

Sustaining the Caffeine High The Reprise

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Brewed Coffee in China is an Undeniably Attractive Category

- Brewed coffee is **an incredibly profitable product** 80% gross margins
- Retailing coffee in small stores is **an excellent business model**
- This model **in China is dramatically more profitable than elsewhere** (SBUX China RLM = 35% vs. 23% in the U.S.)
- Chinese **consumption of coffee is growing** much faster than the overall spending
- Coffee contains a (mildly) **addictive & habit-forming substance**
- China is the **largest market in the world** for potential coffee drinkers **and is dramatically under-penetrated**

Luckin Coffee (LKNKY; \$24.05) \$7.5B mkt cap is the Vehicle to Invest in this Market

Luckin Coffee:

Is the largest retailer of brewed coffee in China with ~8,700 locations

Grew its top-line 66% in 2022 on top of 98% in 2021. The total store base grew 40%.

Store level margin rose to 28% and EBITDA expanded to 13%.

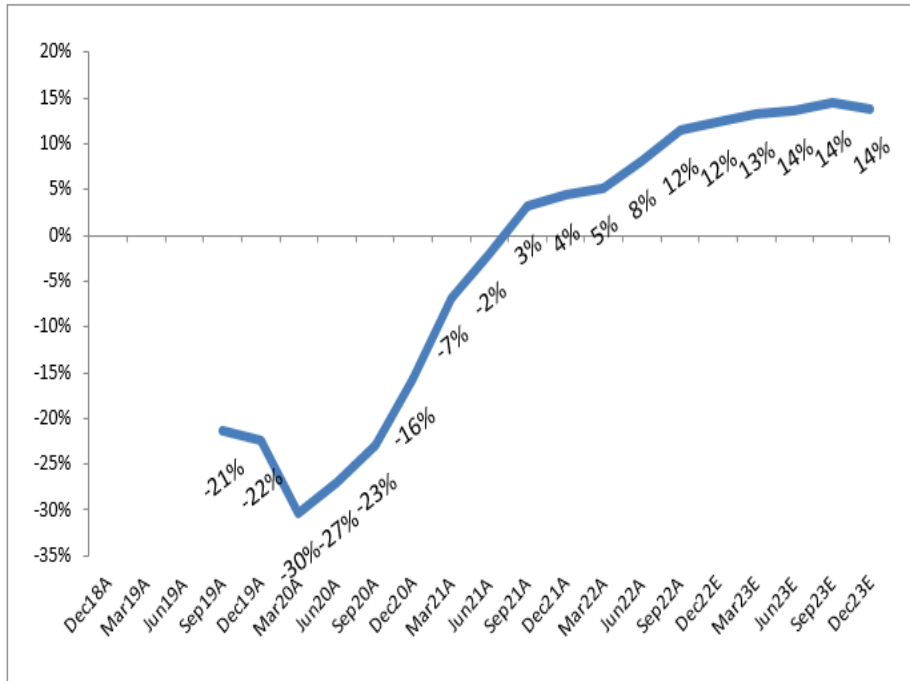
Store level lease adj. **ROIC rose to 36% and cash-on-cash >100%**

FCF of US\$158M (\$0.50 per share) & B/S with ~US\$844M in cash at YE 2022 and no debt (just leases)

*2022 figures are Quo Vadis estimates

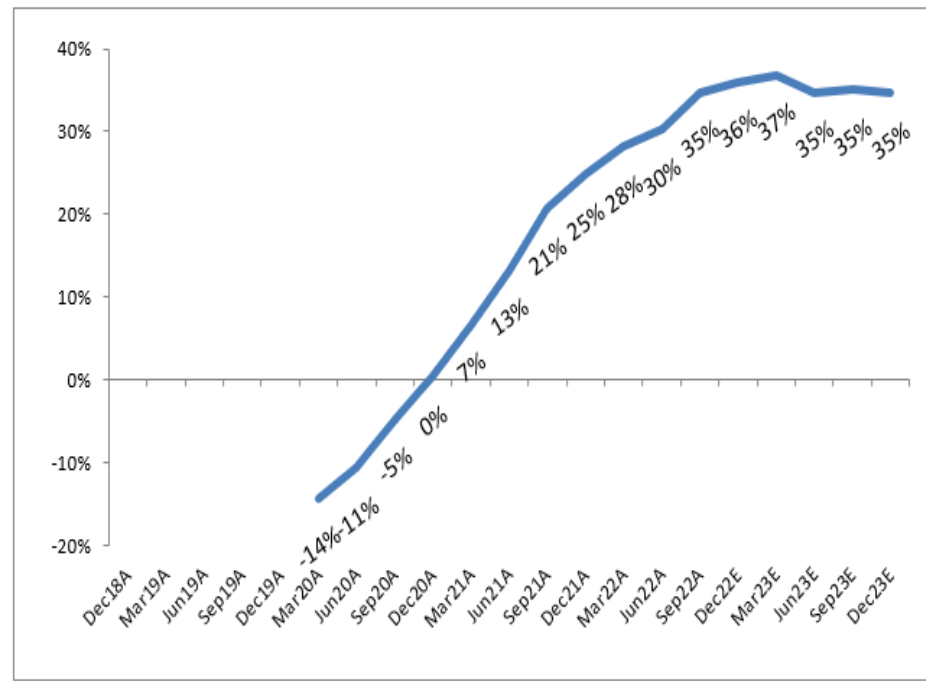
How are LKNCY Capital Returns Trending? Excellent

Luckin Coffee (LKNCY) Total Company TTM ROIC



Source: Co. Reports, Quo Vadis Capital, Inc. ests. ROIC is lease-adjusted.

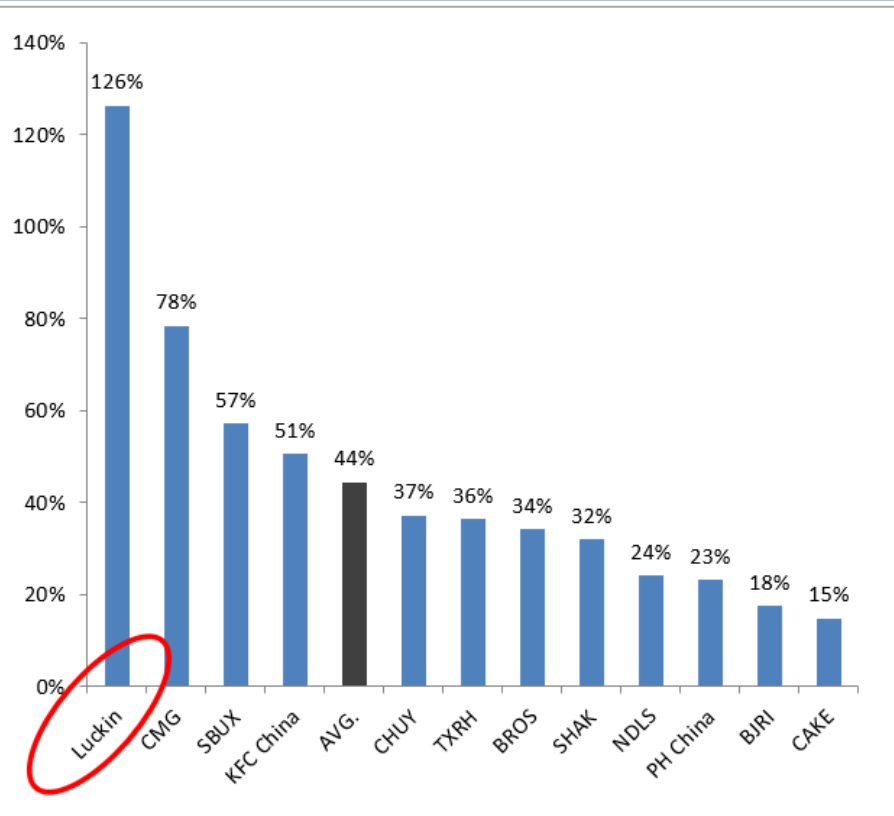
Luckin Coffee (LKNCY) Average Unit TTM ROIC



Source: Co. Reports, Quo Vadis Capital, Inc. ests. ROIC is lease-adjusted.

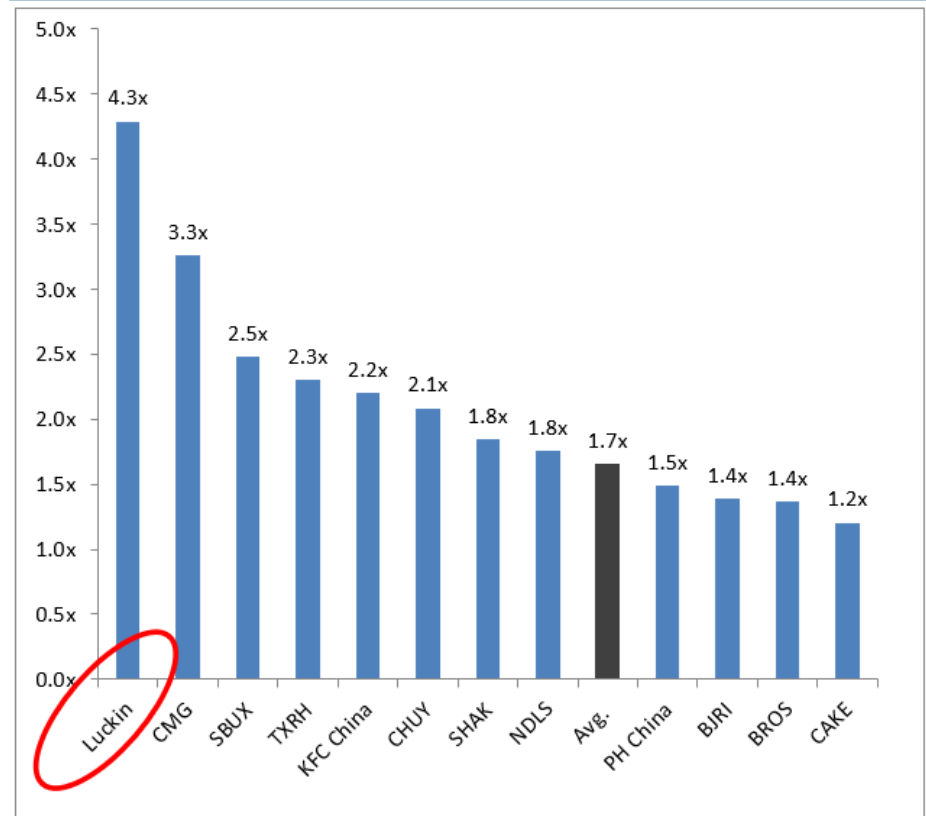
How do store level metrics compare? LKNKY > SBUX, CMG and the others

CASH-ON-CASH UNIT LEVEL RETURN



Source: Company reports & Quo Vadis Capital, Inc. estimates, based on 2022 figures

RATIO OF UNIT SALES TO INVESTMENT



Source: Company reports & Quo Vadis Capital, Inc. estimates, based on 2022 figures

How to Value LKNCY? We forecast FY25 EBITDA US\$534M

	2020A	2021A	2022E	2023E	2024E	2025E
Total sales in USD	\$ 595.2	\$ 1,176.1	\$ 1,957.2	\$ 2,583.0	\$ 3,190.5	\$ 3,810.6
% change	33.3%	97.6%	66.4%	32.0%	23.5%	19.4%
EBITDA in USD	\$ (230.1)	\$ 42.8	\$ 257.4	\$ 341.0	\$ 428.6	\$ 534.8
% change	NM	NM	501.9%	32.5%	25.7%	24.8%
EBITDA margin	-38.7%	3.6%	13.1%	13.2%	13.4%	14.0%
EPS in USD fully-taxed	\$ 0.00	\$ 0.40	\$ 0.58	\$ 0.73	\$ 0.92	\$ 0.92
% change	NM	NM	NM	42.4%	26.0%	26.4%
Company-operated stores	3,929	4,397	5,698	6,698	7,698	8,698
Year-over-year % change	-12.8%	11.9%	29.6%	17.6%	14.9%	13.0%
FCF IN USD \$M	\$ (472)	\$ (7)	\$ 158	\$ 252	\$ 338	\$ 437
in USD \$M	\$ (1.87)	\$ (0.03)	\$ 0.50	\$ 0.80	\$ 1.07	\$ 1.37
NET CASH IN USD \$M	\$ 320	\$ 532	\$ 882	\$ 1,097	\$ 1,399	\$ 1,798

Source: Company data, Quo Vadis Capital, Inc. estimates.

The Market is Already Valuing LKNCY Consistent with High ROIC Growth Peers

If we roll-forward current multiples to our 2025 forecasts it implies a **year-end 2024 price target of Of \$36 (+50% over two Years)**.

In an upside scenario we see \$38-\$40 by end of 2024.

1/20/2023	CMG	LKNCY	SBUX	YUMC
Recent Price	\$1,504	\$23.62	\$104.26	\$58.20
Mkt Cap (\$B)	\$42.0	\$7.5	\$120.2	\$24.7
ENT VALUE (\$B)*	\$41.3	\$6.6	\$131.6	\$20.6
Valuation Metrics*				
Vs. 2022E EPS (P/E)	45.0	43.8	35.2	50.8
Vs. 2023E EPS (P/E)	35.0	30.7	30.5	30.5
Vs. 2024E EPS (P/E)	28.7	24.4	25.9	25.3
Vs. 2025E EPS (P/E)	22.2	19.3	22.0	20.1
EV / <u>2023</u> Sales	4.2	2.6	3.6	1.9
EV / 2022E EBITDA	27.6	25.6	20.6	15.6
EV / 2023E EBITDA	21.8	19.3	18.0	11.6
EV / 2024E EBITDA	18.4	15.4	15.8	10.0
EV / 2025E EBITDA	14.9	12.3	13.7	9.2
Free Cash Flow Yield ('23)	1.8%	2.1%	2.3%	1.2%
Dividend Yield	0.0%	0.0%	1.3%	1.0%

Source: FactSet, Quo Vadis Capital, Inc. estimates

Catalysts

- **Uplisting to major exchange in 1H22** (currently trades OTC)
- Resumption of sell-side coverage (currently zero coverage and no published estimates)
- Co to begin marketing to investors again (only recently restarted earnings conference calls)
- Ongoing strong growth from new unit openings and like-for-like sales growth
- Possible capital return (repo, special dividend)

Investment Case Summary

- Presented last year at Klosters, +115% over 12 months
- Business performance was much better than expected
- **Company fundamentals are exceptional and little known**
- Still has multiple, identifiable catalysts
- See the business as long-term fast-growth high ROIC compounder
- Anticipate 50% upside potential over next two years using base-case earnings and cash flow forecasts
- Given recent outperformance, reasonable to also consider upside scenario of \$38-\$40 per share (+63% at mid point)

Risks

- Luckin is 100% in China. It comes with all the usual China risks including geopolitical tensions, foreign currency exchange (for non-China investors), and government interference including increased regulation
- The company is growing very fast. Store selection could deteriorate in quality.
- Competition could increase or the rate of growth of coffee consumption in China could decelerate.
- Like-for-like increases will slow from recent extremely fast rates
- **Luckin is majority controlled by one shareholder**

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