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Q4 2022 TH International Limited Earnings Call

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## CORPORATE PARTICIPANTS

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**Albert Li** *CFO - TH International Limited*

## PRESENTATION

### **Ting Zhou** *Head of Investor Relations - TH International Limited*

Ladies and gentleman, welcome to TH International Limited Fourth Quarter and Full Year 2022 Earnings presentation. My name is Ting Zhou, Head of Investor Relations. TH International Limited announced its Fourth Quarter and Full Year 2022 financial results earlier today. The 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](http://ir.timschina.com).

Today, you'll hear from Mr. Yongchen Lu, our CEO and Director, and Mr. Albert Li, our CFO. Mr. Lu will talk about our core corporate development strategies in 2023 and highlights of the recent Popeyes' China transaction. Albert will then cover the fourth quarter and full-year financial performance in greater detail. You can find the webcast of this presentation on our IR website. Again, it is [ir.timschina.com](http://ir.timschina.com).

Before we get started, I'd like to remind you that our earnings presentation and investment 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 for 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 filing with the ICC. 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. They accompany reconciliation information related to this 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 Mr. Yongchen Lu, our CEO and Director. Yongchen, please go ahead.

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### **Yongchen Lu** *CEO, Director - TH International Limited*

Thank you, Ting. My name is Yongchen Lu, CEO and Director of Tims China. Like the video you're watching now of our latest (inaudible) store being built in Xinjiang, Jiangsu Province over the course of 30 days. 2022 was a year of risk growth from topline revenue to store network to our Loyalty program. Our team truly delivered in what was a very challenging environment. I'm looking forward to taking the next few minutes to talk to you in detail about all of that and above our ambitions toward (inaudible).

I would like to take this opportunity to express my sincere gratitude to our shareholders, investors, and business partners for your continued support of Tims China. As we work towards our vision of reaching 2,750 plus profitable stores by 2026, I'm also incredibly grateful to our 500 Tims China employees for their dedication, persistence, agility, and creativity during the past three difficult years with COVID. Together, we have become a more resilient and sustainable business, well-positioned for long-term success.

More importantly, I'm so thankful to millions of Tims China customers holding their little red cups, placing their trust and sharing their moments with us. We welcome you to visit us at any time and feel at home.

As you are aware, China experienced remarkable disruptions associated with COVID in 2022. For example, in Shanghai alone, roughly 25 million residents experienced tight COVID-related restrictions during the middle of last year, which significantly impact our business.

During the fourth quarter, multiple rounds of additional lockdowns and a record number of infections across major cities in the PRC. Further, disrupted business operations at our existing stores, and paused some of our store department progress. This result in us having

approximately twice as many temporary store closures in the first quarter as in the third quarter.

In December, we experienced a peak of 294 stores being either temporarily closed or offering limited services, approximately half of our total network. Despite these challenges and as a testament to the agility of our team, and the resilience of our systems, 2022 also marked a year of significant growth.

We managed to grow our fourth quarter total revenues by 34.6% year-over-year in our four year total revenues by 57.2% year-over-year. In 2022, for the first time, our annual total revenues exceeded RMB 1 billion with our record 131 net new restaurant openings during this first quarter. Our system wide door network reached 617 across 39 cities at the year end, laying a solid foundation for future growth.

Our registered loyalty club totaled 11.3 million members as of December 31st, 2022, representing an 88.5% increase year-over-year. And just as importantly, we maintained our profit revenue and adjusted EBITDA basis in the third and fourth quarters of 2022. We cannot be more excited about our prospects looking forward.

This is because for the first time in our history, we have a clear runway ahead due to the [adding] of the pandemic and the end of the zero-COVID Policy. We are also excited about building of our platform with the addition of the iconic Popeyes brand, something we'll talk about more in a bit later.

But first, let me add just some highlights from 2022 and prospects for the year ahead. Our product portfolio includes our best-selling core products, complemented by Innovative lead time offer products. From our core portfolio in 2022, we sold over 13.6 Million cups fresh brew and cold brew coffee and over 9.5 million bagel products.

In addition, we launched a total of 71 new products, including our popular condensed milk latte (Foreign Language), mulled wine flavor brew coffee, (Foreign Language), Rainbow bagel, (Foreign Language), salted egg yolk wrap, (Foreign Language), and roast sausage, (Foreign Language). These new products were among our best selling products in the fourth quarter, and strengthened our positioning as a locally relevant innovator in the market.

Our core element of our strategy is to engage with our guests in multiple occasions, including outside of our stores to build a sense of genuine community around our brand. In the past year, we invested continuously in presenting our guests locally relevant and heartfelt products, a warm and welcoming environment, professionalism, health, and passion. We have connected with millions of potential customers through a multiple online platforms such as WeChat, Douyin, the Chinese version of TikTok, Little Red Book, Bilibili, Maytime [ph] and Irma. These efforts are clearly working.

For example, our content and promotional activities through the Douyin platform alone took over 500 million media impressions and generated over RMB 64.5 million GMB in 2022. We also launched our official Tims Membership Day program in June 2022, whereby we will reward our Loyalty Club Members with a 50% discount on every second product they purchase every Wednesday to drive frequency and develop the routine of having a cup of Tims coffee as a daily pleasure.

Looking forward, we're plan to leverage our strong brand (inaudible) and effective marketing to continue attracting new guests at a lower customer acquisition costs. With our coffee price growth strategy, we offer creative and customized beverage and food combos that comparing values throughout the day.

This initiative was highly successful in 2022, as the percentage of orders with food increased from 38.5% in the fourth quarter of 2021 to 47.1% in the first quarter of 2022. Our core RMB 19.9 breakfast combo offering a fresh brewed coffee and a bagel sandwich has become a favorite of millions of customers with more and more people are choosing to buy a beverage and a food item at the same time, we expect the average check size per customer to rise, which further drives our store efficiency and enhances our margins.

We also observe that customers ordering combos frequently that were longer in our shops, giving us a chance to connect more with our guests and encourage them to have a second cup during their stay.

We are also beginning to serve our customers through new and innovative sales channels. For example, we are driving rapid growth in our free freeze-dried coffee and RTD, ready-to-drink, product categories, and our e-commerce business revenue more than tripled in 2022. And we expect to continue growing in 2023.

Further element of our strategies delivering absolute convenience and develop our store network is central to that. Throughout the year, we leveraged our multiple store formats to increase density in high tier cities and capture wide space in lower tier cities.

In 2022, we drove significant store network growth of 58% year-over-year, and we plan to surpass 1,000 system wide doors by year-end of 2023. This growth will include entering into new cities such as Shaoxing, Shenyang, Kunming, Taiga [ph], Yichang [ph], Urumqi, Wenzhou, and Changzhou, etcetera. We maintain our store expansion strategy through our well-balanced mix of company-owned stores and franchisee stores.

Our store size and format is size-specific to physically fit in small high-traffic locations where we build Tims Go and Tims Express for mass, and offer more seating to relax where space allows where we'll build our (inaudible), maple, and (inaudible) formats.

We have also established strategic partnerships with other strong retail companies, including Sinopec Easy Joy, Century 21st, and higher group to develop our Tims Express, our most compact store format, which we launched in September 2022. A total of 49 Tims Express stores were in operation as of the end of February 2023. And we will continue rolling out these convenient high-rate capital efficient stores going forward.

We believe technology will remain a core element in building a concrete business platform and achieving operational excellence. We enhance the function of all menus center and product flow engine last year, which significantly improves the accuracy of customized product pushing messages. At the store level, we upgrade our POS, point of sales and ordering system, which will reduce customer wait time and enhance the guest ordering experience while optimizing labor and reducing hardware investment.

In 2022, we also launched our store DGMS, Digital Goods Management System, which allows real-time inventory forecasting and monitoring, and help us minimize wastage while supporting on time stock replenishment. A robust resilient supply chain has been a hallmark of our business since day one, providing us the ability to safely and efficiently serve our guests while minimizing the challenge of disruption.

Last year, we extended our supply base to support business growth nationwide. We expanded our regional warehouses from four at the end of 2021 to six at the end of 2022. We will also be able to build deeper relationships with our strategic supplies and used technology to improve efficiency and drive margin improvement. Food safety is our top priority. And we dedicate substantial resources to ensure that our customers enjoy safe and high-quality products.

We have built a robust and localized supply chain, and only purchase goods from suppliers and distributors that can meet the highest standards of RBI, the brand owner. In 2022, we launched various ESG-related initiatives, and worked with NGOs on making a positive social impact.

In focusing on our environmental impact, we use eco-friendly packaging for our products, and encouraging customers to brew their own coffee cups to refill. We have used recycled coffee grounds as decoration in certain stores, and have organized events to promote growing plants with coffee grounds.

With the end of zero COVID control measures by the PRC government authorities in December 2022, our stores have gradually resumed normal operations, and the overall business environment and consumer sentiment have dramatically improved.

This recovery was well-demonstrated in our same store sales performance, where we delivered 17.1% growth in February 2023. Our overall monthly average in transacting customers reached historical high of 2.3 million in February 2023, representing at 81.1% year-over-year growth from 1.3 million in February 2022.

We are very excited to embark on a new era of development while continuing to drive store revenue growth and achieve margin expansions in the coming quarters. Lastly, as announced last week, we have added the Popeyes brand to our platform in China. Like Tim Hortons, Popeyes is an iconic brand owned by Restaurant Brands International. Popeyes 50-year history, distinctive menu, and passion for flavorful authentic food has made it one of the world's leading chicken, quick service restaurant brands with over 4,100 locations globally.

We expect to leverage Tims' infrastructure and operating expertise to grow the Popeyes business rapidly and efficiently. Both brands will benefit from a greater scale, a stronger financial model, and it's an interest in both supply chain and new restaurant department among other areas. I can't wait to introduce Popeyes to our more than 12 million Loyalty club members later this year.

In addition to providing us the exclusive rights to developer and sub franchise in the Popeyes' spray in Mainland China and Macau. The acquisition blooms \$30 million in cash, which will further strengthen Tims China's balance sheet. We'll earmark an additional \$16 million to develop the Popeyes business over the coming years.

At this time, I would like to turn it over to our CFO, Mr. Albert Li to discuss our fourth quarter and full year financial performance. Albert?

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**Albert Li CFO - TH International Limited**

Thank you. As Yongchen said, COVID-19 created tremendous pressure on the entire Chinese consumer segment in the fourth quarter and our operations were significantly disrupted. However, our team performed well and remained committed to delivering high-quality products and sustained services while maintaining the safety and health of our employees and customers.

Our resilience and determination paid off to punctuate what Yongchen said. In 2022, we grew our store network by 58% to 617 units and our revenues by 57% to over 1 billion RMB. In achieving these results, we continued strengthening our digital capabilities to capture the growing demand from delivery and take away services. As a result, digital orders as a percentage of total orders increased from 75.1% in the fourth quarter of 2021 to 81.2% in the first quarter of 2022.

And the number of delivery and takeaways orders in the first quarter, including Meituan [ph], Irma, and our WeChat mini program increased by 47.3% from first quarter of 2021. Our overall monthly average transacting customers were 1.93 million in the first quarter of 2022, representing an increase of 40.9% from 1.37 million in the first quarter of 2021.

We also achieved positive adjusted store EBITDA in the third and fourth quarters of the year, which has been a core focus of ours since inception. During the fourth quarter of 2022, total revenues grew by 34.6% year-over-year to -- gross was primarily driven by an increase in the number of stores from 390, as of end of 2021, to 617, as of end of 2022. Overall ticket count was serving 36.3% higher year-over-year, driven by the rise in delivery and take away orders.

Our food and packaging costs were stable as a percent of revenue from company-owned and operated stores as we benefited from economies of scale with our suppliers and our strong relationship with RBI in coffee bean procurement.

We expect for the cost improvements on the back of RBIs initiative to deploy a Tims Hortons coffee bean grocery in Malaysia in June 2023. And rental and property expenses, were took advantage of lower rent levels during COVID to secure more favorable lease terms and build a strong pipeline for the future.

In 2022, we also received a total lease reductions related to COVID-19 of RMB 16.8 million. Payroll and employee benefits as a percentage of revenues from company-owned and operated stores decreased by 9.1 percentage points year-over-year to 24.5% in the first quarter.

This reduction was primarily due to optimization of store level staffing as a result of the deployment of our digital labor management system and optimization of our labor structure, including hiring of more part time employees.

We will also drive operational excellence and efficiency by investing in our supply chain and customer-facing digital technology. We

expect our operating leverage to continue improving and our general and administrative expenses as a percentage of total revenues to decline over time.

Our cash position continues to improve despite our continuous investment in store expansion and infrastructure. As of December 31st, 2022, the company's total cash and cash equivalents and short-term investments were RMB 611.5 million, more than 50% higher than the figure in December 31, 2021 of RMB 309.8 million.

The change was primarily attributable to proceeds from bank borrowings, proceeds from the closing of our merger with Silver Crest Acquisition Corporation, proceeds from our pack investors, and prices from new measures who entered into the equity support agreement.

These were offset by the cash disbursements as a result of the rapid expansion of our business and store network nationwide. Notably, this figure does not include the \$30 million of cash received in the course of the Popeyes acquisition.

Looking ahead, our top near term financial priorities are to continue to deliver robust revenue growth, expand store level profitability, and improve adjusted corporate EBITDA margins.

By leveraging Tims China's brand influence and a positive consumer perception, growing customer recognition and loyalty, continuous innovation ever expanding store network and disciplined and execution, we expect to further optimize our cost structure, improve operational efficiency, and achieve greater economies of scale.

We would like to express our heartfelt gratitude to our investors for their support of Tims China, your confidence in our company and our team has been instrumental to our success. And we are committed to delivering long-term value to our shareholders. We look forward to updating you on our progress in the coming quarters and continuing to build a great and successful future for Tims China. Thank you once again for your continued support.

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**Ting Zhou Head of Investor Relations - TH International Limited**

Thank you, Yongchen and Albert. That concludes our earnings presentation for today. We thank you for your participation and look forward to providing you with regular business updates again next quarter.

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