TH International Limited (THCH) Q2 2026 Earnings Call Transcript

Aug 18, 2026, 12:01 PM ET | **TH International Limited (THCH) Stock**

SA Transcripts
161.96K Followers

TH International Limited (THCH) Q2 2026 Earnings Call August 18, 2026 8:00 AM EDT

Company Participants

Patty Yu - Public & Media Relations Manager
Kwok Wah Cheung - Chief Executive Officer
Dong Li - Chief Financial Officer

Conference Call Participants

Steven Silver - Argus Research Company

Presentation

Operator

Ladies and gentlemen, welcome to the Tims China's Second Quarter 2026 Earnings Conference Call. [Operator Instructions] 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 & Media Relations Manager

Hello, everyone, and thank you for joining us on today's call. TH International Limited announced its second quarter 2026 financial results earlier today. A press release as well as the company's presentation, which includes operational and financial highlights are now available on the company's IR website at ir.timschina.com. Today, you will hear from Mr. John Cheung, our CEO; and Albert Li, our CFO. After the company's prepared remarks, the management team will conduct a question-and-answer session. You will find the webcast of today's earnings call on our IR website.

Before we get started, I would like to remind you that our earnings presentation and the investor materials contain forward-looking statements, which are subject to future events and uncertainties, statements that are not historical factors, 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 those forward-looking statements. All forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our findings 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 measure. The upcoming reconciliation information related to those non-GAAP and GAAP measures can be found in our earnings press release issued earlier day.

With that said, I would like now to turn it over to John Cheung, our CEO. Please go ahead, John.

Kwok Wah Cheung
Chief Executive Officer

Well, thank you, Patty. Good morning, good evening, everyone. Thank you for joining us today. Tim Hortons is one of the world's top 10 most valuable restaurant brands, and China represents one of the most compelling consumer market. It's truly a privilege to take on this role as the CEO of Tims China. I'm truly excited and honored to be here, and I'm very passionate about our future. Since joining the company, well, in fact, I have to say even before joining the company in mid-June, I spent a lot of my time diving into the business, visiting stores and suppliers, talking to our barristers and store managers, hearing from our partners, and most importantly, connecting with our customers.

These learnings have helped me having a strong grip of where we are and what we need to do differently moving forward. Everything I've seen and heard tell me we have significant strength to build on, and our brand is enduring. Over time, market and competition evolved, consumer have changed, there are many things we need to change to get consumers back and get them back more often. I look forward to sharing more about my framework of a plan going forward and how to drive our next phase of growth for Tims China review shortly.

But first, I would like to turn it over to our CFO, Albert Li, for a more detailed overview of our second quarter 2026 financial performance. Albert?

Dong Li
Chief Financial Officer

Thank you, John, and welcome to your first Tims China earnings call. During the second quarter of 2026, our total revenues and system sales were RMB 273.4 million and RMB 347.8 million, respectively, which dropped by 21.7% and 15.1% year-over-year. The decrease was primarily due to the closure of certain underperforming company-owned and operating stores, and a 17.8% decrease in same-store sales growth. Our overall monthly average transacting customer reached 2.85 million during the second quarter of 2026, compared to 3.59 million in the same quarter of 2025.

Net new store openings totaled two during the second quarter of 2026, representing a net opening of 15 made-to-order stores and, in the meantime, a net closer of 13 non-MTO stores. On same-store sales growth, we experienced overall comparable transaction decline of 16.3% and an average comparable ticket size decline of 1.5%, which led to a negative 17.8% same-store sales growth for system-wide stores in Q2 2026. The decline was partly due to the delivery aggregators backing down their subsidized significantly and also partly due to our underspend in marketing and advertising spending and also a certain discount control.

Digital orders as a percentage of total revenues -- as a percentage of total orders rose from 90.4% in Q2 2025 to 91.8% in Q2 2026. We continue to enhance our digital capabilities to meet the growing demand for delivery and take-away services. In Q2 2026, Tims China continued to execute its product innovation strategy by expanding its all-day menu and enhancing its product portfolio across key consumption locations. The company launched a total of 27 new products during the quarter, including 20 beverage and 7 food items, further enriching customer choice and strengthening its all-day dining proposition.

As of June 30, 2026, our registered loyalty club members exceeded 37.1 million, reflecting a remarkable 41.7% year-over-year growth. The average number of members per store has now surpassed 36,000, serving us a solid foundation for growth and a testament to our customer support for an embrace of Tims China's loyalty program. We are also committed to improving our financial performance by refining store unit economics and boosting operational efficiencies at both stores and corporate levels, setting the foundation for long-term sustainable growth. Specifically, as we continue to benefit from higher efficiencies in supply chain and cost reduction on raw materials, logistics and warehousing expenses, we managed to reduce Q2 2026 food and packaging cost as a percentage of revenue from company-owned and operated stores by 1.8 percentage points from 30.1% in the second quarter of 2025 to 28.3% in the same quarter of 2026.

Rental and property management fees were RMB 47.9 million in 2026 representing a decrease of 15.6% from RMB 56.8 million in the same quarter of 2025, which was primarily due to a decrease in the number of our company owned and operating stores from 566 of June 30, 2025 to 544 as of June 30, 2026. Rental and property management fees as a percentage of revenues from company-owned and operated stores increased by 1.5 percentage points from 20.2% in the second quarter of 25 to 21.7% in the same quarter of 2026. In the meantime, rental and property management fees for comparable stores decreased by 5.2% year-over-year in Q2 2026 which demonstrated our continued efforts to negotiate permanent rent concessions with our landlord. Payroll and employee benefits expenses were RMB 43.9 million in Q2 2026, representing a decrease of 12.6% from RMB 50.2 million in the same quarter of 2025 which was primarily due to a decrease in revenues from company-owned and operated stores. Payroll and employee benefit expenses as a percentage of revenue from company-owned and operated stores increased by 2.1 percentage points from 17.8% in the second quarter of 2025 to 19.9% in the same quarter of 2026.

Delivery costs were RMB 28.9 million in 2026, representing a decrease of 13.3% from RMB 33.3 million in the same quarter of 2025, which was in line with the 11.9% decrease in delivery orders from 8.2 million in the second quarter of 2025 to 7.2 million in the same quarter of 2026. And a reduction in average delivery cost per order. Delivery costs as a percentage of revenue from company-owned and operated stores increased by 1.3 percentage points to 13.1% in the second quarter of 2026 compared to 11.8% in the same quarter of 2025 which was primarily due to an increase in delivery revenue as a percentage of total revenues from company-owned and operated stores from 61.0% in the second quarter of 2025 to 65.7% in the same quarter of 2026.

Other operating expenses were RMB 17.4 million in Q2 2026, representing a decrease of 14.7% from RMB 20.4 million in the same quarter of 2025, which was primarily due to a decrease in revenue from company-owned and operated stores. Other operating expenses as a percentage of revenue from company-owned and operated stores increased by 0.7 percentage points to 7.9% in the second quarter of 2026 compared to 7.2% in the same quarter of 2025. As a result of the foregoing, company-owned and operated store contribution margins were 5.7% in the second quarter of 2026 compared to 9.6% in the same quarter of 2025.

Benefiting from our cost optimization measures and improved brand influence, our marketing expenses were RMB 13.3 million in Q2 2026, representing a decrease of 4.4% from RMB 13.9 million in the same quarter of 2025. Marketing expenses as a percentage of total revenues increased by 0.9 percentage points from 4.0% in the second quarter of 2025 to 4.9% in the same quarter of 2026 as we spent more marketing efforts to support our franchise business during the second quarter of 2026.

Our adjusted general and administrative expenses, which excludes: one, share-based compensation expenses of RMB 0.3 million; and two, impairment losses of rental deposits of RMB 2.3 million or RMB 39.6 million in Q2 2026, representing an increase of 14.4% from RMB 34.6 million in the same quarter of 2025, which was primarily due to a RMB 4.2 million increase in professional and other service fees. Adjusted general and administrative expenses as a percentage of total revenues increased by 4.6 percentage points from 9.9% in the second quarter of 2025 to 14.5% in the same quarter of 2026. As a result of the foregoing, adjusted corporate EBITDA margin was negative 7.6% in the second quarter of 2026 compared to positive 0.6% in the same quarter of 2026 (sic) [2025].

Turning to liquidity. As of June 30, 2026. The total amount of our cash and cash equivalents and restricted cash were RMB 121.1 million compared to RMB 129.7 million as of December 31, 2025. The change was primarily attributable to cash disbursements on business operations, partially offset by the drawdown of additional bank borrowings. We successfully closed the initial tranche of USD 15.8 million in additional senior secured convertible notes issued to Tim Hortons Restaurant International GmbH, our brand owner and founding shareholder in July 2026. With the profits from this USD 55 million series of proposed financing, we plan to drive our innovation and product offerings, invest more in marketing activities and deploy a more balanced store network development strategy by opening both company-owned and operated stores and franchised stores going forward.

Looking ahead, our core near-term priorities will be to deliver sustainable revenue growth to further enhance supply chain capabilities and expand store-level profitability of both company-owned and operated stores and franchised stores to continuously optimize cost structure of our corporate marketing and G&A expenses and to achieve corporate EBITDA breakeven.

With that, I will now turn the call over to John.

Kwok Wah Cheung
Chief Executive Officer

Thank you, Albert. Second quarter is a period of transition for the company. Results are disappointing. Top line revenue and same-store sales were both in significant decline as we are losing share to competition. Also revenue was affected by our strategic adjustment of closing underperforming stores as well as we have been recycling last year heightened base of delivery business. Prior to my joining to Tim Hortons as CEO, I have had 30 years of building and stewarding world-class consumer brands, and here in Tim Hortons, it becomes very clear to me, we need to significantly step up our asset to win back our customers and to gain new customers through providing superior products, offering and experience. May it be dine-in or delivery also support with our great Tim Hortons hospitality and services.

Our unwavering aspiration with product and service quality will drive everything we do and every decision we make going forward. I have a few points I want to share with you online. First and foremost, we have been and will continue to focus our resources to accelerate our product innovation based on thorough consumer, customer understanding and insight, ranging from improving the appearance, flavor of our core products to creating exciting innovations. And also in ways we offer a new bundle and promotion activities. So far, we have looked into more than 10,000 of our loyalty club members information to get insight from the feedback, and we have hired external professional advisers to support the process. Also we are starting an effort to work with our core coffee bean suppliers and also our in-house coffee masters to pursue the best fit of coffee to the Chinese consumer need and taste.

Second, we will strengthen our capacities in product innovation and marketing to ensure we're able to bring superior product and experience to consumers in much faster time and more cost-efficient manner. We will enhance investment in our organization, we work with strategic partners, our suppliers to enhance our capabilities, especially in certain categories like dairy and bakery. We'll broaden our CRM and marketing efforts beyond current loyalty club program to reach new customers and as importantly, to enhance interaction and frequency. Third, we'll further enhance our operational excellence to escalate our service level and enhance overall guest experience. Additional efforts are being made on staff recruitment, training and labor scheduling to enable us to deliver the level of service we aim at.

Fourth, on store network development, we are working on two fronts at the same time. On one hand, we are closing underperforming stores, which have started before my arrival to this company. Yet at the same time, we are expanding store with our new and enhanced product offering and services. We will focus more in top-tier cities in our expansion so that we can concentrate our resource and effort especially among the office work area trade zone or some special channel like train stations, major transportation hubs, airports, universities. This is a reliable channel that we have good data to predict the traffic and project -- have a high accuracy in our project sales revenue.

And lastly, on productivity front, I and the team are keen to use more technology, especially AI to increase our efficiency, ranging from inventory management to labor shift planning to marketing material production and all the way to more personalized message and promotion activities planned for our members.

With that, I turn back to Patty to continue with our call.

Patty Yu
Public & Media Relations Manager

Thank you, John. We will turn it over to Q&A session and open up for our registered questions. Let's begin with our first question. Operator, please go ahead.

Question-and-Answer Session

Operator

[Operator Instructions] And the question comes from the line of Steve Silver from Argus Research.

Steven Silver

Argus Research Company

John, welcome to the new leadership role. You mentioned in your prepared remarks some initial learnings in your discussions with customers, stores and suppliers. Can you talk about some of these top priorities in the corporate strategy that you see supporting Tims China to become a profitable business? And maybe how long you think it may take to implement some of these strategies?

Kwok Wah Cheung

Chief Executive Officer

Well, thank you, Mr. Silver for your questions. Indeed, our imperative is to get back to our business fundamentals to regain customers and to gain new users. Well, in short, our top priority is to raise our game in innovation to offer more competitive products and experience to our customers. We are working on strengthening our core products, products that we offer during the breakfast and lunch daypart. Products that like bagel, we make it popular in this market, China, and we'll continue to bring innovation so that we can differentiate better from competitors.

At the same time, we will offer some new products that have been the strength for our operation in other markets like Melt. We will even try some new bakery in other dayparts. Also, we are working on strengthening our coffee offerings, especially those milk-based coffee offerings, latte. I look forward to share more details when we have the new product ready sometime later in the year. And we are seeing opportunities in filling some gaps that we see there is still space to grow like afternoon daypart, so that's our top party raising our game in innovation.

Our second priority is to improve our store economics, as Albert earlier mentioned. We'll continue to work on efficiency on all fronts, the rental, labor, even our food product costs. We have done a lot over the last years, but there's still room we can work on. At the same time, importantly, we will continue to close underperforming stores. As I mentioned, this initiative have started even before my arrival, I'll continue to drive that. But importantly, is to expand store -- new store in clearly defined network strategy, primarily top-tier cities, primarily office, transportation, the hub trade zone under our defined network strategy and discipline.

And to make the two early priority possible, one thing I've been attending a lot of my effort and resource is to build capabilities to make them both happen. So build abilities, capabilities, strengthen capability in innovation, in marketing, strengthen and continue to invest in our capabilities in operations and business development, i.e., the new store development. So in short, those are three top priority for me, for our leadership team and for our organizations.

I would be very glad to share with you progress as I'm moving along in this road. The time target, I can't share with you, but I can share with you all cylinders are firing now, and we are reserving no resource to drive progress on the all front I just shared. And I hope this priority will bring some signs of results or improvement very soon. But for the time being, I can't share with you a particular time line. Hope you can bear with us.

Steven Silver
Argus Research Company

That's great. And one more, if I may. So with the recent commitment from RBI to invest $55 million into Tims China, and you mentioned the receipt of the first tranche from the financing, is there any update on the number of net new stores that you plan on opening in the second half of 2026 and 2027, and whether there are any changes to the new store mix between company-owned stores and franchise stores?

Kwok Wah Cheung
Chief Executive Officer

Yes, the fund come in, in a very timely manner and a very much needed period. We prioritized -- actually we're strengthening the model of our business. So as I mentioned, our top priority, number 1 is raise our game in innovation, so we will prioritize more of the resources in bringing in more productive innovation and strengthening our marketing performance by both investing more in marketing as well as behind the strengthened team and resources. So those will be our top priority. We will expand our store footprint with discipline, hopefully, with our new offering proven.

So going forward, I won't share a particular number, but we will diligently expand according to the strategy I just shared, i.e. prioritize cities in the top tier cities and also in particular trade zones. But answering your questions on the company-owned store and franchise network. We are aiming at a more balanced approach, so we'll see both company-owned store and franchisee support store will contribute roughly equal in our new store network. So that's what I can share for the time being.

Operator

Now we're going to take the next question, and the question comes from the line of Emily from Tianfeng.

Unknown Analyst

Now I have two questions, follow-up. The first one is about marketing. Marketing expense ratio was slightly lower than last year in first half. And was your view on marketing spending for the second half of 2022 and going forward? That's my first question.

Dong Li
Chief Financial Officer

Okay. I will take this one. Okay. So yes, as you have mentioned, so our marketing investment are expected to increase, as John has highlighted in the second half especially, I think, starting from September because we have the annual actually brewed coffee and also bagel festival. And in the meantime, we have identified marketing efficiency as one of the most important lever for us to consider in terms of rebuilding our customer traffic and also support our sustainable revenue growth. And I think in the first half, our marketing expenses were relatively underspent. I think because we are building up our marketing team and also actually recruiting like more talent in both marketing and also in the product category team.

Okay. So I think starting from the third quarter, so we are adding additional talent in marketing and also in product innovation, and we will -- we plan to invest more, actually significantly invest more in terms of the scale and in the meantime, the effectiveness of our marketing activities. So our focus will not only driving dine-in business or takeaway business or delivery transactions in just one like parameter. So actually, we want to expand all the dayparts from all channels. And we are also expanding our CRM and marketing beyond our existing loyalty members to reach new customers. Okay. So I think in the meantime, so we want to attract more customers through giving more effective -- actually, in terms of the coupons from those e-commerce channel. And in the meantime, we also want to make sure that in terms of their frequency and also in terms of the average spending per customer will be -- will also increase over time.

Okay. So to conclude, we will definitely increase our marketing spending, and the key metrics for us is not only a specific, how many marketing dollar or marketing percentage to spend, but I think more importantly, in terms of the return and effectiveness of our marketing efforts. So we expect our overall business will recover. And with the actually store network expansion, we will continue to balance our investment in customer acquisition, traffic growth and also our profitability, okay?

Unknown Analyst

Okay. And my second one is about competition. We noted that more and more tea players such as Guming, Mixue, Bing Chun recently penetrated into coffee business and what's your view on competition, and how is this may impact your business strategy?

Kwok Wah Cheung
Chief Executive Officer

Maybe I will take on this question. Well, indeed, we noticed there are many different forms of new entrants to the coffee market. As we said, some example from the chain. However, on our side, it's very clear to us that we have to offer the best value to our customers and value is delivered through the combination of product, experience and also pricing. So our strategy is to ensure we can always provide superior product, coffee in this case, as you ask to our customers. Whether we are talking about the more basic product like black coffee, americano, or the more innovative, limited time product offering. That's related to the asset and resource we're putting in innovation, as I mentioned earlier. So to continue to be able to offer consumer superior product and experience. Experience as much as for services and the ambience consumer can experience in our restaurants as well as in delivery.

And then the third is price. We have a lot of effort in working on our costs and also on our combination of product offering to ensure some consumers who want the most basic product, they can enjoy a very good cup of coffee from us at a very affordable price. So we are also planning programs to deliver part of our product mix at a price-competitive fashion. So we have answers to different needs of our customer, consumer different dayparts. So I and the organization and our team are aiming at bringing the best value to our customers.

Operator

Dear speakers, there are no further questions for today. I would now like to hand the conference over to the management team for any closing remarks.

Kwok Wah Cheung

Chief Executive Officer

Okay. So thank you for joining today's conference call. We look forward to providing timely updates on any progress we have made on our new business plan and also our corporate strategies, so I look forward to speaking in the second -- in the next quarter. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now all disconnect. Have a nice day.

Read more current THCH analysis and news

View all earnings call transcripts