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Nayuki 2022 Annual Results Conference Transcript

**The respective meeting was held in Mandarin, and the English version is an automatic translation by of such for your easy reference. In case of discrepancy, the Chinese version shall prevail.**

Lu Cheng: Hello and welcome to the 2022 annual results presentation of Nayuki Holdings Limited, I am Lu Cheng, Head of Investor Relations of the Company. Present at today's presentation are Mr. Zhao Lin, Chairman and Chief Executive Officer, Ms. Peng Xin, Executive Director and General Manager, and Mr. Shen Hao, CFO of the Company. The flow of today's presentation is as follows. Mr. Shen will first give you a brief overview of the Company's results, and then we will open the floor for questions. Please welcome Mr. Shen.

**(The following is the introductory section of the presentation. Please go to page 5 for the Q&A section)**

**Shen Hao:** Hello everyone, first of all, thank you for attending the 2022 annual results presentation of Nayuki. Investors can browse our presentation through the company's investor relations website [ir.naixue.com](http://ir.naixue.com). Before the meeting, please read our disclaimer.

My presentation today is mainly divided into three parts.

First of all, I will briefly review the overall business situation of the Group in the past year. In 2022, the offline consumer industry will face huge challenges. We focus on both revenue and cost. On the one hand, popular high-quality products continue to be launched. While the gross profit margin remains unchanged, the price range of new products has been lowered as a whole, helping consumers to make purchase decisions more easily; new products such as the one-liter series have also been highly welcomed by consumers. We also continued our aggressive and steady pace of store expansion. At the end of the year, that is, in December last year, it crossed the threshold of 1,000 stores. On the other hand, our automatic scheduling system, automatic tea-making equipment and other digital and automated means have been launched as scheduled, reducing operating leverage, improving operational flexibility, and laying the foundation for the company to quickly return to profitability after the epidemic is over.

In the relatively harsh external environment, we continued to insist on product innovation and improve consumer experience. Through changes in product form and ingredient mix, consumers are provided with a new way of experience. Products such as the 1-liter "Supreme Bucket of Melon" were popular after their launch. At the same time, we insist on providing consumers with delicious and healthy products. In November last year, our entire line of products began to use mogroside, which is more expensive, but low in calories, naturally extracted and more stable, as a sugar substitute option. In addition to increasing product research and development efforts, we continue to look for partners that

fit the brand and interact through joint names and other means. Products jointly launched with brands such as "Menghualu" and Xiaohongshu have achieved good results. At the beginning of this year, we also cooperated with brands such as Dong'e Ejiao, Little Prince, "Chinese Strange Tan", "Wulin Biography", and the response was very good.

Thanks to sufficient capital and manpower reserves, we maintained a relatively steady expansion speed during the epidemic. We opened about 300 new Nayuki stores throughout the year, with a net increase of 251 stores, which are still mainly concentrated in the existing front-line, New first-tier and key second-tier cities. In 2023, we will seize the opportunity of recovery, look for high-quality spots, continue to implement the "increase store density" strategy, and expand stores actively and steadily. With the gradual improvement of point competition this year, we expect to open 600 Nayuki stores this year; due to the improvement of management capabilities, the reduction of store manpower, and the reduction of start-up costs, there will not be a large amount of additional start-up costs. To put it simply, the new store opening plan will not have any negative impact on this year's profit, but will increase the total profit.

In 2022, there will be continuous epidemics across the country, and operations will be affected from time to time. Some stores will not be able to dine in, shorten business hours or even suspend business, which will affect the performance of all regions. For details, you can refer to our voluntary operation announcements in the four quarters of last year, so I won't repeat them here. It is worth noting that although the fourth quarter still faces huge challenges, if compared with the first half of last year, the profitability of major cities remained relatively stable or even slightly improved. In the third part "Outlook", you will also see that all cities have maintained a good recovery trend after the epidemic.

We have seen that although the environmental pressure was still high in the fourth quarter of last year, and the revenue per store was basically the same as that in the first half of the year, thanks to the continuous cost control, especially the continuous optimization of labor costs, the operating profit margin of the stores for the whole year has increased. The recovery, especially the recovery of the second-tier stores with relatively low rents is more obvious. As you can see from the above table, it is the relatively high store operating profit margin we mentioned earlier.

In terms of members, in the second half of last year, the number of registered members of our Nayuki's Tea exceeded 50 million, and reached 56.6 million at the end of the year. In order to better show the activity of members, we have adjusted the quarterly activity disclosed at the time of IPO to the monthly activity. Our MAU has increased from 24% in 21 to more than 25% in the first half of 22, and the annual average MAU is 26.3%, maintaining a steady increase.

Below, I will give you a brief introduction to the financial performance of the past year. For specific data, please refer to the disclosed performance announcement. In 2022, the group's revenue will be 4.3 billion yuan, basically the same as the previous year, of which the main brand Nayuki's tea will account for 92.5%. The retail business currently accounts for a relatively small proportion, and we will continue

to evaluate whether separate disclosure is required in the future. Affected by external pressure, store revenue has been affected, profitability has declined, and annual losses are expected. In 2022, the annual adjusted loss will be 460 million yuan. Despite this, the group still achieved a positive operating cash flow of 300 million. At the end of 2022, we have more than 3.4 billion yuan in cash and time deposits in our accounts. The group's funds are very safe and can well support the company's operations and expansion. At present, the group does not have any large-scale refinancing plans.

In terms of products and sources of income: as reported in last year's mid-term report, during the epidemic, due to the limited offline traffic, the baking business that relies on offline customer acquisition has a greater impact. We expect the bakery business to recover after the epidemic. At the same time, due to the increase in retail business revenue, the proportion of other businesses has increased. Takeaway order revenue accounted for more than 50% at the peak last year and reached 46.3% for the whole year, but in the past few months with the recovery of offline traffic, it has rapidly dropped to 40% or lower before the epidemic. We expect that the proportion of takeaway order revenue this year is expected to stabilize at the pre-epidemic level, which will lead to a decline in the takeaway fee rate. On the next page we will explain how each cost changes.

In terms of cost management, although income is under greater pressure, the proportion of fixed costs such as depreciation has increased, and the cost of food delivery has also increased significantly. However, as we have been communicating with you in 2022, we have made a lot of efforts in terms of labor costs through automation, digital means and operational optimization adjustments. I also want to remind you that the income in 2022 will be greatly suppressed compared with 2021. Under the premise of this, labor costs will be significantly reduced, from 33.2% in 2021 to 31.7% in 2022. Moreover, raw materials and rents remain stable. Last year's income was greatly affected by the epidemic. This year, you can see the results of labor cost optimization last year. In the third part, we will discuss our outlook on cost structure in detail.

Next, I would like to report to you on the company's changes in the new year and future prospects.

From all perspectives, our current income is gradually improving after the epidemic, and consumption is recovering. We can consistently see from the four PPT pictures that after the release of the epidemic in December 2022, the first wave of epidemics quickly "passed the peak", Offline consumption soon began to recover. Our same-store revenue across the country is recovering. While the unit price of customers has increased slightly, the number of orders has also increased. Moreover, new and old stores are also recovering at the same pace. Therefore, we believe that, as can be seen from the multiple dimensions of the above four charts, the inflection point of consumption recovery has appeared, and the pressure on the income side in the past two years will be released.

Last year's interim report disclosed for the first time the situation of the company's single store. This year, following last year's single store model, we will make a detailed short-term outlook. More importantly, even though the single-store income level was lower than before the epidemic, through

unremitting efforts, we have greatly reduced operating leverage, made manpower, rent and other costs more flexible, and helped us achieve better single-store revenue. economic model. Especially with the continuous deepening of digitalization and automation measures, systems such as automatic scheduling help us discover the optimization points of manpower in stores and adjust them quickly; automatic tea-making equipment helps us greatly reduce the difficulty of training and improve the flexibility of manpower in stores. The manpower of our stores is gradually shifting from being configured according to "heads" to "working hours". In the future, we will continue to optimize manpower allocation and improve manpower utilization efficiency.

In terms of rent, last year, we signed a lot of relatively favorable positions, and the rent has been reduced. At the same time, because the company insists on brand positioning, it has taken the lead in the ready-made tea industry, and the rent negotiation ability has also increased. The competitive situation of the entire industry — especially the point competition where the offline format is extremely important — is developing in a direction that is beneficial to Nayuki.

continuous optimization of the supply chain in the short to medium term; we are very confident in completing last year's mid-term report on store manpower below 20% and rent Lower than the guidance of 15%; the performance in the first two months of this year, we can see the offline recovery trend after the epidemic, we believe that as the proportion of food delivery falls back to a relatively normal level of 40% or below, the cost of food delivery will be significantly reduced; The other two costs are water and electricity costs and depreciation and amortization. The cost rate of water and electricity costs is relatively stable, and depreciation and amortization is a fixed cost. With the decline in capital expenditures for new stores and the recovery of revenue, it is expected to further decrease.

Judging from the internal management accounts for the first two months of 2023, it is indeed basically consistent with our outlook, and even slightly better than the outlook in the above table. Therefore, we hope that Nayuki stores can maintain a store operating profit margin of around 20% in the short to medium term, and as costs continue to be optimized, the store's profitability will steadily increase.

From the perspective of the headquarters, in principle, we will not add new manpower in the middle and back office this year. With the increase in revenue, it will reflect the scale effect; marketing expenses and logistics expenses will remain relatively stable with the increase in revenue; we strive to achieve a stable retail business, which is the RTD business. While growing, we also hope that the retail business will achieve breakeven this year; the company has no interest-bearing liabilities, and our financing costs are mainly derived from the interest on lease liabilities brought about by the IFRS 16 lease standard, which is a non-cash item; as the proportion of new stores The ratio is expected to decrease year by year; other expenses such as travel and maintenance will also decrease with the company's strict cost control. Therefore, we have full confidence in the level of profitability this year. thank you all.

Lu Cheng: Thank you, Mr. Shen. Next, we will enter the questioning session. Please state your institution and name when asking questions. Each investor should not ask more than two questions.

(The following is the Q&A session)

**Question: Hello management, I am an analyst of Yunzhou Capital , thank you very much for this opportunity to ask my question today, I would like to ask a question first, Mr. Shen just mentioned that the plan to open 600 stores this year, please help us analyze the goal of 600 stores, including the opening of Nayuki and Taigai , or just Nayuki's store opening? Or is it about the distribution of cities, do we concentrate these in first-tier, new first-tier, and second-tier cities, or do we open stores in lower-tier markets as appropriate? If it is still concentrated in the first-tier, new first-tier, and second-tier cities, how do we view the space for increasing store density at the line level of these three tiers ?**

Zhao Lin: Let me answer this question. The 600 stores are mainly Nayuki, not other brands. The main distribution of our 600 stores is mainly to increase store density, and they are still first-tier and second-tier, and there will also be a small number of lower-tier cities, mainly about 90% of which are still to increase store density in existing cities. With more and more stores, our performance is getting better and better. For example, there are now more than 170 stores in Shenzhen, which may reach 250 stores this year. We found that the more stores there are, the more conducive it is for our customers to repurchase , It is also more conducive to the development of our stores, because there are 170 stores in Shenzhen, and there is not a single loss-making store.

In the second aspect, because we have been optimizing labor costs and rent costs in the past few years, stores with lower turnover can still make profits, which greatly increases our optional space. More than 170 stores in Shenzhen are basically located in shopping centers, and there are very few community-based stores, and the current performance of community-based stores is also very good, and the profit margin is not lower than that of shopping centers, so we think there is still a lot of space. For example, Guangzhou now breaks through 100 stores. When we find that breaking through 100 stores, its performance is still a lot better than that of 50 or 40 stores. We think that continuing to increase store density and blow up the brand is our more important thing to do next. We have reason to believe that we can open as many stores as Starbucks opens , because Starbucks now has more than 200 stores in Shenzhen, and we have more than 170 stores. We found that our space is still far larger than that of Starbucks. Repurchases are high, but tea drinking crowds are large, especially in office buildings and community-type places, and its performance is more stable.

**Question: Hello management, I have two questions: First, what do we think of the current situation of the tea market due to the three-year epidemic in China? Including also seeing some cross-border competition from coffee brands. The second question, seeing that the competitor HEYTEA has opened up the franchise model, will the company make similar moves in the future?**

Zhao Lin: Why do we plan to open 600 stores this year? In January, we still planned to open 400 stores. However, after the opening of stores in January, we found it easier and easier to open stores, and our colleagues became more and more interested in reporting stores. Soon, we found that if we open 400 stores, it will be completed very quickly. Why was it so fast? Because it is easier and easier for us to open a store now, why? Because on the track of the tea industry, we are screening owners, and the owners are also screening us, such as office buildings, shopping centers, etc., and we have found that we have no competitors at present when we find brands that reach our level. He has no choice, or choose us, or choose the next level of branding. Under such circumstances, it is becoming easier for us to open a store. Next, we still insist on promoting high-quality brands , products and prices that are high-quality and cost-effective.

As for other forms of joining, it is difficult for us to evaluate what they think about the form of joining. Do we want to join? It can be said that I have studied many projects in the early days when I was working more than ten years ago. Franchising is a good business, but franchising must be better than direct sales. Everyone knows Starbucks. For example, when your brand is good, such as It is said that more than half of Starbucks in the United States are franchisees, but the profit contribution is 10%, and 90% is brought by direct sales. It is relatively more difficult to do direct sales , because it is an all-round management, and the competition for tea drinks is relatively fierce. Many brands really have no way to make direct sales, because they lose money once they do direct sales. Including that you see a lot of raw materials, and everyone thinks that the cost of raw materials is very high. Many direct-sale brands may not have strong awareness, and the automation system is not so strong. In this process, many opportunities are wasted, the cost is very high, and the ability is not so strong. Some brands do not make money through direct sales , and are forced to do franchising. Our direct sales are okay. We know that direct sales stores have two difficulties: one is that it is difficult to choose a location, and it is not easy to find a store when opening a store . Second, cost control is poorly controlled. We all have this aspect. In this case, we can open as many stores as franchise stores. Let's put aside the matter of franchise. If we want to start franchise, we will decide today and start tomorrow, because we Many abilities are already in place, but I don't think it's the right time yet. I don't know when it will start, but I think our direct sales are pretty good now.

**Question: Hello, management. I am an analyst at CITIC Securities. I would like to ask two questions: One is about repairs. In March, the daily sales data of most business types dropped a little. Our absolute value has dropped, but the year-on-year recovery rate is still improving. How do we look forward to our performance in the second half of this year when the overall offline consumption recovers? And just mentioned, more stores will be opened , what is our expected income level of a single store in the future? The second is to ask Ms. Peng about the product. What is our overall thinking on launching new products this year? And what activities will be done?**

**And what proportion of revenue do similar new products account for in the entire product structure?**

Zhao Lin: Actually, in the traditional sense, tea drinking seasons 1, 2, and 3 are low seasons, and April is slightly better because the weather is getting warmer. Because the South China side is not so obvious, the off-peak season in South China is not so obvious, but the off-peak season in Central China and East China is very obvious. January, February, and March are off-seasons. April starts to be good, and May begins to show a peak. Judging from the data in January, February and March, I think I am quite satisfied. I completed the figures mentioned by Shen Hao just now. I think such figures were completed in the off-season in January, February and March. I think that when the peak season comes Time, we have a big development.

Peng Xin: I can also share about product issues. It is true that products are very dynamic. I can only share our insights and our actions this year. I have seen consumer feedback so far.

This year our team has a lot of insight into products: First, I think this year is the spring for traditional tea to usher in young consumers. The milk tea, which was launched yesterday , is now the number one in the sales list. We will see that young people are very enthusiastic about traditional Chinese tea . We will have more good tea this year. , Famous tea, how to make it into a product that young people love.

The second insight is that the upgrade of classic products is actually the application of some new raw materials on classic products. For example, this year's Valentine's Day and the Little Prince's joint launch of the cheese strawberry product, which we used for the first time. To make the milk element in it is to upgrade the milk to raw cheese, add rose dew extracted from fresh roses, and add some innovative elements to the classic strawberry product. This product sold very well as soon as it went online . And last week, the raw materials of raw cheese were also used in mango products, which was linked with the recent new drama "Journey to Bell Buds". The classic upgrade is also a direction that consumers like very much this year.

The third direction is healthy ingredients. At present, the Luo Han Guo sugar substitute products we have launched, including some healthier ingredients , are also very popular with consumers. These three directions will be the directions we will continue to explore this year.

**Question: Thank you for the explanations from the management. I would like to ask the management two questions: First, we have seen that many friends in the industry have appropriately lowered the unit price of customers. I would like to ask the company how we will consider product pricing in the future. ? Second, we have seen that the company has made a lot of preparations in the early stage since its listing, and the results have been very obvious in the past two years. I would like to ask you to look forward to the future for three to five years. What are**

### **the considerations for the capital expenditure of the headquarters?**

Peng Xin: The first question is related to the product, so let me answer it. In fact, in March last year, our classic products launched a series of 15 yuan to 19 yuan at one time, which is our fruit tea series, because we have an insight that we need consumers to buy products more easily. I don't think there is any brand Customers are won by high prices, and customers will always be won by better experience and cost performance. It can also be seen that the repurchase of users last year continued to increase. When we launched the 15-19 yuan product series last year, we heard some complaints from customers and thought these products were very cost-effective, but I chose to come to Nayuki today . I hope to have a more special experience, and we will It was found that some customers also made such demands. You can see that the products we are launching now are actually the same element, and we will choose to launch two SKUs. For example, when the intangible cultural heritage Longjing was launched yesterday , we will have classic milk tea for consumers. It is a product made for very good Longjing and fresh milk. Its original price is 16 yuan. Even if it is put into all milk tea brands, the same The price of high-grade ingredients will not be lower than this price. We think this product is a very high-quality and cost-effective experience for consumers . At the same time, we launched a luxurious version of Longjing products, which added pearls made by Qingtuan and cream tops made of imported animal cream. The price of this product is 23 yuan.

In fact, we give both products to consumers, and give customers the right to choose products. We always believe that Nayuki's brand positioning, what we want to do is to go beyond the customer's experience, and to be able to give customers a better cost-effective consumption experience. .

Zhao Lin: I think the use of funds is to ensure absolute safety. We are gradually increasing the number of stores now , and we will open more stores in the future, including overseas markets, new product creation, and RTD product creation.

### **Question: What are our future plans and arrangements for headquarters expenses?**

Shen Hao: I just introduced the cost of the headquarters. In the medium term, the biggest aspect of the cost of the headquarters is the manpower of the headquarters. The company has already reserved enough manpower for the development of the main business in the next three or even five years. Whether it is store expansion, marketing, or digitalization, we have already reserved enough manpower. In principle, we will not add any more staff. If there are some new businesses, such as overseas business, we may increase the number of personnel appropriately. This will be done gradually according to the scale of business development and will not increase significantly. In general, the proportion of manpower in our middle and back offices will continue to decline, which is the biggest aspect.

Other aspects, such as advertising and logistics, are relatively stable, maintaining a reasonable ratio with revenue growth. They have basically been relatively stable in the past three years, and other expenses will decline slightly. I think the cost of the headquarters included RTD last year. In order to form a self-owned team, the cost of RTD has increased a lot. This year, because the scale has also increased, the entire team has been well established. Our RTD will make a profit and loss this year. Under the circumstances, there will be no significant increase, and the labor cost of the headquarters will continue to decline in the future.

**Question: Hello, leaders. I am an analyst at Essence Securities. I would like to ask two questions: First, in the annual report, I saw that the operating profit margin of the second category of tea stores has increased significantly compared with the data in the financial report in the middle of the year . Many, I would like to ask what is the main source of the increase? According to the distribution ratio of the first and second types of tea stores , what is the distribution of these two types of stores?**

Zhao Lin: In the early days, we were divided into the first category and the second category. The second category was more community-based. Why did the numbers of the second category not look good in the early days ? Because in the early days, the profit of the second category was relatively low. At that time, the manpower was not fully optimized, and the manpower was still building a basic level; maybe selling 100,000 yuan a month had to allocate so many resources. When the turnover was low, the figures were not so great. nice. Now after we optimize manpower, the rent of the second-class stores is cheap, but the labor cost is high. When the turnover is low, the labor cost is high. We optimize the manpower, and the numbers of the second-class stores are much better. In the future, we will continue to increase store density the first and second categories, as long as the stores are profitable. We hope that in the future, consumers will have the same experience whether it is a store in a community or a store in a shopping center.

**Question: Hello, everyone in the management team. I am an analyst at Minsheng Securities. The first question is the plan to open stores. This year, the goal of opening 600 stores is exceeding expectations. We have seen 200 stores in several core cities, Shenzhen, There may be dozens of core cities in Shanghai, Xi'an, Beijing, and Wuhan. In terms of the distribution of store opening targets in the future, should we focus on these core cities or will we sink to the second-tier cities? Let's evaluate the scale of Nayuki's store opening in Shenzhen or in mature markets like Xi'an, Wuhan, and Shanghai.**

The second problem is product introduction. We are very impressed with the wave of new consumption in 2021. At that time, there may be dozens of types of tea drinks throughout the year.

**After two years and now, the industry structure has also been optimized. Is the new rhythm going to maintain this frequency or lower it relatively? From the perspective of consumer preferences, do you prefer past products or do you have a demand for new products?**

Zhao Lin: The first question is that the main distribution is still based on the current increase store density, mainly in first- and second-tier cities. I mentioned Starbucks many times just now. Starbucks in Shanghai now has more than 400 stores, and Nayuki has opened 170 stores in Shenzhen. Under such circumstances, I think that if the size and number of people in Shenzhen reach the size and number of people in Shanghai, I think there will be no problem for Nayuki to reach the upper limit of Starbucks . At present, I think it is no problem. The same is true in Xi'an. Xi'an has broken through 50 stores, and will soon reach 100 stores. It has a characteristic. When your poly point is getting lower and lower, you can actually cover more stores. In the early days, our poly point was very high. In fact, I think that when the poly point is getting lower and lower, we can open more stores, and we are still very confident in our number.

Peng Xin: In terms of products, you can actually see that in the past three months, the frequency of our interaction with consumers has remained at one content per week, and there will be new products and classic products. From the perspective of the entire brand, a brand will always have its own classic large items. No brand survives on new products. Its main performance contribution must come from its classic large items . There is a very good relationship between them. However, whether the sales of new products can be among the best during the period when they are launched, it shows whether consumers are still enthusiastic about the brand, whether the products and ideas made by the brand are loved by customers, this is also very important, it is both Combined, for example, every month we will maintain about two new products to communicate with consumers, and we will also have classic products to communicate with consumers. Yesterday's Longjing was a brand-new product, such as mango and strawberry products. Consumers thought it was a new product, and the combination of the little prince was a new content, but internally we also considered it a classic product.

**Monthly sales included in this will be higher than the daily expectations? Will there be an additional drop in fees? What are our expectations for the company's long-term net profit margin? It's all about profitability. Second, the RTD business is expected to break even this year. Looking forward, do we expect a flat development or is there a possibility of expansion in the future? Mainly these two issues.**

Shen Hao: With regard to the issue of net interest rate, we are confident that we can achieve five points or more this year. From our own point of view, we are very confident that we can achieve this year. You

just said that it corresponds to monthly sales or daily sales. On the income side, we did not say that this year will be very high. After the entire epidemic, our income is now recovering very quickly, but we are optimistic about this year's income side, but there is still a certain amount. I think the profit is still through the cost control measures in the past two years, especially last year. The biggest one is the labor cost. At the store side, we have seen the whole store . We think the manpower level can be kept at or below 20% . .

The cost of the headquarters has been relatively high in the past two years. One of the core factors is that the investment in technology, especially digitalization, is still quite large, and this still requires a lot of manpower to complete. The current team is already very strong, already at the top of the industry , and they can fully support the continuous improvement or iteration of digitalization in the future. The manpower in the middle and back offices will not increase this year. With the recovery of income, the proportion will definitely drop significantly. Other aspects, especially the cost of food delivery, will improve significantly this year. In addition, in terms of RTD business, in terms of the profit of the entire group, we believe that RTD business can achieve breakeven this year, and there will be a relatively large profit improvement compared to last year. . Including based on our own forecasts and our current intelligence, we have full confidence in this year's profitability.

If you talk about the long-term outlook, as we said at the time of the IPO, we hope that in the long run, we can achieve a 10-point overall profit level for the group. On the one hand, I think it is cost control, and on the other hand, we need to increase revenue and reduce expenditure. In terms of product marketing, especially the chairman mentioned that as we continue to increase our efforts in the first and second lines, the overall performance will be better and the overall profit performance will be better. I would like to add that, including rent, the overall competitive situation last year was actually very favorable to Nayuki's direction. Although it was suppressed a lot last year, we got relatively favorable positions for many points last year, including some inventory points. , Including the expected opening of 600 new stores this year, the overall competitive situation is now more and more conducive to the core location of the shopping mall and the direction of Nayuki's development. We have also made a relatively large optimization in terms of rent. We have made relatively great improvements in the three aspects of manpower, rent, and cost. This is why we have great confidence in this year's profit level.

Zhao Lin: We found in our actual operation that the rent and area of our first store opened in 2015 were still very large in 2015, 2016, 2017, 2018, and 2019. We opened 70% of the total number of stores now . In the past, our store opening costs, including investment and store rent, were also highly competitive. At that time, the rent of the store was basically high, and the cost of the store was very high at that time. However, in the three years of the epidemic, we do not know when the epidemic In the end, the store we opened in the past three years felt that during the epidemic period, we had to make a profit to open it. We dare not open it if it is not profitable. The numbers of the stores opened in the past three years are

very good. We must ensure these during the epidemic. Stores can't lose money. After such a comparison, in the long run, with the past three years, I think this year's figure also benefited from the fact that we closed some stores last year and opened 300 new stores. The growth rate is 250, which is equivalent to closing 50 stores. Next, we will continue to manage and store stores after expiration, continue to optimize stores that have brought huge losses to the company, and open better stores. In 2019, our average area was 280 square meters, but now it is 130 or 140 square meters, which means that half of the area is wasted, and many people still buy it online. Basically, there is no need to provide such a large area, so I think there are several aspects In terms of optimization, we just said that we will continue to optimize manpower, and there is another cost . The continuous optimization of the original store in 2019 is also a point of profit growth.

Peng Xin: Just now you said that this year our RTD actually set a very high goal for the team. As profit is the goal of breaking even, but the growth of performance also sets a very high goal of performance growth. At present, we have tested the water in RTD and we found that our products are still very popular with customers, because we are now entering the points, including Sam , 711, Family Mart, Lawson convenience stores and some traditional channels, we found that our products are in The entire convenience store system can be regarded as among the best in terms of sales. In terms of RTD, other competing products we face have invested a huge amount in advertising and marketing. We did not place any advertisements or publicity last year. We We want to see if it relies entirely on the Nayuki brand, which is loved by consumers and the advantages of the product itself, and we want to see if we can produce some very popular products. RTD, a popular product loved by consumers, is very important. At present, we are very happy to see that the sales performance of the three products is very good. The best performer is Nayuki Lemon Tea , which is low in sugar. The formula of lemon tea, health is now a particularly fancy appeal of consumers. The second is that unlike traditional lemon tea that emphasizes bitterness and Hong Kong-style flavor, we use duck droppings-flavored lemon tea, which emphasizes high-flavored lemon tea. We add real lemon slices when extracting , You can drink it with a strong lemon aroma, a good aftertaste of duck droppings, and a low-sugar formula. With the advantages of the product, its sales are very good. We will increase efforts to promote this product this year.

The second product is Qingti Xiangguo Tea. The sales of Qingti itself in Nayuki are very good. Now we have made bottled drinks, and its sales in convenience stores are very good. The third product is sugar-free pure tea, which sells very well. We made a special one for Sam, using the first-grade white tea from Yunnan to make Moonlight White Tea. A few days ago, some channel dealers came to us because they found our product. The products can be among the top sellers without massive advertisements when they are listed on Sam . We found that when we still use Nayuki 's brand concept to make bottled drinks, we use better ingredients and sugar to make a better product, and its price can maintain the current mainstream price in the market , not to sell at a high price, it is very popular with consumers, coupled

with the blessing of the Nayuki brand . We are also full of confidence in RTD's business sector.

**Question: Hello, everyone in the management team. I am very happy to chat with you two online three years ago. Today I have the opportunity to meet with netizens. Congratulations on achieving good results in such a difficult environment last year. I have four questions, two of which are about stores and sales. I would like to ask Mr. Zhao first, and I would like to ask Ms. Peng about the culture of brands and members.**

**One is store opening. I just mentioned the number of Starbucks stores in China and I am confident that we will be able to match it in the medium and long term. My observation is that Starbucks in China may be in a mature market like Shanghai so far. Most of the stores are already in office buildings and office buildings. If Nayuki opened four to five hundred stores in Shenzhen in the future, you What is the reasonable distribution ratio of stores in shopping malls and stores in office buildings?**

**Second, the break-even point of stores has dropped significantly, giving us more room to open stores. If you have two multiple-choice questions in front of you, one is that you can open more stores, each store is profitable, but the average store- side interest rate is lower and relatively few stores are opened, but the profit of a single store is high, you How to choose between these two questions? Let me first listen to Mr. Zhao 's thinking.**

Zhao Lin: I will choose to open more stores.

Peng Xin: If the second is correct, KFC, McDonald's, and Starbucks would not need to open so many stores.

Zhao Lin: Only when you have more customers can you support more stores. For example, we open more stores, but we still maintain a very high standard. That is to say, the more stores you have, the better your products will be. A good store is better. It doesn't mean that if you have too many stores, it's good to wash them. The two are additive, it's not offset , unless the thickness is too dense; but from the current point of view, I think it's still Far from there.

Regarding your first question, there are 30,000 shopping malls with an area of more than 60,000 square meters across the country. I have opened 1,500 shopping malls in relatively good shopping malls. Shopping malls are still the mainstream of future commercial development. The size and number of shopping malls are still Very big, good cities and good malls are still growing.

There are now more than 200 shopping centers in Shenzhen, and we have opened more than 100. There are still some opportunities for shopping centers, most of which are office buildings and community-

type. You can call them small shopping centers, and some of them are doing well. But we see this kind of places, community places, Starbucks they perform very generally, but they perform very well for us, including office buildings, we also perform very well, because we have relatively more products, such as milk tea and pure tea , fruit tea, etc. Our products are also very rich, and office buildings and communities are currently able to satisfy them. For stores, we think there is still no problem.

**Question: Thank you Mr. Zhao. There are two more questions I would like to ask Ms. Peng for his opinion. One is that we have noticed that since November and December last year, I don't know if we will pay attention to a data here, namely Douyin and Bilibili Each has a TOP 30 catering brand, and station B has a TOP 30 food brand. I noticed that Nayuki began to appear in the TOP 30 in the second half of last year, especially in the fourth quarter . From mid-2021 to now, before There are no brands that have entered the TOP 30 in the second half of last year. Last year, many other brands were more cautious in marketing due to competitors and the capital market environment. We believe that the next 12-18 months will be the best for our brand potential. Is there a better time? What is our strategy for this aspect of delivery?**

**The second is about members. We have disclosed the data of monthly active members. I would like to ask if we have statistics on the proportion of monthly active members to the overall sales in 2022? And what level do we hope to increase the contribution of active members in the future?**

, when I communicate with the brand and planning team internally , I never use the word "delivery". I don't allow the team to have the thinking of delivery. Why? For a brand like Nayuki , our own private domain users are very large. For example, as of the latest member department report, the number of online members exceeds 61 million, and the number of transaction users is more than 70 million, because members are authorized mobile phones. Account, which allows to accept the products and information pushed by our brand, plus the scale of the public account, the scale of our private domain , is a very large number of private domain users , which is within our fingertips. You have observed that our Bilibili and Douyin have appeared because our content has reached potential customers on these channels . In fact, we will not do unnecessary delivery. What we will always do is to find the current mainstream with well-planned products and content. The platform where the consumer is often used allows him to see this information. Maybe it was a public account when Nayuki was founded , including the later Xiaohongshu and the current Bilibili and Douyin . We regard these channels as a channel for us to communicate and interact with consumers.

The specific sales data of members may have to be pulled by Shen Hao and the others, because I don't remember the particularly detailed data very clearly.

**Question: Can you talk about the idea of membership operation? How to increase the repurchase**

**or activity of members .**

Peng Xin: I found that for Nayuki's consumers, the best products and experiences can increase the activity of consumers, that is, they are not those fancy things. It is always you who plan the products that consumers love and combine them with content. Among them, the product is always the first. If there are no such good products as cheese strawberry and cheese mango, even if I do the combination of bell sprouts, I believe that consumers will not buy it if they buy it . Snow leaves a good impression. So in fact, I think that active users are always good products and good cost performance. In addition, there are fun activities to continuously interact with consumers, this is how I understand it.

Shen Hao: Member sales account for about 50% of the overall sales. Our members have grades, and our V2-V6 members also account for 50% of member sales.

**Lu Cheng: We also received some questions from online investors, many of which were discussed on the spot and in the PPT . There are still two questions below, and the management may ask for help to answer them:**

**First, the company just said a lot about the plan to open a store this year. What is the plan to close the store this year?**

**Second, regarding marketing, where do we plan to invest more in offline marketing and digital media marketing in terms of various channels? Which will be more effective?**

Zhao Lin: Let me talk about the plan to close the store first. The store that lost a lot last year, after the adjustment last year, the overall loss of Nayuki in the store is still decreasing. Of course, we still have space. For example, there are still many stores whose rents are relatively high. After many stores expire, because they are now profitable, because they will gradually expire or cut off two-thirds of the area and keep one-third. This is one aspect of optimization to give customers experience, and the rent will be reduced. The second is that after the expiration date, because our current brand is different from that of a few years ago, our current brand strength is already incomparable at that time. At that time, our room for bargaining was very low, and now the room for bargaining is still very high. So while we were talking about relocation, we were talking about rent at the same time, so this is probably the case.

Peng Xin: In terms of online and offline marketing investment, we always have to do a good job in both. Many people think that online marketing investment is low. In fact, this idea is actually wrong at the moment. Why? Because offline marketing investment can be very well converted into private domain users , into community users, and manage customers well at very low or no cost. But on the contrary,

there is a very high level of competition online. For example, if you see that half of the investment in advertising is spent on the takeaway platform, I believe that when you enter the takeaway platform, you will find that tea is a very popular brand. At present Except that most of our brands are franchised brands, their investment in this area is very fierce, and they are very vigorous in advertising and free delivery. It is not like my offline store opened for long-term exposure, and online bidding is used. In the way of traffic, we will not relax online under the current competitive situation, and we will maintain that our stores must appear in front of customers frequently. I think we still have very good advantages. We have more offline aspects. Stable consumer reach. In terms of some new channels, as mentioned in the question just now, we will also observe that platforms like Douyin and Bilibili are very good platforms, including Xiaohongshu's grass-growing platform. Now our strong private domain + Xiaohong Books, Bilibili's grass-planting platform, Douyin, some trading platforms, and a takeaway platform that emphasizes trading and delivery, all of which can't be done poorly.

At present, we look at all platforms, our marketing expenses are relatively low, and our advertising efficiency is relatively high, thanks to our relatively high brand potential and good product planning, as well as our strong private domain.

Lu Cheng: Thank you for your attention to the management and investors. Today, due to time constraints, our press conference is here first. As usual, after the press conference is over, we will upload the transcript of the press conference to the company's official website [ir.naixue.com](http://ir.naixue.com) as soon as possible for your convenience. If you have further questions, all investors are welcome to contact us through the IR mailbox disclosed on the official website . This concludes today's press conference.

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