

1 **TH International Limited (THCH) Q3 2023 Earnings Call Transcript**

2 **November 15th, 2023**

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4 **Company Participants:**

5 Ting Zhou – Head of Investor Relations

6 Yongchen Lu – CEO & Director

7 Albert Li – CFO

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9 **Ting Zhou, Head of Investor Relations of TH International Limited:**

10 Ladies and gentlemen, welcome to TH International Limited's Third Quarter 2023
11 Earnings Presentation. My name is Ting Zhou, Head of Investor Relations. TH
12 International Limited announced its third quarter 2023 financial results earlier today. A
13 press release as well as an accompanying presentation which contains operational and
14 financial highlights are now available on the Company's IR website at ir.timschina.com.

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16 Today, you will hear from Mr. Yongchen Lu, our CEO & Director, and Mr. Albert Li,
17 our CFO. You can also find the webcast of this presentation on our IR website.

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

27
28 This presentation also includes certain non-GAAP financial measures which we believe
29 can be helpful in evaluating our performance. However, those measures should not be

30 considered substitutes for the comparable GAAP measures. The accompanying
31 reconciliation information related to those non-GAAP and GAAP measures can be
32 found in our earnings press release issued earlier today.

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34 With that said, I would now like to turn it over to Mr. Yongchen Lu, our CEO & Director.
35 Please go ahead.

36

37 **Yongchen Lu, CEO & Director of TH International Limited:**

38 Thank you Ting. In Q3 2023, we delivered 42.7% year-over-year top-line growth, and
39 set a record quarterly revenue, adjusted store EBITDA, and adjusted store EBITDA
40 margin. We want to express our sincere gratitude to our 16.9 million registered loyalty
41 club members, the continuous support and patronage from our Timmies friends and
42 community are always the source of power inspiring us to improve every day.

43

44 We continue to pursue our goal of delivering absolute convenience for our guests, both
45 building density in our existing cities for faster and easier service, and entering new
46 cities to serve new guests. Some of the cities we entered in the third quarter include
47 Yibin, Handan, and Lanzhou, etc. Continuing our strong track record, these new city
48 openings were highly successful, we generated RMB97 thousands, 93 thousands, and
49 92 thousands in sales on the opening days of our first stores in Yibin, Handan and
50 Lanzhou, respectively.

51

52 Another key pillar of our strategy is continuous innovation - and this quarter was no
53 exception, we launched 21 new beverages and 11 new food products in Q3 2023. Some
54 “hero” products have emerged from this recent batch of innovations, including the
55 buffalo milk latte, which has sold 528 thousands cups during the quarter. From our
56 rigorous new product development process and subsequent guest surveys, we know this
57 product is popular for its smooth and light mouthfeel with high protein percentage.

58

59 We've continued to develop our successful cold brew platform – and we've sold more
60 than 4 million cups of cold brew during the quarter. A key driver of that growth was our
61 watermelon cold brew series, using 100% single origin watermelon juice, which has
62 been popular with our guests.

63

64 Our strategy of driving guest visits during off-peak coffee hours and using food as a
65 key differentiator is bearing good results - the percentage of orders with food increased
66 from 43.8% in Q3 2022 to 54.5% in Q3 2023.

67

68 Touching again on “hero” products, we should mention our bagel platform. We've
69 launched a combo Bagel and Brew Coffee campaign in Q3 with significant success –
70 we've sold more than 7 million bagels so far during the course of the campaign. In
71 September we launched the smile bagel- blueberry series, made up of real blueberry,
72 cream cheese, and oatmeal – shaped to look like a smile, which generated significant
73 buzz among our guests and on social media – despite its launch towards the end of the
74 quarter, we sold 236 thousands units in Q3.

75

76 The digital realm remains a crucial part of our business, as our e-commerce and retail
77 sales grew by 123.3% from RMB9.0 million in Q3 2022 to RMB20.1 million in Q3
78 2023. We also continue driving growth through new retail channels like co-branded
79 coffee products and at-home coffee products, such as Tims & Oatly's ready-to-drink
80 coffee, packaged liquid coffee and liquid freeze-dried coffee products.

81

82 Throughout the summer season, which falls in our Q3, we executed a series of fresh
83 new products that are being supported by exciting marketing campaigns and ample
84 resources to capture increased market opportunities and gain attention from the younger
85 population. More specifically, we are introducing a new beverage or food product at
86 least every two to three weeks. These are all designed to attract new customers while
87 keeping our loyal customers coming back.

88

89 Last but not least, let me touch briefly on Popeyes. In August, we brought this fantastic
90 brand to China in a first-day launch that set a record for the brand – no other country in
91 the world had as many first-day guests as we welcomed – over 1750 of them. We
92 continue to build on this strength, and since the grand opening of our first Popeyes
93 restaurant in Shanghai on August 19, we have added another 6 stores at premium
94 locations in Shanghai thus far and are on track to open a total of 10 stores by year-end.
95 Popeyes’ features an innovative, locally relevant menu, appealing store design and
96 environment, and warm guest- experiences have been highly recognized by many
97 customers, as evidenced by over RMB29,000 average daily sales year-to-date.

98

99 At this time, I would like to turn it over to our CFO, Mr. Albert Li, to discuss our Q3
100 2023 financial performance in more detail. Albert?

101

102 **Albert Li, CFO of TH International Limited:**

103 Thank you, Yongchen. As said earlier, total revenues grew by 42.7% year-over-year to
104 a record RMB436.4 million. The growth was primarily driven by an increase in the
105 number of system-wide stores from 486 as of September 30, 2022 to 763 as of
106 September 30, 2023. As we scale our business, we have demonstrated meaningful
107 expansion in store profitability and leverage in general and administrative expenses
108 during Q3 2023, with adjusted store EBITDA margin and adjusted general and
109 administrative expenses as a percentage of total revenues improving by 2.2 percentage
110 points and 1.3 percentage points year-over-year, respectively.

111

112 Overall monthly average transacting customers were 3.4 million during Q3 2023,
113 representing an increase of 75.3% from 1.9 million in the same quarter of 2022. Overall
114 ticket count was 57.2% higher year-over-year, driven by the rise in both dine-in and
115 delivery and takeaway orders.

116

117 We continue to strengthen our digital capabilities to meet the growing demand for
118 delivery and takeaway services. Digital orders as a percentage of total orders increased
119 from 79.8% in Q3 2022 to 82.6% in Q3 2023 while our delivery and takeaway orders,
120 including those from Meituan, Eleme and our own WeChat mini-program, increased by
121 62.7% in Q3 2023 from the same quarter of 2022. Concurrently, we have attracted more
122 dine-in customers to enjoy our welcoming environment, as the number of dine-in
123 customers increased by 52.0% from the same quarter of 2022.

124

125 Our food and packaging costs as a percentage of revenues from company owned and
126 operated stores increased by 1.9 percentage points from 33.3% in Q3 2022 to 35.2% in
127 Q3 2023 since we offered higher discounts and more promotional activities to attract
128 customers.

129

130 Our rental and property management fee as a percentage of revenues from company
131 owned and operated stores increased by 4.2 percentage points from 15.6% in Q3 2022
132 to 19.8% in Q3 2023. This is primarily due to the one-time rent concessions that we
133 received during the third quarter of 2022.

134

135 Payroll and employee benefits as a percentage of revenues from company owned and
136 operated stores decreased by 2.5 percentage points from 22.8% in Q3 2022 to 20.3% in
137 Q3 2023. This was primarily due to the continuous refinement of the staffing
138 arrangement of our store operation personnel and optimization of our labor structure,
139 including the hiring of more part-time employees with the deployment of our intelligent
140 scheduling system.

141

142 Delivery costs as a percentage of revenues from company owned and operated stores
143 increased by 0.6 percentage points from 8.1% in the third quarters of 2022 to 8.7% in
144 the same quarter of 2023.

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146 Other operating expenses as a percentage of revenues from company owned and
147 operated stores decreased by 3.9 percentage points from 13.1% in Q3 2022 to 9.1% in
148 Q3 2023. This was due to our continuous efforts to optimize our cost structure and drive
149 operating leverage through revenue growth and store network expansion.

150

151 Marketing expenses as a percentage of total revenues decreased by 0.2 percentage
152 points from 8.1% in Q3 2022 to 7.9% in Q3 2023.

153

154 Our adjusted general and administrative expenses as a percentage of total revenues
155 decreased by 1.3 percentage points from 15.8% in Q3 2022 to 14.5% in Q3 2023. We
156 expect our operating leverage to continue improving, and our general & administrative
157 expenses as a percentage of total revenues to decline over time.

158

159 Turning to liquidity, as of September 30, 2023, our total cash and cash equivalents and
160 short-term investments were RMB461.8 million (USD63.3 million), compared to
161 RMB611.5 million as of December 31, 2022. The change was primarily attributable to
162 the settlements with investors who entered into an Equity Support Agreement with us,
163 and cash disbursements as a result of the rapid expansion of our business and store
164 network nationwide, offset by an increase in bank borrowings.

165

166 Managing our cost structure effectively is very important to us, we continue to
167 implement various capital expenditure control and cost reduction measures, targeting
168 to achieve a shorter payback period and further optimizing our store unit economic
169 model.

170

171 Looking forward, our top near-term priorities are to continue rolling out our successful
172 store formats into more white spaces, expanding franchised store network, delivering
173 robust revenue growth, improving profitability at both the store- and corporate-level,
174 and generating positive operating cash-flows. By leveraging Tims China's strong brand

175 recognition along with our members' growing brand loyalty, and our ever-growing store
176 network, continuous innovation in product R&D and marketing campaigns, and
177 disciplined execution, we truly believe in our capability to further optimize our cost
178 structure, improve operational efficiency, and achieve profitable growth.

179

180 We are sincerely thankful to our shareholders and investors for your continuous support,
181 and we are committed to delivering long-term value to our shareholders. We look
182 forward to updating you on our progress in the coming quarters and continuing to build
183 a bright and successful future for Tims China.

184

185 **Ting Zhou, Head of Investor Relations of TH International Limited:**

186 Thank you, Yongchen and Albert. That concludes our earnings presentation for today.

187 We thank you for your participation and look forward to providing you with regular

188 business and financial updates again next quarter.