

# Homeinns Hotel Group

A Leading Economy Hotel Chain in China

May 2015



如家酒店集团



和颐酒店



如家精选



如家酒店



莫泰酒店



云上四季

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# Company Overview

## 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
- 2,661 hotels in 338 cities under four brands as of Mar 31, 2015
- RMB 6.68 billion (US\$ 1.08 billion) gross revenue in year 2014

## Mission

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

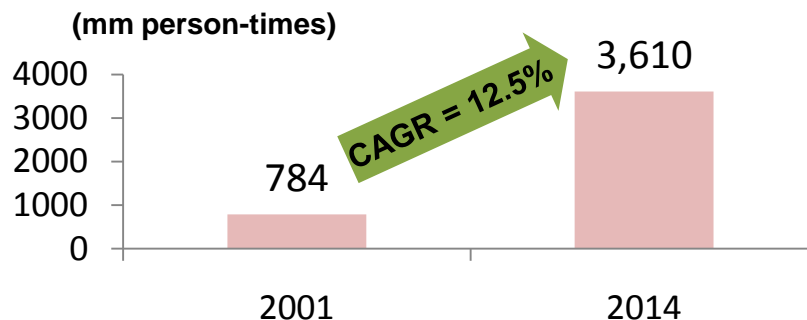
## Recognitions

-  2014 Top of China's Hotel Group by China Hotel Association
-  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

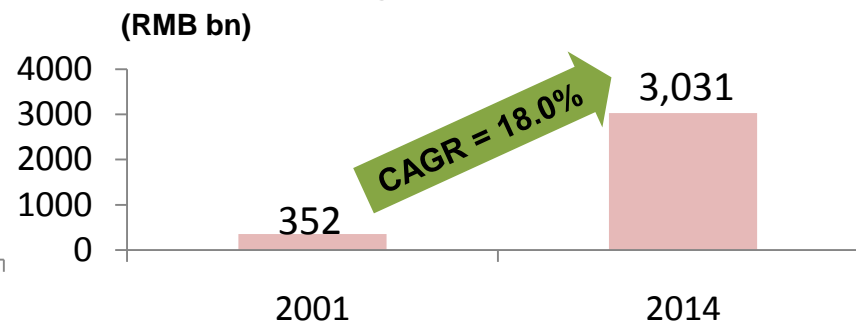
# Long Term Market Potential

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

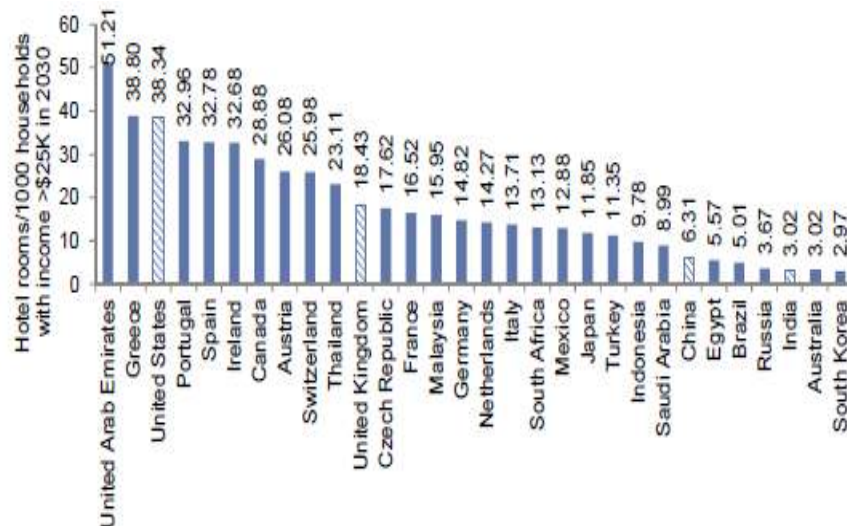
**Number of Domestic Trips<sup>(1)</sup>**



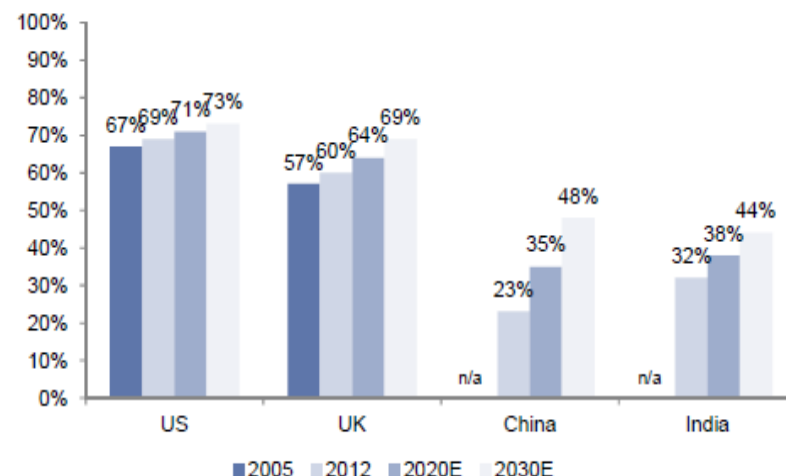
**Total Spending on Domestic Travel <sup>(1)</sup>**



**Supply in Relation to 2030 Household Income<sup>(2)</sup>**



**Branded Hotel Market Shares by Rooms<sup>(3)</sup>**

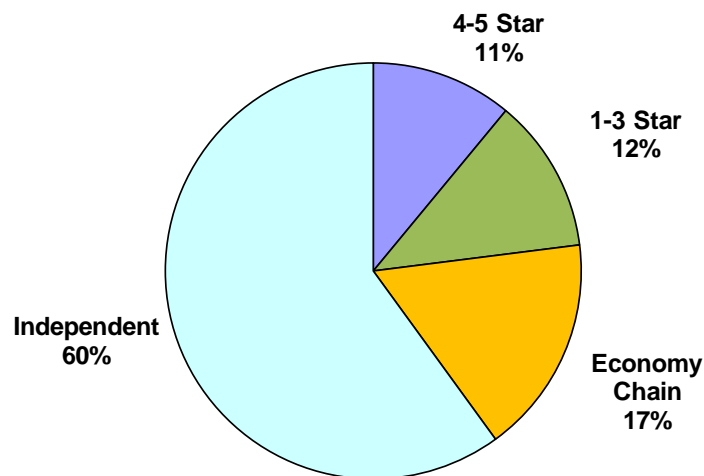


(1) Source: National Bureau of Statistics of the P.R. China; (2) Source: World Bank, Euromonitor, Smith Travel Research, and Goldman Sachs Research  
 (3) Source: IHG investor presentation 2013, Goldman Sachs Research.

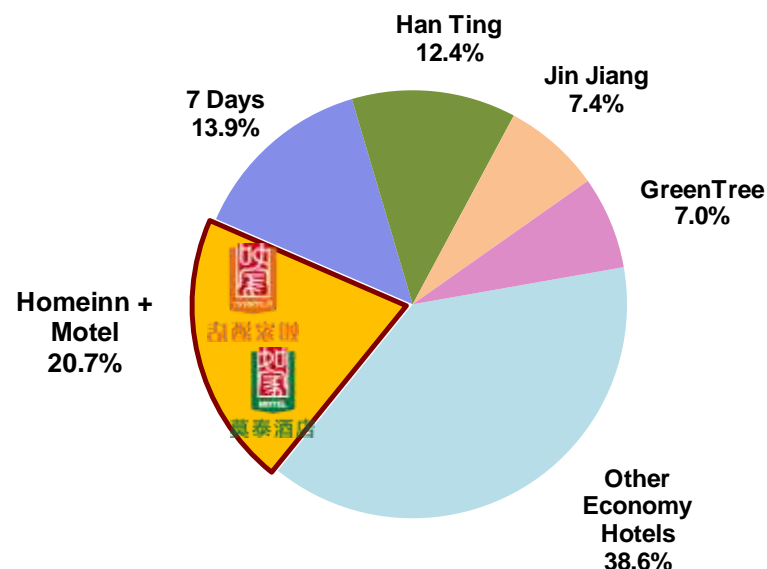
# Long Term Market Potential (continued)

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

Chinese Lodging Market Share By Room(1)



Economy Chain Hotel Market Share By Room(2)



- As of 2013, economy chain hotels\* represent 17% of Chinese lodging market, which consists of approximately 6.7 million rooms

- As of December 31, 2014, there were 13 thousand economy chain hotels in China with 1.39 million rooms

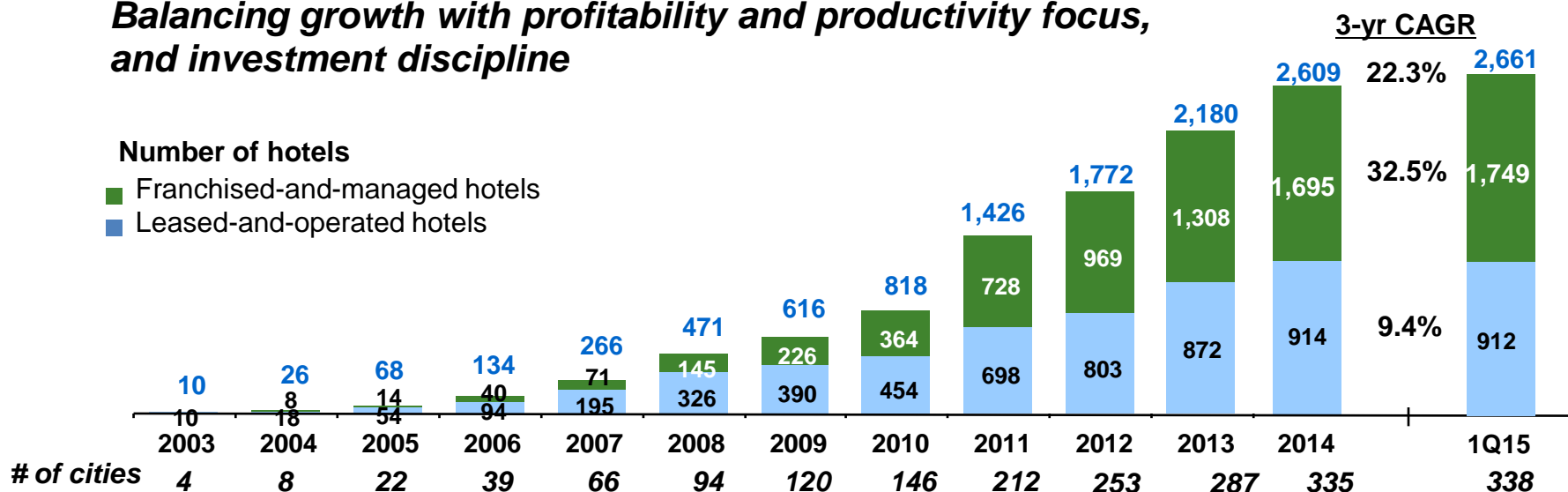
\* Economy hotels do not participate in star-rating system in China

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

(2) Source: China Hotel Association, [www.inn.net.cn](http://www.inn.net.cn)

# Growth Strategies and Successful Execution

*Balancing growth with profitability and productivity focus, and investment discipline*



Expand footprint, deepen penetration and capitalize on early-mover advantage



Transition to majority of franchised-and-managed business model



Implement multi-brand strategy and strengthen customer loyalty



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



Enhance information infrastructure to enable operational excellence

# Complementary Business Models

## Increasing Revenue Contribution from Asset-light Operations

### Business Models

#### Leased-and-Operated

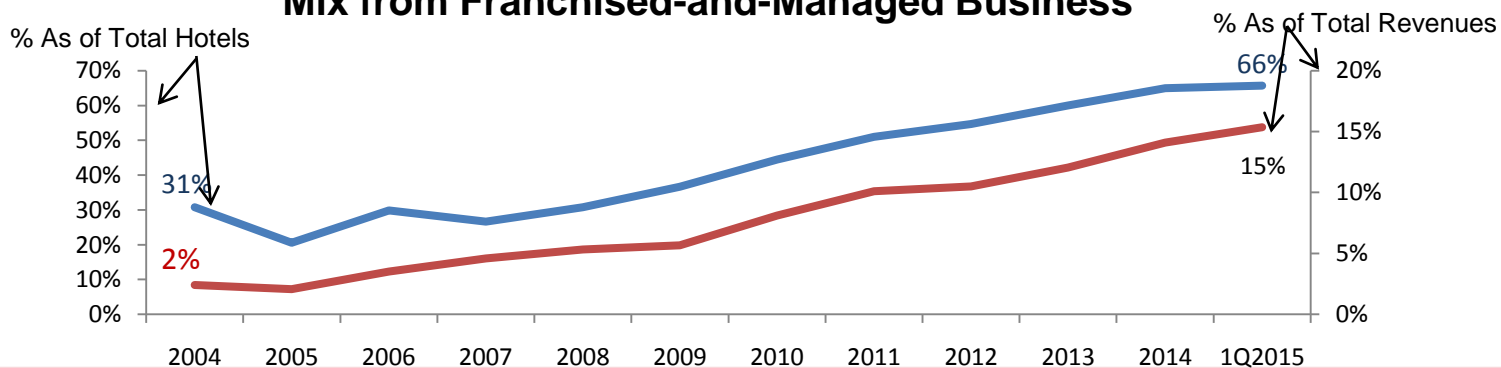
- Homeinns leases property from a 3rd party, invests in hotel conversion CapEx and ongoing R&M
- Typical 10 to 20-year lease term with sub-inflationary escalations
- Homeinns retains revenues and profits from hotel operations after operating expenses
- Typical model used to open new markets in earlier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

#### Franchised-and-Managed

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

\* GM personnel costs are reimbursed by franchisee

### Mix from Franchised-and-Managed Business



# Multi-brand Portfolio

As of Mar 31, 2015



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

Hotel #	LO	FM
2,179	703	1,476



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

400	164	236
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- “Fairlyland” --Regional brand in Southwest China
- Brand perception: attractive with regional theme

34	25	9
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- “Homeinn Plus” -- Mid-scale business hotel brand
- Brand perception: modern boutique

0	0	0
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- “Yitel” -- Mid-to-up-scale business hotel brand
- Brand perception: elegance and attentiveness

48	20	28
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## Hotels in Operation

2,661	912	1,749
100%	34%	66%

## Hotels Contracted

209	28	181
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## Hotels under Due Diligence

172	0	172
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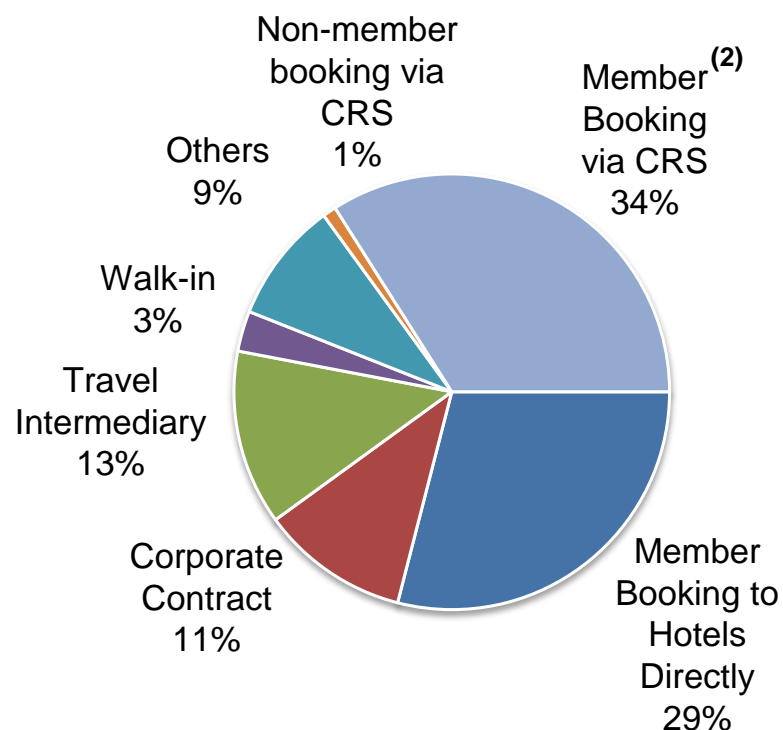


# Growing Customer and Member Network

*Stable Repeat Customer Base and Increasing Customer Loyalty*

## Favorable Channel Mix

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



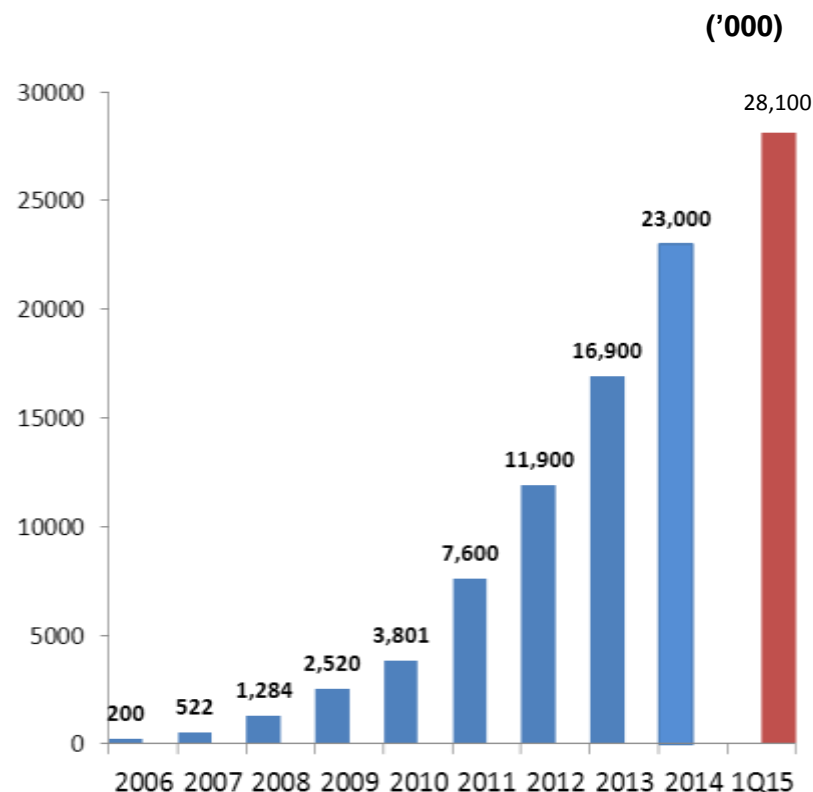
CRS = Central Reservation System

(1) For first quarter 2015;

(2) Mobile booking which is a portion of Member Booking via CRS, accounted for 29% of total booking.

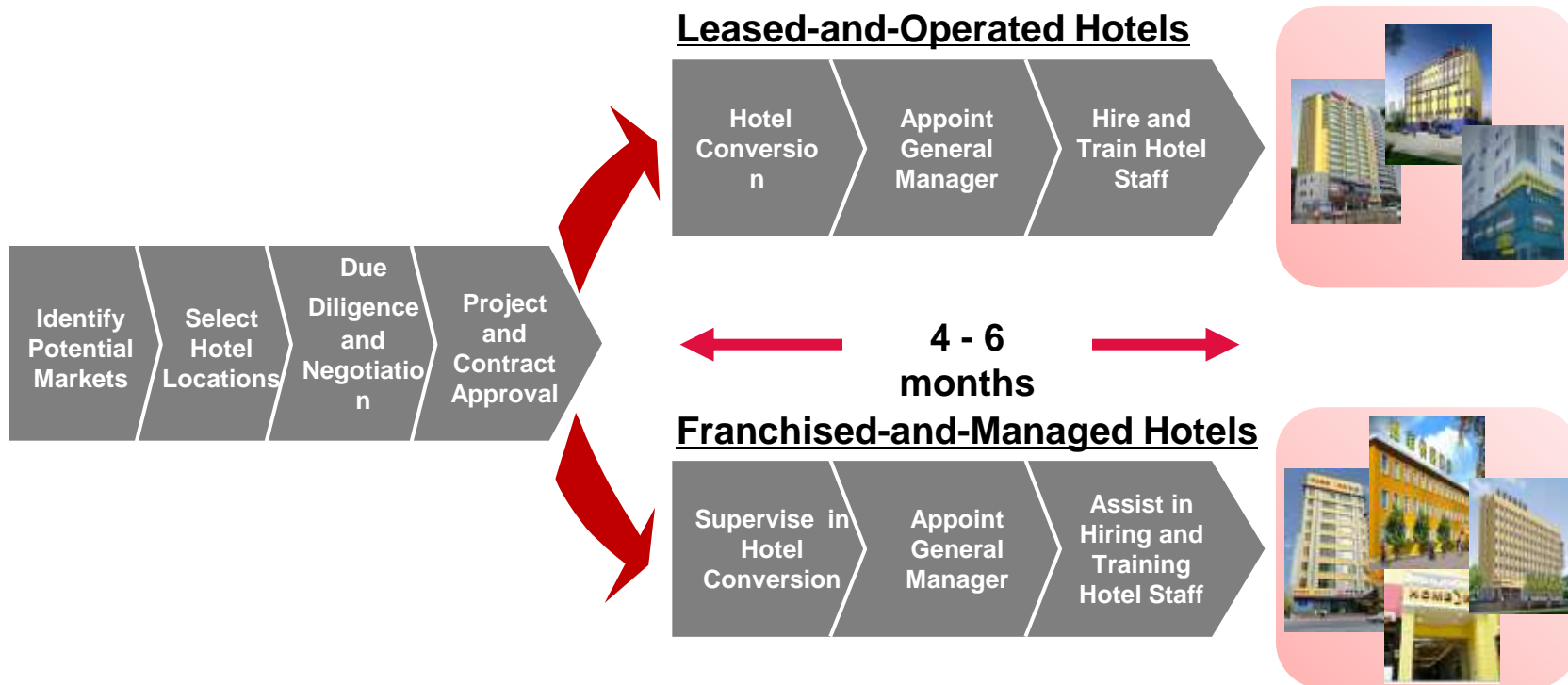
## Strong Brand Loyalty

### Growth of Membership



# Efficient Development Process

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



# 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

**Cathy Li**  
**CFO, 2014** <sup>(1)</sup>

- 20 years of business and finance experience in retail and consumer products industries
- Former CFO of Hengdeli Holdings Limited (3389.HK)
- Former group finance director of Unilever Greater China Group

**May Wu**  
**CSO, 2006** <sup>(2)</sup>

- 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**

# Operational Excellence

*Well-integrated, Centrally Managed and Locally Executed*



# Effective Systems Support

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

**Central Reservation System  
(CRS)**

**Toll-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**

# Stable Hotel Performance

*High Occupancy Rate and Stable ADR in a Challenging Environment*

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

	Group		Group		Group	
Number of Hotels	1,899		1,899		1,991	
Quarter End	4Q	4Q	FY	FY	1Q	1Q
	13	14	13	14	14	15
Occupancy	85%	82%	88%	86%	84%	81%
ADR (RMB)	163	164	166	166	156	151
RevPAR (RMB)	139	134	146	143	130	122
YoY RevPAR change (RMB)	-5		-3		-8	

# Financial Highlights

## **Overall Profitability Impacted by Continued Soft Market Conditions in 1Q15**

(RMB in Millions except RMB earnings per ADS)

	<u>FY13</u>	<u>FY14</u>	<u>Movement</u>	<u>1Q14</u>	<u>1Q15</u>	<u>Movement</u>
Revenue from Leased-and-Operated Hotels	5,587.5	5,741.8	2.8%	1,279.2	1,244.7	-2.7%
Revenue from Franchised-and-Managed Hotels	<u>765.5</u>	<u>940.9</u>	22.9%	<u>193.3</u>	<u>225.7</u>	16.8%
Total Revenues	6,353.0	6,682.7	5.2%	1,472.5	1,470.5	-0.1%
Adjusted Net Income (Non-GAAP)*	422.8	535.8	26.7%	32.1	2.0	-93.9%
<i>Adjusted Net Income Margin %*</i>	6.7%	8.0%	1.4 pts	2.2%	0.1%	-2.0 pts
Adjusted EBITDA (Non-GAAP)*	1,391.2	1,569.5	12.8%	255.2	216.5	-15.1%
<i>Adjusted EBITDA Margin %*</i>	21.9%	23.5%	1.6 pts	17.3%	14.7%	-2.6 pts
Adjusted Diluted Earnings per ADS (Non-GAAP)*	8.83	10.85	22.9%	0.67	0.04	-93.9%
Operating Cash Inflow	1,192.3	1,345.2		154.9	9.1	
Total Capital Expenditures	929.5	606.5		103.2	120.9	
Cash Paid for Capital Expenditure	887.6	612.8		174.8	213.8	

\* Indicates a non-GAAP financial measure which excludes share-based compensation expenses, integration expenses, gain or loss on change in fair value of convertible notes, acquisition expenses, gain on waived liability related with Motel acquisition, gain or loss on buy-back of convertible notes and net foreign exchange gain.

# Financial Highlights (Cont'd)

## *Well-Capitalized Balance Sheet*

(RMB millions)	FY 2012	FY 2013	FY 2014	1Q 2015
Cash and Cash Equivalents	663.2	1,156.7	949.7	747.5
Total Assets	8,954.0	9,652.7	9,394.7	9,133.6
Total Shareholders' Equity <sup>(1)</sup>	3,969.7	4,447.5	5,071.1	5,055.5
Net Debt	1,151.6	713.9	79.9	284.9
<i>Net Debt as % of Total Shareholders' Equity</i>	<i>29.0%</i>	<i>16.1%</i>	<i>1.6%</i>	<i>5.6%</i>
Credit Facilities	800.0	800.0	2,077.6	2,077.6

*(1) includes minority interests*



## Recent Development

### Online Retail– a B2C Platform for Members and Customers

- [“youxuan.homeinns.com”](http://youxuan.homeinns.com) embedded in Homeinns Hotel Group’s website
- Providing Homeinns’ loyalty members and other customers online purchase access to selected travel and lodging centric products
- A business extension to add value to extensive network of loyalty members and other customers
- New revenue opportunity leveraging existing resources

### Home Alliance – a B2B Service Fee-based Program

- A corporate membership based marketing alliance and business service program
- Targeting small to medium sized regional economy or midscale hotels
- Allowing member hotels to access Homeinns Hotel Group’s leading industry expertise and resources
- Additional opportunities to expand service offering to attract new and more diversified customers

## 2015 Goals and Focus

### Core Hotel Development

- Balance new hotels development speed and profitability
- Devote more resources to mid-scale hotels

### New Business Initiatives

- Continue to drive new initiatives leveraging corporate resources
- Potential for additional new product and service launch to capture emerging market opportunities

### Ongoing Quality and Productivity Efforts

- Continue to enhance the quality of customer service and customer experience
- Further improve operating efficiency and cost control effectiveness

# Investment Highlights

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



# Appendix

## Brand Portfolio

# Homeinn (如家)

## *A Value Proposition*

**Standardized Yet Differentiated Product**

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

### In-Room Facilities

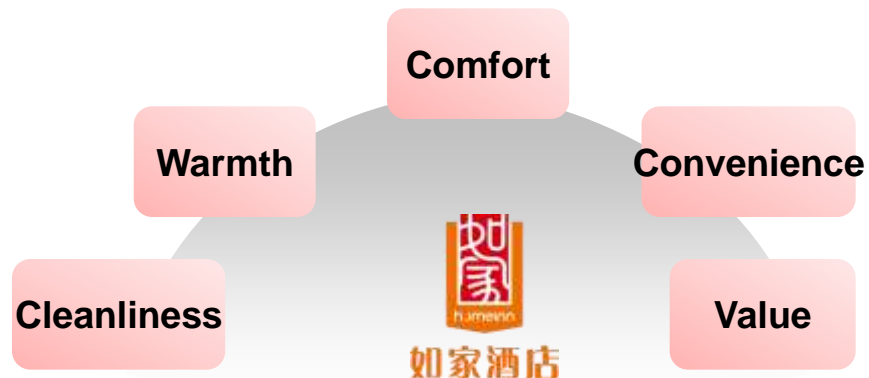
- Comfortable bed, free broadband, cold and hot drinking water supply, 24x7 in-room hot water

### Other Amenities

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

### Look & Feel

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



# Homeinn (如家)

## *Recent development*

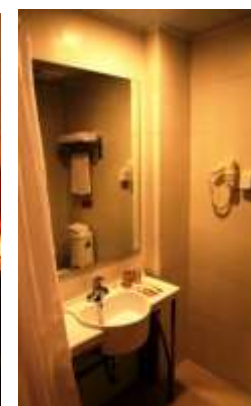


如家酒店

2,179 hotels as of Mar 31, 2015

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

Product modernization to enhance value and pricing potential





# Motel (莫泰)

*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**



莫泰酒店

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



# Motel (莫泰)

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



莫泰酒店

400 hotels as of Mar 31, 2015

Continue brand expansion with differentiated look and feel

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





# Fairyland (云上四季)

*A Locally Well-known Economy Hotel Brand in Yunnan*

## An Economy Hotel Product with Regional Theme

### 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

- Distinctive style with regional deco elements



## A Strong Local Brand in Yunnan Province

**Strong presence in Kunming and other major cities in Yunnan Province**



**Appeal to business and leisure travelers favoring a unique style with local character**

# Fairyland (云上四季)

*Recent Developments – Acquired on May 1, 2014*



34 hotels as of Mar 31, 2015

Potential brand expansion in Yunnan and southwest China



# Homeinn Plus (如家精选)

*A Newly-launched Mid-scale Brand*

**Mid-scale Business Hotel**

## In-Room Facilities

- High quality bed and bedding, intelligence mobile APP control of in-room facilities, free WiFi

## Other Amenities

- Dining room, coffee lounge, and socialising facilities

## Look & Feel

- Elegant design emphasizing modern British style



**A Modern Boutique Brand**

**Lifestyle inspiration**

**Elegant, lively**



**Innovative, refined**

如家精选

**Well-rounded staying experience**





# Homeinn Plus (如家精选)

## *Recent developments*



如家精选

Newly launched in April 2015 targeting tier-one and provincial capital cities

Expecting 50-70 new hotels in 2015



# Yitel (和颐)

## 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**

**Scan of the city and customs  
Humanistic care**

**Design and  
functionality**



**Feels like home,  
works like business**

**Dedicated guest relations managers  
delivering personalized services**

# Yitel (和颐)

## *Recent developments*



48 hotels in operation as of Mar 31, 2015 in 14 tier-one and provincial capital cities

Positive feedback from customers and strong operating performance



## Analyst Coverage & IR Contact

Firm	Analyst	E-Mail
Bank of America Merrill Lynch	Billy Ng	<a href="mailto:billy.ng@baml.com">billy.ng@baml.com</a>
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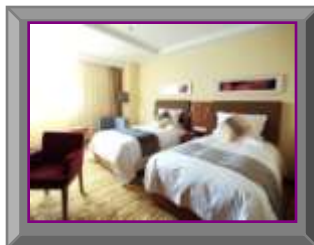
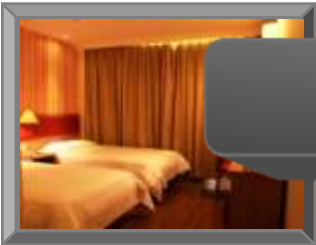
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如家酒店集团

**Different Cities...The Same Home!**



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