Chagee Holdings Limited First 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

PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Chagee's first 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 first 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 our first earnings call as a public company.

This April marked a pivotal moment in our journey as we joined Nasdaq -a significant achievement that positions us for our next chapter of growth. This milestone does more than strengthen our financial foundation; it introduces the innovation and dynamism of Greater China's premium tea drinks brand to global investors. I'm profoundly grateful to the entire Chagee team whose talent and dedication made this possible. To our franchise partners, your confidence in our vision has been instrumental in our expansion. And most importantly, to our customers, Chagee friends—your loyalty remains the bedrock of everything we build. Finally, I want to sincerely thank our shareholders—your trust and support enable us to move forward with confidence and create greater long-term value.

I'm delighted to share our operating results for the first quarter of 2025, along with our strategic plans for the future.

Overall, we maintained steady growth in the first quarter, with several key metrics showing strong improvement. Revenue for the quarter reached RMB3,392.7 million, up 35.4% year-over-year. Total GMV generated in the quarter was RMB8,226.8 million, growing by 38.0% from a year ago. Net income was RMB677.3 million, a 13.8% increase compared to the same period last year. These results demonstrate the resilience and sustainability of our business model.

Our solid performance is mainly driven by three strategic pillars working together: continued global expansion, differentiated product innovation, and a healthy customer ecosystem. These pillars not only supported our strong results this quarter but also form the foundation of our long-term competitive advantage.

First, on store network expansion, we continued to improve our global footprint. By the end of the first quarter, we had 6,512 stores in Greater China, a net increase of 228 stores from the previous quarter. GMV in Greater China market was RMB8,048.4 million, up 37.2% year-over-year. Our overseas expansion progressed steadily, with the total number of stores in Southeast Asia rising to 169, including 9 new stores in Malaysia and 4 in Singapore. GMV generated from overseas markets reached RMB178.4 million, representing an 85.3% growth year-over year.

It's worth mentioning that on April 11, 2025, we achieved a significant milestone with our first Indonesian location at Jakarta. This store showcases our premium tea offerings, fresh-brewed selections, and signature beverages, all enhanced by our proprietary "Teaspresso" extraction method that delivers unparalleled depth and aroma. The space itself celebrates our cross-cultural vision through stunning murals by acclaimed local artist, thoughtfully weaving tea traditions with local heritage. Just weeks later, on May 11, we had grand opening for our first U.S. flagship store in LA, which served over 5,000 cups on its opening day—a remarkable milestone that signals strong momentum in this key market.

Second, in product innovation, we bring back seasonal limited products for existing users while continuously launching new products to attract new customers. This quarter, we expanded our lineup with seven innovative offerings, including the low-caffeine BOYA Tea Latte and our specialized low-caffeine collection. Our low-caffeine range delivered strong week-over-week GMV growth, with particularly encouraging results in pilot cities where customer reception has been positive. Launch week performance showed higher GMV growth than other cities, driven by strong afternoon and evening

consumption patterns. Notably, the low-caffeine BOYA Tea Latte now holds our third-highest new customer conversion rate. We've further amplified this momentum by creating a dedicated low-caffeine showcase within our mini-program, strengthening category recognition and highlighting this unique value proposition.

Furthermore, our seasonal specialty, 醒时春山, featuring premium Longjing tea, represented over 16% of total cups sold during its limited availability and secured our third-highest repurchase rate—clearly demonstrating its strong consumer appeal. Our Valentine's Day collection, 玫瑰丛中 achieved exceptional market visibility with 340 million online impressions, standing out through its sophisticated rose-infused flavors and distinctive packaging that resonated perfectly with the holiday spirit. According to data from Social Touch, Chagee maintains leadership in the premium tea beverage sector across both volume and engagement metrics, while holding the top position in key social media search rankings.

Third, we've cultivated a thriving user ecosystem that continues to expand. By the close of the first quarter, our registered members in mobile mini program grew to over 192 million, with 15 million new members joining during this quarter alone. Our active member count is now approaching 45 million, with steadily strengthening engagement metrics across all segments. A significant driver of this growth has been our low caffeine selections, which have successfully captured increased afternoon and evening consumption occasions. Building on this momentum, our precision-targeted marketing campaigns and strategic brand partnerships have established a powerful foundation for sustained customer acquisition and retention.

Moving forward, we will continue to advance our three core strategies. First, we'll optimize our store network while driving operational efficiency at the store level—streamlining our cost structure and right-sizing labor and rental expenses. Second, we remain committed to product innovation that showcases our authentic leaf tea heritage. Third, we'll enhance the customer experience to reinforce our premium brand positioning. We remain steadfast in our mission of aspiring to foster a global connection of people and cultures with every cup of our tea, positioning Chagee as the authentic voice and premier representative of Chinese tea heritage on the world stage. As we pursue sustainable shareholder returns, we will persistently push the boundaries of what's possible in our pursuit of excellence and continue to foster a global connection of people and cultures through our tea.

With that, I will turn the call over to our CFO, Aaron, to go over the financials.

Aaron Huang (CFO)

Thank you, Junjie, and hello everyone. First, I would like to express my sincere appreciation for all the support and help from our staff, business partners and shareholders along the way. As a listed company, we will continue to focus on the sustainability of business growth and value creation for our shareholders. Before we get into the financials, please note that all amounts are in RMB and all comparisons are on a year-over-year basis unless otherwise stated.

We began 2025 with solid execution across our key business priorities. We made meaningful progress in network expansion, adding stores that strengthen our market position, while delivering notable

improvements in store operational efficiency. These achievements highlight our team's consistent execution capabilities and the resilience of our business fundamentals. Building on this foundation, we continue to advance strategic initiatives designed to ensure our business remains adaptable and resilient amid the current market dynamics.

First, we continue to optimize our supply chain efficiency across all markets. As we expand globally, we work with local suppliers where it makes operational sense, which helps us maintain product freshness and manage logistics costs. This approach supports our commitment to delivering high-quality products to customers while maintaining operational efficiency.

Second, we have prioritized cost optimization and operational efficiency across our business. By leveraging our growing scale, we've enhanced our negotiating position with suppliers and streamlined our operations.

Third, we expect our geographic diversification into Southeast Asia and the North American market will reduce our dependence on any single market while creating new growth opportunities. These strategic initiatives have positioned us well to navigate market uncertainties while continuing to deliver strong financial results.

Next, let’s go through the financials.

Our net revenues for the first quarter increased by 35.4% year-over-year to 3,392.7 million, mainly driven by the continued expansion of our teahouse network. Among them, net revenues from franchised teahouses grew 31.8% to 3,149.9 million, representing 92.8% of our total revenues. Net revenues from company-owned teahouses increased 107.7% to 242.8 million, accounting for 7.2% of total revenues.

The average monthly GMV per teahouse in Greater China was 431,973 in the first quarter. While this represents a sequential decrease from fourth quarter last year, it's important to note that this primarily reflects two factors: first, seasonality, as the first quarter typically experiences lower consumer traffic following the Chinese New Year holiday period; and second, our strategic network expansion, which includes a higher proportion of teahouses in their honeymoon phase.

Turning to margins and expenses.

Operating income was 820.8 million, with an operating margin of 24.2%, compared to 28.2% in the first quarter of 2024 and 19.3% in fourth quarter of 2024. The change reflects our strategic investments in brand building and marketing for new product launches, R&D to enhance our product offerings, digital infrastructure to improve customer experience, and talent acquisition to support global expansion.

To elaborate, operating costs for company-owned teahouses were 157 million, up 170% from a year ago but down 3.8% from the fourth quarter of 2024. As of March 31, 2025, we operated 191 company-owned teahouses, up from 169 at the end of 2024. On a per-store basis, operating costs have decreased compared to the full year 2024, showing improved efficiency at the store level.

Other operating costs increased by 79.6% to 172.5 million. This was primarily driven by higher payroll, utilities, office expenses, and travel costs to support the rapid expansion of our franchised teahouse

network. As a percentage of total net revenues, other operating costs were 5.1%, up from 3.8% in the same quarter of 2024.

Sales and marketing expenses for the quarter were 299.3 million, up 166.0% from a year ago. This increase was primarily driven by higher advertising costs related to the launch of new tea products and associated marketing campaigns, as well as increased payroll expenses due to the expansion of our sales and marketing team. As a percentage of total net revenues, sales and marketing expenses were 8.8%, compared to 4.5% in the same quarter of 2024.

General and administrative expenses reached 352.8 million, an increase of 62.1% from a year ago. The growth was mainly attributable to higher research and development expenses for upgrading existing tea recipes and rolling out new products, increased IT service costs to support business development and operational efficiency, and higher payroll expenses resulting from an expanded administrative team to support our growing business. General and administrative expenses accounted for 10.4% of total net revenues, compared to 8.7% in the same period of 2024.

As a result, net income increased by 13.8% to 677.3 million, resulting in a net income margin of 20.0%, compared to 23.7% a year ago and 19.3% in fourth quarter of 2024. The decline of net income margin was due to firstly continued investment in branding and marketing especially in new products and overseas markets and secondly net loss incurred by overseas operations which were still at a ramp-up stage.

Basic and diluted net income per ordinary share was 3.92 during first quarter.

As of March 31, 2025, our cash and cash equivalents, restricted cash, and time deposits totaled 5,392.4 million, up from 4,868.7 million at the end of 2024.

Our IPO in April raised total gross proceeds of approximately US$472.9 million, including the over-allotment option, providing significant flexibility to fund our growth initiatives and navigate market uncertainties.

We will not be providing formal quarterly financial guidance at this time. Instead, we are focused on executing our long-term growth strategies and delivering lasting value to our shareholders. We may consider providing such guidance in the future as we see fit.

With that, I'll hand it back to the operator to begin the Q&A session. Operator, please go ahead.