TH International Limited (THCH) Q1 2026 Earnings Call Transcript

June 9, 2026

Company Participants:

Patty Yu – Public & Media Relations Manager

Yongchen Lu – CEO & Director

Albert Li – CFO

Operator:

Ladies and gentlemen, welcome to Tims China's First 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 first 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 Yongchen Lu, our CEO & 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 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 Yongchen Lu, our CEO & Director. Please go ahead, Yongchen.

Yongchen Lu, CEO & Director of TH International Limited:
Thank you, Patty. Good morning and good evening, everyone. Thank you for joining us today. As the coffee industry entered a seasonal slowdown during the first quarter, the Company proactively optimized its operating rhythm and moderately reduced discount-driven promotions, reallocating resources toward franchise system development and long-term brand building. While certain short-term revenue indicators faced pressure, core user quality continued to improve, in line with the Company's strategic transition from prioritizing scale growth to prioritizing quality growth.

During the first quarter, we continued our strategic adjustment to prune underperforming stores, and we expect to complete this process and resume net new store openings starting from the second quarter of 2026.

On same-store sales growth, we experienced overall comparable transactions decline of 8.3% and an average comparable ticket size decline of 4.8%, which led to a negative 13.2% same-store sales growth for system-wide stores in Q1 2026. The decline was partly due to delivery aggregators backing down subsidies significantly, partly due to underspent in our marketing spending and discount control.

Despite the temporary headwinds on top-line growth and fierce industry competitions, we continue to witness strong performance of our 2024 and 2025 vintage stores, most of which were made-to-order stores. With further optimized store capital expenditures and enhanced store unit economics, our 2024 vintage year company owned and operated stores generated store contribution margin of nearly 15% in 2025, low teens in Q1 2026, and are expected to achieve a payback period within two to three years; our 2025 vintage year stores, which are still ramping up now, are expected to achieve similar unit economics too. In the meantime, our company owned and operated stores in tier 1 cities, including Beijing, Shanghai, Guangzhou and Shenzhen, and in those cities with 10+ stores, generated over 10% and 7% store contribution margin in 2025, respectively, outperforming other tier cities with lower store density. We will continue adding density in existing cities to achieve higher economies of scale.

Leveraging sub-franchisee partnerships, new stores were opened across multiple core cities and emerging markets, including Shanghai, Guangzhou, Shenzhen, Hangzhou, Beijing, Zhengzhou, and Nantong etc in Q1 2026. The Company continued to expand across diversified locations such as transportation hubs, office buildings, commercial complexes, and university campuses, further enhancing brand penetration and consumer reach. Since we launched our individual franchise business in December 2023, we have received over 10,500 applications, signed up for over 440 stores, and successfully opened nearly 260 stores by the end of March 2026, showcasing continued market confidence in our franchise model.

We have witnessed reasonable returns for our franchised stores. For instance, our franchised stores at special channels, including railway stations, hospitals and highway rest areas, generated store contribution margin of high teens in 2025 and are expected to achieve a payback period of approximately two years. We will accelerate opening franchised stores on these special channels.

During the quarter, the Company officially launched its 2026 nationwide franchise roadshow program, systematically communicating its brand strengths, operational standards, and unit economics model to prospective franchise partners. At the same time, the Company introduced upgraded franchise support policies, including multi-store incentives, high-revenue rebates, and opening support packages, further enhancing franchise attractiveness, attracting high-quality partners, and laying a solid foundation for long-term scalable expansion.

In the meantime, our sub-franchise businesses contributed steady cash flows and profitability. Other revenues increased by 7.7% year-over-year, and profits from other revenues achieved a year-over-year growth of 14.0% in Q1 2026.

The first quarter marked the traditional seasonal slowdown for the coffee industry amid intensified market competition. Against this backdrop, the Company remained focused on improving operational quality and efficiency, making progress across product innovation, brand marketing, and loyalty member engagement.

During the first quarter of 2026, the Company launched a total of 21 new products across categories, including 15 new beverage products and 6 new food items, centered around seasonal occasions, health-conscious offerings, and localized flavors, with strong market responses.

On the beverage side, the Cherry Series returned with strong consumer recognition, effectively driving traffic and repurchases. The Company also introduced limited-time Apple Series beverages and the "0 Sugar, 0 Fat" Rose Series to further address seasonal and health-oriented demand. On the food side, the launch of the Nang Chicken Bagel Sandwich and Nang Bagel further strengthened localized product innovation. Among the new launches, the Spring Apple Series delivered particularly strong performance, achieving the highest repeat purchase rate among all product series.

In brand marketing and loyalty member engagement, the Company focused on Chinese New Year social occasions and younger consumer segments through diversified crossover collaborations. Partnerships with the popular drama IP "The Vendetta of An" / "长安二十四计", Air Canada, and NetEase Cloud Music enhanced brand awareness, member engagement, and penetration among younger consumers. In Q1 2026, transacting members under the age of 30 accounted for nearly 50% of the total membership base. In addition, through a customer acquisition partnership with DiDi, the Company successfully added approximately 4 million new members during the quarter, representing nearly threefold year-over-year growth.

As of March 31, 2026, our registered loyalty club members exceeded 35.9 million, reflecting a remarkable 42.9% year-over-year growth. The average number of members per store has now surpassed 35,000, serving as a solid foundation for growth and a testament to our customers' support for and embrace of Tim China's loyalty program.

At this time, I would like to turn it over to our CFO, Albert Li, to discuss our first quarter 2026 financial performance in more detail.

Albert Li, CFO of TH International Limited:

Thank you, Yongchen. During the first quarter of 2026, our total revenues and system sales dropped by 14.6% and 14.2% year-over-year, respectively, which was primarily due to the closure of certain underperforming company owned and operated stores and a decrease in same-store sales growth. Our overall monthly average transacting customers reached 2.69 million during the first quarter of 2026, compared to 2.92 million in the same quarter of 2025.

Digital orders as a percentage of total orders rose from 86.3% in Q1 2025 to 87.5% in Q1 2026. We continue to enhance our digital capabilities to meet the growing demand for delivery and takeaway services. Total number of delivery orders increased by 10.2% year-over-year during the first quarter of 2026.

We're 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, through refinements in our supply chain capabilities and economies of scale, we managed to reduce Q1 2026 food and packaging costs as a percentage of revenues from company-owned and operated stores by 2.0 percentage points from 30.4% in the first quarter of 2025 to 28.4% in the same quarter of 2026.

Rental and property management fees were RMB47.2 million (USD6.8 million) for the three months ended March 31, 2026, representing a decrease of 16.2% from RMB56.3 million in the same quarter of 2025, which was in line with the revenue trend as the number of our company-owned and operated stores decreased from 569 as of March 31, 2025 to 541 as of March 31, 2026. Rental and property management fees as a percentage of revenues from company owned and operated stores increased by 0.7 percentage points from 22.1% in the first quarter of 2025 to 22.8% in the same quarter of 2026.

Payroll and employee benefits expenses were RMB44.8 million (USD6.5 million) for the three months ended March 31, 2026, representing a decrease of 10.4% from RMB50.0 million in the same quarter of 2025, which was in line with the revenue trend. Payroll and employee benefits expenses as a percentage of revenues from company owned and operated stores increased by 2.0 percentage points from 19.6% in the first quarter of 2025 to 21.6% in the same quarter of 2026.

Delivery costs were RMB27.3 million (USD4.0 million) for the three months ended March 31, 2026, representing an increase of 1.0% from RMB27.0 million in the same quarter of 2025, which was in line with the 8.9% increase in delivery orders from 4.5 million in the first quarter of 2025 to 4.9 million in the same quarter of 2026, partially offset by a reduction in average delivery costs per order. Delivery costs as a percentage of revenues from company owned and operated stores increased by 2.6 percentage points to 13.2% in the first quarter of 2026, compared to 10.6% in the same quarter of 2025, which was primarily due to delivery revenue as a percentage of revenues from company owned and operated stores increased from 53.1% in Q1 2025 to 65.1% in Q1 2026.

Other operating expenses were RMB18.2 million (USD2.6 million) for the three months ended March 31, 2026, representing an increase of 0.9% from RMB18.0 million in the same quarter of 2025. Other operating expenses as a percentage of revenues from company owned and operated stores increased by 1.7 percentage points to 8.8% in the first quarter of 2026, compared to 7.1% in the same quarter of 2025.

Benefiting from our cost optimization measures and improved brand influence, our marketing expenses were RMB9.8 million (USD1.4 million) in Q1 2026, representing a decrease of 43.7% from RMB17.4 million in the same quarter of 2025. Marketing expenses as a percentage of total revenues decreased by 2.0 percentage points from 5.8% in the first quarter of 2025 to 3.8% in the same quarter of 2026.

Our adjusted general and administrative expenses were RMB43.4 million (USD6.3 million) in Q1 2026, representing a decrease of 7.9% from RMB47.2 million in the same quarter of 2025, which was primarily due to a decrease in credit loss of account receivables and cost savings from professional and other service fees. Adjusted general and administrative expenses as a percentage of total revenues increased by 1.2 percentage points from 15.7% in the first quarter of 2025 to 16.9% in the same quarter of 2026.

As a result of the foregoing, adjusted corporate EBITDA margin was negative 11.8% in the first quarter of 2026, compared to negative 9.8% in the same quarter of 2025.

Turning to liquidity, as of March 31, 2026, our total cash and cash equivalents, time deposit and restricted cash were RMB111.4 million (USD16.2 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 facilities. We are pleased to enter into a definitive agreement with THRI for the issuance of up to US$55.0 million additional senior secured convertible notes, which underscores the strong commitment of our brand owner and founding shareholder. The proposed financing transaction provides pivotal capital to fund further expansion of our store network nationwide and to fortify our balance sheet.

Looking forward, our near-term priorities would be to deliver sustainable revenue growth, to further enhance supply chain capabilities and expand store-level profitability, to continuously optimize cost structure, to accelerate the expansion of our successful sub-franchising, and to achieve corporate EBITDA breakeven.

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

Yongchen Lu, CEO & Director of TH International Limited:
Thank you Albert. Before we turn to Q&A, I would like to take this opportunity to express my utmost gratitude to our customers, employees, business partners, and shareholders for your continuous support, dedication, and belief during the past seven years.

With the heartfelt passion in the Tim Hortons brand and strong confidence in the China market, we began our journey from the very first store at the People's Square in Shanghai seven years ago. Together, we have now established an overwhelming community as one of China's top coffee brands with over 35 million loyalty club members; a unique "coffee plus freshly prepared healthy food" business model offering the best value-for-quality products as an international coffee brand; differentiated and comprehensive store formats with over 1,000 stores in 93 cities, most of which are made-to-order stores with expected payback period between two to three years; and a unique advantage of offering franchised opportunities as an international coffee brand.

Today, China stood as the largest international market in Tim Horton's global system by number of stores, and Tims China has moved beyond its start-up and exploration phase and entered a new stage of high-quality growth. Effective from Jun 15, 2026, I am honored to take on the new role as Chairman, while I remain as engaged and committed to the Company's long-term success as ever. I am excited to work with Mr. John Cheung, our new CEO, who brings more than 25 years of extensive experience leading major consumer companies in China and across Asia, and with proven records in brand building, consumer insights, business growth, and operational management, to drive the next phase of growth for Tims China and to generate long-term value for our shareholders.

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

Question & Answer Session:

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

Operator *[Operator Instructions]:*
Our first question comes from the phone line of Steve Silver of Argus Research Company.

Steve Silver, Argus Research Company:
Thanks, operator, and thanks for taking my questions. Same-store sales growth has been under pressure during Q1, both on comparable transactions as well as average comparable ticket sizes. Considering the aggressive delivery aggregator subsidies since Q2 of last year, can you just discuss your current thinking on the same-store sales growth that you see for the rest of 2026?

Yongchen Lu, CEO & Director of TH International Limited:
Yeah. Very good question, Steve. Thank you. Actually, we have seen same-store sales recovering very well. Recently, especially for the past few weeks, after we launched several great marketing campaigns. I believe we have better same-store sales in the second quarter, and we expect much better for the rest of the year.

Steve Silver, Argus Research Company:

Great. You've also cited 2024 and 2025 store trends for strong performance in maybe mid-teens store contribution margins. More recently, you've talked about the special channel stores generating high-teens store contribution margins. Can you just talk about your expectations on store margin profiles moving forward?

Albert Li, CFO of TH International Limited:

Okay. Steve, I think I will take this question. Overall, I think profitability level for our company-owned stores, we would expect that the margin profile can be improved gradually and can be improved further from existing level. Firstly, as Yongchen has mentioned, in terms of the recovery on same-store sales and also we have seen a very positive trend on the same-store sales in the second quarter. With the improvement on the same-store sales, definitely we are expecting higher revenues at the store level. I think accordingly, in terms of the store labor cost, rental, and other operating costs, that percentage of revenue will naturally go down, right? That's the first point.

Secondly, we are in the process of wrapping up in terms of pruning our underperforming stores, which we expect it can be mostly completed within the year. Definitely, we are expecting a higher percentage of higher-margin stores. I think including those 2024, 2025 and the later vintage year stores and also those special channel stores. The higher-margin stores will take a higher percentage of revenues of that. Thirdly, I want to highlight is on gross margin. As you can see, during the first quarter of 2026, even our top line is under pressure, we still improve our gross margin by 2.0 percentage points.

I think based on those initiatives on supply chain optimization for economy of scale, launching higher-margin products, and also in terms of optimizing the recipe for existing core products, I think that will all help us to continue improve our gross margin.

Yongchen Lu, CEO & Director of TH International Limited:

Yeah, I just want to add a point here. Our major problem for the early vintage stores are with the rent, because we open a lot of larger format stores for brand building. You can see the rent percentage of sales are very high for early vintage stores. If you look at the recent vintage of stores like 2024, 2025, and even the stores we opened this year in 2026. The rents are very reasonable, and now they have teens store level contribution margins. I believe now with the new CEO, John Cheung, with his strong background in sales and marketing, under his leadership, I believe the sales will improve further. That will also contribute even higher store contribution margin in the future. Thank you.

Steve Silver, Argus Research Company:
Great. That's helpful. One more, if I may. Could you talk a little bit about the current competitive landscape? You guys have talked about quite a bit about the competition on the coffee side. More recently, it looks like some of the tea players in China have entered into the coffee business with some lower priced offerings. I'm just curious as to whether you think that will have any impact on your business strategy.

Yongchen Lu, CEO & Director of TH International Limited:
Yeah. The tea players have been more aggressive now in entering to the coffee sector than before, and price is very low. That's exactly now I want to highlight our differentiation point. We are not only a coffee player. We offer coffee + freshly prepared food. That's very different from our peer coffee brand players and also the milk tea players. That's where I know we are very strong and very different. That's why now we have so much belief in our differentiation model for the future.

Steve Silver, Argus Research Company:
Great. Thank you so much for that, and best of luck continuing to stabilize and return to top-line growth.

Yongchen Lu, CEO & Director of TH International Limited:
Thank you, Steve.

Albert Li, CFO of TH International Limited:
Thank you, Steve.

Operator:
Thank you for your question. As a reminder, to ask a question via the telephone, please press star one one on your telephone keypad. To ask your question via the webcast, please type into the Q&A box and click submit. Once again, that's star one one for questions from the telephone line, and to type your questions in the Q&A box via the webcast and click submit.

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

Operator, I don't see any question come up.

Yongchen Lu, CEO & Director of TH International Limited:

Yes. With that, now, thank you so much for your time, and let's discuss more next quarter. Thank you.

Operator:

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