TH International Limited (THCH) Q2 2026 Earnings Call Transcript

August 18, 2026

Company Participants:

Patty Yu – Public & Media Relations Manager

John Cheung – CEO

Albert Li – CFO

Operator:

Ladies and gentlemen, welcome to Tims China's Second Quarter 2026 Earnings Conference Call. All participants will be in listen-only mode during management's prepared remarks, and there will be a question-and-answer session to follow. Today's conference is being recorded.

At this time, I would like to turn the call over to Patty Yu, Tims China's Public and Media Relations Manager, for prepared remarks and introductions. Please go ahead, Patty.

Patty Yu, Public and Media Relations Manager of TH International Limited:

Hello, everyone, and thank you for joining us on today's call. TH International Limited announced its second quarter 2026 financial results earlier today. A press release as well as an accompanying presentation which contains operational and financial highlights are now available on the Company's IR website at ir.timschina.com.

Today, you will hear from John Cheung, our CEO, and Albert Li, our CFO. After the Company's prepared remarks, the management team will conduct a question-and-answer session. You can find the webcast of today's earnings call on our IR website.

Before we get started, I'd like to remind you that our earnings presentation and investor materials contain forward-looking statements, which are subject to future events and uncertainties. Statements that are not historical facts, including, but not limited to, statements about the Company's beliefs and expectations are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties and our actual results may differ materially from these forward-looking statements. All forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and risk factors included in our filings with the SEC.

This presentation also includes certain non-GAAP financial measures which we believe can be helpful in evaluating our performance. However, those measures should not be considered substitutes for the comparable GAAP measures. The accompanying reconciliation information related to those non-GAAP and GAAP measures can be found in our earnings press release issued earlier today.

With that said, I would now like to turn it over to John Cheung, our CEO. Please go ahead, John.

John Cheung, CEO of TH International Limited:

Thank you, Patty. Good morning and good evening, everyone. Thank you for joining us today. Tim Hortons is one of the world's top ten most valuable restaurant brands and China represents the world's most compelling consumer market. It really is a privilege to take on the role as the CEO of Tims China. I am extremely excited to be here and am very passionate about the future.

Since joining Tims China in mid-June, I have spent most of my time digging into the business, visiting stores and suppliers, talking to our frontline managers and employees, hearing from partners and connecting with customers. These experiences and my learnings have helped me form a clear understanding of where we are and what we need to do differently moving forward. Everything I have seen and heard tells me we have significant strengths to build on and our brand is strong and enduring. I look forward to sharing more about my plan to drive the next phase of growth for Tims China with you shortly. But first I would like to turn it over to our CFO, Albert Li, for a more detailed overview of our second quarter 2026 financial performance.

Albert Li, CFO of TH International Limited:

Thank you, John, and welcome to your first Tims China earnings call.

During the second quarter of 2026, our total revenues and system sales were RMB273.4 million and RMB347.8 million, respectively, which dropped by 21.7% and 15.1% year-over-year. The decrease was primarily due to the closure of certain underperforming company owned and operated stores and a 17.8% decrease in same-store sales growth. Our overall monthly average transacting customers reached 2.85 million during the second quarter of 2026, compared to 3.59 million in the same quarter of 2025.

Net new store openings totaled two during the second quarter of 2026, representing a net opening of 15 made-to-order stores and a net closure of 13 non-MTO stores.

On same-store sales growth, we experienced overall comparable transactions decline of 16.3% and an average comparable ticket size decline of 1.5%, which led to a negative 17.8% same-store sales growth for system-wide stores in Q2 2026. The decline was partly due to delivery aggregators backing down subsidies significantly, partly due to underspent in our marketing spending and discount control.

Digital orders as a percentage of total orders rose from 90.4% in Q2 2025 to 91.8% in Q2 2026. We continue to enhance our digital capabilities to meet the growing demand for delivery and takeaway services.

In Q2 2026, Tims China continued to execute its product innovation strategy by expanding its all-day menu and enhancing its product portfolio across key consumption occasions. The Company launched a total of 27 new products during the quarter, including 20 beverages and 7 food items, further enriching customer choice and strengthening its all-day dining proposition.

As of June 30, 2026, our registered loyalty club members exceeded 37.1 million, reflecting a remarkable 41.7% year-over-year growth. The average number of members per store has now surpassed 36,000, serving as a solid foundation for growth and a testament to our customers' support for and embrace of Tim China's loyalty program.

We're also committed to improving our financial performance by refining store unit economics and boosting operational efficiencies at both store and corporate levels, setting the foundation for long-term sustainable growth:

Specifically, as we continued to benefit from higher efficiencies in supply chains and cost reduction on raw materials, logistic and warehousing expenses, we managed to reduce Q2 2026 food and packaging costs as a percentage of revenues from company-owned and operated stores by 1.8 percentage points from 30.1% in the second quarter of 2025 to 28.3% in the same quarter of 2026.

Rental and property management fees were RMB47.9 million in Q2 2026, representing a decrease of 15.6% from RMB56.8 million in the same quarter of 2025, which was primarily due to a decrease in the number of our company-owned and operated stores from 566 as of June 30, 2025 to 544 as of June 30, 2026. Rental and property management fees as a percentage of revenues from company owned and operated stores increased by 1.5 percentage points from 20.2% in the second quarter of 2025 to 21.7% in the same quarter of 2026. Rental and property management fees for comparable stores decreased by 5.2% year-over-year in Q2 2026, which demonstrated our continued efforts to negotiate rent concessions with landlords.

Payroll and employee benefits expenses were RMB43.9 million in Q2 2026, representing a decrease of 12.6% from RMB50.2 million in the same quarter of 2025, which was primarily due to a decrease in revenues from company owned and operated stores. Payroll and employee benefits expenses as a percentage of revenues from company owned and operated stores increased by 2.1 percentage points from 17.8% in the second quarter of 2025 to 19.9% in the same quarter of 2026.

Delivery costs were RMB28.9 million in Q2 2026, representing a decrease of 13.3% from RMB33.3 million in the same quarter of 2025, which was in line with the 11.9% decrease in delivery orders from 8.2 million in the second quarter of 2025 to 7.2 million in the same quarter of 2026, and a reduction in average delivery costs per order. Delivery costs as a percentage of revenues from company owned and operated stores increased by 1.3 percentage points to 13.1% in the second quarter of 2026, compared to 11.8% in the same quarter of 2025, which was primarily due to an increase in delivery revenue as a percentage of revenues from company owned and operated stores from 61.0% in the second quarter of 2025 to 65.7% in the same quarter of 2026.

Other operating expenses were RMB17.4 million in Q2 2026, representing a decrease of 14.7% from RMB20.4 million in the same quarter of 2025, which was primarily due to a decrease in revenues from company owned and operated stores. Other operating expenses as a percentage of revenues from company owned and operated stores increased by 0.7 percentage points to 7.9% in the second quarter of 2026, compared to 7.2% in the same quarter of 2025.

As a result of the foregoing, company owned and operated store contribution margin was 5.7% in the second quarter of 2026, compared to 9.6% in the same quarter of 2025.

Benefiting from our cost optimization measures and improved brand influence, our marketing expenses were RMB13.3 million in Q2 2026, representing a decrease of 4.4% from RMB13.9 million in the same quarter of 2025. Marketing expenses as a percentage of total revenues increased by 0.9 percentage points from 4.0% in the second quarter of 2025 to 4.9% in the same quarter of 2026 as we spent more marketing efforts to support our franchised business during the second quarter of 2026.

Our adjusted general and administrative expenses, which excludes: (i) share-based compensation expenses of RMB0.3 million, and (ii) impairment losses of rental deposits of RMB2.3 million, were RMB39.6 million in Q2 2026, representing an increase of 14.4% from RMB34.6 million in the same quarter of 2025, which was primarily due to a RMB4.2 million increase in professional and other service fees. Adjusted general and administrative expenses as a percentage of total revenues increased by 4.6 percentage points from 9.9% in the second quarter of 2025 to 14.5% in the same quarter of 2026.

As a result of the foregoing, adjusted corporate EBITDA margin was negative 7.6% in the second quarter of 2026, compared to positive 0.6% in the same quarter of 2025.

Turning to liquidity, as of June 30, 2026, the total amount of our cash and cash equivalents and restricted cash was RMB121.1 million, compared to RMB129.7 million as of December 31, 2025. The change was primarily attributable to cash disbursements on business operations, partially offset by the draw-down of additional bank borrowings. We successfully closed the initial tranche of US$15.8 million in additional senior secured convertible notes issued to Tim Hortons Restaurants International GmbH, our brand owner and founding shareholder, in July 2026. With the proceeds from this US$55 million series of proposed financing, we plan to drive our innovation and product offerings, invest more in marketing activities, and deploy a more balanced store network development strategy by opening both company owned and operated stores and franchised stores going forward.

Looking ahead, our core near-term priorities would be to deliver sustainable revenue growth, to further enhance supply chain capabilities and expand store-level profitability of both company owned and operated stores and franchised stores, to continuously optimize cost structure of corporate marketing and G&A expenses, and to achieve corporate EBITDA breakeven.

With that, I will now turn the call over to John.

John Cheung, CEO of TH International Limited:

Thank you, Albert. Second quarter is a period of transition for the company. Results are disappointing. Top-line revenue and same-store sales were both in significant decline as we are losing share to competition. Also, revenue was affected by our strategic adjustment of closing underperforming stores, as well as we have been recycling last year heightened phase of delivery business. Prior to my joining to Tims China as CEO, I have had 30 years of building and stewarding world-class consumer brands. Here in Tims China, it becomes very clear to me, we need to significantly step up our effort to win back our customers and to gain new customers through providing superior products, offering, and experience, might it be dine-in or delivery. Also, supported with our great Tim Hortons hospitality and services.

Our unwavering aspiration with product and service quality will drive everything we do and every decision we make going forward. I have a few points I want to share with you online.

First and foremost, we have been and will continue to focus our resources to accelerate our product innovation based on thorough consumer understanding and insight, ranging from improving the appearance, flavor of our core products to creating exciting innovations, and also in ways we offer new bundle and promotion activities. So far, we have looked into more than 10,000 of our loyalty club members' information to get insight from the feedback, and we have hired external professional advisors to support the process. Also, we are starting effort to work with our core coffee bean suppliers and also our in-house coffee masters to pursue the best fit of coffee to the Chinese consumer need and taste.

Second, we'll strengthen our capacities in product innovation and marketing to ensure we're able to bring superior products and experience to consumers in much faster time and more cost-efficient manner. We will enhance investment in our organization. We work with strategic partners, our suppliers, to enhance our capabilities, especially in certain categories like dairy and bakery. We'll broaden our CRM and marketing effort beyond current loyalty club program to reach new customers, and as importantly, to enhance interaction and frequency.

Third, we'll further enhance our operation excellence to escalate our service level and enhance overall guest experience. Additional efforts are being made on staff recruitment, training, and labor scheduling to enable us to deliver the level of service we aim at.

Fourth, on store network development, we are working on two fronts at the same time.On one hand, we are closing underperforming stores, which have started before my arrival to this company. Yet, at the same time, we are expanding stores with our new and enhanced product offering and services. We'll focus more on top-tier cities in our expansion so that we can concentrate our resource and effort, especially among the office work area, trade zone or some special channel like train stations, major transportation hubs, airports, universities. These are reliable channels that we have good data to predict the traffic and project, and have a high accuracy in our project sales revenue.

Lastly, on productivity front, I and the team are keen to use more technology, especially AI, to increase our efficiency, ranging from inventory management to labor shift planning, to marketing material production, and all the way to more personalized message and promotion activities planned for our members.

With that, I turn back to Patty to continue with our call.

Question & Answer Session:

Patty Yu, Public and Media Relations Manager of TH International Limited:
Thank you, John. We will turn it over to Q&A session and open it up for our registered questions. Let's begin with the first question. Operator, please go ahead.

Operator *[Operator Instructions]*: The question comes from the line of Steve Silver from Argus Research. Your line is open. Please ask your question.

Steve Silver, Argus Research Company:
Thank you, operator. John, welcome to the new leadership role. You mentioned in your prepared remarks some initial learnings in your discussions with customers, stores, and suppliers. Can you talk about some of these top priorities in the corporate strategy that you see supporting Tims China to become a profitable business, and maybe how long you think it may

take to implement some of these strategies?

John Cheung, CEO of TH International Limited:
Well, thank you, Mr. Silver, for your questions.

Indeed, our imperative is to get back to our business fundamentals to regain customers and to gain new users. Well, in short, our top priority is to raise our game in innovation to offer more competitive products and experience to our customers. We are working on strengthening our core products, product we offer during the breakfast and lunch day part. Product like bagel, we make it popular in the Chinese market, and we will continue to bring innovation so that we can differentiate better from competitors. At the same time, we will offer some new products that have been the strength for our operation in other market, like Melt. We will even try some new bakery in other day part. Also, we are working on strengthening our coffee offerings, especially those milk-based coffee offerings, such as latte.

Well, I look forward to share more details when we have the new product ready sometime later in the year. We are seeing opportunities in filling some gaps that we see there is still space to grow, like afternoon day part. That is our top priority, raising our game in innovation.

Our second priority is to improve our store economics, as Albert earlier mentioned. We will continue to work on efficiency on all fronts, the rental, labor, even our food product cost. We have done a lot over the last years, but there is still room that we can work on. At the same time, importantly, we will continue to close underperforming store. As I mentioned, this initiative have started even before my arrival. I will continue to drive that. It is importantly to expand new store in clearly defined network strategy. Primarily top-tier cities, primarily office, transportation hub, trade zone, under our defined network strategy and discipline.

To make the two early priorities possible, one thing I have been attending a lot of my effort and resource is to build capabilities to make them both happen. So build abilities, capabilities, strengthen capability in innovation, in marketing. Strengthen and continue to invest in our capabilities in operation, and the business development, i.e., new store development.

In short, those are three top priorities for me, for our leadership team and for our organizations. I would be very glad to share with you progress as I am moving along in this role. In this time, the target, I cannot share with you. I can share with you all cylinders are firing now, and we are reserving no resource to drive progress on all fronts I just shared.

I hope these priorities will bring some signs of result or improvement very soon. But for the time being, I cannot share with you a particular timeline. Hope you can bear with us.

Steve Silver, Argus Research Company:
That is great. Thank you. One more, if I may. With the recent commitment from RBI to invest $55 million into Tims China, and you mentioned the receipt of the first tranche from the financing, is there any update on the number of net new stores that you plan on opening in the second half of 2026 and 2027, and whether there are any changes to the new store mix between company-owned stores and franchise stores?

John Cheung, CEO of TH International Limited:
Yes. The fund came in in a very timely manner and a very much needed period. We prioritize actually with strengthening the model of our business. As I mentioned, our top priority, number one, is raise our game in innovation. So we will prioritize more of the resources in bringing in more productive innovations and strengthening our marketing performance by both investing more in marketing as well as behind a strengthened team and resources. Those will be our top priorities.

We will expand our store footprint with discipline, hopefully with our new offering proven. Going forward, I won't share a particular number, but we will diligently expand according to the strategy I just shared, i.e., prioritize cities in the top tier cities and also in particular trade zone and special channel.

But answering your questions on the company-owned store and the franchise network, we are aiming at the more balanced approach. So we will see both a company-owned store and a franchisee-support store will contribute roughly equal in our new store network. So that's what I can share for the time being.

Steve Silver, Argus Research Company:
Great. Thank you so much for the information. Best of luck.

John Cheung, CEO of TH International Limited:
Thank you.

Operator: Thank you. Now we are going to take our next question. The question comes from the line of Emma Li from Tianfeng Securities. Your line is open, please ask your question.

Emma Li, Tianfeng Securities:
Okay. Thank you, operator. Hello, management. Thanks for taking my question. I have two questions to follow up. The first one is about marketing fee. Marketing expense ratio was slightly lower than last year in first half. What is your view on marketing spending for the second half of 2026 and going forward? That is my first question.

Albert Li, CFO of TH International Limited:
I will take this one.

Yes, as you have mentioned, our marketing investment are expected to increase, as John has highlighted, in the second half, especially, I think, starting from September, because we have the annual Brew Coffee and Bagel Festival. In the meantime, we have identified marketing efficiency as one of the most important lever for us to consider in terms of rebuilding our customer traffic and also support our sustainable revenue growth. I think in the first half, our marketing expenses were relatively under spent, ecause we are building up our marketing team and also actually recruiting more talents in both marketing and also in the product category team.

Starting from the third quarter, we are adding additional talents in marketing and also in product innovation, and we plan to invest more, actually significantly invest more in terms of the scale and, in the meantime, the effectiveness of our marketing activities. Our focus will not only driving dine-in business or take away business or delivery transactions in just one parameter. Actually, we want to expand all the day parts from all channels. We are also expanding our CRM and marketing beyond our existing loyalty members to reach new customers. I think in the meantime, we want to attract more customers through giving more effective, in terms of the coupons from those e-commerce channel. We also want to make sure that in terms of their frequency and also in terms of their average spending per customer, will also increase over time.

To conclude, we will definitely increase our marketing spending. The key metrics for us is not only a specific how many marketing dollar or marketing percentage to spend, but I think more importantly, in terms of the return and effectiveness of our marketing efforts. So we expect our overall business will recover. With the store network expansion, we will continue to balance our investment in customer acquisition, traffic growth, and also our profitability.

Emma Li, Tianfeng Securities:
Thank you. My second one is about competition. We noted that more and more key players such as Goodme, Mixue, recently penetrated into coffee business. What's your view on competition, and how is this make impact your business strategy? Thank you.

John Cheung, CEO of TH International Limited:
I will take on this question.

Well, indeed, we notice there are many different forms of new entrants to the coffee market, as you said, some example from the tea chain. However, on our side, it's very clear to us that we have to offer the best value to our customers. Value is delivered through the combination of product, experience, and also pricing. So our strategy is to ensure we can always provide superior product, coffee in this case as you asked, to our customers, whether we are talking about the more basic product like black coffee, Americano or the more innovative limited time product offering.

That's related to the effort and resource we're putting in innovation, as I mentioned earlier. So to continue to be able to offer consumer superior product and experience. Experience as much as for services and the ambience a consumer can experience in our restaurant as well as in delivery.

Then the third is price. We have a lot of effort in working on our cost and also on our combination of product offering to ensure some consumer who want the most basic product, they can enjoy a very good cup of coffee from us at a very affordable price. So we are also planning programs to deliver part of our product mix at a price competitive fashion. So we have answers to different needs of our customer and consumer at different day part. So I and the organization and our team are aiming at bringing the best value to our customers.

Emma Li, Tianfeng Securities:

Okay, thanks for answering my question. It helps me a lot. Thank you.

John Cheung, CEO of TH International Limited:

Thank you, Emma.

Operator: Thank you. Dear speakers, no further questions for today. I would now like to hand the conference over to the management team for any closing remarks.

Albert Li, CFO of TH International Limited:

Okay, thank you for joining today's conference call. We look forward to providing timely update on any progress we have made on our new business plan and also our corporate strategies. Look forward to speaking in the next quarter. Thank you.

Operator: This concludes today's conference call. Thank you for participating. You may now all disconnect. Have a nice day.

Albert Li, CFO of TH International Limited:

Thank you.

John Cheung, CEO of TH International Limited:

Thank you.