

1 **TH International Limited (THCH) Q2 2023 Earnings Call Transcript**

2 **August 29th, 2023**

3
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 Second Quarter 2023
11 Earnings Presentation. My name is Ting Zhou, Head of Investor Relations. TH
12 International Limited announced its second quarter 2023 financial results earlier today.
13 A press release as well as an accompanying presentation which contains operational
14 and financial highlights are now available on the Company's IR website at
15 ir.timschina.com.

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

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

28
29 This presentation also includes certain non-GAAP financial measures which we believe

30 can be helpful in evaluating our performance. However, those measures should not be
31 considered substitutes for the comparable GAAP measures. The accompanying
32 reconciliation information related to those non-GAAP and GAAP measures can be
33 found in our earnings press release issued earlier today.

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

37

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

39 Thank you Ting. We are very pleased with our accomplishments during Q2 2023 and
40 believe that the Tims China brand has never been stronger. On the top-line, we delivered
41 129.7% year-over-year growth, achieving a record quarterly revenue of over RMB400
42 million. This was driven both by new store openings and continued strong same-store
43 traffic and sales growth. We also benefitted greatly from the rapid growth of our loyalty
44 club, which now totals 14.7 million registered members, representing 95.4% year-over-
45 year growth. We continue to pursue profitable growth. we have achieved positive store
46 level ebitda continuously and have increased store level ebitda by 31.6 percentage
47 points from Q2 2022 to 5% in Q2 2023.

48

49 From a store development standpoint, we continue to build density in our existing cities
50 while also penetrating new cities such as Shenyang, Yantai, Changzhou, etc. To
51 highlight some of the new cities we entered recently, on the opening days of our first
52 stores in Shenyang, Yantai and Changzhou, we generated RMB163 thousand, 204
53 thousand, and 68 thousand in sales, respectively, while scoring 132 million, 102 million
54 and 4 million media impressions, respectively.

55

56 We are also achieving greater capital efficiency via increasing franchise development,
57 notably through the rapid expansion of Tims Express, our most compact store format.
58 This is enabling us to enter into meaningful partnerships with reputable companies like

59 Sinopec Easy Joy, Century21, Ling Ka, and Haier Sanyiniao, which have contributed
60 to our network expansion.

61

62 On new product launches, ‘Watermelon Cold Brew’ (西瓜冷萃), ‘Grape Cold Brew’
63 (冰葡萄气泡冷萃), ‘Grape Iced Capp’ (葡萄天乐雪), ‘Watermelon Coconut Water’
64 (西瓜香椰水), and ‘Cinnamon Roll’ (提子肉桂卷) were among our best-selling
65 products during the quarter, demonstrating our ability to innovate and launch offerings
66 that strongly appeal to our customers.

67

68 Recall also that our differentiated and highly successful ‘Coffee Plus’ growth strategy
69 is based upon offering creative and customized beverage and food combos at
70 compelling values. This initiative has enabled us to further improve our labor and
71 capital efficiency, as exemplified by the percentage of orders with food increasing from
72 43.7% in Q2 2022 to 50.0% in Q2 2023.

73

74 We have also seen increasing popularity of our bagel products, with the number of
75 bagels sold reaching 4.8 million in Q2 2023, tripling from the same quarter in 2022.

76

77 The digital realm remains a crucial part of our business, as our e-commerce and retail
78 sales grew by 210.5% from RMB10.4 million in Q2 2022 to RMB32.3 million in Q2
79 2023. We also continue driving growth through new retail channels like co-branded
80 coffee products and at-home coffee products, such as Tims & Oatly’s ready-to-drink
81 coffee, packaged liquid coffee and liquid freeze-dried coffee products.

82

83 Throughout the peak summer season, which falls in our Q3, we executed a series of
84 fresh new products that are being supported by exciting marketing campaigns and
85 ample resources to capture increased market opportunities. More specifically, we are
86 introducing a new beverage or food product at least every two to three weeks. These

87 are all designed to attract new customers while keeping our loyal customers coming
88 back.

89

90 Lastly, by leveraging Tims' infrastructure and operating expertise, we opened our first
91 Popeyes restaurant in China on August 19, less than five months after we acquired the
92 exclusive right to develop Popeyes brand restaurants in mainland China. We were
93 thrilled to have achieved this major milestone in our longer-term strategy to establish a
94 growing presence for this iconic brand across the country.

95

96 We believe that adding Popeyes to the Tims China portfolio will deliver economies of
97 scale and supply chain synergies for both brands, driving further growth for our
98 Company. We plan to open at least 10 Popeyes restaurants in Shanghai in the coming
99 quarter and 1,700 across China over the next decade.

100

101 Popeyes offers a fried-chicken recipe that Chinese diners will love, and a brand identity
102 based on Louisiana's signature *joie de vivre* that will appeal to younger consumers
103 increasingly seeking new dining experiences. Our high-traffic location in Shanghai and
104 our sensational grand opening—featuring a jazz band and lots of Louisiana flavor—are
105 already creating significant buzz around the brand, which is providing momentum for
106 our upcoming expansion.

107

108 The Popeyes Shanghai flagship restaurant features a select menu and store design
109 tailored to the Chinese market. Its grand opening set an opening day record with 1,761
110 orders, generating RMB142 thousand in sales and 110 million media impressions.

111

112 The Tims China team has leveraged its deep local expertise in China's quick-service
113 restaurant industry to adapt Popeyes' menus, restaurant design and dining experience
114 for the Chinese consumer. The localized menu features new options that blend Cajun
115 traditions with local Chinese tastes, including sweet chili chicken, golden cheese and

116 chicken nuggets, and a Longjing tea-based pomelo milkshake.

117

118 It also features Popeyes' signature items, including New Orleans-style spicy chicken,
119 Louisiana-style seafood such as Cajun popcorn shrimp, and sides including mashed
120 potatoes with Cajun gravy. Popeyes chicken is marinated in a unique blend of Louisiana
121 Cajun spices for 12 hours, then battered, breaded, and slow-cooked to perfection,
122 enhancing its rich and savory flavor.

123

124 At this time, I would like to turn it over to our CFO, Mr. Albert Li, to discuss our Q2
125 2023 financial performance in more detail. Albert?

126

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

128 Thank you, Yongchen. As said earlier, total revenues grew by 129.7% year-over-year
129 to a record RMB411.7 million. The growth was primarily driven by an increase in the
130 number of system-wide stores from 440 as of June 30, 2022 to 700 as of June 30, 2023,
131 and 20.4% quarterly same-store sales growth for company owned and operated stores.

132

133 Overall monthly average transacting customers were 2.8 million during Q2 2023,
134 representing an increase of 167.2% from 1.0 million in the same quarter of 2022.

135 Overall ticket count was 181.3% higher year-over-year, driven by the rise in both dine-
136 in and delivery and takeaway orders.

137

138 We continue to strengthen our digital capabilities to meet the growing demand for
139 delivery and takeaway services. Digital orders as a percentage of total orders increased
140 from 80.2% in Q2 2022 to 80.6% in Q2 2023 while our delivery and takeaway orders,
141 including those from Meituan, Eleme and our own WeChat mini-program, increased by
142 182.9% in Q2 2023 from the same quarter of 2022. Concurrently, we have attracted
143 more dine-in customers to enjoy our welcoming environment, as the number of dine-in
144 customers increased by 193.9% from the same quarter of 2022.

145

146 As we continue to scale, we have also demonstrated meaningful expansion in store
147 profitability and leverage in general and administrative expenses. Adjusted store
148 EBITDA margin and adjusted corporate EBITDA margin improved by 31.6 percentage
149 points and 56.1 percentage points year-over-year, respectively.

150

151 Our food and packaging costs as a percentage of revenues from company owned and
152 operated stores decreased by 1.8 percentage points from 35.8% in Q2 2022 to 34.0% in
153 Q2 2023 as we continued to benefit from greater economies of scale and higher
154 efficiencies in our supply chain. We expect further cost improvements on the back of
155 our strong bargaining power with suppliers and RBI's initiative to open a Tim Hortons
156 coffee bean roastery in Malaysia this past June.

157

158 Our rental and property management fee as a percentage of revenues from company
159 owned and operated stores decreased by 14.1 percentage points from 34.9% in Q2 2022
160 to 20.8% in Q2 2023. This is because we took advantage of lower rent levels during
161 COVID, secured more favorable lease terms, and built a strong pipeline for the future.

162

163 Payroll and employee benefits as a percentage of revenues from company owned and
164 operated stores decreased by 17.2 percentage points from 39.1% in Q2 2022 to 21.9%
165 in Q2 2023. This was primarily due to the refined staffing arrangement of our store
166 operation personnel and optimization of our labor structure, including hiring more part-
167 time employees.

168

169 Delivery costs as a percentage of revenues from company owned and operated stores
170 remained flat at 8.1% in the second quarters of 2022 and 2023.

171

172 Other operating expenses as a percentage of revenues from company owned and
173 operated stores decreased by 1.5 percentage points from 10.4% in Q2 2022 to 8.9% in

174 Q2 2023. This was due to our continuous efforts to optimize our cost structure and drive
175 operating leverage through revenue growth and store network expansion.

176

177 Marketing expenses as a percentage of total revenues decreased by 4.4 percentage
178 points from 10.7% in Q2 2022 to 6.3% in Q2 2023.

179

180 Our adjusted general and administrative expenses as a percentage of total revenues
181 decreased by 21.9 percentage points from 35.2% in Q2 2022 to 13.3% in Q2 2023. We
182 expect our operating leverage to continue improving, and our general & administrative
183 expenses as a percentage of total revenues to decline over time.

184

185 Turning to liquidity, as of June 30, 2023, our total cash and cash equivalents and short-
186 term investments were RMB392.0 million (USD54.1 million), compared to RMB611.5
187 million as of December 31, 2022. The change was primarily attributable to the
188 settlements with investors who entered into an Equity Support Agreement with us, and
189 cash disbursements as a result of the rapid expansion of our business and store network
190 nationwide.

191

192 Managing our cost structure prudently is very important to us, but particularly as it
193 relates to new store development expenses, as we are seeking to achieve a shorter
194 payback period. Given the traction we have already made to date, we are highly
195 confident in executing our long-term new store development plan.

196

197 Looking ahead, our top near-term financial priorities are to continuously deliver robust
198 revenue growth, improve profitability at both the store- and corporate-level, and
199 achieve operating cash flow breakeven. By leveraging Tims China's strong brand
200 recognition and positive consumer perception along with growing brand and loyalty,
201 continuous innovation, ever-expanding store network, and disciplined execution, we
202 are confident in our ability to further optimize our cost structure, improve operational

203 efficiency, and achieve profitable growth.

204

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

209

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

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