

1 **TH International Limited (THCH) Q1 2025 Earnings Call Transcript**

2 **June 24, 2025**

3

4 **Company Participants**

5 Gemma Bakx – Head of Investor Relations

6 Yongchen Lu - CEO & Director

7 Albert Li - CFO

8

9 **Conference Call Participants**

10 Steven Silver - Argus Research Company

11 Jon Norwood – Viking Capital

12

13 **Operator**

14 Ladies and gentlemen, welcome to Tims China First Quarter 2025 Earnings Conference
15 Call. All participants will be in listen-only mode during management's prepared
16 remarks, and there will be a question-and-answer session to follow. Today's conference
17 is being recorded. At this time, I would like to turn the call over to Gemma Bakx, who
18 heads Tims China's Investor Relations effort, for prepared remarks and introduction.
19 Please go ahead, Gemma.

20

21 **Gemma Bakx, Head of Investor Relations**

22 Thank you very much, Desmond. Hello, everyone, and thank you for joining us on
23 today's call. My name is Gemma Bakx, Head of Investor Relations. Tims China
24 announced its first quarter 2025 financial results earlier today. A press release as well
25 as an accompanying presentation, which contains operational and financial highlights,
26 are now available on the company's IR website at ir.timschina.com.

27

28 Today, you will hear from Yongchen Lu, our CEO and Director; and Albert Li, our
29 CFO. After the company's prepared remarks, the management team will conduct a
30 question-and-answer session. You can find a slide presentation and the webcast of
31 today's earnings call on our Investor Relations website.

32

33 Before we get started, I'd like to remind you that our earnings presentation and investor
34 materials contain forward-looking statements, which are subject to future events and
35 uncertainties. Statements that are not historical facts including, but not limited to,
36 statements about the company's beliefs and expectations are forward-looking
37 statements. Forward-looking statements involve inherent risks and uncertainties, and
38 our actual results may differ materially.

39

40 All forward-looking statements should be considered in conjunction with the cautionary
41 statements in our earnings release and risk factors included in our filings with the SEC.
42 This presentation also includes certain non-GAAP financial measures, which we
43 believe can be helpful in evaluating our performance. However, those measures should
44 not be considered a substitute for the comparable GAAP measures. The accompanying
45 reconciliation information related to those non-GAAP and GAAP measures can be
46 found in our earnings press release issued earlier today.

47

48 With that, I would now like to turn it over to Yongchen Lu, our CEO and Director.
49 Please go ahead, Yongchen.

50

51 **Yongchen Lu, CEO & Director**

52 Thank you, Gemma. Good morning, and good evening, everyone. In Q1, we solidified
53 our differentiated strategic positioning in Coffee + Freshly Prepared Food by launching
54 Light & Fit Lunch Box, a series of new platform combo products for the lunch daypart
55 to boost lunch sales and offer our guests a healthy and tasty lunch option.

56

57 The product line ups include hot baked bagel sandwiches, energizing lunch wraps and
58 loaded power bowls, paired with our coffee or other beverage, all at an accessible price
59 point. With Tims China's Chibaobao 40% off discount card, the Light & Fit Lunch Box
60 combo products pricing start from as low as RMB 24, near about USD 3.5, delivering
61 both good value and great nutrition.

62

63 Our latest Loaded Power Bowls products were launched in May. They come in a
64 standard 2 plus 8 plus 8 configuration, featuring 18 carefully selected ingredients in
65 every bowl. The 2 stands for 2 portions of high-quality protein, while the two 8s
66 represent eight wholesome grains and eight colorful vegetables, creating a nutrient-rich
67 meal designed to meet the needs of business professionals and fitness enthusiasts alike.

68

69 The Light Lunch Box product has been a key strategic focus for Tims in 2025. It aims
70 to reshape consumer perceptions of Tims as a lunch destination beyond our traditional
71 strength in breakfast, thereby creating a second high-demand meals daypart and driving
72 sustainable revenue growth.

73

74 It also introduces a fresh take on Western style healthy lunch in a cafe setting offering
75 a complete entrée plus snack plus coffee meal solution. This is more than just an
76 extension of our product line, it's reimagining how busy urban consumers eat and
77 exceeding their expectations.

78

79 We are moving from singular coffee consumption to all-day healthy dining, embedding
80 the cafe experience deeply into a health-focused lifestyle. This initiative has been
81 enthusiastically welcomed by the market since it launched, contributing meaningful
82 incremental daily transactions to the post-holiday rebound in sales and help Tims gain
83 traction in the competitive white-collar lunch segment, setting a solid foundation for
84 continued momentum in Q2 and beyond.

85

86 Amidst macroeconomic volatility and intense market competition, our team has
87 demonstrated great resilience and achieved significant profitability improvements
88 through enhanced operational efficiencies, supply chain optimizations and rigorous cost
89 controls.

90

91 During the quarter, company-owned and operated store contribution margin and
92 adjusted corporate EBITDA margin improved by 5.9 percentage points and 6.1
93 percentage points year-over-year, respectively. We regained top line growth in the first
94 quarter and achieved 3.5% increase in system sales year-over-year.

95

96 Our sub-franchise and retail businesses also contributed steady cash flows and
97 profitability. Profits from other revenues increased by 34.5% year-over-year. At the
98 same time, we cut losses and adjusted corporate EBITDA by nearly half, 50%. These
99 achievements are testament to Tims China enduring efforts and our strive for further
100 profitable growth.

101

102 On stores development and leveraging sub-franchisee partnerships, we strategically
103 expanded our store footprint into 84 cities, including the city of Fuyang and Nanchang

104 that we entered in Q1, while maintaining capital efficiency, delivering absolute
105 convenience for our guests.

106

107 Since we launched our individual franchisees program in December 2023, we have
108 received over 7,000 applications and successfully converted nearly 200 stores by the
109 end of March, showcasing market confidence in our franchise model. We have
110 established attractive and desirable store unit economics for our sub-franchisees with a
111 reasonable two to three year payback period on average.

112

113 As of March 31, our registered loyalty club members reached 25.2 million, reflecting a
114 remarkable 25.7% year-over-year growth. The average number of members per store
115 has now surpassed 24,500, serving as a strong catalyst for our future growth.

116

117 On marketing, to offset the seasonal slowdown caused by the extended Chinese New
118 Year holiday, Tims China implemented a series of strategic initiatives in Q1, including
119 co-branded collaborations and a brand birthday campaign. These efforts are designed
120 to drive traffic, increase average transaction value and establish new consumption
121 cases.

122

123 Ahead of the Chinese New Year in January, Tims partnered with Oatly during the
124 breakfast daypart to boost sales. The collaboration featured limited-time menu items
125 paired with branded merchandise, enhancing value and helping lift consumers' average
126 spending.

127

128 In March, Tims launched a co-branded campaign with the Eagle Brand American
129 Ginseng to reinforce its health-conscious positioning and expand brand awareness

130 among white-collar professionals leveraging Eagle brand's strong appeal within this
131 key demographic.

132

133 Aligned with the post-holiday period, the 61st Tim Hortons brand birthday anniversary
134 initiative was strategically timed to accelerate recovery from the New Year lull. During
135 this period, Tims rolled out a Chinese version of Double Double and a seasonal
136 comeback of its signature product, Tims Donuts. We believe that cultivating a stronger
137 emotional connection around the brand birthday will help deepen consumer recognition
138 and loyalty in the long term.

139

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

142

143 **Albert Li, CFO**

144 Thank you, Yongchen. We continued to demonstrate our capabilities to further
145 improving our financial performance by refining store unit economics and driving
146 efficiencies at both store and corporate levels. Our sub-franchise and retail business
147 also contributed to steady cash flows and profitability.

148

149 During the quarter, we further improved our company-owned and operated store
150 contribution margin and adjusted corporate EBITDA margin by 5.9 percentage points
151 and 6.1 percentage points, respectively. We remain focused on delivering high value for
152 quality healthy products and thoughtful services to our ever-growing customer base.

153

154 Our overall monthly average transacting customers reached 2.92 million in Q1 2025, a
155 4.3% increase from 2.80 million in the same quarter of 2024. Additionally, digital orders

156 as a percentage of total orders rose from 85.4% in Q1 2024 to 86.3% in Q1 2025. We
157 continue to enhance our digital capabilities to meet the growing demand for delivery
158 and takeaway services.

159

160 In Q1, our company-owned and operated store revenue dropped by 14.0% year-over-
161 year, which was primarily due to the closure of certain underperforming stores and a
162 6.5% decrease in same-store sales growth.

163

164 In the meantime, revenue from our franchised business and retail business increased by
165 28.6% year-over-year. The number of our franchised stores increased from 302 as of
166 March 31, 2024, to 455 as of March 31, 2025.

167

168 Our system sales increased by 3.5% year-over-year. We also made significant progress
169 in boosting operational efficiency in Q1, setting the stage for our long-term sustainable
170 growth: Through refinements in our supply chain capabilities and the economy of scale,
171 we reduced the food and packaging costs as a percentage of revenues from company-
172 owned and operated stores by 4.3% year-over-year.

173

174 Food and packaging costs accounted for 30.4% of our company-owned and operated
175 store revenues during the quarter. We continued to streamline our operations by pruning
176 underperforming stores, refining staffing arrangements and optimizing store
177 managerial efficiency. These actions led to a year-over-year reduction in labor costs and
178 other store operating expenses as a percentage of revenue from company-owned and
179 operated stores by 2.4% and 1.1% year-over-year, respectively.

180

181 Benefiting from our cost optimization measures and increased brand recognition, our
182 marketing expenses as a percentage of total revenues decreased by 0.1% year-over-
183 year.

184

185 Our general and administrative expenses decreased by 4.9% year-over-year, which was
186 primarily due to a reduction of our headquarter headcount and other cost optimization
187 measures. With the above positive effects, we have been able to improve adjusted
188 corporate EBITDA margin by 6.1 percentage points in Q1.

189

190 Turning to liquidity. As of March 31, our total cash and cash equivalents, time deposits
191 and restricted cash were RMB 211.4 million, USD 29.1 million, compared to RMB
192 184.2 million as of December 31, 2024. The change was primarily attributable to the
193 drawdown of additional bank borrowings, partially offset by cash disbursements on the
194 back of the expansion of our business and store network nationwide.

195

196 Moving into the second quarter, with profitable growth always being front and center
197 of everything we do, we are poised to further enhance our operational efficiencies such
198 as supply chain optimizations and rigorous cost controls; to roll out our differentiating
199 made-to-order fresh and healthy food preparation model to drive traffic; to optimize the
200 overall store unit economics and to accelerate the expansion of our successful sub-
201 franchising.

202

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

204

205 **Yongchen Lu, CEO & Director**

206 Thank you, Albert. Our first quarter performance reflects continuous improvements and
207 the resilience in our business and execution, as well as challenges and opportunities in
208 this industry in China. We extend our sincere gratitude to our guests, team members,
209 business partners, shareholders and everyone supporting our endeavors and journey.

210

211 Together, we have built over 1,000 stores in 84 cities, a robust community of over 25
212 million loyalty club members; a unique Coffee Plus Fresh Prepared Food business
213 model, offering the best value for quality products; a unique advantage of offering
214 franchise opportunities as an international coffee brand and a refined store unit
215 economics with payback period within 2 to 3 years.

216

217 With these milestones behind us, we are steadfast in our commitment to sustainable
218 profitable growth and generating long-term value for our shareholders.

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

220

221 **Gemma Bakx, Head of Investor Relations**

222 Thank you very much, Yongchen. We will turn it over to Q&A and open it up for our
223 registered questions. Let's begin with the first question. Go ahead, Desmond.

224

225 **Question-and-Answer Session**

226

227 **Operator**

228 [Operator Instructions]. Our first question comes from the line of Steve Silver from
229 Argus Research Corporation.

230

231 **Steven Silver**

232 Given that there were just a few net store openings in Q1, I am curious about what your
233 current thoughts are on the outlook for new store count for the full year as well as the
234 pace at which the company plans to work through the significantly growing number of
235 franchise applications?

236

237 **Yongchen Lu, CEO & Director**

238 Thank you, Steve, for your question. Yes, and as you know, Q1 usually is the slowest
239 quarter for the company, usually for the industry. Also, we continue to strategically
240 prune certain non-performing stores, both company-owned and franchise stores during
241 the first quarter. Also, as you know, we launched the made-to-order model from last
242 year, which has been proving very successful in China. In total we closed 18 stores.
243 Among them 10 are not made-to-order stores, those were express stores, very small.
244 They could not offer the made-to-order for our guests.

245

246 So intentionally, we closed those stores. And we opened 20 made-to-order stores in Q1.
247 This will accelerate in the second quarter and especially in the second half as usual. Our
248 most of the stores will be opened in the second half, especially in Q4. So we continue
249 to aim to open around 200 made-to-order stores this year.

250

251 **Steven Silver**

252 Great. And there's been quite a lot of activity announced from the Chinese government
253 related to stimulus aimed at spurring consumer activity. I'm curious as to your thoughts
254 about the current state of the Chinese consumer and how you're viewing that as it relates
255 to Tims business?

256

257 **Yongchen Lu, CEO & Director**

258 Yes, the government is doing something, but not at a large scale yet. And after Chinese
259 New Year, the consumer's moral did improve a lot given the launch of DeepSeek, as
260 you know, the AI platform in China. So the sentiment of consumers did improve.

261

262 But the economy remains a bit struggling. The government is still contemplating what
263 policy can be very effective in China. So we are still waiting to see the policy to come
264 out and to see the effect on the consumption side.

265

266 **Steven Silver**

267 Great. And one last one, if I may. As you think about the competition and the continued
268 growth in the overall market in China, I'm curious as to just how you think about right
269 now competing in a more intense value competition given the market?

270

271 **Yongchen Lu, CEO & Director**

272 Yes. I think the market has become more rational, especially on the coffee side. I mean
273 the last year or the year before, the competition was really driven by the 2 companies,
274 Luckin and Cotti. And so as you know, both companies have been founded by the same
275 person, and they are very similar.

276

277 So they are really competing on a price point. For us, we're not intent on getting into
278 the pricing war. We try to differentiate our play. That's why we really focus on our
279 differentiation point, the coffee plus fresh prepared food combos. And from last year,
280 we converted most of the stores into made-to-order, further differentiating our food
281 offerings.

282

283 And we are very strong in breakfast, as we all know. And this year, we launched the
284 Light & Fit Lunch Box for the lunch day part, which has been successful so far. We try
285 to differentiate our place, and we try to make our combos really competitive. So for
286 breakfast items, one coffee plus one bagel priced at RMB 19.99, USD 3. For the lunch,
287 we price around RMB 30 with our Chibaobao 40% discount card. The lowest can be
288 RMB 24, around USD 3.5. So the combo itself is very competitive in China, and we
289 have seen continuous momentum on the combo growth here in China.

290

291 **Operator**

292 [Operator Instructions]. I'll hand it back to Gemma for web questions at this time.

293

294 **Gemma Bakx, Head of Investor Relations**

295 Jon Norwood is asking if you could you give us an update on same-store sales and
296 margin trends since the end of March?

297

298 **Yongchen Lu, CEO & Director**

299 Sure. Yes, I mean same-store sales is a very important operating metric that we closely
300 monitor. I mean the fluctuations in the same-store sales growth over the past year reflect
301 the short-term uncertainties in China's economic and consumption sentiment and the
302 intense industrial competition. As I mentioned earlier, it's really between Luckin and
303 Cotti, who really draw the whole industry into the pricing war a bit.

304

305 But in the mid to long term, with increasing customer demand in coffee consumption
306 from expanding coffee population penetration rate, there is significant room for growth

307 in the coffee sector. We have seen an improving trend in the same-store sales growth
308 since October 2024, and our strategic goal remains unchanged to achieve positive same-
309 store sales growth in 2025, especially in the second half of the year. We are seeing
310 strong momentum here right now.

311

312 Another improvement we have seen is that the comparable transactions on a store level
313 have regained growth since April. And we have seen part of same-store sales in recent
314 weeks. So that's why we are very optimistic about our second half same-store sales
315 growth.

316

317 And as I mentioned again and again, Tims China is not solely focused on the coffee
318 market, we continue to see strong and growing demand for our fresh prepared healthy
319 food products. For example, our latest lunch of Light & fit Lunch Box series of products
320 have been really welcomed by the market, achieving an average of 20-plus incremental
321 daily transactions per store, setting a very good foundation for continued growth in Q2
322 and beyond.

323

324 Back to you, Gemma. Anymore more questions?

325

326 **Operator**

327 [Operator Instructions]

328

329 **Gemma Bakx, Head of Investor Relations**

330 It seems that we have no more questions. Is that right, Desmond?

331

332 **Operator**

333 That is correct. So with that, that concludes today's question-and-answer session. I
334 would like to hand the call back to Yongchen for closing remarks.

335

336 **Yongchen Lu, CEO & Director**

337 Yes. Thank you, everyone, for taking your time and listening this webcast. We have
338 promised to deliver positive same-store sales for the year, and we'll continue to improve
339 our profitability quarter-over-quarter.

340

341 Thank you. We'll talk to you again in the next quarter. Thank you.

342

343 **Gemma Bakx, Head of Investor Relations**

344 Thank you all very much.

345

346 **Operator**

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