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Luckin Coffee Inc. (LKNCY) Q1 2025 Earnings Call Transcript

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Luckin Coffee Inc. ([OTCPK:LKNCY](#)) Q1 2025 Earnings Conference Call April 29, 2025 8:00 AM ET

Company Participants

Nancy Song - Investor Relations

Dr. Guo Jinyi - Co-Founder and CEO

An Jing - Chief Financial Officer

Conference Call Participants

Ethan Wong - CLSA

Operator

Ladies and gentlemen, welcome to Luckin Coffee's First Quarter 2025 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. Please be advised that today's call is being recorded.

Now I'd like to turn the call over to Ms. Nancy Song, Investor Relations of Luckin Coffee. Nancy, please go ahead.

Nancy Song

Thank you and hello everyone. Welcome to Luckin Coffee's first 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 historic 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 findings with the SEC.

In addition, for net debt matters discussed today, the reconciliation information related to those matters can be found in your earnings press release.

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, Co-Founder and CEO of Luckin Coffee. Dr. Guo, please go ahead.

Dr. Guo Jinyi

Hello, everyone. Welcome to today's furnace conference call. Thank you for your continued interest in and support of Luckin Coffee. Before we officially begin today's call, as many of you may have seen in our earnings release, we are truly honored to welcome Mr. Li Hui, Chairman and CEO of Centurium Capital back to Luckin's Board of Directors as our new Chairman.

Centurium Capital has always supported Luckin through its most challenging times, making continued investments to ensure the stability of our corporate governance and shareholder structure. This steadfast support laid a solid foundation for Luckin to fully emerge from past difficulties and enabled our strong rebound.

As a shareholder, Mr. Li Hui has remained firmly committed to Luckin's journey of transformation, facilitating our team toward the success we have achieved today. His return to the Board and appointment as Chairman reflects his full confidence in our past achievements and a strong recognition of Luckin's long-term values.

His rich experience in business management and strategic execution will help drive the continued development and global expansion of Luckin's business, leading the company into a new stage of growth.

Looking ahead, I look forward to working closely with Mr. Li Hui. Under his leadership, I will remain focused on fulfilling my responsibilities as CEO and Director. Together, we will continue to uphold Luckin's core values, advance our mission and vision, and work to create long-term sustainable value for all our shareholders and stakeholders who support Luckin's development.

Next, I will provide some highlights of our first quarter results and operational progress. Our CFO, An Jing, will share additional financial details later on this call. We are off to a strong start in 2025, delivering impressive first quarter results. With a scale-focused growth strategy, we further expanded our market share and strengthened our competitive edge.

In the first quarter, our total net revenue rose by 41% year-over-year to around RMB8.9 billion. As our network expanded to over 24,000 stores, we leveraged our scale to constantly drive operational efficiency and significantly improved profitability compared to the same period of last year.

Our operating profit rebounded to nearly RMB740 million, with operating margins rising to 8.3%. Notably, same-store sales growth for self-operated stores continued improving and returned to a positive territory as expected, at 8.1% following a year of fluctuation. This improvement reflects strong customer demand in China's coffee market and aligns well with our strategic vision. These results have reinforced our market leadership and laid a solid foundation for achieving our full year targets.

During the first quarter, we further deepened the execution of our scale-oriented strategy, consistently expanding our store network, enhancing product quality and growing our customer base while delivering greater value to consumers. We continued to strengthen our core competitiveness across three pillars; people, products and places.

On the storefront, we continuously prioritized strategic expansion, dynamically evaluating market conditions and the competition to identify high-potential customers. We are maintaining an industry leading expansion pace. This quarter, we opened slightly more stores than initially planned as we saw evident consumer demand and untapped market opportunities. This required us to prioritize securing key locations early to lock in long-term market share. At the quarter end, we operated 24,097 stores, further cementing our leadership as China's largest coffee chain brand by store count.

In China, we added 1,743 net new stores, bringing the total to 24,032, comprising 15,541 self-operated stores and 8,499 partnership stores. Along with rapid expansion, we consistently improved same-store performance, validating our balanced approach to scale and quality.

Our early investments in scale during our critical window have created a clear network advantage, which is now effectively supporting rising consumer demand and driving same-store sales growth for our self-operated stores. This gives us greater confidence in capturing the historic growth opportunities in China's booming coffee market, allowing us to further expand in both high-tier and lower-tier cities.

Internationally, we added 14 net new stores this quarter, reaching a total of 65, including 57 self-operated stores in Singapore and eight franchise stores in Malaysia. As part of our long-term development strategy, we are taking a disciplined approach to overseas expansion. We are methodically strengthening Luckin value proposition in each country, optimizing user experience and product offerings, and fine-tuning store models to meet local demands. We plan to adopt flexible, locally tailored models to steadily build overseas experience and explore further growth opportunities.

On the product front, we launched 15 new beverages and a range of light meals. Guided by our brand concept from the origin to youth, we strengthened our global supply chain by sourcing from premium origin to new origin regions. This effort underpins our product innovation and quality upgrades, better satisfying customers' evolving preferences for taste, health and emotional readiness.

In March, as our flagship coconut latte approached its fourth anniversary, we secured exclusive procurement rights to our coconut from Indonesia's Sangihe Islands, creating latte exclusive Coconut Island.

With full control from origin to cost, we established a comprehensive quality management system that further enhances the appeal of our coconut series. Cumulative sales of coconut lattes surpassed 1.3 billion cups as of quarter end. The recent launch of the Coconut Jelly Latte has brought fresh appeal to the signature lineup.

We also upgraded our light milk tea line, introducing freshly gentle Jasmine Milk Tea and freshly light Longjing Milk Tea. These products feature freshly brewed tea, animal milk fat and low calories, delivering a superior, healthier and tastier tea experience.

Our dedicated Jasmine garden in Hengzhou, Guangxi, ensures tea fragrance and quality from origin. These upgrades received widespread acclaim from both new and recurring customers, with encouraging results in customer acquisition and reactivation. Notably, single day sales of freshly gentle Jasmine Milk Tea peaked at 1.67 million cups, setting a new tea product record for this year.

On the customer front, our value propositions of high quality, high convenience and high affordability continue to get our customer-first core values. We consistently reward consumers with high quality coffee at competitive prices, while expanding our offerings to cover more day parts and scenarios. This strategy broadens beverage choices and enhances customer experience.

Supported by our extensive store network, diverse product portfolio and highly relevant co-branded marketing campaigns, we added over 20 million new transacting customers in the first quarter. Our cumulative transacting customer base exceeded 350 million by quarter end, while monthly average transacting customers increased 24% year-over-year to over 74 million.

We will continue to implement competitive pricing, including consistent RMB9.9 quality coffee initiatives, and dynamically conduct region-specific operations to cultivate coffee drinking habits and brand loyalty. These efforts will help us solidify and grow our market share as we continue leading industry development. [Technical Difficulty]

Operator

Just one moment please, there has been an interruption. Just a moment. Excuse me, this is an Operator, please continue to hold. Thank you. Excuse me, Dr. Guo, please continue.

Dr. Guo Jinyi

Apologies that we dropped the line for a little bit. Back to our earnings call. On the ESG front, we advanced our sustainability strategy, being a force for a brighter future and supported the green, low-carbon transformation of China's coffee industry. This April, our flagship store in Zhongguancun, Beijing, received the highest LEED IDC Platinum certification for green building, making us the first Chinese coffee brand to earn this recognition. This achievement demonstrates our leadership in global sustainability standards and set a new benchmark for the industry.

Our LEED volume prototype store model has also been certified at the gold-level and we plan to extend such certification across our new relaxed stores. Additionally, as an annual promotion partner for Earth Hour, we engage the public both online and offline to promote environmental awareness and encourage sustainable lifestyles.

China's coffee market remains in a golden period of rising penetration and increasing consumption frequency, presenting vast opportunities. Despite our dynamic macro environment and evolving competition, we will leverage our strong organizational capabilities and strong business foundations to remain agile and respond swiftly to market dynamics. We believe that a sound strategy, strong execution and solid fundamentals will enable us to seize opportunities, adapt quickly and weather fluctuations.

Looking ahead, our focus remains on sustainable growth. Our skill advantage, product quality and compelling value position us well to capture China's structural coffee growth. We will continue improving supply chain and digital capabilities to enhance operational efficiency, drive long-term high-quality growth, and create lasting value for our shareholders.

Finally, our achievements are made possible by the trust of our customers, the collaboration of our partners, the support of our investors and the dedication of 140,000 latte team members. We extend our sincere gratitude to everyone supporting our journey. We remain committed to leading the advancement of China's coffee industry and making high-quality coffee a part of everyone's daily life.

With that, I will turn the call over to An Jing to go through our financial results in detail.

An Jing

Thank you, Jinyi. Good day, everyone. Thank you for joining today's call. We are pleased to start 2025 with a strong momentum. Our effective execution of growth strategies have driven robust topline growth, as well as market expansion. Further strengthening Luckin's leadership. Moreover, our self-operated stores resume the positive same-store sales growth, which better position us to capture the exciting opportunities in China's coffee market.

Let's now look at our financial performance in detail. In the first quarter, our total net revenues increased by 41% year-over-year to RMB8.9 billion, primarily driven by a 42% year-over-year increase in GMV, which reached RMB10.4 billion. This strong growth was mainly driven by increased productive sales, as we added more monthly transacting customers along with our store expansion.

In terms of sources of revenue, revenues from product sales increased by 42% year-over-year to RMB6.8 billion. This growth reflects rising customer demands fulfilled by our innovative and diverse product offering, as well as extensive store network.

Breaking down our product sales into three streams. Net revenues from freshly brewed drinks were RMB6.2 billion, about 70% of the total net revenues. Net revenues from other products were RMB477 million, about 5% of the total net revenues. Net revenues from others were RMB145 million, about 2% of the total net revenues.

Revenues from partnership stores increased by 38% year-over-year to RMB2.1 billion, accounting for 23% of the total net revenues. Revenues from self-operated stores increased by 41% year-over-year to RMB6.5 billion. More importantly, same-store sales growth returned a positive to 8.1% this quarter, supported by robust customer demands and a balanced store expansion, favorable weather conditions also contributed to the improvement. Our store-level operating profit increased significantly by 245% year-over-year to RMB1.1 billion, with the store-level operating margin expanded by 10.1 percentage points to 17.1%.

Checking in cost and expenses. Cost of materials increased by 21% year-over-year to RMB3.6 billion, whereas cost of materials as a percentage of total net revenues decreased to 40% from 47% in the same period of 2024. This little improvement is mainly driven by production mix changes and enhanced supply chain advantage, contributing to growth margin expansion.

However, we have not yet been exposed to the negative impact from rising coffee bean price during this quarter. As we start building new coffee bean inventory this year, higher coffee bean costs may weigh on growth margin since the second half of 2025. Having said that, we are expected to leverage our scale and efficiency advantage to primarily – to partially mitigate such an impact.

Store rental and other operating costs increased by 27% year-over-year to RMB2.3 billion. Whereas store rental and other operating costs as a percentage of total net revenues decreased to 26% from 29% in the same period of 2024 as a result of operating leverage from more cost sales. The absolute amount increase was primarily due to store expansion, as well as increase in labor costs, store rental costs, utilities and other store operating costs.

Delivery expenses increased by 54% year-over-year to RMB689 million, mainly due to an increase in delivery orders. Delivery expenses for orders decreased as a result of a greater economy of scale. Delivery expenses as a percentage of total net revenues increased to 7.8% from 7.1% in the same period of last year, lying with delivery order increases.

Sales and marketing expenses increased by 52% year-over-year to RMB496 million, primarily due to continued strategic investment to strengthen our brand power, as well as increase the commission fee to third-party food delivery and livestreaming platforms. Sales and marketing expenses as a percentage of total net revenues increased to 5.6% from 5.2% in the same period of 2024.

General and administrative expenses increased by 22% year-over-year to RMB681 million. Whereas G&A expenses as a percentage of total net revenues decreased to 7.7% from 8.9% in the same period of last year, reflecting enhanced operational efficiency. The absolute amount increase was primarily driven by higher investment in research and development, increased share-based compensation and payroll costs.

Moving to profit and margin performance, our GAAP operating profit improved substantially from negative RMB65 million in the same quarter of 2024 to RMB737 million with operating margin from negative 1% to 8.3%. On a non-GAAP basis, operating profit increased year-over-year to RMB864 million with operating margin at 9.7%.

Net profit improved significantly from negative RMB83 million in the same quarter of 2024 to RMB525 million with net margin rising from negative 1.3% to 5.9% for the quarter. On a non-GAAP basis, net profit improved year-over-year to RMB649 million with net margin at 7.3%.

Finally, turning to our balances and cash flow items. For the first quarter of 2025, our net operating cash inflow was RMB897 million. As of March 31, 2025, we had around RMB6.1 billion in cash, including cash and cash equivalents, restricted cash, term deposits and short-term investments, compared to RMB5.9 billion as of December 1, 2024.

Our healthy balance sheet and strong cash position provide us with the financial flexibility and resilience to navigate the dynamic macro and industrial-wide challenges, as well as to invest in growth opportunities.

In closing, our first quarter performance reflects the strength and resilience in our business and execution. We want to market our potential ahead we are well-positioned to drive sustainable growth while enhancing operational efficiency.

With that, we will open the call for questions. Operator, please go ahead.

Question-and-Answer Session

Operator

[Operator Instructions] The first question comes from Yongjian Yi [ph] with Guojin Securities. Please go ahead.

Unidentified Analyst

[Foreign Language]

Nancy Song

Thank you. This is Yongjian Yi from Guojin Securities. Hello, Guo. Hello, An Jing. So, we noticed a noticeable improvement in the SSG. So I would like to know what the drivers behind that are. Probably, you can see a split between price and volume. And going forward, how should we think about the SSG trend in the coming quarters for this year? Thank you.

Dr. Guo Jinyi

[Foreign Language]

Nancy Song

Thank you. So as we communicated in our previous two earnings conference calls, SSG is always a crucial metric we are closely monitoring. So, in the first quarter, growth was primarily driven by volume. So, the notable improvements in our same-store sales growth came from both external and internal factors.

So, externally, China's coffee market continues to gain momentum, so giving us significant consumer demand and unlocking considerable growth potential. So, this is an industry benefit for us. And many of our new stores we opened over the past one year have now entered their maturity phase. So, we expanded our store networks, enabled us to better capitalize on these market tailwinds. And in addition, a relatively warmer winter this year, especially compared with last year, also supported our stronger-than-expected customers and further drive our performance.

Dr. Guo Jinyi

[Foreign Language]

Nancy Song

So, internally, the SSG trend is also consistent with what we've been communicating with the market. So, the return to positive same-store growth further validates our strategic decision back in 2023, where we accelerated our store opening pace during this window of opportunity. So, the stores we opened are of high quality and very carefully selected locations. Over time, they have shown strong resilience and shown ability to meet customer demands.

So, leveraging our brand strength, diversified product offerings, as well as our supply chain advantages, we have continued to attract more customers, optimize our per cup cost and enhance in-store cup sales.

Dr. Guo Jinyi

[Foreign Language]

Nancy Song

So, in summary, the 8% same-store sales growth in the first quarter reflects both our solid fundamentals and some seasonal tailwinds, we expect same-store sales growth to moderate in the coming quarter as conditions normalize. But we will continue to closely monitor this operating metric and remain focused on maintaining a positive, sustainable, same-store sales growth going forward. Thank you.

Operator

Are you ready for your next question? Oh, go ahead. Are you ready for your next question?

Dr. Guo Jinyi

Okay.

Nancy Song

Yes.

Operator

The next question comes from Ethan Wong of CLSA. Ethan, please go ahead.

Ethan Wong

[Foreign Language] I will translate into English. Good evening, management. So we noticed the net profit for the first quarter is quite impressive. So I just want to ask, from management's perspective, what are the main drivers? And more importantly, if these drivers are sustainable, if we look at the result from the full year perspective, what should the market expect the net profit level to be? Thank you so much.

Dr. Guo Jinyi

[Foreign Language]

Nancy Song

Thank you. I will briefly share my overall perspective on this year's profitability and then pass to our CFO, An Jing, to elaborate on the first quarter situation. So we believe China's coffee market is still in a very early stage of rapid growth. So scale expansion and the market share remain to be our top priority. As such, we will continue our competitive pricing strategy, and currently, we have no plan to raise prices. Through offering high-quality coffee with better prices and stronger appeal, we aim to unlock richer demand, encourage coffee consumption habits, as well as solidify our market leadership.

Dr. Guo Jinyi

[Foreign Language]

Nancy Song

On the other hand, we also need to recognize two micro-factors that may weigh on our profitability. So first, coffee bean prices still have increased significantly from 2024 levels and they remain at historical highs. As we start building our inventory this year, these higher costs are likely to affect gross margins more visibly in the second half of this year.

And secondly, as you may see, several tea beverage companies have gone public recently. So the competitive dynamics in the – in this sector could also shift. To better prepare for the potential competitive pressure, we also need to – we will continue investing in our brand and marketing to maintain our leadership position.

Dr. Guo Jinyi

[Foreign Language]

Nancy Song

So, overall, the magnitude of these impacts remain to be seen. However, we plan to leverage our scale advantages and improve operational efficiency to help us absorb and offset these pressures to some extent and to maintain a healthy and a sustainable level of our profitability. So this is my answer and I will pass to An Jing to elaborate on the first quarter results.

An Jing

In the first quarter, our improvement in operating profit was mainly driven by products and exchanges and the economy of scale. From a products perspective, we are responding to the growing consumer preference for the lighter and the healthier beverage by launching more refreshing drinks, such as our Fruity Americano series. These drinks typically have a higher gross margin than milk-based coffee.

Since we began adjusting our product mix in March of last year, refreshing drinks contribute around 10 percentage points more to our cup sales in Q1 2025 compared to the last year, which notably lifted our overall gross margin.

For the scale perspective, our broader range of quality beverages at attractive prices combined with impactful marketing campaigns drove high single-digit year-over-year growth in daily cup sales per store. This volume grows above meaningful operating leverage and the structural cost efficiency unlocked further profitability potential. Thank you.

Ethan Wong

That's extremely great, An Jing. Thank you so much.

Operator

Due to time constraints...

Dr. Guo Jinyi

[Foreign Language]

Operator

... 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. Thanks.

Operator

Thank you. The conference has ended. You may disconnect your line.

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