



Luckin Coffee, Inc.
Q2 2024 Earnings Conference Call
Transcript

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PARTICIPANTS

Jinyi Guo *Chairman and CEO, Luckin Coffee*

Jing An *CFO, Luckin Coffee*

Alicia Guo *Investor Relations Director, Luckin Coffee*

PRESENTATION

Operator

Ladies and gentlemen, welcome to Luckin Coffee's second quarter 2024 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 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 2024 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 today.

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 Luckin Coffee's Chairman and CEO, Guo Jinyi.

大家好，欢迎参加今天的业绩沟通会，感谢各位对瑞幸咖啡的持续关注与支持。我是瑞幸咖啡的董事长兼 CEO，郭谨一。

This quarter, despite a volatile market environment and noticeable industry seasonality, Luckin Coffee has demonstrated strong resilience in the face of opportunities and challenges. Thanks to our advanced business model, continuous product innovation, and scale advantages, we've achieved rapid revenue growth and returned to normalized profit growth. Regarding store expansion, we've consistently followed a steady and sustainable development strategy. As of July, our number of stores has surpassed 20,000, reinforcing our position as the leading coffee chain brand in China and further solidifying our industry-leading advantage.

本季度，市场环境多变且行业季节性明显，面对机遇与挑战，瑞幸咖啡依然凭借先进的商业模式、层出不穷的产品创新以及规模优势，实现了收入的高速增长，利润也回归常态化增长，展现出了强劲的韧性。门店拓展方面，公司始终坚持稳健可持续的发展策略，今年7月门店数量已突破两万家，在继续保持中国连锁咖啡品牌门店数量第一地位的同时，行业领先优势得到持续巩固和不断扩大。

Meanwhile, we continue to reward our consumers, allowing more people to enjoy high-quality coffee at more affordable prices. With the rapid expansion of our stores, the number of monthly average transacting customers has reached a new record high. We'll continue to maintain a steady progress moving forward based on our established strategy. While continuing to reward our customers, we'll also focus on expanding our market share and consistently providing consumers with high-quality, affordable, and convenient coffee offerings. Through these efforts, we aim to drive continuous development of the Chinese coffee market.

同时，瑞幸持续回馈消费者，让更多的消费者以更优惠的价格享受到了高品质咖啡。随着门店的迅速扩张，我们的月均交易用户数再创历史新高。未来，我们还将按照既定战略稳步推进，在回馈客户的同时继续扩大市场份额，持续为消费者带来高品质、高性价比、高便利性的优质咖啡，推动中国咖啡市场持续向前发展。

Looking further into our numbers, during the second quarter, our revenue saw strong year-over-year growth, and our profits returned to healthy levels. Our total net revenue reached RMB8.40 billion, representing a year-over-year growth of 35.5%. Operating income was RMB1.05 billion, with an operating margin of 12.5%. Net profit was RMB871 million, with a net profit margin of 10.4%. Self-operated store operating profit was RMB1.35 billion, with a self-operated store operating profit margin of 21.5%. In the second quarter, the total number of net new stores opened was 1,371, and the number of monthly average transacting customers was 69.69 million.

具体来看，二季度收入同比增长强劲，利润也恢复至健康水平。其中，总净收入 84.03 亿元，同比增长 35.5%；营业利润 10.51 亿元，营业利润率为 12.5%。净利润 8.71 亿元，净利润率为 10.4%。自营门店利润 13.51 亿元，自营门店利润率 21.5%；一季度总净增门店数为 1,371 家；月均交易用户数 6,969 万。

Our CFO AN Jing will share further financial details later on this call.

更详细的财务数据，稍后我们的 CFO 安静会和大家进行分享。

In terms of store expansion, in the second quarter, Luckin Coffee added 1,371 net new stores, bringing the total number of stores to 19,924 in China. Among them, there are 13,019 self-operated stores and 6,905 partnership stores, covering all provinces in mainland China. We continue to lead the market, expanding our relative advantage over competing brands. As competition intensifies in the Chinese coffee market, we will remain vigilant in addressing customer needs, maintaining high store quality, and adhering to a steady and sustainable store opening strategy. While increasing the number of stores in high-tier cities, we will also accelerate expansion into lower-tier city markets through our partnership model. On the international front, the number of stores in Singapore reached 37 this quarter.

从门店来看，二季度，瑞幸咖啡净增 1,371 家门店，季度末国内总门店数达到 19,924 家，其中自营门店 13,019 家，联营门店 6,905 家，已覆盖中国大陆的全部省份。我们持续领先市场，进一步扩大了与竞争品牌的相对优势。随着中国咖啡市场竞争更加激烈，我们会持续聚焦客户需求，关注门店质量，保持稳健及可持续的开店策略，在加密高线城市门店数量的同时，通过联营模式加速拓展下沉市场。国际市场方面，本季度新加坡门店数量达 37 家。

On July 18, inspired by the slogan "Luck in Hand," Luckin Coffee officially opened its 20,000th store in Beijing Zhongguancun, with the Flagship Store being named "In the Hand." As the largest coffee chain brand in China by store count, Luckin Coffee remains focused on the user experience. We are committed to product innovation, increasing supply chain investment, and continually enhancing our digital advantages to drive high-quality development in the Chinese coffee industry.

7月18日，以“幸运在握”的品牌主张为题，瑞幸咖啡第20,000家门店——北京中关村·在握旗舰店正式开业。作为中国门店数量最多的连锁咖啡品牌，瑞幸咖啡始终从用户出发，坚持产品创新、加大供应链投入、持续强化数字化优势，推进中国咖啡行业高品质发展。

In terms of our product offering, Luckin Coffee launched 30 new SKUs in the second quarter, including the Aromatic Coconut Flavored Latte, Lemon Americano, and Light Coffee series with Super Cup options. Among the new products, the Light Coffee Lemonade surpassed 5.08 million cups in sales during the first week of launch. In terms of branding, Luckin Coffee has successfully developed several brand collaborations, including Sesame Street, Movie “A Chinese Odyssey”, and Party Animals. Additionally, combining the four health attributes of our products, we have launched a campaign called “Luckin Coffee's Fit & Iced Summer.” Going forward, we will continue to uphold product innovation, consistently providing customers with high-quality products and a more satisfying consumption experience.

产品方面，二季度，瑞幸咖啡上新30款新产品，推出了椰皇拿铁、柠C美式、轻咖超大杯系列等新品。其中，单品轻咖柠檬茶首周销量突破508万杯。品牌方面，瑞幸成功打造了多个品牌联名IP系列，如芝麻街、大话西游、猛兽派对等，并结合产品的四个健康属性，推出了全新的健康冰咖季。未来，我们将坚持产品创新，持续为客户提供高品质、更有获得感的消费体验。

Behind the rapid growth of our products lies the love and support of our consumers. In the second quarter, we had about 24.87 million new transacting customers. To ensure a consistent and stable supply of high-quality coffee across all 20,000 stores nationwide and to continually serve our customers, Luckin Coffee remains committed to sourcing premium coffee beans from top-quality regions around the world, including Brazil, Ethiopia, and Yunnan, China. In June of this year, in the presence of Brazilian Vice President Geraldo Alckmin, Luckin Coffee entered into a series of letters of intent to purchase approximately 120,000 metric tons of coffee beans from Brazil over the next two years. This cooperation will effectively promote the development of Luckin Coffee's global high-quality supply chain and continuously provide consumers with higher-quality coffee services.

产品高速增长的背后，离不开消费者的喜爱和支持，本季度瑞幸新增交易用户数约2,487万。为保证全国两万家门店高品质咖啡的持续稳定供应，持续服务用户，瑞幸咖啡坚持从巴西、埃塞俄比亚、中国云南等全球优质产区采购高品质咖啡豆。今年6月，在巴西副总统杰拉尔多·阿尔克明先生的见证下，瑞幸咖啡签署了未来两年在巴西采购12万吨咖啡豆的合作意向书。本次合作，将有效促进瑞幸咖啡全球高品质供应链的建设，不断为消费者带来更高品质的咖啡服务。

Moving to sustainability, we follow a sustainable development strategy of Being a force for a brighter future, gradually incorporating green and low-carbon principles into every aspect of our production and operations. On July 18, Luckin Coffee's 20,000th store officially opened. As another important milestone in Luckin's development, this store is designed and built in accordance with LEED Platinum standards, providing consumers with a green, fresh, and comfortable environment. Currently, we have established three LEED Gold certified stores in Xiamen, Tianjin, and Hangzhou. We will continue investing in green operations to further advance our sustainable development efforts.

在可持续发展方面，我们秉承着“以赴美好明天”的可持续发展战略，逐步将绿色低碳理念融入公司生产的运营各个环节。7月18日，瑞幸咖啡第20,000家门店正式开业，作为瑞幸发展的又一重要里程碑，该门店按照LEED铂金级认证标准设计与建造，为消费者提供绿色、清新、舒适的消费环境。目前，我们已在厦门、天津和杭州打造了3家LEED金级认证门店，并将继续在绿色运营方面进行投入，进一步推动可持续发展进程。

Simultaneously, as a leader in China's coffee industry, Luckin Coffee is also advancing research in coffee health. In collaboration with the Peking University Health Science Center, we launched the "Health Innovation Base" in May. The base will focus on driving the deep integration of industry, academia, and research in the field of coffee health, working together towards Being a force for a brighter future.

同时，作为国内咖啡行业领军企业，瑞幸在咖啡健康领域研究方面，与北京大学医学部展开深入合作，5月“北大医学瑞幸咖啡健康创新基地”正式揭牌。该基地将致力于推动咖啡健康领域的产学研用深度融合，携手“以赴美好明天”。

These are the key highlights of our performance in the second quarter. Next, I will now turn it over to our CFO An Jing to present the financial data and commentary.

以上是二季度业绩的主要情况，下面，请CFO安静向大家介绍财务数据。

Jing An

CFO, Luckin Coffee

Thank you Jinyi. Good morning, afternoon, and evening everyone. Thank you for joining today's call. We appreciate your continued interest and support.

I'm Jing An, the CFO at Luckin Coffee, and I will present our financial performance for the second quarter of 2024. Before we review the results, I want to express sincere gratitude to our dedicated employees, loyal customers, and valued investors. Your continued support is crucial to our success, and we are dedicated to providing value and innovation in the coffee industry.

Now, I will take some time to highlight our 2024 second quarter results in detail.

Let's start with our financial highlights.

I am pleased to share the great results of the second quarter of 2024. In Q2 2024, we earned RMB8.4 billion in total net revenues, which increased by 35.5% from RMB6.2 billion in the same period last year. This solid growth was coming from a higher number of products sold, an increase in operational stores, and a growing number of monthly transacting customers. This performance highlights the strength of our business model and our ability to deliver value to our stakeholders. In detail, revenues from product sales were RMB6.6 billion, up 39.0% from RMB4.7 billion in Q2 2023. Net revenues from freshly brewed drinks were RMB6 billion accounting for 71.6% of total net revenues, up from 68.2% in Q2 2023.

Revenues from self-operated stores in Q2 2024 surged to RMB6.3 billion, a major increase of 39.6% from RMB4.5 billion in the same quarter of 2023. Also, revenues from partnership stores amounted to RMB1.9 billion, a strong 24.5% increase from RMB1.5 billion in the same quarter of 2023. Meanwhile, our operating income for the quarter was RMB1.1 billion, an operating margin of 12.5%.

Moving to operations, we are pleased to see strong growth in our store network. In the second quarter, we opened 1,371 new stores, which includes five in Singapore, growing our global footprint to 19,961 stores. 13,056 of these are self-operated stores and 6,905 are partnership stores. This quarter, we also opened stores in more than 10 new cities, and now our stores cover more than 330 cities across China, along with one overseas market.

In the second quarter, our average monthly transacting customers was 69.7 million, a 61.8% increase from 43.1 million compared to the same period last year. We are pleased with this strong growth, showing that Luckin is winning and keeping customers.

Next, let's take a closer look at our margins.

On a group level, our reported overall operating income for the second quarter was RMB1,050.7 million, and our operating margin was 12.5%, compared to 18.9% in the same period last year and minus 1.0% in the previous quarter. The rebound in profit is mainly due in part to more cups of iced drinks sold because of warm weather. We're pleased to report that our net profit margin surged back to 10.4% this quarter from minus 1.3% in the last quarter. In Q2 2023, the net profit margin was 16.1%.

Looking at our self-operated stores, the profit margin returned to 21.5% this quarter, compared to 29.1% in the same period last year. The main reason for this decline was the decrease in the average selling price of our products as we mentioned before. The decrease was offset by better economies of scale from the increased number of products sold as well as more efficient stores.

During this quarter, the company's operating expenses increased 46.2% year-over-year, mainly due to our efforts to expand our business.

Our general and administrative (G&A) expenses remained stable at 7.0% of revenue in Q2 2024, compared to 6.9% in Q2 2023. In absolute terms, our G&A expenses increased by 38.6% year-over-year. This growth was mainly due to higher payroll costs, increased R&D, office supplies, and the rise in share-based compensation.

Relative to the previous year, our sales and marketing expenses, as a percentage of revenue, marginally increased from 4.9% to 5.1%, and the absolute value rose by roughly 42.5% year-over-year. This rise reflects our strategic investments in enhancing brand recognition, expanding product education outreach, and strengthening our market position through diverse channels. At the same time, commission fees paid to third-party delivery platforms increased to meet the higher number of delivery orders.

Loss and expenses related to the previously reported fabricated transactions and related restructuring were RMB1.2 million this quarter.

Let's move on to the balance sheet and cash flow statement.

We have a strong balance sheet and cash position, which helps us compete and stay agile in this tough market. During the second quarter, we had a net operating cash inflow of RMB1.5 billion, compared to a net operating cash inflow of RMB1.4 billion in the same quarter of 2023. Also, we secured RMB300 million in short-term bank loans to increase liquid cash on hand for operations. As of June 30, 2024, we have about RMB3.8 billion in cash and cash equivalents, restricted cash, term deposits, and short-term investments. We will continue to review our cash position to ensure we can meet all our business needs and fund future growth.

In closing, I am proud of the strides we have made over the past few years of rapid growth and brand building. Our team continues to drive through industry challenges, enhancing its position, and delivering on our sustainable growth plan. Lastly, I want to thank our employees and partners, within and outside our over 20,000 stores nationwide. Their hard work delivers high-quality coffee and a unique customer experience that makes Luckin Coffee a leading coffee brand in China.

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

Jinyi Guo

Chairman and CEO, Luckin Coffee

(Translated) As Luckin Coffee surpasses 20,000 stores, we remain the largest coffee chain brand in China in terms of store count. Despite intense competition, we will seize the strategic opportunity presented by the rapid growth of the Chinese coffee market by continuously expanding our store network, enhancing our supply chain, fortifying our digital prowess, streamlining costs, and elevating efficiency. These concerted efforts are designed to expand further and solidify our leading advantage, strengthen our market-leading position and realize sustained, robust, and rapid growth over the long term.

正值瑞幸突破两万家门店之际，作为中国咖啡市场门店数量最多的连锁品牌，面对激烈的行业竞争，瑞幸将抓住中国咖啡市场高速发展的战略机遇，通过不断扩大门店网络布局、加大供应链布局投入、持续强化数字化优势，优化成本提升效率，进一步扩大和巩固领先优势，稳固市场领先地位，实现高速、健康、可持续的业绩增长。

Looking ahead, we will continue to focus on business growth and market share, delivering long-term value to our customers, shareholders, and other stakeholders. We also remain dedicated to social responsibility and the pursuit of sustainable practices. Our ongoing mission is to offer superior quality at more attractive prices, providing customers with coffee that is both “delicious and affordable”. With the vision “to build a world-class coffee brand and become a part of everyone’s daily life,” we are making daily strides towards achieving our goal of becoming a globally renowned centuries-old brand with enduring prosperity.

未来，我们将持续关注业务增长和市场份额，为客户、股东及其他利益相关方提供长期价值。同时，我们也会更加关注社会责任，践行可持续发展实践。我们希望用更优质的产品、更优惠的价格，为大家提供“好喝不贵”的咖啡。我们的愿景是“创造世界级咖啡品牌，让瑞幸成为人们日常生活的一部分”，我们也一直在向着成为一家基业长青的世界级百年品牌而不断努力。

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.

What were the main drivers behind Luckin’s rebound in performance in the second quarter? Will this profit margin be sustainable?

Jinyi Guo

Chairman and CEO, Luckin Coffee

(Translated) Thank you for your question. We are very pleased with our overall performance in the second quarter. While improvements in external factors such as weather played a role, the majority of the positive results stem from our proactive adjustments and the effective utilization of our business model advantages. Specifically, as the weather warmed up and seasonal negative factors diminished in the second quarter, our rapidly enlarged footprint allowed us to effectively reach more consumers during the peak season. Additionally, our strategic focus on placing stores in malls and on street fronts resulted in a strong performance at individual locations and a general rise in cup sales across our stores. In terms of products, total sales surpassed 750 million items in the second quarter. We launched 25 new freshly brewed beverages domestically, which accounted for 24% of our total sales volume in China. Additionally, by leveraging our digital and scale advantages, we implemented effective cost-cutting and efficiency-enhancing measures in the second quarter. These initiatives were a major driver behind the improvement in our profitability.

感谢您的提问。首先，我们对二季度的业绩表现总体满意，这其中既有天气等外部因素好转的影响，但更多的还是来自于我们主动调整和瑞幸模式优势充分发挥的结果。具体来看，二季度随着天气转暖，季节性负面因素影响减小，门店数量快速提升，在旺季有效触达了更多的消费者，加之前期我们对门店结构提前主动布局，商场及临街店的单店杯量表现良好，门店整体杯量也呈上升趋势。产品方面，二季度产品总售卖数突破 7.5 亿件，国内上新 25 款现制饮品，销量占国内总杯量的 24%。此外，我们通过发挥数字化和规模优势，在二季度采取了卓有成效的降本增效举措，这也是利润实现改善的主要动因。

In the upcoming third quarter, which is still a busy season for consumption, we'll keep launching summer-friendly products and ramp up our marketing efforts to drive new consumer demand. Our goal is to maintain strong revenue and profit levels for the company.

接下来的三季度依然是消费旺季，我们将持续推出适合夏季饮用的相关产品，加大营销活动力度，催生新的消费动能，争取公司保持较好的收入利润水平。

Alicia Guo

Investor Relations Director, Luckin Coffee

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

The pace of store openings slowed down in the second quarter. Will the company make further adjustments to its store opening strategy?

Jinyi Guo

Chairman and CEO, Luckin Coffee

(Translated) Thank you for your question. We believe the coffee industry in China is rapidly developing. As consumer coffee habits continue to grow, the market will keep expanding. Meanwhile, the ceiling for the coffee industry keeps rising, placing it in a long-term period of strategic growth opportunities. In light of this historic opportunity, we'll focus on market share as our core development goal at the current stage. We'll adjust our pace based on competition, keep a close eye on our market position, and work to strengthen our leading advantage. At the same time, in response to the complex external environment and competitive landscape, we will uphold our store opening standards to ensure quality and achieve healthy, sustainable growth. As we continue to expand our store network, we will solidify our market-leading position through innovative products and customer appreciation strategies, striving to create long-term value. Thank you.

感谢您的提问。我们认为，中国咖啡行业已经快速起步发展，特别是随着咖啡消费习惯的加速培养，市场空间将持续扩大，咖啡行业天花板不断上升，仍将长期处于高速增长的战略机遇期。面对历史机遇，我们会坚持将市场占有率作为当前公司发展的核心目标，根据竞争态势快速调整节奏，持续关注市场份额，不断扩大领先优势。同时，面对复杂的外部环境和竞争格局，瑞幸也会坚守开店标准，保证开店质量，实现健康可持续发展。在门店网络持续扩大的基础上，我们会通过产品创新、回馈客户的经营策略，巩固市场领先地位，努力创造长期价值。谢谢。

Alicia Guo

Investor Relations Director, Luckin Coffee

Thank you, Dr. Guo, 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.

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