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TH International Limited (Nasdaq: THCH) (“Tims China”)

Q4 and Full Year 2023 Results

Shanghai and New York City

PARTICIPANTS:

Yongchen Lu, CEO and Director

Albert Li, CFO

Gemma Bakx, Investor Relations

Operator:

Ladies and gentlemen, welcome to Tims China Fourth Quarter and Full Year 2023 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 Gemma Bakx, who heads Tims China's Investor Relations efforts, for prepared remarks and introductions. Please go ahead, Gemma.

Gemma Bakx

Good morning and good evening, everyone, and thank you for joining us on today's call. My name is Gemma Bakx, Investor Relations. TH International Limited announced its fourth quarter and full year 2023 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.

Today, you will hear from Yongchen Lu, our CEO and 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 and Director. Please go ahead, Yongchen.

Yongchen Lu

Thank you, Gemma. My name is Yongchen Lu, CEO and Director of Tims China. In 2023, we made progress in a number of core elements of our strategy. We delivered greater convenience to our guests by building density in existing cities and entering new cities. We expanded our community and our partnerships, growing our strategic franchising relationships with blue-chip partners like Sinopec's Easy Joy. We continued to drive locally relevant innovation, which has always been a strategic focus for us. And we delivered growth in a capital-efficient manner, loading up stores with more rapid payback periods and accelerating our franchising activity.

With our systems and infrastructure solidly in place, our focus is now squarely on driving profitability with a view to achieving corporate EBITDA break-even later this year. We just celebrated the significant milestones of our 5th anniversary in China and the 60th anniversary of the Tim Hortons brand. With those celebrations behind us, we redoubled our focus on the future, and in particular driving rapid, profitable, and capital-efficient growth.

We delivered 29.8% and 55.9% year-over-year top-line growth in Q4 and full year 2023, respectively, demonstrating robust growth in the first full year following the end of the COVID epidemic in China. Notably, the company-owned stores we opened in 2023 are among the most profitable we have ever opened, thanks to our ongoing commitment to innovation, operational efficiencies, and optimized unit economics.

As of December 31, 2023, our largest loyalty club members reached 18.7 million, representing a 66.3% year-over-year growth with the average number of members per store exceeding 20,000. And we just surpassed 20 million registered loyalty club members on March 31, 2024.

Our store network-development strategy continued its streak of success as evidenced by the impressive sales during the launch of the Yichang and the Tangshan stores, achieving RMB88,000 and RMB46,000 in sales, respectively. Leveraging our varied store formats, we have forged new partnerships with reputable retailers as our sub-franchisees, such as Bestore (良品铺子), opening the first Tims Express store in Bestore's shop in Wuhan in December 2023.

Building on our substantial long-term investments in branding, technology and infrastructure, we have strategically prioritized the expansion of our franchise business starting in Q4 2023. In the past year, we successfully opened 213 franchised stores, with 109 of these openings in the first quarter alone. Looking ahead, we are committed to further strengthening our collaborations with established strategic partners such as Sinopec's Easy Joy, while actively pursuing other fitting partnerships. For instance, our recent partnership with Shanghai Metro led to the opening of the first seven thoughtfully- positioned stores in Shanghai Metro stations. As Shanghai has one of the world's largest metro systems, transporting approximately 13 million passengers across the city every day, we anticipate that this partnership will provide greater visibility to the Tims brand and connect us with a larger, diverse customer base.

Continuous product innovation has always been a strategic focus for us. In 2023, we launched a total of 107 new products: 47 new beverage-, 51 new food- and nine merchandise items. In Q4 2023, our newly launched jasmine tea coffee series products (不止拿铁·六窈茉莉), orange-flavored cinnamon latte (橙香肉桂拿铁), and strawberry flavored latte (不止拿铁·法式草莓) were among the best sellers. We also collaborated with Spongebob (海绵宝宝), which generated more than 10 million media exposures on Xiaohongshu and Douyin, gaining significant brand awareness.

As an international coffee brand that offers best value-for-quality products, we continued to implement our unique Coffee Plus Strategy, which has been a key differentiator yielding positive outcomes. Following the successful "Bagel and Brew Coffee" campaign in Q3, we further advanced the Wednesday Membership Day campaign, offering discounted combo deals on coffee and bagels to further refine our welcoming combo meals offering.

In the fourth quarter, the percentage of orders that included food rose to 54.7%, increased by almost 8 percentage points from 47.1% in the same quarter of 2022.

Our Popeyes business has been demonstrating strong momentum since the record-breaking grand opening of our first flagship store on August 19, 2023. Within 135 days, we successfully launched 10 Popeyes stores in Shanghai, achieving an average pace of one new store every 14 days, a true testament to the value of the infrastructure we built in Tims and something our team is very excited about and proud of.

By the end of 2023, our Chinese Popeyes stores had sold over 154,700 pieces of various flavors of fried chicken and seafood burgers offering more dining choices during different meal times. In addition, our local innovative R&D team created flavored iced and hot milkshakes, resulting in sales exceeding 52,000 cups demonstrating the popularity of our beverage category as well. Our private domain channels for Popeyes through the mini- program and WeChat ecosystem have

successfully attracted over 200,000 dedicated customers who have not only made purchases but referrals as well. Looking ahead to the remainder of 2024 and into 2025, the Popeyes team is fully committed to further enhancing our core products, advancing digital marketing initiatives, and solidifying our market position through high-quality operational management and optimized profitability.

At this point, I would like to turn it over to our CFO, Albert Li, to discuss our fourth quarter and full-year financial performance performed in more detail. Albert?

Albert Li

Thank you, Yongchen. During the fourth quarter of 2023, we enhanced our operational efficiency across a number of dimensions. We pared back costs that proved to be redundant at the headquarter level and we pruned our underperforming stores (which we had decided earlier to give a full year post-COVID to evaluate). These actions allowed us to deliver a year-over-year reduction in rental and labor costs (as a percentage of revenues from company-owned and operated stores) by 6.9 percentage points and 1.3 percentage points, respectively. Our marketing expenses and adjusted general and administrative expenses (as a percentage of total revenues) decreased by 2.1 percentage points and 5.8 percentage points year-over-year, respectively.

In 2023, we sold a total of nearly 60 million cups of beverages and over 21 million bagel products, representing a year-over-year growth of 71.3% and 129.4%, respectively. Our system sales grew by 35.9% year-over-year to RMB388.5 million in Q4 2023. The growth was primarily driven by an increase in the number of system-wide stores from 617 as of the end of 2022, to 912 as of the end of 2023, and a 7.6% same-store sales growth for company-owned and operated stores in 2023. Overall, monthly average transacting customers reached 3.0 million during Q4 2023, representing an increase of 55.1% from 1.9 million in the same quarter of 2022. Digital orders, as a percentage of total orders, increased from 81.2% in Q4 2022 to 83.6% in Q4 2023 and we continue to strengthen our digital capabilities to meet the growing demand potential for delivery and takeaway services.

Turning to liquidity, as of December 31, 2023, our total cash and cash equivalents, time deposit, and short-term investments were RMB220.8 million (USD31.1 million), compared to RMB611.5 million as of December 1, 2022. The change was primarily attributable to the settlements with investors who entered into an Equity Support Agreement with us, as well as cash disbursements on the back of the rapid expansion of our business and store network nationwide, offset by an increase in bank borrowings. And in March 2024, we entered into US\$20 million promissory notes financing with Cartesian Capital, our existing shareholder.

Going forward and with profitability being front and center of everything we do, we will continue to enhance our supply chain capabilities and efficiencies, roll out our differentiating made-to-order fresh food preparation model to drive traffic and accelerate the expansion of our successful sub-franchising.

With that, let me pass it back to Yongchen for closing remarks. Thanks, Yongchen.

Yongchen Lu

Thank you, Albert. Before we turn to Q&A, I would like to take this opportunity to express my heartfelt gratitude to our shareholders, investors, business partners and team for your continued support and hard work. Together we have created a strong community of over 20 million loyalty club members; a unique 'coffee plus warm food' business model offering the best value-for-quality products as an international coffee brand; differentiated and comprehensive store formats with 900-plus stores in over 60 cities; and a unique advantage of offering franchised opportunities as an international coffee brand. We just celebrated the significant milestones of our 5th anniversary in China and the 60th anniversary of the Tim Hortons brand. With these milestones behind us, we look forward to being fully focused on driving profitability with a view to achieving corporate EBITDA breakeven later this year and generating long-term sustainable value for our shareholders.

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

Gemma Bakx

Thank you, Yongchen. Let's begin with the first question. Go ahead, operator.

Question-and-Answer Session

Operator

[Providing Instructions to callers]. Gemma, over to you.

Gemma Bakx

We have the following questions submitted via our webcast link. How does the Company perceive the competition in the Chinese coffee market, especially the price war in recent years? How does the company differentiate itself and compete effectively amongst peers?

Yongchen Lu

Thank you for the good question. Despite the macro-economic headwinds in China, the coffee market growth remains robust due to increased urbanization and disposable income. It is worth noting that the current coffee market in China is still in its early stages of development. Per capital annual consumption still represents low penetration, less than 10 cups, compared to countries such as the U.S., Germany, and even other Asian countries such as South Korea and Japan where per capita annual consumption right now is over 200 cups. So, overall, China's coffee industry has been experiencing rapid growth with significant potential for further expansion, indicating that the market is far from reaching saturation.

There is now a price war going on, which we do not believe is sustainable though. We do see some market disruptions. However, in the long run, this does not seem to be a profitable way to operate a business. Despite a price war leading to strong revenue and unit growth, margins will inevitably get compressed. And this margin pressure will likely lead to financial strain. So no one would likely be able to maintain this aggressive pricing strategy for much longer.

On the plus side, the price war will effectively help expand the coffee market by making it accessible to wider audiences through low prices and increased availability. This strategy indirectly benefits us as these new consumers, initially drawn by lower prices, may eventually seek higher-quality yet affordable options. As the price war eases and consumers' interest in exploring diverse coffee offerings grows, our well-positioned brand is ready to capture this emerging market segment. Our differentiated product offering, at compelling prices with fresh food options, is so good that we don't really compete directly with those brands. And we take some share from the market. Given the growth of the market overall, we have a very good spot for ourselves. Again, we have seen that in the last 12 months. We have opened more stores than we had previously, and they are amongst the most profitable that we have opened to date. So the energy and the profitability are coming at the same time. There is certainly no sign of cannibalization even despite this price war. Thank you.

Operator:

Thank you. Our next telephone question comes from the line of Steve Silver from Argus Research Corporation. Please ask your question, Steve.

Steve Silver

My name is Steve Silver from Argus. Thanks for taking the questions. It's great to see the target for achieving corporate EBITDA breakeven this year. First question I have is that Tims recently put out a press release mentioning having entered your 60th city in China. I was hoping you could discuss the forward-looking plan in terms of whether new store openings will focus more on entering new cities and markets, or whether it will be more of increasing penetration into existing markets?

Yongchen Lu

Thank you for your question, Steve. We will focus on our priority, increasing density in the existing cities. But we will also enter new cities within the clusters we have been operating in already. As you may have heard from me earlier, we have four major clusters in China: the East China cluster, Shanghai and the cities close to Shanghai.

So we entered a cluster earlier, and we'll enter into more space in that cluster now given the efficiency of the supply chain, the logistics, the marketing and the manufacturing. We have clusters in Beijing, and we have clusters in Guangzhou, Shenzhen and we have clusters in Chengdu. So we'll enter into more new cities in those clusters, leveraging the infrastructure and the systems we have been building there already.

Steve Silver

This is helpful. Thank you. I had also one question about the loyalty program. You surpassed 20 million users earlier this year and showing very solid growth. I was hoping you could provide a little context around that in terms of maybe any percentage of active users among the registered base and just maybe any context how that compares across the industry? Thank you very much.

Yongchen Lu

As Albert mentioned we have 3 million on average of active customers, so you can calculate the active rate there. Also, I would like to emphasize the repeat purchase rate. We will measure the consumers who come to our stores twice or more than twice monthly and the repeat-purchase rate is around 40 percent, which is I think above average for the industry.

Steve Silver

Great. Thank you very much for taking my questions.

Operator

For our next question, Gemma, over to you.

Gemma Bakx

Thank you, Operator. We had another question coming in via our webcast link and it is how do you most differentiate yourself from your competition in terms of price, in terms of product offering and in terms of dayparts as well?

Yongchen Lu

Food is the most differentiated part for us compared with other coffee brands in China, especially in our standard stores where we offer made-to-order fresh food. And we offer combo meals at very compelling prices. For example, our breakfast combos of 1 cup of coffee plus 1 bagel, we price at only RMB19.9, which means, less than \$3 for breakfast. And for our lunch combos, 1 cup of coffee plus one bagel sandwich starts at RMB26.9, which is less than four dollars. So as I mentioned earlier, in the fourth quarter, the percentage of orders that include food rose to 54.7%, more than half of orders come with food, an increase of almost 8 percentage points from 47.1% in the same quarter of 2022. So despite the price war going on last year, our same-store sales continued to grow in 2023 given our differentiation strategy. Thank you.

Operator

Thank you. Please go ahead, Gemma.

Gemma Bakx

Thank you, Operator. Our next question from our webcast link is what is your expectation on the same-store sales growth for 2024 and how does the company perceive the margin outlook going forward?

Albert Li

I will take this question. Thank you, Gemma. So, as Yongchen mentioned, the Chinese coffee market is actually showing strong growth potential. So we believe the annual consumption will rise quite significantly over the coming years. And we have recently noticed a strong recovery in terms of ticket sales while some of the intense competition, I think, is beginning to wane. So with the price war subsiding, and as consumers seek a broader exploration of coffee options, we believe our brand is well positioned. And as you saw in the press release we just put out, our 2023 same-store sales was 7.6% for the whole year for 2023.

And we are also expecting single-digit or even high single-digit same-store sales growth for this year. With that said, a lot of new customers and also our existing customers are actually increasing their coffee consumption. And our coffee plus warm food business model will still be expected to significantly differentiate us and contribute to our same-store sales growth in the future. Thank you, Gemma.

Operator

Thank you. [Operator Instructions]. For the next question over to you, Gemma.

Gemma Bakx

Thank you. The next submitted question from our webcast is, what can we expect from Popeyes in the rest of 2024? How is the rollout going? How is fried chicken different from the Chinese coffee market? And can Popeyes benefit from Tims China's built community and network?

Yongchen Lu

I'll take that question. So China, as we all know, is an extremely large chicken market and Chinese consumers really like chicken and fried chicken. Such a large market can certainly accommodate another great Western fried chicken brand like Popeyes, in addition to KFC, which has over 10,000 stores already in China and has been extremely successful. By offering great tasting products, a vibrant, young and energetic store environment as well as a casual table service, Popeyes has been well accepted by consumers in Shanghai, and you can see that in our sales and in our traffic. We'll continue to build the brand and open stores as planned.

And there are a lot of synergies between Tims and Popeyes. The most obvious are the systems and infrastructure Tims has built over the past five years that can be used for Popeyes, such as the digital systems, store network planning capabilities, supply chain capabilities, as well as the members and community. That is why we were able to launch Popeyes in just about five months instead of a typical one-year new market entry period. And we achieved record-breaking first day transaction numbers.

And as I mentioned, we have over 20 million loyal club members and we look forward to introducing our more than 20 million loyalty club members to Popeyes and to have that in-built network to be able to reach out to them and bring them to our new brand. That is a very powerful tool. Thank you.

Operator

Thank you. Gemma, you may continue with the web questions.

Gemma Bakx

Thank you. What is your current thinking on the state of the balance sheet given that most of the infrastructure is built out and the business model is shifting to franchises?

Albert Li

I will take this one. As Yongchen mentioned, to achieve operating cash flow to be self-sufficient and becoming corporate EBITDA breakeven is one of the top priorities for the whole company in 2024. With that, we are expecting our overall operating cash flow status to improve quite significantly this year. And in the mean time, we are also focusing more and more on the sub franchising business model, we believe in terms of the profitability, that the cash flows that can

be brought by the sub franchising business, will add quite significant value and contribute -with the cash balance -to help us reduce the overall leverage ratio quite significantly.

So on the balance sheet, we are expecting our overall leverage ratio to decline going forward. And in the meantime, we are also considering, in terms of financing solutions, that we keep a very good balance in terms of the overall bank facilities and as a public company we are open and have access to potential financing alternatives. We are confident that our overall balance sheet status can improve over time in 2024. Thank you.

Operator

For the next question, Gemma, over to you.

Gemma Bakx

We have a follow-up question from Oliver Mehaljevic, MGE Capital Management, on the balance sheet. How will you bring it into a sustainable position? At year-end 2023 current liabilities were nearly RMB200 million while current assets were RMB65 million? Net operating cash flow was still negative. The recent RMB20 million issuance of promissory notes seems like a stopgap measure. Have you had conversations with the major shareholders? And can you update us on what their views are and your current plans? Thank you.

Yongchen Lu

Yes. As Albert mentioned, we expect to achieve corporate EBITDA breakeven very soon. And we have shifted to a capital-efficient manner of opening stores by using franchises. So we will generate an operating cash flow very soon and we will leverage the franchised stores to expand our network. We expect to open around 500 franchised stores this year by building the strategic partnerships we have such as Sinopec's Easy Joy. We just opened to individual unit franchisees and we have received more than 2,500 applications from the market.

So we are confident that we can improve our cash on the balance sheet very soon by operating cash flow and with the franchising store-opening strategy which will bring us cash and profitability. And, as Albert mentioned, our major shareholder has given us a \$20 million promissory note, which has further increased and enhanced our balance sheet. Thank you.

Operator

Thank you. Over to Gemma for the next question.

Gemma Bakx

Thank you. We have a question from Brian Jones from RBC. For Popeyes, I believe you have implemented a new kitchen and supply chain for your locations. Can you speak to how fast your

locations can serve clients versus global system averages? Can you talk to the productivity that you're seeing at the Tims stores that you own? Thank you.

Yongchen Lu

Right now, we apply and use a table service system, so that our guests can come into the stores and sit down first and use their mobile phone to scan the QR code to place the order at their table. Then our staff will make the food and bring it to the table, which is very casual and our consumers really like that kind of service. I think our service speed is good and our full service is good. That is why the brand of Popeyes has been well accepted in Shanghai, which is one of the most competitive markets. We expect to continue to use that system and continue to open stores as planned. Thank you.

Operator

Thank you. We are coming to the end of this conference call. Gemma, over to you.

Gemma Bakx

Thank you, operator, and thank you, Yongchen and Albert. This concludes today's earnings conference call. We thank you all for your participation, for dialing in, for your questions and for your interest in Tims. We look forward to reconnecting with you again in the very, very near future. Thank you so much.

Yongchen Lu

Thank you. Thank you for your time.

Albert Li

Thank you.

Operator

Thank you. That concludes our call today. You may now disconnect.
