Chagee Holdings Limited Second Quarter 2026 Earnings Call Transcript

Friday, August 28, 2026 / 8:00 AM U.S. Eastern Time

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PARTICIPANTS

Company Speakers:

Junjie Zhang - Chief Executive Officer

Aaron Huang - Chief Financial Officer

Aiden Yin - Chief Operating 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 second quarter 2026 earnings conference call. 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 2026 earnings call. With us today are Mr. Junjie Zhang, our CEO, Mr. Aiden Yin, our COO, 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. Welcome to Chagee's second quarter 2026 earnings call.

As we entered 2026, our strategy has stayed focused on the fundamentals of the business, centered on doing well by the things our consumers truly care about. In the first quarter, we completed a systematic review of our organization, product, and marketing roadmap, laying the foundation for high-quality growth. While the external environment saw some volatility in the second quarter, these changes have only reinforced our conviction. The ability to navigate cycles ultimately comes down to genuine consumer recognition. The more complex the market, the more important it is to return to the fundamentals. The more intense the competition, the more important it is to perfect every consumer touchpoint. All of our work in the second quarter was built around this logic, not as a reactive response, but as a more focused commitment to our proven path.

The tea beverage industry is going through structural change. On the supply side, the fresh tea latte category is now crowded with more players, and the competitive landscape has shifted from shared growth in an expanding market to competition over a fixed base, raising the intensity of competition. On the demand side, shifting generational values require brands to find new ways of telling their story. The old playbook built on high-profile positioning and loud marketing has lost its effectiveness. What consumers are looking for today is individual self-expression and a genuine sense of comfort. Brands need to become a gentle touchpoint that resonates with the individual, connecting through sincerity and responding to consumers with care. On the channel side, intensified competition among delivery platforms is reshaping consumer behavior. The public domain has expanded meaningfully and become a key competitive arena for brands. Meanwhile, traffic distribution has become increasingly diversified and fragmented. Brands must closely track where consumers are moving and allocate resources efficiently.

In response to these changes, we are building our capabilities across four dimensions. First, strengthening our core capabilities. At the front end, we are enhancing our innovation capabilities, striving for excellence, embracing new directions, and fully unlocking the creativity of our branding and product teams. In the middle office, we are reinforcing our support infrastructure. Innovation alone is not enough. We also need strong capabilities to mobilize resources and deliver on our goals. We are therefore continuing to upgrade our operating systems, channel capabilities, consumer operations, and IT infrastructure to support our growing scale.

Second, broadening our product mix. Beyond loose-leaf fresh tea latte, we are actively exploring additional categories, including the Special Deals and Geelato recently launched in the second quarter. We want to test more product formats to meet our consumers' increasingly diverse needs. This requires us to continue reforming our supply chain capabilities and operating systems to provide a solid foundation for category expansion.

Third, enhancing consumer reach. On one hand, we are using flexible and diverse content marketing to connect with consumers and expand our traffic funnel. On the other, we are expanding our reach through penetration across more consumption scenarios.

Fourth, we are evolving our value proposition. As consumer needs evolve, our brand value proposition also needs to iterate with the times. Through emotional resonance and experience driven retention, we aim to turn new consumers into loyal, long term Chagee Friends.

Connecting through tea is our enduring value. Perfecting the art of tea, bringing Chagee to the world, and building a premium brand with exceptional user experiences, this is our unwavering direction and standard. We continue to build our capabilities toward this goal, with every step deliberate and grounded. We believe that the more complex the environment, the more important it is to return to the fundamentals: making great products, serving our consumers well, and refining every teahouse. As we continue to deepen our capabilities across product innovation, marketing innovation, organizational efficiency, consumer operations, and overseas expansion, we are confident in achieving high-quality, sustainable growth in any market environment.

Last quarter, we announced a share repurchase program of up to $150 million. As of August 24, we have executed approximately $30 million in repurchases. Through continued action, we want to demonstrate the company's firm confidence in its long-term value and deliver a tangible return on our shareholders' trust.

Next, I will hand the call over to our COO Aiden, who will walk you through the execution during the quarter. Thank you.

Aiden Yin (COO)

Thank you, Junjie, and thank you all for joining our earnings call today.

Let me begin by sharing our overall performance for the second quarter. Total revenue reached RMB3,415 million, representing a 2.5% increase year-over-year and a 3.7% decrease quarter-over-quarter. GAAP net income was RMB465 million, representing a net income margin of 13.6%, a substantial improvement from 2.3% in the same period last year. Non-GAAP net income was RMB489 million. Non-GAAP net margin was 14.3%, stable on a sequential basis.

Total GMV for the second quarter was RMB7,660 million, down 3.3% sequentially. Greater China GMV was RMB7,156 million, down 4.5% sequentially. Overseas markets stood out, with GMV reaching RMB504 million, up 18.2% sequentially and 114.3% year-over-year, continuing to serve as an important growth engine for us.

This quarter, we continued to advance our high-quality growth strategy across four key dimensions. First, we accelerated new product launches. We launched a total of 17 new products this quarter, the highest number in a single quarter in our history. Our offerings have expanded from loose-leaf fresh tea latte to include Special Deals, lemon tea latte, matcha latte, Geelato, and other series. Within loose-leaf fresh tea latte, we successfully brought back two classic products. "Melon Oolong Tea Latte" reached an average of 110 cups per teahouse per day in its first week, with a cup share of nearly 20% and the highest first-time member penetration of any new product this year. The return of “Long Jing Tea Latte” drove overall GMV up nearly 25% sequentially during the Tomb-Sweeping Day period, outperforming last year.

On category expansion, the Special Deals, designed for weekend leisure occasions, averaged 124 cups per teahouse per day during its first three days and contributed to double-digit weekend GMV growth. The launch of the lemon tea latte also increased first-time member acquisition by 45% during the launch period, underscoring its effectiveness in attracting new customers. In addition, we piloted Geelato in select teahouses, combining loose-leaf tea with Italian gelato craftsmanship. As of August, Geelato had been introduced in more than 190 teahouses and has been well received by our Chagee Friends. Recent pilot-store performance indicates meaningful improvement, with average offline-channel GMV increasing by more than 20%. Geelato has also demonstrated a strong ability to attract new customers, reactivate dormant members and increase in-store traffic.

Second, our marketing continues to build a high-value brand core, deepening brand character and cultural resonance through a series of high-impact collaborations, exploring upgrades at the intersection of culture and tea. In June, we formed a strategic partnership with the Aranya Theater Festival and opened our first Chagee Imagine tea space in July. We also partnered with the Hubei Provincial Museum to launch the country’s first museum-themed teahouse, drawing on traditional culture and intangible cultural heritage to position tea as a meaningful cultural medium. By clearly communicating our brand values and philosophy, we have strengthened emotional connections with consumers and translated that engagement into consumer acquisition and loyalty. As of the end of June, our total registered members reached 257 million. The repurchase rate among active members remained above 43%, while members who made two or more purchases accounted for more than 78% of total orders.

Third, we continued to benefit from our more streamlined and efficient organizational structure. In the second quarter, our non-GAAP G&A expense ratio declined to 9.1%, compared with 13.2% in the prior-year period and down 2.5 percentage points sequentially. Our non-GAAP sales and marketing expense ratio narrowed down to 8.8% from 10.6% a year ago, remaining within a healthy single-digit range and broadly in line with the 8.6% level reported in the first quarter. These improvements are not simply cutting spending. They reflect a more disciplined and efficient approach to resource allocation. We are executing faster, with greater precision and stronger coordination, while focusing our resources on the initiatives that create the most value for consumers.

Fourth, we continued to prioritize high-quality growth across our teahouse network while advancing our overseas expansion. As of the end of June, our global network totaled 7,639 teahouses, representing a net increase of 108 locations from the prior quarter. This included 7,240 teahouses in Greater China and 399 overseas. We are now present in eight overseas markets, including Singapore, Malaysia, Thailand, Indonesia, the Philippines, Vietnam, the United States, and South Korea.

This quarter marked our first entry into the South Korean market. Our three Seoul teahouses sold over 16,000 cups combined in their first three days, with pre-opening app downloads exceeding 46,000. During World Tea Day, we introduced new offerings under the Boya Tea Latte series across the Asia-Pacific region.

The series increased average cups sold per teahouse across the region by 52% during its first 15 days. In Vietnam, Thailand, and Indonesia, the Boya Tea Latte series accounted for more than 30% of cup volume, underscoring the cross-market appeal of our core product offerings.

Looking ahead, we remain focused on a clear set of priorities. On products, we will maintain a consistent launch cadence, expand into new categories and continue enhancing ingredients, including sugar and dairy bases, to lead the development of healthier tea beverages. On service, we will further optimize our membership program and overall consumer experience. Across our teahouse network, we will prioritize high-quality growth in Greater China while expanding overseas in a disciplined manner. We will also upgrade equipment to help ensure product consistency and improve operating efficiency. On experience, we will continue to differentiate our teahouses through thoughtful design, creating a “third space” where consumers genuinely want to spend time. Finally, on brand, we will stay closely aligned with market trends and continue elevating the tea experience through brand enhancements, consistent product quality, an improved consumer experience, and an evolving training system.

That concludes my remarks. Now, let me turn the call over to our CFO Aaron, who will walk you through the detailed financials. Thank you.

Aaron Huang (CFO)

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

As Junjie and Aiden outlined, the second quarter presented a softer macro backdrop and a more challenging competitive landscape across the industry, and our results reflect that environment. What I want to emphasize is that even as top line growth moderated, we maintained the operating discipline we established earlier this year, and our profitability held largely intact. We view this as evidence that our cost structure and organizational efficiency gains are durable, not one time, and that they give us a stable foundation to keep executing our strategic priorities regardless of the external environment.

With that context, let me walk through the quarter in detail. Total GMV was 7,660.3 million in the second quarter, down 3.3% sequentially from 7,917.8 million in the first quarter. As of June 30, 2026, our teahouse network totaled 7,639 locations across Greater China and overseas, up 8.5% from 7,038 a year ago. Of these, 6,756 were franchised teahouses and 883 were company owned teahouses.

In Greater China, average monthly GMV per teahouse was 338,259 in the second quarter, compared to 356,080 in the first quarter. Meanwhile, overseas total GMV grew 114.3% year over year and 18.2% quarter over quarter, from 426.4 million in the first quarter to 504.0 million this quarter. Overseas markets remain our clearest growth engine.

Same-store GMV growth in Greater China improved by 7 percentage points year over year and was broadly flat sequentially. Overall same-store GMV growth improved by 6.9 percentage points from a year ago and remained relatively stable compared with the prior quarter.

On the revenue line, our net revenues increased by 2.5% year over year to 3,414.6 million in the second quarter. Net revenues from franchised teahouses were 2,474 million, representing 72.5% of total net revenues, compared to 3,020.7 million a year ago. Net revenues from company-owned teahouses were 940.6 million, up 202.2% from 311.2 million a year ago, mainly as a result of our continued development of the company-owned teahouse network across Greater China and overseas markets.

Turning to margins. Our gross profit, calculated by excluding cost of materials, storage and logistics from net revenues, reached 1,843.4 million this quarter, resulting in a gross margin of 54%, flat year over year.

Our organizational enhancements drove a meaningful year-over-year decline in operating expenses. Share-based compensation expense totaled 23.9 million in the quarter and reflects our focus on retaining and motivating employees while aligning their interests with those of shareholders. To provide greater clarity on underlying operational performance, we will continue to reference non-GAAP operating results, with full reconciliations available in our earnings release and Form 6-K.

Operating income was 524.7 million, representing an operating income margin of 15.4%, increased significantly from 3.2% in the same period a year ago, benefiting from our strategic organizational adjustments and continued disciplined cost management. Excluding share-based compensation expenses, non-GAAP operating income was 548.6 million, representing a 16.1% margin compared to a 17.1% margin in the first quarter of 2026.

Operating costs for company-owned teahouses were 566.8 million, up 207.8% from 184.1 million a year ago, consistent with the continued build out of our company-owned network.

Other operating costs decreased by 33.3% to 115.8 million, largely due to a decrease of 30.2 million in payroll expenses driven by organizational structure enhancements and headcount optimization. On a non-GAAP basis, other operating costs accounted for 3.4% of revenues, compared to 4.7% a year ago and 4.3% in the first quarter.

Sales and marketing expenses for the quarter were 301.5 million, down 21.7% from 385 million a year ago, mainly due to a more streamlined branding and marketing team, together with improved efficiency in advertising placements and precision marketing. On a non-GAAP basis, sales and marketing expenses represented 8.8% of revenues, compared to 10.6% a year ago and 8.6% in the previous quarter.

General and administrative expenses reached 334.5 million, down 64.6% year over year from 944.6 million. The decrease primarily reflected lower share-based compensation expense, reduced payroll, facilities, and professional services costs, and the absence of IPO-related fees incurred in the prior-year period. On a non-GAAP basis, G&A expenses represented 9.1% of revenues, compared to 13.2% in the same period a year ago and 11.6% in the first quarter of 2026.

Income tax expenses represented 20% of income before income tax, compared to 62.1% a year ago and 21.2% in the first quarter. The year-over-year normalization primarily reflects a reduced impact from share-based compensation expenses.

Notably, we continued to deliver profitability on both a GAAP and non-GAAP basis, extending our track record to 14 consecutive quarters of positive net income. GAAP net income was 464.8 million. Non-GAAP net income, excluding 23.9 million of share-based compensation expenses, was 488.7 million, with a non-GAAP net margin of 14.3%, compared to 18.9% a year ago and flat sequentially.

For the second quarter, basic and diluted net income per ordinary share was RMB2.44 and RMB2.42 respectively. On a non-GAAP basis, basic and diluted net income per ordinary share was RMB2.57 and RMB2.54, respectively.

Turning to liquidity, we ended the quarter with 6,795.5 million in cash and cash equivalents, restricted cash, and time deposits. This reflects the impact of our share repurchase program commencing on June 1, 2026, alongside our continued investment in the teahouse network. We maintain a healthy balance sheet that gives us the flexibility to keep executing our strategic priorities while returning capital to shareholders.

As we move through the remainder of 2026, we will execute against our new product pipeline, enhance the membership and service experience, and maintain a focus on quality as we expand our teahouse network in Greater China and overseas. Our confidence in the Company's long-term value remains firm, and we are committed to returning value to our shareholders in a meaningful way.

With that, we are ready to begin Q&A.

Alicia Guo (IRD)

Thank you, Aaron. We received a number of questions ahead of today's call. We will now address some of the key topics raised.

Our first question relates to the outlook for the second half of the year. How does management view the second half of the year amid the current competitive market environment? Our CEO Junjie will address this question.

Junjie Zhang (CEO)

Thanks for the question. As we just shared, the market environment has changed significantly, and competition in the industry has become more intense. But we have always believed that the more complex the market becomes, the more important high-quality growth is. We see 2026 as a year of adjustment and stabilization. In Q1, we completed the organizational restructuring and conducted a systematic review of our growth strategy. In Q2, we have started to explore areas such as new product category expansion and user-experience upgrades. Our core objective this year is not to pursue rapid expansion in scale, but to build a stronger foundation for sustainable growth in the next stage.

In the second half, our work will be more focused and practical. Along the direction of adjustment and exploration, we will put into execution the results and learnings from the first half, one by one. No matter how the external environment changes, we will stay focused on the fundamentals, making good products and doing the things that matter most to our members. We remain confident in steady development in the second half.

Alicia Guo (IRD)

Our next question relates to same-store trends: Could you share how same-store have trended so far in the third quarter? Our COO Aiden will address this question.

Aiden Yin (COO)

Thanks for the question. Since the start of Q3, we have seen positive signs of recovery. Same-store sales in July showed a low single-digit decline, representing a meaningful improvement from the first half. Based on trends so far, we expect same-store sales in August to turn positive year over year. We believe the improvement reflects that the benefits of our earlier strategic adjustments are gradually coming through.

There are a few drivers behind this trend. First, our new product strategy continues to contribute. In Q3 we maintained the pace of new launches from Q2, introducing several new products including Guava Peach Iced Tea and Lemon tea latte, while also re-launching popular bestsellers such as Lychee Black Tea Latte and Tie Guan Yin Tea Latte. At the same time, since Q3 falls in peak season for tea consumption, recently launched products such as Geelato and Special Deals are also better suited to the summer heat, effectively driving in-store traffic and overall performance.

Second, we continue to refine in-store service and customer experience. We have consistently emphasized a return to fundamentals, and throughout this year we have continued to refine service details at the teahouse level, improving preparation efficiency and strengthening customer experience. We are translating these seemingly small details into real, tangible outcomes in the form of repeat purchases and word of mouth.

Overall, the improving trends in July and August give us greater confidence in same-store performance for the second half of the year. While uncertainty remains in the external environment, our product pipeline is stronger and our strategic direction is clearer, and we believe this recovery is sustainable.

Alicia Guo (IRD)

The last question relates to payout: Does the company have any further payout plans? Our CFO Aaron will address this question.

Araon Huang (CFO)

Thanks for the question. Shareholder returns have always been one of the key considerations in our capital allocation strategy. In the fourth quarter of last year, we paid a special dividend of US$177 million, which reflected our commitment to returning value to shareholders.

Entering 2026, with the organizational optimization and continued improvement in operating efficiency, our free cash flow has remained healthy. This provides a solid foundation for us to explore a more regular and sustainable shareholder return mechanism. Currently, the Board and management are actively and prudently reviewing different options, including regular dividends, while considering our medium- to long-term strategy, funding needs for teahouse development, and changes in the market environment. We fully understand that it is important for shareholders to share in the results of the company while we maintain high-quality growth. Therefore, continuously enhancing shareholder returns remains a firm direction for us. Management team is currently evaluating the specific details. We will bring a proposal to the Board at the appropriate time and, subject to the Board's review and approval, provide an update to the market.

Alicia Guo (IRD)

That concludes today's Q&A session. If you have any further questions, please feel free to contact us or request through our IR website. Thank you all for your time today. We look forward to reconnecting on our next call. Have a wonderful day.

Operator

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