Huazhu Group Limited
(NASDAQ: HTHT and HKEX: 1179)

Q3 2020 Earnings Call

Dec 7, 2020


HKEX
香港交易所
A warm welcome to
Huazhu Group Limited
華住集團有限公司
1179
华住
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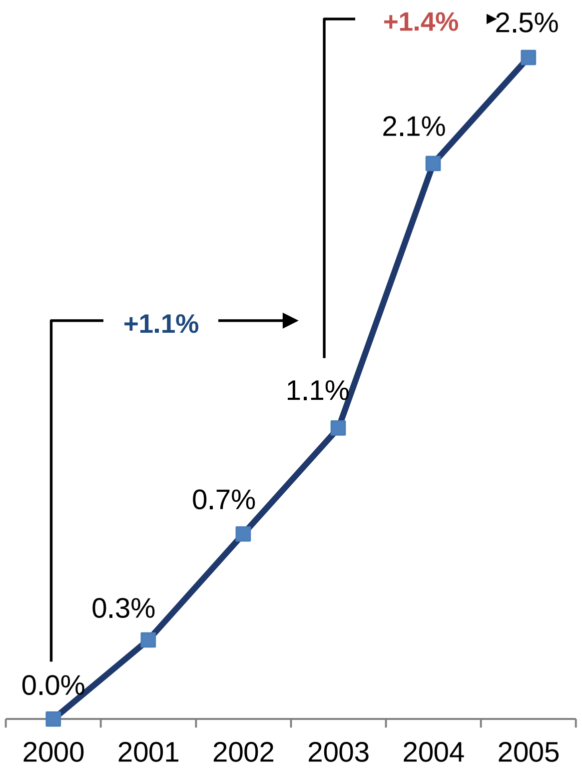
Agenda

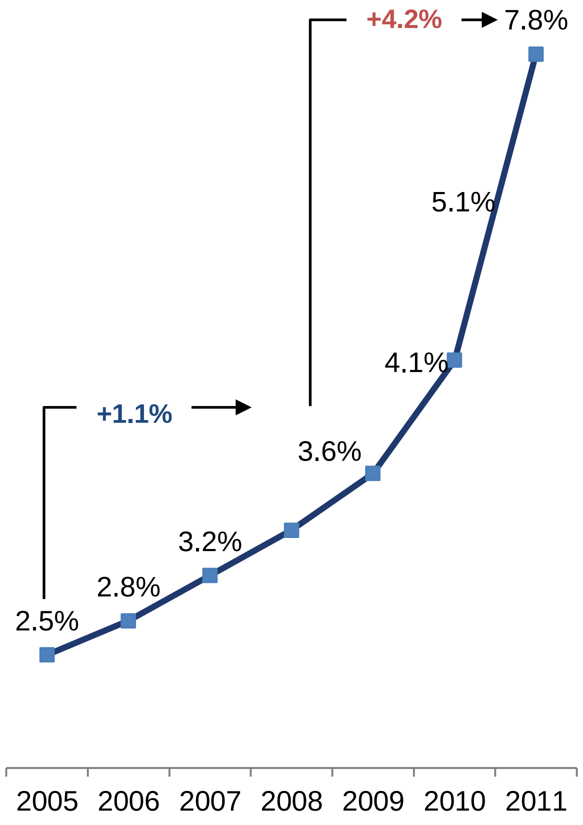
- **Lodging Industry Outlook**
- 2020 Strategy Review
- Q3’20 Operational and Financial Review
- Financial Impacts and Guidance
- Q and A
- Appendix

危机加速行业整合
Market Consolidation Accelerated after Crisis

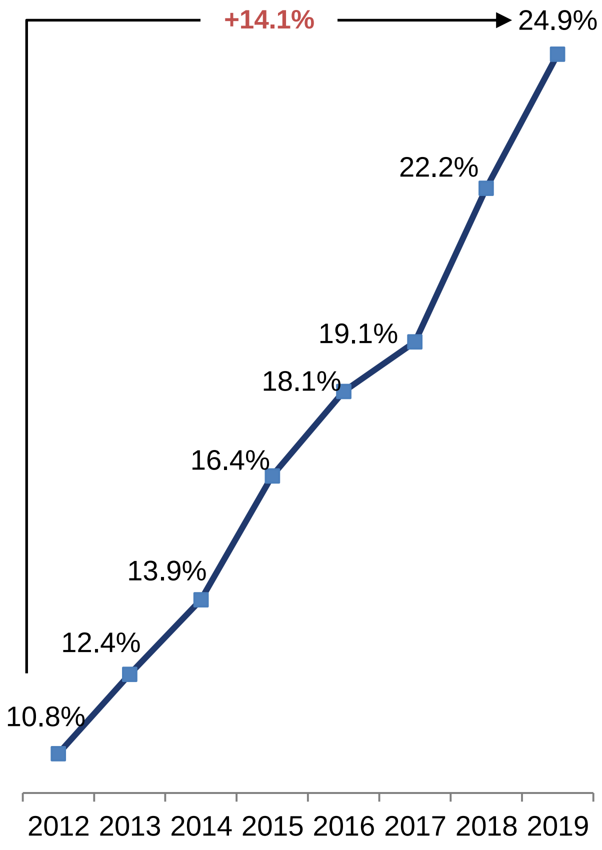
Before and After SARS (2003)



Before and After Financial Crisis (2008)



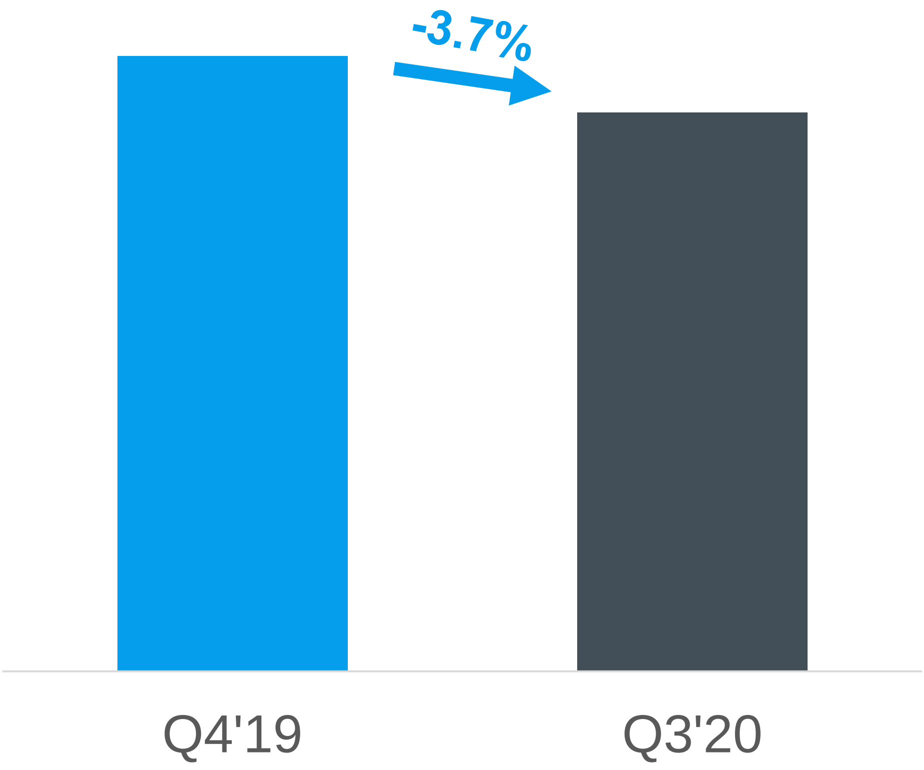
Post Financial Crisis Era (Since 2012)



Source: Frost & Sullivan

疫情使得连锁化率进一步提升
Chain Penetration Further Increased after COVID-19 Outbreak

Number of Hotel Rooms in the Lodging Market Decreased



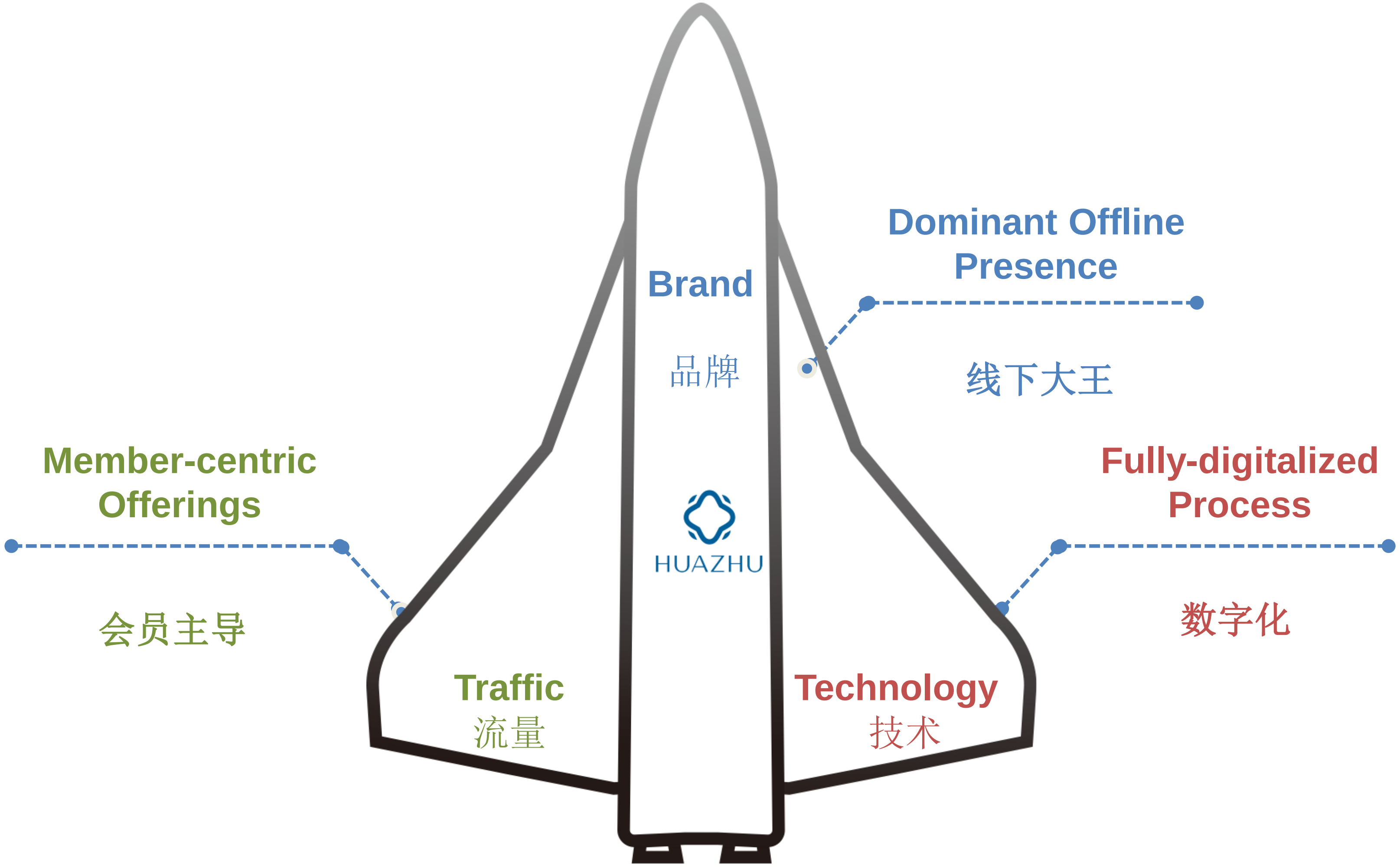
Number of Branded Chain Hotel Rooms Increased

Number of Hotel Rooms	Q3’20 vs Q4’19
Branded Chain Hotels	+2.8%
Independent Hotels	-5.7%

Source: various OTAs’ data

头部企业将有更多整合机会
Industry Leaders to Consolidate the Market

华住打造三位一体超级合金军团引领酒店行业发展
Huazhu's Winning Formula



The Three-in-one "Super Composite"

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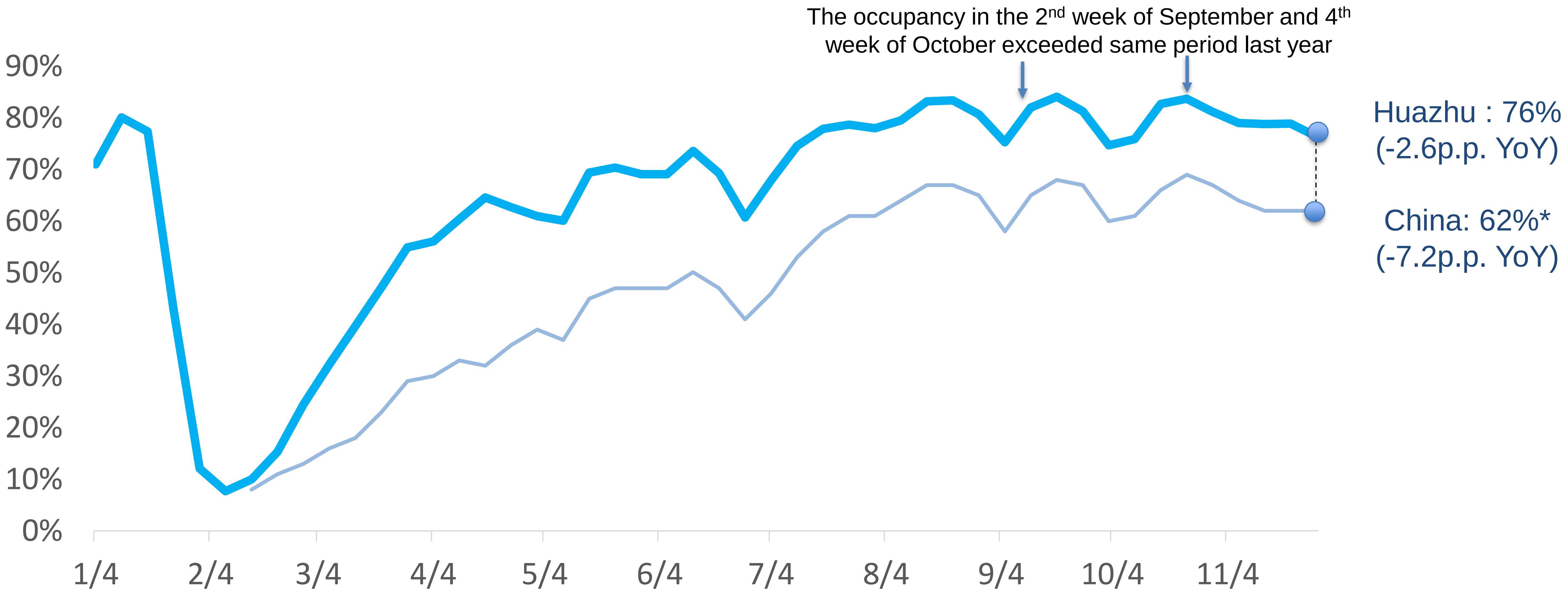
Occupancy is Recovering

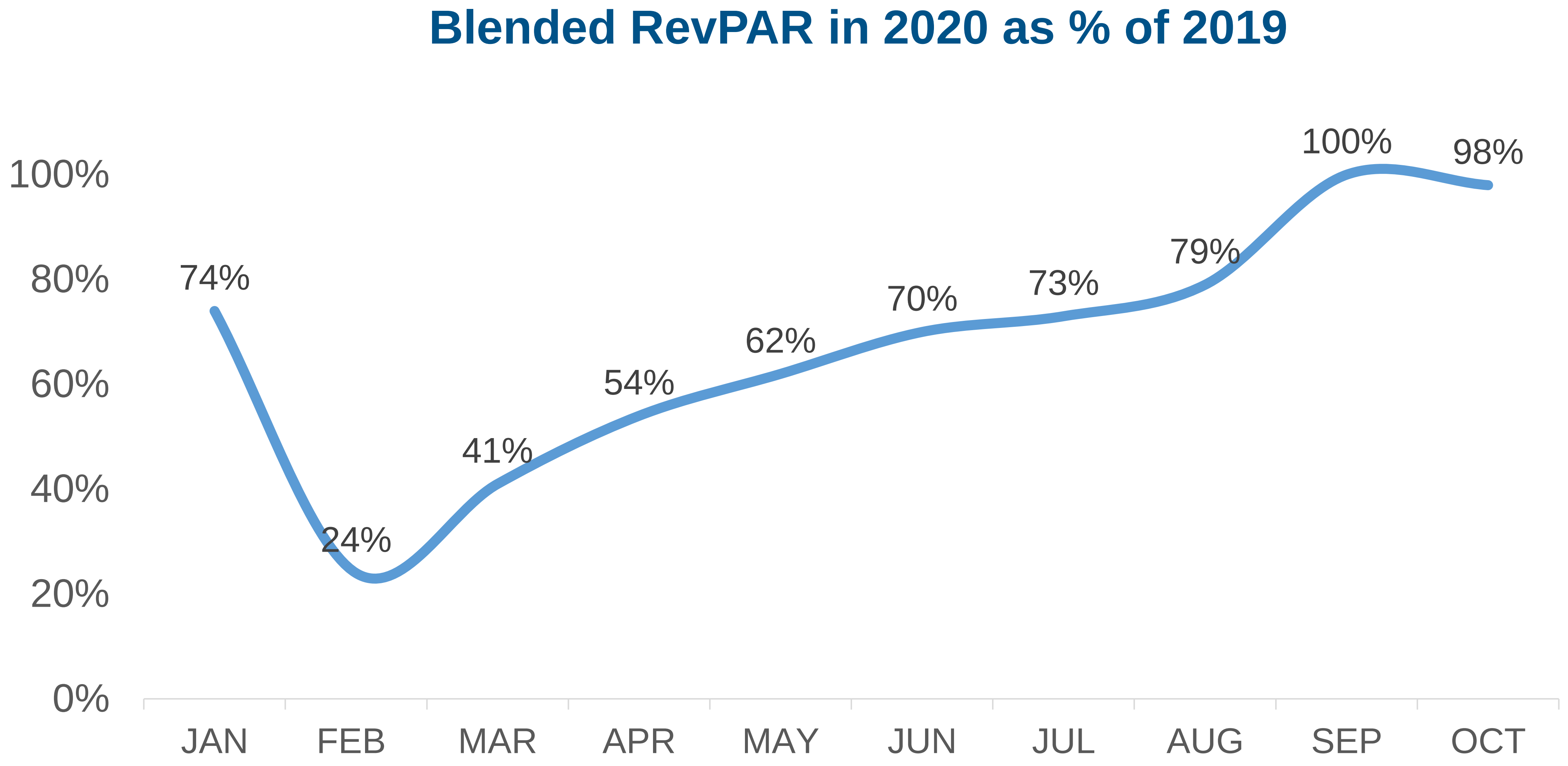
Occupancy of operational hotels, weekly data



* STR China hotels, weekly data

Huazhu's data refers to Legacy-Huazhu weekly average occupancy

RevPAR Continuously Recovering



Strategic Focus for 2020

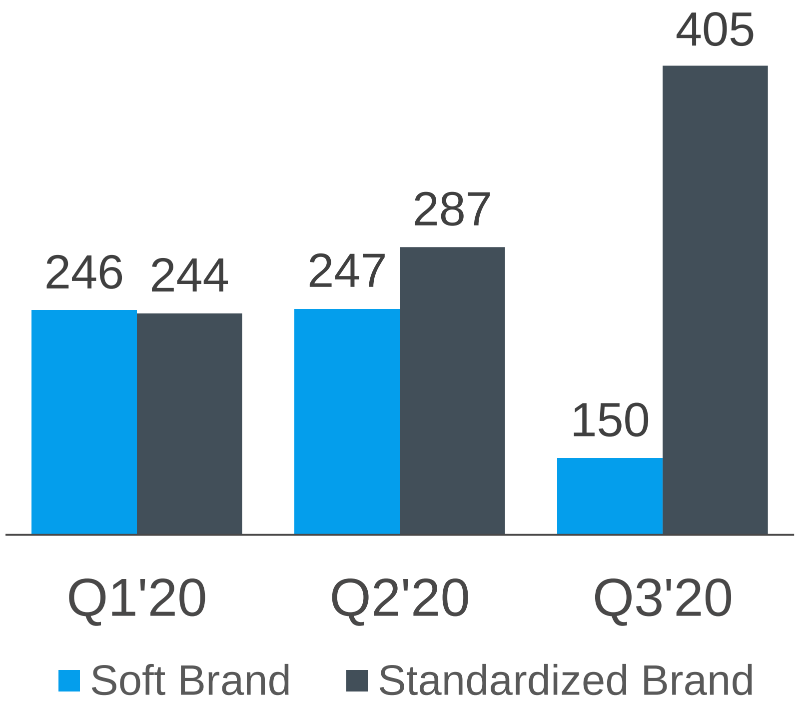
1. Accelerated Quality Hotel Expansion

2. Multi-Dimensional Direct Sales

3. Global Technology-based Shared Service Platform

Focusing on Quality Expansion

New Signings of Hotels



Optimizing Soft Brand Strategy

- Redefining soft brand:
  - Removing soft brand hotels that do not meet our quality standards;
  - Raising the entry threshold of soft brand hotels;
- Serving as reservoir for standardized brand

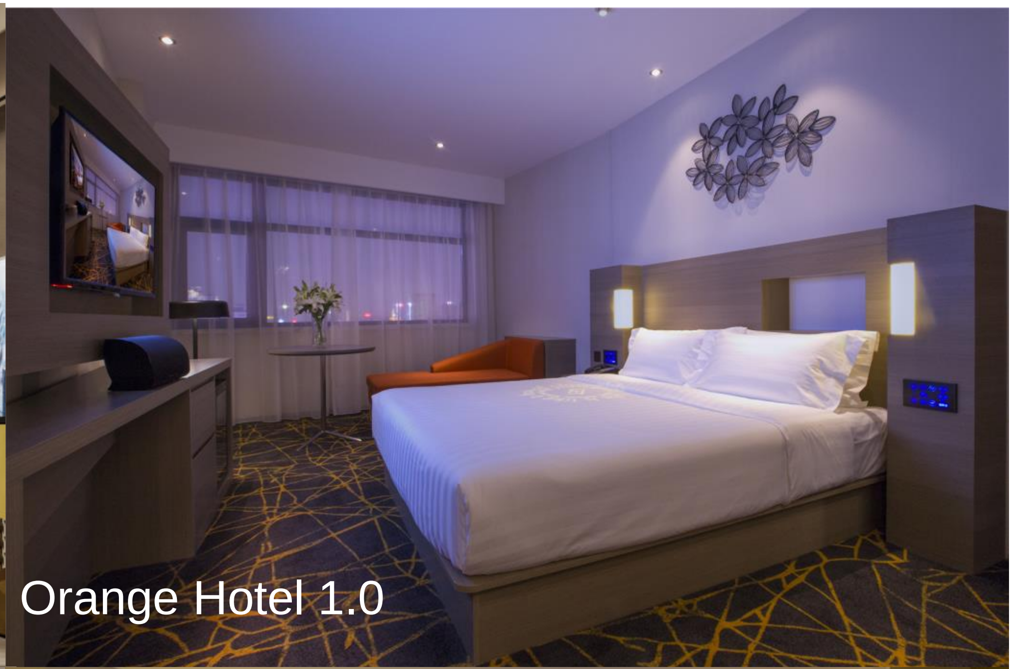
New signings in this page refers to the new signings of Legacy-Huazhu

Hotel Products Upgrade for Economy Brands

朱周空间设计
摄影师：张伟豪

Hotel Products Upgrade for Acquired Brands

Orange Hotel 2.0



Orange Hotel 1.0

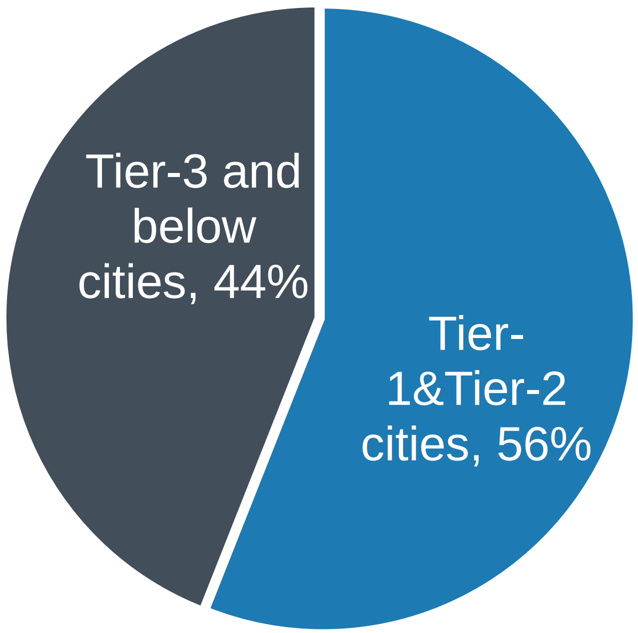
Crystal Orange Hotel 2.0

Crystal Orange Hotel 1.0

朱周空间设计
摄影师：张伟豪

Strong Hotel Openings in Lower-tier Cities

Net Hotel Openings in 2020
(As of October 31, 2020)



Operational Hotels Breakdown
(As of October 31, 2020)

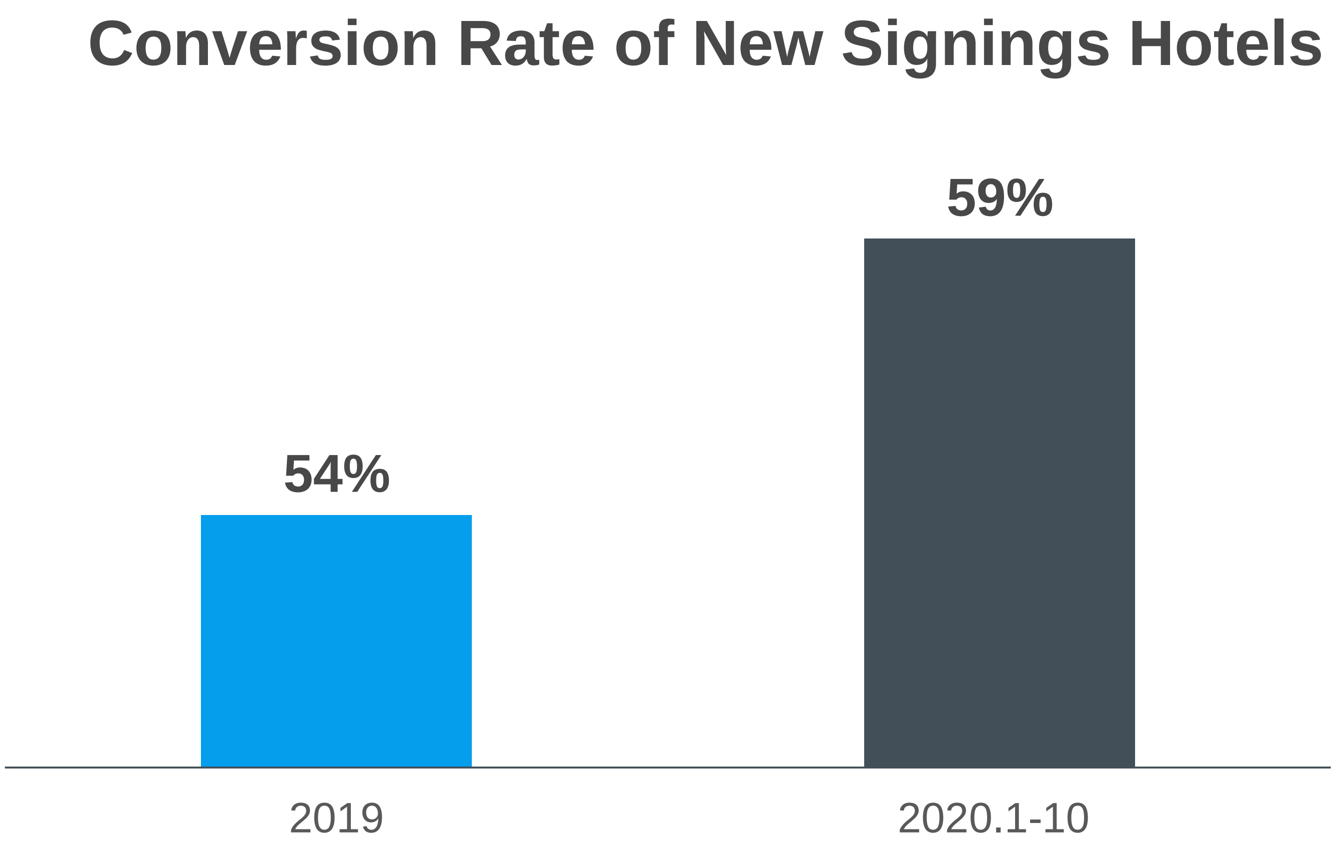
Tier-1 cities	Tier-2 cities	Tier-3 and below cities
21%	42%	37%

Pipeline Hotels Breakdown
(As of October 31, 2020)

Tier-1 cities	Tier-2 cities	Tier-3 and below cities
13%	37%	50%

Hotels in this page refers to the hotels of Legacy-Huazhu

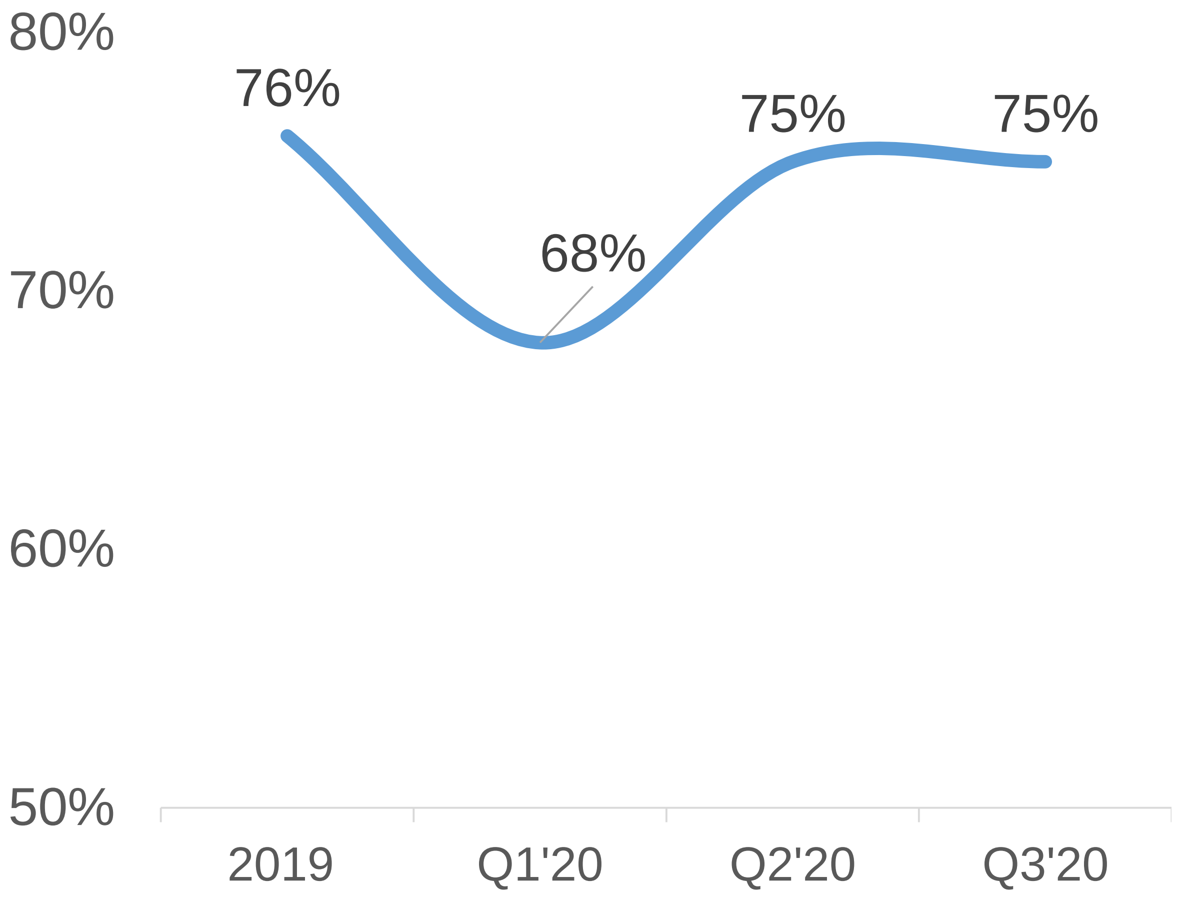
Increased New Signings of Hotels from Conversion



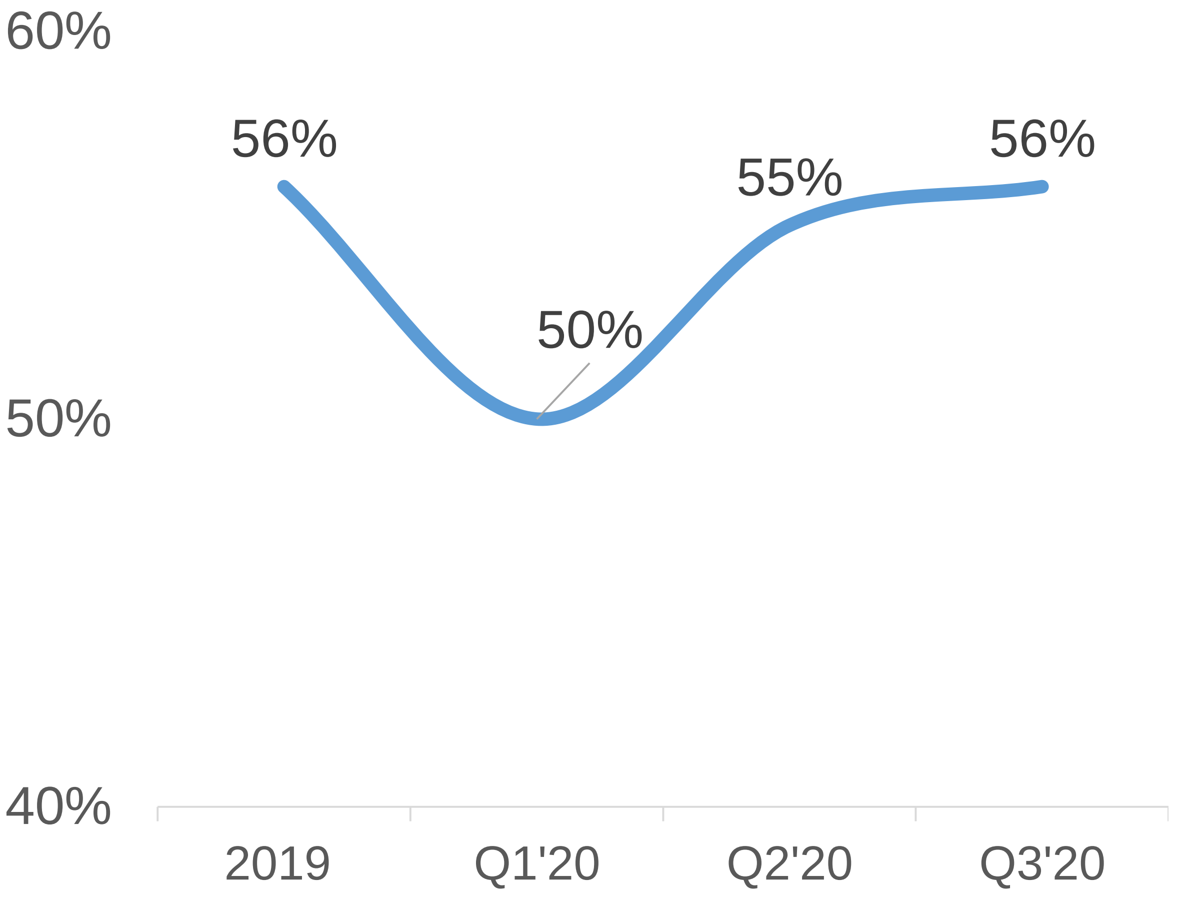
Hotels in this page refers to the hotels of Legacy-Huazhu

Resilient Recovery of Direct Sales

Members Contribution of Room Nights

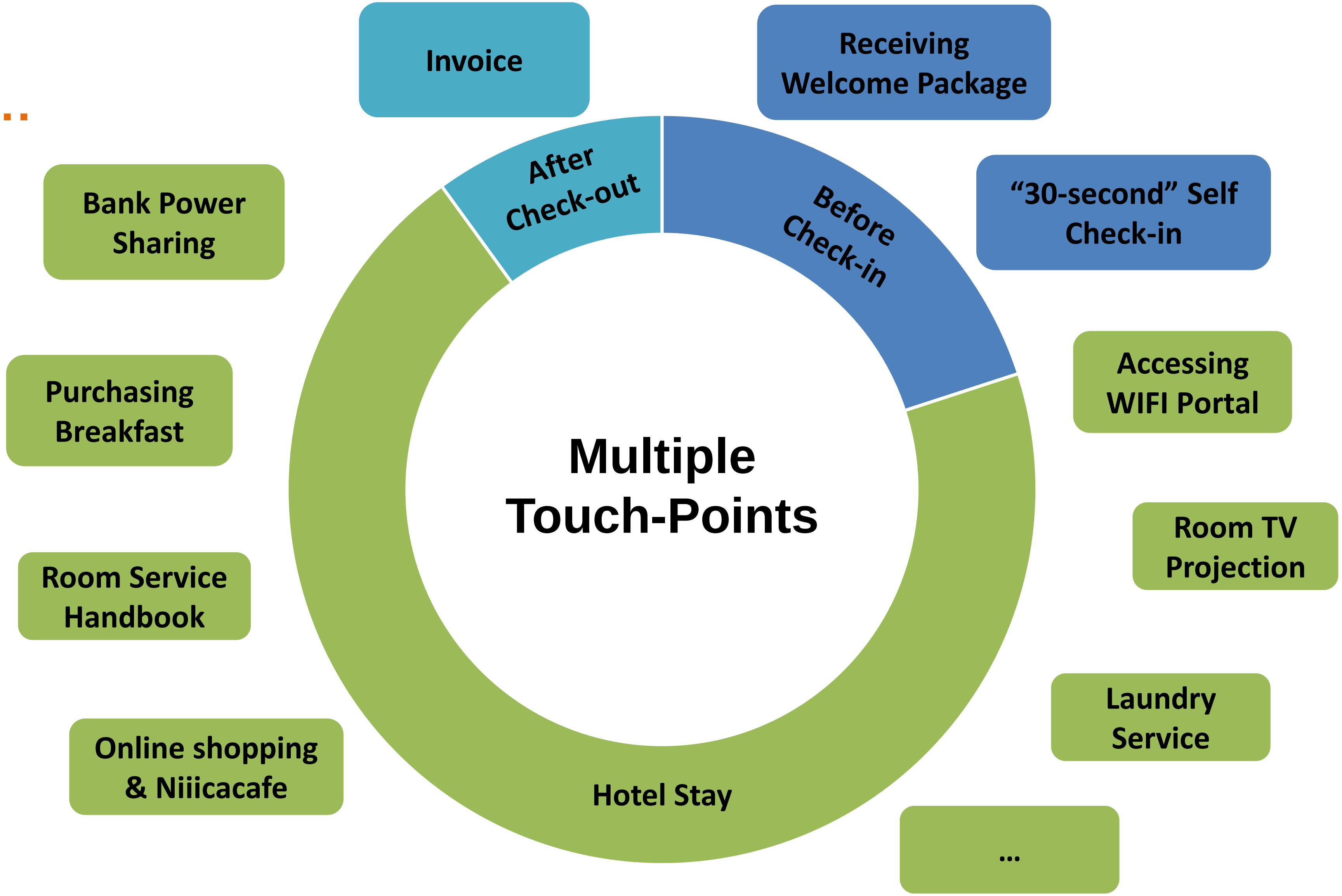


Central Reservation Contribution of Room Nights



Multiple Touch-Points to Attract New Members

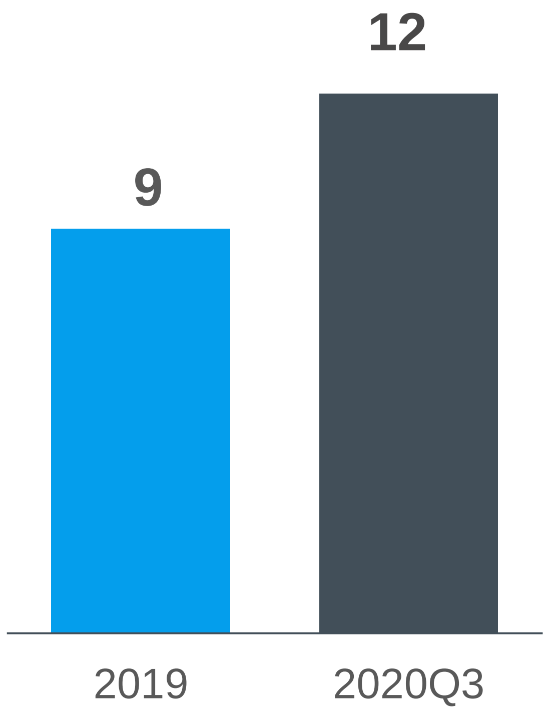
QR Code Screening for…



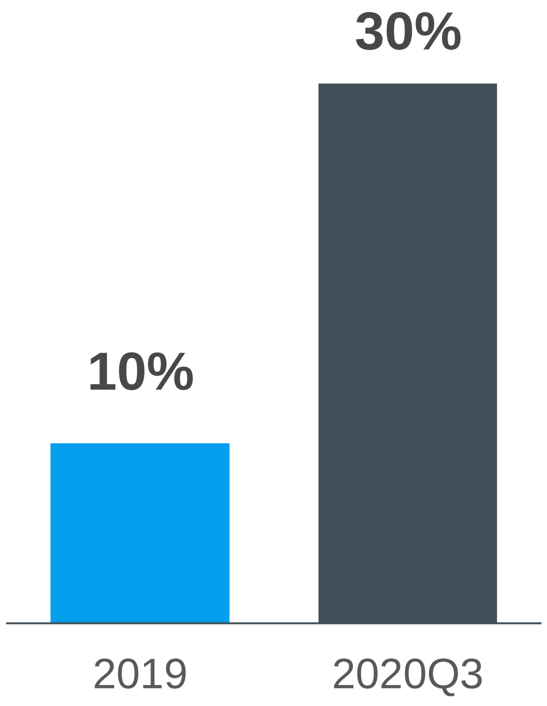
Reinforced Offline Corporate Sales

Number of Corporate Customers[1]

(in thousands)



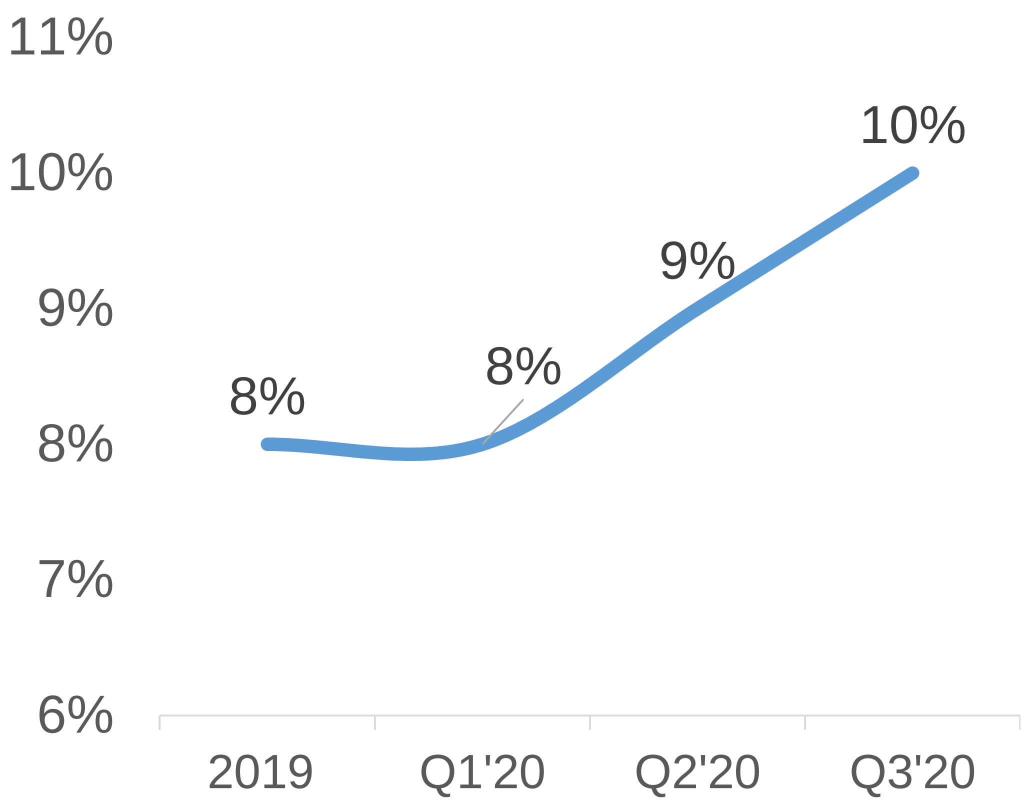
Penetration Rate of Top 3,000 Public Listed Companies



(1) Business entities who have signed business agreement with Huazhu

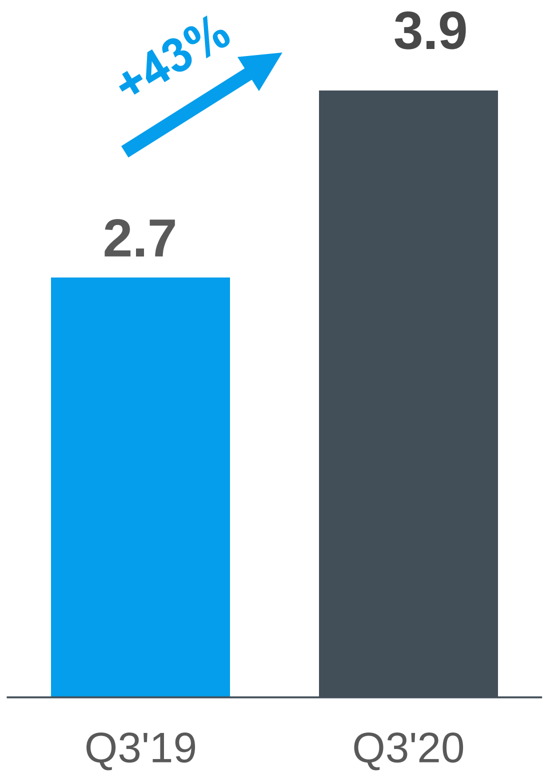
Contribution from Corporate Members Increased

Corporate Members Room Nights as % of Total Room Nights



Room Nights Contributed from Corporate Members[1]

(in millions)



(1)Room nights booking through using corporate membership card or direct booking channel between Huazhu and corporation

One System Strategy- the Progress of DH Digitalization

Despite the current hardships faced in Europe (pandemic outbreak and lock down), we are pursuing our digital integration, and will come out stronger.

One Platform
1. Seamless Guest Journey
2. Efficiency-driven hotel operation
3. Centralized business model globally

	One Infrastructure	One Channel	One CRS	One ERP	One CRM	One Backbone
	Unified Technology and Operation	One Identity Strong Direct Sales	Central Distribution Cost Savings	High Efficiency Foundation for Growth	Customer Insights Touchpoints	Central Data Central Reporting
% of completion	**40%**	**50%**	**75%**	**40%**	**20%**	**20%**
Achievements	Engineered inter national IT architecture and deployed key systems in EU environment for pilot	Launched H Rewards App/Web. H-Portal launched, as “member recruitment touchpoint”	Done UAT deployment in overseas	Finished mapping key requirement and in development	Loyalty program rule finished	Strategically three partners for HR, Revenue management, and mobile platform

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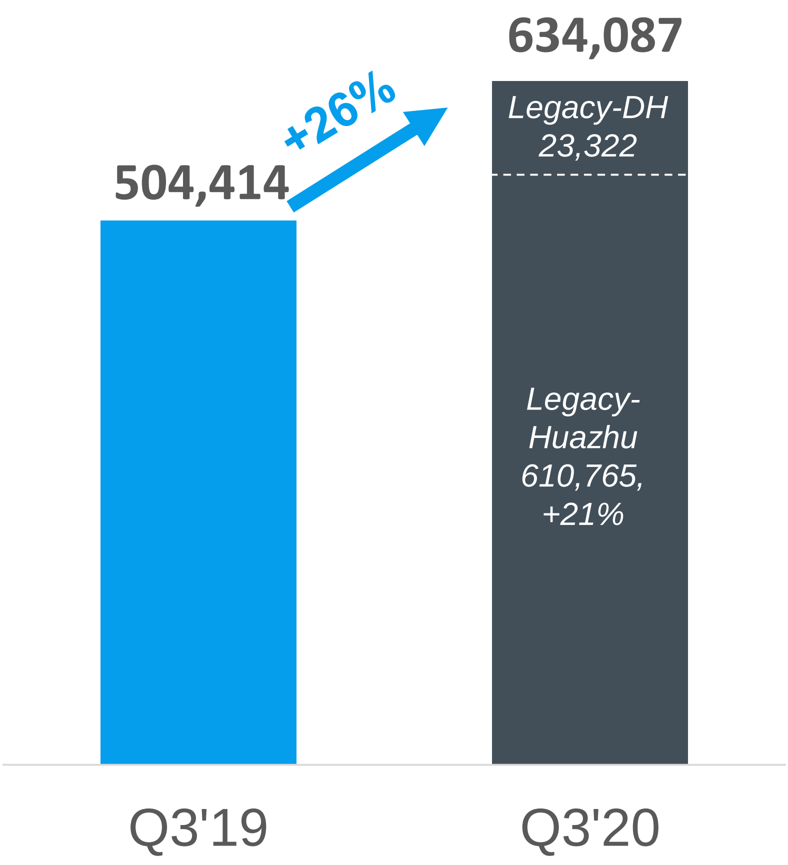
Hotel Network Continue to Expand

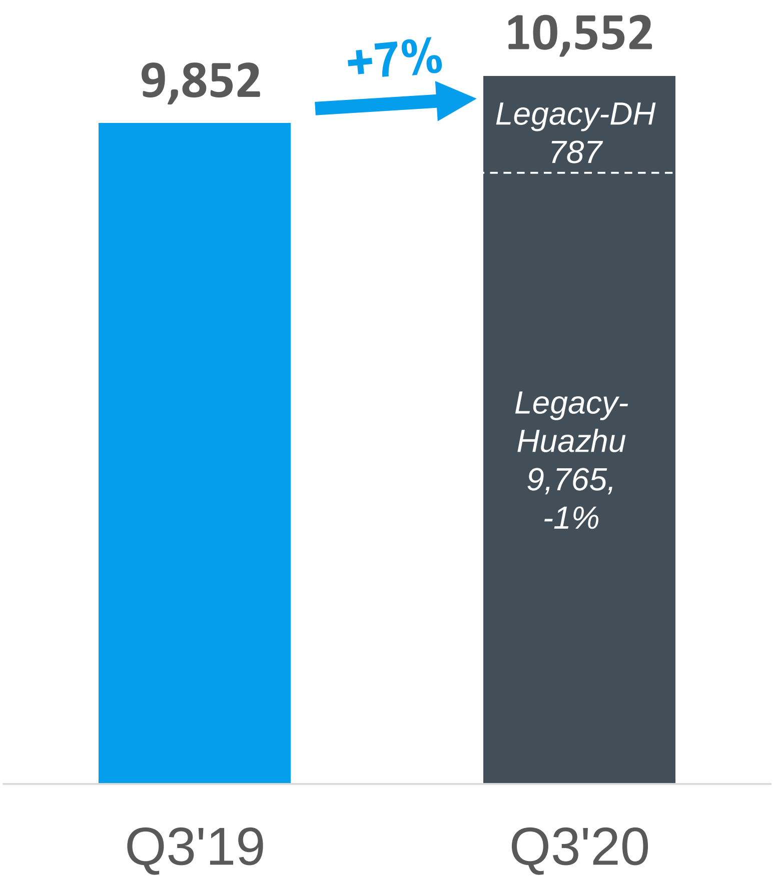
Hotel Network Expansion

(Number of rooms in operation)



Hotel Turnover

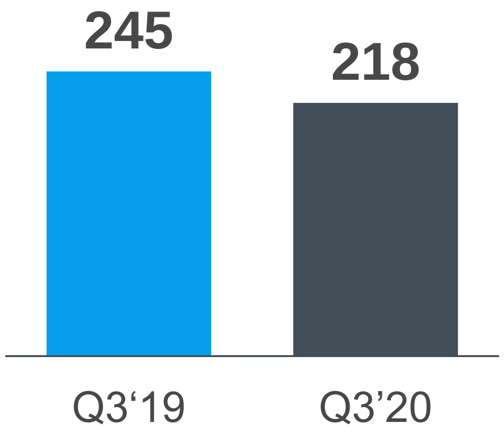
(in RMB millions)



Legacy-Huazhu - Blended RevPAR Declined in Q3'20

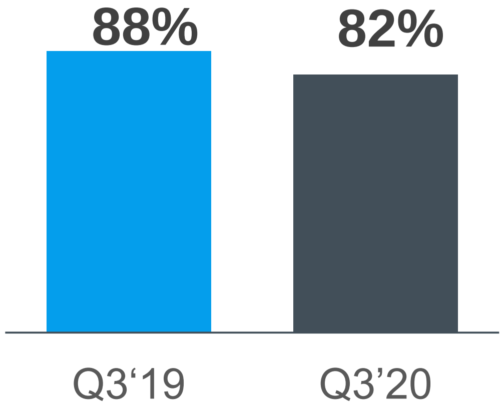
ADR -11% in Q3'20

(RMB)



Occupancy -6 p.p. in Q3'20

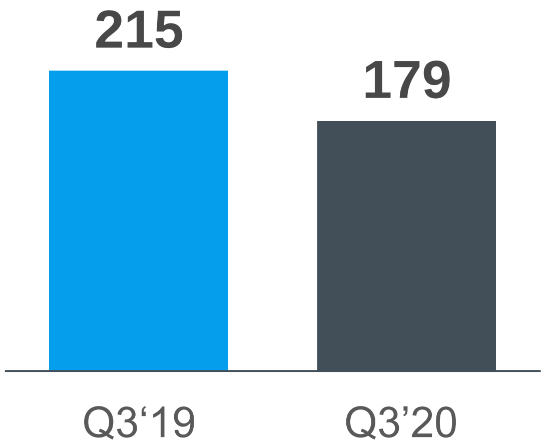
(excluding hotels under requisition)



RevPAR -17% in Q3'20

(excluding hotels under requisition)

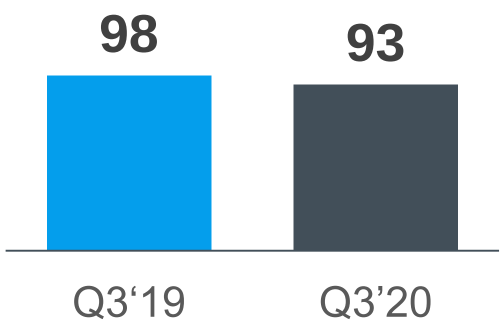
(RMB)



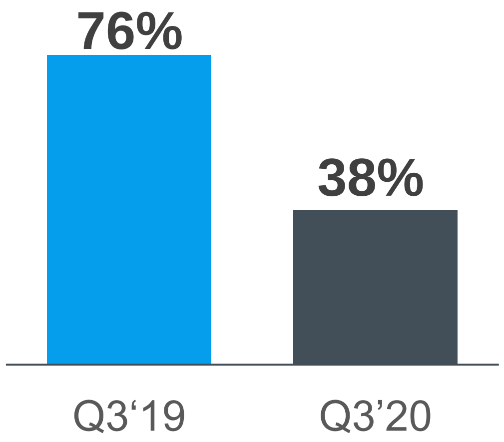
DH - Blended RevPAR Declined in Q3’20

ADR -5% in Q3’20

(EUR)

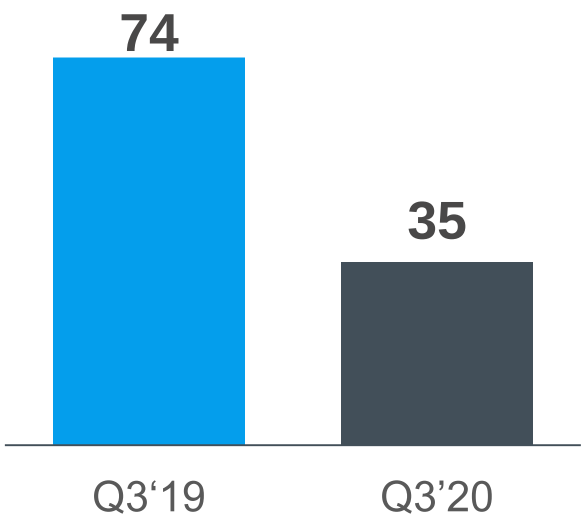


Occupancy -50 p.p. in Q3’20



RevPAR -52% in Q3’20

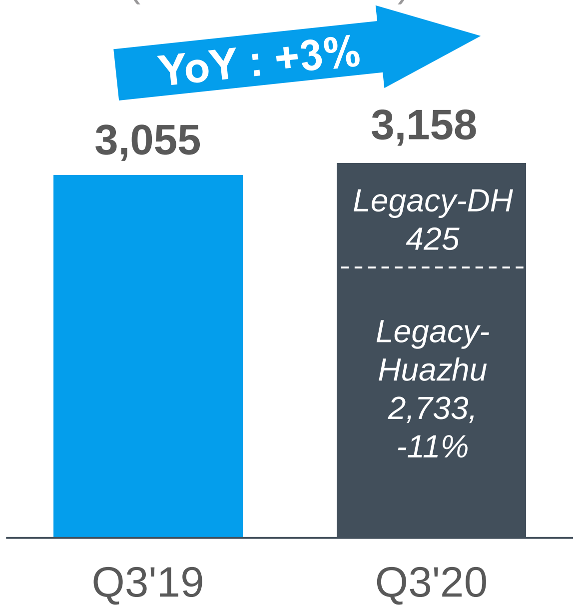
(EUR)



Q3’20 Net Revenues Increased by 3%

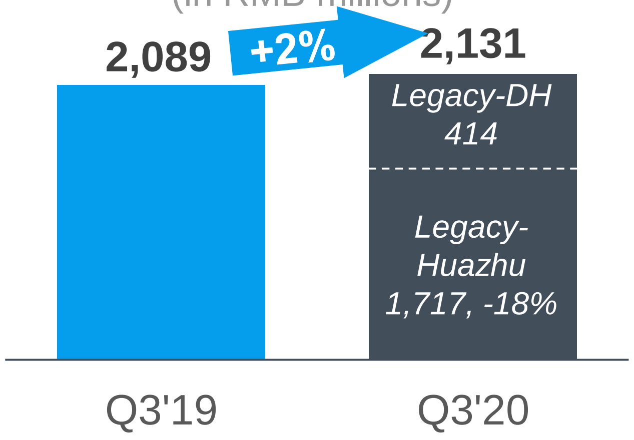
Net Revenues

(in RMB millions)



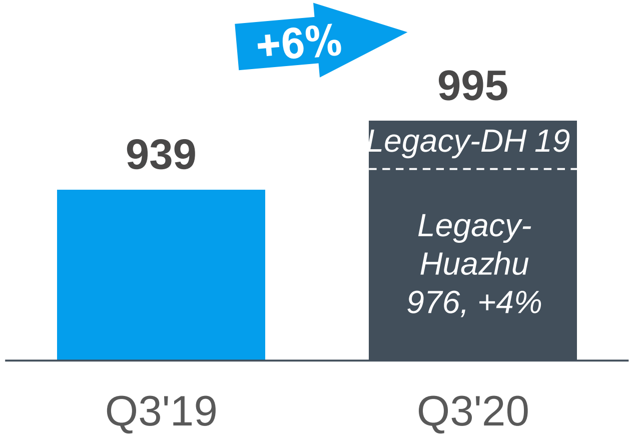
Net Revenues from Leased and Owned Hotels

(in RMB millions)



Net Revenues from Manachised and Franchised Hotels

(in RMB millions)



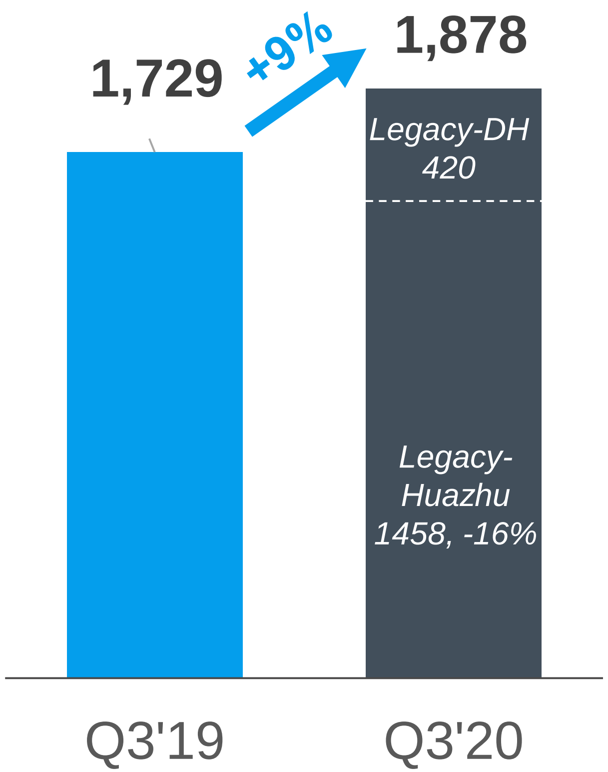
Manachised and Franchised Hotels Revenue as % of Net Revenues

	Q3’19	Q3’20
Huazhu Group	31%	32%
Legacy-Huazhu	31%	36%

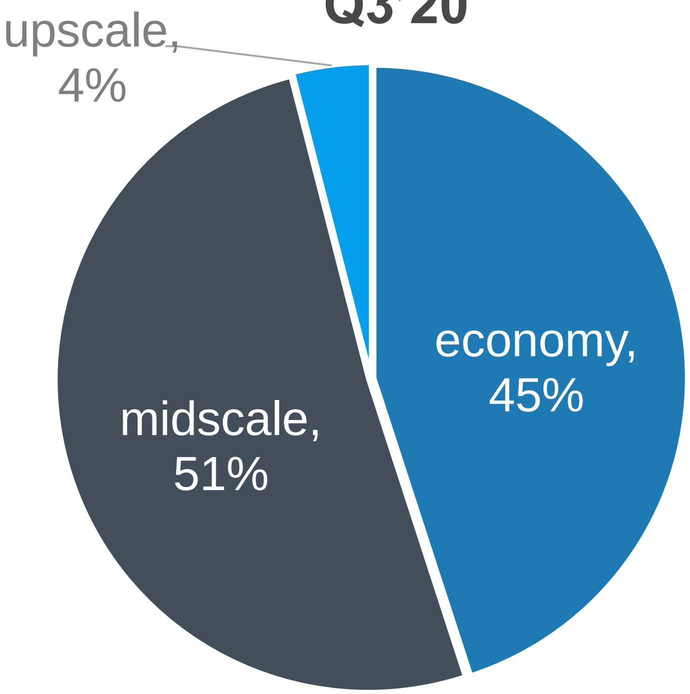
DH Acquisition Accelerated Revenue Contribution from Mid and Upscale Hotels

Revenue from Mid and Upscale Hotels

(in RMB millions)



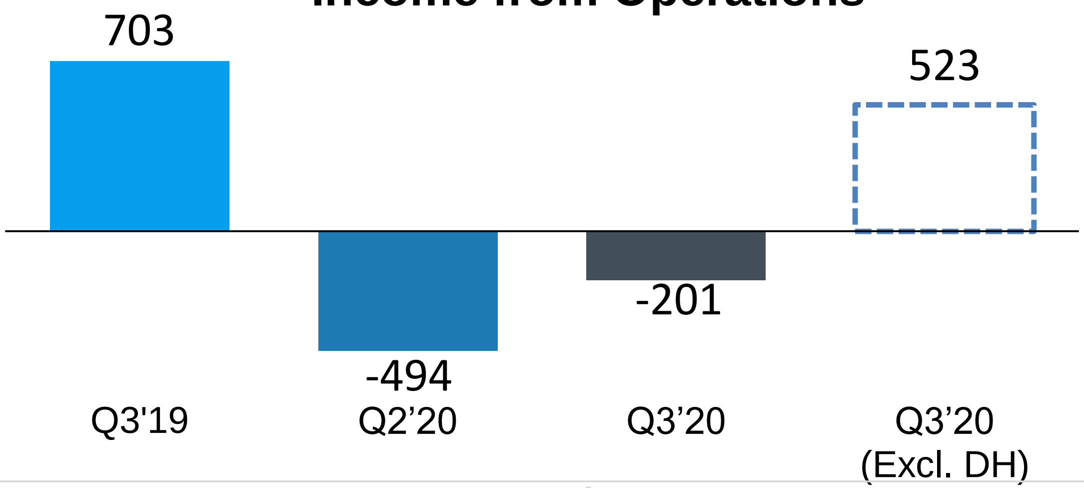
Legacy-Huazhu Revenue Split by Segment Q3'20



The revenue split of Huazhu group between economy, midscale and upscale would have been 39%, 49% and 12% respectively.

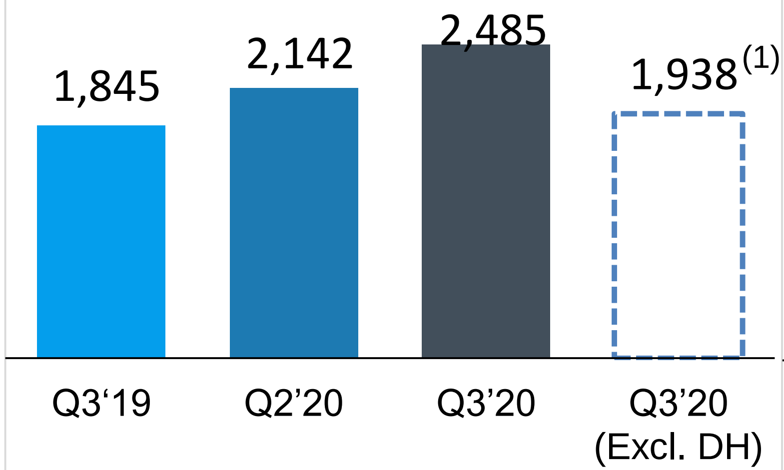
Q3’20 Operating Margin Recovered Significantly

Income from Operations

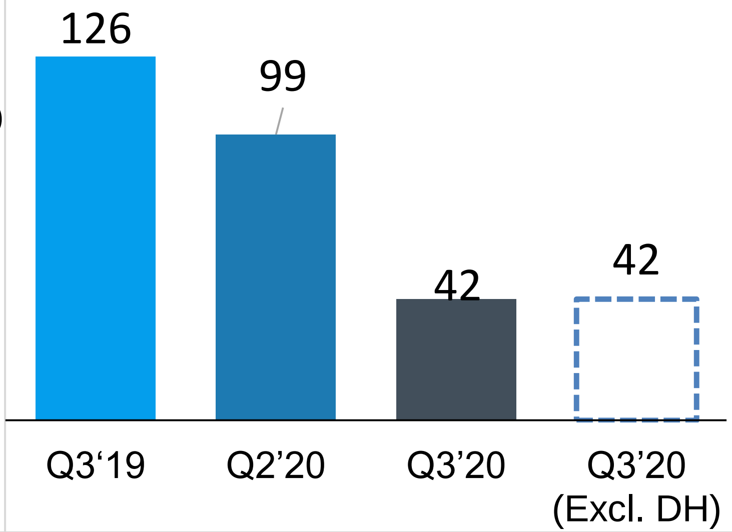


(in RMB millions)

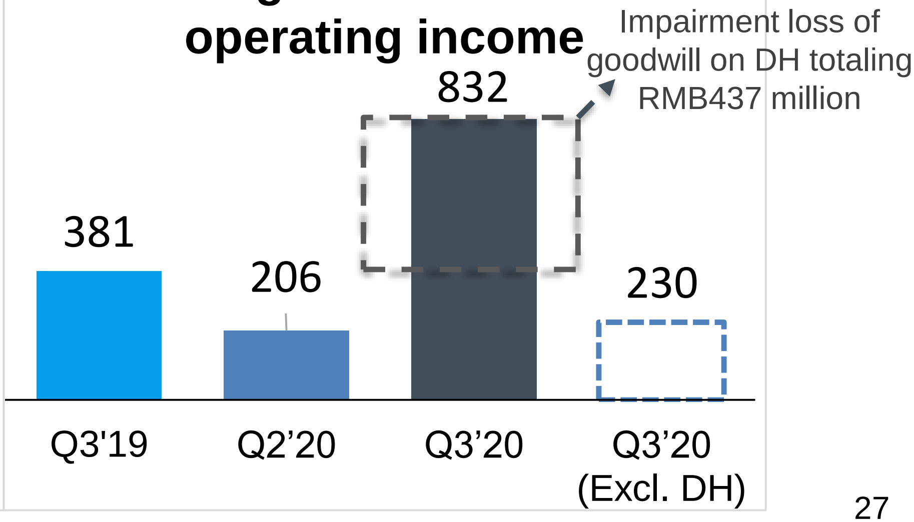
Hotel operating costs and other operating costs



Pre-opening expenses



SG&A Expenses, impairment loss of goodwill and other operating income

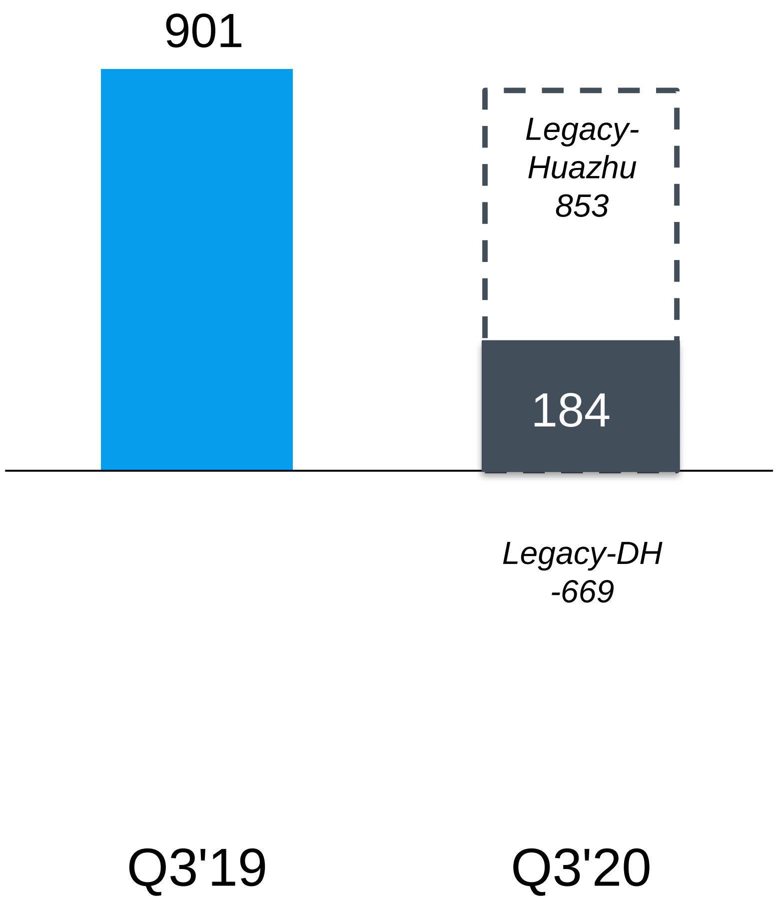


(1) Including non-cash impairment provision of RMB15 million on terminated lease hotels

Adjusted EBITDA and Adjusted Net Income

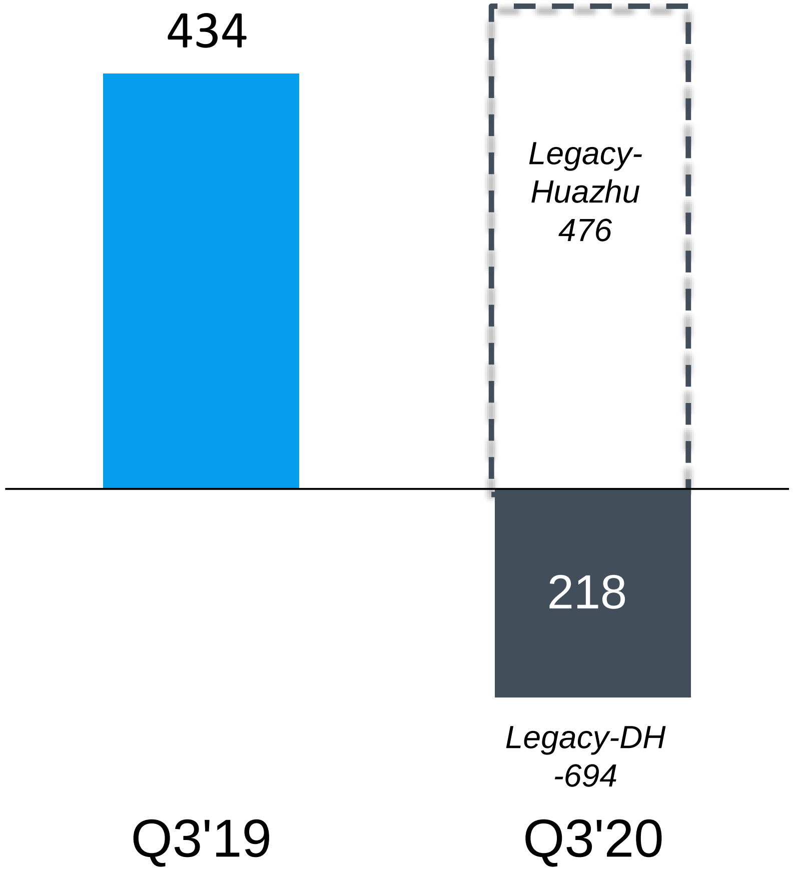
Adjusted EBITDA

(in RMB millions)



Adjusted Net Income

(in RMB millions)



- *Adjusted EBITDA and adjusted net income excludes unrealized gain/ (loss) from fair value changes of equity securities and share-based compensation expenses.*

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COVID-19 Update – China Business

- Revenue will continue to recover in Q4, but may be impacted by resurgence of COVID 19 cases during this winter
- Improved liquidity due to:
  1. Positive operating cash flow in China ~**RMB1.2 billion** in Q3
  2. Proceeds from Convertible Bond issuance – **US$500 million** in Q2
  3. Proceeds from Secondary Listing on Hong Kong Stock Exchange – **RMB5.2 billion** in Q3
  4. Minimal redemption of 2017 Convertible Bond (~US$6,000) in November 2020
- Increased available cash and bank facilities at September 30, 2020
  1. Cash balance – **RMB6.6 billion**
  2. Banks facilities – Unutilized bank facilities of **RMB4.1 billion** in China

COVID-19 Update - Deutsche Hospitality

- DH occupancy recovered to 42% at end September, from the lowest point of 13% in April
- Recovery trend affected by the second wave of COVID-19 outbreak since late September. Germany is imposing a lock-down from beginning of November 2020 to early January 2021.
- 89% or 107 of the hotels remained opened at beginning of December 2020. Occupancy dropped to 10% in November and gradually recovered to 22% in December.
- DH will continue to execute costs and cash flow mitigation measure including but not limited to deferred rental payments, place staff on temporary furlough, freeze headcounts, etc.
- Available bank credit lines totaling **EUR38 million** at September 30, 2020

Guidance

Q4 2020

- Q4’20 net revenues to
- range from a 0% to a 3% increase or
- range from a decline of 4-7%[(1)] if excluding the addition of Deutsche Hospitality

Full year 2020

- Maintain gross opening target of about 1,600-1,800 hotels
- Closure of 550-600 hotels

(1) Considering potential uncertainties of COVID-19 outbreak in the remaining of December.

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Same-Hotel Operational Data by Segment

Legacy-Huazhu operational hotels excluding hotels under requisition

	Number of hotels in operation As of March 31, 2019	2020	Same-hotel RevPAR For the quarter ended March 31, 2019	2020	yoy change	Same-hotel ADR For the quarter ended March 31, 2019	2020	yoy change	Same-hotel Occupancy For the quarter ended March 31, 2019	2020	yoy change (p.p.)
Economy hotels	2,421	2,421	155	76	-50.6%	179	150	-16.2%	86.3%	50.9%	-35.4%
Leased and owned hotels	411	411	173	78	-55.2%	197	160	-18.8%	87.8%	48.5%	-39.3%
Manachised and franchised hotels	2,010	2,010	150	76	-49.2%	174	147	-15.4%	85.9%	51.6%	-34.3%
Midscale and upscale hotels	850	850	247	108	-56.2%	320	259	-18.9%	77.3%	41.7%	-35.5%
Leased and owned hotels	173	173	299	112	-62.7%	378	291	-23.1%	79.1%	38.3%	-40.8%
Manachised and franchised hotels	677	677	229	107	-53.4%	299	248	-17.0%	76.6%	43.0%	-33.6%
Total	3,271	3,271	184	87	-52.8%	220	180	-17.9%	83.5%	48.0%	-35.5%

Legacy-Huazhu operational hotels excluding hotels under requisition

	Number of hotels in operation As of June 30, 2019	2020	Same-hotel RevPAR For the quarter ended June 30, 2019	2020	yoy change	Same-hotel ADR For the quarter ended June 30, 2019	2020	yoy change	Same-hotel Occupancy For the quarter ended June 30, 2019	2020	yoy change (p.p.)
Economy hotels	2,552	2,552	175	102	-41.6%	191	143	-25.0%	91.9%	71.5%	-20.4%
Leased and owned hotels	419	419	199	106	-46.7%	214	151	-29.5%	93.1%	70.4%	-22.8%
Manachised and franchised hotels	2,133	2,133	169	101	-40.1%	185	141	-23.6%	91.6%	71.9%	-19.8%
Midscale and upscale hotels	987	987	281	169	-39.9%	333	252	-24.2%	84.4%	66.9%	-17.5%
Leased and owned hotels	185	185	348	177	-49.1%	404	279	-30.9%	86.1%	63.5%	-22.6%
Manachised and franchised hotels	802	802	260	166	-36.0%	310	244	-21.1%	83.9%	68.0%	-15.8%
Total	3,539	3,539	211	125	-40.8%	236	178	-24.4%	89.4%	70.0%	-19.4%

Leagcy-Huazhu operational hotels excluding hotels under requisition

	Number of hotels in operation As of September 30, 2019	2,020	Same-hotel RevPAR For the quarter ended September 30, 2019	2,020	yoy change	Same-hotel ADR For the quarter ended September 30, 2019	2,020	yoy change	Same-hotel Occupancy For the quarter ended September 30, 2019	2,020	yoy change (p.p.)
Economy hotels	2,604	2,604	185	144	-21.9%	199	168	-15.7%	92.7%	85.9%	-6.8%
Leased and owned hotels	421	421	207	159	-23.0%	222	184	-17.2%	93.4%	86.9%	-6.6%
Manachised and franchised hotels	2,183	2,183	179	140	-21.6%	193	164	-15.3%	92.6%	85.7%	-6.9%
Midscale and upscale hotels	1,108	1,108	289	238	-17.4%	335	298	-11.2%	86.1%	80.1%	-6.0%
Leased and owned hotels	188	188	352	269	-23.5%	402	345	-14.2%	87.4%	78.0%	-9.4%
Manachised and franchised hotels	920	920	271	230	-15.2%	316	284	-9.9%	85.8%	80.7%	-5.0%
Total	3,712	3,712	222	178	-19.8%	245	212	-13.5%	90.4%	83.8%	-6.5%

Number of Hotels and Rooms

	As of September 30, 2020		
	Hotels in operation	Rooms	Unopened hotels in pipeline
Economy hotels	**4,226**	**355,402**	**1,107**
HanTing Hotel	2,722	253,155	477
Hi Inn	443	25,946	103
Elan Hotel	849	53,471	461
Ibis Hotel	199	21,323	56
Zleep Hotel	13	1,507	10
Midscale and upscale hotels	**2,281**	**278,685**	**1,206**
Ibis Styles Hotel	63	7,470	28
Starway Hotel	428	37,137	307
JI Hotel	1,033	128,994	453
Orange Hotel	308	35,101	171
Crystal Orange Hotel	110	14,896	50
Manxin Hotel	59	5,854	34
Madison Hotel(3)	23	2,953	24
Mercure Hotel	98	16,685	60
Novotel Hotel	12	3,387	13
Joya Hotel	10	1,926	1
Blossom House	26	978	25
Grand Mercure Hotel	7	1,489	8
Steigenberger Hotels & Resorts	49	11,556	8
IntercityHotel	44	7,827	20
Maxx by Steigenberger	5	777	1
Jaz in the City	2	424	2
Other partner hotels	4	1,231	1
Total	**6,507**	**634,087**	**2,313**

Number of Hotels in Operation

	As of 12/31/2013	As of 12/31/2014	As of 12/31/2015	As of 12/31/2016	As of 12/31/2017	As of 12/31/2018	As of 12/31/2019	As of 9/30/2020
Economy hotels	**1,309**	**1,819**	**2,453**	**2,741**	**2,874**	**2,892**	**3,485**	**4,226**
HanTing Hotel	1,226	1,648	2,003	2,181	2,244	2,283	2,372	2,722
Hi Inn	83	158	302	375	396	402	465	443
Elan Hotel		13	148	185	226	200	648	849
Orange Hotel					8	7		
Ibis Hotel								199
Zleep Hotel								13
Midscale and upscale hotels	**116**	**176**	**310**	**528**	**872**	**1,338**	**2,133**	**2,281**
HanTing Premium Hotel					5	74	214	
Ibis Hotel				72	100	137	185	
Ibis Styles Hotel				10	13	34	55	63
Starway Hotel	46	55	118	136	174	212	350	428
JI Hotel	68	117	186	284	390	553	831	1,033
Orange Hotel					103	172	248	308
Crystal Orange Hotel					42	56	85	110
Manxin Hotel	1	1	2	2	11	24	46	59
Madison Hotel							9	23
Mercure Hotel			1	15	20	39	68	98
Novotel Hotel				2	4	7	9	12
Grand Madison Hotel							4	
Joya Hotel	1	3	3	6	6	6	6	10
Blossom House						18	17	26
Grand Mercure Hotel				1	4	6	6	7
Steigenberger Hotels & Resorts								49
IntercityHotel								44
Maxx by Steigenberger								5
Jaz in the City								2
Other partner hotels								4
Total	**1,425**	**1,995**	**2,763**	**3,269**	**3,746**	**4,230**	**5,618**	**6,507**
Economy hotels	*91.9%*	*91.2%*	*88.8%*	*83.8%*	*76.7%*	*68.4%*	*62.0%*	*64.9%*
Mid-upscale hotels	*8.1%*	*8.8%*	*11.2%*	*16.2%*	*23.3%*	*31.6%*	*38.0%*	*35.1%*

Number of Rooms in Operation

	As of 12/31/2013	As of 12/31/2014	As of 12/31/2015	As of 12/31/2016	As of 12/31/2017	As of 12/31/2018	As of 12/31/2019	As of 9/30/2020
Economy hotels	**138,576**	**185,959**	**238,156**	**260,557**	**266,145**	**261,037**	**290,615**	**355,402**
HanTing Hotel	130,747	172,341	205,577	221,157	223,121	220,646	224,626	253,155
Hi Inn	7,829	12,551	21,340	25,600	26,063	25,403	28,153	25,946
Elan Hotel		1,067	11,239	13,800	16,120	14,266	37,836	53,471
Orange Hotel					841	722		
Ibis Hotel								21,323
Zleep Hotel								1,507
Midscale and upscale hotels	**14,303**	**23,996**	**40,687**	**70,790**	**113,530**	**161,710**	**246,261**	**278,685**
HanTing Premium Hotel					446	6,656	19,748	
Ibis Hotel				10,251	13,474	16,575	20,533	
Ibis Styles Hotel				1,614	1,841	4,279	6,681	7,470
Starway Hotel	4,959	6,321	12,138	13,206	16,914	18,878	30,363	37,137
JI Hotel	9,106	17,052	27,559	39,664	53,054	72,370	104,521	128,994
Orange Hotel					12,648	19,863	28,821	35,101
Crystal Orange					5,629	7,150	11,182	14,896
Manxin Hotel	97	108	236	78	1,150	1,901	4,133	5,854
Madison Hotel							883	2,953
Mercure Hotel			239	4,026	4,664	8,510	12,502	16,685
Novotel Hotel				629	1,697	2,512	2,928	3,387
Grand Madison Hotel							772	
Joya Hotel	141	515	515	1,131	1,131	1,250	1,250	1,926
Blossom House						462	648	978
Grand Mercure Hotel				191	882	1,304	1,296	1,489
Steigenberger Hotel								11,556
IntercityHotel								7,827
Maxx by Steigenberger								777
Jaz in the City								424
Other partner hotels								1,231
Total	**152,879**	**209,955**	**278,843**	**331,347**	**379,675**	**422,747**	**536,876**	**634,087**
Economy rooms	*90.6%*	*88.6%*	*85.4%*	*78.6%*	*70.1%*	*61.7%*	*54.1%*	*56.0%*
Mid-upscale rooms	*9.4%*	*11.4%*	*14.6%*	*21.4%*	*29.9%*	*38.3%*	*45.9%*	*44.0%*