



YumChina

4Q and Full Year 2016  
Earnings Presentation

*February 8, 2017*



## Cautionary Language Regarding Forward-Looking Statements & Non-GAAP Measures

This presentation 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. 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,” “likely,” “will,” “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 business plans and earnings and performance of Yum China, anticipated effects of population and macroeconomic trends, and statements regarding the capital structure of Yum China. 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 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 presentation are only made as of the date of this presentation, 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 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 “Cautionary Statement Concerning Forward-Looking Statements” in the Information Statement included in our Registration Statement on Form 10) for additional detail about factors that could affect our financial and other results. This presentation includes certain non-GAAP financial measures. Reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures are included in this presentation where indicated. You are urged to consider carefully the comparable GAAP measures and reconciliations.

# Agenda

- 2016 Highlights
- Company Overview
- Brand Performance
- Financial Results
- Summary & Outlook
- Q&A



# 2016 Highlights

## Company

- Successfully completed NYSE listing on Nov 1
- Surpassed 7,500 restaurants in 1,100 cities across Mainland China
- Turnaround SSSG on +3% same store sales growth at KFC, strong profit growth & margin improvement
- Launched our first Taco Bell in Shanghai

## Financials

- System sales grew 5% YoY with flat SSSG, ex FX;
- Restaurant margin improved to 15.3% vs 12.6% last year
- Operating profit before special items reached US\$655mn, up 37% YoY ex FX;
- On diluted basis, our EPS was \$1.36, up 53% YoY

## Development

- Opened 575 new restaurants, remodeled 791 stores
- Over 75% of our stores were built in the last five years, well positioned for future growth

## Digital & Delivery

- Total delivery sales about US\$700mn, about 10% of company sales;
- Mobile payment around 17% of company sales, Cashless payments over \$2bn;
- We have over 60mn loyalty members at KFC, and 20mn members at Pizza Hut



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# 2017 Marks the 30<sup>th</sup> Anniversary of KFC in China

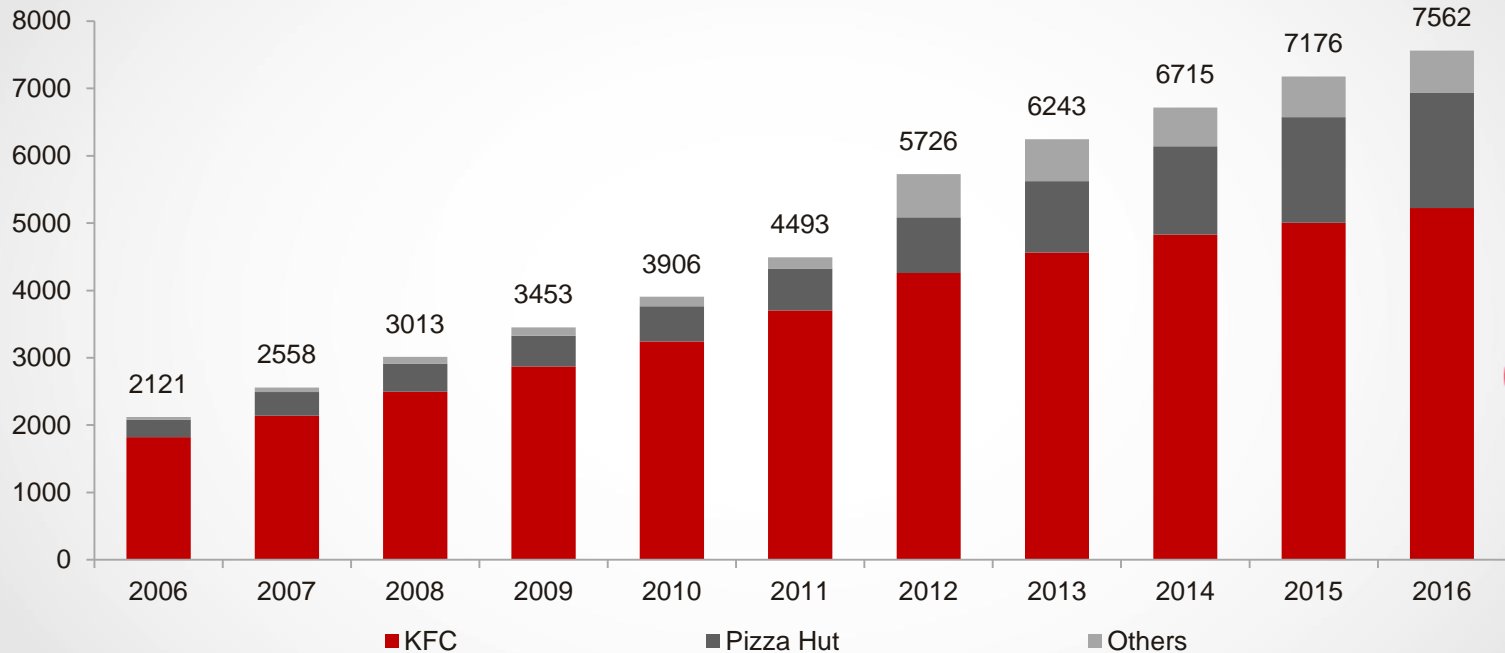


Our first KFC  
was opened in  
Beijing in 1987



# An Unrivalled Presence across Mainland China

## Over 7500 Restaurants in 1100 cities



**Industry Leading 575 Gross New Builds in 2016**

<sup>1</sup> Gross new builds

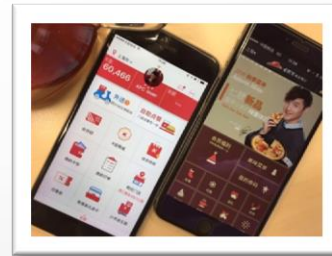
# Our Key Competitive Strengths

1 Unrivalled Network in China

2 Leading Brand Portfolio

3 World-Class Infrastructure

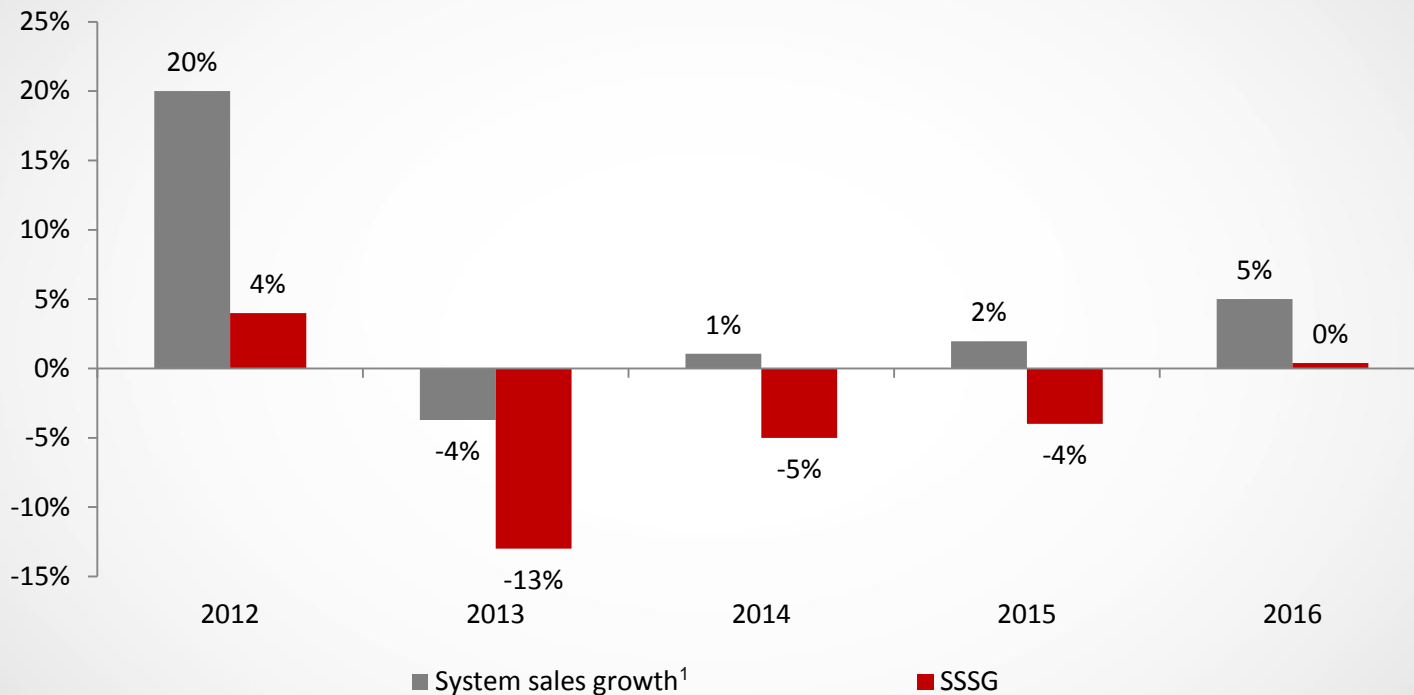
4 No.1 Digital & Delivery





# Same Store Sales turnaround with a positive trend

## *Reversing a three year decline*



<sup>1</sup> Stated in constant currency basis.

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# KFC 2016 Highlights



323 new stores, 720 remodels



SSSG at 3%, system sales<sup>1</sup> +6%



Restaurant margin reached 16.3%



Reported operating profit at \$645mn

<sup>1</sup>Stated in constant currency basis.



# Four Key Pillars to Drive Continued Growth



1

Focus on Core Menu & Value



2

Digital & Delivery



3

Multiple Business Models



4

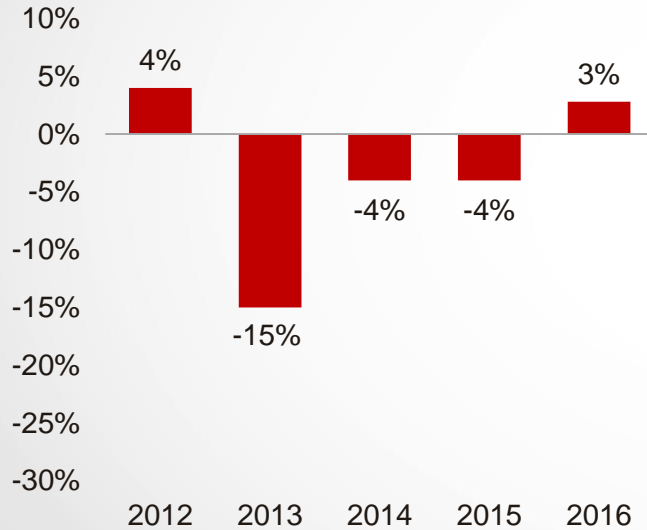
Customer Service & People



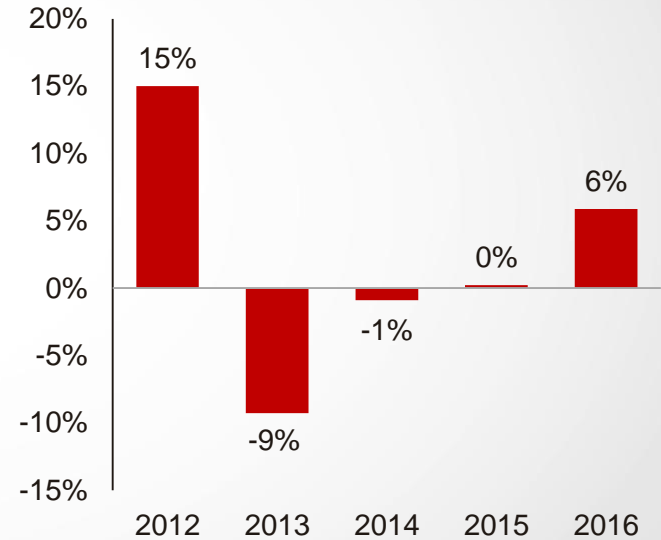


# KFC Delivered +3% SSSG in 2016

## SSSG trend



## System sales growth<sup>1</sup>



<sup>1</sup> Stated in constant currency basis.

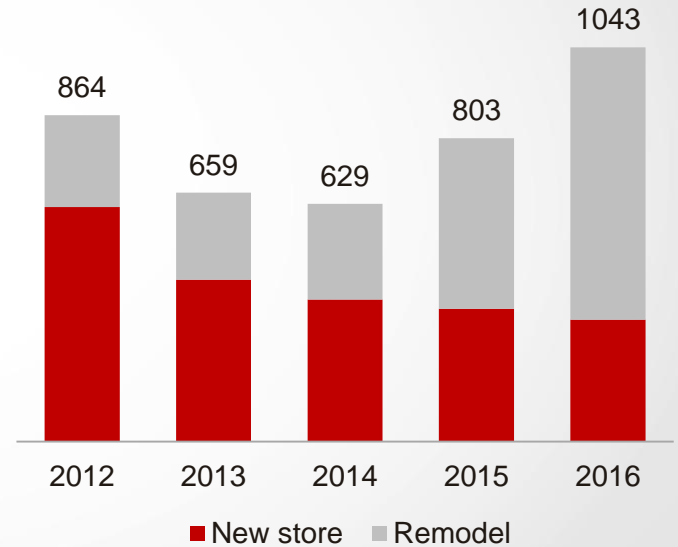




# Significant Investment in Assets to Improve Store Image



# of units built or remodelled

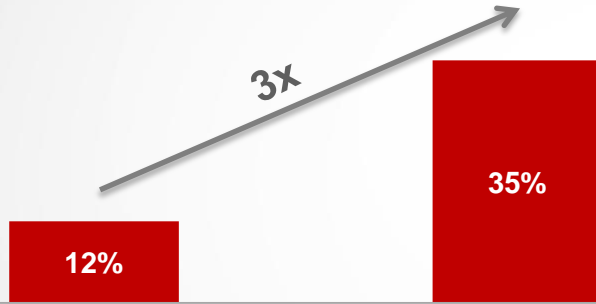




# Industry Leading Digital Innovation

**Mobile payment tripled in 2016**

Mobile payment as % of company sales



Jan

Dec



**Mobile Payment**  
5,000+ stores



**Pre/Self-order**  
5,000+ stores



**Virtual stores**  
5,000+ stores

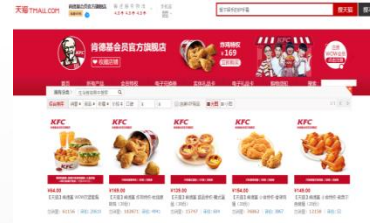


**Digital Menu Board**  
4,000+ stores



**WOW membership**  
60mn+ members

**Super APP**  
20mn+ downloads

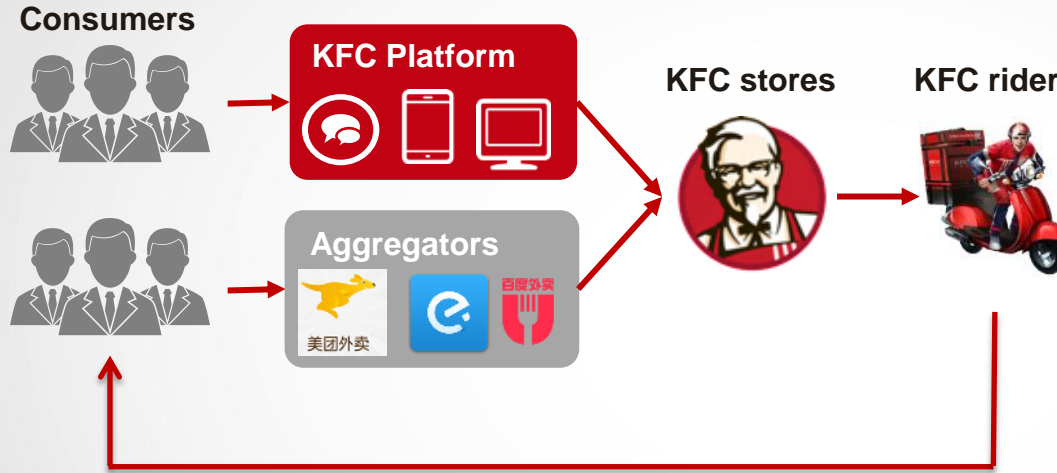


**KFC Online T-Mall Store**  
eCommerce sales ¥100mn+



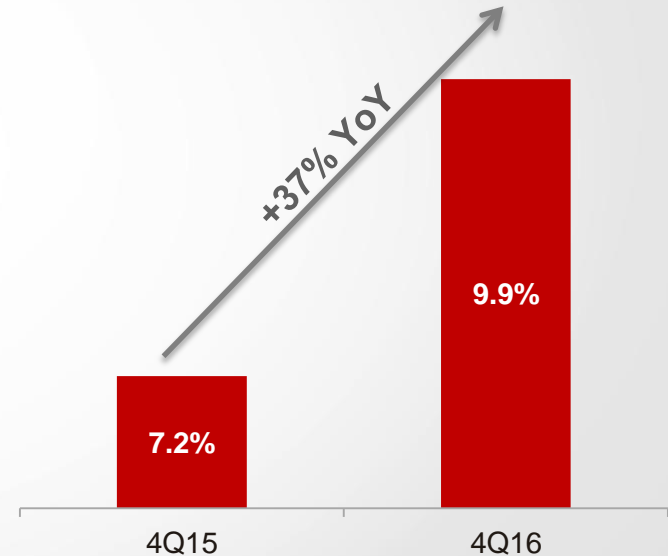


# Delivery: Maximizing Own and Aggregator Platforms



- KFC has its own delivery website and apps
- In addition we list with aggregators
- We deliver all orders and charge for delivery
- All customer data belongs to us

Delivery as % of KFC company sales





# Pizza Hut Casual Dining 2016 Highlights



178 new stores, 69 remodels



SSSG at -7%, system sales<sup>1</sup> +3%



Restaurant margin at 14.0%



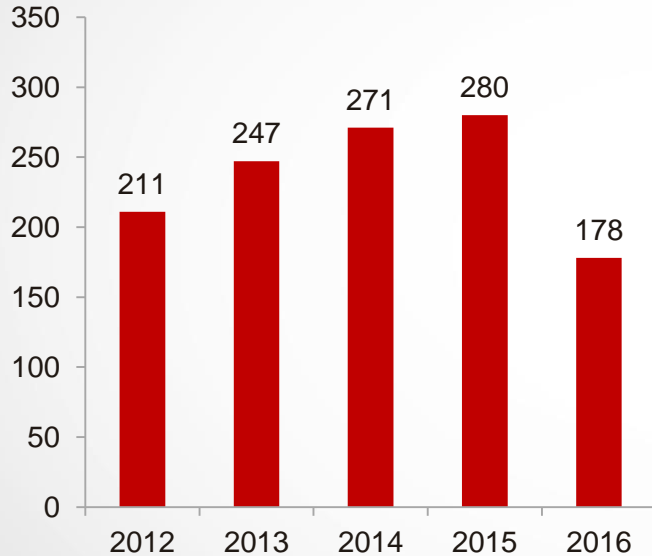
Reported operating profit at \$150mn

<sup>1</sup>Stated in constant currency basis.

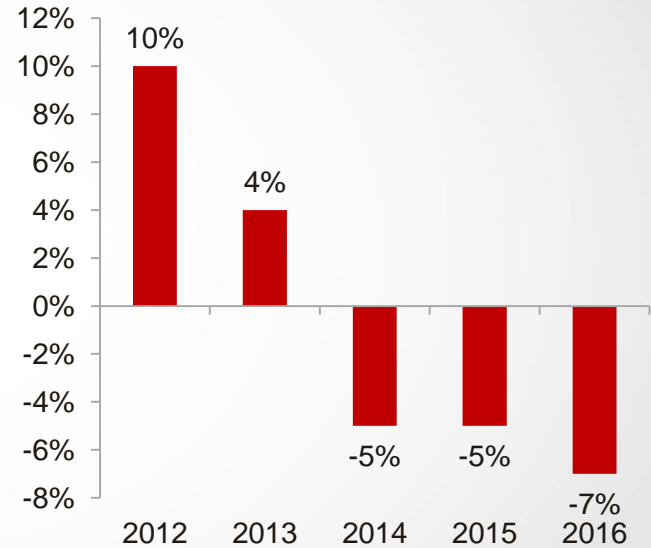


# While New Unit Builds continued, SSSG declined

## New Unit Builds



## SSSG trend





# Five Key Steps to Restore Sales Growth



1

Focus on Core



2

Menu Simplification



3

Brand Integration



4

Sustainable Development



5

Digital Acceleration

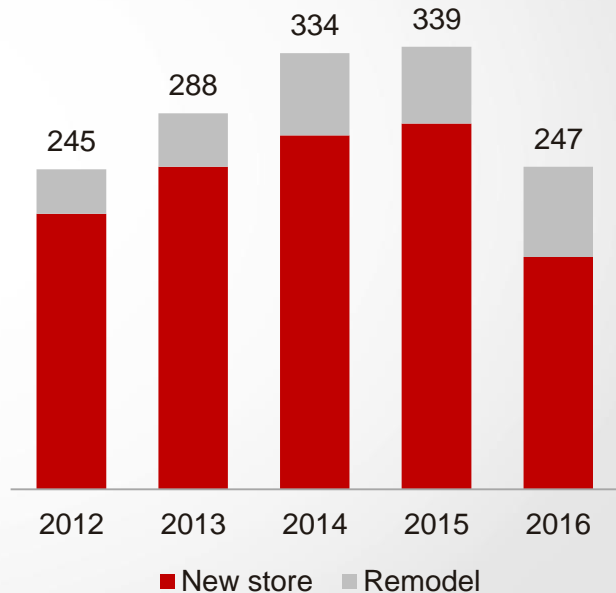




# We Have Continued to Invest in Asset Upgrades



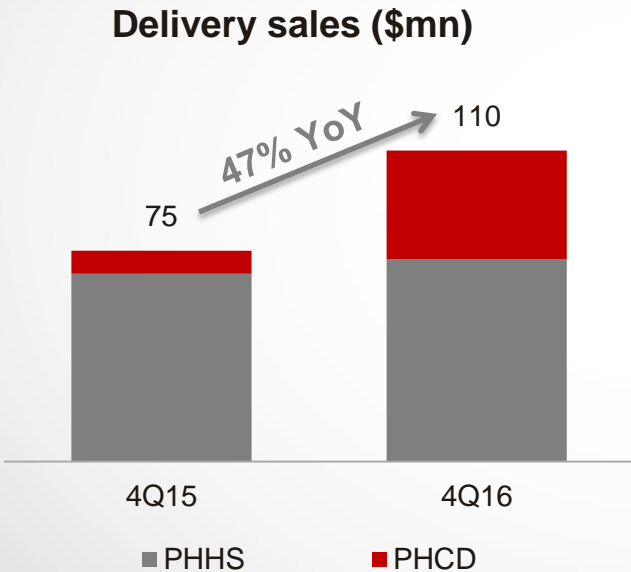
# of units built and remodeled





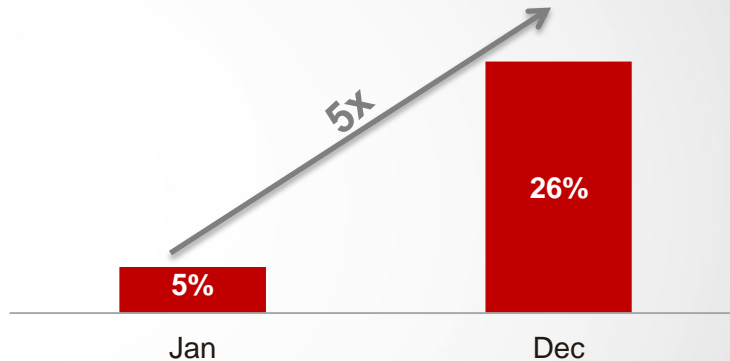
# Digital & Delivery – The Growth Driver

## No.1 Pizza Delivery in China



## Mobile payment grew 5x in 2016

Mobile payment as % of sales



20+ mn members



New Digital Experience



# Successful Launch of 1st Taco Bell Store

Soft open in December 2016 in Shanghai, initial response encouraging

## Prominent Location

Shanghai, near Pearl Tower



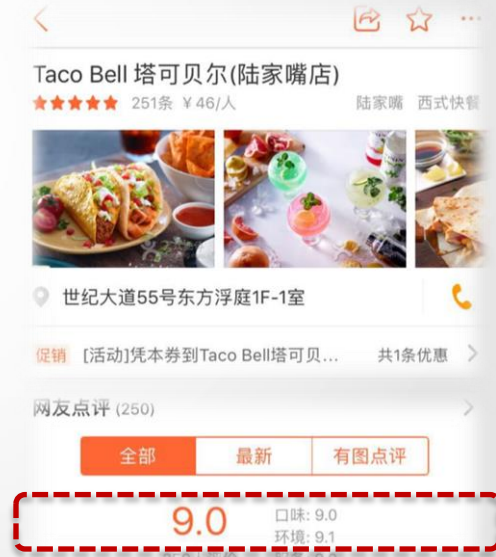
## Great Food

Best of US with Local Insights



## Top Rating on Dianping

9.0 rating on Dianping



# Yum China is a responsible partner in communities across China

## Kid's Book Club



14mn children's books given  
away in 2016

## One Yuan Donation



Rmb150mn donated for  
children in poverty since 2008

## Little Migratory Bird



Rmb3.5mn was raised for  
Left-behind kids in 2016



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# Yum China Exceeded 2016 Financial Targets



## Adjusted EBITDA

\$1.13bn  
+13% YoY,  
or +19% YoY ex FX

Target: \$1.1bn



## OP before special items

\$655mn  
+30% YoY,  
or +37% YoY ex FX

Target: at least \$600mn



## Restaurant margin

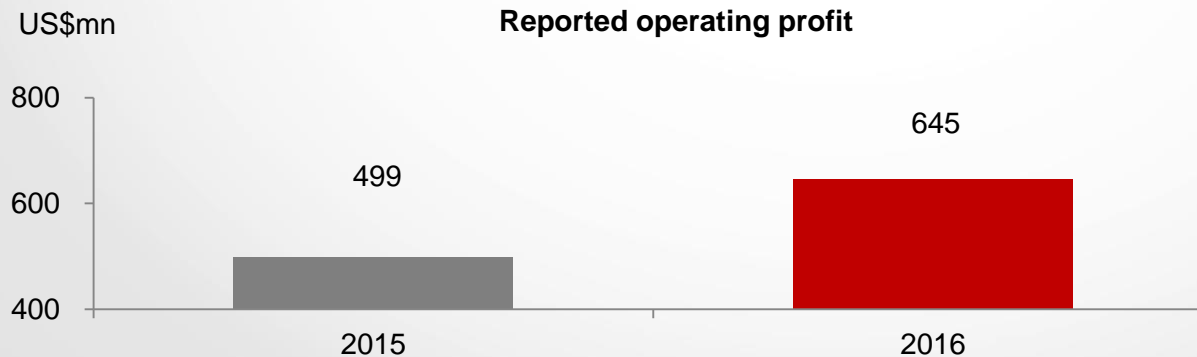
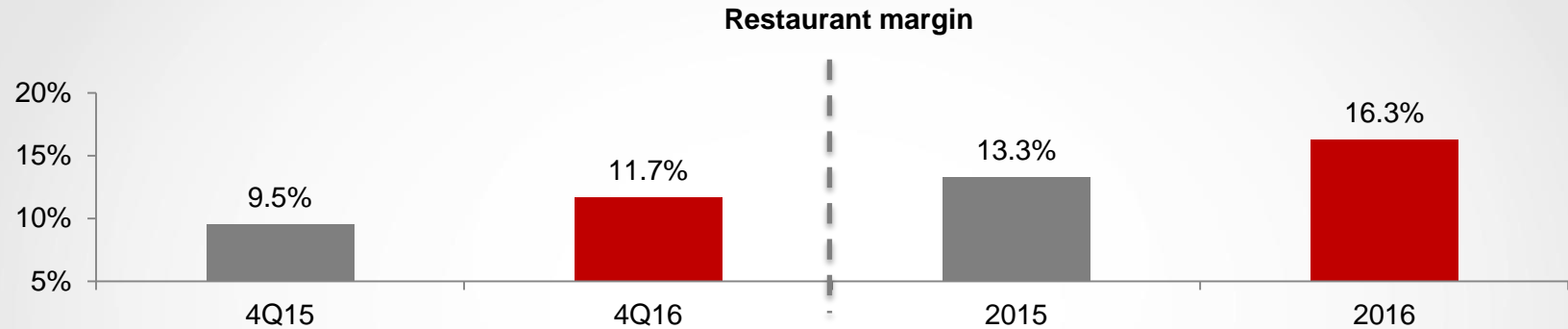
15.3%  
+2.7% pts YoY

Target: at least 14%

***Opened 575 new restaurants on a gross basis***



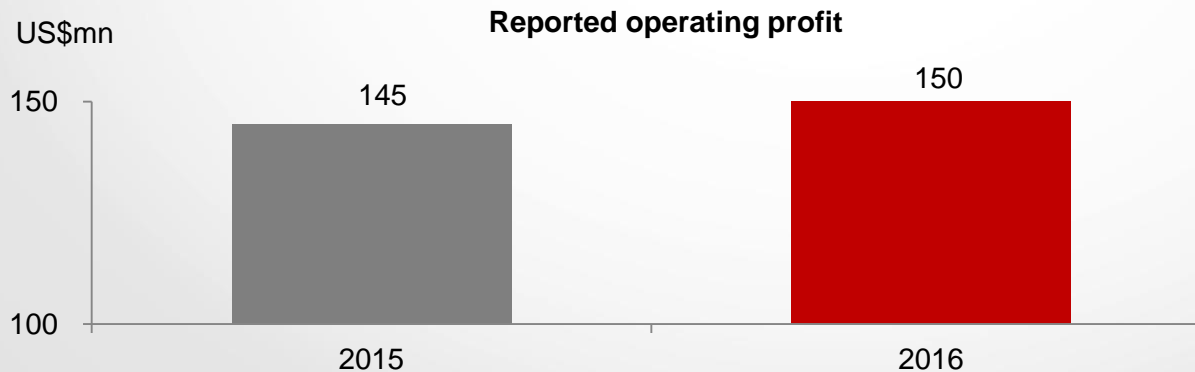
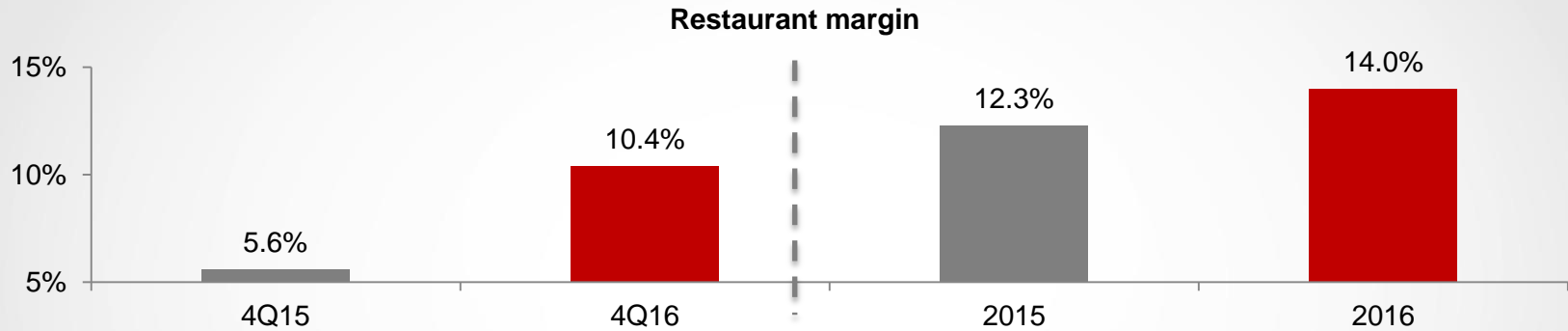
# KFC Restaurant Margin and Operating Profit



**+29% YoY,  
+36% YoY ex FX**



# Pizza Hut Casual Dining Restaurant Margin and Operating Profit



**+4% YoY,  
+11% YoY ex FX**



# Retail Tax Structure Reform Contributed Significantly to 2016 Results



Reform implemented on May 1 for our industry



Benefit impacts P&L, capital spending & balance sheet



Impact has fluctuated and exceeded expectation



Reinvested portion of benefit to strengthen brand positions

# Other Factors that Impacted 2016 Financial Results



## Currency translation

Negative 5%, or  
\$36mn impact on  
operating profit

## Inflation

Wage +8%  
Food was flat,  
increased in Q4

## G&A

+13% ex FX, due to  
higher incentive  
comp costs & public  
company expense

# Strong Cash Flow Generation, Returning Value to Shareholders

 Net cash from operating activities \$864mn

 Free cash flow<sup>1</sup> \$428mn

 Ending cash & short term investment \$964mn

**Board  
approved  
\$300mn  
share  
repurchase  
program**

<sup>1</sup> Net cash from operating activities of \$864mn less capital spending of \$436mn.

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# Summary: Yum China

## Company Snapshot

- **No.1 restaurant operator** in China with strong portfolio
- **National penetration** with 7,500+ restaurants in 1,100+ Cities with 420,000 employees
- **Deep knowledge** of Chinese consumers gained from 30-years' operation in China
- **World-class** supply chain management

## Growth Strategy

- **New unit builds** by geographic expansion
- **Same-store-sales** growth
- **Margin expansion** through operating leverage and active cost management
- **Digital & delivery engagement** for better customer experience
- **Future opportunity** from Taco Bell

## Drive Shareholder Return



# 2017 Outlook

## Tailwind

- Steady growth in economy and disposable income, restaurant industry revenue may grow at high single digit
- VAT benefit will continue to help margin expansion
- Digital CRM programs to improve customer penetration and service; robust demand growth in online delivery segment

## Headwind

- Rising geopolitical uncertainties
- RMB depreciation
- Food inflation (low single digit), labor inflation (high single digit)
- Increasing competition supported by online aggregator platform
- Challenges to turnaround Pizza Hut

**Yum China  
2017 targets  
(ex FX)**

**In 2017 we plan to drive strong earnings growth and shareholder return.**

- Expect to add 550 – 600 new stores, Expect capex US\$400-500mn in 2017
- Expect robust growth from Digital & Delivery to drive system sales & SSSG
- Expect operating profit to grow at double digit with margin expansion, ex FX
- Expect strong free cash flow, enhanced balance sheet position

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# Appendix: Reconciliation of Reported Results to Non-GAAP Measures (1)

(\$mn except per share data)	Quarter ended		Year ended	
	12/31/16	12/31/15	12/31/16	12/31/15
<b>Detail of Special Items</b>				
Reversal of (provision for) losses associated with sales of aircraft <sup>(b)</sup>	—	(15)	2	(15)
Incremental restaurant-level impairment upon spin-off <sup>(c)</sup>	(17)	—	(17)	—
Special Items Expense - Operating Profit	(17)	(15)	(15)	(15)
Changes in fair value of financial instruments <sup>(d)</sup>	21	—	21	—
Tax benefit on Special Items <sup>(e)</sup>	17	4	16	4
Special items income (expense), net of tax – including noncontrolling interests	21	(11)	22	(11)
Special items income (expense), net of tax – noncontrolling interests <sup>(f)</sup>	—	—	(8)	—
Special Items Income (Expense), net of tax – Yum China Holdings, Inc.	21	(11)	30	(11)
Weighted average diluted shares outstanding	379,915,075	363,758,219	369,143,838	363,758,219
Special Items Diluted Earnings (Loss) Per Common Share	0.06	(0.03)	0.08	(0.03)
<b>Reconciliation of Reported Operating Profit to Operating Profit Before Special Items</b>				
Reported Operating Profit	58	5	640	488
Special Items Expense - Operating Profit	(17)	(15)	(15)	(15)
Operating Profit before Special Items	75	20	655	503
<b>Reconciliation of Reported EPS to EPS Before Special Items</b>				
Reported Diluted Earnings (Loss) Per Common Share	\$ 0.23	\$ (0.08)	\$ 1.36	\$ 0.89
Special Items Diluted Earnings (Loss) Per Common Share	0.06	(0.03)	0.08	(0.03)
Diluted Earnings (Loss) Per Common Share before Special Items	\$ 0.17	\$ (0.05)	\$ 1.28	\$ 0.92
<b>Reconciliation of Reported Effective Tax Rate to Effective Tax Rate Before Special Items</b>				
Reported effective tax rate	(8.4)%	437.4%	23.5%	33.9%
Impact on tax rate as a result of Special Items	(20.6)%	257.1%	(2.7)%	0.2%
Effective tax rate before Special Items	12.2%	180.3%	26.2%	33.7%



## Appendix: Reconciliation of Reported Results to Non-GAAP Measures (2)

(\$mn)	Quarter ended		Year ended	
	12/31/16	12/31/15	12/31/16	12/31/15
<b>Reconciliation of Reported Net Income (Loss) to Adjusted EBITDA</b>				
Net Income (Loss) – Yum China Holdings, Inc.	\$ 88	\$ (29)	\$ 502	\$ 323
Net income – noncontrolling interests	2	—	12	5
Income tax (benefit) provision	(7)	38	158	168
Interest income, net	(4)	(4)	(11)	(8)
Change in fair value of financial instruments	(21)	—	(21)	—
Reported Operating Profit	58	5	640	488
Depreciation and amortization	130	140	402	425
Store impairment charges	27	43	70	70
Special Items Expense – Operating Profit	17	15	15	15
Adjusted EBITDA	<u>\$ 232</u>	<u>\$ 203</u>	<u>\$ 1,127</u>	<u>\$ 998</u>