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Q2 2022 Luckin Coffee Inc Earnings Call

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**CORPORATE PARTICIPANTS**

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**Alicia Guo** *Luckin Coffee - Director of Investor Relations*

**Reinout Schakel** *Luckin Coffee - Chief Strategy Officer*

**PRESENTATION**

**Operator**

Ladies and gentlemen, welcome to Luckin Coffee Second Quarter 2022 Earnings Conference Call. (Operator Instructions).

Today's conference is being recorded. At this time I would like to turn the call over to Mr. Bill Zima at ICR for opening remarks and introductions. Please go ahead, sir.

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**Bill Zima ICR, Inc. - Managing Director**

Hello, everyone. Thank you for joining us on today's call.

Luckin Coffee announced its second quarter 2022 financial results earlier today. A press release is now available on the company's IR website at investor.lkcoffee.com.

Today you will hear from Jinyi Guo, Chairman and CEO of Luckin Coffee; and Reinout Schakel, CSO of Luckin Coffee. After the company's prepared remarks, the management team will conduct a question-and-answer session based on questions submitted via the company's webcast.

We will be referring to a slide presentation on today's call, which can be found via conference call webcast link as well as on the company's IR website. Again, the IR website link is investor.lkcoffee.com.

During this call, the company will be making some forward-looking statements regarding future events and results. Statements that are not historical facts including but not limited to statements about the company's beliefs and expectations are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. Further information regarding these and other risks is included in the company's filings with the SEC.

With respect to any non-GAAP measures discussed during the call today, the accompanying reconciliation information related to those measures can be found in the earnings press release issued earlier.

During today's call, Dr. Guo will speak in Chinese and his comments will be translated into English.

At this time, I would like to introduce Alicia Guo, Luckin Coffee's new Investor Relations Director.

Alicia, please go ahead.

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**Alicia Guo Luckin Coffee - Director of Investor Relations**

Thank you, Bill. Hello, everyone. Thank you for joining today's call. My name is Alicia, and I am the IR director of Luckin Coffee. I joined the company in July and look forward to communicating with you moving forward.

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**Bill Zima ICR, Inc. - Managing Director**

Thank you, Alicia. I would now like to turn the call over to Dr. Jinyi Guo, Chairman and CEO of Luckin Coffee. Dr. Guo, please go ahead.

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**Jinyi Guo Luckin Coffee - Chairman and CEO**

(interpreted) Hello, everyone, and welcome to today's conference call. Thank you for your ongoing support of Luckin Coffee.

I'm Jinyi Guo, Chairman and CEO of Luckin Coffee. I'm pleased to share with you our second quarter results. The ongoing COVID-19 situation in the second quarter remains very challenging for the catering and retail industry. Many of our stores in Shanghai, Beijing and other cities in China experienced the temporary closures at different times. Despite these circumstances, Luckin Coffee still achieved the rapid growth and an improved profitability profile.

In regard to dealing with historical issues, following the successful completion of the restructuring of our financial indebtedness in the first quarter, the U.S. federal court recently granted final approval of the securities class action settlement. This marks an important milestone for Luckin Coffee as it resolves the overwhelming majority of the company's potential exposure related to the offshore class action lawsuits.

These achievements are the results of our strong focus on the coffee business, which embodies our long-term development strategy and values. We believe that the Chinese coffee market has substantial upside potential, with significant opportunities. We hope to bring Lucky moments and excellent experiences to consumers through every cup of coffee in an effort to make Luckin Coffee a part of people's everyday lives. We strive to create a world-class coffee brand by adhering to the value of Integrity, Craftsmanship, Innovation, Ownership and Cooperation.

I would first like to discuss an important update regarding our management team that we announced in a separate press release earlier today. Reinout Schakel, who has served as our Chief Financial Officer and Chief Strategy Officer since joining, will transition to the role of Chief Strategy Officer. In his new role, Reinout will be focusing on our long-term development strategy, as well as taking on other important strategic assignments.

Over the past two years, Reinout has been instrumental in helping Luckin Coffee through our darkest moments. As a core member of the senior management team, Reinout worked tirelessly to complete our overseas restructuring and solve a number of historical problems. He also led the restructuring and reorganization of our finance team and functions over that same period and paved the way for our return to normalized financial reporting. I would like to express my sincere gratitude to Reinout for his hard work and dedication. We believe Reinout will continue to play an important role in creating substantial value for Luckin Coffee.

With this news, we are also delighted to welcome Ms. Jing An to our management team and succeed Reinout as Luckin Coffee's new Chief Financial Officer. Ms. An has extensive financial expertise and a rich professional background. She received a bachelor's degree in Economics from Renmin University of China and a master in management from Stanford University. Prior to joining Luckin Coffee, she served as the CFO of publicly listed companies, including Daojia Group, as well as previously serving as an auditor at PricewaterhouseCoopers. With Ms. An on board, I am confident that Luckin Coffee will further enhance its financial organization capabilities, further improve the level of business and financial integration and coordination and, Ms. An will help take us to a new level.

In the second quarter, despite the continuing impact from COVID-19, we achieved growth and strong results in many metrics. Total net revenue was RMB3.3 billion, representing a year-over-year increase of 72.4%. Self-operated store profit margin was 30.6% and the same-store sales growth was 41.2%. The number of net new store openings was 615. The average number of monthly transacting customers reached to 20.7 million, a year-over-year increase of 68.6%. The continuous growth in performance was mainly attributable to the ongoing launch of popular products, rapid expansion of our store footprint and an increase in the number of transacting customers.

Reinout will share more details on the company's results later during the call.

With the business back on track, we will more proactively address social responsibility and implement our sustainable development strategy. We firmly believe that the ongoing creation of both customer value and social value is an important cornerstone for the long-term development of Luckin Coffee. In July, our Board of Directors approved the establishment of our Sustainable Development Committee. I will co-chair the committee along with our director, Michael Chen, a partner at Centurium Capital. In the fourth quarter of this year, we plan to publish a report on corporate governance with the systematic review of Luckin Coffee's transformation over the past two years in terms of our corporate governance, as well as our cultural values and other important topics. This will help stakeholders better understand we have completely re-created our value and culture with improved corporate governance and internal compliance controls, among other efforts.

We believe our technological advantage sets us apart from traditional food and beverage companies. There were two technical achievements in the second quarter I would like to share with you: The first is the "Hybrid Multi-cloud Project" that we built with 5-quarters efforts. We successfully launched this project at the end of June and achieved our target of supporting 5 million orders on a daily basis, which also has the potential to support 10 million daily orders in the near future. This is an important milestone in our technical architecture.

Second, to further improve operational and financial transparency and continuously strengthen the reliability of our operational and financial data, we are introducing blockchain technology into our operational and financial data management system. Using multi-party participation, non-tampering, traceability, and other characteristics of the blockchain, key control slots and important data are stored on a chain in real time to ensure the reliability of our operational and financial controls, while improving the effectiveness of our management. Luckin Coffee is committed to become the pioneer in introducing blockchain into operational and financial systems in the food and beverage industry.

In the second quarter, we continued to face a challenging operating environment across the country. We had an average of around 670 temporarily daily store closures in China during this quarter. In April and May, that number was around 900 stores nationwide. At the same time, the local government's restriction on transportation also brought challenges to our supply chain and logistics systems. Despite a complex and challenging environment, we continued to show strong momentum, driven by our advantages in branding, product R&D and store layout, and supported by our three pillars of "people, products and places."

From the perspective of "people", Luckin Coffee is becoming the coffee brand of choice for more and more young people. Our average monthly transacting customers have increased to about 20.7 million during the second quarter of 2022.

From the perspective of "product", Luckin Coffee continued to innovate and launch popular products. In April, we launched the Coconut Cloud Latte, which sold over 24 million cups in the second quarter and contributed RMB400 million in gross revenue across our store formats. During the pandemic, our supply chain department, are made full use of our existing grid-based warehouse network in multiple locations, quickly setting up emergency warehouses, transfer stations and other measures to ensure sufficient supply.

From the perspective of "places", although we experienced indoor dining restrictions during the pandemic, our "pick up" business model was less impacted. As we mainly operate through a small-scale grab-and-go stores, combined with an advanced and intelligent store management system, we can achieve increasing efficiency in terms of store rental and labor structure.

I would like to express my most sincere gratitude to our nearly 32,000 Luckin employees who have worked so hard through challenging times and to our customers for their ongoing love and support for Luckin Coffee.

In terms of brand, marketing and sales growth, we have built our brand based on "professionalism, youth, fashion and wellness." In the second quarter, we successfully introduced our popular Coconut Cloud Latte and attracted more new customers with our "Summer Ice Coffee Season" campaign. For the second quarter, the number of new transacting customers exceeded 10 million. At the same time, our official account has over 30 million subscribers and over 28 million users in our private traffic pool. By establishing multiple self-owned traffic pools, driven by data and technology, we have managed to reach users through multiple marketing channels and continuously attract and retain new users. In return, this has allowed us to more effectively increase customer engagement, further driving our strong performance.

In terms of our product strategy, our focus on "professionalism" and "good flavor" is critical to our development and success.

The pursuit of professionalism in the coffee industry goes hand-in-hand with our ongoing investment in the professional coffee supply chain. In the second quarter, we signed an investment agreement for our second coffee roasting facility in Kunshan, designed for a capacity of 30,000 tons and is expected to start construction at the end of 2022. By launching "Yunnan Specialty Coffee", we have significantly raised the popularity of China's Pu'er coffee, and Luckin became one of the most important buyers of Yunnan green coffee beans. The ongoing investment to expand the coffee bean supply chain is conducive to maintain raw material quality and effectively

improving cost control capabilities, which is expected to be one of our greatest competitive advantages in the long term.

The pursuit of "good flavors" is illustrated by our accelerating digitalization of R&D mechanism and strategy. Through a comprehensive digital R&D framework, we have achieved a virtuous circle of combining front-end operational data and back-end product development, increasing our ability to offer innovative, and popular products and attract young customers.

Based on publicly available information, Luckin coffee has become one of the largest coffee networks in China in terms of the number of stores and keeps growing. As of June 30, 2022, we had 7,195 stores in total with 615 stores newly opened during the second quarter. We saw strong performance from our newly opened self-operated stores in newly entered cities such as Yinchuan and Xining. Going forward, we will continue to maintain our store expansion strategy through a balanced mix of self-operated stores and partnership stores. While we expect to continue our expansion into top-tier cities through our self-operated stores, we also intend to quickly enter lower-tier cities through our partnership store model. We believe there is a great potential in China's coffee market, and we are confident in our future store expansion.

At this time, I would like to turn the call over to Reinout to discuss our financial performance during this quarter.

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**Reinout Schakel *Luckin Coffee - Chief Strategy Officer***

Thank you, Jinyi, and also thank you for your kind words.

Welcome everyone to today's call. I would like to start today by welcoming Ms. An as our new Chief Financial Officer of Luckin Coffee. We're all very excited to have an executive of her caliber on Board, and I believe her appointment comes at the exact right time in the company's evolution.

Ms. An brings over 17 years of corporate finance and management experience to Luckin Coffee, and with her wealth of experience, she is the right person to lead our finance team going forward and bring Luckin Coffee to an even higher level. I look forward to working closely together with Ms. An to ensure a smooth transition of finance and accounting responsibilities as I move into my new role as Chief Strategy Officer.

I feel incredibly privileged that I was given the opportunity to lead the reorganization of our finance team and functions as well as our offshore financial restructuring, which now have been both successfully completed. I would like to thank Jinyi, our Board, our management team, and our shareholders for their trust and support.

Our outstanding Luckin employees continue to deliver every day, including our Finance, Internal Audit, Legal and Compliance, Internal Controls and Investor Relations teams, who have shown exceptional dedication, perseverance and hard work. For all of us that have been on this journey together, we know it has been a great challenge. But I think we can be incredibly proud of what we have achieved so far. I certainly know I am.

Now that we place the company back in a path towards sustainable long-term growth, we believe the company is now in a position of strength, with significant growth opportunities ahead. In my role as Chief Strategy Officer, I will strive to continue to support Luckin Coffee in reaching more important milestones, principally focusing on long-term strategic planning, helping identify and execute growth opportunities and leading the execution of Luckin Coffee's capital market strategy.

I will now turn to our Q2 performance. Like last quarter, I would like to provide some context on the current COVID-19 situation in China and the impact on our business.

During the second quarter, the negative impact of the COVID-19 pandemic on the company has gradually lessened. In particular, follow the lifting of COVID-19 related restrictions in Shanghai starting June 1st.

To provide some perspectives, we had an average of 900 temporary daily store closures during April and May '22. And this number reduced to just over 150 temporary daily store closures during June and even further decreased to around just under 100 during the

month of July.

Despite these encouraging improvements, the impact on our financial results in the second quarter was nonetheless substantial. And we anticipate that our operations will continue to be negatively affected by pandemic-related market pressures for the foreseeable future. The lack of visibility from this uncertain and unclear operating environment means we are not providing any forward-looking guidance at this time.

Despite these pandemic-related headwinds, and as Jinyi mentioned earlier, we have been able to deliver yet another quarter of outstanding financial and operational results.

Here are some of the quarterly highlights. Our reported operating profit margin was over 7%, a material improvement compared to last year and also last quarter. We reported RMB3.3 billion of net revenues, an increase of more than 70% compared to the same period last year. And both of our store formats reported strong top-line growth. Our self-operated stores reported same-store sales growth of over 40% and partnerships grew by almost 180%. This was due to very strong demand for our products and supported by our innovative product development strategy, highlighted by the success of our Coconut Cloud Latte.

We also saw substantial growth in transacting customers. We acquired more than 10 million new customers in the quarter, a quarterly record-high, as well as an increase in the average monthly transacting customers to close to 21 million, an increase of almost 70% year-over-year. We are very pleased with our results as these clearly demonstrate our strong momentum and, we believe, further validates our business model.

In terms of store growth, we opened 615 net new stores, an acceleration compared to the first quarter, to meet the ever-growing demand for our products and in anticipation for the summer months, which are seasonally our strongest months. We now have a nationwide footprint of close to 7,200 stores as of June 30, 2022, which provides us with significant benefits of scale. In terms of store mix, we opened 322 net new partnership stores and entered into 11 new lower-tier cities. For our self-operated stores, we opened 293 net new stores and entered into three new lower-tier cities.

As I mentioned earlier, we saw a further material improvement in our profitability profile during the second quarter.

Specifically, we achieved a store level margin of over 30% for our self-operated stores in our seasonally strong second quarter. This is the highest store level margin we have achieved since our inception and a notable improvement compared to the 23.1% achieved in the same period last year.

For our partnership stores, we do not disclose any metrics on profitability. However, as can be seen from our partnership store revenue breakdown in the 6-K filed earlier today, revenue contribution from profit sharing, one of the contributors to partnership revenue and profit, increased by 261% year-over-year to RMB105 million during the quarter.

In terms of our overhead expenses, the trends are also favorable due to benefits of scale. Our general and administrative expenses increased by around RMB55 million year-over-year, which reflects our continued investments in our business. However, as a percentage of revenue these expenses decreased from 15% in Q2 last year to 10.4% this quarter. Same for our sales and marketing expenditures. If we remove the impact of free cups, we increased our spending by RMB38 million compared to last year as we spent more on advertising and commission fees to third-party delivery platforms. As a percentage of revenues, these expenses decreased from 4.7% in Q2 last year to 3.9% this quarter.

And as I mentioned last quarter, our current organization is built to support our future growth and we currently expect these expenses to further decrease, as a percentage of revenues over the coming years, if we can continue to deliver growth.

There are two other areas I would like to point out on this call.

First, as you can see from the 6-K we filed earlier today, we booked an impairment loss of long-lived assets of RMB221.8 million, which is

around 6.7% of net revenues during the quarter. This impairment relates to a full and final impairment of our Luckin Coffee Express machines. In the short term, we believe the Chinese coffee market is still in an early development phase, and unmanned coffee machines mainly serve needs of more mature coffee consumers, which we believe will take more time. And compared to our store operations, which have huge growth potential, the cost-benefit analysis does not stack up for Luckin Express at this time. Although we will continue to operate some machines in select cities, further optimize the business model and monitor market demand, we do not expect these operations to reach profitability in the foreseeable future, resulting in a full impairment. Apart from the impairment, the impact on our financials is minimal given the limited scale of this business.

Secondly, and in line with expectations, there has been a further reduction of losses and expenses related to the Restructuring since the Provisional Liquidation of the company in the Cayman Islands was completed in March 2022.

Now before I discuss our balance sheet and liquidity, first a brief update on the status of the U.S. securities litigation and their impact on our financial statements.

As Jinyi mentioned earlier during the call, we've made substantial progress on resolving outstanding U.S. securities litigation. The federal class action settlement, which resolved the overwhelming majority of the company's potential exposure, received final approval from the federal court overseeing the case on July 22nd. And we funded USD175 million settlement demand into an escrow account prior to June 30, 2022, which is reflected in our latest cash position, and therefore have fulfilled all our obligations under this settlement. We were also able to make substantial progress in resolving the remaining opt-out securities litigation, which is reflected in an increase in our provision for equity litigants in the second quarter as filed in our 6-K.

If we look at our operating cash flow, during the quarter, we had a positive operating cash flow of RMB619 million, which is just over USD90 million, after stripping out the payment of USD175 million to the federal class. Our operating cash flow, excluding the settlement payment, increased by more than 70% compared to the same quarter last year and easily covers our capital expenditures during the quarter, which amounted to just under RMB70 million. Following the payment of the federal class settlement, our cash position remains very strong with close to RMB4.5 billion of cash and cash equivalents as of June 30, 2022. We have a healthy balance sheet and will continue to review our liquidity requirements on an ongoing basis to ensure that we can meet all of our business needs and continue to further optimize our capital structure.

That ends my prepared remarks for today, thank you to all shareholders for your trust and support and I look forward to continuing our dialogue in my new role together with Alicia Guo, who recently joined us as the head of Investor Relations at Luckin Coffee.

I'll now turn it over to Jinyi for concluding remarks, and then we'll have Q&A.

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**Jinyi Guo Luckin Coffee - Chairman and CEO**

(interpreted) Finally, I would like to thank all of our stakeholders again for your ongoing attention and long-term support of Luckin Coffee. The long-term development of Luckin Coffee is directly tied to our shareholders and investors as well as the support of our customers and the entire society. We look forward to having meaningful conversations with our customers, investors, regulatory authorities and other stakeholders, as we continue to focus on creating long-term value for them. We remain committed to building Luckin Coffee into a long-standing world-class coffee brand and achieve sustainable, healthy and long-term growth.

Thank you. Now we would like to open the floor to questions.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions). I will now turn the call over to Alicia Guo at Luckin Coffee, who will moderate today's Q&A session.

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**Alicia Guo Luckin Coffee - Director of Investor Relations**

Thank you, Operator. Thanks for all of those who submitted your questions online. We truly have had an overwhelming response since filing our pre-announcement last week. Due to the volume of the question, we have on our best-efforts basis tried to categorize your questions, and selected those questions that have been asked most frequently. Due to the time limitation, we have only been able to select five questions this quarter. We will endeavor to continuously engage with all of our investors in an open and constructive dialogue and strive to address all of your key questions over time. In no particular order, let's start with the first question.

Product development and success of new products seem to have materially contributed to your recent operational success. Can you tell us more about your R&D process and also how sustainable this is?

Dr. Guo, could you take the first question, please?

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**Jinyi Guo Luckin Coffee - Chairman and CEO**

(interpreted) Thanks for your question. Our digital and systematic R&D process is the key to our product development success. We digitalize all raw materials and tastes, in order to track beverage trends, build the basic menu, and derive numerous product combinations. Through the integrated process that covers menu management, R&D, testing and optimization, we are able to stabilize the overall menu structure, and consistently innovate to meet changing preferences of our customers. With this mechanism, we have successfully launched a series of popular products over the past two years, with an average of 35 new products launched each quarter. For example, Newer Latte and Coconut Milk Latte have sold over 100 million cups respectively since their launch. And nearly 30 other products have sold over 10 million each and many of them have received numerous awards and widely praised by our customers.

Our supply chain also plays an important part in the sustainability of our R&D process. We have been investing in the coffee supply chain, as well as working on upstream and downstream integration, which not only ensures the quality and stability of raw materials, but is also more cost effective. In terms of logistics, by taking advantage of our grid-based warehouse network in multiple locations, we have been able to not only continuously improve our efficiency, but also avoid the negative impacts on our raw material supply from traffic lockdowns. This, in turn, guarantees product delivery and continued product launches. With the support of this innovative R&D system as well as supply chain and logistics system, Luckin can maintain its industry-leading position in terms of product R&D.

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**Alicia Guo Luckin Coffee - Director of Investor Relations**

Thank you, Dr. Guo. Let's move to the next question.

Like-for-like sales has been very strong over the last quarter, can you give us some guidance on key drivers (price versus items sold) as well as any guidance on how to look at this longer term? Do you think you can keep that momentum in Q3 and beyond?

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**Reinout Schakel Luckin Coffee - Chief Strategy Officer**

Maybe I'll take that one, Alicia. Thanks for the question.

We are very pleased with the progress that we've made so far, especially since mid-2020, under the revised strategic plan and our current leadership. Now this plan included a very detailed review of our store portfolio, tightening of our store opening criteria, reviewing our pricing strategy and really focusing on the core competencies, the strength of our product development, store operations, and of course, our brand. The results speak for themselves. Since the start of 2021, we reported SSSG for our self-operated stores between 40% and 95% over six consecutive quarters despite the impact of COVID.

Now this quarter, we reported SSSG for self-operated stores just over 40%. And if we break down that growth into its components, it is fair to say that this quarter the majority of that growth was from an increase in the average items sold per store per day, reasons already discussed on the call today, and to a lesser extent from increase in price point.

Now, we will not provide any forward-looking guidance on this call, but what I can say is that, as I am sure everyone will appreciate, these types of growth percentages are unusual and also due to the comparative periods for the 2021 results, when we are in the middle of

implementing many of our strategic initiatives. Now we do expect these percentages to normalize over time.

In terms of our pricing strategy, our affordability proposition is an important differentiator in growing our market share and expanding our customer base further. More importantly, we are profitable at these prices, as demonstrated by our store level margins during the quarter.

I, therefore, do not foresee a substantial change in our pricing strategy in the foreseeable future. We will of course closely monitor general inflationary pressures, including any increases in prices of raw materials.

Now in terms of items sold per store, we continue to see substantial room for growth. As mentioned by Jinyi earlier, we have a very strong product development team and philosophy and a large customer base in a market that is growing very, very quickly. It is also clear that when we look at the overall penetration rate of coffee consumption, despite recent high growth, it is still a fraction of more developed coffee markets.

And finally, in addition, we will continue to roll out new stores in both existing and new cities, continuously launch new products and also further increase our brand awareness going forward, which I hope will in turn reflect on our revenue growth and profitability profile. Thank you.

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**Alicia Guo Luckin Coffee - Director of Investor Relations**

Thanks, Reinout.

We have the next question about: Transacting customers continues to grow (and is currently at around 20 million, a material increase year-over-year). What are the main initiatives on attracting new customers and what can you tell us in terms of maintaining those customers going forward? Can Dr. Guo take this question, please?

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**Jinyi Guo Luckin Coffee - Chairman and CEO**

(interpreted) Thank you for the question. I will answer it from two perspectives, attracting new customers and maintaining loyal customers.

Regarding attracting new customers, China's coffee market is still in the early stages of development, with significant growth potential. In the second quarter, our average monthly transacting customers had substantially improved, reaching 20.7 million, representing a year-over-year growth of nearly 70%. The number of new transacting customers is over 10 million.

This result is driven by three factors. First, rising brand recognition. We have built our brand based on "professionalism, youth, fashion and wellness". Luckin Coffee has become the coffee brand of choice for more and more young people due to these brand efforts. Second, the continuous rollout of our store network to bring our services and products closer to customers. As of the end of second quarter, we had 7,195 stores in total covering more than 230 cities. With our current footprint, we are able to provide services in different consumption scenarios where our customers want to be met, such as offices, buildings, shopping malls, schools and transportation centers. Third, continued success in product R&D. For instance, we launched a series of products like Coconut Milk Latte and the Coconut Cloud Latte, which were major drivers for attracting new customers.

In terms of maintaining loyal customers, we adopted three main strategies. First, through continuously investing in the coffee supply chain and upholding product quality to bring our customers with products and services with a stable quality and affordability, we can improve the stickiness of our customers. Second, focus on the changes in customer demand and continuously launch more innovative and popular products. Third, continuously increasing the purchase frequency by using promotion strategies such as private traffic operation, customer differentiation and membership system, and focusing on core metrics, such as customer retention and repurchase rate, realizing a sustainable growth.

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**Alicia Guo Luckin Coffee - Director of Investor Relations**

Thank you, Dr. Guo.

So, our next question is: What is the company's capital market strategy and can you tell us if and when there will be a relisting on the Main Board? What are the key factors driving that decision, I wonder if you could please provide further color on this.

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**Reinout Schakel Luckin Coffee - Chief Strategy Officer**

Thanks, Alicia, and thanks for this question. It's certainly a question that we get quite regularly, including from the online submissions. So I am happy to address it here to the extent I can.

First of all, as we have expressed on several occasions, and I do think it's important to reiterate, the company is and remains committed to U.S. capital markets. Now the priority for us is providing sustainable, long-term value for our shareholders by executing on our business strategies and delivering outstanding products and services to our customers. We are also very focused on maintaining a strong balance sheet and a measured approach to capital allocation, maintaining strong internal controls over our financial reporting to ensure we operate with the upmost integrity and act responsibly to resolve all of our historical issues. And, with the establishment of our new ESG Sustainability Committee we also want to ensure that we can give back to our communities and operate in a socially responsible manner. Now, these are all the factors that are within our control and where we have made significant progress, and will continue to focus on going forward.

Now specifically, in relation to our capital market strategy, to the extent we have further updates to share, we will provide them. The Board and management team will continue to monitor all relevant developments and take actions it believes are in the best interest of the company and our stakeholders. Thank you.

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**Alicia Guo Luckin Coffee - Director of Investor Relations**

Thanks, Reinout.

The last question is: The company, has entered many lower-tier cities through partnership stores in Q2. What is the company's overall network expansion plan in terms of geographic and high/low tier city distribution?

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**Jinyi Guo Luckin Coffee - Chairman and CEO**

(interpreted) Thank you for the question. Our self-operated stores are mainly located in Tier 1 and Tier 2 cities; partnership stores mainly cover the lower-tier cities. Those two store models are highly complementary to each other. Self-operated stores are located in more mature markets with higher density where there are still numerous available locations to be selected. These markets have room to further expansion, where we can reduce cost in a timely fashion by leveraging increasing economies of scale.

On the other hand, cities in early developmental stage of coffee consumption are suitable for partnership store. Those cities are normally geographically scattered, with challenging site selection as well as cost control.

By leveraging our advantages of the local partners as well as the remote intelligent monitoring measures, we can quickly penetrate the lower-tier cities while ensuring product quality and effectively reducing our overhead costs.

Based on our site selection digital analysis system, we believe that the market is far from saturated, with many potential new locations for Luckin stores, driven by the promotion of coffee consumption. Going forward, we will continue to maintain a reasonable pace of opening new stores based on the same assessment criteria we have been using. Focusing on both store counts and quality. In Tier 1 and Tier 2 cities, we will continue to increase store density, and rapidly penetrate in lower-tier cities to further improve store coverage and better meet consumer needs.

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**Alicia Guo Luckin Coffee - Director of Investor Relations**

Thank you, Dr. Guo. That is all the time we have for today's earnings conference call. We thank you for your participation on today's call. We look forward to providing you with regular business updates and look forward to speaking with you again next quarter.

**Operator**

This concludes our call today. You may now disconnect.

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