Chagee Holdings Limited Second Quarter 2025 Earnings Call Transcript

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PARTICIPANTS

Company Speakers:

Junjie Zhang - Chief Executive Officer

Aaron Huang - Chief Financial Officer

Alicia Guo - Investor Relations Director

Analysts:

Lilian Liu - Morgan Stanley

Xiaopo Wei - Citi

Sijie Lin - CICC

PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Chagee's second 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 second 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 second quarter 2025 earnings conference call. We truly appreciate your continued trust and support, which has enabled us to forge ahead steadily in this dynamic market environment.

Before we dive into our quarterly performance, I'm delighted to share an important update in our talent strategy. To accelerate our North American market expansion, we have successfully assembled a new North American leadership team. We are honored to welcome Ms. Emily Chang as our Chief Commercial Officer for North America. Emily brings extensive international brand-building experience, having served as CEO at West at VML and McCann Worldgroup, China; and Chief Marketing Officer at Starbucks China.

Additionally, we welcome Mr. Aaron Harris as our Chief Development Officer for North America. As a chain restaurant industry expert, Aaron has successfully led market expansion for multiple national and international QSR brands, most recently as Senior Vice President of Development at Dutch Bros Coffee. His rich experience in scaled operations will drive our development in the U.S. market.

This is not just a key talent acquisition but also an important move in our global strategic layout. We have proactively established local teams in core markets such as Asia-Pacific and North America, making systematic investments in organizational capabilities. In the second half of this year, we will continue to invest strategically in overseas markets, steadily enhancing the development of a global talent pipeline and operational system. With our elite local teams, we are confident that we will achieve a pivotal breakthrough and sustain strong growth momentum globally.

Next, I will walk you through the operating results and business updates. Despite the evolving dynamics of the global tea beverage market, we have stayed committed to growth strategy driven by brand value and product innovation. This has reinforced our operational resilience and sharpened strategic focus. This quarter, we achieved solid progress, with revenue sustaining double-digit year-over-year growth and consistent profitability.

One of the most important factors behind these results is our consistent commitment to a clearly defined brand strategy. In an environment where many in the industry compete for market share through aggressive price promotions, we remain committed to our differentiated "value-first" positioning, a strategy that is earning positive market feedback. While maintaining a disciplined pricing framework, our third-party delivery GMV has seen growing contributions, with strong repeat purchasing behavior among registered members. These results validate our brand positioning and confirm that consumers recognize and appreciate the value we offer.

To strengthen this advantage and deepen our competitive moat, we will launch a comprehensive upgrade plan for essential raw materials in the second half of the year, focusing on key ingredients such as tea, milk, and syrups. We believe that ongoing investment and sourcing improvements will deliver an elevated product experience to our customers, reflecting the core of our "value first" strategy.

On the global stage, our strategy continues to deliver strong momentum. The overseas markets have demonstrated strong growth momentum and are becoming an increasingly important growth engine for the company.

This progress has been driven by a combination of localized product and marketing innovation, disciplined geographic expansion, and operational excellence. In April, our Hojicha Genmai Milk Tea captured consumer attention across Southeast Asia, propelling us to the top position in share of voice among tea brands in the region. In Malaysia, the product sold out in major cities within two weeks of launch. In June, our Earl Grey series co-branded with the British Library performed equally well. The collection sparked vibrant engagement on social media. Simultaneously, our pop-up experiential events in Singapore and Malaysia drew tens of thousands of visitors, providing immersive brand experiences and significantly elevating brand visibility. Cup sales during these events recorded decent sequential growth, especially in Singapore.

At the same time, we continue to make steady and solid progress with our overseas store expansion. In the first half of the year, we advanced our strategic positioning in critical markets including Indonesia and the United States, while further strengthening our strategic collaborations in Thailand.

Operational quality across all regions continues to improve. Our Singapore stores sustained solid and stable sales momentum, consistently delivering leading daily average sales. Profitability in our Malaysian stores exceeded expectations. More importantly, we have achieved a sequential increase in the sale price for our products in overseas markets, demonstrating the strength of our premium brand positioning.

Domestically, we are pushing boundaries by integrating modern consumer experiences with traditional cultural elements. In the second quarter, we introduced themed concept stores such as the Ceramic Inlay Art activity in Guangdong and the Kite Culture pop-up store in Shandong, successfully blending heritage tea culture with contemporary retail design. This demonstrates that our globalization strategy is not just about growing our footprint, but equally about reinforcing brand value and elevating operational quality.

Product innovation remains at the heart of our growth. In the second quarter, our new product “LYCHEE BLACK MILK TEA showcased strong first-week sales. Alongside another recent introduction, the two products drove a meaningful sequential increase in GMV during their launch period. Moreover, the limited-time return of “MELON OOLONG MILK TEA” proved highly popular, ranking prominently among the quarter’s most favored products.

Driven by the dual engines of product innovation and user operations, our member ecosystem continues healthy development. By the end of the second quarter, number of registered members achieved strong growth both sequentially and year-over-year. This reflects not only our ability to operate with efficiency at scale, but also the deep market resonance of our mission to champion health-oriented tea beverages.

In the face of ongoing market challenges, we remain steadfast in our belief that quality is the foundation of lasting growth. As market conditions shift, our promise is clear. We will consistently offer tea that is both wholesome and uncompromising in quality. Short-term results will never come at the expense of

our enduring commitment to excellence. As a representative of modern Chinese tea, our mission is twofold, to preserve the essence of Chinese tea culture and to modernize it for global consumers through innovation and creativity. We will honor our craft, hold true to our values, and use every cup of high-quality tea as a gesture of sincerity. We firmly believe that genuine care for both our products and our customers is the key to earning enduring market trust and sharing the authentic experience of Chinese tea with the world.

This concludes my remarks. Now, I will turn the call over to our CFO, Aaron, who will provide detailed insights into our financial performance. Thank you.

Aaron Huang (CFO)

Thank you, Junjie, and good morning and good evening, 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 second quarter, our revenue reached 3.3 billion, up by 10.2% year-over-year. GMV came in at 8.1 billion, a year-over-year increase of 15.5%. Non-GAAP net income was 629.8 million, up by 0.1% year-over-year. For the first half of 2025, non-GAAP net income rose by 6.8% year-over-year to 1.3 billion. By the end of the second quarter, our total membership exceeded 200 million, increasing by 14.5 million from the first quarter and 42.7% year-over-year. These results underscore the resilience of our business model and the strength of our execution under dynamic market conditions.

Now, let me provide some context around the market conditions we faced this quarter. The intensified delivery-platform subsidy competition in China created headwinds for our business. While we remain disciplined in protecting our pricing integrity and premium brand positioning, we recognize that this competitive environment weighed on near-term performance.

At the same time, we are advancing our strategic expansion into international markets. This involves deliberate investments in organizational infrastructure, including talent acquisition Junjie shared and operational capabilities. While these initiatives are currently affecting profitability in the short term, they are critical investments as we work toward achieving operational leverage in these new markets.

Next, let me go through the financials.

Our total net revenues for the second quarter increased by 10.2% year-over-year to 3,331.9 million, mainly driven by the continued expansion of our teahouse network. Among them, net revenues from franchised teahouses grew by 6.1% to 3,020.7 million, representing 90.7% of our total net revenues. Net revenues from company-owned teahouses increased by 77.3% to 311.2 million, accounting for 9.3% of total revenues. The increase was primarily driven by the expansion of company-owned teahouse network.

Our total GMV for the second quarter increased 15.5% year-over-year. The average monthly GMV per teahouse in Greater China was 404,352, a year-over-year decline reflecting both a high base from last year's outstanding quarter and a more severe competitive environment. Even so, our commitment to

maintaining premium positioning and brand integrity remains central as we navigate the current backdrop and prepare for improving market conditions.

Meanwhile, our overseas markets have gained significant traction, with GMV increasing 77.4% year-over-year and 31.8% quarter-over-quarter. 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 first half of 2025, we expanded our overseas presence by adding a net 52 stores compared to year-end 2024, bringing our total to 208 stores as of June 30, 2025. The opening of stores in Indonesia attracted approximately 35,000 new member registrations during launch period. In Thailand, average daily cup sales rose by 54% following our grand opening, with approximately 15,000 new members joining in just the first three days. Our Los Angeles store in the United States set a record with 5,000 cups sold in a single day.

Turning to margins, our gross profit, calculated by excluding cost of materials, storage and logistics from net revenues, reached 1.8 billion this quarter, resulting in a strong gross margin of 53.9%. This marks a solid improvement both year-over-year, up from 48.4% in second quarter of last year and sequentially from 53.1% in the first quarter of 2025.

This margin expansion was primarily driven by two key factors. First, we continue to benefit from growing economies of scale as our business expands. Second, lower purchasing costs achieved through our ongoing procurement optimization initiatives have played a significant role.

On operating expenses, share-based compensation expenses rose significantly this quarter, which is reflected across our expense categories. The significant amount of share-based compensation expenses recognized in the second quarter of 2025 were related to the vesting of share-based awards with performance condition related to the IPO success. The breakdown includes 505.6 million in general and administrative expenses, 31.1 million in sales and marketing expenses, and 15.8 million in other operating costs. To provide greater clarity on underlying performance, we will also reference non-GAAP operating results, with full reconciliations available in our earnings release and Form 6-K.

Operating income was 107.6 million. Excluding share-based compensation expenses, operating income was 660.1 million, representing a 19.8% margin. This margin change reflects stepped-up investment in brand building and marketing to support new product launches, R&D to enhance our offerings, digital infrastructure to elevate customer experience, and talent recruitment for global expansion.

Operating costs for company-owned teahouses were 184.1 million, up 72.8% from a year ago and up 17.2% from the first quarter of 2025. As of June 30, 2025, we operated 239 company-owned teahouses, up from 191 at the first quarter of 2025. On a per-store basis, operating costs have decreased compared to the first quarter of 2025, showing improved efficiency at the store level.

Other operating costs increased by 36.2% to 173.7 million, largely due to higher payroll supporting the expansion of the franchised network. On a non-GAAP basis, other operating costs accounted for 4.7% of revenues, compared to 4.2% a year ago.

Sales and marketing expenses for the quarter were 385.0 million, up 54.6% from a year ago, reflecting higher advertising costs tied to new tea product launches and related campaigns, along with payroll

growth to support business expansion. On a non-GAAP basis, sales and marketing represented 10.6% of revenues, compared to 8.2% a year ago.

General and administrative expenses reached 944.6 million, up 301.1% year over year, driven by SBC expenses I just mentioned earlier, an expanded administrative team supporting global operations, increased R&D for product upgrades and innovation, and higher IT service costs to enhance operational efficiency. On a non GAAP basis, G&A expenses represented 13.2% of revenues, compared to 7.8% a year ago.

Income tax expenses represented 62.1% of income before tax, significantly higher than 20.1% a year ago. This was primarily driven by the impact of share-based compensation expenses recognized during the quarter.

We achieved our tenth consecutive quarter of profitability, with net income of 77.2 million. Non-GAAP net income, excluding share-based compensation expenses, was 629.8 million, with a non-GAAP net margin of 18.9% compared to 20.8% last year. The margin decline reflects our continued investments in new products and overseas markets, and net losses from overseas operations that are still ramping up. Our Greater China business remains healthy, delivering a profitability growth from last year.

During the quarter, basic net income per ordinary share was RMB0.36, and diluted net income per ordinary share was RMB0.35.

We ended the quarter with 8.9 billion in cash and cash equivalents, restricted cash, and time deposits, up from 4.9 billion at the end of 2024.

While near-term headwinds persist, we are confident in our strategic trajectory. Our overseas operations are gaining encouraging consumer traction, and we are building the organizational and operational foundation to sustain long-term growth. The investments we are making today, in people, infrastructure, and capabilities, will position us to capture significant opportunities as these markets mature and operational leverage takes hold.

At this time, we will not be providing formal financial guidance for the whole year. Our priority is to execute our long-term growth strategies and deliver lasting value to our shareholders. We may revisit the possibility of offering guidance in the future as conditions evolve.

In closing, I want to reaffirm our unwavering commitment to our premium brand strategy in today's dynamic competitive landscape. We remain focused on delivering healthy, high-quality tea offerings that our consumers trust and value.

We are deeply grateful for the continued support of our team, Chagee friends, and valued shareholders. Through disciplined capital allocation and our commitment to strengthening and diversifying our global business, we will continue creating sustainable long-term value for all our shareholders. Our focus remains on protecting margins and delivering profitable growth that stands the test of time.

With that, I'll 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 Lilian Liu of Morgan Stanley.

Lilian Liu (Morgan Stanley)

I have a question actually on China right now. Obviously, we saw in the second quarter result there was an impact from delivery platform subsidy program. So my question is related. One, what kind of operational impact have we been seeing? For example, the impact on general ASP, the franchise stores profit margin, and stability.

And related to that, what is the company strategy going forward related to dealing with platform subsidy programs, how we define our positioning in the industry, and how we look at the second half general operation focus?

Junjie Zhang (CEO)

Thank you for your question. We see the delivery platform competition heating up quite a bit in the second quarter and attract a lot of attention globally. While competition can be good for the market, the heavy reliance on subsidies right now isn't really sustainable for the industry as a whole. So we don't really count on the platform or the discount to attract more customers. It might help us with the GMV in a short period of time, but it doesn't really help with the profitability to our partners or to our franchisees as well. We believe that it puts a lot of pressure on merchant margins, shakes up delivery partners' income stability, and creates financial stress for the platforms too.
The key issue with subsidies is that they mainly attract price-sensitive customers who don't have strong brand loyalty and will switch quickly to whoever offers the lowest price. That makes it really hard to build lasting customer relationships.
So for the company, we have three principles. First, we stay firmly committed to delivering high-quality products and services. We're not going to get pulled into price wars. Instead, our focus is on offering superior product quality and an outstanding customer experience.
Second, we're now doubling down on our premium brand positioning. We believe real long-term value comes from building brand trust and delivering great user experiences, not from short-term price cuts or discounts or coupons. Our strategy is all about enhancing the high-value brand image.
And thirdly, we're focused on optimizing operational efficiency to boost our competitiveness. Without relying on subsidies, we keep investing in technology and process improvements to improve efficiency. For example, the 4.0 automated machine will be rolled out at the end of the year. It will largely lower the labor cost and increase the efficiency of the operation at the store level. We then pass those savings on to customers and partners who truly appreciate our quality, so we can stay reasonably competitive on price without compromising our core value.

And also, at last, our product R&D, will have something different at the end of the year, and the menu will be changed totally. So we welcome you guys to look forward to our changes at the end of the year. We believe right now China has been transferring from the Chinese manufacturing or "Made in China" mode to the brand positioning mode at the moment. So we believe the lower pricing strategy is not consistent with the high-quality life experience or brand positioning of the Chinese market's overall trend at the moment. So keeping a lower voice does not really help with the higher value positioning. So we firmly believe that we are going to stick to the high-quality brand positioning, and also offer a high-quality product to our customers.
Operator, next question please.

Operator

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

Xiaopo Wei (Citi)

I have two questions on overseas business. In your prepared remarks, you mentioned the very exciting new hire in the U.S. leadership and also many exciting new products in the overseas market locally. So could you update us on the expansion plan for overseas and China in the next few quarters?

Secondly, in the operation of overseas market, did you observe anything you want to share with us? And how could you translate those observations to the future strategy for overseas business?

Aaron Huang (CFO)

Thank you for the question. Let me first go through a little bit more detail on the overseas development market-by-market. That would give you a full picture of where we are now in the overseas market. I will not talk about domestic growth, but more focus on the overseas market.

In the international markets, we have 208 stores in total, including 178 in Malaysia, 16 in Singapore, 8 in Indonesia, 5 in Thailand, and 1 in the U.S. We added 39 new stores in the second quarter. We successfully entered the Indonesian market with 8 new stores, and made new strides in North America too, opening our first store in Los Angeles in May, with a second U.S. store soft opening in August.

When we look at overall GMV perspective, the international markets kept up the strong growth. As I just mentioned, we had 77.4% growth year over year.

To break it down by market, we see a lot of very good signal in the performance, country-by-country.

In Singapore, we see that daily sales stayed very strong in the second quarter, holding steadily above 1,500 cups per day per store. We are still optimizing the single-store model to really maximize our potential in Singapore. So that's really very robust business development in Singapore.

In Malaysia, we have 178 stores now running smoothly. Overall the profitability performance of our stores in Malaysia exceeded our internal plan.

In Thailand, we relaunched the market with three net new stores in the quarter. Average store performance is very well. And at a daily basis, it's 800 cups a day a store. So we have been very welcomed by the local customers.

In Los Angeles, our first store opening, as I just mentioned, was 5,000 cups sold a day. It's a very long line, like three, four hours.

Going forward, we will push hard on two fronts. Strengthening our presence in those mature markets like Malaysia, and we will continue to have rapid growth in those markets. But in the meantime, we are preparing to enter more countries. Like today is the first grand opening day in the Philippines, so we see more and more exciting news coming in.

For the second half, the first one, the Philippines will be the last country in this year as a new market we enter into. And then for Vietnam as well, as just I mentioned. And then in Q4 and Q3, we established a team there. We are ramping up the growth.

So that's for the overseas market expansion. And from a business perspective, there are some highlights that Junjie mentioned as well. For example, we have a lot of local product launch. It's not a product that actually launched before in China, like Hojicha. We see a lot of local relevant campaigns well received by local customers.

So I think as Junjie just mentioned that we are placed as very important lifestyle brand. And we are focused on building relevant experience to local customers, not just like simply say “it's a Chinese brand.” So I think that's something that we see is very welcomed by the different markets.

Operator, next question please.

Operator

Our next question comes from the line of Sijie Lin of CICC.

Sijie Lin (CICC)

So my question is on SSSG. Could you please provide more color on the same-store sales performance in Q2 and what is your view of the SSSG trend going forward?

Aaron Huang (CFO)

Thank you for the question. Same-store GMV softened this quarter mainly due to two reasons. The first reason, as we talked about before, is we’re comparing against a very strong second quarter in last year. And second, the overall delivery platform price war intensified, and we chose not to engage heavily to

protect our brand positioning. So that definitely will have a little more market share challenges, and lead to some temporary customer diversion and impacted sales a little bit.

Given the high base from the comparable periods last year, we expect continued pressure on same-store GMV in the second half of 2025. We are moderating store expansion in 2025, which eases growth pressure on same stores. Also, we believe the subsidy-driven price war will not last indefinitely, so its impact will gradually fade.

And as Junjie just mentioned, we will do what we're strong at. We will focus on the product quality elevation. We will provide better sugar, better milk and better tea, really providing a high-quality product to our customers to bring the customers back. You know, focus on the customer experience, stay away from those price competitions, and really focus on our long-term strategy: delivering high-quality products and experience, building a premium brand, and earning customer trust through consistent excellence.

We believe that that is something that Chagee should play. And we are very confident that that would be appreciated by customers as well. Thank you.

Operator

Thank you. I'd like to hand the conference back to our management for closing remarks.

Alicia Guo (IRD)

Thank you again for joining our call today. Because we are short of time, if you have any further questions, please feel free to contact us or request through our IR website. We look forward to speaking with everyone in our next call. Have a good day.

Operator

Thank you for your participation in today's conference. This does conclude the call. You may now disconnect.