

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2022 Luckin Coffee Inc Earnings Call

EVENT DATE/TIME: MAY 24, 2022 / 12:00PM GMT

CORPORATE PARTICIPANTS

Bill Zima ICR - Managing Director

Jinyi Guo Luckin Coffee Inc. - Chairman and CEO

Reinout Schakel Luckin Coffee Inc. - CFO and CSO

Shan (Sam) Jiang Luckin Coffee Inc. - SVP

PRESENTATION

Operator

Ladies and gentlemen, welcome to Luckin Coffee's First Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode during management's prepared remarks. Today's conference is being recorded.

At this time, I would now like to turn the call over to Mr. Bill Zima at ICR for opening remarks and introductions. Please go ahead, sir.

Bill Zima ICR - Managing Director

Hello, everyone, and thank you for joining us on today's call, the company's first Investor Conference Call in two years. Luckin Coffee announced its first 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, Reinout Schakel, CFO and CSO of the company and Shan Jiang, Senior Vice President. Due to time constraints, we will not have a Q&A session on this call.

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. 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. With that said, I would now like to turn the call over to Dr. Jinyi Guo, Chairman and CEO of Luckin Coffee. Please go ahead.

Jinyi Guo Luckin Coffee Inc. - Chairman and CEO

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

I'm Jinyi Guo, the Chairman and CEO of Luckin Coffee. In Chinese, my name is easy to remember. "Jin" is from the Chinese idiom (Spoken in Foreign Language) which means to be cautious in word and action. "Yi" is from the Chinese idiom (Spoken in Foreign Language), which means consistent in deed as well as in word. I obtained a PhD in Transportation Planning and Management from Beijing Jiaotong University, and I have worked for many years in scientific research, government and business. My personal hobbies include running and coffee, and it is from my love for coffee that drove me to join Luckin Coffee in 2017. I was originally responsible for product R&D and helped Luckin Coffee build the first-generation framework system of product R&D. In May 2020, during the difficult and challenging time right after our disclosure of the fabricated transactions, I was appointed by the Board as CEO of Luckin Coffee. Two months later, I was elected to become the Chairman of the Board.

The past two years have been a great challenge for both me personally and the company. Thanks to all of our united and dedicated employees as well as our loyal and enthusiastic consumers, we were able to "rise from the ashes". This is the first time we have held a conference call in the past two years and we have a lot of information to share. Therefore, due to certain constraints, we [will] (corrected

by company after the call) not have a Q&A session on this call.

We look forward to engaging with you more frequently and directly down the road. I aspire to live by the Chinese idiom from which my name is derived, which is to be prudent and consistent in my word and action. We endeavor to create a transparent corporate culture and I look forward to building a long-term relationship with all of you.

In the first quarter of 2022, despite the impact of COVID-19, our performance continued its strong momentum and we achieved our first quarterly reported operating profit since our inception. This validates the Luckin Coffee business model. Now, I want to say "thank you" to our 27,000 Luckin team members for their persistent efforts, to our customers for their ongoing loyal and support and to our investors for their trust.

Over the past two years, Luckin Coffee has implemented fundamental improvements in the areas of strategy, operations, corporate governance, management structure and organizational culture. Although the company has retained the same name, Luckin Coffee has been reborn and is essentially a new company.

Over the past two years, the previous Board of Directors have helped lead us out of our darkest period and guided our turnaround. Last week, to further enhance our corporate governance and strategic capability, we made changes to our Board of Directors, including welcoming four new members. The current Board of Directors combines old and new members with experienced backgrounds in the areas of strategy, operation, finance and legal. We believe our new Board of Directors will lead Luckin Coffee to achieve new heights!

As can be seen on Slide 3, our core management team has a total of seven members. In addition to myself, Mr. Wenbao Cao is currently in charge of company's operations. Mr. Weiming Zhou is in charge of product and supply chain. Co-founder Mr. Fei Yang is acting as the company's Chief Growth Officer, is in charge of brand, marketing and sales growth, and Mr. Gang Wu is in charge of public affairs and strategic cooperation. Mr. Reinout Schakel and Mr. Shan Jiang, who have joined me on the earnings call today, are in charge of finance and internal control and compliance, respectively. They are also the individuals responsible for solving historical issues including the restructuring of our financial indebtedness. Reinout and Sam will each provide insight into their efforts later in the call. I'm proud that we have assembled this core management team with strong academic credentials and professional experiences. This core management team has been working together during our most challenging period and will continue to work hard together for Luckin Coffee's future.

Despite the impact of COVID-19 outbreaks, we still managed to achieve strong growth in the first quarter of 2022. Total net revenue exceeded RMB2.4 billion, representing a year-over-year increase of 90%, while the first quarter same-store sales growth rate of our self-operated stores reached 42% year-over-year. The net number of new stores opened was 556, increasing by 276% year-over-year, and our operating profit turned positive for the first time in our history. Our CFO, Reinout, will share more details on the company's financial performance later on during the call.

Over the past two years, Luckin Coffee has transformed and developed into a company with an appropriate corporate governance structure led by professional managers. Our continuous efforts to strengthen our system of internal controls and compliance has enabled us to cut ties with the past.

For the past two years, our Board of Directors and management team have worked hard to think about the reshape of our culture.

Our Mission: To create lucky moments and inspire, is original intention of our business and the source of our name. We hope our products can bring luck and an enriched positive life experience to our customers. Coffee is an increasingly consumed, aspirational beverage in China, and we aim to inspire our customers to achieve a better life through coffee.

Our Vision: In our opinion, being a world-class coffee brand means achieving world-class level in all aspects of the business, including brand reputation, number of customers, cups of coffee sold, store count, and financials. Based on publicly available information, we are already the largest coffee chain in China in terms of store count, but there are still room for growth in other indicators and we will continue to strive for it.

Our Values: At Luckin Coffee, our core values are part of our DNA. We have established five core values which reflect our history, our business model and the thoughts of our employees and customers alike. Integrity is the most fundamental and important criteria guiding our judgment and choice; Craftmanship, which is a consistent pursuit of Luckin Coffee; Innovation is a major driving force for our long-term growth; Ownership represents the dedication of Luckin Coffee's employees; Cooperation is the powerful bond among all Luckin Coffee stakeholders, both internal and external, who work together and create value to our society.

The focus of our transformation is to clearly and thoroughly rethink our overall strategy and business.

We believe China's coffee industry is [a large] (corrected by company after the call) market with strong growth potential, and therefore we want to focus on our core business, namely our coffee business. From an operations standpoint, we believe that technology will continue to be the driving force in building a new consumption and new retail business model supported by the three pillars of "people, products and places" to continuously provide products and services with "high quality, high affordability and high convenience".

In terms of brand, marketing and sales growth, we have built our brand based on "professionalism, youth, fashion and wellness." "Professionalism" represents our fundamental pursuit of high product quality. "Youth and fashion" is an important distinction between us and other traditional brands. We adhere to innovation, and our products and brand ambassadors are well liked, in particular by the younger generation in China. This is illustrated by our recognition as the 2021 Young Consumers Favorite Brand by China Consumer Reports. "Wellness", we continue to advocate for a healthy lifestyle. Coffee is a well-recognized drink around the world with many health benefits. Recently, we launched a new "0-calorie sugar" series of iced coffee, which is very popular because of its low-calorie and low-fat features.

We had average monthly transacting customers of nearly 16 million during the first quarter of 2022, with over 29 million subscribers to our official WeChat account. By establishing multiple self-owned user 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 turn, this enabled us to realize effective and targeted customer engagement, further driving our performance.

These efforts have enhanced our brand recognition and reputation, catapulting Luckin Coffee into a leading coffee brand in China. In fact, in 2021, Luckin Coffee was ranked the number one in the coffee chain industry for the first time in the "Topbrands" report, a research report conducted by YiMagazine, which has evaluated the brand preferences in China for the last 13 years.

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

The pursuit of professionalism in the coffee industry goes hand-in-hand with our continued investment in the professional coffee supply chain. In terms of procuring raw materials, we have become one of the largest importers of green coffee beans in China, importing a total of 15,808 tons of coffee beans in 2021. We source premium green coffee beans from renowned plantations around the world through the world's top coffee bean suppliers. In the first quarter of 2022, we sourced more than 3,000 tons of high-quality green coffee beans from Ethiopia, becoming the largest buyer of Ethiopia's Hambella beans in China. In April 2021, we opened our first coffee roasting facility in Fujian Province, designed with a capacity of 15,000 tons. In addition, we are currently finalizing site selection for our second roasting facility. Upstream expansion in the coffee bean supply chain allows us to stabilize the quality of raw materials in the long-run and optimize control over procurement costs of raw materials. This reduces costs while boosting efficiency. We believe continuous investment in our supply chain will help create one of our strongest competitive advantages over the long-term.

The pursuit of "good flavors" is achieved by our excellent product development team, which employs efficient digitalization in R&D mechanism and strategy. The most important work of our product development team is not simply to develop popular products, but also to establish a comprehensive, digitalized R&D framework. Therefore, we have achieved a virtuous circle of combining front-end operational data and back-end product development. Our innovative beverages such as Newer Latte, Coconut Milk Latte and Coconut Cloud Latte have enabled us to become a leading force in beverage innovation in China. By offering innovative products with unique flavor and form, we are able to continuously attract young customers.

In terms of our retail store strategy, we have become the largest coffee network in China in terms of the number of the stores at the end

of 2021, based on publicly available information. As of March 31, 2022, we had 6,580 stores in total. Among them, our self-operated store network had a presence in over 50 cities across China and our partnership store network spanned over 220 cities in 27 provinces. Going forward, we will continue to maintain our store expansion strategy through a well-balanced mix of self-operated store and partnership store. While we expect to continue to expand in tier 1, tier 2 and tier 3 cities through our self-operated store model, we also intend to quickly penetrate into lower tier cities through the retail partnership model. This will further solidify our market penetration. We believe there is a great potential in China's coffee market and we are confident in our future store expansions.

Our technological advantage is what sets us apart from other traditional F&B companies. We leverage our capabilities in technology and data analytics to drive the evolution of our "people, products, places" strategy to achieve full technology coverage in every aspect of our business, including data-supported site selection, algorithm-driven supply chain procurement, automated user engagement, and IoT-based store equipment management. Such digital features allow us to quickly respond to customer demand, improve supply chain and store operation efficiency, drive research and development and enhance quality control.

We will continue to increase our investment in data algorithm, IoT and other technology initiatives, including investing in new talents, technology driven sales and marketing, smart stores and smart supply chain management system.

Since March of 2022, the outbreaks of COVID-19 in various cities have brought difficulties and uncertainties to our operations. Despite these challenges, we continued to achieve strong revenue growth this quarter and achieved for the first time quarterly reported operating profit since our inception. Much of this strong performance was fueled by our competitive advantages, including:

First, the strategic rollout of our store networks. Through our multi-store approach, self-operated store and partnership store, we can flexibly respond to evolving customer needs in different cities. In addition, our store model and location strategy can help us mitigate the challenges posed by the COVID-19 pandemic. For example, as of March 31, 2022, among our self-operated store base, 48% were located in office buildings and 12% in colleges. Generally speaking, we were able to remain normal operation in these relatively "closed off" locations except during strict city lockdowns.

Second, our reasonable cost structure. As we mainly operate through small-scale pick-up stores, combined with an advanced and intelligent store management system, we are able to achieve a more efficient store rental and labor structure.

Third, our strong brand influence. Luckin Coffee has become the coffee brand of choice for more and more young people. In 2021, our Coconut Milk Latte achieved over 100 million topic mentions on social media. In the first quarter of 2022, we recruited Olympic champion Eileen Gu to be our brand spokesperson, resulting in a successful marketing campaign for Luckin Coffee.

Fourth, our robust product development capabilities. During the first quarter, we launched 34 new beverage products, including Hambella Specialty, Walden Cheese Newer Latte and Vanilla Soufflé Flavored Velvet Latte, which all became bestsellers. Despite the challenges posed by the COVID-19 in April, our new Coconut Cloud Latte, sold over 4.95 million cups in the first week after its launch.

Lastly, our well-prepared pandemic emergency plan, facing logistical constraints during the pandemic, our supply chain department 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.

I would like to express my most sincere gratitude to our nearly 27,000 Luckin employees who have stuck with us during this challenging time as well as to our customers for their ongoing love and support for Luckin Coffee.

At this time, I would like to turn the call over to Reinout and Sam to discuss details relating to the restructuring of our financial indebtedness, an update on our remediation and internal control and compliance efforts and our financial performance during this quarter.

Reinout Schakel *Luckin Coffee Inc. - CFO and CSO*

Thank you very much, Jinyi, and good morning or good evening to those who are joining us today. I would first like to give everyone an update on the restructuring of our financial indebtedness.

As previously announced and as detailed on Slide 12, we have successfully completed the restructuring of our financial indebtedness and emerged from all bankruptcy proceedings in all jurisdictions.

There are a few milestones that I would like to highlight. With the overwhelming support of our creditors, we successfully restructured the US\$460 million convertible notes issued in January 2020 with a close-to-par recovery for the Note holders. We entered into a negotiated resolution with the United States Securities and Exchange Commission. We entered into an agreement to settle the U.S. Securities class action lawsuit. This was preliminarily approved by the U.S. courts and is expected to get final court approval in Q3 2022. We also obtained sufficient U.S. dollar capital to fund the restructuring through a combination of a US\$250 million investment by two of our existing shareholders and by remitting US\$250 million of our onshore excess cash.

Furthermore, in January 2022, a consortium led by Centurium and including IDG and Ares acquired a significant amount of Luckin's shares from the affiliates of Charles Lu and Zhiya Qian both former management of Luckin Coffee. For details of any pending matters, I would refer you to our 20-F 2021 filed on April 14, 2022, and in particular, Item 8.A.

We are thankful to all of our stakeholders throughout this process. They were instrumental in helping us to achieve a positive outcome and ultimately, emerge as a stronger company. Moving forward, our team is highly energized and laser-focused on our future prospects and delivering long-term sustainable shareholder value.

I'd now like to turn it over to Sam Jiang, who leads our internal control and compliance efforts and has played, and continues to play a critical role in our remediation efforts and ongoing progression.

Shan (Sam) Jiang *Luckin Coffee Inc. - SVP*

Thank you, Jinyi and Reinout. Welcome, everyone, and thanks for listening in.

First, let me introduce myself, as I'm the newest member of Luckin Coffee's senior management team. My name is Shan Jiang, and I go by "Sam". I joined Luckin Coffee in September 2020. I went to Columbia Law School and started my legal career with Davis Polk & Wardwell in the firm's Silicon Valley office. After Davis Polk, I had worked in the legal departments at Amazon and at Airbnb. Before joining Luckin Coffee in September 2020, I was an Associate General Counsel of Airbnb. When I joined Luckin, one of my primary missions was to rebuild the company's legal and compliance function and enhance its internal controls.

Luckin's rebuilding efforts started with a thorough and independent investigation of the fabricated transactions. From day one, the objectives were very clear, to identify the wrongdoings and to remove those responsible.

In March 2020, our Board formed a Special Committee of independent directors, which was assisted by independent legal and forensic advisors to conduct a thorough investigation. The company acted swiftly based on the findings of the Special Committee. As of July 31, 2020, the company has terminated all the wrongdoers identified by the Special Committee, and placed them on the "do-not-rehire" list. In total, 14 employees were terminated, including the company's former CEO and COO. The Board also required the former Chairman of the Board to resign, who was later removed from the Board pursuant to the result of a shareholder meeting. In addition, the company subjected 15 personnel to disciplinary action for missing red flags or failing to identify misconduct.

The fact that the fabricated transactions occurred and continued for months before being detected, made it clear to management and the Board that we needed to enhance our corporate governance and the internal controls. Therefore, we have made significant investments and important changes in these areas. We engaged external firms on internal controls, and we have implemented enhancement measures recommended by those firms to address the root cause of the historical problems.

First of all, in terms of governance structure, we restructured the company's management team and changed reporting structure to provide our CFO, Reinout, full control over the finance department, which was previously managed in part by the former CEO. In order to ensure the highest attention is devoted to maintaining accurate financials, Reinout has a dotted reporting line to the Audit Committee. Under Reinout's leadership, we restructured and reorganized our finance function and recruited new talents familiar with U.S. GAAP for key finance positions. We also now have an internal audit function with auditing and IT experts reporting directly to the Audit Committee. We have rebuilt our legal and compliance function by recruiting new talents to manage our legal, internal control and internal investigation teams within the function.

Moreover, we have taken steps to significantly enhance internal control measures, covering important areas such as payment, accounting, IT, financial disclosure and others. Just to give some examples, we strengthened controls on payment by requiring all payments to go through centralized office automation system and the proper internal approvals. We tightened up controls on contract cycle and investment activities by implementing a contract approval matrix on the OA system and setting up a procurement review board of senior management. We improved IT related controls by recording all changes in the system, conducting periodic log reviews, tightening IT system access control and requiring independent IT review by the internal audit team. We developed and strengthened a number of compliance policies and programs such as a whistle blower program, anti-fraud program, conflict of interest and related party transaction policies, gift and entertainment policies, and insider trading policy.

As a result of these efforts, and as stated in our 2021 20-F filing, we did not identify any material weaknesses as of December 31, 2021, and our auditor concluded that the company's internal control over financial reporting was effective as of the end of 2021. For details on our internal control enhancements, please refer to our 20-F disclosures under Item 15 for the Financial Years 2019, 2020 and 2021. We believe our significant investment in corporate governance and internal control has played a critical role in our turnaround story. Luckin Coffee's leadership team are committed to continuously investing in these important areas to support our future growth.

Now back to Reinout to discuss our Q1 financial results. Thank you.

Reinout Schakel *Luckin Coffee Inc. - CFO and CSO*

Thank you, Sam. I will now turn to our Q1, 2022 performance.

Before I discuss our financial results, I would like to provide some context on the recent COVID-19 situation in China and the impact on our business. Since the end of 2021, cases of the Omicron variant have emerged in China, spreading to several major cities, including Beijing, Shanghai, Tianjin, and Shenzhen. In terms of what it means for our business, temporary store closures as a result of COVID-19 gradually increased during the first quarter. March was the most impacted month during the first quarter. We had an average of around 700 daily temporary store closures. Starting early April, 2022, as Shanghai entered into a city-wide lockdown, this number further increased, and for the period between April 1, 2022, and the day prior to this earnings announcement, the daily average number of temporary store closures was around 950. There has also been increasing pressure on our supply chain, in particular, in areas surrounding the affected cities.

Because we've been operating in an environment affected by COVID-19 since early 2020, we have been able to act swiftly and decisively to address this dynamic environment. For example, we strictly implemented a set of measures for our stores in the government identified high-risk or medium-risk areas. These measures included monitoring and safeguarding our personnel's health conditions on an ongoing basis and implementing social distancing rules for our in-store and delivery services process. We simplified our menu to streamline our operations and added a new menu for bulk purchases. We set up temporary warehouses in several cities, including Beijing and Shanghai, and activated our specifically designed epidemic warehouse and logistics plan to ensure stabilization of our operations. Finally, we also delivered thousands of food packages to our staff in lockdown areas, including in Shanghai and Beijing. Despite these measures, the impact on our financial results in the first quarter was nonetheless substantial and continues to impact our business into the second quarter. We are encouraged by the recent government initiatives to introduce measures to support the local economy and have seen a partial re-opening of Shanghai, and will continue to keep a close eye as that progresses. That said, the lack of visibility from this uncertain and unclear operating environment means we will not be providing any forward-looking guidance on this call.

Despite the challenges to our business from this recent outbreak, our sound strategy and solid execution have ensured we delivered

strong results during the first quarter as detailed on Slide 15. I will now discuss some specific highlights from the quarter.

We are pleased to deliver our first quarterly reported operating profit since our inception. This is a milestone we are very proud of and one that is illustrative of the early success of our revised strategy under the current management team and our relentless focus on execution. Now let's look at our revenue growth. We achieved total net revenues of RMB2.4 billion during the first quarter, an increase of almost 90% compared to the same period last year. This is due to very strong demand for our products. We sold on average two million products per day across all of our sales channels, which is an increase of 86% compared to last year. We also introduced over 34 newly freshly brewed products during the quarter, which contributed materially to incremental sales, and this success continued in April, when our new Coconut Cloud Latte sold over 4.95 million cups in the first week after its launch. During the quarter, we also achieved an increase in net average selling prices compared to last year. In terms of new unit growth, we opened 556 net new stores, a significant acceleration from the most recent quarters, and I will elaborate on this a bit more during this presentation.

For our self-operated stores, we delivered same-store sales growth of over 40% and a store level operating profit margin of just over 20%. This compares to a 6.2% store margin for the same period last year and a loss-making position in the year prior to that. I should also note that historically, the first quarter is seasonally our weakest quarter for our self-operated stores as a result of fewer purchase orders during Chinese New Year holidays. For our partnership stores, revenue grew by approximately 240% and now represents around 23% of our total revenues compared to just under 13% last year. I will elaborate on our partnership business model and strategy momentarily.

Overall, we are very pleased with our results and believe these illustrate the strong momentum of our brand, the huge demand for our products throughout China and clear benefits of our scale and our technology-enabled operating model.

Let's look at our unit growth and break it down a bit further. As I mentioned and as can be seen on Slide 16, we opened 556 net new stores during the quarter, which is materially higher than the last few quarters and reflects the strong demand for our products nationwide. The unit growth in the first quarter was partly in anticipation of the Beijing Olympics in February 2022 and the promotional activities surrounding the Olympics to ensure we could capitalize on that momentum. In terms of store mix, we opened 278 net new stores for both self-operated and our partnership stores, respectively. This mirrors our strategy to gain market share by increasing our store footprint nationwide through an optimized mix of self-operated and partnership stores. I should mention that as part of the strategic review in 2020, we implemented revised store opening criteria to focus on the quality of new store openings. This is a very important point because we care deeply about the quality of our growth. To illustrate this point, for all the new self-operated stores opened during 2021 that are in operation as of the 30th of April 2022, almost 90% of these stores were profitable on a store level in the third full month after opening.

Moving on to discuss our partnership model on Slide 17, as I mentioned earlier, revenue of our partnership stores, which is predominantly from profit sharing and from sale of materials and equipment to our partners, is now just under a quarter of our total revenues in the first quarter and has been rapidly expanding.

This forum provides a good opportunity for me to update everyone on our partnership store logic and strategy. First, in terms of business model and key responsibilities, Luckin Coffee is responsible for all technology, data gathering and analytics, product selection and innovation, supply chain and marketing. Our partner will be responsible for funding and securing the location, renovations, equipment purchases, staff hires and managing daily operations. Our partnership model is different compared to a "traditional" franchise model. For example, we obtain customer payment and data and require our partners to use our supply chain. We, therefore, have significant control over our partners' operations. From a quality assurance perspective, we treat our partnership stores in essentially the same way as self-operated stores and are determined to maintain the high level and consistent service quality across all of our stores.

The key advantages for our partners include the following, very strong demand for products given Luckin's premier brand recognition, innovative product portfolio and proven value proposition, favorable partnership terms. For example, no initial upfront partnership fee other than a refundable deposit, no profit sharing if the partner is loss making at the gross profit level, however, the partner will generally have to fund operating losses, and we charge a profit-sharing fee based on tiered profit-sharing mechanism only once the operations are profitable, and lastly, an attractive payback period for our partners.

The key advantages of the Luckin Coffee include the rapid expansion of our footprint and nationwide presence, limited upfront capital requirements, complementary effects to our self-operated store model with partnership stores targeting predominantly lower tier cities. Further diversification -- Partnership stores typically perform better during the weekends and holidays, which is the opposite of our self-operated stores. And lastly, attractive economics with favorable returns on invested capital.

We will strive to continue to expand our partnership stores and as of the date of this earnings report, we have a strong pipeline of potential partners.

There are a few important points to make on our improving profitability profile as illustrated on Slide 18. First, I want to highlight our store level profit margin for self-operated stores. This is one of our most important KPIs and a key area of focus. This metric includes all direct expenses that can be allocated to our self-operated stores, but excludes all overhead expenses. A clear definition is provided in the 6-K we filed earlier today. We achieved a store margin of just over 20% as a result of a material increase in average revenue per store, our efficient store operations and benefits of scale. This is a significant improvement over last year and already exceeds the full year store level profit margin for 2021. Now in terms of our overhead expenses, let's first look at sales and marketing and our general and administrative expenses. As mentioned by both Jinyi and Sam earlier, we have made significant investments in our organization, talent acquisition and brand recognition. As a result, our overhead expenses have been increasing as our business expanded. However, as a result of our increasing scale and operating leverage, all key cost components have been decreasing as a percentage of revenue sequentially. 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. Furthermore, there's been a material 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. This further contributed to our improved profitability profile.

Lastly, let me address our balance sheet and liquidity position on Slide 19. Let me start with our cash flow. During the quarter, we achieved positive operating cash flow of around RMB108 million, which was more than sufficient to cover all of our capital expenditures during the quarter, which were around RMB70 million.

In terms of our balance sheet, let me highlight the following. We had over RMB5 billion of cash and cash equivalents at the end of the quarter, which was predominantly held in local bank accounts to support our onshore operations. The decrease in cash and cash equivalents during the quarter was primarily due to the repayment of senior convertible notes as part of the restructuring of our indebtedness and purchase of property and equipment, offset by the proceeds from issuance of senior preferred shares and operational cash generation. In terms of our liability, our only outstanding interest-bearing debt is the US\$109.9 million, five-year Notes that we issued to the holders of the convertible bonds on the 28th of January 2022. For the U.S. securities class action, we have a funding requirement of US\$175 million prior to June 30, 2022, and we have the required capital available to fulfill this obligation.

Currently, we have a strong liquidity position and a healthy balance sheet. We believe we are relatively well-positioned to deal with any uncertainty, including from further COVID-19 outbreaks, and will continue to invest in our core competencies. A good example is our contemplated investment to construct a second roastery facility in China, which Jinyi mentioned earlier. This will support the rapidly increasing demand for our coffee-related products and ensure the highest quality at the best possible price. Finally, we will 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. Thank you.

I will now turn it over to Jinyi for concluding remarks.

Jinyi Guo Luckin Coffee Inc. - Chairman and CEO

(interpreted) To conclude, I would like to once again thank our shareholders for their unwavering support over the last few years, which have enabled us to achieve this turnaround. We believe the best is yet to come. We are striving to build the most effective and passionate team as we seek to create a more efficient and advanced business model in China's consumer market. We remain [committed] (corrected

by company after the call) to building Luckin Coffee into a long-standing world-class coffee brand and achieve sustainable, healthy and long-term growth. We remain dedicated to the capital market and strive to drive returns and deliver long-term value for our shareholders and to the society. Thank you for your time and interest in Luckin Coffee. Thank you.

Operator

This concludes our conference call for today. You may now disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022 Refinitiv. All Rights Reserved.