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Nayuki 2023 Interim Results Conference Transcript

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

Lu Cheng: Hello and welcome to the 2023 interim 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 agenda 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 deck. Please go to page 5 for the Q&A section)**

Shen Hao: Hello everyone, welcome to Nayuki's 2023 interim results conference. Investors can browse our presentation through the company's investor relations website [ir.naixue.com](http://ir.naixue.com). Before your session, please read our disclaimer.

My presentation today is mainly divided into 3 parts.

First, I will give a brief review of the group's overall business in the first half of the year.

In the first half of 2023, we opened 145 new Nayuki tea stores, and by the end of the period, there were a total of about 1,200 stores in 93 cities. After raising the store opening plan in the first quarter, we accelerated our search for high-quality locations. As of now, we have signed contracts with nearly 500 stores.

We continue to implement the strategy of increasing penetration in existing markets. At present, the first-class tea shops located in high-grade business districts account for 82%; the type-II tea shops with relatively lower rents account for 18%, a slight increase compared with the beginning of the year. We expect — especially in cities such as Shenzhen — that the proportion of type-II tea shops will gradually increase in the future.

In addition, in July this year, we officially announced the beginning of franchising of Nayuki's main tea brand. We have recently signed franchise agreements with our first batch of partners and are expected to open soon. In the future, we will also disclose the performance of self-operated and partnership business separately. Although there are still twists and turns in the recovery of domestic consumption in the second quarter, our unremitting efforts in digitalization, automation and management optimization over the past two years are bearing fruit. In the first half of 2023, the operating profit margin of stores in each city increased by several to more than ten percentage points, and the overall store operating

profit margin target of 20% was achieved.

After updating our store format in 2021, the available locations for us to open a store have been greatly expanded. In order to help investors better understand the performance differences of stores at different locations, we divide stores into type-I and type-II stores. There is only one difference between them, that is, the grades of the business districts are different: the type-I stores are located in high-grade business districts, with large traffic, but correspondingly, the rental cost is slightly higher; the type-II stores include not only shopping malls, but also office buildings, residential buildings, etc. And other environments, traffic is not as good as type-I stores, but due to lower rents, operating profit margins are higher.

As mentioned before, the rent of the second type of tea shop is relatively low, and with the strategy of increasing store density, its proportion is gradually increasing, which is expected to drive the company's store operating profit margin to rise steadily in the future.

In view of the fact that after we open the franchise business, low-tier cities will become the main market for partner stores. Starting from this mid-term report, we will also disclose the performance of stores by line level.

As of June 30 this year, the performance of sub-lines for the six months, the third-tier and other stores, had a net profit of 21.7%, which is also the highest profit margin among all the lines. As of June 30, we had approximately 6,640 registered members, with an average monthly active membership of 4.33 million. In the first half of the year, the number of our registered members and active members both increased significantly, partly due to brand activities such as new products and joint brands that performed well, which attracted new and old members to buy. In the future, there is room for further improvement in the stickiness of these members.

Just mentioned that we have increased our brand activities. This year, we have successively launched joint new products with multiple IP images such as Dong'e Ejiao, Le Petit Prince, Wulin Biography, Bell Bud Journey, SpongeBob SquarePants, and Cardcaptor Sakura, all of which have been widely loved by consumers.

At the same time, we also conform to the trend of the consumption environment and insist on launching high-quality products with higher cost performance to ensure that consumers can make purchasing decisions more easily and buy satisfactory products at relatively low prices. Currently, more than two-thirds of our tea drinks are products under 20 yuan. In the future, we will continue to increase the research and development and promotion of 9-19 yuan products. That is to say, our main products in the future will basically be priced at 9-19 yuan.

Next, I will give you a brief introduction to the financial performance of the past six months. For specific data, you can also refer to the disclosed performance announcement.

In the first half of 2023, the group's revenue was 2.59 billion, an increase of 26.8%. Among them, the revenue of bottled beverage product line was 160 million, accounting for 6%, which has increased.

Given that it has already accounted for more than 5% of the group's revenue, we will disclose it separately in this year's interim report.

In the first half of the year, the store's operating profit was 470 million yuan, with an operating profit margin of 20.1%, a significant increase of about 10 percentage points compared with the same period; the group's adjusted net profit was 70 million yuan, with a net profit margin of 2.7%, which was a loss compared with the same period in the first half of the year. 249 million, and the net profit margin was -12.2%. Compared with last year, we have turned losses into profits. The Group's cash flow in the first half of the year has also improved significantly, with an inflow of 400 million yuan from operating activities, a significant increase of 296% over the same period.

In terms of products and revenue streams:

The proportion of ready-made tea drinks remained stable at 73.5%; the absolute value of sales of baked products remained stable, but with the increase in the proportion of bottled beverages, the proportion of baked goods decreased, from 18.6% last year to 14.1% this year.

The proportion of revenue from takeaway orders exceeded 50% at its peak last year, reaching 46.3% for the whole of last year. It dropped to 40% or lower in the first quarter of this year, and then recovered slightly in the second quarter. In the first half of the year, the entire takeout accounted for an average of 43.9%, corresponding to the takeout delivery expense rate of Nayuki stores of about 8%.

In terms of cost structure, we can see that all major expense ratios have remained relatively stable or decreased. Among them, the cost rate of raw materials was 31.8%, which remained stable; the labor cost rate of Nayuki stores and the headquarters labor cost rate both dropped significantly, and the labor cost rate of stores dropped from 26% last year to 19.6% this year. Last year's 10.2%, dropped to 6.8% in the first half of this year, a significant drop from last year's 10.2%; the depreciation of right-of-use assets and other rental items that reflect store rent levels totaled 14%, which was also down from last year's 15.8%; other depreciation, Ratios such as marketing, delivery fees, and other expenses also all declined slightly.

Next, I would like to report to you on the company's outlook for the future.

In the previous two financial report communication meetings, we proposed the goal of keeping labor costs within 20%, actual rent within 15%, and store operating profit margins of around 20%. In the first half of the year, despite the ups and downs in the consumption environment, with the implementation of our cost reduction work, the operating leverage has dropped significantly, and we still achieved the above goals. As we have been saying in our performance meetings during the epidemic, the company did not "lay flat" during the epidemic in the past, but continued to improve operational efficiency, strengthen refined management, and did a lot of work. Especially in terms of labor costs, a substantial optimization and adjustment was made to achieve such a goal. This is the result of the hard work and dedication of every partner in the company.

In the future, we will continue to improve the efficiency and flexibility of manpower utilization to ensure

a stable labor cost rate; with the increase in the proportion of type-II stores, the actual rent is expected to maintain a stable and declining trend to ensure that store operating profits remain at a reasonable level. As mentioned before, we opened the franchising business in July this year, and everyone paid close attention to it. As a result, Nayuki entered a new stage of "self-operated+ franchising " two-wheel drive. Our confidence in franchise business mainly comes from three aspects:

1. The automation and digital management and control methods are more mature, and our internal control is also continuously strengthened, and we are more confident in ensuring the brand image protection and food safety of our partner stores;
2. Consumers are also more familiar with the franchising business, and we believe that the time to open business partnerships is ripe;
3. It is also our unique advantage. Under our direct sales system, we have formed the industry's leading all-round capabilities from development, engineering maintenance to supply chain, which also means: we can provide franchisees with the most comprehensive capabilities in the entire industry support, and we don't need to match more additional personnel for the franchise business, we will have some investment recruiters, and we can provide strong support for it. In terms of cost, the company's increased cost is limited, but it can provide franchisees with the most comprehensive and full-chain support in the entire industry.

While we continue to focus on high-end stores, we will open up franchisees in low-tier cities, which will help us further increase our overall market share, and continue to implement the strategy of increasing density to enhance consumer awareness through store openings. Ultimately, we believe that franchising helps us drive better returns for our shareholders.

In the next 2-3 years , we expect to open about 500 new directly-operated stores every year. In terms of partner stores, we expect their gross profit margin to be 60%, leaving sufficient profit margins for them to achieve a win-win situation. Considering the relatively low rent and manpower in low-tier cities, we expect the profit margin of franchised stores to reach a level similar to 20% for directly-operated stores. My presentation ends here.

**(The following is the Q&A section)**

**Lu Cheng:** Thank you Mr. Shen, now we will enter the questioning session, please mention your organization and name when asking questions, and please keep it no more than 2 questions per investor.

**Question:** Good morning, Mr. Zhao, Mr. Peng, Mr. Shen. I am from CITIC Securities. Congratulations to the company for seeing that the profit margin of the stores has indeed achieved more than 20%. I would like to ask two questions. One is if seeing Nayuki's Shanghai and Beijing regions, the operating profit margin will still be relatively weak. What kind of outlook do we have for the future of these regions? When will it gradually approach the situation like Guangzhou and Shenzhen?

The second question, I would like to ask about the brand. In the first half of this year, there were a lot of joint activities in the industry. In terms of collaborations, what kind of ideas do you have in terms of branding?

**Zhao Lin:** Let me answer the first question. We can see that we have a principle, that is, the more stores there are in the city, the higher our profit margin will be. The smaller the number, it will be higher at the beginning, if our customer base is not large enough, in fact, our profit margin will be lower. The number of directly-operated stores in Shanghai and Beijing was quite low before, but Shenzhen now has more than 190 stores, and the profit margin is very high. As stores in Shanghai and Beijing are becoming more and more dense, the overall performance in Shanghai this year is much better than in previous years, and it is much better than last year, and I believe it will definitely get better and better. The same is true in Beijing. In fact, the overall figure this year will be much better than last year and the year before, and the number of stores will also increase. This year, as the number of stores in Shanghai and Beijing breaks 100, more customers will be affected after breaking 100, and the base will be thicker. Its performance stability and profit margin will definitely be higher.

**Peng Xin:** Actually, I think the question you raised is mainly considered from the perspective of consumer demand. You can also see that Nayuki has done a lot in the first half of the year. Combined with our classic products and classic fruit tea, we have done a very interesting marketing. In fact, we will continue these actions in the second half of the year, because we will find out what consumers want from us: first, delicious and inexpensive products; second, interesting content and design. While we will continue to do these fun joint names, we will also find that consumers' demands for our products are actually very strong. In addition to having fun joint names here, what is more important to consumers is delicious products. Our current main price range is between 9 and 19 yuan, and you can see from our recently launched new products, the prices of our recent new products are all concentrated in the price of 14-16 yuan, because we will find that the price of about 15 yuan can cover more consumer groups,

so that consumers can spend better and more easily.

In the second half of the year, everyone knows that fresh fruit tea is Nayuki signature category. In this category, we will strengthen the product and consumer experience. We also have insight into consumers' fresh milk tea this year, which is a very hot new consumer demand this year. Originally, Nayuki has always insisted on making products with fresh milk and good tea. Fresh milk tea will be a very important product category to impress in autumn and winter. We will launch the "9 yuan 9 weeks" campaign to allow more consumption Investors are willing to try the long-term marketing activities of fresh milk tea.

**Question** : Thank you to the management of the company, I am from Founder Securities, I have two questions:

The first question, I still want to ask the company's management if they can talk about the promotion of the franchise model, including the type of franchised stores, the profitability of our company and the profitability of franchisees?

Second question, regarding the decline in unit price per customer, I would like to say whether this trend will trigger competition between us and some competitors, and will it intensify the overlap of price bands?

**Zhao Lin** : Two very good questions. In fact, these two questions are very closely related. I will answer the first question first, and Peng Xin will answer the second question.

In July, I started to release the franchise information for the first time. After the release, the number of applicants was still very enthusiastic. In fact, in the process of interviewing franchisees in the first week, I participated in the interview of each franchisee, which gave me a lot. Confidence, all the franchisees are very high-quality and advantageous franchisees, and they are all franchisees who have done tea brands in the industry. If we no longer receive information today , the number of franchisees we have in reserve now is enough for us to join in the next three years. During our chat, I think these franchisees have a high degree of recognition of our brand, and they know the value of Nayuki. You can also see that the profit margin of our self-operated stores has reached 20%, and the profits of the headquarters Not high, because our entire backstage is relatively heavy, but the profit of the store is still very good. For franchisees, the overall cost rate of each franchise store is lower than that of directly-operated stores. From the current point of view, because the operating cost of each franchisee will be relatively lower than that of the directly-operated store, the overall profit margin of the franchise store will also be very impressive, and the franchisee also sees this. The competition for franchise places in each city is also very fierce.

The overall investment cost of our franchising a store will be higher than that of other brands, but we have a brand effect. For example, when he talks to the owner of the same brand, the landlord will basically not sign a long contract with you. We now have nearly 1,300 Nayuki directly-operated stores.

At present, the contract period of our contract may be less than five years, and there are less than five stores. Basically, they are more than five years, and six to eight years are the most. But other brands are rarely more than three years old, because it has a brand effect. When franchisees use the Nayuki brand to negotiate rent, its years and rental costs will be relatively low, which has advantages. In this way, although the area may be relatively larger and the investment may be higher, the recovery time is relatively controllable. We calculated the accounts and found that we can basically pay back the cost within one and a half years. Professional franchising The merchant can see Nayuki current value. As for the price, since we have reached this stage now, we need more consumer groups to come to Nayuki store for consumption. I think any customer, whether he has spending power or not, I believe he wants a In the brand, you can feel more good experience, good environment, good product quality, and cost-effective price. If Nayuki can do all aspects, I think it may have a greater impact on the overall sinking impact.

**Peng Xin:** Let me add to the price issue. I think we always value the brand and consumers the most. Seven years before Nayuki was founded, the entire tea industry was relatively low in the hearts of consumers. In the high-end industry, it will not be like today that you will see tea shops open in the core commercial areas of shopping centers, with a large area and a very comfortable space, and open next to coffee brands, and you will not see any Business people socialize and consume in tea shops. When we founded Nayuki 7 or 8 years ago, we hoped to create a brand that would make young people willing to socialize here and business people willing to sit here. Come down for a drink of high-quality produce and would love to use it as a social place too. Eight years ago, when the supply chain was very immature, we hoped to give customers a product that was far beyond his cognition. At that time, it was decided that the price of Nayuki was the main product of 20-30 yuan .

Today, 7 or 8 years later, we have covered more than 60 million members. In addition to opening stores in Shenzhen, we have also gone to many second- and third-tier cities, including Jingzhou, my hometown. When we cover more Consumers, when our entire industry supply chain is now more mature, and we can go to the place of origin and source to control quality and price, the relationship between today's brands and consumers and our supply chain capabilities It's all different too. Today, we hope that Nayuki can become a place where more consumers can come to drink a cup very easily and everyday. Just like we are in Shenzhen, Shenzhen now has more than 100 stores, we have more than 8 million consumer users, and we have become a part of everyone's daily life. Today's brand and product strategies are completely different. Why do we now set the price of the main force at 9-19 yuan , and why the price of the latest product is 15 yuan? We hope that when consumers consume, most consumers It is easier to buy a cup of Nayuki products, and the quality of our products will not change. We use fresh raw materials and fresh milk to make our products.

**Question:** I am very grateful to the management for giving me this opportunity to ask questions. I would like to ask two questions:

The first question, the franchising side would like to ask again. We have also seen that Chabaidao disclosed the prospectus and Guming also announced the plan to go public. Heytea started to do this on a large scale last year. We have seen that their franchising strategy is different. Similarly, like Guming, where the key provinces are deeply cultivated, and the efficiency of the supply chain is maximized before expansion, Chabaidao has its own points across the country, and there may be corresponding strategies in the future, and other problems may be pursued. I would like to ask what kind of considerations we will have in terms of franchising in the follow-up regional strategy combined with our positioning. I want to limit this location issue not only to franchising, but in the future "direct sales + franchising" will be linked together. The competition is very heavy and cannot be too slow, but how to balance the regional strategy while taking into account the supply efficiency.

Second question, because I see that the net profit margin in the first half of the year was 2.7%. We also know that we may have raised a guidance of 5% before. Now we look at the main factor of revenue scale. I also want to ask this question. Next year Under what circumstances can we still hope to get closer to our previous goals?

**Zhao Lin:** Let me answer your question. Because Nayuki is actually different from Guming and other brands, Nayuki's current supply chain directly-operated stores basically do not cover Tibet and Xinjiang, and basically cover all of them. Including our management scope has completely covered the whole country. In this case, when we first started, we must start at the same front line across the country, because we already have this capability, including training, profit support, and coverage of the entire supply chain. We have completely covered the whole country, and we can completely start at the same time. In this case, we have been going for eight years. We found that whether your business is good in a city is actually related to two factors. Of course, there are many factors, and there are two very important factors: one is Brand awareness, the second is the density of stores, the thickness of stores. That is, the more stores you have, the thicker your stores are, and the thicker your consumer groups are, the more stores you can open. Shenzhen has become the most Nayuki store in the entire tea industry, and there will be 200 stores soon, and it will definitely break through 200 stores in September. Under such circumstances, everyone always feels: Do you not have many big stores? In fact, it is not. Whether you can open more is related to your customer base. You can only open as many stores as you have customers. It doesn't mean that the stores are big or small. Starbucks in Shanghai has more than a thousand stores, and its stores are not small. The thicker it is, the more guaranteed its performance is. Our strategy is that now that the brand's popularity has covered the whole country, we have two-wheel drive, and we should focus more on self-operated stores, such as opening self-operated stores quickly in first- and second-tier cities to make them thicker. At the same time, for the franchised stores,



since the brand has already covered the whole country, we will also instantly expand the strength of franchisees in cities that cannot be covered by self-operated stores, and quickly increase the number of them, so as to expand the entire Nayuki stores across the country. In fact, this is why we joined and directly operated the two-wheel drive, in order to achieve market share faster.

The second question is that at the beginning of the year I said I would strive for a net profit of about 5 points this year, but it was indeed not achieved in the first half of the year, only 2.7%. I feel quite ashamed. But this year is not over yet. This year has just passed halfway. We still have opportunities in the second half of the year. We feel that if we did not do well in the first half of the year, we will work hard in the second half of the year. I believe that what we did not do well in the first half of the year will be hard work in the second half. In the process, it is expected to make a breakthrough to the top. When the epidemic just ended at the beginning of this year, the overall recovery status in January was indeed very optimistic. However, after the second quarter, the overall market was relatively weaker than we imagined. But we will still work hard to do a good job. We hope to see the full-year figures this year. I believe it will be better than the first half of the year.

**Shen Hao:** The main reason for the net profit rate is that the second quarter did not meet expectations. In fact, the performance in the first quarter was still very good. In the second quarter, everyone also saw that the recovery of the entire consumption environment was still a bit worse than we expected. In this case, the second quarter Quarterly revenue was still relatively greatly affected. In our traditional peak season, the performance in the last two months of July and August is still very good. We communicate with each other every month. The month-on-month growth in these two months is still very obvious, and the same store has also recovered to more than 100%. These two months are still very good. If it can continue, there will be no major twists and turns from September to December. The profit in these two months is still good, and I still made a lot of money. If the next four months If you can maintain it, I think you can still lean on it.

In the second half of this year, we still hope that the RTD business will be even. In the first half of the year, there will still be a certain loss. You may see that it is making money after seeing the interim results. We will also explain it. Breaking down some headquarters expenses is from the perspective of auditing, but from the perspective of our management, we can break it down. There was still a small loss in the first half of the year. We hope that if you can break even for the whole year, you will increase a lot in marketing in the first half of the year. The cost, if this piece is tied, I believe it will be much better.

The franchising business will provide us with what we believe to be a good return. The franchising is mainly reflected in next year, because there is still a cycle for opening a store. As Mr. Zhao just said, we believe that we can rely on it. Looking at July and August at present The condition is still good .

**Zhao Lin:** The number of people in our entire headquarters has not increased. Our current number of

people is basically the same as last year. Compared with this period last year, the number of people is basically the same. At present, our franchise business is in full swing. It proves that our new major business has not increased our entire management team, all our expenses, supply chain and other expenses have not increased, and the group's management expenses have not increased. It is equivalent to a very large increase in expenses all at once. This may seem to be gross profit, but it may actually be net profit. I am referring to the newly added franchise business. Unlike other brands, it is completely franchised. In the current two-wheel drive situation, only the Nayuki family is doing "two-wheel drive". Since we can do a good job, direct marketing is all about refined management, so in this case, we can actually do a good job in the franchise business with little effort, and we can manage the second business without increasing costs. The block business has increased. I am confident that this year will not be over. We will look at the follow-up. I believe that the further we go, the better our overall profit situation will be. Still need to give some time, it may have immediate and direct help to our cash flow, but there may be a little lag in profits and reports.

**Question:** Hello, management, let me ask another question about franchising. There are only 100 self-operated stores below the third tier. Looking forward to the number of stores in cities below the third tier and the distribution of direct sales and franchising in the next three years. of? According to what to distribute? How do we design the management of the franchise store or the design or consideration of the daily operation of the store? If China does meet our expectations in the future, what do we think about going overseas in the future? Or is there a certain degree of difficulty?

**Zhao Lin:** In fact, in terms of the approximate ratio of franchising and direct sales, I think that after the number of direct sales stores reaches 500 this year, it will be based on the approximate number of direct sales this year . Go with this amount. This year is not over yet, and the number of directly-operated stores may reach about 2,000 by the end of next year. Franchise stores will definitely get faster and faster. We plan to open 2,000 franchise stores in the next two years, which is probably the number.

Regarding your second question, if our domestic business basically stabilizes, what will happen to our international business? I also looked at Starbucks' previous operations. Starbucks' sales in the United States have expanded globally since our sales. We have indeed expanded manpower in different countries this year. The progress is not so fast, it may be slow, how the first shot is fired, the store can be opened quickly after the shot is fired, the beginning has already started, and the results may not be reflected until next year.

**Question:** Hello, management staff. I am CICC. Nayuki does both direct sales and franchising, investment promotion supervision, etc. Will there be a distinction between these two businesses?

**Zhao Lin:** Investment promotion is a new addition. We have added a department, which is currently the investment promotion department. Investment promotion is not like other brand investment promotion. Investment promotion is an audit. In fact, we have opened up this small window, and there are actually a lot of information to fill in. Everyone just screens the audited information first. I don't need to find you like marketing. Investment promotion is not This kind is mainly for review and interview work. Maybe a hundred people will come today, and I will screen a few people. He is doing screening work, mainly for screening. The remaining engineering development and so on, because we have a very strong design and engineering development department, these departments can fully cover the current franchised stores with the existing team, and they will help the franchisees to make selections together Site, design, engineering control work. In terms of the next operation, we currently see it this way. When there are few franchised stores, some people can be assigned to manage the directly-operated stores. If there are many, we will develop a special operation for franchised stores. Because there are many similarities in the management of directly-operated stores and franchised stores, but there are also differences. As the number of franchised stores increases, the operation will be separated. This is probably the case.

**Question:** Hello management, I am from Huaxin Securities. Judging from the monthly repurchase frequency, what is the general situation of our products in the first and second categories of stores in cities of different levels?

**Shen Hao:** The data on monthly repurchases in various cities has not been disclosed.

**Question:** Dear management, I would like to add a small question. I would like to ask whether the store type of our current directly-operated stores has stabilized with the adjustment of the unit price of products? In the future, no matter whether it is the economic recovery or the increase in the number of cup orders, there may be greater pressure on labor. Is the type of self-operated stores stable now?

The second question is, to what extent has the current team of the franchise business been built? What kind of origin and background might the person in charge of the franchise business in the future probably have?

**Zhao Lin:** As I just said, we just added a new investment team. There are five or six of them, and their main job is to audit. We don't actually use marketing. We don't use marketing. We are just an audit department. Because the number of Nayuki franchisees is still very large, we do a good job of auditing, and it is easier to do Nayuki franchise investment. Like Lucking, there are not many people in the whole investment promotion, and they also do the review work, because relatively speaking, the hotter brand and the brand with higher popularity, the investment promotion work is relatively simple, just look at

the information, review, interview, just do these, in fact It won't add too much work content. Other departments are similar, such as training, the most important thing for joining is training, our training itself has a very strong training system, there is no additional addition, how to train or how to train.

**Peng Xin:** In fact, from the perspective of our store type, the general direction is always determined, including the general direction of our store type this year and last year. However, we are still making different optimizations in many details. For example, from the perspective of the menu, in addition to Nayuki's signature fruit tea and fresh fruit tea series, you can see that we have put a lot of marketing and product power in fresh milk tea this year. on the plate. Because we will find that milk tea still has a strong consumer group, and the operation and supply chain of milk tea will be much simpler than that of fresh fruit tea, including the next two months. You will see that we will launch a large number of fresh milk tea products. From the structure of the menu, there will be fine-tuning and emphasis on the proportion. In terms of store type, we will always emphasize that our space is for consumers to experience, but with the coverage of a city, you will actually see some large stores, as well as some office buildings and small stores in communities. It is a combination. From the perspective of profit, there will still be some room in the next five years. Although we are the only brand in the entire industry that realizes automatic tea-making equipment, from our own point of view, we still have a lot of equipment, automation, and intelligent decision-making. The space to be upgraded and optimized, with the upgrade of equipment and software, can actually make the store simpler and more efficient in the future.

**Zhao Lin:** I would like to add, the question raised by this friend just now, our current price, in fact, was already in the current price range at the beginning of this year, and it was already like this at the end of last year and the beginning of the year, in fact, we have lasted for more than half a year It's already in this price range, but many customers don't know that our price is so favorable. For example, breakfast is 9.9 yuan for a cup of tea or a coffee plus a bag. It has been half a year, and it has been going on for half a year. Many people just don't know us In the first half of this year, products worth more than ten yuan have been launched, and our prices have been adjusted. At present, Nayuki products are still very cost-effective.

**Question:** Hello, everyone in the management team. I would like to ask about the recently launched 9.9 yuan activity. Is the follow-up a long-term activity? The follow-up impact on gross profit margin and gross profit amount, as well as the current price range of 9.9 yuan in the industry, where is our core competitiveness specifically reflected?

**Peng Xin:** Judging from our campaign to launch Nayuki fresh milk tea for 9.9 yuan, the consumer side

is very enthusiastic. As Zhao Lin said, although we have been launching 9-19 yuan for one to two years products, but consumers will be slower to accept information. When we continue to do "9 for 9 every week" this time, we will see that consumers' perception of this price is still very strong, because 10 Below 10 yuan, the experience of users above 10 yuan is different. Why are we so determined to do 9 yuan 9 for fresh milk tea? Because our fresh fruit tea is relatively familiar and loved by consumers, we will see that there are a lot of people aged 15-25 who particularly like milk tea, and there are also many people aged 25-30 who also like it very refreshing. type milk tea products. Milk tea itself is a category we hope to strengthen.

Traditionally, everyone's consumption habit is to drink milk tea made with creamer or non-dairy fat products. Fresh milk tea may taste more refreshing. If you are used to drinking fresh milk tea, you will still be very happy to drink one cup every day because it is healthier and tastes more refreshing. , we hope that more consumers will be willing to try this kind of fresh milk tea products and gradually fall in love with such products, whether it is in terms of price, the category we hope to create, or long-term drinking with current consumers. In terms of product consumption habits, we all hope to do 9 yuan 9 at least for a long time this year, so that consumers can easily and willingly drink a cup of Nayuki fresh milk tea.

**Zhao Lin:** Let me add, we must be firm and long-term to do 9 yuan 9. Why do you want to do this? Everyone will wonder if our low price will affect our profit margin? You will see that for so many years, our price has dropped from more than 30 yuan to more than ten yuan, and our profit margin has hardly changed. Why is this so? It is our ability to improve, the entire supply chain ability, procurement ability, with the improvement of our ability, including the improvement of our staff's production efficiency, the reduction of waste, and the improvement of all aspects can make our entire product relatively good in price. , the quality remains unchanged, the price continues to decrease and the overall gross profit can also be maintained. We couldn't do it a few years ago, because we couldn't reach it, but now, our ability is getting higher and higher, and we can also provide relatively good products. At the same time, just like eating McDonald's, you You will find that McDonald's products are good and the price is good. In fact, it is the improvement of its supply chain capabilities that can achieve the level of high quality and good price.

Now the competition is fierce, we hope that the price is good and the product quality is good at the same time, so that our competitiveness can be stronger.

**Question:** Hello management, I am a researcher of Huaxin Securities, I would like to ask the management two questions:

The first one is about franchising, because we know that Nayuki's brand already has a very high-end position. How to maintain and manage the brand and the management of franchised stores in the future?

The second question, regarding the relatively high growth of the beverage business in the first half of the year, what new products and flavors will be adopted or what kind of plans will be adopted in the whole year? What proportion will this business account for in the entire business in the future?

**Zhao Lin:** In fact, when we send out the franchise information, we have always emphasized one thing that is very important in terms of customer perception, so that customers can not perceive whether the franchise store is a self-operated store, and all perceptions of the franchise store must be in line with The self-operated stores remain the same, the products remain the same, and the entire tonality remains the same in all aspects. All of our work is to keep customers consistent and carry out various tasks; of course, the franchise fee is not low, which is also the reason for this aspect, and it is about 1 million to open a Nayuki store. From design to site selection, engineering, including training, including the consistency of the entire equipment, including all aspects of operation and management, we can almost give franchisees the same perception as self-operated stores. In the process of our service to franchisees, many franchisees have given me feedback that they really feel very good. They have been protected all the time. They have not felt this kind of service before. We have done a relatively good job in doing all of this. The purpose is to keep the perception of franchise stores and directly-operated stores the same.

**Peng Xin:** Let me answer the question about RTD. The product logic of the entire RTD is somewhat different from our restricted stores. It is very important for restricted stores that there are new products and new content every week. The realization is that everyone will remember Nayuki in the end. Brands are willing to come to our store. For RTD, the very important thing is the bottle itself. For RTD, what we value very much is to create a large single product. For example, Nayuki Lemon Tea and Zero Sugar Jasmine Tea, which are selling very well, are very important to us. It is a large single product, and we will continue to give the strongest marketing force to this large single product. You can think about the most familiar products when you drink bottled drinks. But we will continue to introduce new products to give consumers new feelings, but we will cooperate with large channel brands for these new products. For example, the pomegranate seasonal products we just launched on FamilyMart, such as the moonlight white products we cooperated with Sam, including the new products we will soon have with Hema, we will cooperate with shopping malls to go and introduce seasonal products to promote new products.

Lu Cheng: Thank you for coming to today's presentation. Due to time constraints, we have to conclude the meeting here. As usual, 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 conference. Thank you.

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