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TH International Limited (THCH) Q3 2025 Earnings Call Transcript

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TH International Limited ([THCH](#)) Q3 2025 Earnings Call December 9, 2025 8:00 AM EST

Company Participants

Yongchen Lu - CEO & Director

Dong Li - Chief Financial Officer

Conference Call Participants

Gemma Bakx

Steven Silver - Argus Research Company

Presentation

Operator

Ladies and gentlemen, welcome to Tims China's Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Today's conference is being recorded.

At this time, I would like to turn the call over to Gemma Bakx, who heads Tims China Investor Relations efforts for prepared remarks and introductions. Please go ahead, Gemma.

Gemma Bakx

Thank you, Desmond, and hello, everyone. Thank you for joining us on today's call. My name is Gemma Bakx, Head of Investor Relations for Tims China, and Tims announced its third quarter 2025 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 slide presentation and 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
CEO & Director

Thank you, Gemma. Good morning and good evening, everyone. In Q3, we returned to positive net new store openings and continued our strong momentum in system sales, achieving a 12.8% year-over-year growth. With our successful Light & Fit Lunch Box platform products launched in Q2, we further enhanced our differentiated Coffee Plus Freshly Prepared Food strategy, driving a positive 3.3% same-store sales growth for company-owned and operated stores. As a result, food revenues increased by 24.2% year-over-year and food revenue contribution as a percentage of sales reached our historical high of 36.5%, an increase of [5] percentage points from 31.5% in the third quarter last year. We are also benefiting from the promotional offers from those delivery aggregators to take more market share, delivery revenues increased by 23.1% year-over-year.

At the same time, our sub-franchisee and retail business maintained their steadily growing contributions to cash flow and profitability. Profits from other revenues achieved a year-over-year increase of 58.2% during the quarter. For the first 9 months of 2025, our adjusted company-owned and operated store contribution margin was 8.1%, same as that for the first 9 months of last year. Our adjusted corporate EBITDA and adjusted net loss, we continue to cut loss by 10.4% and 11.5%, respectively.

These results underscore our team's resilience and discipline in execution. On store development, leveraging sub-franchisee partnerships, we expand our store footprint into 91 cities, including the city of Yanji in Jilin Province, Yangzhou in Jiangsu Province and Wuhu in Anhui Province that we entered in Q3, while maintaining capital efficiency and delivering value -- absolute convenience for our guests. Since we launched our individual franchise program in December 2023, we have received over 8,400 applications and successfully converted over [300] stores by the end of September, showcasing market confidence in our franchise model. We have attractive and desirable store unit economics for our subfranchisees with reasonable 2 to 3 years payback period on average.

We are also focused on strategic channel development with 64 stores in locations such as high-speed train stations, airports, highway rest areas, hospitals, universities and schools at the end of September. As of the end of September 2025, our Registered Loyalty club members reached 27.9 million, reflecting a remarkable 22.3% year-over-year growth. The average number of members per store is now over 27,000, serving a strong catalyst for our future growth. Q3 represents the peak season for China's beverage market. This summer experienced record high temperatures, driving robust consumer demand for fresh prepared beverages, albeit a heightened price sensitivity. Compounding this dynamic, the coffee sector faced intensified competitive pressure from the rapidly expanding tea beverage categories, not only due to strong demand for non-coffee alternatives, but also because leading tea brands have begun entering the coffee space, further intensifying market competition.

Our strategic initiatives, including a celebrity partnership during the Bagel Festival and enhanced summer beverage portfolio and target seasonal lunchtime operations enabled Tims China to return to positive same-store sales growth in Q3. We partnered with Lars Huang [indiscernible], a highly influential Gen Z celebrity to elevate brand awareness and drive engagement. The collaboration was integrated with compelling product angles to convert interest into purchases, supported by targeted promotions to encourage repeat visits. This holistic marketing approach delivered strong results. July marked our highest sales month of the year and the September Bagel Festival drove double-digit same-store sales growth, significantly outperforming the broader market. Building on the [Cold Blue] platform launched in Q2, we execute a series of monthly innovations throughout Q3 centered around refreshing some appropriate leverages.

This was an intentional offensive strategy, leveraging a balanced portfolio of trended SKUs spanning coffee and non-coffee categories to capture incremental share in the summer beverage market, particularly among younger consumers whose preferences align closely with our endorsed audience. We anticipate competitive encroachment from key brands and responded decisively, reinforcing our coffee leadership through premium offerings like Cold Blue and Water Buffalo Milk [lactase] while deploying non-coffee SKUs to directly compete for tea drinkers wallet share. Notably, this dual check approach resonated strongly with our target demographic, contributing meaningfully to beverage sales growth. Following 6 months of focused launch time development, we proactively adapted our food strategy in Q3 to counter seasonal softness by introducing 6 new SKUs featuring chilled and [indiscernible] options to stimulate consumer interest and maintain meal relevance.

In order to sustain momentum from our ongoing launch time expansion strategy, we also introduced seasonal cold food offerings tailored to evolving consumer preferences during hot weather. Additionally, we expanded our afternoon tea offerings with chilled variant of cakes and Smile Bagel of SKUs. The launch of the Smile Bagel series further reinforces our leadership in the bagel category and enhances our competitive differentiation. These initiatives have firmly helped cement Tims reputation as the go-to lunch destination in consumers' mindset. Thanks to our efforts over the past 3 quarters, more than half of all orders now include food and food sales make up over 1/3 of total revenues.

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

Dong Li*Chief Financial Officer*

Thank you, Yongchen. We remain focused on delivering high value for quality healthy products and thoughtful services to our ever-growing customer base. Our overall monthly average transacting customers reached 3.85 million in Q3 2025, a 16.7% increase from 3.3 million in the same quarter of 2024. Additionally, digital orders as a percentage of total orders rose from 86.6% in Q3 2024 to an all-time high of 91.0% in Q3 2025. We continue to enhance our digital capabilities to meet the growing demand from delivery and takeaway services. In Q3, our company-owned and operated store revenues dropped by 5.5% year-over-year, which was primarily due to the planned closure of certain underperforming stores, partially offset by a 3.3% increase in same-store sales growth for company-owned and operated stores. We have also achieved positive transaction growth in Q3, driven by strong momentum from food orders and delivery orders. In the meantime, revenues from our franchised business and retail business increased by 25.0% year-over-year.

The number of our franchised stores increased from 382 as of September 30, 2024, to 479 as of September 30, 2025. Accordingly, our system sales increased by 12.8% year-over-year. Moving to cost and expenses for company-owned and operated stores since we offered higher discounts during the quarter, especially to others through those delivery platforms, food and packaging costs as a percentage of revenues from company-owned and operated stores increased by 1.6 percentage points year-over-year. Food and packaging costs accounted for 30.6% of our company-owned and operated store revenues during the quarter, and we maintained relatively stable labor cost, rental and property management fees and other store operating expenses as a percentage of revenues from company-owned and operated stores in Q3. Delivery costs as a percentage of revenues from company-owned and operated stores increased by 2.9 percentage points to 13.2% in the third quarter of 2025 compared to 10.3% in the same quarter of 2024, which was primarily due to the higher delivery revenue mix as a percentage of total revenues from company-owned and operated stores.

The number of delivery orders from company-owned and operated stores increased by 20.9% year-over-year. Benefiting from our improved brand influence, marketing expenses as a percentage of total revenues accounted for approximately 4.4% during the quarter, representing a 0.7 percentage point decrease from 5.1% in the same quarter of 2024. Adjusted general and administrative expenses increased by 23.2% year-over-year, which was primarily due to an increase in outside service fees related to audit, IT and business travel, an increase in credit loss of accounts receivable, partially offset by a decrease in headquarter staff compensation costs and a decrease in depreciation and amortization.

Adjusted general and administrative expenses as a percentage of total revenues increased from 10.7% in the third quarter of 2024 to 13.2% in the same quarter of 2025. As a result of the foregoing, adjusted corporate EBITDA margin was negative 4.2% in the third quarter of 2025 compared to positive 0.6% in the same quarter of 2024. Turning to liquidity. As of September 30, 2025, our total cash and cash equivalents, time deposits and restricted cash were RMB 159.3 million compared to RMB 184.2 million as of December 31, 2024.

The change was primarily attributable to cash disbursements on the back of the expansion of our business, partially offset by the drawdown of additional bank borrowings. Looking ahead, with profitable growth always being front and center of everything we do, we are posed to further enhance our operational efficiencies such as supply chain capabilities and optimizations and rigorous cost controls to roll over our differentiating make-to-order fresh and healthy food preparation model to drive traffic, to optimize the overall store unit economics and to accelerate the expansion of our successful sub-franchising.

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

Yongchen Lu

CEO & Director

Yes. Thank you, Albert.

Our third quarter performance reflects continuous improvement and the resiliency in our business and execution as well as both challenges and opportunities in this industry. We extend our heartfelt gratitude to our guests, team members, business partners, shareholders and everyone supporting our endeavors and journey. Together, we have built over 1,000 stores in 91 cities, a robust community of nearly 28 million loyalty club members, a unique coffee plus freshly prepared food business model offering the best value for quality products, a unique advantage of offering franchise opportunity as an international coffee brand in China and refined store unit economics with attractive payback period within 2 to 3 years on average. With these milestones, we are steadfast in our commitment to sustainable profit growth and to generating long-term value for our shareholders. We're excited to announce the successful issuance of approximately USD 89.9 million senior secured convertible notes due September 2029.

The restructuring of our unsecured convertible notes due 2027 and the repurchase of all outstanding amount due under our variable rate convertible senior notes due 2026. These strategic transactions enable us to focus on the development of our overall store network and the core Tim Hortons brand nationwide.

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

Gemma?

Gemma Bakx

Thank you very much, Yongchen. We will turn it over to Q&A and open it up for registered questions. Let's begin with the first question. Go ahead, operator.

Question-and-Answer Session

Operator

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

Steven Silver

Argus Research Company

Congratulations on the system and same-store sales growth. With the closing of the new convertible notes transaction in Q3, I was hoping you could provide just the company's latest thinking on its liquidity status and its long-term financing plan.

Dong Li

Chief Financial Officer

Okay. Sure. Thanks, Steve, for asking this question. I will take this one. Okay. So we -- with the successful issuance of the USD 89.9 million 2025 senior secured convertible notes, I think the company -- we have used the part of the proceeds to fully repurchase the entire remaining amount of our 2021 variable notes actually due 2026. And actually, in the meantime, we have also extended the due date of our 2024 unsecured convertible notes from 2027 to the same time line of September 2029. So actually, after the closing of the transactions, the company does not have any near-term offshore liabilities so that actually we can focus more on our daily operations. And we believe these financing would also help reduce our onshore leverage ratio actually quite significantly.

So I think we will also benefit greatly to actually get more in terms of the onshore bank facilities in terms of the expansion and the renewal from the PRC commercial banks. And I think as we have also mentioned, so in order to take the advantage of the lower rent level at the current market environment, and also to roll out our attractive mid- to outer store model. So I think we are also working very hard in terms of securing additional alternative debt or equity financing in order to support the development of our company-owned and operated store network. And so lastly, I also want to mention with the further improvement of our store and corporate level margin. So we are expecting to generate positive operating cash inflows. So we will become more and more self-sustainable in terms of to support the long-term sustainable growth of our business.

So hopefully, I have addressed your question, Steve.

Steven Silver

Argus Research Company

Yes, that was helpful. So in Q3 specifically, it looks like there was some pressure on the store contribution margins. It sounds like gross margin and delivery costs were impacted a bit. Do you expect that trend to continue over the near term? And maybe what the company's thoughts about the margin profile moving forward?

Yongchen Lu

CEO & Director

Okay. Yes, Steve, I will take this one. Thank you for your question. Yes, the lower store contribution margin in Q3 was mostly because of higher delivery revenue mix led by the delivery war in China. Those platforms gave aggressive subsidies trying to taking market share from the competitors. We would think this would be temporary play in our view. So in the first 9 months of 2024 and 2025, our company-owned store contribution margins was consistent at 8.1%. And we aim to further expand that to mid- to high teens by enhancing gross margins and driving same-store sales and also the network optimization.

Essentially, we continue to close some high rent loss-making stores and we open high-quality new stores. So we plan to further improve our gross margins through supply chain optimization, increased pricing on delivery platforms, high-margin new product launch and optimize the recipe of existing core products. So by doing so, we expect, okay, we'll achieve double-digit store level margin next year.

Steven Silver

Argus Research Company

Great. And one last one, if I may. The company has discussed focusing on strategic special channel stores under the franchise model. Curious if there's any information about the performance of some of these stores.

Yongchen Lu

CEO & Director

Yes, sure. So I mean, as of the end of September, of 2025, we have over 60 stores in those special channels, including high-speed road stations, airports, highway rest areas, hospitals, et cetera. Those stores at the special channels performed very, very well, generating store contribution margin of mid and even high teens EBITDA margin and the payback is around 2 years. So I mean, we have gained a lot of interest from the [indiscernible] franchise, which have access to those special channels. In China, there are thousands -- tens of thousands such a special channel locations. So we have seen a great momentum in these channels, and we're expecting to open much more next year.

Operator

[Operator Instructions] At this time, there are no further questions. So with that, that concludes today's question-and-answer session. I would like to hand the call back to Yongchen for closing remarks.

Yongchen Lu

CEO & Director

Yes. Thank you so much for your time. And we are very glad we returned the growth on system sales and also more important on the same-store sales. So we're expecting another progress towards the end of the year and much even better next year.

Thank you.

Dong Li

Chief Financial Officer

Thank you.

Gemma Bakx

Thank you all very much.

Operator

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

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