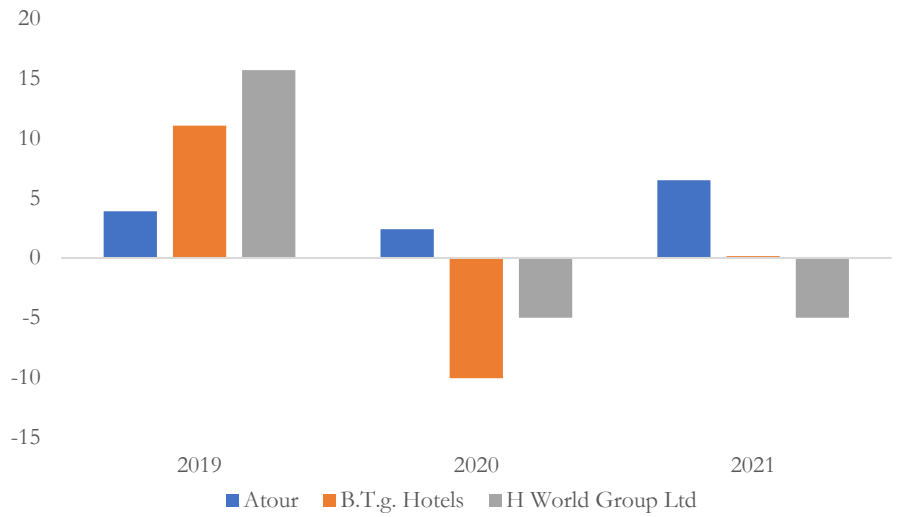



**Figure 3.** Comparison between three companies' net profit rate (%)

Photo credit: Original

Data source: Atour Lifestyle Holdings Limited. Prospectus/ Alpha

Factory. Atour hotel, standing in the middle of red sea [3, 7]

So far, the competitors of Atour are mostly 4 types. The upgraded brand of economy hotels, domestic company's mid-upper class hotel brand, international or newly rising mid-upper class hotel brand and international and domestic corporate hotel brand. In 2022, mid-upper hotels are having a

vicious competition. The market of mid-upper-class hotels are not as empty as ten years ago. Atour is growing with a rapid speed, opens more than 500 hotels within 5 years. However, one of its competitors, H World Group Ltd are planning to have at least 500 mid-upper-class hotels until 2023 [7]. For this kind of large entity, they can open many hotels in a short time. This could harm Atour's spreading speed. Whereas the CEO of Atour seems to have a special way. According to prospectus, from 2015 to 2020 the registered members' compound annual growth rate (CAGR) is 79.6%. Until the end of 2021, there are more than 30 million registered private members [3]. Among these members, the less-than-30 -years-old member's CAGR is 113%. Atour has targeted their members with a large proportion on younger customers. This could provide the future assurance with long term sustainability.

Whether the CEO can deal with their advantages and compete with its competitors will be a future issue for the CEO to consider.

### 2.3. Market Prospect

Beyond the competitors, debt ratio of Atour Group is too high. As of June 2022, the debt of Atour Hotel is 3.85 billion yuan, with a debt ratio as high as 85.8% [3]. There is a risk of capital chain breaking at any time. In addition, Atour may not be able to convert the leased hotel in a timely or cost-effective manner, and there are many risks involved in the conversion of the leased property, including conversion delays or cost overruns, which may lead to increased project costs or loss of revenue. Atour funded and supervised the renovation of the leased hotel. There are many risks associated with Atour's participation in the conversion of leased properties, including conversion delays or cost overruns, which may result in increased project costs or loss of revenue. Atour may not be able to recover the conversion costs incurred due to unfinished projects. In addition, due to market saturation or oversupply, the properties we convert may become less attractive, which means that Atour may not be able to recover the conversion costs at the expected rate or at all. In addition, Atour may not have available cash to complete the projects they have started, or Atour may not be able to obtain financing (if any) to convert future properties at preferential terms. If Atour cannot successfully manage their hotel conversion activities to minimize these risks, Atour's growth strategy and business prospects may be adversely affected.

## 3. SWOT Analysis

To get rid of the "liquidity" danger, they need more and more capital therefor they chose to go public. The main thing is to raise funds. To be specific, after IPO, Atour have funds used for general corporate and working capital purposes. Next, they selectively pursue strategic transactions including mergers & acquisitions, joint investments in China's hospitality and lifestyle industry. Besides, they may have chance to enhance their IT infrastructure and technologies, including digital operating systems and data analytics, to further enhance their customer experience as well as operating efficiency. And then, they develop new products and services for their diversified hotel portfolio, strengthen their membership program, and enhance their branding efforts. Finally, they use those funds to expand and strengthen their hotel network in China, including funding the capital expenditures and expenses related to opening of new hotels across different Atour hotel brands and the continuous upgrades of existing hotel facilities.

### 3.1. Strengths

Firstly, obviously they successfully gained this chance to reduce their debt by raising a good amount of capital. It might seem that 53 million dollars is not a big deal, even less than 0.1% of the Microsoft Acquisition [8] (Figure 4), however, compare to net profit of the corporation. According to the Financial statement, this year, the Atour's q3 net profit is, record-breakingly, 111 million RMB which equals to 18.5million dollars. This amount of capital is almost the net profit for the whole year (Figure 5).

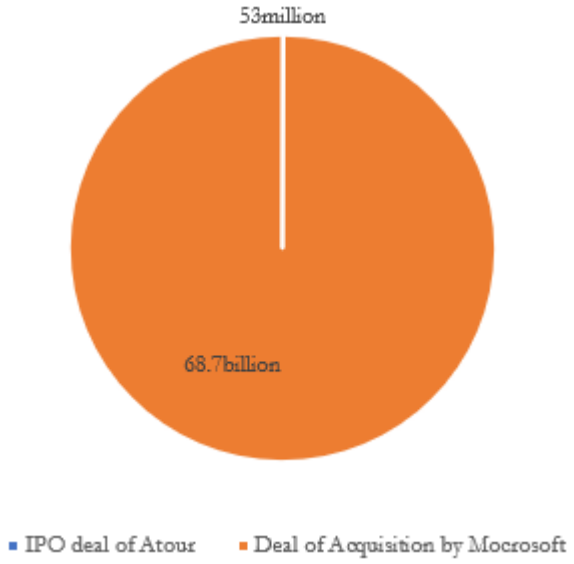



**Figure 4.** Comparison between 2 deal's size

Photo credit: Original

Data source: Wikipedia. Proposed acquisition of Activision Blizzard by Microsoft [8]

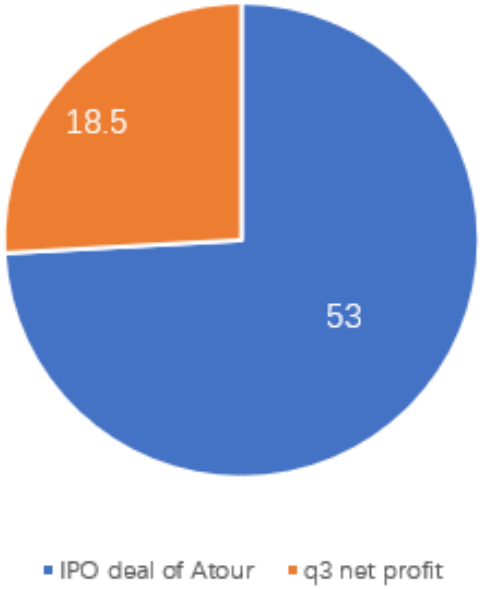



**Figure 5.** Comparison between the deal size and Q3 net profit

Photo credit: Original

Data source: Atour Lifestyle Holdings Limited. Prospectus [3].

Secondly, it promotes all the other hotel business to improve their selves. Atour is developing with an incredible speed and found a creative combination of retail and hotel. Which gives every competitor confidence that they could go public if the performance reached a certain level.

Besides this two, going public have a lot of advantages in common, as the share price of Atour keeps growing, also reflects they are doing a good business and their cash flow is stronger. It also provides with both investors, shareholders, and owners an exit strategy, in case Atour is doing bad they could sell the shares, otherwise they are earning profits. And so on.

### 3.2. Weaknesses

On the other hand, IPO is time consuming, and distracting may lead to improper management. As the recent years, Atour is looking for going public desperately, the negative side news on management for them always show up. Lack of security, disorganised reception sometimes appears to Franchise

hotel. Atour 's Franchise hotel is weighted more than 95% [2], the standard is set by those Direct sale Hotel. The management team are busy working on IPO rather than supervise and keeping standard.

Going public will attract more attention and gives the corporation more stress. As the first mid-upper chain hotel that announced IPO in NASDAQ, more capital is raised then more expectation is added. Shareholders will keep an eye on their performance and hope they are doing the right thing and making a lot of revenue. So that the shareholders will earn more. Otherwise, shareholders may sell the stock and lead to a potential loss for the company.

Besides the impact of this IPO, Atour has tried to go public three times before but end up failing. Two was in China one in NASDAQ. The reasons could be constructed by three parts. First, the q1 of 2019-2021 are all on deficit and the average deficit is around 300 million RMB. This indicates that the operating cost for Atour is at high level. Second, there are hotels that's already shut down but still included in prospectus. Third, the last round of financing was in 2017, after that Atour has no more financing. They have difficulties in financing [9]. How does this affect Atour? Investors may suspect if Atour could raise capital if they are able to earn more revenue to keep the profit. It may also lead to sufficient drop in share prices. However, the actual impact may take time to reveal on the stock price.

### 3.3. Opportunities

The success of Atour in the past is that they can grab the needs of their customers. Mid-upper-class hotels' customer group are aiming at middle class family. What they need is no longer just a place to sleep, as the world developing, people require more than just a room to sleep during the night. Personalize, customize has become an important part of their experience. Instead of making their hotel better, Atour chose to, as a priority, make them different than others then provide better hotel services. That's also the reason Atour keeps looking for creativity. With extra capital raised by IPO, hopefully Atour would be able to look for more possibility. According to prospectus, Atour's net profit are positive in the past three years and the net profit is increasing quarter by quarter in 2022, in the meantime their cash flow is also sufficient. The third quarter in 2022's average occupancy rate is 72% and RevPAR has recovered to the 89% of pre-pandemic period [4]. This data shows Atour has a very good performance in risk averse ability while expanding. In the future, Atour's creativity, personalization services, caring customers and scene retails could bring more and more possibilities with a good risk averse ability. As they said, Atour will use 30% of their raised money to expand and enhance the market share within China, 30% to create more possibilities on products compounding and services, 20% on technology development and remaining will be used for transactions and so on [2]. Hopefully they could explore the right decisions on profiting the company.

### 3.4. Threats

From within the industry, Atour seeks three times for IPO and all failed. To some extent, it shows the capital is not enough for them to provide acceptable feedback to the investors. And the reasons behind failed to go public, besides the above-mentioned reasons, gross profit is too low compare the introduction document to franchise owner with prospectus and the scene retail as the third important business is not 10% as mentioned in prospectus but only 1% as the franchise owner provided. Also, the above-mentioned key figures for themselves have decreased also shows that their ability of making revenue is not improving. The net profit is way lower than other mid-upper-class hotels, on average. So is the high level of debt ratio. All of these are threatening Atour's "life".

From the outer environment, one of their competitors Jinjiang Hotel Group opened 1763 new hotels within 2021 and 584 new hotels for the first half of 2022. But these two figures for Atour is only 175 and 89. Although Atour is expanding with faster speed than before, but the market share are also occupying by a lot of competitors. In recent years, jointly signed brand is becoming more and more popular. The competitors of Atour are not only traditional hotel brand but also a lot of others. Among these corporations, there are someone that knows how to operate with combined brand much better than Atour [10].

## 4. Conclusion

In this Paper, there are some detailed information of Atour Lifestyle Holdings Ltd. The competitors of Atour and the market prospects of Atour is also discussed in the paper. After that, SWOT analysis is used for the IPO event of Atour happened in November 2022. The success of IPO does bring Atour with a lot of further opportunities, some cash flow that is able to solve the debt issue at current. Beyond that, the competition of Atour is still tough. Whether they could keep market share with other traditional hotels stepping in the market and lots of other transboundary corporations' impacts, Atour must maintain its advantage which is to provide the best experience of living. Other than that, Atour also need to think the reason of success. They were able to find the empty space of mid-upper-class hotel market and become the first provider of this section. Customer's fresh feeling may also be the reason of their success. As time goes by, this market is no longer empty, more competitors are also bringing different living experience, customers have more choices. Is Atour still able to maintain its excellent experience for customers? That's the priority for them. On the top of that, the operating cost level need to be readjusted and improve the net profit level. More capital is required for them to reduce the debt ratio. By today, 17/Dec/2022, the stock price of Atour is 16.68, which is higher than the day of IPO. Although the pattern is fluctuating, the price is still growing steadily.

From the investor point of view, it's important to look at the net profit rate, cashflow and the debt ratio of them. Atour need to increase the net profit rate, use cashflow carefully and reduce the debt ratio. So that, they stock price could maintain increasing. Of course, they need to maintain their performance as well.

For the management team. They need to keep their creativity, maintain the excellent customer experiences, try to keep their differences from other competitors. Beyond that, is to expand the market shares, increase their member size. Atour's core is to provide value to the customer. Keep the specialities and expand the market share.

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