

TH International Limited (THCH) Q4 2025 Earnings Call Transcript

Apr 14, 2026, 1:31 PM ET | TH International Limited (THCH) Stock



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TH International Limited ([THCH](#)) Q4 2025 Earnings Call April 14, 2026 8:00 AM EDT

Company Participants

Yongchen Lu - CEO & Director

Dong Li - Chief Financial Officer

Conference Call Participants

Steven Silver - Argus Research Company

Presentation

Operator

Ladies and gentlemen, welcome to Tims China's Fourth Quarter and Full Year 2025 Earnings Conference Call. [Operator Instructions] Today's conference is being recorded. At this time, I'd 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.

Unknown Executive

Hello, everyone, and thank you for joining us on today's call. TH International Limited announced its fourth quarter and full year 2025 financial results earlier today. A 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 Director; 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'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 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 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 Director. Please go ahead, Yongchen.

Yongchen Lu
CEO & Director

Thank you, Patty. Good morning and good evening, everyone. Thank you for joining us today. As we just celebrated the 62nd anniversary of the globally renowned Tim Hortons brand and the seventh anniversary of Tims China. We're excited to continue serving our innovative and locally relevant offers to our fast-growing loyalty guests.

As of December 31, 2025, China stood as the largest international market in Tim Hortons global history by a number of stores. We continue our growth trajectory, generating total system sales of RMB 1.57 billion in 2025, a 7.6% increase compared with 2024, fueled by mainly 25 net new store openings and expanding our store network to 1,047 across 92 cities in China. Food sales as a percentage of the total revenues account for 33.4% in Q4 2025, increased from 24% in Q1 2023. Orders with food items account for 51% of total orders in Q4 2025, increased from 45.2% in Q1 2023.

2025 marks a critical transition year for the company. We further solidified our differentiated strategic positioning in Coffee Plus freshly prepared food, completed made-to-order renovation of over 74% system-wide stores while strategically pruned certain underperforming stores, especially those remote MTO express stores.

On same-store sales growth, we managed to achieve overall comparable transaction growth of 2.7% in 2025, but we had to apply higher discounts on delivery business to mitigate intensified competition due to aggregator platform dynamics, which led to 2.4% decline in the same-store sales growth for system-wide stores in 2025.

Despite the headwinds of fierce competition, especially from low-priced local brands, our team demonstrated strong resilience and maintained our margins well at both store and corporate levels. 2025 full year company-owned and operated store contribution margin was 7% compared with 7.4% in 2024, which was primarily attributable to the temporarily increased delivery-related costs due to aggregator platform dynamics.

2025 full year adjusted corporate EBITDA margin actually improved by 1 percentage point. With further optimized store capital expenditures and enhanced store unit economics, our 2024 vintage [year] company-owned and operated stores generate store contribution margin of nearly 15% in 2025 and expect to achieve a payback period of 2 to 3 years. Our 2025 vintage [year] stores are still new, but are ramping up right now. We believe they will have similar unit economics too.

In the meantime, our company-owned and operated store in Tier 1 cities, including Beijing, Shanghai, Guangzhou and Shenzhen and in those cities with 10-plus stores generate over 10% and 7% store contribution margin in 2025, respectively, outperforming other tier cities with lower store density. We will continue adding more company-owned and operated stores in existing stores to achieve a high economy of scale.

In 2025, we strategically expanded our store footprint while maintaining capital efficiency, delivering absolute convenience for our customers. Leveraging the franchisee partnerships, we accelerate market penetration entering 92 cities by year-end, including the debut of our first stores in Nanchong in Sichuan Province, Datong in Shanxi Province and Xinxiang in Henan Province during the fourth quarter of 2025.

This growth strategy not only further strengthen our brand presence, but also ensure sustainable scalability through optimized resource allocation. Since we launched our individual franchise business in December 2023, we have received over 10,000 applications and successfully opened over 300 stores by the year end of 2025, showcasing continued market confidence in our franchise model. We have witnessed reasonable returns for our franchise stores. For instance, our franchisee stores in special channels, including railway stations, hospitals and highway rest areas generated store contribution margin of high teens in 2025 and are expected to achieve a payback period of approximately 2 years. We will accelerate opening franchise stores on these special channels.

In the meantime, our sub-franchisee business contributed steady cash flows and profitability. Profits from other revenues achieved a year-over-year growth of 55.7% in 2025.

Product innovation has always been an important strategic focus for us. In 2025, Tims China accelerate product innovation across both beverages and food, launching a total of 178 new products, 96 new beverages and 82 new food items, which contributed over 25% of our top line sales and offerings have run very strongly with customers. Seasonal beverage highlights during the fourth quarter included the pomegranate, low cheese and oat latte series, offering a diverse and differentiated flavor portfolio. We also focused on adding non-coffee beverage offerings complementary to existing product portfolio during the after cheese daypart. Total number of non-coffee beverage cups accounted for approximately 18.3% of total beverage cups sold in 2025 compared to 14% in 2024.

On the food side, we continue to strengthen breakfast dayparts and launched several campaigns to promote lunch daypart in 2025. For instance, we introduced a breakfast combo with expansion of croissant lineup with new offerings such as cheese chicken and [loaded] coconut cheese croissants, which suits the morning routines and offering greater value, building on our classic bagel breakfast fests; the croissant combo includes protein-rich options like meat and catering to high energy needs in colder months.

Meanwhile, the croissant itself like the excess frying, are perfect for those wanting highly but not very -- not overly caloric breakfast.

In addition, Tims China now continue to broaden its bagel sandwich range, introducing new products, including the Black Truffle Mushroom Bagel and the Spicy Pickled Cabbage Beef Bagel, further enriching its [savory] menu. We continue to strengthen our leadership in the bagel platform, selling a total of over 80 million bagel and bagel sandwich products cumulatively as of the end of 2025.

The fourth quarter being the holiday season saw us rolling out a series of marketing campaigns designed for these special occasions from Halloween to Thanksgiving and Christmas, we joined the festive spirit with creative promotions and theme activities to grab consumer attention. During the first quarter, Tims China continued to enhance brand relevance and consumer engagement through a series of marketing and product innovation initiatives.

The company strengthened its cultural positioning through high-profile collaborations, including a limited edition partnership with the hit TV series of The Vendetta of An as well as a co-brand campaign with People's Daily [indiscernible] to celebrate China's National Day and honor everyday heroes across the country.

These initiatives leverage cultural storytelling to deepen consumers' connections and drive social engagement. In parallel, Tims China advanced its sustainability initiatives by expanding its Bring Your Own Cup program and increasing the incentive to RMB 8 per cup. As of now, the program had attracted over 200,000 participants, reducing carbon emissions by approximately 8 tons, equivalent to planting around 360 trees.

The company also introduced eco-friendly stores in collaboration with Tencent's CarbonXmade program using carbon capture technology to convert industrial carbon dioxide into sustainable materials. SGS certification confirms that every 100 straws store 3.185 grams of carbon dioxide, reinforcing Tims China's commitment to sustainable product innovation.

As of December 31, 2025, our registered loyalty carbon members exceeded 31 million, reflecting a remarkable 29% year-over-year growth. The average number of members per store has now surpassed 29,600, serving as a strong catalyst for our growth and clearly demonstrating our consumers' ongoing support for Tims China's loyalty programs. At this time, I would like to turn it over to our CFO, Albert Li, to discuss our fourth quarter and full year 2025 financial performance in more detail.

Dong Li

Chief Financial Officer

Thank you, Yongchen. We continue to strive for excellence in delivering high value for quality, healthy products and thoughtful services to our ever-growing customers. In the fourth quarter, we achieved positive net new store openings and continued our strong momentum in system sales, achieving a 4.0% year-over-year growth.

Our overall monthly average transacting customers reached 3.43 million during the fourth quarter of 2025, a 14.3% increase from 3.01 million in the same quarter of 2024. Additionally, digital orders as a percentage of total orders rose from 86.1% in Q4 2024 to 89.3% in Q4 2025. We continue to enhance our digital capabilities to meet the growing demand for delivery and takeaway services.

Total number of delivery orders increased by 33.7% year-over-year during the fourth quarter of 2025. Amidst macroeconomic volatility and intensive market competition, our team demonstrated strong resilience and achieved profitability improvement through enhanced operational efficiencies, supply chain optimization and rigorous cost controls.

In Q4 2025, our adjusted corporate EBITDA margin improved by 3.3 percentage points year-over-year. During the fourth quarter of 2025, our total revenues dropped by 7.3% year-over-year, which was mainly due to the closure of certain underperforming stores, benefiting from the expansion of our franchised store network with the number of our franchised stores increased from 446 as of December 31, 2024, to 485 as of December 31, 2025.

Our system sales increased by 4.0% year-over-year to RMB 359.4 million during the fourth quarter of 2025. We are committed to improving our financial performance by refining store unit economics and boosting operational efficiencies at both store and our corporate levels, setting the stage for our long-term sustainable growth. Specifically, through refinements in our supply chain capabilities and economy of scale, we reduced the 2025 full year food and packaging costs as a percentage of revenues from company-owned and operated stores by 1.4 percentage points year-over-year.

We continued to streamline our operations by pruning underperforming stores, optimizing unit economics, refining staffing arrangements and optimizing store managerial efficiency. These actions led to a reduction in 2025 full year store labor costs and other operating expenses as a percentage of revenues from company-owned and operated stores by 0.8 percentage points and 0.1 percentage points year-over-year, respectively.

We expanded our branding initiatives and promotional offers to drive traffic. Our marketing expenses as a percentage of total revenues increased by 1.2 percentage points year-over-year. Our adjusted general and administrative expenses as a percentage of total revenues decreased by 7.4 percentage points year-over-year, which was mainly attributable to a RMB 9.7 million, USD 1.4 million decrease in credit loss of accounts receivables.

Turning to liquidity. As of December 31, 2025, our total cash and cash equivalents, time deposits and restricted cash were RMB 129.7 million (USD 18.5 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 facilities. In the meantime, with the issuance of the USD 89.9 million 2025 senior secured convertible notes and the amendment to our existing 2024 unsecured convertible notes in December 2025, we have successfully repurchased the entire outstanding amount due under our variable rate convertible senior notes due 2026.

Looking ahead to 2026, 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 and healthy food preparation model to drive traffic, optimize overall store unit economics and 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

Thank you, Albert. Before we turn to Q&A, I would like to take this opportunity to once again express my heartfelt gratitude to our customers, employees, business partners and investors for your continued support and dedication and trust. Together, we have created an overwhelming community of over 31 million loyalty club members, a unique Coffee Plus freshly prepared healthy food business model, offering the best value for quality products as an international coffee brand, differentiated and comprehensive store formats with over 1,000 stores in 92 cities, most of which are made-to-order stores with expected payback period between 2 to 3 years and a unique advantage of offering franchising opportunities as an international coffee brand.

With these milestones behind us, we are steadfast in our commitment to sustainable growth and to generating long-term value for our shareholders. I will now turn the call over to Patty for today's Q&A session. Patty?

Unknown Executive

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

Question-and-Answer Session

Operator

[Operator Instructions] We will now take our first question from the phone line of Steve Silver of Argus Research Corporation.

Steven Silver

Argus Research Company

So over the past few quarters now, you've highlighted franchise stores in special channels such as the railway stations, hospitals and highway rest areas. And you cited their strong contribution margins and the 2-year payback periods. So while you mentioned in your prepared remarks that you see openings under this model accelerating, can you quantify at all how much of a part of the future store mix you expect these channels to comprise? And really what impact do you expect this to have on future operating results?

Yongchen Lu

CEO & Director

Yes, sure. Thank you, Steve, for your question. I mean the beauty of the stores on special channels, especially on railway stations and highway rest areas, it's purely dine-in business. So they don't rely on delivery. And also, we don't need to give discounts on those stores in the special channels. So those stores have very high gross margins and low delivery cost despite the rent might be higher, but still those stores are generating high teens store contribution margin. And the payback is very attractive around 2 years, even lower than 2 years.

So I mean, in China, there are a lot areas, there are thousands of stations, airports, rest areas in highways and hospitals. So we have generated the momentum in those channels. As we mentioned, we are the only -- essentially, we are the only international coffee brand that open to individual franchise. So we are tracking a lot of interest from those franchisee partners. So this year, we will accelerate our openings on those channels.

Steven Silver

Argus Research Company

Great. And so company-owned and operated store contribution margins have now been negatively impacted by the higher delivery costs over the past few quarters. Is the company doing anything specifically to mitigate these risks in 2026 to improve same-store sales growth as well as the store contribution margins?

Dong Li

Chief Financial Officer

Okay. Steve, thank you for the question. I think I will take this one, right? So as you have mentioned, due to those aggregator platform dynamics in 2025, which led to a very aggressive subsidies that we have been seeing. So that, I think, on one hand, drives higher delivery orders and also higher percentage of our delivery revenue mix.

And in the meantime, we have also like suffering from actually increased delivery costs because of this. So I think overall, it's within our expectations because we want to manage our top line growth, our same-store sales, our margins and also our pricing well. So actually, we are taking every step to maintain or even expand our store contribution margin. So as you can see, even though I think the whole year 2025 store contribution margin for company-owned stores was slightly decreased from 7.4% to 7%, I think overall, we have, in the meantime, actually increased our gross margin.

So the food and packaging cost as a percentage of revenue actually has decreased by 1.4 percentage points. And in the meantime, we are still in the process of pruning some of the underperforming stores and achieving better economy of scale. Labor costs, as you can see, the full year 2025 labor cost has also improved as well as store other operating expenses. So we will do everything we can actually to mitigate potential delivery costs and I think in the meantime, we are also like negotiating with those delivery aggregator platforms to -- actually to strike a better cost on the delivery cost. So in terms of the delivery cost per order, we want to improve the cost structure to streamline the delivery cost per order as well.

And I think lastly, we are also actually increasing some of the pricing on the delivery products. So that is true to mitigate the potential headwinds from higher delivery cost. So overall, I think our goal is to at least maintain and even achieve certain margin improvement on our store contribution margin despite the -- in terms of the aggressive subsidized from those delivery aggregated platforms might still continue in 2026, but we expect that trend might be mitigated or might be like slowed down this year. Thank you, Steve.

Steven Silver

Argus Research Company

That's helpful. And one more, if I may. So in 2025, net store growth was positive, but it was a little more modest than maybe what previous thoughts might have been around store expansion. Yet at the same time, the franchise applications sounds like it continues to be very, very strong. And the loyalty membership continues to expand significantly, almost 30% in 2025. So I'd love to hear your thoughts in terms of the underlying demand in terms of what we might think about for system sales growth in 2026.

Yongchen Lu

CEO & Director

Yes. I mean we are in the process of pulling the underperforming stores for the past 2 years, and we'll do so this year as well. As you know, we opened a lot of high rent stores during 2019 to 2022 and even 2023, higher rent larger store format for the brand building and also the rent back then was very high, much higher than the current situation.

So we are in the process of continuing of pruning those underperforming stores. So that's why you see the revenue for company-owned and operated stores has dropped last year and this year for the last 2 years. So I mean, in this year, we will continue to prune some underperforming stores, but as we mentioned, we -- the newer base of our stores have higher store contribution margins, for the stores we opened in 2024 and 2025 have store margin around 15%.

So this newer vintage of store format has been approved. So we'll continue to open such format for both company-owned and franchise stores. So we target to achieve net store openings this year of at least 100 and might even more when we see the capital secure. So I mean that's kind of the process. So we'll continue to expand the network and that's the plan for now.

Operator

Our next question comes from the phone line of [Fooly Ho from TF Securities].

Unknown Analyst

I have 3 questions. The first one is about gross margins. Your gross margin improved by 1.4 percentage points in full year 2027. This is quite impressive. Can you explain more on the factors behind this? And how would you expect your gross margin in 2026?

Dong Li

Chief Financial Officer

Thank you, Fooly. I think I will take this question related to gross margin. So as you have mentioned, so our food and packaging costs as a percentage of revenue from company-owned and operated stores actually decreased from 31.5% in 2024 to 30.1% in 2025, representing an improvement of 1.4 percentage points. And in the meantime, I also want to highlight that if you take a look on the fourth quarter 2025, the cost percentage was 29.4%. Actually, it represents a 2 percentage point margin improvement from the fourth quarter of 2024.

So I think the overall improvement was mostly because of the following factors: the first one is better economy of scale as our overall GMV has increased and our overall store network has expanded. And two, we have tried actually many ways in terms of -- on the supply chain optimization projects. So especially on existing food and packaging materials.

So we have almost renegotiated the unit cost and in terms of the overall pricing for the -- with each of the supply chain vendors. And I think thirdly, we have optimized our discounts program actually, so that basically, we have improved the average pricing a little bit, especially we have increased the pricing on delivery products, which definitely would help on the margins. And fourthly, we have also seen higher margin on our new product launch. As we have mentioned, we have actually launched nearly 180 new products -- new LTO products in 2025. And most of this like new LTO products had higher margins. And I think lastly, we have also optimized the recipe of existing core products and some other like material costs and also in terms of the transportation and freight costs. This has also contributed to our overall margin expansion in 2025.

So going forward, I think we will continue to implement the above measures and plans. And we target to further reduce our food and packaging costs as a percentage of revenues by another 1 to 2 -- at least 1 to 2 percentage points in 2026. So that would be our target for this year. Thank you, Foooy for your question.

Unknown Analyst

Very clear. The second one is about margin profile. You mentioned company-owned and operated stores in Tier 1 cities and in those cities with 10-plus stores generated over 10% and 7% store contribution margin in 2025, respectively, outperforming other tier cities with lower store density. Can you explain more details about the differences on margin profile of these stores?

Yongchen Lu

CEO & Director

Okay. I'll take this one. Thank you for your question. I mean it's a good question. I think the density really matters. I mean -- so I mean the more stores we have in the city, the more brand awareness we have in the city and the more efficiency on the marketing campaign and lower cost on delivery and supply chain and more efficiency on the management. So density really matters, the data clearly shows that. We have the highest margin on Tier 1 cities. And as we mentioned earlier, for the 2024 and 2025 vintage stores, our store margin is up at about 15%. And most of the stores are operating in the Tier 1 and the high-tier cities. So we'll continue to add more company-owned and even franchisee stores in existing cities to add density. And density really helps on everything.

Unknown Analyst

Okay. And the last one is about store count target. What's the store opening and closure target for 2026 and expected mix between company-owned and operated stores and franchise stores?

Yongchen Lu

CEO & Director

Yes. We just answered the question -- the similar question from Steve. So we target to achieve net store openings of at least 100, including both company-owned and franchisee stores. And we are very happy to see our new ventures have very high margins. So we'll continue to open and although we will continue to prune some underperforming stores, we should be able to achieve net store openings again at least 100 this year.

Operator

I'll now hand back to Patty to read any questions coming through via the webcast.

Unknown Executive

It seems that we have no questions online. Is that right, [Amber Lee]?

Operator

That's correct. So at this time, there are no further questions. So with that, we conclude today's question-and-answer session. I'd like to hand the call back to Yongchen for his closing comments.

Yongchen Lu

CEO & Director

Yes. Thank you all for your time. It's been a challenging year, but we have been able to improve our margins and achieve net store openings, and we expect to even improve our margins further this year and achieve accelerate openings this year. So stay tuned. We'll see you soon. Thank you.

Dong Li

Chief Financial Officer

Thank you.

Operator

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

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