



Yum China Reports Third Quarter 2019 Results

29 October, 2019

**Total revenues grew 5% or 8% in constant currency;
Total system sales grew 8% and same-store sales grew 2% in constant currency**

SHANGHAI, Oct. 29, 2019 /PRNewswire/ -- Yum China Holdings, Inc. (the "Company" or "Yum China") (NYSE: YUMC) today reported unaudited results for the third quarter ended September 30, 2019. Reported GAAP results include Special Items, which are excluded from adjusted measures. Special Items are not allocated to any segment and therefore only impact reported GAAP results of Yum China. See "Reconciliation of Reported GAAP Results to Adjusted Measures" within this release.

Third Quarter Highlights

- **Total revenues** increased 5% year over year to \$2.3 billion from \$2.2 billion (8% year over year increase excluding foreign currency translation ("F/X")).
- **Total system sales** grew 8% year over year, with growth of 10% at KFC and 3% at Pizza Hut, excluding F/X.
- **Same-store sales** grew 2% year over year, with a 3% increase at KFC and a 1% increase at Pizza Hut, excluding F/X.
- **Restaurant margin** was 17.7%, compared with 17.6% in the prior year period.
- **Operating Profit** increased 11% year over year to \$300 million from \$269 million (14% year over year increase excluding F/X).
- Effective tax rate was 26.9%.
- **Net Income** increased 11% to \$223 million from \$203 million in the prior year period, primarily due to the increase in operating profit and mark to market gain from our equity investment in Meituan Dianping.
- **Diluted EPS** increased 14% to \$0.58 from \$0.51 in the prior year period (8% year over year increase excluding the \$0.03 per share mark to market gain from our equity investment in Meituan Dianping).
- Opened 231 new restaurants during the quarter, bringing total store count to 8,917 across more than 1,300 cities.

Key Financial Results

| | Third Quarter 2019 | | | | Year to Date Ended 9/30/2019 | | | |
|-----------|--------------------|------------------|-----------|------------------|------------------------------|------------------|-----------|------------------|
| | % Change | | | | % Change | | | |
| | System Sales | Same-Store Sales | New Units | Operating Profit | System Sales | Same-Store Sales | New Units | Operating Profit |
| Yum China | +8 | +2 | +7 | +11 | +9 | +4 | +7 | (6) |
| KFC | +10 | +3 | +9 | +12 | +11 | +4 | +9 | +4 |
| Pizza Hut | +3 | +1 | +2 | (29) | +3 | +1 | +2 | +9 |

| (in US\$ million, except for per share data and percentages) | Third Quarter | | | | Year to Date Ended 9/30 | | | |
|---|---------------|---------|----------|--------|-------------------------|---------|----------|--------|
| | % Change | | | | % Change | | | |
| | 2019 | 2018 | Reported | Ex F/X | 2019 | 2018 | Reported | Ex F/X |
| Operating Profit | \$ 300 | \$ 269 | +11 | +14 | \$ 807 | \$ 857 | (6) | (1) |
| Adjusted Operating Profit ^[1] | \$ 300 | \$ 269 | +11 | +14 | \$ 807 | \$ 759 | +6 | +12 |
| Net Income | \$ 223 | \$ 203 | +11 | +14 | \$ 623 | \$ 634 | (2) | +4 |
| Adjusted Net Income ^[1] | \$ 223 | \$ 203 | +11 | +14 | \$ 631 | \$ 560 | +13 | +19 |
| Basic Earnings Per Common Share | \$ 0.59 | \$ 0.53 | +11 | +15 | \$ 1.65 | \$ 1.64 | +1 | +6 |
| Adjusted Basic Earnings Per Common Share ^[1] | \$ 0.59 | \$ 0.53 | +11 | +15 | \$ 1.67 | \$ 1.45 | +15 | +21 |
| Diluted Earnings Per Common Share | \$ 0.58 | \$ 0.51 | +14 | +16 | \$ 1.60 | \$ 1.59 | +1 | +6 |
| Adjusted Diluted Earnings Per Common Share ^[1] | \$ 0.58 | \$ 0.51 | +14 | +16 | \$ 1.62 | \$ 1.41 | +15 | +21 |

^[1]See "Reconciliation of Reported GAAP Results to Adjusted Measures" included in the accompanying tables of this release for further details.

Note: All comparisons are versus the same period a year ago.

NM refers to changes over 100%, from negative to positive amounts or from zero to an amount.

Percentages may not recompute due to rounding.

System sales and same-store sales percentages exclude the impact of F/X.

CEO and CFO Comments

Joey Wat, CEO of Yum China, commented, "We are pleased with our continued strong performance in the third quarter, which was driven by our competitive positioning, leading digital capabilities and ongoing innovation across the business. We achieved our 12th consecutive quarter of system sales growth since the spin-off, highlighting the strength of our business model and demonstrating our ability to effectively adapt to changing market conditions. KFC delivered solid sales and profit growth as we strategically decreased promotion intensity to protect margins. Pizza Hut maintained positive sales momentum with a decline in margin during the quarter due to the important and necessary long-term investments in the revitalization program."

"We will continue to build on KFC's resilient business model, cement the revitalization of Pizza Hut, invest in the growth of our smaller brands and sharpen our industry-leading digital ecosystem, which enables us to meet customer demands and manage the business effectively," continued Ms. Wat. "We are cautiously optimistic about the future because we see significant growth opportunities in China, and we will focus on leveraging our competitive advantages to succeed in this dynamic environment."

Andy Yeung, CFO of Yum China, added, "I am very excited to have joined the Yum China team and am pleased to be reporting another strong set of quarterly results, which highlight Yum China's strength in many areas. We continued rapid expansion of our store network and maintained very healthy cash payback for our new stores. We also delivered strong sales, operating profit and EPS growth despite continued pressure from higher chicken and labor costs. In addition, we returned \$109 million to shareholders through dividends and share repurchases in the quarter. Looking ahead, we will continue to focus on driving sales and managing costs while making prudent investments to drive long-term growth. As always, we remain committed to driving significant overall value to our shareholders."

Dividend and Share Repurchase

- The Board of Directors declared a cash dividend of \$0.12 per share on Yum China's common stock, payable as of the close of business on December 17, 2019 to shareholders of record as of the close of business on November 26, 2019.
- During the third quarter, we repurchased approximately 1.4 million shares of Yum China common stock for \$64.0 million at an average price of \$44.70 per share.

Digital and Delivery

- As of September 30, 2019, the KFC loyalty program had over 200 million members and the Pizza Hut loyalty program had over 65 million members, an increase of 55 million and 15 million, respectively, year over year.
- Digital payments accounted for 91% of Company sales in the quarter, an increase of 9 percentage points year over year.
- Delivery contributed to 20% of Company sales in the third quarter of 2019, an increase of 3 percentage points year over year. Delivery services are now available in 1,225 cities, up from 1,063 cities at the end of the prior year period.

New-Unit Development and Asset Upgrade

- The Company opened 231 new restaurants and remodeled 222 restaurants in the third quarter of 2019.

| | New Units | | Restaurant Count | |
|-----------------------|---------------|-----------------|------------------|-------|
| | Third Quarter | Year to Date | As of 9/30 | |
| | 2019 | Ended 9/30/2019 | 2019 | 2018 |
| Yum China | 231 | 646 | 8,917 | 8,313 |
| KFC | 174 | 501 | 6,324 | 5,800 |
| Pizza Hut | 24 | 84 | 2,255 | 2,215 |
| Others ^[2] | 33 | 61 | 338 | 298 |

^[2] Others include Little Sheep, East Dawning, Taco Bell and COFFii & JOY.

Restaurant Margin

- In the third quarter of 2019, Yum China restaurant margin was 17.7%, as compared with 17.6% in the prior year period, primarily attributable to sales leverage, productivity improvement and other cost savings, partially offset by wage and commodity inflation and promotional activities.

| | Third Quarter | | | Year to Date Ended 9/30 | | |
|-----------|---------------|-------|--------------|-------------------------|-------|--------------|
| | 2019 | 2018 | % pts change | 2019 | 2018 | % pts change |
| Yum China | 17.7% | 17.6% | +0.1 | 17.0% | 16.9% | +0.1 |
| KFC | 20.1% | 19.2% | +0.9 | 18.8% | 19.0% | (0.2) |
| Pizza Hut | 11.4% | 13.8% | (2.4) | 12.4% | 11.8% | +0.6 |

2019 Outlook

- The Company continues to expect fiscal year 2019 targets as follows:
 - Between 800 and 850 gross new units.
 - Capital expenditures between \$475 million and \$525 million.
 - Effective tax rate below 28%, excluding any impact from the Company's equity investment in Meituan Dianping.

The Company provides its effective tax rate outlook excluding any impact from its investment in Meituan Dianping, which will be subject to mark to market accounting and may be significant.

Conference Call

Yum China's management will hold an earnings conference call at 8:00 p.m. U.S. Eastern Time on Tuesday, October 29, 2019 (8:00 a.m. Beijing/Hong Kong Time on Wednesday, October 30, 2019). A copy of the presentation will be available on the Yum China Holdings, Inc. website, <http://ir.yumchina.com>.

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A replay of the conference call will be available two hours after the call ends until 8:00 a.m. U.S. Eastern Time on Wednesday, November 6, 2019 (9:00 p.m. Beijing/Hong Kong Time on Wednesday, November 6, 2019) and may be accessed by phone at the following numbers:

U.S.: +1 855 452 5696
International: +61 2 9003 4211
Passcode: 7952028

Additionally, a live webcast and an archived webcast of this conference call will be available at <http://ir.yumchina.com>.

Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including under "2019 Outlook." We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the fact that they do not relate strictly to historical or current facts and by the use of forward-looking words such as "expect," "expectation," "believe," "anticipate," "may," "could," "intend," "belief," "plan," "estimate," "target," "predict," "project," "likely," "will," "continue," "should," "forecast," "outlook" or similar terminology. These statements are based on current estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable under the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Forward-looking statements include, without limitation, statements regarding the future strategies, business plans, investment plans, earnings, performance and returns of Yum China, statements regarding the revitalization of Pizza Hut, anticipated effects of population and macroeconomic trends, the capital structure and effective tax rate of Yum China, the anticipated effects of our digital and delivery capabilities on growth and beliefs regarding the long-term drivers of Yum China's business. Forward-looking statements are not guarantees of performance and are inherently subject to known and unknown risks and uncertainties that are difficult to predict and could cause our actual results or events to differ materially from those indicated by those statements. We cannot assure you that any of our expectations, estimates or assumptions will be achieved. The forward-looking statements included in this press release are only made as of the date of this press release, and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law. Numerous factors could cause our actual results or events to differ materially from those expressed or implied by forward-looking statements, including, without limitation: whether we are able to achieve development goals at the times and in the amounts currently anticipated, if at all, the success of our marketing campaigns and product innovation, our ability to maintain food safety and quality control systems, our ability to control costs and expenses, including tax costs, as well as changes in political, economic and regulatory conditions in China. In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You should consult our filings with the Securities and Exchange Commission (including the information set forth under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K) for additional detail about factors that could affect our financial and other results.

About Yum China Holdings, Inc.

Yum China Holdings, Inc. is a licensee of Yum! Brands in mainland China. It has exclusive rights in mainland China to KFC, China's leading quick-service restaurant brand, Pizza Hut, the leading casual dining restaurant brand in China, and Taco Bell, a California-based restaurant chain serving innovative Mexican-inspired food. Yum China also owns the Little Sheep, East Dawning and COFFii & JOY concepts outright. The Company had more than 8,900 restaurants in over 1,300 cities at the end of September 2019. In 2019, Yum China was named to the Bloomberg Gender-Equality Index and was certified as a Top Employer 2019 in China by the Top Employers Institute. For more information, please visit <http://ir.yumchina.com>.

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Yum China Holdings, Inc.
Condensed Consolidated Statements of Income
(in US\$ million, except per share data)
(unaudited)

Quarter Ended % Change Year to Date Ended % Change
9/30/2019 9/30/2018 B/(W) 9/30/2019 9/30/2018 B/(W)

| Revenues | | | | | | |
|---|----------------|----------------|------------|----------------|----------------|------------|
| Company sales | \$ 2,097 | \$ 2,008 | 4 | \$ 6,112 | \$ 5,912 | 3 |
| Franchise fees and income | 38 | 36 | 7 | 113 | 110 | 3 |
| Revenues from transactions with franchisees and unconsolidated affiliates | 172 | 159 | 8 | 496 | 461 | 8 |
| Other revenues | 12 | 9 | 39 | 26 | 18 | 45 |
| Total revenues | 2,319 | 2,212 | 5 | 6,747 | 6,501 | 4 |
| Costs and Expenses, Net | | | | | | |
| Company restaurants | | | | | | |
| Food and paper | 651 | 610 | (7) | 1,896 | 1,775 | (7) |
| Payroll and employee benefits | 455 | 430 | (6) | 1,371 | 1,296 | (6) |
| Occupancy and other operating expenses | 619 | 615 | (1) | 1,804 | 1,841 | 2 |
| Company restaurant expenses | 1,725 | 1,655 | (4) | 5,071 | 4,912 | (3) |
| General and administrative expenses | 117 | 119 | — | 340 | 334 | (2) |
| Franchise expenses | 19 | 18 | (3) | 55 | 55 | 1 |
| Expenses for transactions with franchisees and unconsolidated affiliates | 167 | 156 | (7) | 488 | 454 | (7) |
| Other operating costs and expenses | 9 | 6 | (56) | 20 | 17 | (21) |
| Closures and impairment (income) expenses, net | (1) | (1) | 18 | 14 | 15 | 6 |
| Other income, net | (17) | (10) | 73 | (48) | (143) | (67) |
| Total costs and expenses, net | 2,019 | 1,943 | (4) | 5,940 | 5,644 | (5) |
| Operating Profit | 300 | 269 | 11 | 807 | 857 | (6) |
| Interest income, net | 10 | 10 | 6 | 29 | 28 | 4 |
| Investment gain | 12 | — | NM | 39 | — | NM |
| Income Before Income Taxes | 322 | 279 | 15 | 875 | 885 | (1) |
| Income tax provision | (87) | (67) | (28) | (226) | (227) | 1 |
| Net income – including noncontrolling interests | 235 | 212 | 11 | 649 | 658 | (1) |
| Net income – noncontrolling interests | 12 | 9 | (26) | 26 | 24 | (6) |
| Net Income – Yum China Holdings, Inc. | \$ 223 | \$ 203 | 11 | \$ 623 | \$ 634 | (2) |
| Effective tax rate | 26.9% | 24.2% | (2.7)ppts. | 25.8% | 25.7% | (0.1)ppts. |
| Basic Earnings Per Common Share | \$ 0.59 | \$ 0.53 | | \$ 1.65 | \$ 1.64 | |
| Weighted average shares outstanding (in millions) | 377 | 384 | | 378 | 386 | |
| Diluted Earnings Per Common Share | \$ 0.58 | \$ 0.51 | | \$ 1.60 | \$ 1.59 | |
| Weighted average shares outstanding (in millions) | 388 | 394 | | 389 | 398 | |
| Cash Dividends Declared Per Common Share | \$ 0.12 | \$ 0.10 | | \$ 0.36 | \$ 0.30 | |
| Company sales | 100.0% | 100.0% | | 100.0% | 100.0% | |
| Food and paper | 31.0 | 30.4 | (0.6)ppts. | 31.0 | 30.0 | (1.0)ppts. |
| Payroll and employee benefits | 21.7 | 21.4 | (0.3)ppts. | 22.4 | 21.9 | (0.5)ppts. |
| Occupancy and other operating expenses | 29.6 | 30.6 | 1.0ppts. | 29.6 | 31.2 | 1.6ppts. |
| Restaurant margin | 17.7% | 17.6% | 0.1ppts. | 17.0% | 16.9% | 0.1ppts. |
| Operating margin | 14.3% | 13.4% | 0.9ppts. | 13.2% | 14.5% | (1.3)ppts. |

Percentages may not recompute due to rounding.

Yum China Holdings, Inc.
KFC Operating Results
(in US\$ million)
(unaudited)

| | Quarter Ended | | % Change | Year to Date Ended | | % Change |
|---|---------------|--------------|----------|--------------------|--------------|----------|
| | 9/30/2019 | 9/30/2018 | | 9/30/2019 | 9/30/2018 | |
| | | | B/(W) | | | B/(W) |
| Revenues | | | | | | |
| Company sales | \$ 1,546 | \$ 1,452 | 6 | \$ 4,495 | \$ 4,248 | 6 |
| Franchise fees and income | 35 | 34 | 4 | 104 | 104 | 1 |
| Revenues from transactions with franchisees and unconsolidated affiliates | 16 | 15 | 9 | 48 | 47 | 3 |
| Other revenues | 1 | — | NM | 1 | — | NM |
| Total revenues | 1,598 | 1,501 | 6 | 4,648 | 4,399 | 6 |
| Costs and Expenses, Net | | | | | | |

| | | | | | | |
|--|---------------|---------------|------------|---------------|---------------|------------|
| Company restaurants | | | | | | |
| Food and paper | 477 | 444 | (7) | 1,403 | 1,281 | (10) |
| Payroll and employee benefits | 311 | 297 | (5) | 942 | 879 | (7) |
| Occupancy and other operating expenses | 447 | 432 | (3) | 1,305 | 1,281 | (2) |
| Company restaurant expenses | 1,235 | 1,173 | (5) | 3,650 | 3,441 | (6) |
| General and administrative expenses | 50 | 44 | (16) | 148 | 135 | (10) |
| Franchise expenses | 18 | 17 | (2) | 53 | 53 | — |
| Expenses for transactions with franchisees and unconsolidated affiliates | 16 | 15 | (4) | 48 | 47 | (2) |
| Closures and impairment expenses, net | — | — | NM | 7 | 6 | (7) |
| Other income, net | (16) | (12) | 34 | (46) | (42) | 7 |
| Total costs and expenses, net | 1,303 | 1,237 | (5) | 3,860 | 3,640 | (6) |
| Operating Profit | \$ 295 | \$ 264 | 12 | \$ 788 | \$ 759 | 4 |
| Company sales | 100.0% | 100.0% | | 100.0% | 100.0% | |
| Food and paper | 30.9 | 30.6 | (0.3)ppts. | 31.2 | 30.2 | (1.0)ppts. |
| Payroll and employee benefits | 20.1 | 20.4 | 0.3ppts. | 21.0 | 20.7 | (0.3)ppts. |
| Occupancy and other operating expenses | 28.9 | 29.8 | 0.9ppts. | 29.0 | 30.1 | 1.1ppts. |
| Restaurant margin | 20.1% | 19.2% | 0.9ppts. | 18.8% | 19.0% | (0.2)ppts. |
| Operating margin | 19.1% | 18.1% | 1.0ppts. | 17.5% | 17.8% | (0.3)ppts. |

Percentages may not recompute due to rounding.

Yum China Holdings, Inc.
Pizza Hut Operating Results
(in US\$ million)
(unaudited)

| | Quarter Ended | | % Change | Year to Date Ended | | % Change |
|---|---------------|--------------|-------------|--------------------|---------------|------------|
| | 9/30/2019 | 9/30/2018 | | 9/30/2019 | 9/30/2018 | |
| | | | B/(W) | | | B/(W) |
| Revenues | | | | | | |
| Company sales | \$ 540 | \$ 548 | (1) | \$ 1,588 | \$ 1,640 | (3) |
| Franchise fees and income | 1 | 1 | NM | 3 | 2 | 68 |
| Revenues from transactions with franchisees and unconsolidated affiliates | 1 | 1 | NM | 3 | 1 | NM |
| Other revenues | — | — | NM | 1 | — | NM |
| Total revenues | 542 | 550 | (1) | 1,595 | 1,643 | (3) |
| Costs and Expenses, Net | | | | | | |
| Company restaurants | | | | | | |
| Food and paper | 170 | 163 | (5) | 484 | 486 | — |
| Payroll and employee benefits | 140 | 130 | (8) | 420 | 410 | (2) |
| Occupancy and other operating expenses | 168 | 179 | 7 | 487 | 551 | 12 |
| Company restaurant expenses | 478 | 472 | (1) | 1,391 | 1,447 | 4 |
| General and administrative expenses | 25 | 24 | (6) | 76 | 80 | 5 |
| Franchise expenses | 1 | 1 | (73) | 2 | 2 | (34) |
| Expenses for transactions with franchisees and unconsolidated affiliates | 1 | 1 | NM | 3 | 1 | NM |
| Other operating costs and expenses | — | — | NM | 1 | — | NM |
| Closures and impairment (income) expenses, net | (1) | (1) | 77 | 5 | 9 | 38 |
| Other income, net | — | — | NM | — | (2) | NM |
| Total costs and expenses, net | 504 | 497 | (2) | 1,478 | 1,537 | 4 |
| Operating Profit | \$ 38 | \$ 53 | (29) | \$ 117 | \$ 106 | 9 |
| Company sales | 100.0% | 100.0% | | 100.0% | 100.0% | |
| Food and paper | 31.5 | 29.7 | (1.8)ppts. | 30.5 | 29.6 | (0.9)ppts. |
| Payroll and employee benefits | 26.0 | 23.8 | (2.2)ppts. | 26.5 | 25.0 | (1.5)ppts. |
| Occupancy and other operating expenses | 31.1 | 32.7 | 1.6ppts. | 30.6 | 33.6 | 3ppts. |
| Restaurant margin | 11.4% | 13.8% | (2.4)ppts. | 12.4% | 11.8% | 0.6ppts. |
| Operating margin | 7.0% | 9.8% | (2.8)ppts. | 7.4% | 6.5% | 0.9ppts. |

Percentages may not recompute due to rounding.

Yum China Holdings, Inc.
Condensed Consolidated Balance Sheets
(in US\$ million)

9/30/2019 12/31/2018

(Unaudited)

ASSETS

Current Assets

| | | | | |
|---|----|-------|----|-------|
| Cash and cash equivalents | \$ | 1,355 | \$ | 1,266 |
| Short-term investments | | 364 | | 122 |
| Accounts receivable, net | | 79 | | 80 |
| Inventories, net | | 317 | | 307 |
| Prepaid expenses and other current assets | | 141 | | 177 |

Total Current Assets

| | | | | |
|--|--|-------|--|-------|
| | | 2,256 | | 1,952 |
| Property, plant and equipment, net | | 1,506 | | 1,615 |
| Operating lease right-of-use assets | | 1,893 | | — |
| Goodwill | | 256 | | 266 |
| Intangible assets, net | | 97 | | 116 |
| Deferred income taxes | | 89 | | 89 |
| Investments in unconsolidated affiliates | | 74 | | 81 |
| Other assets | | 539 | | 491 |

Total Assets

LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY

Current Liabilities

| | | | | |
|--|--|-------|--|-------|
| Accounts payable and other current liabilities | | 1,566 | | 1,199 |
| Income taxes payable | | 82 | | 54 |

Total Current Liabilities

| | | | | |
|---|--|-------|--|-------|
| | | 1,648 | | 1,253 |
| Non-current operating lease liabilities | | 1,729 | | — |
| Capital lease obligations | | 23 | | 25 |
| Other liabilities | | 195 | | 355 |

Total Liabilities

| | | | | |
|--|--|-------|--|-------|
| | | 3,595 | | 1,633 |
|--|--|-------|--|-------|

Redeemable Noncontrolling Interest

| | | | | |
|--|--|---|--|---|
| | | 1 | | 1 |
|--|--|---|--|---|

Equity

Common stock, \$0.01 par value; 1,000 million shares authorized;

394 million shares and 392 million shares issued at September 30, 2019 and December 31, 2018, respectively; 376 million shares and 379 million shares outstanding at September 30, 2019 and December 31, 2018, respectively

| | | | | |
|--------------------------------------|--|-------|--|-------|
| | | 4 | | 4 |
| Treasury stock | | (664) | | (460) |
| Additional paid-in capital | | 2,423 | | 2,402 |
| Retained earnings | | 1,371 | | 944 |
| Accumulated other comprehensive loss | | (109) | | (17) |

Total Equity – Yum China Holdings, Inc.

| | | | | |
|--|--|-------|--|-------|
| | | 3,025 | | 2,873 |
|--|--|-------|--|-------|

Noncontrolling interests

| | | | | |
|--|--|----|--|-----|
| | | 89 | | 103 |
|--|--|----|--|-----|

Total Equity

| | | | | |
|--|--|-------|--|-------|
| | | 3,114 | | 2,976 |
|--|--|-------|--|-------|

Total Liabilities, Redeemable Noncontrolling Interest and Equity

| | | | | |
|--|----|-------|----|-------|
| | \$ | 6,710 | \$ | 4,610 |
|--|----|-------|----|-------|

Yum China Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(in US\$ million)
(unaudited)

Year to Date Ended

9/30/2019 9/30/2018

Cash Flows – Operating Activities

| | | | | |
|---|----|------|----|------|
| Net income – including noncontrolling interests | \$ | 649 | \$ | 658 |
| Depreciation and amortization | | 322 | | 343 |
| Amortization of operating lease right-of-use assets | | 251 | | — |
| Closures and impairment expenses | | 14 | | 15 |
| Gain from re-measurement of equity interest upon acquisition | | — | | (98) |
| Investment gain | | (39) | | — |
| Equity income from investments in unconsolidated affiliates | | (56) | | (52) |
| Distributions of income received from unconsolidated affiliates | | 50 | | 51 |
| Deferred income taxes | | 12 | | 46 |
| Share-based compensation expense | | 21 | | 18 |
| Changes in accounts receivable | | (2) | | 2 |
| Changes in inventories | | (22) | | 14 |
| Changes in prepaid expenses and other current assets | | 7 | | (13) |
| Changes in accounts payable and other current liabilities | | 118 | | 184 |
| Changes in income taxes payable | | 32 | | 41 |

| | | |
|--|-----------------|-----------------|
| Changes in non-current operating lease liabilities | (280) | — |
| Other, net | (32) | (36) |
| Net Cash Provided by Operating Activities | 1,045 | 1,173 |
| Cash Flows – Investing Activities | | |
| Capital spending | (310) | (359) |
| Purchases of short-term investments | (619) | (513) |
| Maturities of short-term investments | 366 | 513 |
| Acquisition of business, net of cash acquired | — | (91) |
| Investment in equity securities | — | (74) |
| Other, net | 10 | (3) |
| Net Cash Used in Investing Activities | (553) | (527) |
| Cash Flows – Financing Activities | | |
| Repayment of short-term borrowings assumed from acquisition | — | (10) |
| Repurchase of shares of common stock | (207) | (161) |
| Cash dividends paid on common stock | (136) | (115) |
| Dividends paid to noncontrolling interests | (25) | (29) |
| Other, net | — | (3) |
| Net Cash Used in Financing Activities | (368) | (318) |
| Effect of Exchange Rates on Cash and Cash Equivalents and Restricted Cash | (26) | (53) |
| Net Increase in Cash, Cash Equivalents and Restricted Cash | 98 | 275 |
| Cash, Cash Equivalents and Restricted Cash - Beginning of Period | 1,266 | 1,059 |
| Cash, Cash Equivalents and Restricted Cash - End of Period | \$ 1,364 | \$ 1,334 |

In this press release:

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("F/X"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the F/X impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.
- System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned, franchise and unconsolidated affiliate restaurants that operate our restaurant concepts, except for non-Company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at a rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales in the Condensed Consolidated Statements of Income; however, the franchise fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.
- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year. We refer to these as our "base" stores. Previously, same-store sales growth represented the estimated percentage change in sales of all restaurants in the Company system that have been open for one year or more, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores.
- Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales.

Reconciliation of Reported GAAP Results to Adjusted Measures
(in millions, except per share data)
(unaudited)

In addition to the results provided in accordance with US Generally Accepted Accounting Principles ("GAAP") in this press release, the Company provides measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted EPS, Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for income tax, interest income, net, investment gain or loss, depreciation, amortization and other items, including store impairment charges and Special Items. The Special Item for the year to date ended September 30, 2019 represents the impact from the US Tax Cuts and Jobs Act (the "Tax Act"), as described in the accompanying notes. The Special Item for the year to date ended September 30, 2018 represents a gain recognized from the re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition, as described in the accompanying notes. The Company excludes impact from Special Items for the purpose of evaluating performance internally. Special Items are not included in any of our segment results. In addition, the Company provides Adjusted EBITDA because we believe that investors and analysts may find it useful in measuring operating performance without regard to items such as income tax, interest income, net, investment gain or loss, depreciation, amortization and other items, including store impairment charges and Special Items. These adjusted measures are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of these adjusted measures provide additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their nature. These adjusted measures should not be considered in isolation or as a substitute for GAAP financial results, but should be read in conjunction with the unaudited Condensed Consolidated Statements of Income and other information presented herein. A reconciliation of the most directly comparable GAAP measures to adjusted measures follows.

Quarter Ended Year to Date Ended

9/30/2019 9/30/2018 9/30/2019 9/30/2018

Detail of Special Items

| | | | | | | | | |
|---|----|-------|----|-------|----|--------|----|--------|
| Gain from re-measurement of equity interest upon acquisition ^(b) | \$ | — | \$ | — | \$ | — | \$ | 98 |
| Special Items, Operating Profit | | — | | — | | — | | 98 |
| Tax effect on Special Items ^(c) | | — | | — | | — | | (24) |
| Impact from the Tax Act ^(d) | | — | | — | | (8) | | — |
| Special Items, net income – including noncontrolling interests | | — | | — | | (8) | | 74 |
| Special Items, net income – noncontrolling interests | | — | | — | | — | | — |
| Special Items, Net Income – Yum China Holdings, Inc. | \$ | — | \$ | — | \$ | (8) | \$ | 74 |
| Weighted Average Diluted Shares Outstanding | | 388 | | 394 | | 389 | | 398 |
| Special Items, Diluted Earnings Per Common Share | \$ | — | \$ | — | \$ | (0.02) | \$ | 0.18 |
| Reconciliation of Operating Profit to Adjusted Operating Profit | | | | | | | | |
| Operating Profit | \$ | 300 | \$ | 269 | \$ | 807 | \$ | 857 |
| Special Items, Operating Profit | | — | | — | | — | | 98 |
| Adjusted Operating Profit | \$ | 300 | \$ | 269 | \$ | 807 | \$ | 759 |
| Reconciliation of Net Income to Adjusted Net Income | | | | | | | | |
| Net Income – Yum China Holdings, Inc. | \$ | 223 | \$ | 203 | \$ | 623 | \$ | 634 |
| Special Items, Net Income – Yum China Holdings, Inc. | | — | | — | | (8) | | 74 |
| Adjusted Net Income – Yum China Holdings, Inc. | \$ | 223 | \$ | 203 | \$ | 631 | \$ | 560 |
| Reconciliation of EPS to Adjusted EPS | | | | | | | | |
| Basic Earnings Per Common Share | \$ | 0.59 | \$ | 0.53 | \$ | 1.65 | \$ | 1.64 |
| Special Items, Basic Earnings Per Common Share | | — | | — | | (0.02) | | 0.19 |
| Adjusted Basic Earnings Per Common Share | \$ | 0.59 | \$ | 0.53 | \$ | 1.67 | \$ | 1.45 |
| Diluted Earnings Per Common Share | \$ | 0.58 | \$ | 0.51 | \$ | 1.6 | \$ | 1.59 |
| Special Items, Diluted Earnings Per Common Share | | — | | — | | (0.02) | | 0.18 |
| Adjusted Diluted Earnings Per Common Share | \$ | 0.58 | \$ | 0.51 | \$ | 1.62 | \$ | 1.41 |
| Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate | | | | | | | | |
| Effective tax rate | | 26.9% | | 24.2% | | 25.8% | | 25.7% |
| Impact on effective tax rate as a result of Special Items | | — | | — | | 0.9% | | (0.1)% |
| Adjusted effective tax rate | | 26.9% | | 24.2% | | 24.9% | | 25.8% |

**Notes to the Condensed Consolidated Statements of Income, Condensed Consolidated Balance Sheets,
Condensed Consolidated Statements of Cash Flows and Reconciliation of Reported GAAP Results to Adjusted Measures
(in US\$ million)
(unaudited)**

- (a) Amounts presented as of and for the quarters and years to date ended September 30, 2019 and 2018 are unaudited.
 (b) As a result of the acquisition of Wuxi KFC in the first quarter of 2018, the Company recognized a gain of \$98 million from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes.
 (c) The tax expense was determined based upon the nature, as well as the jurisdiction, of each Special Item at the applicable tax rate.
 (d) We completed the evaluation of the impact on our transition tax computation based on the final regulations released by the US Treasury Department and the IRS in the first quarter of 2019 and recorded an additional amount of \$8 million for the transition tax accordingly.

**Reconciliation of Net Income to Adjusted EBITDA
(in US\$ million)
(unaudited)**

Net income, along with the reconciliation to Adjusted EBITDA, is presented below.

| | Quarter Ended | | Year to Date Ended | |
|--|---------------|-----------|--------------------|-----------|
| | 9/30/2019 | 9/30/2018 | 9/30/2019 | 9/30/2018 |
| Reconciliation of Net Income to Adjusted EBITDA | | | | |
| Net Income – Yum China Holdings, Inc. | \$ | 223 | \$ | 203 |
| Net income – noncontrolling interests | | 12 | | 9 |
| Income tax provision | | 87 | | 67 |
| Interest income, net | | (10) | | (10) |
| Investment gain | | (12) | | — |
| Operating Profit | | 300 | | 269 |
| Special Items, Operating Profit | | — | | — |
| Adjusted Operating Profit | | 300 | | 269 |
| Depreciation and amortization | | 105 | | 108 |
| Store impairment charges | | 2 | | 2 |
| Adjusted EBITDA | \$ | 407 | \$ | 379 |
| | | | | 1,156 |
| | | | | 1,125 |

Unit Count by Brand

KFC

| | 12/31/2018 | New Builds | Closures | Refranchised | 9/30/2019 |
|---------------------------|--------------|------------|-------------|--------------|--------------|
| Company-owned | 4,597 | 398 | (62) | (8) | 4,925 |
| Unconsolidated affiliates | 811 | 69 | (17) | | 863 |
| Franchisees | 502 | 34 | (8) | 8 | 536 |
| Total | 5,910 | 501 | (87) | — | 6,324 |

Pizza Hut

| | 12/31/2018 | New Builds | Closures | Refranchised | 9/30/2019 |
|---------------|--------------|------------|-------------|--------------|--------------|
| Company-owned | 2,188 | 75 | (68) | (30) | 2,165 |
| Franchisees | 52 | 9 | (1) | 30 | 90 |
| Total | 2,240 | 84 | (69) | — | 2,255 |

Others

| | 12/31/2018 | New Builds | Closures | Refranchised | 9/30/2019 |
|---------------|------------|------------|-------------|--------------|------------|
| Company-owned | 47 | 38 | (2) | (2) | 81 |
| Franchisees | 287 | 23 | (55) | 2 | 257 |
| Total | 334 | 61 | (57) | — | 338 |

Yum China Holdings, Inc.
Segment Results
(in US\$ million)
(unaudited)

| | KFC | Pizza Hut | All Other Segments ⁽¹⁾ | Corporate and Unallocated ⁽²⁾ | Elimination | Total |
|---|-----------------|---------------|-----------------------------------|--|---------------|-----------------|
| Quarter Ended 9/30/2019 | | | | | | |
| Company sales | \$ 1,546 | \$ 540 | \$ 11 | \$ — | \$ — | \$ 2,097 |
| Franchise fees and income | 35 | 1 | 2 | — | — | 38 |
| Revenues from transactions with franchisees and unconsolidated affiliates | 16 | 1 | 8 | 147 | — | 172 |
| Other revenues | 1 | — | 19 | 1 | (9) | 12 |
| Total revenues | \$ 1,598 | \$ 542 | \$ 40 | \$ 148 | \$ (9) | \$ 2,319 |
| Company restaurant expenses | 1,235 | 478 | 12 | — | — | 1,725 |
| General and administrative expenses | 50 | 25 | 8 | 34 | — | 117 |
| Franchise expenses | 18 | 1 | — | — | — | 19 |
| Expenses for transactions with franchisees and unconsolidated affiliates | 16 | 1 | 5 | 145 | — | 167 |
| Other operating costs and expenses | — | — | 17 | 1 | (9) | 9 |
| Closures and impairment income, net | — | (1) | — | — | — | (1) |
| Other income, net | (16) | — | — | (1) | — | (17) |
| Total costs and expenses, net | 1,303 | 504 | 42 | 179 | (9) | 2,019 |
| Operating Profit (Loss) | \$ 295 | \$ 38 | \$ (2) | \$ (31) | \$ — | \$ 300 |

| | KFC | Pizza Hut | All Other Segments ⁽¹⁾ | Corporate and Unallocated ⁽²⁾ | Elimination | Total |
|---|-----------------|---------------|-----------------------------------|--|---------------|-----------------|
| Quarter Ended 9/30/2018 | | | | | | |
| Company sales | \$ 1,452 | \$ 548 | \$ 8 | \$ — | \$ — | \$ 2,008 |
| Franchise fees and income | 34 | 1 | 1 | — | — | 36 |
| Revenues from transactions with franchisees and unconsolidated affiliates | 15 | 1 | 7 | 136 | — | 159 |
| Other revenues | — | — | 14 | 1 | (6) | 9 |
| Total revenues | \$ 1,501 | \$ 550 | \$ 30 | \$ 137 | \$ (6) | \$ 2,212 |
| Company restaurant expenses | 1,173 | 472 | 9 | — | 1 | 1,655 |
| General and administrative expenses | 44 | 24 | 9 | 42 | — | 119 |
| Franchise expenses | 17 | 1 | — | — | — | 18 |
| Expenses for transactions with franchisees and unconsolidated affiliates | 15 | 1 | 5 | 135 | — | 156 |
| Other operating costs and expenses | — | — | 13 | — | (7) | 6 |
| Closures and impairment income, net | — | (1) | — | — | — | (1) |

| | | | | | | |
|-------------------------------|--------|-------|--------|---------|------|--------|
| Other income, net | (12) | — | — | 2 | — | (10) |
| Total costs and expenses, net | 1,237 | 497 | 36 | 179 | (6) | 1,943 |
| Operating Profit (Loss) | \$ 264 | \$ 53 | \$ (6) | \$ (42) | \$ — | \$ 269 |

| Year to Date Ended 9/30/2019 | All Other | | Corporate and | | Elimination | Total |
|---|-----------|-----------|-------------------------|----------------------------|-------------|----------|
| | KFC | Pizza Hut | Segments ⁽¹⁾ | Unallocated ⁽²⁾ | | |
| Company sales | \$ 4,495 | \$ 1,588 | \$ 29 | \$ — | \$ — | \$ 6,112 |
| Franchise fees and income | 104 | 3 | 6 | — | — | 113 |
| Revenues from transactions with franchisees and unconsolidated affiliates | 48 | 3 | 20 | 425 | — | 496 |
| Other revenues | 1 | 1 | 49 | 3 | (28) | 26 |
| Total revenues | \$ 4,648 | \$ 1,595 | \$ 104 | \$ 428 | \$ (28) | \$ 6,747 |
| Company restaurant expenses | 3,650 | 1,391 | 31 | — | (1) | 5,071 |
| General and administrative expenses | 148 | 76 | 24 | 92 | — | 340 |
| Franchise expenses | 53 | 2 | — | — | — | 55 |
| Expenses for transactions with franchisees and unconsolidated affiliates | 48 | 3 | 16 | 421 | — | 488 |
| Other operating costs and expenses | — | 1 | 43 | 3 | (27) | 20 |
| Closures and impairment expenses, net | 7 | 5 | 2 | — | — | 14 |
| Other income, net | (46) | — | — | (2) | — | (48) |
| Total costs and expenses, net | 3,860 | 1,478 | 116 | 514 | (28) | 5,940 |
| Operating Profit (Loss) | \$ 788 | \$ 117 | \$ (12) | \$ (86) | \$ — | \$ 807 |

| Year to Date Ended 9/30/2018 | All Other | | Corporate and | | Elimination | Total |
|---|-----------|-----------|-------------------------|----------------------------|-------------|----------|
| | KFC | Pizza Hut | Segments ⁽¹⁾ | Unallocated ⁽²⁾ | | |
| Company sales | \$ 4,248 | \$ 1,640 | \$ 24 | \$ — | \$ — | \$ 5,912 |
| Franchise fees and income | 104 | 2 | 4 | — | — | 110 |
| Revenues from transactions with franchisees and unconsolidated affiliates | 47 | 1 | 18 | 395 | — | 461 |
| Other revenues | — | — | 25 | 2 | (9) | 18 |
| Total revenues | \$ 4,399 | \$ 1,643 | \$ 71 | \$ 397 | \$ (9) | \$ 6,501 |
| Company restaurant expenses | 3,441 | 1,447 | 25 | — | (1) | 4,912 |
| General and administrative expenses | 135 | 80 | 25 | 94 | — | 334 |
| Franchise expenses | 53 | 2 | — | — | — | 55 |
| Expenses for transactions with franchisees and unconsolidated affiliates | 47 | 1 | 14 | 392 | — | 454 |
| Other operating costs and expenses | — | — | 24 | 1 | (8) | 17 |
| Closures and impairment expenses, net | 6 | 9 | — | — | — | 15 |
| Other income, net | (42) | (2) | (1) | (98) | — | (143) |
| Total costs and expenses, net | 3,640 | 1,537 | 87 | 389 | (9) | 5,644 |
| Operating Profit (Loss) | \$ 759 | \$ 106 | \$ (16) | \$ 8 | \$ — | \$ 857 |

The above tables reconcile segment information, which is based on management responsibility, with our Condensed Consolidated Statements of Income.

(1) Starting from the first quarter of 2019, our newly developed COFFii & JOY concept and e-commerce business became operating segments, as their financial results started being regularly reviewed by the Company's chief operating decision maker. Accordingly, our six non-reportable operating segments, reflecting the operations of East Dawning, Little Sheep, Taco Bell, Daojia, COFFii & JOY and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Segment financial information for prior quarters has been recast to align with this change in segment reporting. There was no impact on the condensed consolidated financial statements of the Company as a result of this change.

(2) Corporate and unallocated expenses comprise items that are not allocated to segments for performance reporting purposes. Amount includes revenues and expenses associated with transactions with franchisees and unconsolidated affiliates such as inventory procurement and other services provided to franchisees and unconsolidated affiliates. The Corporate and Unallocated column in the above tables includes, among other amounts, all amounts that we have deemed Special Items. See "Reconciliation of Reported GAAP Results to Adjusted Measures".

View original content: <http://www.prnewswire.com/news-releases/yum-china-reports-third-quarter-2019-results-300947122.html>

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