



Chagee Holdings Limited Third Quarter 2025 Earnings Call Transcript

Friday, November 28, 2025 / 7:00 AM U.S. Eastern Time

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PARTICIPANTS

Company Speakers:

Junjie Zhang - Chief Executive Officer

Aaron Huang - Chief Financial Officer

Alicia Guo - Investor Relations Director

Analysts:

Sijie Lin - CICC

Xiaopo Wei - Citi

PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Chagee's third quarter 2025 earnings conference call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after management's prepared remarks. Please note that today's event is being recorded.

With that, I will now turn the call over to the first speaker today, Ms. Alicia Guo, investor relations director of the Company. Please go ahead, Ma'am.

Alicia Guo (IRD)

Thank you. Hello, everyone, and welcome to Chagee's third quarter 2025 earnings call. With us today are Mr. Junjie Zhang, our CEO, and Mr. Aaron Huang, our CFO.

The company's financial and operating results were released by the newswire earlier today and are currently available online. Before we continue, I refer you to our safe harbor statements in the earnings press release, which applies to this call. Any forward-looking statements that we make on this call are based on assumptions as of today and Chagee does not undertake any obligations to update these statements. Also, this call includes discussions of certain non-GAAP financial measure. Please refer to our earnings release, which contains a reconciliation of non-GAAP measure to GAAP measure.

With that, I will turn the call to our CEO, Mr. Junjie Zhang. Please go ahead, sir.

Junjie Zhang (CEO)

Hello everyone. Thank you all for joining Chagee's third quarter 2025 earnings conference call. First and foremost, I would like to express my sincere gratitude to every member of the Chagee team. In a dynamic and challenging market, our resilience and strong execution have driven steady progress and built a durable foundation for the long-term future we envision.

Over the past few years, we have consistently asked one core question: Why does Chagee exist? Our answer is clear, that is, "Bringing people together through tea". This founding mission and commitment drives us to focus on user value as the starting point for all strategies. Every decision and initiative aims to expand and deepen a community of people who connect with our brand values. Guided by this belief, we will steadfastly execute our High-Quality Development Strategy.

We are dedicated to delivering high-quality products. Rather than chasing traffic and trends, we prioritize product excellence. Our ongoing raw material upgrades ensure tea that is authentic, wholesome, warm, and culturally rich, serving as the cornerstone of every experience and a key trust pillar for our brand. We emphasize the user experience, creating engaging content and building emotional connections to make each cup a shareable story. Our offering goes beyond a beverage to a distinctive experience rooted in Eastern aesthetics. Store quality remains our focus, and global expansion will depend on each store's health and profitability. We pursue healthy growth across the store network, identify high-potential locations, and strive to make every Chagee store the go-to place for friends gathering over tea.

In the face of short-term market fluctuations, we maintain our strategic resolve. We are deeply confident in the vast potential of the global tea beverage, and in the distinctive path Chagee has chosen, the one driven by culture and quality.

These are my reflections on the core of our business and future direction. Now, I will turn the call over to our CFO, Aaron, who will detail the specific results of our strategic execution this quarter. Thank you.

Aaron Huang (CFO)

Thank you, Junjie, and hello everyone. Thank you for joining our earnings call. Before we dive into the details, please note that all amounts are in RMB and all comparisons are on a year-over-year basis unless otherwise stated.

In the third quarter, our total net revenues were 3,208.3 million, a decrease of 9.4% year-over-year and 3.7% sequentially. Total GMV for the quarter was 7,929.5 million. Despite the challenging macro environment and intensified competition, we maintained our focus on profitable growth and disciplined execution. Non-GAAP net income was 502.8 million with a non-GAAP net margin of 15.7%, reflecting the underlying resilience of our business model.

Let me highlight several key operational achievements.

First, our global teahouse network reached 7,338 stores, with a net addition of 300 teahouses in the third quarter. Overseas expansion accelerated, contributing 54 net new teahouses, as we successfully entered new markets including the Philippines and Vietnam.

Second, product innovation continued to drive momentum. In the home market, the re-launched Low-caffeine Jasmine Green Tea Latte became a top-three best seller, driving strong user acquisition. BO·YA Jasmine Green Milk Tea earned the Best Natural or Organic Beverage title at the 2025 World Beverage Innovation Awards, underscoring our strong product quality and leadership in healthy beverage innovation. In Asia-Pacific, the Peach Oolong Milk Tea launch performed exceptionally well, validating our regional product strategy.

Furthermore, our member ecosystem remains robust. Total registered members reached 222 million by the end of the third quarter, representing an increase of 15.0 million sequentially and 36.7% year-over-year. Our franchisee network also demonstrated remarkable stability. The store closure rate remained low at 0.3% for three consecutive quarters, underscoring the health and confidence of our franchise partners.

Now, let me provide a more detailed financial analysis.

Starting with revenue, our total net revenues for the third quarter were 3,208.3 million, mainly driven by the continued expansion of our teahouse network. Among them, net revenues from franchised teahouses were 2,811.6 million, representing 87.6% of our total net revenues. Net revenues from company-owned teahouses increased by 63.8% to 396.7 million, accounting for 12.4% of total revenues. The increase was primarily driven by the expansion of our company-owned teahouse network in both the Greater China and overseas markets.

In Greater China, total GMV decreased by 6.2% year-over-year to 7,629.2 million. The average monthly GMV per teahouse in Greater China was 378,506, a year-over-year decline reflecting both a high base from last year and a more severe competitive environment, including the impact of delivery platform subsidy competition. Even so, our commitment to maintaining premium positioning and brand integrity remains central.

Meanwhile, overseas markets continued to show substantial progress, with GMV increasing 75.3% year-over-year and 27.7% quarter-over-quarter to 300.3 million. This growth is mainly driven by strategic store expansion and our growing brand awareness, positioning the overseas markets as a key pillar of our future growth.

In the third quarter, we expanded our overseas presence by adding a net 54 stores, bringing our total to 262 stores as of September 30, 2025. This growth was fueled by our successful entries into the Philippines and Vietnam, as well as continued steady expansion in Malaysia, Thailand, and Indonesia. During the quarter, we added 18 new stores in Malaysia and 9 each in both Thailand and Indonesia.

Our commitment to being an exceptional employer has earned prestigious awards in key markets, including HR Asia's Best Companies to Work for in Asia 2025 in Malaysia, and Certified OJT Center plus NS Mark Gold status in Singapore. These honors strengthen our brand and help us attract top talent needed for growth.

While our store expansion continues, we recognize pressures on GMV performance at existing stores, with domestic and overseas same-store GMV declining by 27.9% and 23.4%, respectively. This softness is attributed to a high base from the same period last year and intensified competitive pressures. However, our franchisee fundamentals remain solid, as evidenced by the consistently low closure rate. We expect same-store GMV growth to remain under pressure in the near term.

Turning to margins. Our gross profit, calculated by excluding cost of materials, storage and logistics from net revenues, reached approximately 1,726.5 million this quarter, resulting in a strong gross margin of 53.8%. This marks a solid improvement both year-over-year, up from 50.1% in the third quarter of last year. The margin improvement results primarily from two factors. The first is the benefit of expanding economies of scale, and the second is decreased purchasing costs driven by our persistent procurement optimization initiatives.

On operating expenses, share-based compensation expenses this quarter were 104.9 million. This reflects our commitment to long-term employee engagement and aligning their goals with shareholders. To provide greater clarity on underlying operational performance, we will reference non-GAAP operating results, with full reconciliations available in our earnings release and Form 6-K.

Operating income was 454.4 million, representing an operating margin of 14.2%. Excluding share-based compensation expenses, non-GAAP operating income was 559.3 million, representing a 17.4% margin. The above-mentioned margin difference reflects our stepped-up investment in talent recruitment for global expansion, including brand building to support new product launches, R&D to enhance our offerings, and digital infrastructure to elevate customer experience.

Operating costs for company-owned teahouses were 271.4 million, up 94.7% from a year ago and up 47.4% from the second quarter of 2025. As of September 30, 2025, we operated 367 company-owned teahouses, up from 239 in the second quarter of 2025. On a per-store basis, operating costs have decreased compared to the second quarter of 2025, showing improved efficiency at the store level.

Other operating costs increased by 7.3% to 178.9 million, largely due to higher payroll supporting the expansion of our global store network. On a non-GAAP basis, other operating costs accounted for 5.4% of revenues, compared to 4.7% a year ago.

Sales and marketing expenses for the quarter were 304.5 million, down 13.4% from a year ago, achieved through disciplined branding promotion. On a non-GAAP basis, sales and marketing expense represented 9.2% of revenues, compared to 9.9% a year ago.

General and administrative expenses reached 517.4 million, up 59.7% year over year, driven by an expanded workforce and additional office facilities supporting global operations. On a non-GAAP basis, G&A expenses represented 13.4% of revenues, compared to 9.1% a year ago.

Income tax expenses represented 21.4% of income before income tax, slightly higher than 20% a year ago. This was primarily driven by the impact of share-based compensation expenses recognized during the quarter.

We achieved our eleventh consecutive quarter of profitability, with GAAP net income of 397.9 million. Non-GAAP net income, excluding share-based compensation expenses, was 502.8 million, with a non-GAAP net margin of 15.7% compared to 18.3% last year. This demonstrates our ability to maintain healthy profitability and margins while continuing to invest for future growth.

During the quarter, basic net income per ordinary share was RMB2.07, and diluted net income per ordinary share was RMB2.03. On a non-GAAP basis, basic net income per ordinary share was RMB2.63 and diluted was RMB2.57.

Turning to liquidity. We ended the quarter with roughly 9,142 million in cash and cash equivalents, restricted cash, and time deposits. This robust balance sheet, coupled with our eleventh consecutive quarter of profitability, provides a solid foundation.

Our Board has approved a special cash dividend of US\$0.92 per ordinary share or ADS, totaling approximately US\$177 million, payable on or around December 15, 2025 to shareholders of record as of December 8, 2025. This distribution underscores our commitment to enhancing shareholder value and reinforcing investor confidence in our business model. Our strong cash generation abilities enable us to return capital while continuing to invest in growth. This special dividend also demonstrates our conviction in the company's trajectory and our dedication to reinforce market confidence in our long-term prospects.

At this time, we will not be providing formal financial guidance. Our strategic focus is on key pillars that foster sustainable long-term shareholder value. We are dedicated to continuous product innovation and strategic brand investment to enhance market presence. At the same time, we are boosting operational efficiency to optimize resources and drive improved performance, positioning the company for agile and sustained growth.

We are confident in delivering on our long-term strategy and growth potential. We will persist with prudent management, strategic investments in future drivers, and a commitment to creating durable value for shareholders. We believe our solid financial foundation, clear strategic roadmap, and exceptional team will help us capitalize on long-term opportunities despite market dynamics.

With that, I will turn the call back to the operator to begin the Q&A session. Operator, please go ahead.-

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions). Our first question comes from the line of Sijie Lin from CICC. Your line is now open. Please ask your question.

Sijie Lin (CICC)

Could you please talk more about how will the high-quality development strategy be executed?

Junjie Zhang (CEO)

Thank you for your question. Regarding our high-quality development strategy, we have a clear execution path across four core dimensions: brand, product, experience, and channels. First, in high-value brand building, we're upgrading our brand to speed up the launch of brand experience teahouse and streamline the customer journey. At the same time, we're growing specialty teahouses, like tea culture-themed locations and intangible cultural heritage-themed teahouses, to deepen our cultural roots and highlight what makes the brand stand out.

Meanwhile, we are building a high-quality product system with four core priorities. First, we will define and uphold strict "premium tea" standards. Second, we will enhance our core raw materials. Third, we

will improve food quality from end-to-end. Finally, we will introduce the 4.0 menu and guarantee uniform quality for all customers, wherever they are.

Next, we are driving cross-category innovation and new consumption scenarios. With the 4.0 menu, we're adding exciting new categories like special tea to mix things up. We are also expanding into additional consumption scenarios, including breakfast and evening hours, to improve store utilization across different times. In addition, we will fine-tune how products are shown while they're being prepared to make the experience even better for customers.

We are also enhancing the membership experience with a revamped membership system to build a true member community and mutual-benefit network. This will boost stickiness and repeat purchases for our 222 million members. At the same time, we are optimizing store facilities and technologies to improve efficiency and customer satisfaction.

Finally, we're shaping a strong channel strategy. Our teahouse network is expanding at a healthy pace, with 300 net new teahouses added this quarter, and we will maintain a steady pace of teahouse expansion. We're also pushing ahead with standout flagship teahouses, such as the Chagee Tea House in Hong Kong and the pop-up store at 2025 Rolex Shanghai Masters. These showcases really highlight what the brand stands for and enhance our brand awareness.

Operator, next question please.

Operator

Our next question comes from the line of Xiaopo Wei of Citi.

Xiaopo Wei (Citi)

Could you share more color on the overseas market network situation as well as store operating performance in non-China regions?

Aaron Huang (CFO)

Thank you for your question. Our overseas markets are a pivotal growth driver, and momentum is solid across our teahouses. This quarter we entered two new markets, Philippines and Vietnam, while our store count in Malaysia has exceeded 200 currently, so this is a big milestone.

Our local operations are showing strong signals. Our localized products and marketing campaigns have achieved great success. For example, our September collaboration with Pop Mart generated a tremendous response across Southeast Asia. In Malaysia, the Green Grape Series made up 50% of cups sold on the first day, marking our all-time high. During the campaign's first week, teahouses in Singapore achieved average daily sales of over 500 cups of this product. Our Peach Oolong Milk Tea also performed exceptionally well. It captured over 30% of cups sold in Indonesia within 15 days since launch and about 16% in Thailand, making it a top seller in both markets.

These successful localization efforts, combined with our steady store expansion pace, give us strong confidence in overseas growth in Southeast Asia. Moving forward, we'll continue deepening our

presence in those markets we've entered, steadily expand into new markets, and keep improving per-store profitability and brand impact.

Operator, next question please.

Operator

Thank you. As there are no further questions, I'd like to hand the conference back to management for closing remarks.

Alicia Guo (IRD)

Thank you again for joining our call today. If you have any further questions, please feel free to contact us or request through our IR website. We look forward to our next call with everyone. Have a great day.

Operator

This concludes today's event. Thank you for participating. You may now disconnect.