

TH International Limited (THCH) Q2 2025 Earnings Call Transcript

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TH International Limited (NASDAQ:THCH) Q2 2025 Earnings Conference Call August 26, 2025 8:00 AM ET

Company Participants

Dong Li - Chief Financial Officer

Yongchen Lu - CEO & Director

Gemma Bakx – Investor Relations

Conference Call Participants

Steve Silver - Argus Research Company

Operator

Ladies and gentlemen, welcome to Tims China's Second Quarter 2025 Earnings Conference Call. [Operator Instructions] Today's conference is being recorded. At this time, I would like to turn the call over to Gemma Bakx, who heads Tims China's Investor Relations efforts for prepared remarks and introductions. Please go ahead, Gemma.

Gemma Bakx

Hello, everyone, and thank you for joining us on today's call. My name is Gemma Bakx, Head of Investor Relations. Tims China announced its second quarter 2025 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 Yongchen Lu, our CEO and Director; and Albert Li, our CFO. After the company's prepared remarks, the management team will conduct a question-and-answer session. You can find a slide presentation and the webcast of today's earnings call on our 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 those 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 a substitute 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 Yongchen Lu, our CEO and Director. Please go ahead, Yongchen.

Yongchen Lu

Thank you, Gemma. Good morning and good evening, everyone. In Q2, we reinforced our differentiated “Coffee + Freshly Prepared Food” strategy with the successful launch of Light & Fit Lunch Box platform, a series of new combo products for the lunch daypart, to further drive our top line growth and enhance store unit economics. The product lineups include Hot Baked Bagel Sandwiches, Energizing Lunch Wraps and Loaded Power Bowls, paired with a coffee or other beverage, all at an acceptable price point.

As a result, food revenue increased by 8.6% year-over-year and food revenue contribution as a percentage of sales reached a historical high of 35.2% an increase of 2.8 percentage points from 32.5% in the second quarter of 2024.

Our system sales continued to grow during the quarter, achieving a 1.4% year-over-year increase. Our sub-franchisee and retail businesses continued to deliver steady cash flow and profitability. Profits from other revenues achieved a year-over-year increase of 110.3%. At the same time, we returned to positive adjusted corporate EBITDA and reduced adjusted net losses by 16.2% during the quarter. These achievements underscore Tims China successful, disciplined execution and our unwavering commitment to achieving sustainable long-term profit growth.

On store development, leveraging sub-franchisee partnerships, we strategically expanded our store footprint into 90 cities including the city of Zibo in Shandong Province, Lishui in Zhejiang Province, Lu’an in Anhui Province, and Jincheng in Shanxi Province that we entered in Q2, while maintaining capital efficiency and delivering absolute convenience for our guests. Since we launched our individual franchisee programs in December 2023, we have received over 8,100 applications and successfully converted over 400 stores by the end of second quarter, showcasing enthusiastic market confidence in our franchisee model.

We have established attractive and desirable store unit economics for our sub-franchises with a reasonable two to three year payback period on average, and have targeted to open, on a gross basis, around 200 franchise stores in 2025. We are also focused on special channel store

development with 18 new store openings in locations such as railway stations, airports, highway rest areas, hospitals, universities and schools, etc.

As of June 30, 2025, our registered loyalty club members reached 26.2 million, reflecting a remarkable 22.4% year-over-year growth. The average number of members per store is now close to 26,000 serving as a strong catalyst for our future growth.

On product category and offering in China's highly competitive beverage market, April marked the onset of peak seasonal demand, triggering intensified rivalry among brands aiming to capture market share and drive top line growth. Therefore, Tims China executed a focused product-led strategy in Q2 strengthening its position across key consumption occasions and customer segments. We introduced a total of 43 new items during the quarter, 28 beverages and 15 in the products, reflecting our commitment to innovation and menu diversification. This robust pipeline supports our dual goals of increasing same-store sales and expanding our consumer base.

On beverage portfolio expansion, to meet growing consumer demand for healthier, lighter beverage options, we launched the Sparkling Cold Brew series, building on the success of our grape variant with additional fruit-inspired flavors. The sparkling texture differentiates the line from our value-tier Americano, while the use of cold brew coffee enhances quality and attracts black coffee enthusiasts seeking a refreshing upgrade.

For our milk coffee drinkers, we reintroduced the Water Buffalo Milk series, leveraging its naturally creamy, lightly sweet profile that resonates well in warmer weather. Positioned alongside our affordable latte offerings, this creates a compelling product matrix that strengthens our appeal across both price-sensitive and premium-seeking customers.

Recognizing rising demand for non-coffee options, particularly among families and younger guests, we expanded into adjacent categories by launching a series of non-coffee beverages, including the Iced Capp line. These products leverage existing product ingredients and infrastructure, enabling efficient innovation while broadening our afternoon reach.

Together, these initiatives have enhanced the depth and balance of our beverage portfolio across price tiers and consumer needs, driving higher basket diversity and category penetration.

On lunch time growth and daypart expansion, building on the successful launch of the Light & Fit Lunch Box series in Q1, we extended the platform in Q2 with two new formats: the Wrap Series and the Energy Bowl series. These additions reinforce our positioning in the growing “light & healthy” meal segment and strengthen our competitive advantage during the lunch daypart. We are confident that the full Light Meal Box lineup not only meets rising demand for nutritious, convenient meals but also serves as a catalyst for traffic growth. Early data indicate a positive spillover effect, with increased lunch time visits contributing to higher engagements during the breakfast and even dinner daypart. Beyond revenue generation, these initiative enhances brand equity by positioning Tims as a proven provider of balanced, everyday solutions - not just coffee.

In July, we announced the appointment of the immensely popular and multi-talented singer-songwriter-influencer Lars Huang as our official brand ambassador for the year. Lars will launch a dynamic series of collaborations aimed at expanding the reach of the Tims China brand and introducing its flavorful, healthy and light products to ever-growing audiences, especially among Gen Z consumers. These efforts, designed to drive traffic, increased average transaction value and established new consumption occasions.

At this time, I would like to turn it over to our CFO, Albert Li, to discuss our second quarter 2025 financial performance in more detail.

Dong Li

Thank you, Yongchen. We continued to demonstrate our capabilities to further improve our financial performance by refining store unit economics and driving efficiencies at both store and corporate levels. Our sub-franchise and retail business contributed steady cash flows and profitability. In the first half of 2025, we further improved our company-owned and operating store contribution margin and adjusted corporate EBITDA margin by 2.7 and 2.8 percentage points year-over-year, respectively.

We remain focused on delivering high value-for-quality, healthy products and thoughtful services to our ever-growing customer base. Our overall monthly average transacting customers reached 3.59 million in Q2 2025, a 14.3% increase from 3.14 million in the same quarter of 2024. Additionally, digital orders as a percentage of total orders rose from 86.5% in Q2 2024 to all-time high of 90.4% in Q2 2025. We continue to enhance our digital capabilities to meet the growing demand for delivery and takeaway services.

In Q2, our company-owned and operated store revenues dropped by 12.5% year-over-year which was primarily due to the planned closure of certain underperforming stores and a 3.6% decrease in same-store sales growth. We have seen positive same-store transaction growth since April, and our same-store transaction growth was positive 3.4% in Q2.

In the meantime, revenues from our franchised business and retail business increased by 50.7% year-over-year. The number of our franchised stores increased from 333 as of June 30, 2024 to 449 as of June 30, 2025. Our system sales increased by 1.4% year-over-year.

We also made significant progress in boosting operational efficiency in Q2 setting the stage for our long-term sustainable growth:

Through refinements in our supply chain capabilities and economy of scale, we reduced food and packaging costs as a percentage of revenues from company-owned and operated stores by 0.8 percentage points year-over-year. Food and packaging costs accounted for 30.1% of our company-owned and operated store revenues during the quarter.

We continued to streamline our operations by pruning underperforming stores, refining staffing arrangements and optimizing store managerial efficiency. These actions led to a year-over-year

reduction in labor costs and other store operating expenses as a percentage of revenues from company-owned and operated stores by 1.0 and 0.4 percentage points year-over-year, respectively.

Rental and property management fees as a percentage of revenues from company-owned and operated stores increased by 0.9 percentage points from 19.3% in the second quarter of 2024 to 20.2% in the same quarter of 2025, which was primarily due to a 3.6% decrease in same-store sales volume growth for company-owned and operated stores in the second quarter of 2025.

Delivery costs as a percentage of revenues from company-owned and operated stores increased by 1.8 percentage points to 11.8% in the second quarter of 2025 compared to 10% in the same quarter of 2024, which was primarily due to the higher delivery revenue mix as a percentage of total revenues from company-owned and operated stores. The number of delivery orders for company-owned and operated stores increased by 10.2% year-over-year.

We made more efforts to promote our newly launched “Light & Fit Lunch Box” series products. Our marketing expenses as a percentage of total revenues accounted for approximately 4.0% during the quarter, an increase of 0.5 percentage points year-over-year.

Our general and administrative expenses decreased by 5.2% year-over-year, which was primarily due to our cost optimization measures at the headquarter level. General and administrative expenses as a percentage of total revenues remained relatively stable at 10.8% in the second quarter of both 2024 and 2025.

As a result of the foregoing effects, we have been able to achieve positive adjusted corporate EBITDA again during the quarter, as we achieved earlier in the second and third quarters of 2024.

Turning to liquidity. As of June 30, 2025, our total cash and cash equivalents, time deposits and restricted cash were RMB 178.8 million compared to RMB 184.2 million as of December 31, 2024. The change was primarily attributable to cash disbursements on the back of the expansion of our business, partially offset by the draw-down of additional bank borrowings.

Looking ahead, with profitable growth always being front and center of everything we do, we are poised to further enhance our operational efficiencies such as supply chain optimization and rigorous cost controls; to roll out our differentiating made-to-order fresh and healthy food preparation model to drive traffic; to optimize the overall store unit economics and to accelerate the expansion of our successful sub-franchising.

I will now turn it over to Yongchen for concluding remarks followed by Q&A.

Yongchen Lu

Yes. Thank you, Albert. Our second quarter performance reflects the continuous improvements and resilience in our business and execution, as well as both challenges and opportunities in this

industry. We extend our heartfelt gratitude to our guests, team members, business partners, shareholders and everyone supporting our endeavors and journey. Together, we have built over 1,000 stores in 90 cities, a robust community of over 26 million loyalty club members; a unique “Coffee + Freshly Prepared Food” business model, offering the best value for quality products; a unique advantage of offering franchise opportunities as an international coffee brand in China; and a refined store unit economics with attractive payback period within two to three years. With these milestones, we are steadfast in our commitment to sustainable profit growth and to generating long-term value for our shareholders.

I will now turn the call over to Gemma for today's Q&A session.

Question-and-Answer Session

Gemma Bakx

Thank you, Yongchen. We will turn it over to Q&A now and open it up for our registered questions. Let's begin with the first one. Go ahead, operator.

Operator

[Operator Instructions] We will take our first question from the phone lines. This is from the line of Steve Silver from Argus Research Corporation.

Steve Silver

I was hoping you could provide your current thinking on the rate at which you can review the growing number of sub-franchise applications to accelerate the rate of new store growth and ultimately return to net store growth.

Yongchen Lu

Yes. I want to clarify for Q2 that we continued to prune underperforming company-owned stores as well as franchise stores, especially the non-MTO stores, or express stores. Among the 49 closures in Q2, 41 were non-MTO express stores. So if we exclude those, we actually had 31 net openings of MTO stores. Based on the pipeline we have so far, our target is still to open around 200 new MTO stores in 2025 on a gross basis and we'll open the majority as sub-franchise stores. We will continue to prune underperforming stores over the year to improve profitability.

So like last year, we'll continue to close underperforming stores and aim at improving profitability this year. And we expect to have over 100 net openings this year. We expect 200 to 300 new openings every year in the next few years.

Steve Silver

So it looks like the company continues to make good progress in managing its cost although marketing expenses did go up as a percentage of revenues in Q2. Curious as to your thoughts on how sustainable that trend would be and what impact it would have on the same-store sales growth and its margins?

Yongchen Lu

Our same-store sales have been recovering well. We expect we will have positive same stores in the third quarter and in the second half of the year. The marketing expenses in the second quarter and some part of third quarter were to support the lunch box campaigns. It is a big campaign this year, which has been improving and working so far as we can see the food contribution continuing to grow. We reached the historically high food contribution in the second quarter, and we expect that will continue.

Steve Silver

Great. And one last one big picture question from me. Could you speak to how Tims is balancing the need to invest in order to grow revenues while at the same time being conservative with operating capital; so really just your current thinking about your capital needs in order for Tims to take the next steps towards sustainable profitable growth?

Dong Li

Steve, let me address this question. So as we just mentioned during the earnings call, we returned to positive adjusted corporate EBITDA this quarter as we did in the second and third quarter of last year. We believe we are very close to full year adjusted corporate EBITDA breakeven as of this moment. So this means we are very close to realizing or achieving operating cash flows being self-sufficient. So we are not actually burning cash at the operating level. In the meantime, if we could secure additional capital, we continue working very hard on that.

In terms of securing more bank loans onshore, we are also working on financing plans for the company to bring more capital to the business. So if we could secure more additional financing capital we would consider opening more profitable company-owned and operated stores in the meantime. So honestly speaking, we want to achieve a very good balance between opening more company-owned stores and balancing our overall financial position.

Operator

Thank you. I will now hand back to Gemma to read the questions coming through via the webcast.

Gemma Bakx

Thank you, Sarah. We received a couple of questions online. You already commented on same-store sales trends. Is there anything additional you can say about those trends thus far? And also,

in particular, your outlook for the remainder of the year that you haven't addressed when you spoke with us earlier.

Yongchen Lu

Yes. We talked about the same-store already. I mean we improved quarter-by-quarter. In the second quarter, the same-store sales decrease has been narrowed to only 3.6%. And we have seen a very positive trend in recent months. And again, we expect that we'll achieve a positive same store sales in Q3 and in the second half of this year.

Gemma Bakx

Could you provide an update on the refinancing of the convertible debt?

Yongchen Lu

Yes, we have made good progress and we will disclose when ready.

Gemma Bakx

Another question we received online is how can we better monetize the Tims loyalty members, which is around 26 million by now. The question is about the theoretical spend of \$1 per member per week and what that would generate in annual sales. What is realistic in this regard? And how could this be better monetized?

Yongchen Lu

Yes, it's a great question and also a very challenging question. I mean we -- kind of we have a gold mine. We need to dig and derive the value from the memberships. So we have the mine there, and we need to design good products and campaigns and attract those members to spend more in our stores. That's something that we are working on every day.

Gemma Bakx

The last question I have online is, do you expect your liquidity position to improve going forward?

Dong Li

Yes. I think that I have explained that with Steve's question. According to operating cash flow we are actually self-sufficient. So we do not expect to burn cash. And in the meantime, we are working very hard to bring in new capital to the company. So as of this moment, I think we are very confident that we are in a good liquidity position for now.

Gemma Bakx

Sarah, those were the questions I have that came in online.

Operator

[Operator Instructions] There are no further questions at this time. So with that, that concludes today's question-and-answer session. I would like to hand the call back to Yongchen for closing remarks.

Yongchen Lu

Thank you as always for your time and attention. As we mentioned earlier, we are optimistic about the second half of the year. We are at a turning point of positive same-store sales and positive corporate EBITDA. We'll see you again in the Q3 and report back with hopefully more good news. Thank you.

Dong Li

Thank you.

Gemma Bakx

Thank you all very much.

Yongchen Lu

Thank you.

Operator

Thank you. That does conclude today's conference call. Thank you for your participation. You may now disconnect your lines.