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Nayuki 2022 Interim Results Conference Transcript

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

Lu Cheng: Hello and welcome to the 2022 Interim Results Conference 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 6 for the Q&A section)

Shen Hao: Good day and welcome to the 2022 interim results presentation of Nayuki Holdings Limited. Investors can view our presentation via the Company's Investor Relations website. Please read our disclaimer before the conference begins.

My presentation today is divided into three main sections. First I will give a brief review of the Group's overall business situation. As of 30 June 2022, Nayuki covered 85 cities with more than 900 shops, 2/3 of which are located in Tier 1 and New Tier 1 cities. While we continued to increase shop density in our head cities, we also continued to cover new cities. The epidemic caused a lot of disruption in various markets, especially in higher tier cities in the first half of the year. To reduce the impact of the epidemic on consumer confidence and willingness to spend, we launched more products in lower price bands, and several products became breakout hits and top sellers.

Our new products are not necessarily brand new ingredients either, new ways of experiencing them are what impresses our customers the most. We launched our first ever one-litre fruit tea series to attract consumers with superb value for money, with products such as Supreme One Litre Peach and Supreme One Bucket Melon selling over one million cups in first week on the shelves.

As we mentioned in our annual results conference, we have maintained our shop opening target at the time of the IPO and we expect to open around 350 new shops this year as well. At the same time, we have set higher requirements for new shops, such as stricter financial forecasting standards, signing purely deductible leases where possible, and so on. In addition, we have also made adjustments to our existing shops to gradually get rid of some of the excessive rentals in the past, which helped us to maintain a more stable rental cost rate in the difficult situation in the first half of the year, which will be discussed in detail.

With the PRO shop type having been fully validated, we have made optimised adjustments to the shop type disclosure since the middle of this year, and the data shows that the revenue of the PRO shop type is basically the same as that of the standard shop at the same point, while the costs can be optimised. Most of the existing standard shops will also be gradually converted to PRO shops as their leases expire. We have merged the former Standard and Type-I PRO shops to de-emphasise the difference in shop type and instead emphasise the difference in performance due to the location of the different shops.

In the first half of this year, there were epidemics around the city, Shenzhen had a week of city-wide silence and more areas maintained a 24-hour nucleic acid entry to public places for a longer period of time, Shanghai had basically no revenue for two months, which had a serious impact on shop performance and dampened consumer confidence. As you can also see from the single shop sales and margin profile in the table above, we are still showing relatively good resilience in cities such as Shenzhen, and we will continue to increase shop density logic in higher tier cities. It is true that we have no way to change the external environment, but we can adjust our operations to optimise cost flexibility and improve the company's profitability in an uncertain external environment. We have made a lot of efforts to reduce costs this year, which I will talk about specifically later.

The first part concludes with a look at membership figures. We reached 49 million members at the end of June, an increase of 5.7 million members in six months, and an increase in membership activity. On the one hand this is closely related to our marketing and membership activities in the first half of the year, and on the other hand it shows that our product strategy of broadening our price band is being widely welcomed by consumers. Our order bookings have recently started to turn positive year-on-year, which is particularly rare given the current climate.

I will now give you a brief overview of our financial performance in the first half of the year, and you can also refer to the disclosed results announcement for the specific figures.

As I mentioned before, the first half of the year was a half-year with a huge impact from the epidemic. The Group's revenue of $2.04 billion in the first half of the year was down from last year, and the operating margin of shops dropped from 19.2% to 10.4%, and the Group also turned from profit to loss, with an adjusted loss of $249 million. However, the Group maintained a positive cash flow from operating activities despite the poor market environment and we had cash on hand of over RMB3.7

billion as at 30 June, making both capital and cash flow very safe.

In terms of products and revenue streams. There was a small decline in the proportion of bakery, mainly due to external pressures and the Company's focus on its better resilient main business line of tea beverages, including the extensive restrictions on offline consumption scenarios during the epidemic, and the Company will continue to launch more premium bakery products that do not require on-site baking once the environment has recovered. In addition our RTD retail product sales are growing at a faster rate and we expect to make a separate disclosure in this year's annual report.

In addition, due to the impact of the epidemic on the consumption scenario and consumption habits, the takeaway ratio has increased more significantly in the first half of the year. We believe that a stable takeaway ratio is more conducive to the healthy development of the Group, and after the epidemic eases, it will help consumers return to offline consumption in shops, and the takeaway ratio is expected to return to a normal level.

In cost management, although the overall raw materials have risen, but relying on better supply chain management, raw material costs have maintained a steady decline in a good trend, the first half of the gross margin of 68.3%, shop manpower costs with the implementation of our improvement measures, in the second quarter you can see that the cost of manpower began to have a significant decline. The overall labour cost in the first half of the year was 34.8% and the staff cost rate of Nayuki shops accounted for approximately 26% of Nayuki shop revenue. The continued optimisation and adjustment of rents has helped us to gradually reduce the rents of some of our existing shops and keep the overall rent ratio stable. A small reduction is expected in the future.

This page focuses on the unit economic model, which is the first time that the Group has disclosed and discussed excellence to you. This is the first time that we have disclosed and discussed our excellence. The excellence of our shops varies from month to month due to the seasons. I would also like to remind you that the figures here are from the management report and are not the same as the audit report. The year-on-year figures for June will help you to see how our shop excellence has changed over the past year. Overall as UE continues to be optimised, our core costs are expected to fall further.

Firstly, the raw material cost rate is relatively stable, from 35.1% in June last year to 34.5% in June this year, and will remain no higher than 35% in the future. Shop manpower has been significantly optimised through the company's efforts, falling from 23.7% in June last year to 18.9% this year. The completion of our automated tea making machine on line in September will effectively consolidate this hard-earned achievement. We plan to stabilise shop labour costs at 20% or less. Although the rent percentage may seem to have increased slightly, from 13.9% to 15.7%, it is actually the result of a lot of work. Due to factors such as the epidemic, there was a partial decline in revenue, and the original pressure on guaranteed minimum rent was relatively high. In the first half of the year we have made many adjustments to the rents of the old shops in line with the new shops, which are gradually paying off. As previously stated, we are now also aiming to be on a purely deductible lease and we believe we can keep our rental costs within 15 points in the short term. There has been a large increase in the takeaway cost share, from 6.2% to 9.2%, which is strongly correlated with the increase in the takeaway share. This is our current hope that after the epidemic is over, consumers will still return to offline consumption more often and the takeaway share will return to normal.

At the end of the second part you can look at the graph. Given these efforts that we have described before, despite the pressure on revenues and profits in the first half of the year, with the gradual deepening of the company's cost control and the implementation of digitalisation and automation we achieved the first monthly profit at the management registration level this year in June this year, and we hope to continue to consolidate this result.

I would like to give you a brief report on the company's outlook for the future. First of all, the digitalization and automation improvement measures that we have repeatedly emphasized have started to bear fruit, and in the first half of the year, automatic scheduling and other systems have helped us to reduce the manpower cost rate of our shops. This is expected to further consolidate the effect of manpower cost reduction in our shops. We will continue to introduce more automated equipment and optimise our software system to help achieve our goal of reducing costs and increasing efficiency.

In the first half of this year, in the face of the difficult consumer environment under the epidemic, we launched lower priced band products to reach a wider consumer base in a difficult external environment, and we have seen a better recovery in order volumes despite a decline in customer unit prices, and even achieved a year-on-year increase recently. Going forward, with our digital management, supply chain strength and product implementation capabilities, we are confident that we will see a parallel growth in shop efficiency and profitability as consumption gradually recovers.

Our RTD retail business is also growing steadily, with over 80,000 offline sales outlets and the launch of popular products such as Green Grape Oolong.

Finally I would like to introduce you to the changes we have made at the Nayuki Dream Factory in Shenzhen Coastal City. The Dream Factory has been renovated over the past few months and was officially opened yesterday as Nayuki Life, which introduces a number of independent brands such as the most beautiful bookstore, Fangsuo, Aokka Coffee and Monster Burger, to provide consumers with a one-stop living experience. Here we don't define life, but explore it together. In the future, we hope to work with more outstanding independent brands to grow together, and we do not rule out more in-depth cooperation, and welcome you to experience Shenzhen Coastal City.

That's all for my presentation, I'll leave the rest of the time to you investors, thank you.

Lu Cheng: Let's move on to the question session with no more than two questions per investor.

(The following is a question and answer session)

Q1 [Tianfeng Securities] First, we see that indeed the number of shops is now relatively high, and it is not particularly reasonable to do a year-on-year comparison with before. I would like to ask what level of single-store daily sales we think we can expect if we recovered from the epidemic relatively well?

Second, we have mentioned maintaining this year's gross shop opening plan, now it seems that the epidemic in Shenzhen, Shanghai and these places have some recurrence, I would like to ask if there are some changes in the point of consideration in the region, and in this situation is it more difficult to maintain this target?

Shen Hao: The daily sales situation is indeed difficult to predict now, because the impact of the epidemic on consumption is relatively long-term.

Although you have just mentioned that there are more and more shops, we are actually still adopting a strategy to continue to increase shop density in higher tier cities. For example, we see that in the Shenzhen market with 135 shops, the daily sales per shop in Shenzhen is still maintained at a very good level and there is no significant dilution.

Daily sales now depend most on the control measures for the epidemic and the situation of the epidemic. We expect our year-on-year daily sales to return to 2019 levels in mature markets in the context of a gradual improvement in the epidemic situation. At that time we had some high starts in new cities in 2018 and 2019, after which we will gradually stabilise to the performance in mature markets.

Zhao Lin: The second question many people have also asked me, now the epidemic is still relatively serious, several districts in Shenzhen are closed, across the country in central China, north China, northwest, now the epidemic is still very serious, many are restricted from dine-in. In this situation why do you still maintain the original 350 shops, this issue I am also repeatedly thinking, the reason is because we are in this environment, because our shop opening strategy is to open shops without losing money.

When we look at the 900 shops today, the ones that are actually losing money are the ones that opened in 2018 to 2019, because the market was very good at that time and every shop was brimmed, the opening of shops in that situation was very optimistic, and according to the profit level set by the shop efficiency at that time, including rent, labour and everything, it was profitable at that time. But when the market deteriorated, now when we look at the shops at that time, many of them were losing money. The reason why our figures are slowly starting to look better now is that when the epidemic hit there were very few shops that lost money, because what you do in tough times is a decision made in the face of tough times, and a lot of the time what you do is in the face of good times.

If we don't lose money now, we will make money in the future. We are trying to stay profitable even in a bad situation. How can we maintain profitability in this situation? Shopping centres are empty, people don't go shopping, offline consumption is very weak and retail is in a mess. In this situation, no one is opening shops, but we still keep them open, so we have a lot of room for better rent. We can get rid of this guaranteed minimum rent, which is a huge advantage, and it's a fixed cost.

Secondly, we now open the shop how to maintain profitability, must be in the case of labor saving, can make the relative performance under the limited labor situation, in this case we will definitely accelerate our automatic equipment, automatic software investment. In fact, we adhere to the current strategy, open the shop we promised, may open the shop performance will not be so high, at least not lose money, at least be able to bring profits to the group.

[Q2 Guoxin Securities]: I would like to ask a follow-up question in relation to what the company just said, you just said that we can negotiate a better rent when others are not taking bids, I would like to understand what kind of lease term we are taking at this point in time? I would like to know what kind of lease terms we can get at this point in time, and generally speaking, what kind of lease terms we can get in the future, including the optional renewal terms for commercial properties.

Secondly, we see that some coffee shops have good figures so far this year, there are reasons for the miniaturization of shops, including the difference in coffee and tea, I would like to know if we will further consider more flexible shops or miniaturization in the future under the current situation of gradual upgrading of PRO shop type, thank you.

Zhao Lin: The first problem is that the brand power of Nayuki is good, in this case, we will also consider multiple factors during the negotiation, and we will also consider the risk factor in our contract terms. The first is the a percentage-of-sales-only rental model, we will also add some clauses, for example, once the turnover does not reach 300,000, we may not have the pure deduction of rent, we will have some shops to sign this clause. Why? Because there is no income from the business, which proves that the epidemic is coming, and when the epidemic is coming this part has to be controlled first. In this case, if the epidemic does come, we will share the risk today. I think it is also reasonable that many owners have signed this clause with us, which is a more important factor for us to control the risk.

The second question is whether we will open more flexible, all takeaway shops like Luckin. Now we can see that our takeaway ratio has almost reached half, for when we first opened Nayuki, not a single takeaway, these two years continued from 20%, 30%, 40%, almost 50%, after the epidemic came this speed is soaring. The whole business logic is actually changing with the general environment, a huge change, but we also still believe that the future offline to bring customers offline experience is very important, in this case to take both into account.

We have to take care of the online takeaway, but at the same time, when the epidemic is over offline, when people can go online for leisure, we still have the conditions to meet their consumption needs, which is the road we insist on taking. The problem is that we have to balance the business needs of both and at the same time control our costs. We have signed some pure deduction points, and compared to RuiXing and some other brands, I believe our rent is not higher than theirs, but we are balancing both functions at the same time. The advantage is that we will still be able to capture business in the future when the market is good, but if others only have this one function, I think their risk point may be greater.

[Q3 CICC]: I would like to ask two questions.

Firstly, we mentioned earlier that the proportion of takeaway will drop as the epidemic recovers, but we also see that some other items, including Western-style fast food, etc., may not return to the level before the epidemic, and the proportion of takeaway will still be higher than before the epidemic. Most of our traffic is from third-party platforms, so I would like to ask if we would like to rely more on our own traffic in the future, and if so, how can we do that? And will there be a target for the share of our own traffic in the future?

Secondly, I remember that perhaps two quarters ago, we did not have too many Type-II shops at that time, and we may have chosen some shops that were not particularly well located at the beginning, so there may be some gap between this performance and Type-I shops. In the future, what is the proportion of Type-I and Type-II shops in the opening and expansion plan?

Zhao Lin: the first question, will we use own traffic more for takeaway. Now the cost of external traffic is more expensive, I think for us we have been doing mini apps takeaway, that is, our own traffic, our principle is that the external platform traffic is very high, we have to take, but our own traffic also necessary. We can't change the consumer's consumption habits, we try to make him see us everywhere as much as possible, this is the main thing, to be able to do a good job of their own at the same time to take into account the external traffic. We cannot say, oh, the external costs are high, then I only use traffic from my own mini apps. This will also be uncomfortable for the consumer, he will feel that it is inconvenient to see you, we have to be seen everywhere.

The second issue, the Type-II store and type-I store. We will find that after the onset of the epidemic, people's consumption in the centralized business began to weaken a bit, in this case, the community instead slowly began to increase, people's consumption near the mainstream. Our current Type-II stores, although turnover is not high, but profits are not low, because many costs are relatively low, rent costs in all aspects of the cost is low, may not be so high turnover, but he can ensure that our profits are also very good, we bought so much, when the customer more convenient to be able to consume us, more able to develop their habits of consuming Nayuki. We have always been committed to making products that are in demand, we want to make things that customers can do every day, breakfast can also be in Nayuki, afternoon tea can also be in Nayuki, everywhere in order to develop his habit of you. That's our main thing. Not specifically to go to you, to make it convenient for the customer is the main direction of our future development.

Follow-up question: Is it possible that the percentage of Type-II shops will increase after that?

Zhao Lin: Yes, where the customer is, we want to provide as much convenience as possible, if the location of the Type-II stores need more, we will be more, Type-I shops need more, probably the overall upward, and go hand in hand. With more and more shops in cities, such as more than 130 shops, the number of Type-II shops must increase, there is no doubt about it.

Peng Xin: This can also be added to your first question, you just mentioned is the takeaway problem, in fact, just now we disclose inside, the takeaway part of the proportion inside a considerable part is from our own small program on the takeaway, even from the small program takeaway, in fact, the cost is also not low. What we really want to do in the future is to get closer to the user and increase the proportion of customers coming to the shop or picking up their own food, rather than relying entirely on takeaways. The good thing about takeaway is that it shows that it becomes an immediate need for the customer, even if there is an epidemic and there are various effects, he is willing to drink and eat our products by ordering takeaway, which can be a supplement to our performance. We must be looking for ways to continuously improve our self-collection and in-store performance.

[Q4 CMBI]: Congratulations on such a solid performance despite the relatively tough conditions, I have two questions.

Firstly, regarding the financial performance of the PRO shop type, you mentioned that the PRO shop type has been fully validated and I would like to ask what you are seeing to make this judgement, the current epidemic has a lot of disruption to the data. In a more mature and epidemic normalised situation, is the OP Margin of your shops still expected to be at the level of 25-35 as a premise? Would this target be somewhat different if you split up Type-I shops and Type-II shops?

Secondly, regarding the profitability of the shops in Shanghai, Beijing or the north, we are doing very well in the south, especially in Guangzhou Shenzhen, but the profitability in Shanghai and Beijing, the profitability is relatively low, and the epidemic has a direct relationship, from a medium to long term perspective, we do not hope that we can by a better profitability? How is the space roughly? If the scale of our shops goes up is it possible to reach a better level?

Shen Hao: The first question is whether the PRO shop is fully validated, looking at both sides.

Firstly, on the revenue side. As I've just said in the results, basically now in the same location (because you want to compare apples to apples), the sales of PRO shops are basically the same as standard shops. This proves that on the revenue side, including the customer intake side, this is basically a no-brainer. In terms of cost, the PRO shops have shown great advantages in terms of cost, especially in terms of manpower and rent.

For example, in terms of rent, the area will be smaller, lighter and more suitable for us to have better lease conditions, and even more so in terms of manpower, the entire shop type will be optimized for manpower, including the use of automatic equipment, including the overall manpower costs will be very good. These two points have now basically proved that PRO shops have been fully validated, which is why we decided to merge the original standard shops with a class of PRO shops in the middle of this year, and we will basically change all the standard shops to PRO shops after the leases. Now that the epidemic will continue, we estimate that it will not turn around immediately, but will also have some long-term impact, and under such circumstances, the more flexible cost rate of PRO is more suitable for the current external environment.

Secondly, you mentioned the normalised shop margin Op Margin, this year we disclosed for the first time the UE of a single shop, you can see that we can get close to 20% OPM under the external environment of the epidemic now, many including like manpower, rent, raw material costs, especially like manpower, rent or to soon sales ratio, sales are now suppressed by the epidemic in a relatively strong situation, we can still achieve such margins. We think that when the epidemic recovers and there is a big rebound in revenue after the recovery, at least we will have better margins in terms of rent and manpower, and an increase of 5 points is definitely possible. I think after the recovery of the epidemic, we are still very confident that our overall profit margin will be 25.

Back to the first question from you, we are very confident that after the recovery of the epidemic, the year-on-year sales, including the overall ratio, is comparable to 2019, because our overall strategy is now to increase the density of shops in high tier cities, so that the overall performance will continue to be optimized, which is well proven in Shenzhen, including in Guangzhou. With the recovery taking place on the revenue side, we see a 5-10 point improvement in shops now, which is still relatively evident. It also helps you to understand: manpower is under 20, rent is under 15 and takeaway costs can go back to 6-7 points if offline consumption is restored. Takeaway costs, depreciation and amortization, utilities, these three pieces are relatively rigid and stable in absolute terms. Now because sales are being suppressed to a certain extent, when sales rebound better, I believe that these three pieces can be squeezed out with 1.5 points of depreciation, 1 point of water and electricity, 2-3 points of takeaway expenses, there are 5 points here, plus some continuous optimisation of manpower and rent, I believe we are still very confident to return to 25, or even upwards.

Zhao Lin: the second question I'll answer, from the current point of view, South China, even Guangzhou's data is not bad, indeed Beijing, Shanghai's figures are more difficult to see. We have also analyzed, why Shanghai and Beijing, just said the shop opened in 2018, 2019, is now our main unprofitable shops, that time is in the market is particularly good, open the shop is very optimistic, the rent is also high, the area is also large. At that time, because it was very popular, it could be supported.

Now with the whole market being bad, it's become our biggest pressure, and in 2018 and 2019, it's basically these types of shops that are opening in Shanghai and Beijing with very, very high rents.

From the current situation, there are relatively few shops in Beijing and Shanghai, and all the shops opened are those that have opened, and when the epidemic comes in 2020, people's confidence is low and they start losing money. We later found out that firstly, for customers in Shanghai and Beijing, they don't know us that well, because there are fewer shops and fewer opportunities to try us, unlike Shenzhen, which has a population of less than 20 million, but we have 6 million members, which means 1/3 of the people have bought Nayuki, not to mention knowing about it. We are very clear about all aspects of his convenience, we are still very confident in our own products and experience, in this case our future strategy is still to continue to open relatively speaking in Shanghai and Beijing, at this moment to open a dessert shop that can cost and profit control, at least to open a shop that does not lose money. Let more consumers understand Nayuki and get used to it, this is our strategy in Beijing and Shanghai.

We also found that the shops opened after the epidemic, especially this year, the worse the situation from last year to this year, the shops opened in Beijing and Shanghai were profitable instead, the original situation was particularly good instead of all the bad. As we now have more and more shops in this situation, opening more and more shops in bad times, the original shop losses are becoming less and less, the ratio will become less and less, I think the data will slowly look better and better. But continue to increase the density of shops, so that customers to more convenient consumption we are still very important, after all, or that saying, we are very confident in our product experience.

[Q5 UBS]: If we restore the base effect of food safety in August last year, what is the growth rate of single volume this year?

Shen Hao: There are two factors in August last year, one is the food safety factor, from August last year, the overall consumption of the country has been greatly affected, the second half of last year from the middle of August, until the end of last year, the overall weakness of the national consumption phenomenon, this is not only one affected.

If we reduce this, according to last July year-on-year, if last August is the same as last July, in other words we use this year's August to compare with last July, I now simply calculate the growth rate of the unit volume at +5%-10%. There is a certain downward trend in the unit price and the unit volume is +5%-10%.

[Q6 J.P. Morgan]: Hello management, I have two questions.

Firstly, regarding labour costs, I have roughly calculated by dividing the total number of employees by the total number of shops, the average number of employees in shops has dropped from 11-12 last year to 7-8 in the second half of this year, is this mainly due to the increase in PRO share or is it the effect of automation? Or is it something else? What will the average number of employees in shops be in the future after the automation equipment is deployed? I see that the company has given a 20% labour cost rate for the shops, what kind of assumptions is this based on?

Secondly, regarding the income level of shops, you have just mentioned that the income level of shops depends more on the location rather than the type of shop. According to the company's current classification, can you give us a clearer guideline on the income level of single shops for Type-I shops in shopping malls and Type-II shops in residential areas?

Zhao Lin: I'll answer the first question. I think the change in labour costs between the two is actually mainly due to both, the shop type has a reason and the automation also has a reason. The reason for the shop type is that we have been optimising our supply chain, we are not making it on site, part of it is reflected in the factory, part of it is reflected in the shops, our goal is not to give any technical problems to ordinary employees, firstly, it is easy to make mistakes, and secondly, there are certain restrictions and constraints for staff recruitment.

The second reason is that automation also solves the same problem. The epidemic is very volatile nowadays, sometimes the performance suddenly comes up, sometimes it comes down again when the epidemic comes, what problem does automation solve? What does automation solve? It allows every employee to get up and running as soon as they come to Nayuki, and to recruit people as soon as business is good. Now there is a problem, now the takeaway accounted for half of the takeaway, you have to know that the takeaway accounted for a high proportion means that it is a concentration of orders, no one ordered takeaway in the morning, one afternoon from 1 pm to 3 pm, within two hours to deal with 50% of the day's orders, instantly we are over max capacity. In the afternoon there's no one there either. The logic of business during an epidemic changes dramatically from what it was, either they don't come, or they come in a big pile.

For us to say that staff can not recruit a lot of people have been waiting in the shop to take orders, so part-time work becomes particularly important, orders come when there are people to do, orders do not have to record the cost of staff, the proportion and size of part-time work, become our epidemic in the continued fluctuations in the situation, become the key to winning in the future. Whether it's a PRO shop type, or an automated system or equipment too, for example, what do we do when the epidemic comes in September? The average number of Starbucks employees is 11, and we have 7-8. The rest of the staff are employed part-time to regulate the fluctuations in business. This is the significance of why we have to develop PRO shops on a continuous basis.

Shen Hao: The first question you asked later is how to maintain the guidelines we have given now, the medium-term labour costs are stable within 20. Just now Mr. Zhao talked about the core part, we are now a fixed staff plus part-time composition, all the technically difficult production is mainly given to automation to do, rather than to the staff, this way the combination of full-time + part-time will be very effective regulation. When our income is higher in July and August, we don't need to add full time, we just need to add part time to complete this part of the work, indeed when the epidemic is more serious, we do relatively more flexible contraction.

In June the automated equipment was laid out in more than half of the country's regions and is now being gradually optimised. We have recently seen that June has reached a relatively large state with labour costs at 18.9% and sales in July and August may be better because it is peak season and there may be some plus part-time work, but it will not be a big boost to labour costs. We are very confident that labour costs will stabilise at 20% or less.

Secondly, you asked about the guidance of the Type-I stores, Type-II stores revenue, we have been looking at the second class is about 70% of the first class, 70% is more stable, we are now the core of the revenue no matter what, will focus more on looking at profits, because the revenue frankly speaking, assuming that the epidemic is not the case we are fully confident to recover to 2019 level. We have been talking about turning costs into flexibility in the first half of the year, and we are disclosing to you in the middle of this year the excellence of our single shop, which is also to show you our results in the first phase, the excellence of our different category one shops and category two shops in the external environment. We all hope to achieve 20% even under external pressure.

The recovery of the epidemic, the gradual profit will make better progress, this is we will focus more on seeing the new shops opened now, old shops or not, in the external pressure can maintain a relatively good profit margin, revenue this piece is more to see the recovery of the whole epidemic, the recovery of offline. We are also very confident that after the end of the epidemic, we will be able to recover to the level of 2019, especially in mature cities.

[Q7 Shenyang Hengrui]: The first question is whether the headquarters costs are controllable, and also that we can only rely on the increase in sales to reduce the percentage of headquarters costs?

The second question is, is there a possibility for Nayuki Life to open shops nationwide?

Zhao Lin: Because we are still in the stage of continuous development, the headquarters costs or to improve the overall sales in order to reduce the proportion of overall costs, because now several big head: digital, RTD, these are in the stage of continuous investment, many costs will not increase, but you want to make it more difficult to reduce, after all, still belongs to the high-speed growth stage. We will not intentionally reduce the costs of the head office, but will reduce the proportion by increasing turnover.

The second issue is that Nayuki Life is creating a new business model, a business model that for us belongs to the concept of openness and co-creation. It's a new way for people to perceive the whole Nayuki brand. I believe this business model is still unseen in the whole industry, we are now also polishing, after polishing we definitely still want to replicate to the whole country, now is also in the polishing stage. It has been nine months since Nayuki Life had this idea, and we still find a lot of room for improvement after opening it today.

Our 2.0 Nayuki Life is already in the pipeline and I am sure that the second Nayuki Life will give you an even more different experience.

[Q8 Yuanta Securities]: Hello management, I have two questions here.

Firstly, I would like to ask the management, in the first half of 2020, when the epidemic first started, the percentage of our expenditure on advertising was only 1.9%, and in the first half of this year it came to 3%, what will be the level of advertising promotion in the second half of the year?

Secondly, since the fruit tea and pure tea sparkling water, we are saying that they will be disclosed separately at the end of 2022, can you tell me how the revenue size is in the first half of the year, the revenue growth of the other items is very strong. Since there are a lot of competitors

in this segment, I would like to ask what the strategy is? Are we saying that we want to support the growth of the independent brand and what we want to achieve in terms of consumer mindset, can you share that with us? Thank you.

Peng Xin: The first question I answer you, the first half of the whole advertising growth is not actually the main business of Nayuki occurred, Nayuki's overall main business advertising ratio is actually maintained the old ratio, I see the increase in advertising costs is mainly from the RTD retail products in the first half of the factory costs and advertising costs, such as some package store costs, mainly this piece. Mainly from bottled beverages, RTD's upfront fixed investment will be relatively large, the convenience store shelf fee, we do cooperation with a convenience store package shop, this package shop fee is all a one-time accrual.

Shen Hao: Although it is Marketing, not only advertising, RTD tea drinks in the convenience store on the need for packaging fees, shelf fees, we will be counted in the marketing fee, in this piece is the first half of the growth part.

Zhao Lin: The main competition for RTD in terms of competition is on brand and taste.

Peng Xin: Three things, the competition of RTD we think is a few parts is a very key influencing factor, the first thing is the whole brand volume, because RTD as Zhao Lin said there are very many competing products and very many SKU, convenience store shelves are limited, and good space is even more limited, good location will be given priority to the brand volume loud, customer reputation is also good brand. This actually determines whether customers have the desire to buy, in fact, this is the first key factor whether you can make RTD first.

Second, why customers are willing to buy back, in fact, is the taste of the product decision, our RTD products we now convenience stores, mainstream convenience stores are also very convenient to buy, you can drink our products, I think the comparison in the whole market fruit tea and competitor taste comparison, as well as pure tea and competitor taste comparison, I think are very competitive advantage.

Thirdly, the convenience of purchase, RTD products and restricted tea drinks will still be very different, retail products customer random purchase and the degree of convenience is more important, the breadth of the channel is the third key factor affecting. From what we have seen so far we have launched fruit tea and pure tea, in several convenience store system in fact after the shelves sales of repurchase are still very good. It also shows that the brand of Nayuki has given RTD a very good brand driving force, and we must still rely on good products and better channels to lay our products deep in customers' hearts.

Shen Hao: Finally you also mentioned RTD sales, we have more quantitative data to disclose in the annual report, but I can also give you a hint, now RTD revenue is recognized in other accounts, other from the same period last year 70 million to 192 million, a rise of 120 million, the vast majority are from RTD products. We are quite proud to see the RTD brand that has taken the shortest time of all the new brands to reach sales of RMB 100 million in new brands.

Zhao Lin: We just started doing it this year as well.

Shen Hao: We have a sales level of 100 million yuan in six months, which should be the fastest among all new brands, thank you.

Zhao Lin: The second issue is that Nayuki Life must be operating as an independent brand, and we have set up a special business unit for it to develop independently, so it must have its own unique brand DNA going.

[Q9 Guohai Securities]: Hi management, I would like to ask: our current shop opening strategy around high tier cities to increase shop density, we can also see that in the first half of this year, the first tier cities epidemic may be very serious, Type-I shops is the fastest expansion of shops in first tier cities, I would like to ask how we see the difficulty and speed of our model down?

The second question is how the company sees the space in the second tier, and lower tier cities, and the price band that consumers in lower tier cities can accept.

Peng Xin: Because many people will feel that the brand of Nayuki is very high, but in the first half of this year we are very keen to capture the user consumption habits change, if we open to more than a thousand shops, we want to enter more cities, not only to increase the shop density, in the city of increased shop density, how we can get better repurchase, and how we can be in the lower tier cities, can become more people In the first half of this year, we made a round of product line and price band adjustments.

You can now see that our main products have gone from the previous 25-30 RMB main products to 15-19 RMB products, with the lowest drink price coming in at 9 RMB. When you go and look at the current brands in the terminal, you will see that our strong single products overlap more with their price bands. To give you an example, my hometown Jingzhou. Jingzhou can already be considered as a representative of a third or fourth tier city. Our shops have performed very well after opening in Jingzhou. The feedback I have received from consumers here is that

Firstly, we feel that our products are of very good quality, because our products compare to these other ten-odd dollar products, our fruits are real fresh fruits, unlike them which add a lot of frozen jelly type things, the tea is used very well, the products are good and cost effective, and at the same time the seats in Nayukiare very good and the seats are very comfortable. Other tea brands that cost more than ten dollars usually don't have seats available. For the user is very willing to make multiple repurchases at Nayuki. After the opening of the Jingzhou shop we paid very close attention to the performance of the shop in this city and we found that the performance was very solid and very good, we can still say with great confidence that our current prices and product positioning are very competitive even in the down-trodden cities.

Zhao Lin: the same back to a city to increase the density of shops, a city may open 10, 20, to attract the high-end consumer crowd, we may want to break through to two hundred this year, now has more than 130 shops, when you see two hundred and three hundred, means that there are a lot of community-based are going to layout. At this time to capture more people to become the main body of your market, repeat purchases become extremely important. If your prices are not so friendly, the repurchase rate is bound to be low, exactly the same as in the sinking cities.

We will soon have 1,000 shops, and when we open thousands or tens of thousands of shops in the future, the most critical point is whether we can serve more users.

[Q10 SWS Research Institute]: Hi management, I have two questions. First, about membership.

Can you share the current member profile, consumption frequency and other data, and how we can apply these member data to target brand promotion and marketing?

The second question about the Type-II store, I saw in the first half of the Type-II store than the Type-I store profit margin is lower, this is mainly because the Type-II store is still in the process of consumer habit cultivating? Theoretically, how much more profitable is the Type-II store than the Type-I store? Thank you.

Peng Xing: Let me answer your question.

Our member profile is not very different from the one we have been disclosing before. The main focus of Nayuki's consumers is on the 18-35 year old group, which is different from traditional milk tea shops, which are all junior and high school students, and also unlike many brands whose consumer age is relatively old. We believe that the 18-35 year old group is very dynamic and has certain requirements for quality.

We have just seen an increase in the frequency of spending by our customers, and this is something that our team has been working on constantly. This is because we now have 55 million members, and we are also increasing at a relatively steady number every month. We will find that in this kind of situation where the cost of publicity and promotion of 10,000 parts is very high now, the whole marketing cost of Nayuki like I shared just now is still maintained as a percentage and proportion of last year.

It is because we have a very good member base and community base that we can get our customers to receive information about our good products, good events and good shops at a very low cost of communication.

The reason why our users' consumption frequency has become better is, I think, twofold. On the one hand, there are constantly good products planned out, because products are the content of communication.

The second is a reminder of our whole pricing strategy in the first half of the year. Like I just shared with Zhao Lin, when we better become the customer's daily life, and make it easier for him to buy, the pricing of the product must be easy enough, so why the price of the product from 9 to 29 yuan, you can also drink a very larger cup of fruit tea type of product like the original, but also very easy to choose a cup of a dozen yuan, the same quality of fruit tea. Only with a smaller cup size.

So I think in the future, we will continue to explore the needs of our customers in our member profile and do some repeated tests, adding new members and increasing the frequency of repeat purchases are things we do in parallel.

Shen Hao: You just talked about the profitability of category one, category two tea and beverage shops, and currently in the first half of the year, whether it is category one or category two, all the shops are under very strong pressure on the revenue side. We see that we have provided charts on both sales and margins to see a relatively large disturbance.

In essence, we believe that the cost advantages of Type-II shops are more obvious, both in terms of manpower costs, including rental costs, because the proportion of Type-II points is higher, plus manpower, staff will be less, full-time staff, especially part-time profit margins will be higher, we feel that from the point of view of profitability alone we feel that the profitability of Type-II shops is more promising.

Now one is 11.5, one is 10.5, more suppressed by the epidemic, for example, from the same proportion of sales recovery, the Type-II stores its absolute cost, because it will be lower, so the retained margin rebounded more, if sales rebounded in the same proportion to rebound, for example, we are in accordance with all are done with the epidemic are affected, because the impact of the epidemic is widespread, are affected by 60%, or 70%, which 30%, 40% of revenue rebounded in the same proportion. Or 70%, which 30%, 40% of the revenue rebounded in the same proportion, because the absolute cost of the Type-II stores have a certain advantage over the Type-I stores.

So that the proportion of shops retained by the Type-II stores profitability is a little higher than the Type-I stores, this I think mainly now can reach a relatively good absolute profitability, now mainly depends on the recovery of the general environment, this is also to help you simulate the difference between the two profit margins to help you better understand. We still want to emphasise one point about automation, the two biggest moves we have made in terms of manpower costs and cost rates, one is in terms of manpower, including rent, which will actually apply to all shops, and this will have a very good optimisation of the cost rates of all shops, this is not divided into one category and two categories, this is also a continuous optimisation of our future shop cost margins.

Zhao Lin: I'll add to that. If it is true that in the future these shopping centre's, or community's, are completely distinguished, now the turnover is not completely distinguished so clearly, this is one aspect.

There is another aspect, in the data respectively one class and two class inside, the first half of this year, including last year, the new opening of the second class more, these two years we do is basically to increase the density of shops, now Nayuki has begun to face the problem of ramping-up, after the opening of the business is not like the original one open have burst, now basically an opening business is not good, slowly performance is getting better and better, if we see last year open shop, this year open shop, will There is a big turnover gap, this year must be better than last year, now began to have a ramping-up period.

The new shop is bound to perform lower than the old one, so in such a case it may be a difference of some magnitude.

Lu Cheng: Due to the time constraint, this is the end of the conference. If you have any questions, investors can contact our investor relations team at any time.