



Luckin Coffee, Inc.
Q2 2023 Earnings Conference Call
Transcript

Tuesday, August 1, 2023 / 8:00 AM ET.

PARTICIPANTS

Jinyi Guo *Chairman and CEO, Luckin Coffee*

An Jing *CFO, Luckin Coffee*

Alicia Guo *Investor Relations Director, Luckin Coffee*

PRESENTATION

Operator

Ladies and gentlemen, welcome to Luckin Coffee's second quarter 2023 earnings conference call. All participants will be in listen-only mode during management's prepared remarks, and there will be a question-and-answer session to follow. Today's conference is being recorded.

At this time, I would like to now turn the call over to Ms. Alicia Guo, the head of Investor Relations of Luckin Coffee, for prepared remarks and introductions. Please go ahead, Alicia.

Alicia Guo

Investor Relations Director, Luckin Coffee

Hello, everyone, and thank you for joining us on today's call. Luckin Coffee announced its second quarter 2023 financial results earlier today.

Today, you will hear from Dr. Guo Jinyi, Chairman and CEO of Luckin Coffee, and Ms. An Jing, CFO 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 a conference call webcast link as well as on the Company's IR website. The IR website link is investor.lkcoffee.com.

During today's 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.

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

Jinyi Guo

Chairman and CEO, Luckin Coffee

(Translated) Hello everyone, welcome to today's earnings conference call, and thank you for continuing to support Luckin Coffee. I am the Chairman and CEO, Guo Jinyi.

In the second quarter of this year, in the face of an increasingly competitive market environment, we continued to achieve high revenue and profit growth by virtue of our unique business model, operational efficiency and scale advantage. During the second quarter, we reached a major milestone of surpassing ten thousand stores in China, making us the first coffee chain brand in China with more than ten thousand stores. To commemorate this achievement, we launched a new brand concept called "Luck in Hand". Additionally, as a token of our appreciation to the continuing support of our customers, we initiated the "ten thousandth store celebration event" promotion, offering discounted high-quality coffee to millions of consumers to enjoy one cup of coffee for just RMB9.9 each week.

The promotional campaign has been well received by consumers. Through this initiative, consumers can enjoy high-quality coffee at a more favorable price, which has not only increased our customers' understanding and appreciation of coffee, but also has enabled us to expand our market share and strengthen our brand influence. Our achievements today would not have been possible without the support of our millions of customers. Therefore, we have decided to extend the RMB9.9 promotional campaign for at least two years, as a way to reward our customers for their loyalty. We hope that this campaign will accelerate the increase in our market share and promote the continuous development of the coffee market in China.

Specifically, with our business scale advantage, our second quarter revenue and profits reached new highs. We achieved total net revenues of RMB6.2 billion, representing an 88.0% year-on-year growth. Our operating profit margin was 18.9%, and our profit margin for self-operated stores was 29.1%, with a same-store sales growth rate of 20.8%. In addition, there were 1,485 net new store openings in the second quarter, bringing the

total number of stores to 10,836, and the number of cumulative transacting customers has surpassed 170 million, while the number of average monthly transacting customers reached 43.07 million in the second quarter.

Our CFO An Jing will provide further details on the financials later.

Reaching the 10,000 stores milestone would not have been possible without the collective efforts of our 50,000 Luckin Coffee employees. With growth comes greater social responsibility, so as our business grows at a rapid pace, we remain committed to increasing our investments in sustainable development.

On May 15, 2023, we joined the United Nations Global Compact (UNGC). As the world's largest corporate sustainability initiative, the UNGC has more than 20,000 businesses and other stakeholders from 170 countries around the world.

In the future, we will work with UNGC members around the world to uphold the Ten Principles of the Global Compact and contribute to the achievement of the United Nations Sustainable Development Goals through our cooperation and partnership with the UNGC.

To this end, we will deeply integrate the principles of sustainable development into our operations and management, maintain a strong focus on social responsibility and continuously optimize our sustainable development strategy. We will take advantage of digital technology and continue to increase our investments in the three strategic directions of sustainable business model, sustainable value chain and sustainable social ecology, which can help integrate sustainability into our business and drive the long-term development of the business, and enhance our influence in sustainable development.

In the second quarter, we became the first coffee chain in China to surpass ten thousand stores, and we remain committed to continuing our rapid growth. As of the end of the second quarter, we had 10,829 stores in China, with 7,181 self-operated stores and 3,648 partnership stores. As competition intensifies in the Chinese coffee market with the influx of more brands, we will continue to expand our presence in top-tier cities and accelerate our penetration into new markets through our partnership model.

In terms of overseas markets, as of the end of the second quarter, we reached a total of seven stores in Singapore, adding five new stores on top of the two stores that opened during the first quarter, and we are excited about the performance of those stores. We will continue to expand our presence in international markets, so that more consumers around the world can enjoy Luckin Coffee's high-quality coffee.

During the "Ten thousandth store" opening event, we introduced a new brand proposition - "Luck in hand." We believe that luck does not come by chance, but rather, it is achieved through steadfastness and hard work.

As of the end of the second quarter, the number of cumulative transacting customers surpassed 170 million. In June alone, the number of transacting customers surpassed 50 million, a new record monthly high.

In terms of products, we focus not only on creating innovative and popular beverages but also on strengthening our professional capabilities in research and development, supply chain management and expansion. In the second quarter, we launched 24 beverages, including Iced Minty Coconut Latte, Waxberry Exfreezo, Iced Americano series, and Chinese Tea Coffee products. During the May holiday, product sales reached a record-breaking 23.07 million cups, doubling the sales of the prior year.

In terms of coffee expertise and quality, we continue to deepen our supply chain. Following the launch of the "Odyssey to the God Shot" at the beginning of the year, our Ethiopian office was officially established in the capital city of Addis Ababa in May. We will establish strict quality control standards and standardized processes at the country of origin to further enhance our ability to control the quality of coffee beans.

These are the key highlights of our business in the second quarter. Next, we invite our CFO An Jing to present the financial data and commentary.

An Jing

CFO, Luckin Coffee

Thank you very much, Jinyi

Good morning, afternoon, and evening everyone. Thank you for joining us today. Our team has delivered a record-breaking quarter, and I am excited to present our outstanding performance and share our remarkable results. I would like to express my gratitude to our dedicated employees, loyal customers, esteemed partners, and valued investors for their support.

Now, I will take some time to highlight our 2023 second quarter results in detail.

Let's start with the financials. I am very pleased to announce that we achieved record-breaking results in the second quarter with total net revenues surpassing RMB6.2 billion. This represents a strong increase of 88.0% year-over-year. Our impressive net revenue growth can be attributed to several key factors.

First, the increase in the number of products sold has significantly contributed to our revenue growth. As we continue to innovate and expand our product offerings, we have witnessed heightened customer interest and engagement, driving higher sales volumes.

Additionally, our store expansion efforts and the increasing number of monthly transacting customers have also played a significant part in our net revenue growth.

Our performance across both self-operated and partnership stores has also been noteworthy. Among our self-operated stores, we observed a significant year-over-year increase of 85.2%, with revenue reaching nearly RMB4.5 billion. Additionally, our same-store sales of self-operated stores in the second quarter experienced growth of 20.8%. Similarly, our partnership stores demonstrated robust growth, with an increase of 91.1% year-over-year, reaching nearly RMB1.5 billion in revenue.

Our focus on operational efficiency and cost management has also translated into strong financial performance. During the second quarter of 2023, our operating profit surpassed RMB1.1 billion, exhibiting a record-high 18.9% of GAAP operating margin. This achievement underscores our commitment to maintaining a healthy balance between the revenue growth and profitability.

Now let me give a brief recap of our recent expansion efforts and market presence. During the quarter, we continued our expansion strategy and successfully opened over 1,400 stores, which included the launch of five new stores in Singapore. As a result of our efforts, our store unit growth showed a strong quarter-over-quarter increase of 15.9%.

In China, we maintained our position as the largest coffee shop chain based on the number of stores. We have further penetrated the domestic market and currently have self-operated stores and partnership stores across 70 and 265 cities in China, respectively.

Our dedication to providing outstanding customer experiences has paid off, evident in our average monthly transacting customers during the second quarter of 2023, which surged by 107.9% compared to the previous year, reaching 43.1 million customers. We remain committed to our vision of sustaining this growth trajectory and further strengthening our position in this market.

Moreover, we have garnered tremendous customer enthusiasm with the launch of our new weekly RMB9.9 coffee promotional campaign. We sold over 39 million cups in the very first week of launching the offer. This deal has resonated with our valued customers, providing them an affordable and pleasant coffee experience. We understand the importance of catering to various customer segments, and the introduction of our RMB9.9 coffee option has not only attracted new customers but also strengthened our relationship with existing ones. This initiative has been a key driver behind the surge in our customer engagement and satisfaction.

Next, I would like to spend some time to discuss the details of our improved margin profile.

On a group level, we are delighted to report an outstanding net profit margin of 16.1% for the second quarter. One of the key drivers behind the net profit margin increase is the growth in revenue. We have experienced a substantial increase in sales, which has positively impacted our profitability. In addition to driving sales, we put efforts on enhancing efficiency through cost controls, technology-driven operations as well as scale advantage. So, we are glad to see our progress and we will continue to execute robust efficiency improvement plans to further unlock results.

From a store level view, for our self-operated stores, the operating profit margin reached 29.1% in this quarter, compared to 28.4% in the second quarter of 2022 as a result of benefits of economies of scale from the increased number of products sold.

In terms of expenses and fee ratios, we remained efficient and resilient during the quarter:

Our general and administrative expenses, on an absolute value basis, increased by 24.6% YoY, which was mainly a result of increased payroll costs and office supplies, tax surcharges and stamp duty, and continued investment in R&D, while partially being offset by the decrease in share-based compensation for restricted share units and options issued to management and employees. The G&A expenses as a percentage of revenue decreased from 10.4% in Q2 last year to 6.9% in Q2 this year due to scale benefits.

The sales and marketing expenses ratio rose to 4.9% in this quarter from 3.9% in Q2 last year. This quarter, we continued to strategically invest in our brand building and brand marketing to increase awareness through various channels, i.e., partnership with China National Women's Basketball Team and Will Liu. Meanwhile, we spent more on commission fees to third-party delivery platforms due to increased delivery orders, as well as more on subcontract service fees to support e-commerce business and promotion activities.

Expenses related to fabricated transactions and restructuring, which consisted primarily of professional and legal fees for U.S. securities litigation and other advisory service fees, amounted to 0.1% of net revenues in Q2 2023.

The strength of our healthy balance sheet and our strong cash position is a competitive advantage in this uncertain financial environment.

During this quarter, we achieved net operating cash inflow of RMB1,444.4 million, which is around USD199.2 million, compared to the net operating cash outflow of RMB553.1 million in the same quarter of 2022.

In terms of our balance sheet, as mentioned in previous calls, we have fully redeemed the offshore notes in Q3 last year following the restructuring and paid the federal class

settlement. So, we now have no interest-bearing debt and our cash position remains very strong with more than RMB5.2 billion of cash at bank and on hand or USD724.9 million as of June 30, 2023.

We will continue to maintain a prudent approach to our capital structure and explore all options to enhance shareholders' return by achieving more transparency in the value of our assets and returning capital to our shareholders.

In conclusion, we are thrilled with the tremendous progress made possible by the hard work and dedication of our team. Despite the challenges posed by economic conditions, we remain committed to delivering sustainable long-term profitable growth and creating value for our shareholders. We will continue to invest in our people, sharpen our focus, and strengthen our competitive advantages to achieve our goals. We are excited about the possibilities that lie ahead, and we look forward to achieving another successful year of growth.

I'll now turn it over to Jinyi for concluding remarks followed by Q&A.

Jinyi Guo

Chairman and CEO, Luckin Coffee

(Translated) We are proud that Luckin Coffee has achieved the milestone of opening 10,000 stores, which was made possible by our 50,000 hard-working Luckin Coffee employees. This notable achievement also cannot be achieved without the loyalty of our customers, the support of our partners and the trust of our investors. We would like to express our heartfelt gratitude to all of you!

Going forward, we will continue to invest more and reward customers more, to further expand the potential of China's coffee market. We will strive to deliver better quality and better prices to provide customers with coffee that is "delicious and affordable". We will continue to focus on the long-term value of our brand and aim to make Luckin Coffee a world class brand, and we will work towards achieving long-term, healthy, high-speed, and sustainable growth.

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

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the Q&A session. I will turn the call over to Alicia Guo at Luckin Coffee who will moderate today's Q&A session.

Alicia Guo

Investor Relations Director, Luckin Coffee

Thank you. Now, let's begin with the first question.

Luckin Coffee launched a "RMB9.9 High-Quality Coffee Era". How can you strike a balance between scale advantages and profitability while maintaining a competitive leading position?

Jinyi Guo

Chairman and CEO, Luckin Coffee

(Translated) Thank you for your question.

Taking the opportunity to celebrate the milestone of opening more than 10,000 stores, the "RMB 9.9 high-quality coffee era" promotion, is a gesture of appreciation to our millions of customers. Since the launch of the promotion in June, we have received enthusiastic responses from customers that exceeded our expectations. Our product sales have continued to increase, and the number of transacting customers reached a record high, which has driven increased revenue and profit margins. Meanwhile, the positive feedback from our customers reflects their recognition and love of our brand, which gives us the determination, confidence, and motivation to continue this promotion for an extended time and continue to innovate new products and flavors to meet the diverse demands of our customers.

As the largest coffee chain brand in China, we have established our competitive advantages in branding, scale, supply chain, and efficiency, which gives us comprehensive cost advantages to ensure our leading position in the market. Focusing on customer value is our ongoing pursuit and we will transform our cost advantages into long-term returns to customers, which not only provides customers with real discounts but also further expands our market share and brand influence while continuously accelerate the development of the coffee market in China. From a long-term perspective, Luckin Coffee is fully capable of providing customers with high-quality coffee that is "delicious and affordable", and at the same time maintain our profit margin within a reasonable range, to achieve our long-term steady, sustainable development and continue to maintain our leading position in the coffee market in China.

Alicia Guo*Investor Relations Director, Luckin Coffee*

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

It appears that Luckin Coffee has opened more than 10,000 stores. Will you accelerate the speed of store openings in the second half of 2023? Also, could you please comment on the future market development?

Jinyi Guo*Chairman and CEO, Luckin Coffee*

(Translated) Thank you for the question.

During the first half of this year, we achieved our goal of opening 10,000 stores ahead of schedule, which is a remarkable milestone for us. The coffee market in China is still growing rapidly and we believe there is still great potential and we still have a lot of room to expand. Going forward, we will continue to accelerate the expansion of our self-operated stores and partnership stores, to provide more customers with high-quality and convenient services. At the same time, we are further optimizing our store layout through business model innovation. At the end of May, we started a new partnership model of "Joining with Stores" to encourage more high-quality partners that are interested in broadening the coffee industry to join us and share in the growth dividends of the growing coffee market in China. This model has been well received by the market and the effects on the store expansion has been effective.

Stores serve as essential hubs connecting consumers, but the investments beyond stores are equally important. While accelerating store expansion, we are focused on and continue to increase investments in branding, supply chain management, digital research and development and others, to ensure efficient, stable, and sustainable operations.

Currently, the coffee market in China is in phase of rapid growth. As the coffee chain brand with the largest number of stores in China, we are not only focused on increasing our market share and brand influence but also putting efforts into the positive and healthy development of coffee market in China. Going forward, we will continue to focus on customer value, growing hand in hand with partners, and providing customers with high-quality coffee that is "delicious and affordable", to promote and accelerate the healthy development and maturity of the coffee market in China.

Thank you !

Alicia Guo

Investor Relations Director, Luckin Coffee

Thank you, Dr. Guo and Ms. An. 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. Thank you.

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