****

9B21N001

INVESTING IN A UNICORN: THE CASE OF LUCKIN COFFEE GONE ROGUE[[1]](#endnote-1)

Andrea Santiago, Fernando Martin Roxas, and Maria Theresa Mañalac wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com. Our goal is to publish materials of the highest quality; submit any errata to publishcases@ivey.ca. i1v2e5y5pubs

Copyright © 2021, Ivey Business School Foundation Version: 2021-02-08

On August 15, 2020, the shares of Luckin Coffee Inc. (Luckin) were still hovering at the $2 level, a sharp drop from their May 2019 initial public offering (IPO) price of $17.[[2]](#endnote-2) During that period, the once privately-owned start-up, which had reached the $1.0 billion benchmark of a unicorn in 2018,[[3]](#endnote-3) had managed to lose most of its market value.

The downfall of Luckin could be traced to its April 2020 public disclosure that its second- and third-quarter unaudited financial reports, as well as its fourth-quarter guidance, could no longer be relied upon.[[4]](#endnote-4) This change was a dramatic downfall for a young company that had not yet turned a profit since starting in 2017. So far, the company had relied on a continuous inflow of fresh funds to finance its growth. It was easy to see where the investments went. From only nine coffee stores in 2017, the technology-driven company had built a 4,500-branch stronghold in just two years and had been able to surpass the 20-year efforts of Starbucks in China.[[5]](#endnote-5) By the end of 2019, Luckin had attracted 40 million customers with its strong marketing and promotions.[[6]](#endnote-6)

Yet the company’s fortunes fell as quickly as they had risen. Immediately following the company’s disclosure of accounting fraud, the market for Luckin shares crashed and brought the company’s valuation down to less than $1.0 billion. The stocks were delisted from the Nasdaq exchange in early July and began trading on the less-stringent over-the-counter (OTC) Pink Open Market at about $2.[[7]](#endnote-7) At that point, Luckin had an estimated cash balance of $780 million,[[8]](#endnote-8) which was subject to claims by creditors, investors, and regulators. Without a fresh infusion of equity, and with mounting liabilities, Luckin’s financial standing was at risk. Should current investors hold on to their shares or should they dispose of them? Was there a chance that Luckin could survive the scandal so that investors could recoup their investments? What could the company do to restore investor confidence and regain its path to becoming the market leader in the coffee industry in China?

Beyond the damage to Luckin’s reputation, the scandal had reinforced the call of US regulators to apply its securities laws to all listed firms without exception. The Senate-endorsed *Holding Foreign Companies Accountable Act* aimed to do just that. If this bill passed into law, what would be the implications to current and future listings of Chinese firms on US exchanges?

The RISE of LUCKIN COFFEE

Luckin Coffee (*ruì xìng kāfēi*) was the brain child of Jenny (Zhiya) Qian. The idea of establishing a technology-driven, on-demand coffee business came to her when she developed a strong liking for coffee to sustain her energy levels during extended hours working as chief operating officer (COO) of UCar Inc. (UCar).[[9]](#endnote-9) UCar was an online car-hailing service that had been spun off from China Auto Rental (CAR), China’s largest car-rental company. Both companies were founded by Charles (Zhengyao) Lu. CAR was founded in 2007 and listed on the Stock Exchange of Hong Kong Ltd. (SEHK) in 2014,[[10]](#endnote-10) while UCar was established in 2015 and listed on China’s New Third Board Market in 2016.[[11]](#endnote-11) Qian served as CAR’s executive vice-president and COO before moving to UCar.[[12]](#endnote-12)

Lu, who became Luckin’s chair, invested as the company’s first angel investor through Haode Investment Inc., an asset management firm he established with his wife, Lichun Guo, and other family members.[[13]](#endnote-13) Together with Qian and other investors, they registered Lucky Coffee Inc. in June 2017 in the Cayman Islands and later changed the company name to Luckin Coffee Inc. They subsequently established Luckin Coffee Investment Inc., which owned 100 per cent of Luckin Coffee (Hong Kong) Limited, in the British Virgin Islands. The Hong Kong–registered company had five wholly owned subsidiaries,[[14]](#endnote-14) including the operational firm China Luckin (see Exhibit 1).

Qian and Lu seemed to work well together.[[15]](#endnote-15) They also brought in other UCar and CAR team members such as Jian Liu, Jinyi Guo,[[16]](#endnote-16) and Fei Yang,[[17]](#endnote-17) who were appointed as COO, senior vice president, and chief marketing officer (CMO), respectively. Qian and Lu applied the same strategies they had used in the other two companies to launch the Luckin brand.[[18]](#endnote-18) Their formula was to overwhelm the market with physical presence and predatory prices to drive out competition, even if this was at the expense of profit.[[19]](#endnote-19) They also used the capital market to fuel growth.[[20]](#endnote-20)

Luckin’s appeal was straightforward. The company introduced a “new retail” model by changing the user experience through its company-developed mobile app that allowed it to gather real-time data on sales and customer preferences.[[21]](#endnote-21) The app was also able to generate heat maps to determine where to locate future stores. The information was meant to help the company reach its target: to be the number-one coffee shop in Asia, with 10,000 coffee shops, by 2021.[[22]](#endnote-22)

The timing of Luckin’s entry into the market could not have been any better. For one thing, the market for freshly brewed coffee was growing. China’s per capita consumption of coffee in 2018 was only 1.6 cups versus 388 cups in the United States.[[23]](#endnote-23) A report from Frost and Sullivan projected the country’s average coffee consumption of freshly brewed coffee would increase to 5.5 cups per capita by 2023.[[24]](#endnote-24) Moreover, a 2018 survey revealed that Chinese preferences were shifting from international to local brands.[[25]](#endnote-25) The shift was created by two related factors: the rising tension between China and the United States[[26]](#endnote-26) and a greater need for Chinese consumers to tighten their belts in view of economic uncertainties.[[27]](#endnote-27) Thus, a home-grown coffee shop that sold affordable products was a good alternative to more expensive international brands.

From only nine coffee shops at the beginning of 2018, Luckin grew to 525 stores spread over 13 cities by May 2018.[[28]](#endnote-28) By then, the company had sold 18 million cups to 3.5 million customers.[[29]](#endnote-29) However, to grow even faster, the company needed more funds. In July 2018, the company was able to raise $200 million from GIC Private Limited (Singapore’s state investment fund), China International Capital Corporation Limited (one of China’s leading investment banks), Centurium Capital (a Chinese private equity investment firm), and Joy Capital (a local venture capitalist).[[30]](#endnote-30) Centurium Capital and Joy Capital had also invested in CAR and UCar.[[31]](#endnote-31) With the additional infusion, Luckin reached the $1.0 billion valuation benchmark required to be classified as a unicorn.[[32]](#endnote-32)

The number of stores quickly multiplied. From 800 stores in August 2018, the company had reached 2,000 stores by the end of that year[[33]](#endnote-33) (see Exhibit 2). To help reach its new market, Luckin partnered with Tencent Holdings Ltd., the owner of the WeChat messaging service.[[34]](#endnote-34) The growth attracted the attention of US-based asset manager BlackRock Inc. (BlackRock), resulting in another investment infusion.[[35]](#endnote-35) At this point, Luckin had a valuation of $2.9 billion.[[36]](#endnote-36)

In pursuit of its store growth and marketing strategies, Luckin continued to burn cash at a rapid pace. The company’s pick-up stores were small—just large enough to accommodate the baristas, the coffee makers, a serving counter, and a few stools.[[37]](#endnote-37) In 2018, most of these outlets were located in the lobbies of buildings and shopping malls in Tier-1 cities such as Shanghai, Beijing, Guangzhou, and Shenzen, which made rent very expensive. The company also continued its promotions—such as a free first cup of coffee; a buy two, get one free deal; a buy five, get five free deal; and free delivery, through its business partner SF Express, for minimum orders.[[38]](#endnote-38) The large scale made it impossible to generate store profits. At the end of 2018, the company reported losses of $241.3 million; and in the first quarter of 2019, its losses were already $88.0 million (see Exhibit 3). By this time, Luckin had a base of 16.8 million customers, who had consumed 90 million cups of coffee.[[39]](#endnote-39)

Luckin continued to be aggressive and in January 2019 hired Reinout Schakel as its chief financial officer (CFO) and chief strategy officer (CSO).[[40]](#endnote-40) The only non-Chinese-speaking senior executive was tasked with dealing with Western investors. One such investor was Credit Suisse, Schakel’s former employer, whose then–chief executive officer (CEO) described Luckin as the “dream client” and Lu as the “poster child” for what Credit Suisse wanted to do.[[41]](#endnote-41) Together with Morgan Stanley and two Chinese investment banks, Credit Suisse underwrote Luckin’s successful IPO on the Nasdaq in May 2019. Beyond its initial $100 million application, the company raised $561 million on its offer of 33 million American depositary shares (ADSs)[[42]](#endnote-42) representing 264,000 Class A ordinary shares.[[43]](#endnote-43) As a result of the IPO, the company’s valuation increased to $10 billion, which the company expected to quadruple by 2020.[[44]](#endnote-44)

Buoyed by additional funds and investor confidence, Luckin continued to increase the number of its stores and company-owned subsidiaries (see Exhibit 4). By August 2019, the company had reached about 3,000 stores, mostly located in Tier-2 and Tier-3 cities[[45]](#endnote-45) as most of the Tier-1 cities were already fully saturated, with some stores located only 500 metres apart.[[46]](#endnote-46) Meanwhile, it was reported that Steven Cohen’s Point72 Asset Management had acquired 5.1 per cent of Luckin for $390 million.[[47]](#endnote-47) Luckin also disclosed that it had partnered with Middle Eastern Americana Group, in order to expand into the Middle East and India,[[48]](#endnote-48) and with Europe-based Louis Dreyfus, which would supply orange juice.[[49]](#endnote-49) Earlier, the company also announced that it would be establishing separate Luckin Tea Stores under a partnership model to sell the tea drinks it had been selling in the coffee shops.[[50]](#endnote-50)

In January 2020, the company revealed it had transacted with 40 million customers[[51]](#endnote-51) and reached its target of 4,500 stores.[[52]](#endnote-52) These accomplishments paved the way for even greater growth strategies. With the intention of entering the unstaffed retail market with Luckin Coffee Express and Luckin Pop, the company announced it was offering $400 million in aggregate principal amounts of convertible senior notes, which would be due in 2025 with a put option in 2023,[[53]](#endnote-53) as well as 12 million ADSs priced at $42 each.[[54]](#endnote-54) The company later disclosed that it had received net proceeds of about $446 million from the note offering and $418 million from the ADS offering.[[55]](#endnote-55) That same month, its stock price reached its highest level of $51.38, closing at $50.02 on January 17[[56]](#endnote-56) (see Exhibit 5).

COMPETING WITH STARBUCKS

Luckin’s mission, from its outset, was to surpass Starbucks Corporation (Starbucks) in terms of its number of stores.[[57]](#endnote-57) While there were several international brands in the market—such as Costa Coffee, the McDonalds Corporation, Pacific Coffee, Tim Hortons Inc., and Luigi Lavazza SpA[[58]](#endnote-58)—Starbucks was the market leader by a wide margin. Some reports pegged its share of the Chinese market at 80 per cent before Luckin entered the picture.[[59]](#endnote-59)

While Starbucks had introduced coffee to China in 1999,[[60]](#endnote-60) it was Luckin that made it possible for more Chinese people to enjoy the drink, increasing the demand for coffee. The path Luckin opted to take contrasted greatly with that of Starbucks (see Exhibit 6). The Chinese firm was intent on making its presence felt by being affordable and accessible; it also had a coffee blend that had received international recognition,[[61]](#endnote-61) thanks to its coffee consultant Hidenori Izaki.[[62]](#endnote-62) Luckin’s coffee was priced 40 per cent lower than Starbucks’ and cost even less when combined with promotions. Luckin also introduced coffee delivery before Starbucks, even though the international firm had considered the delivery option much earlier.[[63]](#endnote-63) Further, Luckin required all orders to be made via its mobile app, while Starbucks allowed customers to order and pay for their purchases in the store.[[64]](#endnote-64) This way, the local firm acquired information about its customers and their purchasing patterns, which allowed it to be more targeted in its promotions.[[65]](#endnote-65)

Luckin’s promotional spending was to be offset by its lower rental expenses, due to its smaller coffee shops. Compared to its competitors—which had an average store size of 100 square metres (m2) to accommodate dine-in customers—Luckin stores averaged 40 m2. Further, as an aspirational brand, Starbucks had to be located in high-visibility, high-traffic locations, which made its rents more expensive.[[66]](#endnote-66) Luckin stores were pervasive, but the company did not need showcase store locations like Starbucks. Consequently, Luckin overtook Starbucks in a number of stores by the end of 2019 (see Exhibit 7). In 2019, Luckin had an average of six store operations employees per store.[[67]](#endnote-67)

ACCOUNTING FRAUD: DISCOVERY and extent

While Luckin had no timetable for declaring profits,[[68]](#endnote-68) it proclaimed on November 13, 2019, that its store margins were finally in the black for the first time since its founding. Investors’ positive response to the news was reflected by rising stock prices. However, the proclamation also prompted unsolicited surveillance of store operations in the fourth quarter of 2019 by an anonymous group that gathered hours of store video coverage and thousands of receipts as the basis for their analysis, which refuted Luckin’s claims of store profitability.[[69]](#endnote-69) This group’s 89-page report suggested that Luckin had taken deliberate actions to deceive its investors.[[70]](#endnote-70) The report was sent to the investment research firm Muddy Waters Research, which in turn shared the file publicly on its Twitter account on January 30, 2020.[[71]](#endnote-71) Luckin was quick to deny the allegations and went immediately back to business as usual.[[72]](#endnote-72) Nonetheless, the next day, in a practice known as short selling, Muddy Waters Research borrowed third-party shares and sold these to investors with the intention of paying back the borrowed shares at a later date, when it would be able to buy Luckin shares at a lower price.[[73]](#endnote-73)

Not wasting time, Luckin’s auditor, Ernst & Young (EY), through its local partner EY Hua Ming LLP, began auditing the company’s financial records.[[74]](#endnote-74) Suspecting falsified transactions, EY requested related documents from top management, which they later used to confirm their suspicions.[[75]](#endnote-75) On March 19, 2020, the board formed a special committee to conduct its own investigation.[[76]](#endnote-76) The results of the investigation confirmed the presence of falsified sales transactions that could only have been executed with the cooperation of the CEO, COO, and individuals who reported directly to these two executives. The internal report further indicated the presence of related-party transactions that had allowed funds to be transferred out of Luckin’s’ coffers.[[77]](#endnote-77) The findings were disclosed by the committee on April 2, 2020.[[78]](#endnote-78)

By July 1, 2020, the special committee declared that the investigation was substantially completed and divulged the news that, over a three-quarter period, sales had been inflated by ¥2.12 billion[[79]](#endnote-79) and expenses had been inflated by ¥1.34 billion[[80]](#endnote-80) (see Exhibit 8). The report indicated that, as one method of inflating the sales figures, the company had sold redeemable vouchers in bulk to businesses associated with its chairperson.[[81]](#endnote-81) To manage profit levels, Luckin had also inflated its expenses. One method it had used was to create fictitious raw-materials purchases that bypassed the CFO but were approved by Qian.[[82]](#endnote-82) To avoid traceability, documents relating to raw material suppliers that were affiliated with the chairperson were processed by a fictitious employee.[[83]](#endnote-83) The funds collected from these raw material purchases were presumably used to pay for the redeemable vouchers that were advanced to bulk buyers. Some of these businesses had been incorporated just prior to the IPO.[[84]](#endnote-84)

CORPORATE RESPONSE

When Luckin became aware that Muddy Waters Research had made the anonymous report public, it was quick to deny the allegations. In a press release, the company declared that its app-based business tracked store performance in real time; therefore, the data was verifiable.[[85]](#endnote-85) Luckin further claimed that its internal control system was robust so as to ensure the integrity of its data. Consequently, the company contemplated taking appropriate actions against those who had tarnished its reputation.[[86]](#endnote-86)

When Luckin was informed of the accounting fraud by its auditor, it formed a special committee comprised of three independent directors, led by Sean (Xiaoheng) Shao, to oversee the internal investigations.[[87]](#endnote-87) The company also retained the services of Kirkland & Ellis LLP, as its independent legal counsel, and of FTI Consulting, as its independent forensic accounting expert. On April 2, 2020, the committee publicly disclosed that the company’s 2019 financial statements were unreliable. The preliminary findings indicated that the COO and some of his subordinates had committed fraud. The suspected individuals were suspended as a preventative measure.[[88]](#endnote-88) Subsequently, Luckin announced that the CEO and COO’s employment had been terminated and that they had been compelled to resign from the board. At the same time, it was announced that the company’s senior vice president, Guo, would become interim CEO and would have a seat at the board.[[89]](#endnote-89)

After this announcement, the committee continued its investigation, which involved the review of over 550,000 documents and 60 witness interviews. It became evident that 12 complicit employees had to be terminated and disciplinary action taken against 15 employees. Moreover, the committee also recommended the termination of relations with third parties involved in the fraud.[[90]](#endnote-90)

Just as these investigations were coming to a close, majority shareholder Charles Lu (see Exhibit 9) called for an extraordinary general meeting (EGM) with the intent of removing Shao. Simultaneously, the special committee announced its recommendation that Lu should be removed as board chair, due to his failure to cooperate with the investigation. The committee declared that Lu knew or should have known about the fraudulent transactions—a claim that Lu denied.[[91]](#endnote-91)

On July 13, 2020, Luckin announced several changes in the board, effective July 5, 2020:[[92]](#endnote-92) Lu, Shao, and two of the original directors were removed; Guo was named CEO and chair, and remained as the only member of the eight-person board that had been connected with Luckin before the scandal erupted.[[93]](#endnote-93) Other resignations and replacements had already taken place (see Exhibit 10).

Despite the changes to the board’s composition, some were still skeptical about the independence of the board because the replacements were perceived to have been personally selected by Lu.[[94]](#endnote-94) There were also speculations as to why Lu had allowed himself to be removed as both the chair and a member of the board. Some suspected that Lu wanted to divert attention away from his possible role in the fraud.[[95]](#endnote-95) It was also suspected that Lu’s removal had been pre-emptive and that Lu had expected to lose control of Haode Investments after the British Virgin Islands granted both Credit Suisse and Wall Street banks the authority to liquidate investments following Lu’s default on loans he had secured, prior to the IPO, with stocks in Luckin.[[96]](#endnote-96) Also, some believed that Lu wanted relief from scrutiny, since trading in shares of his non-related businesses, CAR and UCar, had been unfavourably affected[[97]](#endnote-97) and his shares in UCar had been frozen.[[98]](#endnote-98) In June 2020, Lu also stepped down as chair of CAR.[[99]](#endnote-99)

The changes to the composition of the board were far from over. On August 3, Centurium Capital, which held more than 10 per cent of voting shares, requested that another EGM be scheduled to reinstate Shao as an independent director and to remove the two female directors Lu had brought onto the board.[[100]](#endnote-100)

ACTION TAKEN BY REGULATORS

The Nasdaq was quick to react to Luckin’s public disclosure of accounting fraud. A few days after the announcement, trading in Luckin’s stocks was suspended, and before the six-week suspension ended in May 2020, Nasdaq warned Luckin that it might be delisted due to its failure to publicly disclose material information and the concerns raised by investors.[[101]](#endnote-101) A month later, Nasdaq issued a second delisting notice due to Luckin’s failure to file an annual financial report for 2019.[[102]](#endnote-102) At Luckin’s request, a hearing was set for June 25, 2020, to allow the company an opportunity to be heard, but Luckin withdrew this request a day before the hearing. Consequently, Nasdaq notified the company that trading of its shares would be suspended as of June 29, 2020, until delisting could take effect.[[103]](#endnote-103)

As Nasdaq took action against Luckin, US regulators coordinated with their counterparts in China to call for an investigation regarding the public disclosure of fraud. Unlike other countries, which allowed the US regulators to directly audit the financial records of firms listed on its stock exchanges, China granted US regulators no such authority. Under Chinese law, only locally based firms were allowed to audit Chinese firms; the country’s secrecy law also meant that documents could not be brought out of China.[[104]](#endnote-104)

Three Chinese government units worked together to determine the extent of the fraudulent transactions— the Ministry of Finance, the Chinese Securities Regulatory Commission, and the State Administration for Market Regulation. They concluded that Luckin had violated accounting laws, anti-competition regulations, and the new securities law that had taken effect in March 2020[[105]](#endnote-105) with its false advertising as well as its inflation of income and expenses.[[106]](#endnote-106) On top of applying administrative penalties to Luckin and related firms, the Chinese regulators prepared to penalize and even prosecute the former chairperson for his involvement in the fraud.[[107]](#endnote-107)

RESPONSE OF INVESTORS

As of December 2019, Luckin had 158 institutional investors holding 460 million shares.[[108]](#endnote-108) These investors were still enthusiastic, even though Luckin, as an emerging, growth company, was taking advantage of reduced public reporting requirements under US securities law.[[109]](#endnote-109) The company’s stock price steadily increased—far beyond the $17 it had reached at the IPO opening—as the company continued to provide updates on its targets. For instance, the November 2019 announcement of store profits boosted the share price even further, and the share price peaked at $50[[110]](#endnote-110) after the company announced it had completed its second offering and fully subscribed its convertible senior notes, pushing its corporate valuation to $12 billion (see Exhibit 11). While prices dipped slightly when the anonymous 89-page report was released by Muddy Waters Research, Luckin recovered and reassured investors that it collected real-time data on sales and therefore all figures could be verified.[[111]](#endnote-111)

However, when Luckin admitted, on April 2, 2020, that financial statements were no longer reliable, its share price tumbled to $6.40 and then to $4.39 a few days later.[[112]](#endnote-112) As investors rushed to dispose of their shares, the volume of stocks traded on the Nasdaq reached 447 million within three days of the announcement. The trading volume was 10 times higher than during the previous 40 days combined, and the unusual volume prompted the suspension of trading.[[113]](#endnote-113) After a six-week hiatus, shares opened on May 20, 2020, at $2.52 and reached their lowest level on May 22 at $1.39.[[114]](#endnote-114) By the first week of July 2020, Luckin was delisted from the Nasdaq and immediately began to trade in the over-the-counter (OTC) market under the ticker symbol LKNCY:OTC.[[115]](#endnote-115) Stocks had since been trading at the $2 level.[[116]](#endnote-116)

The exodus from Luckin began even before the scandal erupted. Point72 Asset Management was able to reduce its holding to 1.2 per cent as early as February 2020;[[117]](#endnote-117) Lone Pine Capital, which held 14.5 per cent of ADSs, pulled out on the day the scandal erupted;[[118]](#endnote-118) and Capital Group, which held 9.2 per cent of Class A shares, was able to exit a month later.[[119]](#endnote-119) BlackRock followed suit.[[120]](#endnote-120)

Other investors suffered substantial losses and aimed to take appropriate actions against the firm. Those who had purchased shares from November 2019 to January 2020 joined a class-action suit filed in February 2020, after early allegations of fraud surfaced.[[121]](#endnote-121) Still others, with damages that exceeded $100,000 as a result of purchases during the same period, were invited to join another class-action suit.[[122]](#endnote-122)

Meanwhile, the unsecured convertible senior notes, which would have earned an interest of 0.75 per cent per annum and a conversion price of $54.601 per share in January 2025,[[123]](#endnote-123) had a value of 27.5 cents to the dollar in late April 2020.[[124]](#endnote-124) The notes were subsequently removed from the Standard & Poor’s Depositary Receipt (SPDR) Bloomberg Barclays Convertible Securities exchange traded fund (ETF) (NYSEARCA:CWB), following Luckin’s delisting.[[125]](#endnote-125)

**IMPLICATIONS OF THE LUCKIN SCANDAL**

The Luckin scandal hastened the US Senate approval of the *Holding Foreign Companies Accountable Act*.[[126]](#endnote-126) The bill was forwarded to the House of Representatives, which had to approve the document before it could finally be signed into law by the US president. When enacted into law, the bill would require all foreign firms that had raised funds, or intended to raise funds, from US investors through US stock exchanges or private endeavours to subject their financial records to the scrutiny of the Public Company Accounting Oversight Board (PCAOB).[[127]](#endnote-127) Firms already listed on the boards would have to comply with the new requirements by January 2022 or face delisting. While most foreign firms already complied with US securities law, those in a few countries, like China, which upheld its secrecy laws, did not.[[128]](#endnote-128)

However, it was uncertain whether the law would actually be passed. There were concerns that enacting the law might backfire as Chinese listings generated economic activity. There were 230 Chinese firms with market capitalizations estimated at $1.8 trillion listed on US exchanges.[[129]](#endnote-129) These firms could readily list on other boards, as they had already obtained the benefits of US listings such as improved enterprise valuation.[[130]](#endnote-130) Firms yet to be listed could opt to enter other markets since stock exchanges around the globe were known to compete for IPOs. Even China had eased the rules for IPOs, resulting in dozens of debuts on the Shenzhen Stock Exchange’s ChiNext market.[[131]](#endnote-131) If Chinese firms listed elsewhere, this would mean a substantial lost opportunity for the United States, since Chinese firms had dominated global IPOs over the last 15 years.[[132]](#endnote-132) It could also lead to the closure of the ADS market, which was the instrument used by foreign companies. Ninety per cent of the ADS market, with capitalization of $860 billion, was controlled by Chinese firms.[[133]](#endnote-133)

Meanwhile, Chinese firms were still in a rush to list on US boards in the hope that the two governments could still reach a compromise before the deadline for compliance with the audit records disclosure requirement.[[134]](#endnote-134) Ahead of the pack was Kingsoft Cloud Holdings Limited, the largest independent cloud service provider in China.[[135]](#endnote-135) The company had raised $510 million in its IPO on the Nasdaq in May 2020.[[136]](#endnote-136) Like Luckin, it had not reported any profits at the time of listing.

The Future of LUCKIN COFFEE

As of July 15, 2020, the Luckin board had been placed under the supervision of provisional liquidators Alexander Lawson, of Alvarez & Marsal Cayman Islands Inc., and Wing Sze Tiffany Wong, of Alvarez & Marsal Asia Limited. The appointment of liquidators was mandated by the Grand Court of the Cayman Islands, which had jurisdiction over the Cayman-registered Luckin.[[137]](#endnote-137) These “light touch” liquidators were expected to work with Luckin’s financial adviser, Houlihan Lokey—a recognized expert for distressed firms—not to liquidate but to restructure the company and to negotiate with its creditors (see Exhibit 12). At the time of their appointment, Luckin had unrestricted cash estimated at $780 million.[[138]](#endnote-138)

What the new board intended to do to regain investor trust was still unclear. As of August 3, 2020, the two independent female directors, who had received their directorships only on July 5, 2020, had submitted their resignations ahead of the September 2, 2020, EGM that sought to remove them.[[139]](#endnote-139) Among the executives, the CFO appeared to still remain at Luckin, while there had been no announcements regarding the replacement for the COO, who had been fired. There had also been no word on the CMO, who had been active during the early days but who appeared to have quietly faded from the limelight just prior to the IPO. It was speculated that his absence was necessary in order to divert attention from his criminal record, which might be discovered as investors conducted their own due diligence.[[140]](#endnote-140)

Could Luckin survive over the next few months or years, or was bankruptcy within sight? Beyond the hype over its technology, Luckin was a real company and was visible through its stores across China, which were reported to have reached at least 6,000.[[141]](#endnote-141) If records were to be believed, the company had 40 million transacting customers as of December 2019. Immediately after the news of the accounting fraud scandal broke, throngs of customers were reported to have lined up at Luckin stores to redeem coupons in fears the company would shut down and render their coupons worthless.[[142]](#endnote-142) The demand surges led to over 325,000 daily downloads of the mobile app (compared to its usual 45,000 downloads)—the app crashed.[[143]](#endnote-143) Was this an indicator that Luckin’s “new retail” model could not work without the promotions?

EXHIBIT 1: Luckin Coffee Inc.—corporate structure

(as of may 2019)

Chart depicting Luckin Coffee Inc Corporate Structure as of May 2019

Notes: WFOE = wholly foreign-owned enterprise; VIE = variable interest entity.

Source: Luckin Coffee Inc., Luckin Coffee Inc., “Luckin Coffee Inc. Prospectus: Representing 264,000,000 Class A Ordinary Shares,” Luckin Coffee, May 17, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686.

EXHIBIT 2: number of luckin stores

| **Type of Store** | **Dec 2017** | **Mar 2018** | **Jun 2018** | **Sep 2018** | **Dec 2018** | **Mar 2019** | **Jun 2019** | **Sep 2019** | **Dec 2019** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Pick-Up Stores | 4 | 83 | 356 | 903 | 1,811 | 2,163 | 2,741 | 3,433 |  |
| Relax Stores | 5 | 15 | 22 | 45 | 86 | 109 | 123 | 138 |  |
| Delivery Kitchens |  | 192 | 246 | 241 | 176 | 98 | 99 | 109 |  |
| Total | 9 | 290 | 624 | 1,189 | 2,073 | 2,370 | 2,963 | 3,680 | 4,507 |

Source: Developed by author with data from Luckin Coffee, Luckin Coffee Inc., “Luckin Coffee Inc. Prospectus: Representing 264,000,000 Class A Ordinary Shares, May 17, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686; “Luckin Coffee Inc. Announces Unaudited Second Quarter 2019 Financial Results,” Luckin Coffee (news release), August 14, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/399afeb2-3d54-4cc4-8030-d3672d865a71; “Luckin Coffee Inc. Announces Unaudited Third Quarter 2019 Financial Results,” Luckin Coffee (news release), November 13, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/e228e5f9-e47f-47e4-b8dd-f1cabe870ebb>; Luckin Coffee Inc., “Form F-1: Registration Statement under The Securities Act of 1933—Luckin Coffee Inc.,” United States Securities and Exchange Commission, January 7, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/49701047-371e-406d-b5c5-c6ee6b891734.

EXHIBIT 3: Luckin Coffee Inc.—OPERATING RESULTS as of end of quarter

(IN ¥ THOUSANDS)

|  | **Dec 2017** | **Mar 2018** | **Jun 2018** | **Sep 2018** | **Dec**  **2018** | **Mar 2019** | **Jun**  **2019** | **Sep**  **2019** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Net Revenues |  |  |  |  |  |  |  |  |
| Freshly Brewed Drinks | 215 | 9,575 | 100,518 | 192,666 | 346,850 | 361,095 | 659,161 | 1,145,358 |
| Other Products | 25 | 1,403 | 8,449 | 34,397 | 91,393 | 83,980 | 210,835 | 347,847 |
| Others | 10 | 1,976 | 12,542 | 13,736 | 27,190 | 33,435 | 39,119 | 48,386 |
| Total Net Revenues | 250 | 12,954 | 121,509 | 240,799 | 465,433 | 478,510 | 909,115 | 1,541,591 |
| Operating Expenses |  |  |  |  |  |  |  |  |
| Cost of Materials |  |  |  |  |  |  |  |  |
| Freshly Brewed Drinks | 269 | 4,309 | 45,475 | 86,071 | 154,969 | 164,022 | 465,822 | 721,129 |
| Other Products | 40 | 1,072 | 7,702 | 29,114 | 83,254 | 71,677 |
| Consumables | 339 | 1,606 | 12,897 | 13,372 | 14,507 | 7,565 |
| Storage Fees | 8 | 631 | 3,402 | 2,600 | 26,142 | 14,217 |
| Logistics | 133 | 1,801 | 6,295 | 20,491 | 16,507 | 18,331 |
| Store Rental & Operating |  |  |  |  |  |  |  |  |
| Store Rental | 617 | 5,046 | 18,026 | 41,014 | 71,897 | 100,015 | 371,460 | 477,305 |
| Payroll | 852 | 13,538 | 73,785 | 112,233 | 179,177 | 159,838 |
| Utilities | 90 | 1,640 | 8,128 | 19,300 | 32,460 | 22,518 |
| Depreciation | 917 | 3,965 | 14,973 | 28,873 | 58,879 | 83,979 | 88,485 | 108,515 |
| Sales & Marketing |  |  |  |  |  |  |  |  |
| Advertising | 23,910 | 39,848 | 101,842 | 127,372 | 93,080 | 40,143 | 245,400 | 378,864 |
| Promotion | 160 | 7,486 | 28,744 | 28,385 | 65,952 | 29,820 | 144,704 | 178,801 |
| Delivery | 29 | 5,384 | 44,920 | 67,118 | 124,771 | 94,608 |
| Other | 1,365 | 1,694 | 2,555 | 2,380 | 4,487 | 3.532 |
| General & Administrative | 22,005 | 39,022 | 74,916 | 118,298 | 147,502 | 172,962 | 265,781 | 246,093 |
| Store Pre-Opening & Others | 5,723 | 11,085 | 21,296 | 29,793 | 35,620 | 22,374 | 17,171 | 21,773 |
| Total Operating Expense | 56,457 | 138,127 | 464,956 | 726,414 | 1,109,204 | 1,005,601 | 1,598,823 | 2,132,480 |
| Operating Loss | 56,207 | 125,173 | 343,447 | 485,615 | 643,771 | 527,091 | 689,708 | 590,889 |
| Net Other Income/(Expense) | (164) | (7,056) | 10,450 | 688 | (25,228) | (24,693) | 8,427 | 59,033 |
| Net Loss before Taxes | 56,371 | 132,229 | 332,997 | 484,927 | 668,999 | 551,784 | 681,281 | 531,856 |

Source: Developed by case author with data from Luckin Coffee, *Luckin Coffee Inc. Prospectus: Representing 264,000,000 Class A Ordinary Shares,* May 17, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686; “Luckin Coffee Inc. Announces Unaudited Second Quarter 2019 Financial Results,” Luckin Coffee (news release), August 14, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/399afeb2-3d54-4cc4-8030-d3672d865a71; “Luckin Coffee Inc. Announces Unaudited Third Quarter 2019 Financial Results,” Luckin Coffee (news release), November 13, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/e228e5f9-e47f-47e4-b8dd-f1cabe870ebb>; “SEC Filings,” Luckin Coffee, November 25, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/financial-information/sec-filings?items\_per\_page=10&page=5.

EXHIBIT 4: Luckin Coffee Inc.—Corporate structure (as of january 2020)

Chart depicting Luckin Coffee Inc corporate structure as of January 2020

Notes: WFOE = wholly foreign-owned enterprise; VIE = variable interest entity.

Source: Luckin Coffee, *Luckin Coffee Inc. Representing 110,400,000 Class A Ordinary Shares*, January 10, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/8fc12b81-9b27-46ee-a117-63ce9364fc43.

EXHIBIT 5: luckin coffee Closing Stock Price on nasdaq and otc PINK

(in US$)

Graph depicting Luckin Coffee closing stock price on NASDAQ and OTC Pink

Source: Developed by case author with historical stock price data from “Luckin Coffee Inc. (LKNCY),” Yahoo! Finance, accessed December 19, 2020, , <https://finance.yahoo.com/quote/LKNCY/history?period1=1558224000&period2=1608336000&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true>.

EXHIBIT 6: comparison of strategies adopted by luckin coffee and starbucks

|  | **Luckin Coffee** | **Starbucks** |
| --- | --- | --- |
| **Target Market** | * cost-conscious digital natives | * growing number of middle-class Chinese citizens |
| **Value Proposition** | * tech company that sells affordable coffee on demand | * international company that sells social status and rents couches in a third space (place between home and office) |
| **Location** | * lobbies of office buildings * university campuses in top-tier cities | * high-visibility places in areas that support premium brand image |
| **Store Size** | * between 20 and 60 m2 for pick-up stores, which account for more than 90% of all existing stores   about 150 m2 for relaxed, dine-in stores  larger kitchen stores for delivery | * between 100 and 150 m2 * around 350 m2 for roastery |
| **Pricing** | * $3.50 without promotion | * $4.80 |
| **Technology/Delivery** | * proprietary app * WeChat | * third-party delivery platform, care of Weibo |
| **Payment Experience** | * cashless | * allows in-store payment |
| **Promotions** | * coupons and subsidies * discounts * loyalty rewards | * loyalty cards |

Note: m2 = square metres.

Source: Developed by case author from data from Alex Fang, “Luckin Coffee Zooms Past Starbucks in China Store Count,” *Nikkei Asian*, January 3, 2020, accessed June 5, 2020, <https://asia.nikkei.com/Business/Startups/Luckin-Coffee-zooms-past-Starbucks-in-China-store-count>; Gwynn Guilford, “In China, Starbucks Doesn’t Sell Coffee to Make Millions. It Rents Couches,” Quartz, September 17, 2013, 2012, accessed July 20, 2020, <https://qz.com/125138/in-china-starbucks-doesnt-sell-coffee-to-make-its-millions-it-rents-couches/>; Siyan Li, “Starbucks: 20 Years in China,” The Startup, January 24, 2019, accessed June 10, 2020, <https://medium.com/swlh/starbucks-20-years-in-china-9fa8e0c33cf1>; Luckin Coffee, *Luckin Coffee Inc.: Representing 264,000,000 Class A Ordinary Shares*, May 17, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686>; Helen H. Wang, “Five Things Starbucks Did to Get China Right,” *Forbes*, August 10, 2012, accessed June 10, 2020, www.forbes.com/sites/helenwang/2012/08/10/five-things-starbucks-did-to-get-china-right/#65e3203853af 1/; Wade Shepart, “Is This the Recipe for Starbucks’’ Continued Success in China?,” Forbes, February 6, 2016, accessed June 10, 2020, www.forbes.com/sites/wadeshepard/2016/02/06/is-this-the-recipe-for-starbucks-success-in-china/?sh=76b4a1533f1b; Yuhan Xu, “China’s Luckin Coffee Tries to Conquer a Nation of Tea Drinkers,” NPR, May 17, 2019, accessed June 5, 2020, www.npr.org/sections/goatsandsoda/2019/05/17/723193259/what-does-chinas-luckin-coffee-have-that-starbucks-doesnt.

**EXHIBIT 7: NUMBER OF STORES OPENED BY STARBUCKS AND LUCKIN COFFEE**

**(BETWEEN END OF QUARTER DECEMBER 2017 TO END OF QUARTER DECEMBER 2019)**

Source: Developed by case author with data from “Supplemental Financial Data: Store Counts and Comparable Store Sales,” Starbucks Investor Relations, June 28, 2020, accessed August 10, 2020, <https://investor.starbucks.com/financial-data/supplemental-financial-data/default.aspx>; “Luckin Coffee Inc. Announces Unaudited Third Quarter 2019 Financial Results,” Luckin Coffee (news release), November 13, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/e228e5f9-e47f-47e4-b8dd-f1cabe870ebb>; Luckin Coffee Inc., “Form F-1: Registration Statement under The Securities Act of 1933—Luckin Coffee Inc.,” United States Securities and Exchange Commission, January 7, 2020, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/49701047-371e-406d-b5c5-c6ee6b891734>.

EXHIBIT 8: Luckin Coffee Inc.—quarter breakdown of INFLATED REVENUE AND expenses (IN ¥ billions)

|  | **2019 Quarter 2** | **2019 Quarter 3** | **2019 Quarter 4** | **Total** |
| --- | --- | --- | --- | --- |
| **Revenue** | 0.25 | 0.70 | 1.17 | 2.12 |
| **Expense** | 0.15 | 0.52 | -0.67 | 1.34 |
| **Net** | 0.10 | 0.18 | 0.50 | 0.78 |

Source: Developed by case author with data from “Luckin Announces the Substantial Completion of the Internal Investigation,” Luckin Coffee (press release), July 1, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-announces-substantial-completion-internal-investigation.

EXHIBIT 9: LUCKIN COFFEE INC.—Percentage of aggregate voting power of PRINCIPAL STAKEHOLDERS PER PROSPECTUS

| **Principal Stakeholders** | **Type of Shares** | **Before IPO** | **IPO** | **Before Second Offer** |
| --- | --- | --- | --- | --- |
| Lu Family Trust through Haode Investment Inc. | Angel 1 Angel 2 | 30.39% | 29.98% | 36.62% |
| Qian Family Trust through Summer Fame Limited | Angel 1 Angel 2 | 19.59% | 19.32% | 23.73% |
| Sunying Wong (Charles Lu’s sister) through Mayer Investment Funds | Angel 1, Angel 2 | 12.34% | 12.17% | 14.94% |
| Hui Li thru Centurium Capital through Lucky Cup Holdings | Convertible preferred | 11.84% | 11.58% | 14.43% |
| Erhai Liu through Joy Capital | Convertible preferred | 6.72% | 6.63% | 0.81% |
| Capital Research Global Investor | Convertible  Preferred |  |  | 0.35% |
| Lone Pine Capital | Convertible preferred |  |  | 0.37% |
| GIC Private Limited | Convertible preferred |  |  | 0.35% |
| Total |  | 80.88% | 76.68% | 87.6% |

Notes: All shares were converted to Class B shares; holders of Class A shares had the same rights as holders of Class B shares, except for voting and conversion rights; Class A shares had one vote each, while Class B shares had 10 votes each; Class B shares were convertible into Class A shares, but Class A shares could not be converted to Class B shares.

Source: Developed by case author using data from luckin Ccffee, *33,000,000 American Depositary Shares: Luckin Coffee Inc. Representing 264,000,000 Class A Ordinary Shares*, May 16, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686>; Luckin Coffee, *13,800,000 American Depositary Shares: Luckin Coffee Inc. Representing 110,400,000 Class A Ordinary Shares*, January 9, 2020, accessed August 3, 2020, https://investor.luckincoffee.com/static-files/8fc12b81-9b27-46ee-a117-63ce9364fc43.

EXHIBIT 10: LUCKIN COFFEE INC.—PERCENTAGE BOARD OF DIRECTORS AND TENURE

| **NAME** | **BACKGROUND/AFFILIATION** | **POSITIONS HELD in Luckin Coffee** | **START DATE** | **END DATE** |
| --- | --- | --- | --- | --- |
| Charles Zhengyao Lu | Co-founder and Chairperson, Car Inc. and UCar (UCar was a major stockholder of XHKG-listed Car Inc.) | Co-founder and Chairperson | June 2018 | July 5, 2020 |
| Jenny Zhiya Qian | Director and COO, UCar  EVP/COO, Car Inc. | Co-founder, Director, and CEO | August 2017 | May 11, 2020 |
| Jian Liu | Head of Yield Management, Car Inc. and UCar | Director and COO | February 2019 | May 11, 2020 |
| Jinyi Guo | Assistant to the Chairperson, UCar; Research Assistant, China Academy of Transportation Services | Director and SVP, Director and Acting CEO, Chairperson and CEO | June 2018 |  |
| David Hui Li | CEO and Founder, Centurium Capital Partners  Managing Director, Warburg Pincus Asia LLC | Director | June 2018 | July 5, 2020 |
| Erhai Liu | Managing Partner, Joy Capital  Managing Director, Legend Capital | Director | November 2018 | July 5, 2020 |
| Thomas Meier | CEO, Ricola Group  CEO, Franke Coffee Systems | Independent Director | May 2019 | April 21, 2020 |
| Sean Shao | Independent Director, 21Vianet Group Inc. Jumei International Holding Ltd., Agria Corporation | Independent Director, Special Investigation Committee Member | May 2019 | July 5, 2020 |
| Wai Yuen Chong | Management (30 years), Charoen Pokphand Group | Independent Director, Special Investigation Committee Member | March 27, 2020 |  |

Exhibit 10 (Continued)

| **NAME** | **BACKGROUND/AFFILIATION** | **POSITIONS HELD in Luckin Coffee** | **START DATE** | **END DATE** |
| --- | --- | --- | --- | --- |
| Tianruo Po | Finance (20 years), CFO, Zhaopin Ltd. | Independent Director, Special Investigation Committee Member | March 27, 2020 | June 16, 2020 |
| Wenbao Cao | McDonalds (23 years) | SVP, Director | May 11, 2020 |  |
| Gang Wu | Airline industry (26 years) | VP Strategic Partnerships; Director | May 11, 2020 |  |
| Ying Zeng | Business and law (25 years)  Partner, Orrick Herrington & Sutcliffe LLP | Independent Director | July 5, 2020 | August 3, 2020 |
| Jie Yang | Management (20 years), China University of Political Science and Law | Independent Director | July 5, 2020 | August 3, 2020 |
| Yang Cha | Law (20 years)  President, Tsinghua Education Foundation | Independent Director | July 12, 2020 |  |
| Feng Liu | Accounting professor, Xiamen University | Independent Director | July 12, 2020 |  |

Notes: XHKG = Hong Kong Stock Exchanges and Clearing Ltd.; EVP = executive vice president; COO = chief operating officer; CEO = chief executive officer; SVP = senior vice president.

Source: Developed by case author with data from Luckin Coffee, *33,000,000 American Depositary Shares: Luckin Coffee Inc. Representing 264,000,000 Class A Ordinary Shares*, May 16, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686>; “Luckin Coffee Announces Appointments of Two Independent Directors,” Luckin Coffee (press release), March 27, 2020, accessed August 5, 2020, <https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-appointments-two-independent-directors>; ”Luckin Coffee Received Notification from Mr. Thomas P. Meier of His Resignation as Independent Director,” Luckin Coffee (press release), April 23, 2020, accessed August 5, 2020, <https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-received-notification-mr-thomas-p-meier-his>; “Luckin Coffee Announces Changes to Board of Directors and Senior Management,” Luckin Coffee (press release), May 12, 2020, accessed August 5, 2020, <https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-changes-board-directors-and-senior>; ”Luckin Coffee Received Notification from Mr. Tianruo Pu of His Resignation as an Independent Director,” Luckin Coffee (press release), June 19, 2020, accessed August 5, 2020, <https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-received-notification-mr-tianruo-pu-his>; “Luckin Coffee Announces Changes to Board of Directors and the Appointment of a New Chairman,” Luckin Coffee (press release), July 13, 2020, accessed August 5, 2020, <https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-changes-board-directors-and-appointment>; “Luckin Coffee Received Notifications from Ms. Jie Yang and Ms. Ying Zeng of their Resignations from the Board, Effective Immediately,” Luckin Coffee (press release), August 3, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-received-notifications-ms-jie-yang-and-ms-ying.

EXHIBIT 11: LUCKIN COFFEE INC.—PERCENTAGE COrporate valuation

(in US$ billion)

Source: Developed by case author with data from Alex Fang, “China’s Luckin Coffee Adds $150M to War Chest Aided by BlackRock,” *Nikkei Asian,* April 19, 2019, accessed June 5, 2020, <https://asia.nikkei.com/Business/Startups/China-s-Luckin-Coffee-adds-150m-to-war-chest-aided-by-BlackRock>; Alex Fang, “China’s Luckin Coffee Faked $310m in Sales, in In-House Probe Finds,” *Nikkei Asian*, April 3, 2020, accessed June 5, 2020, <https://asia.nikkei.com/Business/Markets/China-s-Luckin-Coffee-faked-310m-in-sales-in-house-probe-finds>; Alyssa Perez, “Luckin Coffee vs. Starbucks: China’s Newest Unicorn is Challenging Starbucks Market Stranglehold,” Radii , July 26, 2018, accessed June 5, 2020, <https://radiichina.com/luckin-coffee-chinas-newest-unicorn-is-challenging-starbucks-market-stranglehold/>; Ryder Seamons, “Investing in Chinese Companies is Un-Luckin,” *China Law Blog,* July 11, 2020, accessed August 3, 2020, [www.chinalawblog.com/2020/07/investing-in-chinese-companies-is-un-luckin.html](https://www.chinalawblog.com/2020/07/investing-in-chinese-companies-is-un-luckin.html); Julie Zhu and Zoey Zhang, “China Probes Alleged Fraud at Luckin Coffee, Banks Review IPO Work,” Reuters, April 3, 2020, accessed July 18, 2020, www.reuters.com/article/us-china-regulator-luckin/china-probes-alleged-fraud-at-luckin-coffee-banks-review-ipo-work-idUSKBN21L0R9.

EXHIBIT 12: LUCKIN COFFEE INC.—PERCENTAGE balance sheet as AT end of quarter

(IN ¥ THOUSANDS)

|  | **Dec**  **2017** | **Mar 2018** | **Jun 2018** | **Sep 2018** | **Dec 2018** | **Mar 2019** | **Jun**  **2019** | **Sep**  **2019** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ASSETS** |  | Not available | | |  |  |  |  |
| Cash/Equivalent | 219,096 | 1,630,983 | 1,158,841 | 3,988,751 | 4,513,899 |
| Other Current Assets | 40,012 | 797,693 | 623,630 | 2,811,340 | 1,840,607 |
| Total Current Assets | 259,108 | 2,428,676 | 1,782,471 | 6,800,091 | 6,354,506 |
| Non-Current Assets | 77,848 | 1,056,400 | 1,118,244 | 1,360,714 | 1,674,525 |
| Total Assets | 336,956 | 3,485,076 | 2,900,715 | 8,160,805 | 8,029,031 |
|  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |
| Current Liabilities | 388,295 | 780,890 | 848,303 | 1,209,325 | 1,502,069 |
| Long-Term Liabilities | 32 | 343,438 | 231,510 | 129,548 | 93,010 |
| Total Liabilities | 388,327 | 1,134,328 | 1,118,244 | 1,338,873 | 1,595,079 |
|  |  |  |  |  |  |
| **EQUITY** |  |  |  |  |  |
| Mezzanine Equity |  | 4,278,341 | 4,333,173 |  |  |
| Shareholders’ Equity | 5,000 | 1,321,188 | 1,321,188 | 11,860,238 | 11,900,993 |
| Accumulated Deficits | 56,371 | 3,248,781 | 3,833,459 | 5,038,306 | 5,467,041 |
| **Total Equity** | **(51,371)** | **2,350,748** | **2,512,271** | **6,821,932** | **6,433,952** |

Source: Developed by case author with data from Luckin Coffee, *33,000,000 American Depositary Shares: Luckin Coffee Inc. Representing 264,000,000 Class A Ordinary Shares*, May 16, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686; “Luckin Coffee Inc. Announces Unaudited Second Quarter 2019 Financial Results,” Luckin Coffee (press release), August 14, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/399afeb2-3d54-4cc4-8030-d3672d865a71; “Luckin Coffee Inc. Announces Unaudited Third Quarter 2019 Financial Results,” Luckin Coffee (news release), November 13, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/static-files/e228e5f9-e47f-47e4-b8dd-f1cabe870ebb>; SEC Filings, “Draft Registration Statement Submitted by Emerging Growth Company under Securities Act Section 6(e) or by Foreign Private Issuer under Division of Corporation Finance Policy,” Luckin Coffee, November 25, 2019, accessed August 5, 2020, <https://investor.luckincoffee.com/financial-information/sec-filings?items_per_page=10&page=5>.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Luckin Coffee Inc. or any of its employees. [↑](#endnote-ref-1)
2. “Luckin Coffee Inc. (LKNCY),” Yahoo! Finance accessed December 19, 2020, https://finance.yahoo.com/quote/LKNCY/history?p=LKNCY [↑](#endnote-ref-2)
3. Alyssa Perez, “Luckin Coffee vs. Starbucks: Luckin Coffee, China’s Newest Unicorn, Is Challenging Starbucks’ Market Stranglehold,” Radii, July 26, 2018, accessed June 5, 2020, https://radiichina.com/luckin-coffee-chinas-newest-unicorn-is-challenging-starbucks-market-stranglehold/. [↑](#endnote-ref-3)
4. “Luckin Coffee Announces Formation of Independent Special Committee and Provides Certain Information Related to Ongoing Internal Investigation,” luckin coffee (press release), April 2, 2020, accessed June 27, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-formation-independent-special-committee. [↑](#endnote-ref-4)
5. Selina Wang and Matthew Campbell, “Luckin Scandal is Bad Timing for US Listed Chinese Companies,” MSN Money, July 29, 2020, accessed June 5, 2020, www.msn.com/en-us/finance/companies/luckin-scandal-is-bad-timing-for-us-listed-chinese-companies/ar-BB17ldO7. [↑](#endnote-ref-5)
6. “Luckin Coffee Announces Smart Unmanned Retail Strategy, Bringing Luckin Closer to Customers,” Luckin Coffee (press release), January 7, 2020, accessed July 18, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-smart-unmanned-retail-strategy-bringing. [↑](#endnote-ref-6)
7. Dan Caplinger, “Surprise! Luckin Stock Has Quietly Doubled since Its Delisting,” The Motley Fool, July 9, 2020, accessed August 3, 2020, www.fool.com/investing/2020/07/09/surprise-luckin-coffee-stock-has-quietly-doubled-s.aspx. [↑](#endnote-ref-7)
8. “Luckin Coffee Announces the Appointment of ‘Light Touch’ Joint Provisional Liquidators in the Cayman Islands,” Luckin Coffee (press release), July 15, 2020, accessed August 1, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-appointment-light-touch-joint. [↑](#endnote-ref-8)
9. Jennifer Wang, “The New Billionaire behind the Chinese Coffee Chain That’s Challenging Starbucks,” *Forbes*, April 24, 2019, accessed August 6, 2020, www.forbes.com/sites/jenniferwang/2019/04/24/new-billionaire-behind-the-chinese-competitor-to-starbucks/#45a9bcd16b69. [↑](#endnote-ref-9)
10. Ibid. [↑](#endnote-ref-10)
11. Meng Jing, “UCAR Technology Lists on New Third Board,” *China Daily Europe*, July 15, 2016, accessed August 10, 2020 http://europe.chinadaily.com.cn/business/2016-07/15/content\_26096660.htm [↑](#endnote-ref-11)
12. Luckin Coffee, *33,000,000 American Depositary Shares: Luckin Coffee Inc. Representing 264,000,000 Class A Ordinary Shares,* May 17, 2019, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/62ae7fff-d256-461e-9012-a47bfdc3a686. [↑](#endnote-ref-12)
13. Wang, op. cit. [↑](#endnote-ref-13)
14. Luckin Coffee, *33,000,000 American Depositary Shares*, op. cit. [↑](#endnote-ref-14)
15. Michael Norris, “Why It’s Time to Wake Up and Smell the Coffee on Luckin,” TechNode, March 20, 2019, accessed August 5, 2020, https://technode.com/2019/03/20/why-its-time-to-wake-up-and-smell-the-coffee-on-luckin/. [↑](#endnote-ref-15)
16. Song Jingli and AJ Cortese, “Who is Guo Jinyi, Luckin’s New Acting CEO?,” KrAsia, May 15, 2020, accessed August 3, 2020, https://kr-asia.com/who-is-luckin-coffees-new-interim-ceo-meet-guo-jinyi. [↑](#endnote-ref-16)
17. Michael Norris, “From Jail to Java: How Luckin’s CMO is Hacking China’s Coffee Market,” Technode, March 25, 2019, accessed August 10, 2020, https://technode.com/2019/03/25/from-jail-to-java-how-luckins-cmo-is-hacking-chinas-coffee-market/. [↑](#endnote-ref-17)
18. Norris, “Why It’s Time,” op. cit. [↑](#endnote-ref-18)
19. Ibid. [↑](#endnote-ref-19)
20. Naoki Matsuda and Alex Fang, “Luckin Nasdaq Filing Reveals Ambitions, and Losses,” *Nikkei Asian*, April 24, 2019, accessed August 5, 2020, https://asia.nikkei.com/Business/Companies/Luckin-Nasdaq-filing-reveals-ambitions-and-losses. [↑](#endnote-ref-20)
21. Yuhan Xu, “China’s Luckin Coffee Tries to Conquer a Nation of Tea Drinkers,” NPR, May 17, 2019, accessed June 5, 2020, www.npr.org/sections/goatsandsoda/2019/05/17/723193259/what-does-chinas-luckin-coffee-have-that-starbucks-doesnt. [↑](#endnote-ref-21)
22. Butao Wang, “Coffee Shop or Convenience Store? 10,000 Luckin Coffee Outlets Yet to Come,” Equal Ocean, May 30, 2019, accessed August 3, 2020, https://equalocean.com/news/2019053011131. [↑](#endnote-ref-22)
23. Paul R. La Monica, “Luckin Coffee Surges in Wall Street Debut,” CNN Business, May 17, 2019, accessed August 3, 2020, <https://edition.cnn.com/2019/05/17/investing/luckin-coffee-ipo-stock/index.html>. [↑](#endnote-ref-23)
24. Luckin Coffee, *33,000,000 American,* op. cit. [↑](#endnote-ref-24)
25. Naoki Matsuda, “Chinese Ditch Muji and Starbucks for Homegrown Names,” *Nikkei Asian*, February 21, 2019, accessed June 5, 2020, https://asia.nikkei.com/Business/Business-trends/Chinese-ditch-Muji-and-Starbucks-for-homegrown-names. [↑](#endnote-ref-25)
26. Zach Coleman, “Chinese Consumers Swing towards Local Brands,” *Nikkei Asian*, September 13, 2018, accessed June 5, 2020, https://asia.nikkei.com/Business/Business-trends/Chinese-consumers-swing-toward-local-brands. [↑](#endnote-ref-26)
27. Daisuke Harashima, “Cash-Strapped Chinese Shoppers Get Picky,” *Nikkei Asian*, February 26, 2019, accessed August 7, 2020, https://asia.nikkei.com/Spotlight/Asia-Insight/Cash-strapped-Chinese-shoppers-get-picky. [↑](#endnote-ref-27)
28. Pei Li and Se Young Lee, “China Start-Up Luckin Coffee Raises $200 Million to Propel Growth,” Reuters, July 11, 2018, accessed August 3, 2020, www.reuters.com/article/us-luckin-coffee-fundraising/china-startup-luckin-coffee-raises-200-million-to-propel-expansion-idUSKBN1K10BI. [↑](#endnote-ref-28)
29. Junheng Li, “Starbucks Faces a Bigger Challenge in China than Upstart Coffee,” *Nikkei Asian*, August 24, 2018, accessed June 5, 2020, https://asia.nikkei.com/Business/Business-Insight/Starbucks-faces-a-bigger-challenge-in-China-than-upstart-Luckin. [↑](#endnote-ref-29)
30. Alex Fang, “Starbucks’ China Challenger Luckin Surges in Upsized US Listing,” *Nikkei Asian*, May 18, 2019, accessed June 5, 2020, https://asia.nikkei.com/Business/Companies/Starbucks-China-challenger-Luckin-surges-in-upsized-US-listing. [↑](#endnote-ref-30)
31. Chen Du, “Disgraced Luckin Chairman Booted, Actually Gains More Control over Board,” PingWest, July 5, 2020, accessed August 12, 2020, <https://en.pingwest.com/a/7103>. [↑](#endnote-ref-31)
32. Perez, op. cit. [↑](#endnote-ref-32)
33. Matsuda, op. cit. [↑](#endnote-ref-33)
34. Saheli Roy Choudhury, “Tencent Reportedly Partners Local Coffee Start-Up to Take on China’s Coffee Market,” CNBC Markets, September 7, 2018, accessed June 8, 2020, www.cnbc.com/2018/09/07/tencent-reportedly-partners-luckin-coffee-to-take-china-coffee-market.html. [↑](#endnote-ref-34)
35. Marrian Zhou, “Luckin on Track to be Largest Coffee Chain in China this Year,” *Nikkei Asian*, August 15, 2019, accessed June 5, 2020, https://asia.nikkei.com/Business/Travel-Leisure/Luckin-on-track-to-be-largest-coffee-chain-in-China-this-year2. [↑](#endnote-ref-35)
36. Xu, op. cit. [↑](#endnote-ref-36)
37. Ibid. [↑](#endnote-ref-37)
38. Li, op. cit. [↑](#endnote-ref-38)
39. Xu, op. cit. [↑](#endnote-ref-39)
40. “Luckin Coffee Appoints Reinout Schakel as CFO, CSO,” China.Org.Cn, January 7, 2020, accessed July 12, 2020, www.china.org.cn/business/2019-01/07/content\_74349098.htm. [↑](#endnote-ref-40)
41. “Credit Suisse ‘Dream’ Client Becomes Nightmare in Luckin Scandal, Banking News & Top Stories,” *Singapore News Today,* April 29, 2020, accessed August 5, 2020, https://singaporenewstoday.com/credit-suisse-dream-client-becomes-nightmare-in-luckin-scandal-banking-news-top-stories/. [↑](#endnote-ref-41)
42. James Chen, “American Depositary Share (ADS)s,” Investopedia, updated October 10, 2020, accessed November 17, 2020, https://www.investopedia.com/terms/a/ads.asp. [↑](#endnote-ref-42)
43. Ryder Seamons, “Investing in Chinese Companies is Un-Luckin,” *China Law Blog*, July 11, 2020, accessed August 3, 2020, www.chinalawblog.com/2020/07/investing-in-chinese-companies-is-un-luckin.html. [↑](#endnote-ref-43)
44. Xu, op. cit [↑](#endnote-ref-44)
45. Zhou, op. cit. [↑](#endnote-ref-45)
46. “Luckin Coffee Appoints,” op. cit. [↑](#endnote-ref-46)
47. Alex Fang, “US Hedge Fund Titan Reveals $390M Stake in China’s Luckin Coffee”, *Nikkei Asian*, August 7, 2019, accessed June 5, 2020, https://asia.nikkei.com/Business/Business-deals/US-hedge-fund-titan-reveals-390m-stake-in-China-s-Luckin-Coffee. [↑](#endnote-ref-47)
48. Nikki Sun, “China’s Luckin Coffee Forms JV with Middle Eastern Partner,” *Nikkei Asian,* July 22, 2019, accessed June 5, 2020, https://asia.nikkei.com/Business/Companies/China-s-Luckin-Coffee-forms-JV-with-Middle-Eastern-partner. [↑](#endnote-ref-48)
49. Alex Fang, “Luckin Coffee Squeezes into China Juice Space with Louis Dreyfus,” *Nikkei Asian*, September 27, 2019, accessed June 5, 2020, https://asia.nikkei.com/Business/Companies/Luckin-Coffee-squeezes-into-China-juice-space-with-Louis-Dreyfus. [↑](#endnote-ref-49)
50. Alex Fang, “Luckin Coffee Hatches Luckin Tea, for China’s Smaller Cities,” *Nikkei Asian*, September 4, 2019, accessed June 5, 2020, https://asia.nikkei.com/Business/Companies/Luckin-Coffee-hatches-Luckin-Tea-for-China-s-smaller-cities. [↑](#endnote-ref-50)
51. “Luckin Coffee Announces Smart Unmanned,” op. cit. [↑](#endnote-ref-51)
52. Alex Fang, “Luckin Coffee Zooms Past Starbucks in China Stores,” *Nikkei Asian,* January 3, 2020, accessed June 5, 2020, https://asia.nikkei.com/Business/Startups/Luckin-Coffee-zooms-past-Starbucks-in-China-store-count. [↑](#endnote-ref-52)
53. “Luckin Coffee Announces Proposed Offering of US$400 Million Convertible Senior Notes,” Luckin Coffee (press release), January 7, 2020, accessed July 18, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-inc-announces-proposed-offering-us400-million. [↑](#endnote-ref-53)
54. “Luckin Coffee Announces Pricing of Upsized Follow-On Public Offering of American Depositary Shares,” Luckin Coffee (press release), January 10, 2020, accessed July 18, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-inc-announces-pricing-upsized-follow-public. [↑](#endnote-ref-54)
55. “Luckin Coffee Announces Full Exercise of Option by Initial Purchasers to Purchase Additional Convertible Senior Notes,” luckin coffee (press release), January 17, 2020 accessed July 18, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-inc-announces-full-exercise-option-initial. [↑](#endnote-ref-55)
56. ”Luckin Coffee Inc. (LKNCY),” op cit. [↑](#endnote-ref-56)
57. Wang and Campbell, op. cit. [↑](#endnote-ref-57)
58. Sophie Yu and Brenda Goh, “Analysis: Want to Make Profits from Coffee in China? It’s Actually a Grind,” Nasdaq, July 21, 2020, accessed August 3, 2020, www.nasdaq.com/articles/analysis-want-to-make-profits-from-coffee-in-china-its-actually-a-grind-2020-07-21. [↑](#endnote-ref-58)
59. Ibid. [↑](#endnote-ref-59)
60. Siyan Li, “Starbucks: 20 Years in China,” The Start Up, January 24, 2019, accessed June 10, 2020, https://medium.com/swlh/starbucks-20-years-in-china-9fa8e0c33cf1. [↑](#endnote-ref-60)
61. “Luckin Coffee Appoints,” op. cit. [↑](#endnote-ref-61)
62. Matsuda, op. cit. [↑](#endnote-ref-62)
63. Daniel Shane, “This Coffee Company Thinks It Can Beat Starbucks in China,” CNN Philippines, December 29, 2018, accessed June 10, 2020, https://cnnphilippines.com/world/2018/12/29/Luckin-Coffee-Starbucks-Coffee-China.html. [↑](#endnote-ref-63)
64. “Luckin Coffee vs Starbucks: A Luckin Success in China,” Adam Cogan(blog), December 5, 2018, accessed August 3, 2020, https://adamcogan.com/2018/12/05/luckin-coffee-vs-starbucks-a-luckin-success-in-china/. [↑](#endnote-ref-64)
65. Maggie Fitzgerald, “Wall Street Sees Major Growth Potential for Luckin in Untapped Chinese Coffee Market,” CNBC, June 16, 2019, accessed June 20, 2020, www.cnbc.com/2019/06/14/wall-street-sees-major-growth-potential-for-luckin-in-untapped-chinese-coffee-market.html. [↑](#endnote-ref-65)
66. Helen Wang, “Five Things Starbucks Did to Get China Right,” *Forbes*, August 10, 2012, accessed June 10, 2020, www.forbes.com/sites/helenwang/2012/08/10/five-things-starbucks-did-to-get-china-right/#65e3203853af 1/. [↑](#endnote-ref-66)
67. Luckin Coffee, *13,800,000 American Depositary Shares: Luckin Coffee Inc. Representing 110,400,000 Class A Ordinary Shares,* January 9, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/static-files/8fc12b81-9b27-46ee-a117-63ce9364fc43. [↑](#endnote-ref-67)
68. Shane, op. cit. [↑](#endnote-ref-68)
69. Wang and Campbell, op. cit. [↑](#endnote-ref-69)
70. “Luckin Coffee: Fraud + Fundamentally Broken Business,” accessed August 3, 2020, https://drive.google.com/file/d/1LKOYMpXVo1ssbWQx8j4G3-strg6mpQ7F/view. [↑](#endnote-ref-70)
71. Pete Sweeney, “Breakingviews: China Fortune Hard to Read in Luckin Coffee Beans,” Reuters, February 5, 2020, accessed July 25, 2020, www.reuters.com/article/us-luckin-coffee-stock-breakingviews-idUSKBN1ZZ0E9. [↑](#endnote-ref-71)
72. Wang and Campbell, op. cit. [↑](#endnote-ref-72)
73. Amelia Lucas, “Shares of China’s Luckin Coffee Plummet 80% after Investigation Finds COO Fabricated Sales,” CNBC, April 2, 2020, accessed July 25, 2020, www.cnbc.com/2020/04/02/luckin-coffee-stock-plummets-after-investigation-finds-coo-fabricated-sales.html. [↑](#endnote-ref-73)
74. Wang and Campbell, op. cit. [↑](#endnote-ref-74)
75. Shen Xinyue, Qu Yunxu, Yuan Ruiyang, and Han Wei, “In Depth: Investors Sip Bitter Taste of Luckin Coffee Scandal,” *Nikkei Asian*, April 21, 2020, accessed June 5, 2020, https://asia.nikkei.com/Spotlight/Caixin/In-Depth-Investors-sip-bitter-taste-of-Luckin-Coffee-scandal. [↑](#endnote-ref-75)
76. “Luckin Announces the Substantial Completion of the Internal Investigation,” Luckin Coffee (press release), July 1, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-announces-substantial-completion-internal-investigation. [↑](#endnote-ref-76)
77. Seamons, op. cit. [↑](#endnote-ref-77)
78. “Luckin Coffee Announces Formation,” op cit. [↑](#endnote-ref-78)
79. ¥ = CNY = Chinese yuan renminbi; ¥1 = US$0.14408 in August 2020. [↑](#endnote-ref-79)
80. “Luckin Announces the Substantial Completion,” op. cit. [↑](#endnote-ref-80)
81. Jing Yang, “Behind the Fall of China’s Luckin Coffee: A Network of Fake Buyers and a Fictitious Employee,” *Wall Street Journal*, May 24, 2020, accessed August 15, 2020, www.wsj.com/articles/behind-the-fall-of-chinas-luckin-coffee-a-network-of-fake-buyers-and-a-fictitious-employee-11590682336. [↑](#endnote-ref-81)
82. Joe Tenebruso, “Why Luckin Coffee Stocks Plunged Today,” The Motley Fool, May 28, 2020, accessed June 15, 2020, www.fool.com/investing/2020/05/28/why-luckin-coffee-stock-plunged-today.aspx. [↑](#endnote-ref-82)
83. Jing Yang, “Luckin Coffee Chairman Culpable Probe Finds,” MarketWatch, July 5, 2020, accessed August 3, 2020, www.marketwatch.com/story/luckin-coffee-chairman-culpable-probe-finds-2020-07-05. [↑](#endnote-ref-83)
84. Yang, “Behind the Fall,” op. cit. [↑](#endnote-ref-84)
85. “Luckin Coffee Responds to Anonymous Report Containing Misleading and False Allegations,” Luckin Coffee (press release), February 3, 2020, accessed June 5, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-responds-anonymous-report-containing-misleading. [↑](#endnote-ref-85)
86. “Luckin Announces the Substantial Completion” Luckin Coffee (press release), February 3, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-announces-substantial-completion-internal-investigation. [↑](#endnote-ref-86)
87. Yang Ge and Shen Xinyue, “Change Grinds Luckin Board: Is it Real or For Founder’s Benefit?,” *Asia Times*, June 23, 2020, accessed July 25, 2020, https://asia.nikkei.com/Spotlight/Caixin/Change-grinds-Luckin-board-Is-it-real-or-for-founder-s-benefit. [↑](#endnote-ref-87)
88. “Luckin Coffee Announces Formation of Independent Special Committee,” op. cit. [↑](#endnote-ref-88)
89. ”Luckin Coffee Announces Changes to Board of Directors and the Appointment of a New Chairman,” Luckin Coffee (press release), July 13, 2020, accessed August 5, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-changes-board-directors-and-appointment. [↑](#endnote-ref-89)
90. “Luckin Announces the Substantial Completion,” op. cit. [↑](#endnote-ref-90)
91. Yujing Liu, “Luckin Coffee Co-Founder Charles Lu Tightens Grip in Boardroom Fight after Accounting Scandal,” *South China Morning Post*, July 6, 2020, accessed August 3, 2020, www.scmp.com/business/china-business/article/3091968/luckin-coffee-co-founder-charles-lu-tightens-grip-boardroom. [↑](#endnote-ref-91)
92. ”Luckin Coffee Announces Changes to Board of Directors,” op cit. [↑](#endnote-ref-92)
93. Ge and Xinyue, op. cit. [↑](#endnote-ref-93)
94. Chris Markoch, “Only the Names Have Changed for Luckin Coffee,” MSN Money, July 17, 2020, accessed August 5, 2020, www.msn.com/en-us/money/topstocks/only-the-names-have-changed-for-luckin-coffee/ar-BB16RtbP. [↑](#endnote-ref-94)
95. Yang and Shen, op. cit. [↑](#endnote-ref-95)
96. “Luckin Coffee Appoints Liquidators, Financial Advisers to Restructure and Salvage Business after Accounting Scandal,” *South China Morning Post*, July 16, 2020, accessed August 3, 2020, www.scmp.com/business/companies/article/3093364/luckin-coffee-appoints-liquidators-financial-advisers. [↑](#endnote-ref-96)
97. Shen, Qu, Yuan, and Han, op. cit. [↑](#endnote-ref-97)
98. Lu Zhao, “Luckin Chairman Lu Zhengyao’s Shares in UCAR Have Been Frozen,” Pandaily, June 11, 2020, accessed August 10, 2020, https://pandaily.com/ucar-chairman-lu-zhengyaos-shares-in-the-company-have-been-frozen/. [↑](#endnote-ref-98)
99. Leps, “Shenzhou Youche: The Shares Held by Chairman Lu Zhengyao Have All Been Frozen by the Judiciary,” June 11, 2020, accessed August 7, 2020, www.rayradar.com/2020/06/11/shenzhou-youche-the-shares-held-by-chairman-lu-zhengyao-have-all-been-frozen-by-the-judiciary/. [↑](#endnote-ref-99)
100. “Luckin Coffee to Hold an Extraordinary General Meeting on September 2, 2020, Pursuant to a Shareholder Requisition to Re-Appoint Mr. Sean Shao, an Independent Director, to the Board,” Luckin Coffee (press release), August 3, 2020, accessed August 10, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-hold-extraordinary-general-meeting-september-2. [↑](#endnote-ref-100)
101. “Luckin Coffee Receives Delisting Notice from Nasdaq and Plans to Request Hearing,” Luckin Coffee (press release), May 19, 2020, accessed August 1, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-receives-delisting-notice-nasdaq-and-plans-request. [↑](#endnote-ref-101)
102. “Luckin Coffee Receives Delisting Notice from Nasdaq for Failure to File its Annual Report,” Luckin Coffee (press release), June 23, 2020, accessed August 1, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-receives-delisting-notice-nasdaq-failure-file-its. [↑](#endnote-ref-102)
103. “Luckin Coffee Announces Withdrawal of its Request for Nasdaq Hearing,” Luckin Coffee (press release), June 26, 2020, accessed August 1, 2020, https://investor.luckincoffee.com/news-releases/news-release-details/luckin-coffee-announces-withdrawal-its-request-nasdaq-hearing. [↑](#endnote-ref-103)
104. Seamons, op. cit. [↑](#endnote-ref-104)
105. Shen Xinyue and Lin Jinbing, “Luckin Boss to Face Fraud Charges in China: Source,” *Nikkei Asian*, June 8, 2020, accessed August 3, 2020, https://asia.nikkei.com/Spotlight/Caixin/Luckin-boss-to-face-fraud-charges-in-China-source. [↑](#endnote-ref-105)
106. “Chinese Regulators to Impose Administrative Penalties on Luckin Coffee, Related Firms,” *Global Times*, July 31, 2020, accessed August 1, 2020, www.globaltimes.cn/content/1196311.shtml. [↑](#endnote-ref-106)
107. Yang and Shen, op. cit. [↑](#endnote-ref-107)
108. Shen, Qu, Yuan, and Han, op. cit. [↑](#endnote-ref-108)
109. Luckin Coffee, *13,800,000 American Depositary Shares*, op. cit. [↑](#endnote-ref-109)
110. “China’s Scandal-Hit Luckin Coffee Ousts Chairman,” *Asia Times*, July 14, 2020, accessed August 3, 2020, https://asiatimes.com/2020/07/chinas-scandal-hit-luckin-coffee-ousts-chairman/. [↑](#endnote-ref-110)
111. “Luckin Coffee Responds to Anonymous Report,” op. cit. [↑](#endnote-ref-111)
112. “Luckin Coffee Inc. (LKNCY),” op. cit. [↑](#endnote-ref-112)
113. Fang, “Luckin Coffee Fires Top Executives,” op. cit. [↑](#endnote-ref-113)
114. Brad Moon, “Trust Is an Issue but Luckin Stock Could Provide a Risky Opportunity,” Nasdaq, July 29, 2020, accessed August 3, 2020, www.nasdaq.com/articles/trust-is-an-issue-but-luckin-stock-could-provide-a-risky-opportunity-2020-07-29. [↑](#endnote-ref-114)
115. Faizan Farooque, “Time for Luckin Coffee to Pick Up the Pieces and Move On,” MSN Money, July 9, 2020, accessed August 3, 2020, www.msn.com/en-us/finance/topstocks/time-for-luckin-coffee-to-pick-up-the-pieces-and-move-on/ar-BB16xxC6. [↑](#endnote-ref-115)
116. Caplinger, op. cit. [↑](#endnote-ref-116)
117. “Point72 Asset Management, L.P. Discloses 1.20% Ownership in LK / Luckin Coffee Inc.,” Fintel, February 14, 2020, accessed August 15, 2020, https://fintel.io/so/us/lk/point72-asset-management. [↑](#endnote-ref-117)
118. Fang, “Luckin Coffee Fires Top Executives,” op. cit. [↑](#endnote-ref-118)
119. Ibid. [↑](#endnote-ref-119)
120. “BlackRock Inc. Closes Position in LK / Luckin Coffee Inc.,” Fintel, August 14, 2020, accessed December 19, 2020, https://fintel.io/so/us/lk/blackrock. [↑](#endnote-ref-120)
121. Alex Fang, “China’s Luckin Coffee Faked $310m in Sales, in In-House Probe Finds,” *Nikkei Asian*, April 3, 2020, accessed June 5, 2020, https://asia.nikkei.com/Business/Markets/China-s-Luckin-Coffee-faked-310m-in-sales-in-house-probe-finds. [↑](#endnote-ref-121)
122. Li Qiaoyi and Zhou Zheng, “Luckin Investors Prepare Class Action Response Against Upstart Coffee Chain,” *Global Times*, April 3, 2020, accessed August 7, 2020, www.globaltimes.cn/content/1184601.shtml. [↑](#endnote-ref-122)
123. Ibid. [↑](#endnote-ref-123)
124. Georgina Lee, “Luckin Coffee Investors Rue the Implosion of US$400 Million Bond Bet after Accounting Scandal,” *South China Morning Post*, April 24, 2020, accessed August 23, 2020, www.scmp.com/business/companies/article/3081304/luckin-coffee-investors-rue-implosion-us400-million-bond-bet. [↑](#endnote-ref-124)
125. Todd Shriber, “Luckin Stock Likely Is a Lost Cause, At Least For Now,” Investor Place, July 20, 2020, accessed August 6, 2020, https://investorplace.com/2020/07/luckin-stock-a-lost-cause-lkncy/. [↑](#endnote-ref-125)
126. Fang Bing and Lin Yang, “China’s Luckin Coffee Scandal Renews US Call for Stricter Oversight,” *VOA News*, May 20, 2020, accessed August 7, 2020, www.voanews.com/east-asia-pacific/voa-news-china/chinas-luckin-coffee-scandal-renews-us-call-stricter-oversight. [↑](#endnote-ref-126)
127. Shang-Jin Wei, “Opinion: America’s Threat to Delist Chinese Companies Could Make Everybody Better Off,” Market Watch, May 27, 2020, accessed July 30, 2020, www.marketwatch.com/story/americas-threat-to-delist-chinese-companies-could-make-everybody-better-off-2020-05-26. [↑](#endnote-ref-127)
128. George Calhoun, “What Happens if Chinese Firms are Kicked Out of the U.S. Stock Market,” *Forbes*, August 11, 2020, accessed August 12, 2020, www.forbes.com/sites/georgecalhoun/2020/08/11/what-happens-if-chinese-firms-are-kicked-out-of-the-us-stock-market/#f845152287e3. [↑](#endnote-ref-128)
129. Yen Nee Lee, “Think Tank Explains Why It’s ‘Pointless’ to Delist Chinese Companies from U.S. Stock Markets,” CNBC, July 3, 2020, accessed August 7, 2020, www.cnbc.com/2020/07/03/pointless-to-delist-chinese-companies-from-us-stock-markets-piie-says.html. [↑](#endnote-ref-129)
130. Calhoun, op. cit. [↑](#endnote-ref-130)
131. Narayanan Somasundaram, Nikki Sun, and Grace Li, “Chinese Startups Soar in Shenzhen Market Debut under New IPO Rules,” *Nikkei Asian,* August 24, 2020, accessed August 25, 2020, https://asia.nikkei.com/Business/Markets/Chinese-startups-soar-in-Shenzhen-market-debut-under-new-IPO-rules?utm\_campaign=RN. [↑](#endnote-ref-131)
132. Wei, op. cit. [↑](#endnote-ref-132)
133. “President Trump Considers De-Listing Chinese Companies from US Exchanges,” Blackwell Global, accessed August 12, 2020, https://blackwellglobal.com/president-trump-considers-de-listing-chinese-companies-from-us-exchanges/. [↑](#endnote-ref-133)
134. Narayanan Somasundaram, “Chinese Companies Rush for US IPOs Ahead of New Restrictions,” *Nikkei Asian*, August 10, 2020, accessed August 12, 2020, https://asia.nikkei.com/Business/Markets/Chinese-companies-rush-for-US-IPOs-ahead-of-new-restrictions. [↑](#endnote-ref-134)
135. “Our Mission: Empower Enterprises with Cloud Services -- Corporate Profile,” Kingsoft Cloud, accessed August 12, 2020, https://ir.ksyun.com/. [↑](#endnote-ref-135)
136. Alex Fang, “No Bitterness: Chinese Company Raises 500M in US Despite Luckin,” *Nikkei Asian*, May 9, 2020, accessed June 5, 2020, https://asia.nikkei.com/Business/Finance/No-bitterness-Chinese-company-raises-500m-in-US-despite-Luckin. [↑](#endnote-ref-136)
137. “Luckin Coffee Announces the Appointment of ‘Light Touch,’” op. cit. [↑](#endnote-ref-137)
138. Ibid. [↑](#endnote-ref-138)
139. Cheryl Arcibal, “Luckin Coffee Asked to Reverse Boardroom Changes after Co-Founder’s Ouster, as China Prepares to Wield Big Stick for Accounting Fraud,” *South China Morning Post*, August 4, 2020, accessed August 10, 2020, www.scmp.com/news/article/3095887/luckin-coffee-asked-reverse-boardroom-changes-after-co-founders-ouster-china. [↑](#endnote-ref-139)
140. Michael Norris, “From Jail to Java: How Luckin’s CMO is Hacking China’s Coffee Market,” TechNode, March 25, 2019, accessed August 10, 2020, https://technode.com/2019/03/25/from-jail-to-java-how-luckins-cmo-is-hacking-chinas-coffee-market/. [↑](#endnote-ref-140)
141. Thomas Yeung, “Luckin Stock Holders Will Have to Settle for $1,” Investor Place, August 6, 2020 accessed August 12, 2020, https://investorplace.com/2020/08/luckin-stock-lkncy-going-to-one-dollar/. [↑](#endnote-ref-141)
142. Nikki Sun and CK Tan, “Chinese Customers and Regulators Push Own Claims on Luckin Coffee,” *Nikkei Asian*, April 3, 2020, accessed July 11, 2020 https://asia.nikkei.com/Business/Food-Beverage/Chinese-customers-and-regulators-push-own-claims-on-Luckin-Coffee. [↑](#endnote-ref-142)
143. Connie Lin, “Embattled Luckin Coffee Sees Wild Surge as Customers Scramble to Cash In on Free Drink Vouchers,”Fast Company, April 7, 2020, accessed August 5, 2020, www.fastcompany.com/90487535/embattled-luckin-coffee-sees-wild-surge-as-customers-scramble-to-cash-in-on-free-drink-vouchers. [↑](#endnote-ref-143)