

LKNCY Earnings Call Transcript

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Operator: Ladies and gentlemen, welcome to Luckin Coffee's Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please be advised that today's call is being recorded. Now I'd like to turn the call over to Ms. Nancy Song, Head of Investor Relations for Luckin Coffee. Nancy, please go ahead.

Nancy Song: Thank you, and hello, everyone. Welcome to Luckin Coffee's Third Quarter 2025 Earnings Conference Call. We announced our financial results earlier today before the U.S. market opened. The earnings release is now available on our IR website and via Newswire services. Today, you will hear from Dr. Guo Jinyi, Co-Founder and CEO of Luckin Coffee, who will share a strategic overview of our business. Following that, Ms. An Jing, our CFO, will discuss our financial results in greater detail. Afterwards, we will open up the call for questions. During today's call, we will be making some forward-looking statements regarding future events and expectations. Any statements that are not historical facts including, but not limited to statements about our beliefs and expectations are forward-looking statements. These statements involve inherent risks and uncertainties. Further information regarding these and other risks is included in our filings with the SEC. In addition, for non-GAAP measures discussed today, the reconciliation information related to those measures can be found in our earnings press release. During today's call, Dr. Guo will speak in Chinese, and his comments will be translated into English. Now I'd like to turn the call over to Dr. Guo Jinyi, Co-Founder and CEO of Luckin Coffee. Dr. Guo, please go ahead.

Jinyi Guo: [Interpreted] Hello, everyone. Welcome to today's earnings conference call. Thank you for your continuous interest in and support of Luckin Coffee. In the third quarter, our scale-driven strategy continued to yield strong results as we capitalized on the rapid expansion of China's freshly-brewed beverage market. Our revenue continued its solid momentum increasing by 50% year-over-year to around RMB 15.3 billion, while same-store sales growth in our self-operated stores further improved to 14.4%. During the quarter, as food delivery platforms intensified their subsidy campaigns, we saw the shift in volume share toward delivery continued at the current stage. Despite this temporary challenge, we maintained healthy profitability, achieving an operating profit of around RMB 1.8 billion. More importantly, in response to the rising demand in China coffee market, we accelerated our network expansion to strengthen store coverage and proactively secure whitespace locations for future growth. As of the third quarter end, our total store count surpassed 29,000, enabling us to effectively meet robust consumer demand. Our scale advantage drove record high new customer acquisition of 42 million, supporting a milestone achievement of over 100 million average monthly transaction customers. This scaled growth across both store front and the customer base have expanded Luckin's competitive edge and market share, placing us on a stronger footing for long-term sustainable growth. I will now share an update on our operations, and our CFO, An Jing, will present the financials later. This quarter, powered by Luckin's strong digital capabilities, we continue to enhance our core strengths across people, products and places, scaling our business at a faster pace and strengthening our market leadership. On the store front, we maintained industry-leading store growth, continuing to strengthen our presence across high-quality locations in high-tier cities while penetrating lower-tier markets. As a result, our store network continued to expand rapidly. By the end of the third quarter, Luckin's total store count reached 29,214, maintaining leadership in China's coffee market with growing

customer reach and enhanced fulfillment capability. Domestically, we achieved 2,979 net openings, bringing our total store count in China to 29,096, including 18,809 self-operated stores and 10,287 partnership stores, which has now surpassed the 10,000 stores milestone as well. As coffee drinking habits continue to take hold and the consumer demand grow strongly, China's coffee market still offers much room for growth. Leveraging Luckin's strong brand influence and data-driven site selection capabilities, we can systematically and swiftly identify customer demand, enabling us to open high-quality stores efficiently and in convenient locations that closely align with customer demand. In the foreseeable future, we will maintain a competitive pace of expansion to fully capture the structural opportunities in China's coffee market. Internationally, we had 29 net openings this quarter, bringing our total overseas store count to 118, including 68 self-operated stores in Singapore, 5 self-operated stores in the U.S. and 45 franchise stores in Malaysia. As our first overseas market, Singapore has been steadily improving its performance and initially built a mature and efficient localized operating infrastructure. This has demonstrated the early signs that our digital business model is adaptable and replicable across diverse markets and set an impactful benchmark for our future expansion across the Asia Pacific region. Meanwhile, our U.S. business remains in the early stages of exploration with performance across various areas broadly in line with our expectations and overall consumer feedback being positive. We will continue to take a disciplined and steady approach, accumulating local market impact and enhancing our localized operational capabilities to lay the foundation for longer -- long-term sustainable growth. On the product front, we launched nearly 30 new freshly-brewed beverages and several snack items in the third quarter, continuously driving coffee innovation and shaping market trends. We also diversified our summer lineup with a wider selection of non-coffee options to enrich customer experience. In September, we partnered with our long-time brand ambassador, Tang Wei, to launch the Luckin drink from origin campaign, promoting a healthy lifestyle through high-quality locally-sourced ingredients and reinforcing our brand concept from the origin to you. For example, we launched Guanxi Honey Pomelo Latte, featuring famous Guanxi Honey Pomelo from Fujian province. We also selected Aksu apples from Xinjiang to upgrade our popular Apple C Americano and to launch our new Aksu Apple Latte. These products expanded our flavored coffee portfolio and received encouraging customer feedback. In addition, our Little Butter series surpassed 200 million cumulative cups sold in its first year on the market, underscoring our strong product innovation capabilities and ability to set category trends, which continues to strengthen Luckin's brand leadership. On the non-coffee side, leveraging our fresh coconut sourcing advantage. We introduced the popular Mango Pomelo Sago which sold over 12 million cups during the National Day Holiday, once again demonstrating our broad customer base and a strong market appeal. On the customer side, we remain aligned with diversified and use-driven consumption trends, capturing market buzz and evolving customer preferences through engaging an emotionally relevant market campaign. With these initiatives, we achieved impressive results in customer acquisition, engagement and purchase frequency during the quarter. For example, we partnered with a wide range of popular IPs such as hit movies, blockbuster games and classic animated series, effectively reaching a broader audience, strengthening brand influence and stimulating customer demand. Building on these efforts, we added over 42 million new transacting customers in the third quarter and achieved an average of over 110 million monthly transacting customers, both record highs. By quarter end, our cumulative transacting customer base surpassed 420 million, further strengthening our ability to cultivate a high-frequency loyal customer cohort, a key driver of our long-term high-quality growth. In addition, we remain committed to our sustainability strategy being a force for a brighter future and continue to fulfill our corporate social responsibility through charitable initiatives that support communities across our upstream supply chain. To mark Luckin Coffee's 8th anniversary, we partnered with the China Red Cross Foundation, Hao Fund, to launch the philanthropy campus health initiative, building multiple philanthropy health centers in schools across Yunnan and Xinjiang. This program enhances campus health care infrastructure in coffee regions and other key sourcing regions, helping safeguard the healthy development of local youth. Moreover, as part of our ongoing focus on children's health in key origin region. We have sponsored the Angel Journey project for two consecutive years, funding screening and treatment for local children with congenital heart disease. Moving forward, we will continue to deepen our engagement in origin communities, giving back to society through charitable

efforts to build a brighter future together. This year, built by food delivery platform subsidy campaigns, China's coffee industry has seen accelerated growth with consumer demand demonstrating strong elasticity. These trends further validate the enormous potential of China's coffee market. Amid this complex environment, we have remained focused on our established growth strategy, adjusting our operations dynamically to seize emerging opportunities. As a result, we achieved faster business growth and the market share gains in the third quarter, effectively meeting our strategic goals. At the same time, as temperature have dropped and the freshly-brewed beverage industry has entered its seasonal slowdown, we have observed food delivery platforms rapidly scaling back their subsidies, which are expected to become more targeted and refined going forward. In addition, international green coffee bean prices have remained elevated this year with no signs of moderation at the moment. These factors will introduce new dynamics and create headwinds for the industry and pose challenges to our fourth quarter or even next year's business development. In this evolving landscape, we will focus more on our long-term growth trajectory. We believe our continued strategic focus and enhanced operational excellence will enable us to weather short-term fluctuation and navigate various external environment. We will continue to strengthen our product and brand innovation, offering high-quality, affordable and convenient products that better meet diverse customer needs and support store performance. We will also leverage Luckin's robust digital capabilities and deep customer insights to enhance retention and repeat purchases, fully unlocking long-term consumption potential. Finally, we would like to extend our sincere gratitude to our customers, partners and investors for their continued trust and support of Luckin as well as to our 170,000 Luckin team members who stand with us through their dedication and hard work. Together, we will continue building a world-class coffee brand and making Luckin a part of everyone's daily life. As we move forward, we remain committed to long-term value creation for our customers, partners and shareholders. With that, I will now turn the call over to An Jing to go through our financial results in detail.

Jing An: Thank you, Jinyi. Good day, everyone. Thank you for joining today's call. We delivered another strong quarter, underscoring our sustained momentum and competitive strength. With a continued focus on scale and operational excellence, we achieved record high in both customer acquisition and monthly transacting customers. This achievement further strengthened the foundation for our future store performance and long-term growth. Let's now look at our financial performance in detail. In the third quarter, total net revenues increased by 50% year-over-year to RMB 15.3 billion, primarily driven by a 48% year-over-year increase in GMV to RMB 17.3 billion. This accelerated growth reflected a strong performance across both self-operated and partnership stores, supported by our record monthly transacting customer count and the expanded store network to better market -- to better meet rising demand. Revenues in self-operated stores increased by 47% year-over-year to RMB 11.5 billion, mainly driven by stronger sales performance in our self-operated stores. Breaking down our product sales into three streams. Net revenues from freshly brewed drinks were RMB 10.6 billion, representing about 70% of the total net revenues. Net revenues from other products were RMB 622 million or roughly 4% of total net revenues. Net revenues from others were RMB 233 million or about 1% of total net revenues. Looking at product sales from the perspective of company-owned stores, revenue from self-operated stores increased by 48% year-over-year to RMB 11.1 billion. Same-store sales growth reached 14.4% for this quarter, driven by increased cost of sales and ASP, reflecting the shift in volume mix towards delivery. Store level operating profit grew 10% year-over-year to RMB 1.9 billion with self-operated store level operating margin of 17.5%. Revenues from partnership stores increased by 62% year-over-year to RMB 3.8 billion, accounting for 25% of total net revenues. This impressive growth was primarily driven by higher material sales, profit sharing from strong partnership store performance and increased delivery service fees resulting from a greater delivery volumes. Cost of materials as a percentage of total net revenues decreased to 36% from 39% in the same period of 2024, mainly due to our enhanced discipline supply chain advantages. In absolute terms, cost of materials increased by 41% year-over-year to RMB 5.5 billion, in line with our business expansion. Store rental and other operating costs as a percentage of the total net revenues decreased to 20% from 22% in the same period of 2024, mainly driven by improved operational efficiency and scale benefit from increased cup sales. In absolute terms, this cost increased by 36% year-over-year to RMB 3.1 billion, reflecting higher payroll costs tied to cup sales growth and increased rental costs from ongoing

stock expansion. Delivery expenses increased by 211% year-over-year to RMB 2.9 billion due to a significant increase in delivery orders from food delivery platforms. As a result, delivery expenses as a percentage to total net revenues sharply rose to 19% from 9% in the same period of 2024. However, on an order basis, delivery expenses decreased year-over-year, reflecting improved efficiency at scale. Sales and marketing expenses as a percentage of the total net revenue decreased to 5% from 6% in the same period of 2024, mainly driven by enhanced operating efficiency and the leverage from accelerated revenue growth. In absolute terms, sales and marketing expenses increased by 28% year-over-year to RMB 751 million, mainly due to higher commission fees paid to food delivery platforms as a result of rising delivery volumes. General and administrative expenses as a percentage of total net revenue decreased to 5% from 6% in the same period of 2024, mainly driven by enhanced operating efficiency and leverage from accelerated revenue growth. In absolute terms, G&A expenses increased by 25% year-over-year to RMB 793 million, primarily due to increase in payroll expenses and share-based compensation, as well as greater investments in research and development. As a result, our GAAP operating profit increased by 13% year-over-year to RMB 1.8 billion. Operating margin was 11.6% compared to 15.5% in the prior year period, mainly impacted by a significant increase in delivery expenses. On a Non-GAAP basis, operating profit increased by 15% year-over-year to RMB 1.9 billion, with operating margin at 12.6%. Net profit was at RMB 1.28 billion with a net margin of 8.4% compared to RMB 1.31 billion and 12.9% in the prior year period, mainly due to a higher effective tax rate. On a non-GAAP basis, net profit was RMB 1.4 billion with a net margin at 9.3%. Finally, turning to our balance sheet and cash flow items. Our net operating cash inflow was around RMB 2.1 billion in the third quarter of 2025. As of September 30, 2025, we had RMB 9.3 billion in cash, including cash and cash equivalents, restricted cash, term deposits and short-term investments, compared to RMB 5.9 billion as of December 31, 2024. Our robust cash generation ability and a strong cash reserve enable us to flexibly adapt our business expansion pace to different market conditions letting us fully capitalize on emerging opportunities. In close, our solid third quarter results reaffirm our market leadership and the business resilience. We are particularly engaged by -- encouraged by the potential of our growing customer base, especially as we continue to expand loyal cohorts. This gives us greater confidence in capturing the vast opportunities in China's coffee market despite evolving external dynamics, while maintaining disciplined cost management and operational efficiency. With that, we will open the call for questions. Operator, please go ahead.

Operator: [Operator Instructions] The first question comes from Ethan Wang with CLSA.

Yushen Wang: [Foreign Language] So in terms of the delivery subsidy, we understand that it definitely helps our revenue to grow very strongly in this quarter and the last quarter as well, but it also has an impact -- a negative impact on our margin. I think CEO mentioned that going to fourth quarter the subsidy -- the external subsidy has faded a bit, but I'm just wondering, is it because of seasonal effect or there are some structural changes behind and going to next year, should we worry about the high base effect?

Jinyi Guo: [Interpreted] Ethan, I will answer your question. So regarding the potential impact of the subsidy situation, we think it's important to see this issue through the nature of our coffee business. And also, we need to evaluate within the context of the broader industry trends as well as our own operational capabilities. So first, coffee is inherently a location-based and store-driven consumer products. So this means pickup will remain the primary consumption format over the long term, but delivery will serve us more as a supplemental channel at certain stages of -- as the market evolves. So there are two reasons for this. One is delivery fulfillment costs are disproportionately high compared to China's mainstream price range of fresh-brewed coffee. So delivery is highly sensitive to per cup pricing and its unit economics are less favorable. So the second is longer delivery times can compromise the immediacy and the coffee taste experience that consumers expect, so which makes it a less ideal consumption model. And our Luckin's pickup-oriented store format actually allows us to densely open stores across nearly all of the consumption scenarios. It makes us -- keep us as close to customers as possible. So this is actually the core advantage of Luckin and underpins our long-term growth. So we believe the coffee business will naturally return to a pickup-oriented model over time. Although this transition period will take a longer time to happen. Yes. So this year's large-scale subsidies have driven a significant surge in the overall order volumes on food delivery platforms. So

next year, these platforms are expected to adopt a more refined and online-driven operational strategies and the promotion intensity likely to taper gradually as well. So under such an ROI-driven approach, platforms will likely prioritize partnerships with brands who demonstrate high order density, strong fulfillment efficiency and effective subsidy conversion. So with our extensive store network, efficient operations at the storefront, and our reliable fulfillment in structure, I believe Luckin remains a preferred partner for food delivery platforms. So at the same time, we also see that food delivery platforms, they offered substantial subsidies in the early stages of their campaigns which objectively fueled a sharp increase in our order volumes and the customer base, creating a relatively high comparison base. As platforms, they have already scaled back their subsidies and will shift towards a more refined approach next year. The industry's overall growth trajectory will differ from this year and our same-store sales growth next year will also face challenges and pressure. And as I mentioned earlier, in this evolving landscape, we believe that the only focusing on long-term development is the key to navigating external changes. This means we continuously strengthen our product and the brand competitiveness, unlock customers' consumption potential, which we see this as a core key driver of our long-term sustainable growth. Thank you, this is my answer to the question.

Operator: Our next question comes from Sijie Lin of CICC.

Sijie Lin: [Foreign Language] My question is about long-term development strategy. We have constantly faced and may continue to face external environmental changes, such as competitive landscape and delivery platform subsidies. So how will we balance different targets, including scale, same-store sales growth and profit?

Jinyi Guo: [Interpreted] Thank you for your question. This is a very good question and it's always on top of our mind. We need to take a much longer-term perspective when evaluating the relationship among scale, same-store growth and our profitability. So considering the current stage of China's coffee industry and Luckin's own development trajectory. So China's coffee market is still in its early stages of development, and remains in a high-growth phase with vast market opportunities and the potential. So for us, it's very crucial to capture this historic opportunity and maximize the long-term benefits from these structural trends. So in particular, this year's -- the food delivery platform subsidies have further accelerated industry consolidation as well as increased market concentration. So as these subsidies gradually phase out, this trend is expected to continue as well. And against this backdrop, our strategic focus will remain on growth and market share. And we continue to -- we will continue to steadily expand our store footprint, building a high-quality and efficient store network to meet growing customer demand and pave the way for our long-term growth. So regarding the same-store growth, we'd like to emphasize that since the financial issue in 2020, maintaining a high store quality has always been the top priority in our expansion. So on one hand, new stores can leverage our mature operational framework to quickly ramp up and improve their performance. And on the other hand, we continue to improve customer loyalty and repeat purchases through continuous product innovation and brand innovation, driving steady and sustainable store performance. And as I mentioned earlier, taking into account the factors above, our same-store sales growth metric in the fourth quarter and even next year will face some short-term fluctuations and pressure. However, from a long-term perspective, more convenient store fulfillment and improved customer reach play a very positive and important role in fostering coffee drinking habits as well as naturally increasing consumption frequency among customers. So this, in turn, can provide market momentum for our continued improvement of our store performance over time. So regarding margins, in the short term, the notable higher mix of our delivery orders has put some pressure on our margins fully reflected in the decline of our third quarter operating margin compared to the previous quarter and the positive impact of our improved operational efficiency was actually completed -- completely offset by the significantly higher delivery expenses as a percentage of total revenues quarter-over-quarter. But we view this as a temporary and expected impact, reflecting both the current stage of industry development and our strategic execution process. And at the same time, as I mentioned earlier, international green coffee bean prices have remained elevated with no signs of moderation, which could also pose some challenges to our coffee bean cost next year, which can also affect margins. And in this environment, we will continue to optimize cost structures through refined operations, leveraging our digital capabilities to further enhance operational efficiency and strengthen our supply chain management. And as we scale, we will strive to maintain a

healthy and sustainable profit profile. So based on above, in conclusion, business growth and market share expansion remains our strategic priorities at this stage. We will continue to ensure our store quality while driving product and brand innovation amid our robust expansion. And during this period of rapid growth, even if same-store performance showed some fluctuations, the overall trajectory remains within our expectations. And at the same time, we will strive to maintain healthy and sustainable profit levels and remain confident in our long-term profitability potential. Thank you.

Operator: Our next question comes from Huayi Li with [indiscernible] Securities.

Unknown Analyst: [Foreign Language] I'd like to ask about the company's capital market strategy. At Xiamen Entrepreneurs Day entrepreneurs conference a few days ago, Dr. Guo mentioned the company's intention to pursue a relisting on a major U.S. exchange. Could management please share an update on the current status of this initiative?

Jinyi Guo: [Interpreted] Thank you for your questions. Luckin is headquartered in Xiamen, where we received holistic and tremendous support since our inception, especially after the financial issue in 2020, with Xiamen's continued support and the guidance, Luckin has consistently delivered a strong performance and achieved a successful turnaround. So regarding this question, as we mentioned before, we remain committed to the U.S. capital market, though we currently have no specific time line or schedule for us listing on the mainboard. Our top priority at current stage remains focusing on our strategy execution and business development. So offering our customers exceptional products and services, we aim to fully capture the long-term growth opportunities in China's coffee market and expand our market share, creating sustainable long-term value for our shareholders. Thank you.

Operator: Due to time constraints, no further questions will be taken at this time. This concludes the question-and-answer session. I'd like to turn the call back to the management team for any closing remarks.

Nancy Song: Thank you, everyone, for joining our call today. If you have any further questions, please feel free to contact our IR team. This concludes today's call. We look forward to speaking with you again next quarter. Thank you.

Jinyi Guo: Thank you. [Foreign Language]

Jing An: Thank you.

Operator: The conference has ended. You may disconnect your line. Thank you. [Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]