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Luckin Coffee Inc. (LKNCY) Q2 2025 Earnings Call Transcript

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Luckin Coffee Inc. ([OTCPK:LKNCY](#)) Q2 2025 Earnings Conference Call July 30, 2025 8:00 AM ET

Company Participants

Jing An - Chief Financial Officer

Jinyi Guo - Co-founder, CEO & Director

Nancy Song - Corporate Participant

Conference Call Participants

Operator

Ladies and gentlemen, welcome to Luckin Coffee Second 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 of Luckin Coffee. Nancy, please go ahead.

Nancy Song

Thank you. And hello, everyone. Welcome to Luckin Coffee's Second 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 may involve inherent risks and uncertainties. Further information regarding these and other risks is included now in 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 continued interest in and support of Luckin Coffee. In the second quarter, we continue to focus on expanding market share and scale, effectively driving strong results through sharp strategies, clear objectives and solid execution. Our total net revenues reached RMB 12.4 billion, representing a 47% year-over-year increase.

Amid a rapidly evolving market environment, we leveraged our strength in scale, operational efficiency, fulfillment and supply chain to accelerate user acquisition with average monthly transacting customers reaching a new record high. This supported a resilient performance as we reinforce a leading position in the market.

With the arrival of the peak season, growing customer demand continue to enhance same-store metrics, leading to a 13.4% same-store sales growth for self-operated stores in the quarter, supported by notable operating leverage from economies of scale. Our operating profit increased by 62% year-over-year to RMB 1.7 billion, and operating margins expanded further to 13.8%.

Next, I will provide a detailed overview of our operational progress. Afterwards, our CFO, An Jing, will share additional financial details. In the second quarter, leveraging our key advantages across people, products and places will capitalize on industry momentum to accelerate business expansion.

On the storefront, we effectively see the opportunity of rising demand to speed up in store openings, expanding our presence in high- quality locations across high-tier cities while deepening our reach into lower-tier markets. As of the end of the second quarter, our total store count reached 26,206, maintaining our market leadership in China.

Domestically, we added 2,085 net new stores, bringing our total store count to 26,117, including 16,903 self-operated stores and 9,214 partnership stores. The accelerated pace of store openings underscores the vast still untapped potential of China's coffee market, where consumer habits continue to evolve and mature.

Luckin's strong brand recognition and product appeal, combined with our data-driven site selection and strong execution capabilities, enable us to consistently open high-quality stores with strategic in locations. Looking ahead, we aim to maintain an industry-leading expansion pace, further strengthen our scale advantages and lay a solid foundation for long-term market share gains.

Internationally, we added 24 net new stores in this quarter, bringing our total store count to 89, including 63 self-operated stores in Singapore, 2 self-operated stores in the U.S. and 24 franchise stores in Malaysia. Notably, the soft opening of 2 stores in New York marked a significant milestone in Luckin's international expansion strategy.

The U.S. is a highly developed coffee market, and we remain in the early stages of exploration. Our approach will be disciplined and deliberate with a focus on validating consumer response to our brand positioning, digital ordering experience, product portfolio and pricing strategy. Through this early phase, we aim to establish Luckin's unique value proposition and the customer experience in the U.S. market while building localized operational capabilities to support future scaled expansion.

On the product front, we launched over 20 freshly brewed beverages and several snacks in the second quarter. While maintaining a strong focus on high-quality coffee, we continue to diversify our product portfolio to keep pace with evolving consumer trends and meet customers' needs across all dayparts and consumption scenarios. This quarter, we further strengthened the health-conscious aspect of our brands, reinforcing our positioning around professionalism, youth, fashion and wellness.

In May, we introduced the Life Iced Coffee Season, featuring refreshing low-calorie beverages with upgraded formulas and a new sparkling water-based option, enhancing the appeal of our popular Fruity Americano series. Notably, our signature bestseller, Orange Americano, was upgraded with higher orange content and a richer flavor profile. By the end of the second quarter, it has surpassed 350 million cumulative cup sold.

New innovations such as Pineapple Americano, Summer Watermelon Go Blue and Lychee Americano, further enriched our flavor offerings. On the non-coffee side, the launch of our Kale Fruits and Veggies Tea provided consumers with a refreshing health-focused alternative. Within just 2 weeks of launch, it recorded over 11.2 million cups sold with solid user retention and repeat purchase rates.

On the customer front, we continue to strengthen our appeal and expand our user base, supported by our high-quality products and services, convenient fulfillment and offerings that deliver meaningful emotional value even amid a dynamic and complex market environment. Since the second quarter, a series of creative and buzzworthy IP collaborations, including those with SpongeBob and Duolingo, have sparked strong emotional [readiness] and purchasing intent, further driving user engagement and unlocking consumption potential.

During the quarter, we added over 28.7 million new transacting customers, while monthly average transacting customers grew 32% year-over-year to nearly 91.7 million, reaching new all-time high. By the end of the quarter, our cumulative transaction customer base exceeded 380 million, establishing a solid foundation for our long-term high-quality growth.

In addition, we launched Luckin AI, a smart assistant available via our domestic app and [mini] program, which enables personalized beverage recommendations and voice-based ordering, making the customer experience even more intelligent, convenient and engaging.

To support our continued large-scale expansion, we are continuously enhancing our high-quality supply chain infrastructure. In June, we broke ground on Luckin's fourth [roasting] facility, the Xiamen Innovation Industrial Park, marking another significant step forward in advancing our self-operated core supply chain.

Once operational, the Xiamen facility will form a coordinated production network with our existing roasting plant in [Ping'an], Wujin province, Kunshan, Jiangsu Province and the Coffee Innovation Manufacturing Center in Qingdao, Shandong Province.

This integrated network will elevate our total annual coffee roasting capacity to 155,000 tons, setting a new record for the largest roasting capacity in China's coffee industry. This expansion will further strengthen our supply chain efficiency and quality control capabilities, reinforcing the core competitiveness that underpins our long-term sustainable development.

In addition, we continue to advance our ESG initiatives, supporting the green transformation of the entire coffee value chain. In May, our roasting facility in Kunshan, Jiangsu Province was awarded with LEED Platinum certification, marking an important step towards building a sustainable value chain. In June, our green coffee bean processing plant in Baoshan, Yunnan province was recognized as a Eco-Friendly Factory Flagship by the WWF.

We also co-hosted a roundtable with experts from both the ecological and coffee sectors to promote shared values around environmental protection in Yunnan's coffee growing regions and to foster sustainable industry development.

At the same time, we remain committed to bringing Yunnan coffee to the global stage as a strategic partner of the inaugural 2025 Gems of Yunnan Green Coffee Competition, Yunnan CoE pilot program. We actively supported this international green tea competition debut in Yunnan, marking the first time, Yunnan's coffee origins were included in the globally recognized evaluation system. This effort aims to accelerate the sustainable internationalization of the Yunnan coffee industry.

Since the second quarter, new developments in the freshly brewed beverage market have accelerated consumer education and habit formation around coffee consumption paving the way for the long-term beverage growth of China's coffee industry. As the largest coffee chain in China by store count, we have effectively captured these industry tailwinds to accelerate our expansion, supported by strong store-level operational efficiency, a resilient supply chain and a well-established fulfillment network.

In addition, our data-driven user insights, advanced digital operations and highly efficient organizational execution will allow us to respond quickly to shifting market dynamics as well as to better serve and retain our customers, which will support our high-quality sustainable growth.

Looking ahead, we remain focused on expanding market share and driving healthy business growth. By fully leveraging our scale efficiencies and continued product innovation, we are well positioned to further solidify our leadership in China's coffee market.

Finally, I would like to extend my sincere gratitude to our customers, partners and investors for their continued trust and support and to our 150,000 Luckin team members for their dedication and hard work, guided by our entrepreneurial spirit. We remain committed to building a world-class coffee brand that delivers long-term value for our customers, partners and shareholders.

With that, I will turn the call over to our CFO, 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 are pleased to report another impressive quarter, marked by accelerated top line growth and expanding operating margins. Our laser focus on scaling the business helped us quickly capture new opportunities, strengthening our leadership in the market.

Let's now look at our financial performance in detail. In the second quarter, total net revenues increased by 47% year-over-year to RMB 12.4 billion, primarily driven by a 46% year-over-year increase in GMV, which reached RMB 14.2 billion.

This rapid growth was driven by strong performance across both sales-operated and partnership stores due to the faster pace of new store openings and our stronger ability to serve customers. This is further evidenced by the record high number of monthly transacting customers we achieved in this quarter.

Revenues from product sales increased by 45% year-over-year to RMB 9.5 billion, mainly driven by enhanced sales performance in our self-operated stores, breaking down our product sales into three streams. Net revenue from freshly brewed drinks were RMB 8.7 billion, about 70% of total net revenues. Net revenues from other products were RMB 615 million, about 5% of total net revenues. Net revenues from others were RMB 206 million, about 2% of total net revenues.

Looking at product sales from the perspective of company-owned stores, revenue from self-operated stores increased by 46% year-over-year to RMB 9.1 billion. Notably, same-store sales growth accelerated to 13.4% in this quarter, supported by cup sales increase and ASP uptick due to the volume mix shifting towards delivery. Store-level operating profit grew 42% year-over-year to RMB 1.9 billion, with self-operated store level operating margin standing at 21%.

Revenues from partnership store increased by 55% year-over-year to RMB 2.9 billion, accounting to 23% of total net revenues. This strong growth was mainly driven by increases in sales of materials and a profit sharing as a result of the robust performance in partnership stores as well as an increase in delivery service fees due to higher delivery volumes.

Cost of materials as a percentage of the total net revenue decreased to 37% from 40% in the same period of 2024. The improvement was mainly driven by our product mix tenders and enhanced supply chain advantages. In absolute terms, cost of materials increased by 37% year-over-year to RMB 4.6 billion, in line with our business expansion.

Store rental and other operating costs as a percentage of total net revenue decreased to 22% from 24% in the same period of 2024, primarily driven by enhanced operating efficiency and leverage from [cup] sales growth. In absolute terms, these [cups] increased by 30% year-over-year to RMB 2.7 billion, mainly due to higher payroll costs from increased cup sales as well as rising rental costs from continued strong expansion.

Delivery expenses increased by 175% year-over-year to RMB 1.7 billion, primarily driven by a significant year-over-year increase in delivery orders from food delivery platforms. As a result, delivery expenses as a percentage of total net revenue rose to 14% from 7% in the same period of 2024, in line with growth in delivery volume.

Sales and marketing expenses as a percentage of total net revenues decreased to 4.8% from 5.1% in the same period of 2024, mainly driven by enhanced operating efficiency and leverage from accelerated revenue growth. In absolute terms, sales and marketing expenses increased by 37% year-over-year to RMB 592 million, mainly due to our continued strategic marketing efforts to enhance brand visibility, along with increased commission fees paid to food delivery platforms.

General and administrative expenses as a percentage of total net revenue decreased to 6% from 7% 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 736 million, primarily due to decreased payroll expenses and share-based compensation as well as higher investments in research and development.

As a result, our GAAP operating profit increased by 62% year-over-year to RMB 1.7 billion, with operating margin expanded by 1.3 percentage points to 13.8%. On a non-GAAP basis, operating profit increased by 61% year-over-year to RMB 1.9 billion, with operating margin at 15%.

Net profit increased by 44% to RMB 1.3 billion, with net margin at 10.1%. On a non-GAAP basis, net profit increased by 44% to RMB 1.4 billion with net margin at 11.3%.

Finally, turning to our balance sheet and cash flow items. For the second quarter of 2025, our net operating cash inflow exceeded RMB 2.5 billion. As of June 30, 2025, we had nearly RMB 8.2 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 strong cash generation ability and healthy cash reserve will position us to consistently execute our scale-driven strategy in this ever-changing market, paving the way for our multiyear development.

In closing, our competitive edge, including strong brand recognition, large store scale, high product quality and value-driven pricing; continue to set us apart in a dynamic market environment. Leveraging this unique positioning, we are confident that we can consistently deliver high-quality results while creating long-term value for our shareholders. With that, we will open the call for questions. Operator, please go ahead.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question today comes from [CG Lin] with CICC.

Unidentified Analyst

[Interpreted] So thank you, management. Since Q2, the impact of delivery platform subsidy on freshly made drink industry has attracted a lot of attention. It brings new development to the industry. So how should we evaluate the impact of delivery subsidy activities on Luckin Coffee?

Jinyi Guo

[Interpreted] Yes. So thank you for your question. So this is a very important question that investors are paying close attention to, recently. Yes. So first, at Luckin, no matter it's a pickup or delivery, it's just a different way of receiving this cup of coffee, but we remain firmly committed to our core value of putting our customers first. So this means we must deeply understand our customers' needs and consistently deliver this excellent service to every of our customers.

So since the second quarter, food delivery platforms, they have launched many subsidy initiatives, so allowing consumers to enjoy high-quality coffee at even more affordable prices. This has led to a sharp surge in customer demand over a very short period of time. So this placed pressure on supplying flexibility, service stability and fulfillment reliability.

And thanks to our long-term investment in operational infrastructure, especially for the past 2 to 3 years, Luckin is actually well positioned with strong capabilities across the areas I mentioned. So it enabled us to effectively respond to those changes and make those requirements.

Yes. So for ourselves, we now operate over 26,000 stores across all cities of all tiers in China, and our standardized store procedures ensure efficient and consistent preparations of the beverage. Our deeply rooted supply chain also enables stable product availability, and our mature delivery system supports a timely and reliable fulfillment of delivery orders. So all of the spreads have actually made Luckin a preferred partner for those major food delivery platforms.

And in fact, the recent -- so this has actually made us a preferred partner for this platform. And the recent subsidy campaigns led by these platforms and to some extent, actually created a relatively favorable external environment for our scale-driven strategy, and this is evidenced by the positive momentum we have achieved across key operational indicators in this quarter. So for example, our new customer acquisition, reactivation of dormant users and increased purchase frequency among active customers.

Looking ahead, the duration and the scale of food delivery platforms, their subsidies remain uncertain and the market landscape may become increasingly complex. But what remains unchanged is the fundamental consumer demand or -- for those great tasting, affordable and conveniently delivered coffee.

We will continue to capture those evolving market opportunities that leverage our scale and operational efficiency, combined with our strong capabilities in product innovation, brand development and the supply chain execution.

So all of these strengths will enable us to remain agile in adjusting our strategy and to better serve our customers, which will allow us to fully benefit from the growth potential of China's coffee market.

So over the long term, we are confident that our competitive edge in our private domain traffic, our digitally driven user operations and our ability to consistently deliver high-value products and the premium services will allow us to navigate future changes in -- either in platform dynamics or market conditions with greater flexibility and resilience.

So these capabilities will enable us to achieve our long-term solid growth as well as to propel the healthy and sustainable development of China's coffee market.

Yes. So this is our answer for these questions. Thank you. We can move on to the next question.

Operator

The next question comes from [Huayi Lee with Cogent Securities].

Unidentified Analyst

Thank you, management, and I have one question. So in the start of the year, industry developments have evolved rapidly. And under this current circumstance and market conditions, what are the company's new expectations for store expansion and the financial metrics?

Nancy Song

Thank you for your question. And Dr. Guo will answer this question.

Jinyi Guo

[Interpreted] Yes. So China's regular food beverage market is one of the most rapidly evolving and competitive sectors. So since the second quarter, the launch of many -- the food delivery platforms, their subsidy campaigns has once again triggered new developments across the industry. So in response to these shifts, our company moved quickly to adjust our strategies and effectively captured the surge in consumer demand while accelerating our store expansion pace.

As I mentioned earlier, we added over 2,000 net new stores in the second quarter alone and over 3,800 in the first half of this year, both above our original plans set at the beginning of this year.

So looking ahead into the second half, we will continue to closely monitor the market development, capture industry opportunities and maintain a proactive and competitive store expansion pace to stay ahead of the industry changes. And we believe that the continued scaling of both supply and demand in China's coffee market will lay a solid foundation for our steady and sustainable long-term growth.

Yes. So Luckin remains a very young company, and the China's coffee market is still in its early stages of development, and this gives us significant opportunities ahead. We will continue to embrace an entrepreneurial mindset and stay attuned to market shifts and with a clear focus on outpacing industry growth and expanding our market share.

So overall speaking, supported by continued delivery platform subsidies as well as our own scale advantages, operational efficiency and strong execution, we remain cautiously optimistic about our performance for the full year. So we are committed to delivering high-quality rapid revenue growth.

At the same time, by leveraging our scale and improving operational efficiency, we aim to mitigate the cost impact from the shifting mix towards delivery and aim to maintain a healthy and sustainable level of profitability. Thank you. This is our answer to the questions.

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 management for closing remarks.

Nancy Song

Thank you, everyone, for joining our call today. If you have 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.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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