

# Home Inns & Hotels Management Inc.

A Leading Economy Hotel Chain in China

May 2014



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# Executive Summary

## Emerging Market Dynamics

- High unit growth while maintaining high occupancy
- At <20% of lodging market, economy hotels sees ample room for growth
- Favorable long-term business & Leisure travel growth potential

## Undisputed Market Leader

- 21.8% market share by room count in economy hotel sector @FYE '12
- 2,241 hotels in 297 cities with three brands as of Mar 31, 2014
- 18.2 million individual frequent guests; 88% bookings are non-OTA driven

## Asset-Light Business Models

- LO: Long-term leases, sub-inflationary escalations, ~ ¥ 70K/room investment
- FM: no capital requirements and high-margin fee revenue
- >60% FM hotels by 1Q2014; at least 80% FM hotels for new openings

## Sustainable Profitable Growth

- Increasing revenue mix from margin-rich FM
- Continued cost control and productivity gains
- Opportunistic and systematic price hike to protect and maximize margin

## High Caliber and Professional Management

- Excellent breadth and depth of experience in relevant industries
- Multinational experience with proven strategies and execution
- Stable organization and improving professionalism



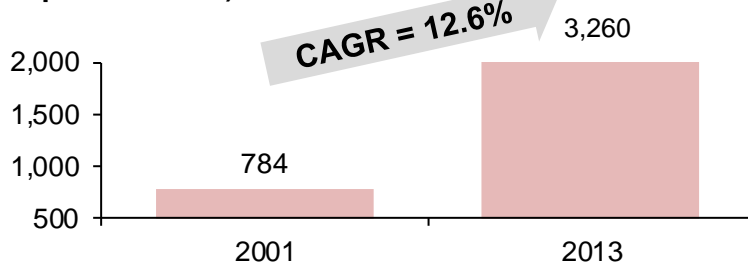
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# Long Term Market Potential

*Increasing Domestic Business and Leisure Travel Driving Long-Term Growth*

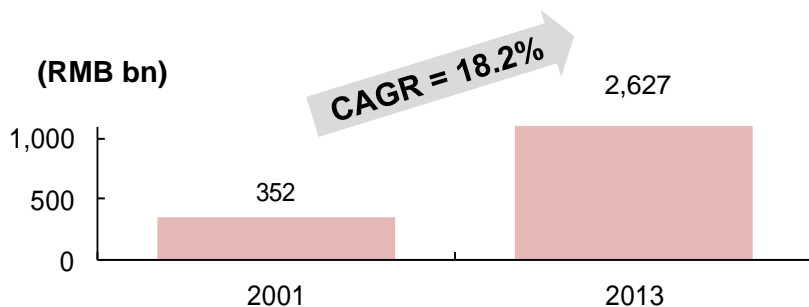
## Number of Domestic Trips<sup>(1)</sup>

(mm person-times)

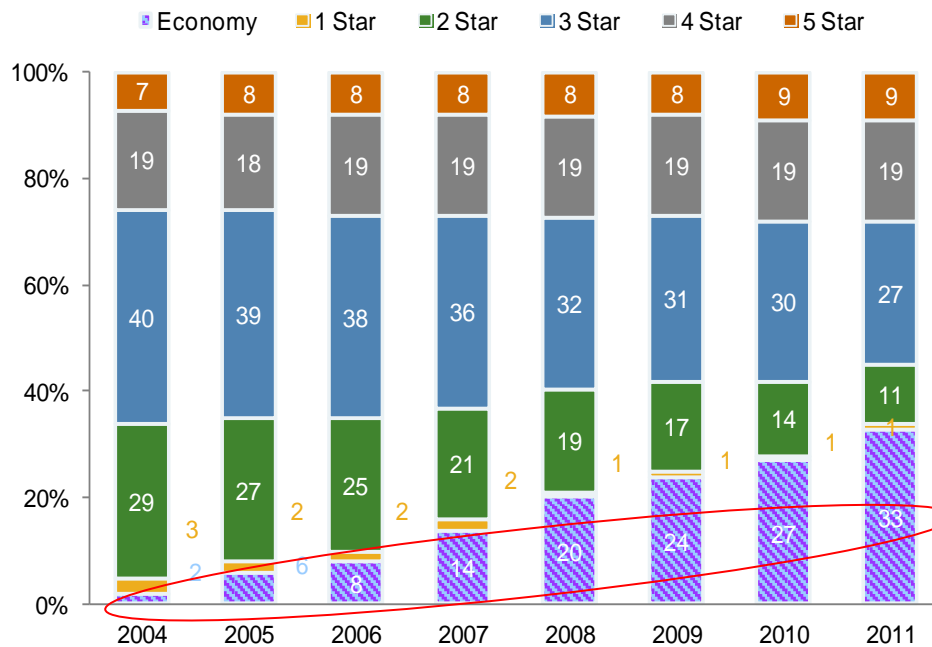


## Total Spending on Domestic Travel<sup>(1)</sup>

(RMB bn)



## Ongoing Demand Shift to Economy Hotels <sup>(2)</sup>



- Capturing previous 1-3 star hotels market
- Rapid growth in Chinese travel market drives new demand

(1) Source: [www.china-consulting.cn](http://www.china-consulting.cn)

(2) Source: Goldman Sachs Equity Research & National Tourism Administration of China

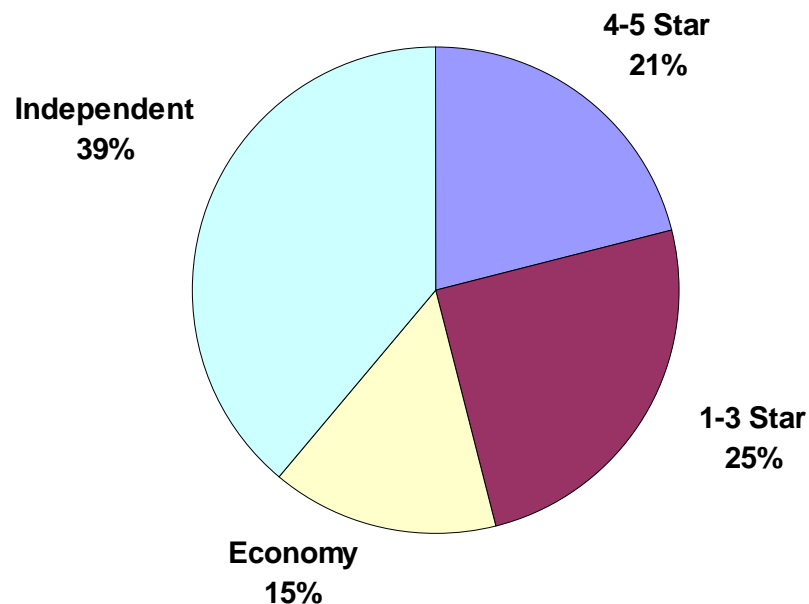


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# Long Term Market Potential (continued)

*Significant Upside Potential for Economy Hotels in Fragmented Hotel Industry*

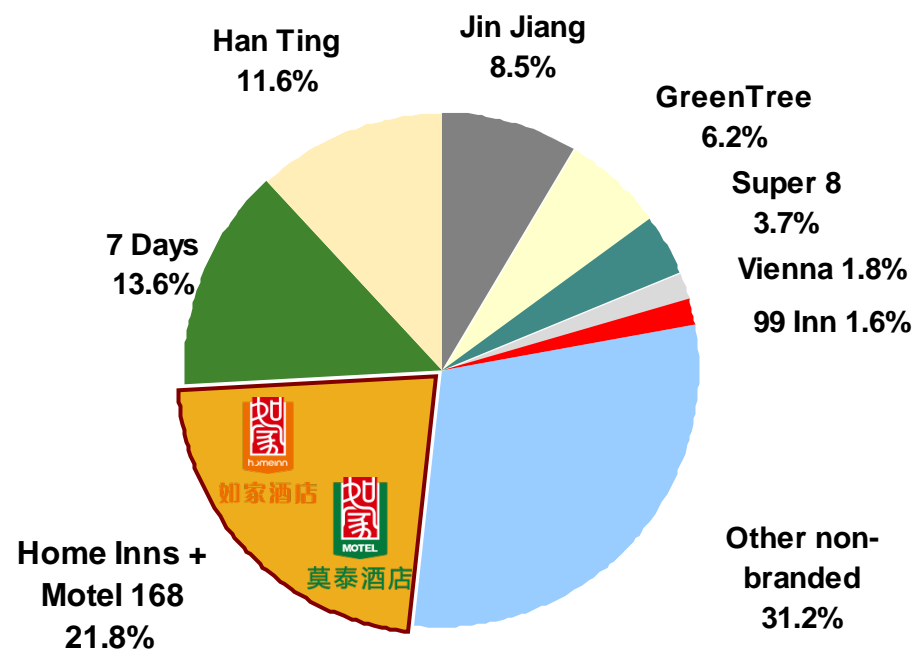
Chinese Lodging Market Share By Room(1)



- As of 1H2012, economy hotels\* represent 15% of Chinese lodging market

\* Economy hotels do not participate in star-rating system in China

Economy Hotel Market Share By Room(2)



- As of December 31, 2012, there were 9,924 economy hotels in China with 981,712 rooms

(1) Source: Ministry of Commerce of China; China National Tourism Administration, [www.inn.net.cn](http://www.inn.net.cn)

(2) Source: [www.inn.net.cn](http://www.inn.net.cn)

# Company Overview

## Mission

To become the leader within the Chinese hotel industry providing lodging products & services to the general public

## Company

- A leading economy hotel chain in China by number of hotels and geographic coverage
- A consistent product and high-quality services catering to value-conscious business and leisure travelers

## Growth

- Founded in 2002; 10 hotels in 4 cities at the end of 2003
- 2,180 hotels in 287 cities under three brands as of Dec 31, 2013
- RMB 6.35 billion (US\$ 1.05 billion) gross revenue in year 2013

## Recognitions



2013 China's Most Investment-worthy Mid-range Business Hotel Brand for Yitel



2012 Chinese Brand of the Year by CCTV



2010 International Franchisor of the Year by FLA



2010 China's Most Popular Brand in Green Economy Hotels



Consecutive Golden Pillow Award for Best Brand in Economy Hotels in China from 2005 through 2013

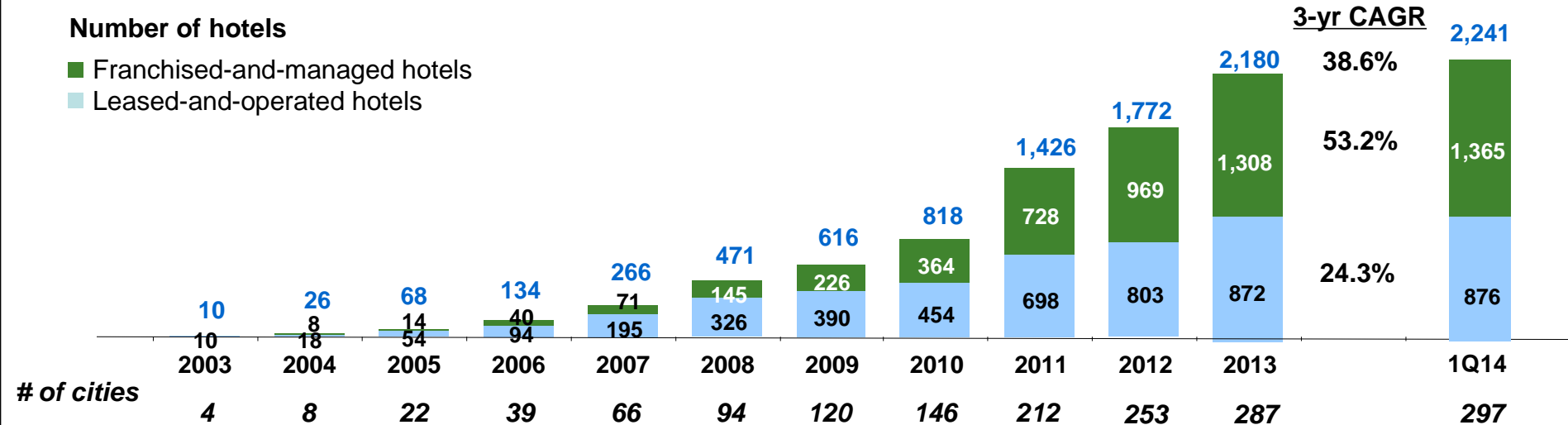


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# Sound Strategies

## Number of hotels

- Franchised-and-managed hotels
- Leased-and-operated hotels



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Expand foot print and deepen penetration and capitalize on early-mover advantage



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Implement multi-brand strategy and strengthen customer loyalty and brand value



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Attract, train, retain and continuously develop all levels of people in the organization



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Enhance information infrastructure to enable operational excellence



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Balance growth and profitability with investment discipline and productivity focus

# Dedicated People

## Seasoned Senior Management Team with Breadth and Depth of Experience in Hospitality, Consumer and Other Service Industries

**David Sun**  
**CEO, 2004**

- 10 years of prior experience in consumer industry
- Former vice president of operations for B&Q China, a subsidiary of Kingfisher

**Jason Zong**  
**President & COO, 2006**

- 10 years of prior experience in consumer industry
- Former Operation Vice President and General Manager of the east region of B&Q China

**May Wu**  
**CSO<sup>(1)</sup> & interim CFO, 2006**

- 11 years of prior experience in consulting and investment in lodging and consumer sectors
- Former First Vice President at Schroeder Investment Management, North America

## Motivated and Well-Trained Employees

**Career-oriented Training at Home Inns Academy and On-the-Job**

**Internal Promotion and Career Development Opportunities**

**Performance-based Bonus and Share-based Compensation**





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# Operational Excellence

*Well-integrated, Centrally Managed and Locally Executed*



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## Training and Advancement

- Award winning Home Inns Academy
- Multi-channel pipeline for qualified hotel Managers
- e-Learning platform open to all employees

## Quality Assurance Programs

- Consistent measures for quality of facilities and services
- Scheduled inspections and “secret customer” programs
- Quality score cards enable performance management

## Performance-based Incentives

- Comprehensive and result-driven KPIs
- Integrated with planning and measurement cycle
- Dynamically aligned with corporate initiatives

## Budgeting and Monitoring

- Detailed hotel-level budget and operating plan
- Real-time visibility for monitoring and analyses
- Weekly reviews with city/regional managers

# Controls Framework

**Proprietary, Integrated, Efficient and Scalable  
Hotel Management Platform**

**Central Reservation System  
(CRS)**

**Tool-free calls, internet and mobile bookings processing**

**Customer Relationship  
Management System (CRM)**

**Member information database and analytics**

**Property Management System  
(PMS)**

**Room rates and inventory control  
synchronized with CRS and CRM**

**Management Reporting System  
(MRS)**

**Real-time central repository and reporting of operating  
data**



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# Brand Portfolio

2,241 hotel locations in 297 cities across China as of Mar 31, 2014<sup>(1)</sup>



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- Leading economy hotel brand
- Brand perception: warmth and home-like feel

- Fast growing economy hotel brand
- Brand perception: trendiness and efficiency

- Mid-scale business hotel brand
- Brand perception: elegance and attentiveness



<sup>(1)</sup> 185 additional hotels contracted (20 leased-and-operated hotels and 165 franchised-and-managed hotels) and 263 additional hotels under Due Diligence as of Mar 31, 2014



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# Home Inn

## *A Value Proposition*

### Standardized Yet Differentiated Product

#### In-Room Facilities

- Comfortable bed, free broadband, cold and hot drinking water supply, 24x7 in-room hot water

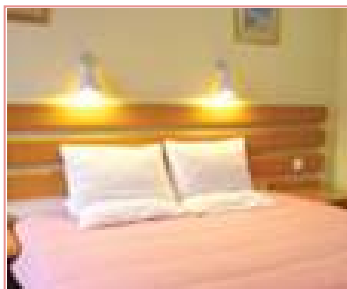
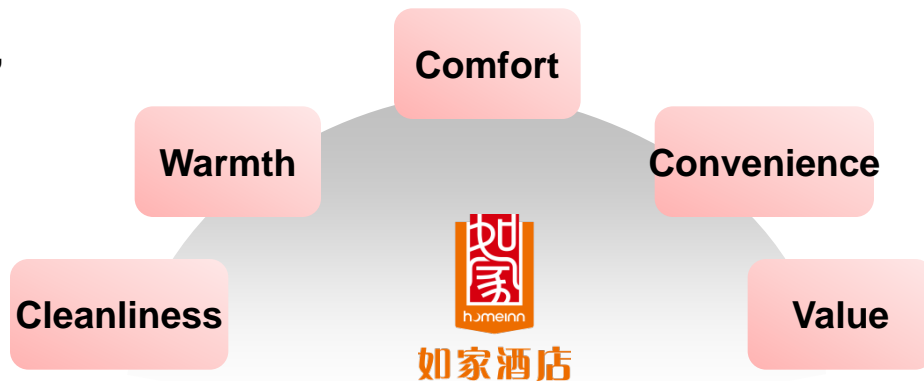
#### Other Amenities

- Basic meals, business center, vending machine, etc.

#### Look & Feel

- Consistent design, appearance, color scheme, decoration, lighting

### Significant Brand Recognition as a Leader in the Economy Hotel Chain Sector





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# Home Inn

## *Recent development*

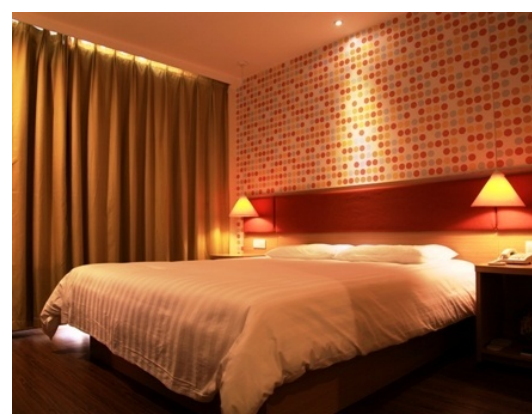


1,841 hotels as of Mar 31, 2014

Steady unit growth...focus on franchise-and-managed business model development

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Product modernization to enhance value and pricing potential





# Motel 168

*The 5th Largest Economy Hotel Brand in China Poised for Growth*

**An Economy Hotel Product  
with Unique Personality**

## In-Room Facilities

- Comfortable bed, free broadband, cold and hot drinking water supply, 24x7 in-room hot water

## Other Amenities

- Basic meals, business center, vending machine, etc.

## Look & Feel

- Contemporary design to create a bold and refreshing impression

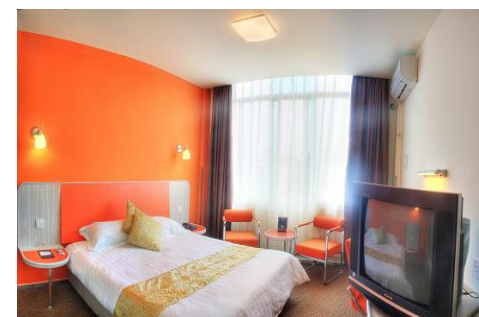
**A Widely Recognized Brand  
in Key Gateway Cities**

**High geographic concentration in the more developed markets of Shanghai and surrounding gate-way cities**



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**Strong appeal to young travelers, leisure customers, and creative industry professionals**





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# Motel 168

*Recent Developments* - Integration completed in the 3<sup>rd</sup> quarter of 2013

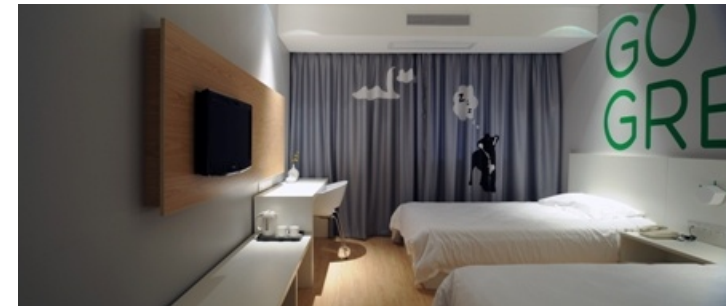
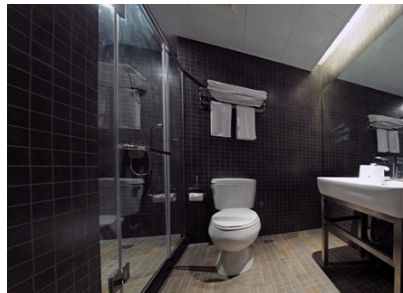


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381 hotels as of Mar 31, 2014

Continue brand expansion with differentiated look and feel

Brand of choice for economy hotel openings to further penetrate mature market





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# Yitel

## *Emerging Market Segment*

**Mid-scale Pricing,  
Upgraded Experience**

### **In-Room Facilities**

- High quality bed and bedding, refrigerator, complete toiletries, multi-media, free WiFi

### **Other Amenities**

- Dining room, business center, and wellness facilities

### **Look & Feel**

- Elegant and refined design incorporating natural elements

**Deliver High Customer Satisfaction  
from Multiple Dimensions**

**Achieving balance**

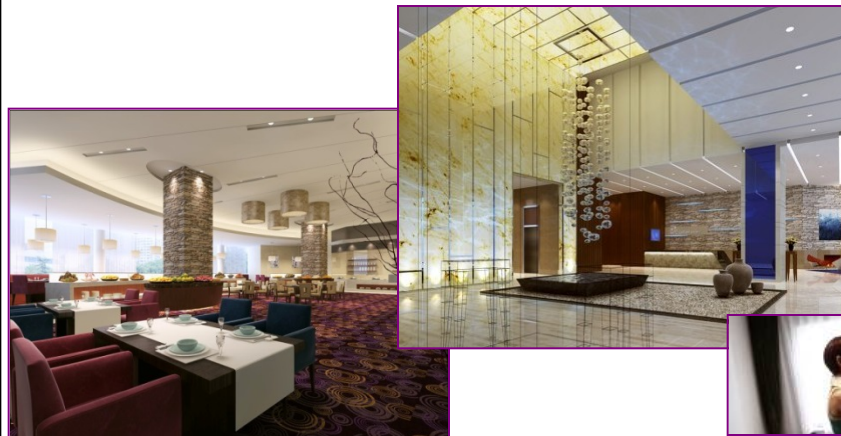
**Design and  
functionality**



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**Feels like home,  
works like business**

**Dedicated guest relations managers  
delivering personalized services**







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# Yitel

## *Recent developments*

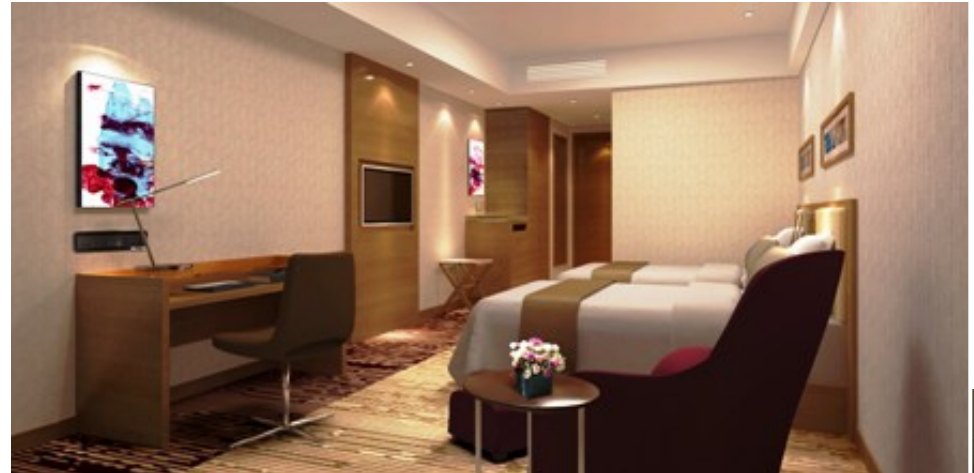
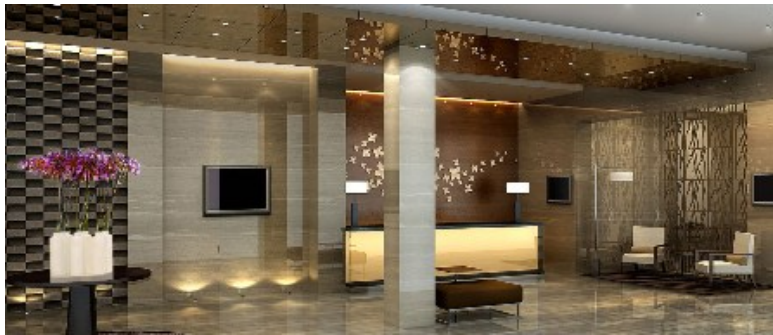


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19 hotels in operation as of Mar 31, 2014 in 10 tier-one and provincial capital cities

Positive feedback from customers and strong operating performance

Introduction of varied business models including franchise, JV and management contract



# Business Models

*Balance and timing in continued expansion and penetration*

## Business Models

### Leased-and-Operated

- Home Inn leases property from a 3rd party, invests in hotel conversion CapEx and ongoing R&M
- Typical 10 to 20-year lease term with sub-inflationary escalations
- Home Inn retains revenues and profits from hotel operations after operating expenses
- Typical model used to open new markets in earlier years

### Franchised-and-Managed

- Franchisee owns or rents property and invests in conversion CapEx and ongoing maintenance
- Home Inn franchises brand and sends GMs to manage the hotels\*
- Home Inn earns a one-time initiation fee and ongoing franchise and management fee
- Franchisee retains profits after fees and operating expenses

876

Number of  
Hotels<sup>(1)</sup>

1,365

86.9%

Revenue  
Contribution<sup>(2)</sup>

13.1%

(1) As of Mar 31, 2014

(2) Per result of FY 2013 operations

\* GM personnel costs are reimbursed by franchisee

# Development Process

*Ample Opportunities Still Exist for Continued Expansion*

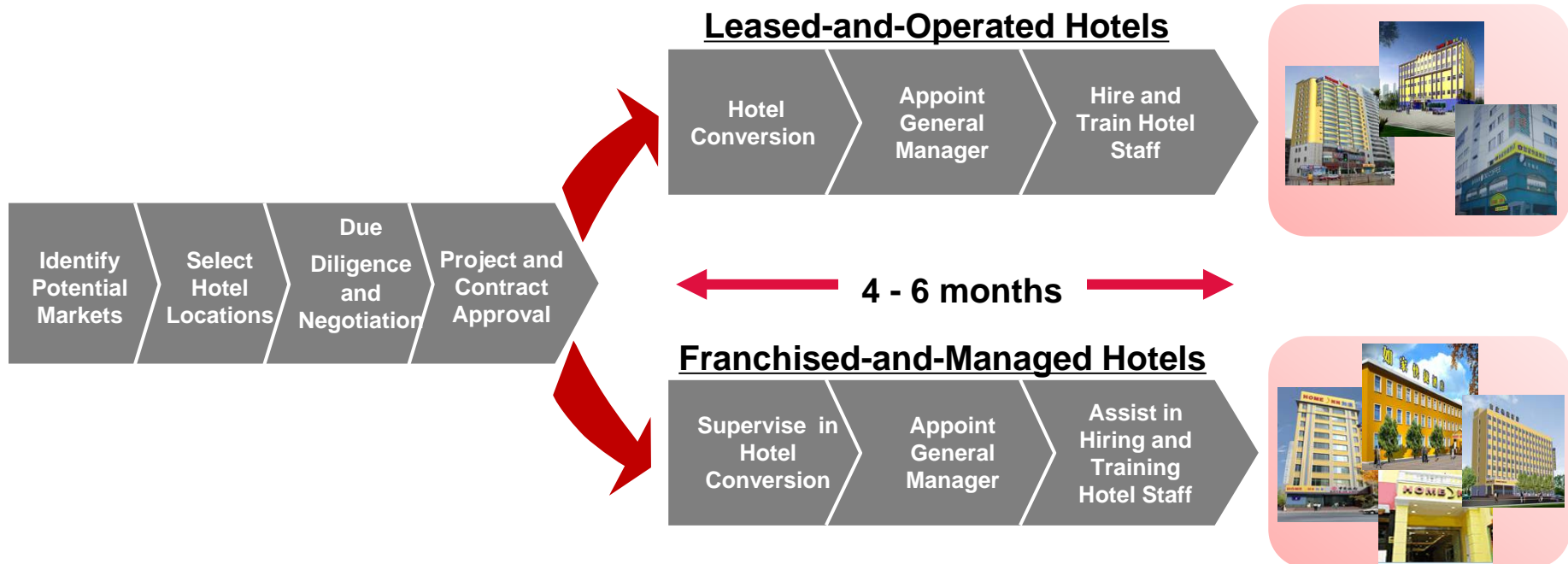
## Basic Selection Criteria:

- Provincial capitals or equivalent cities
- Population of over 800,000
- Annual GDP Per Capita above 1,500 USD



**~300 cities targeted**

*Standardized and Replicable Process Run by Disciplined and Experienced Teams*

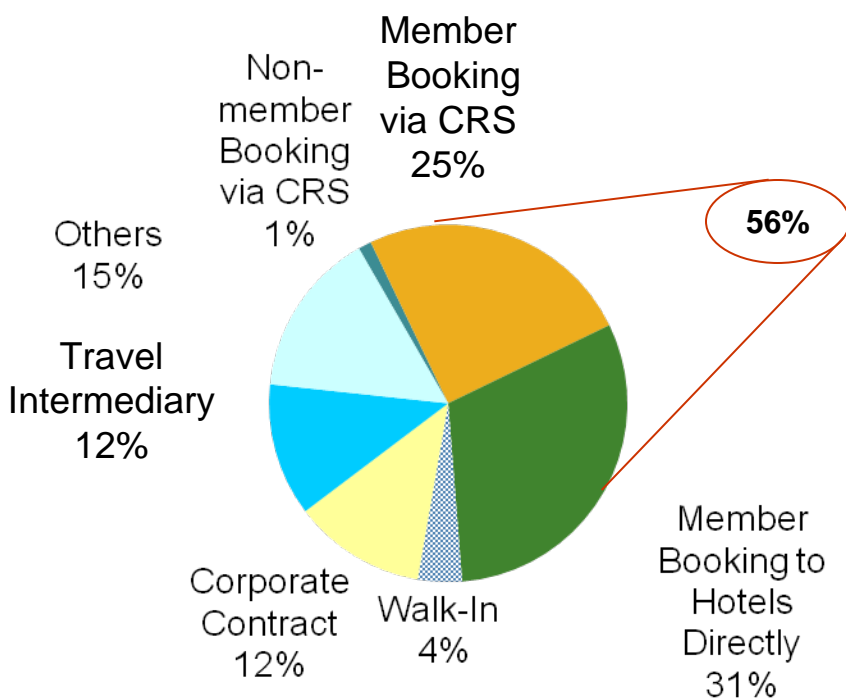


# Customers

*Stable Repeat Customer Base and Increasing Customer Loyalty*

## Favorable Channel Mix

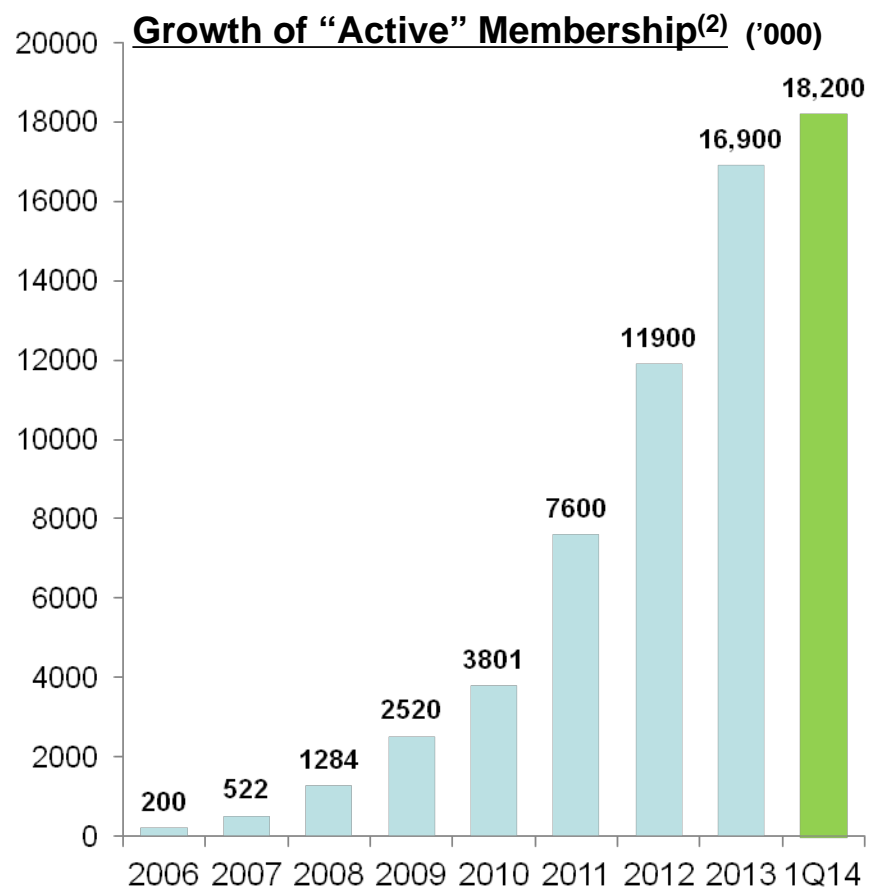
### Room Nights Stayed by Customer Channel<sup>(1)</sup>



CRS = Central Reservation System

(1) For first quarter of 2014.

## Strong Brand Loyalty



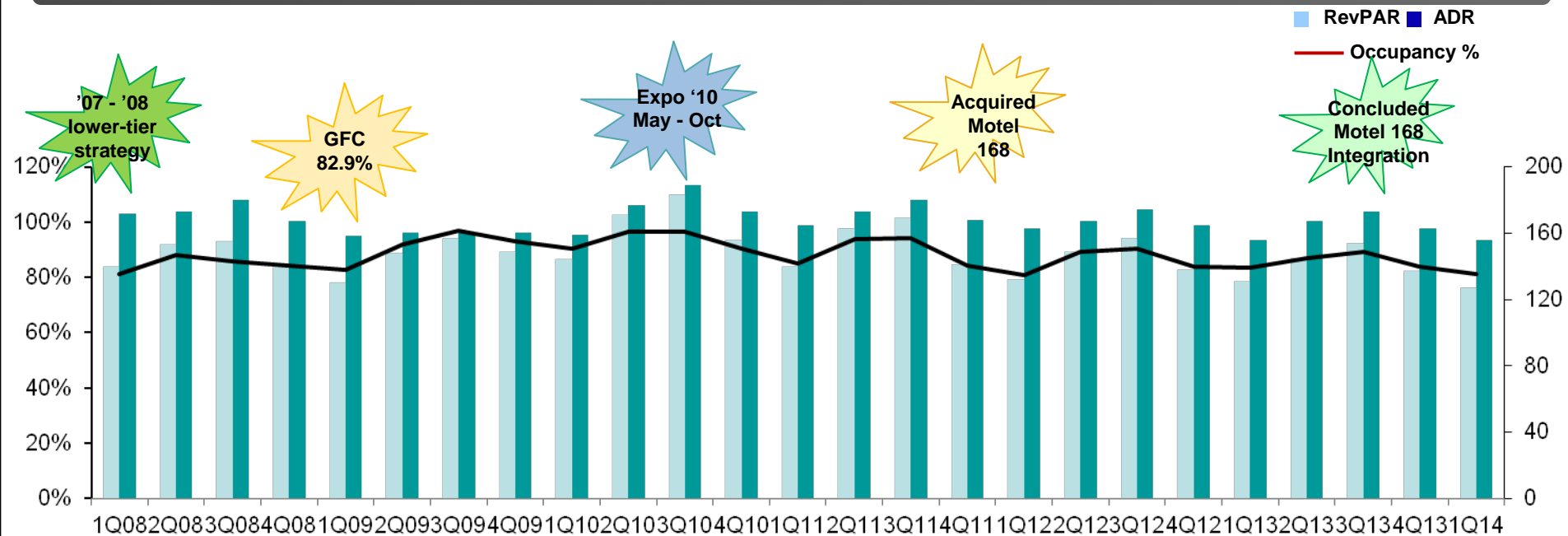
(2) "Active" members paid a one-time membership fee and stay at Home Inn at least once within two years to remain active



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# Quarterly Operating Performance

Key performance metrics



- Consistently high occupancy rates supported by demand-driven market dynamics
- Inflationary-like price increases designed to offset cost increases in normal environment
- Diverse geographic coverage with early-mover advantage in lower tiers with long-term growth
- Resilient economy product against recession or market slow-down
- Motel 168 enables the second economy brand for greater access and deeper penetration

# Performance (Cont'd)

*High Occupancy Rate and Improving ADR, Expanding RevPAR*

**Like-for-Like Performance Comparison**  
Hotels in Operation for At Least 18 Months During the Quarter

	Group		Core HMIN		Motel 168		Group		Core HMIN		Motel 168		Group		Core HMIN		Motel 168	
Number of Hotels	1,465		1,143		322		1,563		1,236		327		1,654		1,328		326	
Quarter End	3Q	3Q	3Q	3Q	3Q	3Q	4Q	4Q	4Q	4Q	4Q	4Q	1Q	1Q	1Q	1Q	1Q	1Q
	12	13	12	13	12	13	12	13	12	13	12	13	13	14	13	14	13	14
Occupancy	93%	92%	96%	94%	84%	87%	87%	87%	89%	88%	78%	82%	86%	84%	89%	86%	78%	79%
ADR (RMB)	175	175	179	179	165	164	166	166	167	167	162	162	157	157	158	158	152	154
RevPAR (RMB)	162	162	171	168	138	142	144	144	150	147	126	133	135	132	140	135	119	122
YoY RevPAR change (RMB)	-1		-3		4		0		-3		7		-3		-5		3	



# Financial Highlights

(RMB millions except EP-ADS in RMB yuan)	2011	2012	1Q13	2013	1Q14
Revenues from Leased-and-Operated Hotels	3,559.7	5,164.8	1,238.1	5,587.5	1,279.2
Revenues from Franchised-and-Managed Hotels	400.0	604.9	164.1	765.5	193.3
Total Revenue	3,959.7	5,769.7	1,402.2	6,353.0	1,472.5
Revenue Growth %	25.0%	45.7%	11.7%	10.1%	5.0%
Adjusted Income from Operations <sup>1</sup>	457.3	464.1	39.2	625.6	70.0
Operating Margin %	11.5%	8.0%	2.8%	9.8%	4.8%
Adjusted Net Income <sup>1</sup>	326.1	300.3	10.3	422.8	32.1
Adjusted EBITDA <sup>1</sup>	900.2	1133.4	216.1	1391.2	254.1
EBITDA Margin % <sup>1</sup>	22.7%	19.6%	15.4%	21.9%	17.3%
Adjusted Diluted Earnings per ADS <sup>1</sup> (RMB Yuan)	6.92	6.62	0.22	8.83	0.67
(1) Exclude share-based compensation expenses, foreign exchange gain/(loss), gain from repurchase of convertible bonds, issuance cost for convertible notes, gain/(loss) from fair value change of convertible notes, acquisition expenses and withholding tax for profit distribution of previous periods, Non-operating expenses - Loss on change in fair value of interest swap transaction, Integration cost, Interest expenses -- Upfront fee amortization of term loans	25.4	-327.1	-27.7	-226.6	42.8
Operating Cash Flow	726.1	747.8	63.0	1,185.6	154.9
Total Capital Expenditures	909.3	1,012.0	192.0	929.5	103.2

Note: Started consolidation of Motel 168's results on Oct 1, 2011





# Financial Highlights (Cont'd)

## *Well-Capitalized Balance Sheet*

(RMB mm)	FY 2010	FY 2011	FY 2012	FY 2013	1Q2014
Cash and Cash Equivalents	2,382.6	1,786.0	663.2	1,156.7	1,162.7
Other Current Assets	216.4	178.0	605.2	580.1	547.0
Non Current Assets	2,687.1	7,203.1	7,685.6	7,915.9	7,835.6
Total Assets	5,286.1	9,005.2	8,954.0	9,652.7	9,545.2
Short-term and Long-term Borrowings	-	1,512.2	786.3	713.3	719.8
Convertible Bonds(2007 CB)	159.4	113.1			
Other Liabilities	1,144.8	3,065.6	3,917.6	3,334.5	3,190.7
Financial Liabilities	1,227.6	979.0	1,066.8	1,157.3	1,082.3
Total Liabilities	2,531.8	5,669.9	4,984.4	5,205.2	4,992.7
Total Shareholders' Equity <sup>(1)</sup>	2,754.3	3,879.9	3,969.6	4,447.5	4,552.5

<sup>(1)</sup> includes minority interests



# Profitable Growth

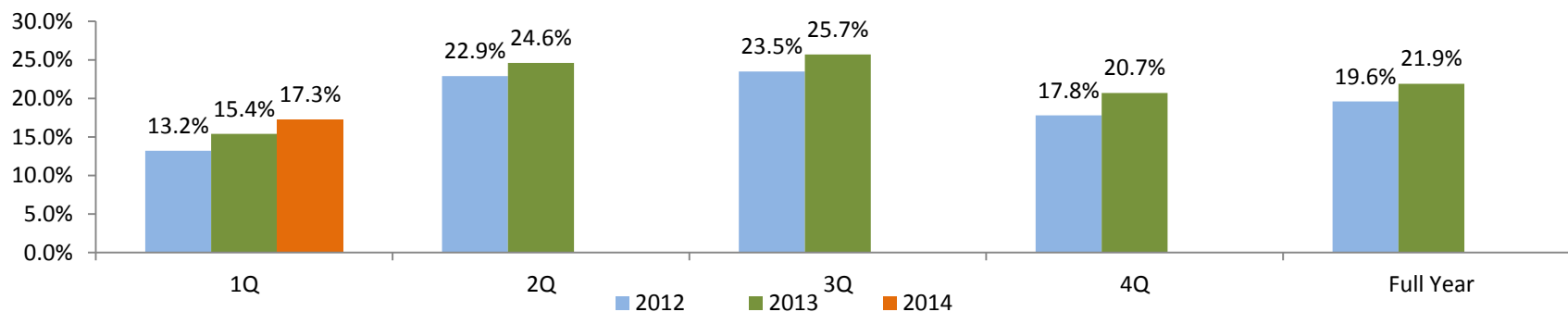
## *External Conditions and Internal Readiness*

### Balanced Revenue Growth and Margin Expansion

- Continued economic development in China
- Secular favoritism in travel industry
- Increasing awareness of and demand for franchised model

- Leading scale and geographic diversity with value driven multi-brand platform
- Franchise mix increase supported by well-run franchise operations
- Opportunistic pricing to partially offset lack of systematic price increase in weak markets
- Cost control culture and discipline, productivity gains and head office scale leverage

### Consecutive Quarterly Adj. EBITDA Margin Expansion





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# Investment Highlights

*A Unique Investment Opportunity with the Right Market, the Right Product and the Right People*



# Appendix

- **Motel 168 acquisition overview**

# Motel 168 Acquisition Overview

## Transaction

- On October 1, 2011, Home Inns completed the acquisition of 100% ownership interest of Motel 168 International Holdings Limited (“Motel 168”)
- Motel 168 was the 5th largest economy hotel operator with 295 hotel locations, including 144 leased-and-operated hotels, and 151 franchised-and-managed hotels in over 80 cities across China
- Gross revenue of RMB1.7 billion (US\$262 million) in 2010
- Strong presence in key gateway city of Shanghai and affluent Yangtze River Delta region. ~81% of leases have more than 10 years remaining tenure

## Price

- US\$470 million purchase price, subject to customary price adjustments
  - Approximately US\$305 million cash portion will be funded with a combination of cash on hand and a new US\$240 million, 4-year term loan with LIBOR-based interest rate
  - 8.15 million new ordinary shares (4.08 million ADS) issued at a price equivalent to a per-ADS price of US\$40.37 (each Home Inns' Nasdaq-traded American Depositary Share represents two Home Inns' ordinary shares)

# Motel 168 Acquisition Overview (cont'd)

## Rationale

- To form the largest and most geographically diverse economy hotel operations in China
  - Combined portfolio with 1,299 hotel locations and over 160,000 guest rooms in approximately 180 cities across China as of Oct 1, 2011.
  - Strengthen Home Inns' presence in key gateway city of Shanghai and Yangtze Delta region
  - Attractive leases with pre-2008 rates and long remaining tenure
- Additional growth engine to Home Inns' existing core budget brand and mid-scale brand furthering Home Inns' multi-brand strategy
  - Flagship brand "Motel 168" is well known among domestic business and leisure travelers, particularly in Shanghai and eastern costal regions

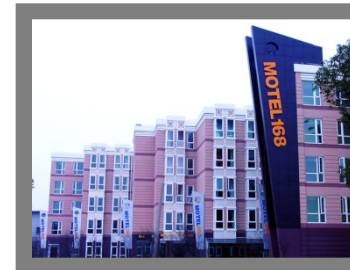
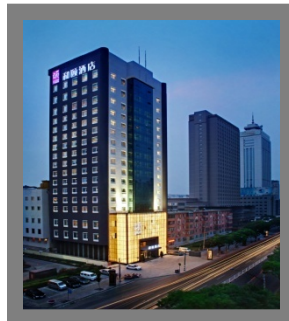
## Integration

- Consolidate Motel 168's results into Home Inns' financial reporting starting October 1, 2011
- Retain and operate Motel 168 brand and achieve revenue synergies leveraging Home Inns' proven operational expertise to further develop the brand
- Integrate back-office and headquarters functions over time to enhance the Group's total economy of scale



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Different Cities...The Same Home!



[english.homeinns.com](http://english.homeinns.com)