



YUM CHINA

1Q26 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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MANAGEMENT DISCUSSION

Florence Lip - Yum China - Senior Director, Investor Relations

Thank you, operator. Hello everyone, and welcome to Yum China's first-quarter 2026 earnings conference call. With me on the call are our CEO, Ms. Joey Wat, and our CFO, Mr. Adrian Ding.

Before we begin, I'll remind everyone that our remarks and investor materials contain forward-looking statements. These are subject to future events and uncertainties, and actual results may differ materially. Please refer to these forward-looking statements together with the cautionary statement in our earnings release and the risk factors included in our SEC filings.

We'll also be talking about non-GAAP financial measures. We encourage you to review the comparable GAAP measures, along with the reconciliation of non-GAAP and GAAP measures provided in our earnings release, which is available on our Investor Relations website at ir.yumchina.com.

You can also find both the webcast replay and a PowerPoint presentation on our IR website. Please note that all year-over-year growth rates discussed today exclude the impact of foreign currency unless we mention otherwise.

With that, I'll now turn the call over to Joey Wat, CEO of Yum China. Joey?

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Hello, everyone and thank you for joining us.

Once again, we delivered solid results in a dynamic environment, reflecting the successful execution of our RGM 3.0 strategy, which balances Resilience, Growth and Moat.

In Q1, revenue grew 10% and operating profit increased 12% in reporting currency, supported by a positive F/X impact.

We opened 636 net new stores, more than one-third of our full year target and ahead of schedule. Even as we accelerated store expansion to capture market opportunities, we maintained a dual focus on same-store sales growth and system sales growth.

Same-store sales growth was slightly positive, though rounded to zero. Same-store transactions grew for the 13th consecutive quarter.

Excluding F/X impact, system sales grew 4%, operating profit increased 6% and OP margin expanded 20 basis points year over year. This marks the 8th consecutive quarter in which we delivered growth across all three metrics at the same time.

By brand: KFC remained resilient. Same-store sales grew 1%, the 4th consecutive quarter of growth. System sales increased by 5% and restaurant margins remained very healthy at 19.1%.

Pizza Hut continued to grow in scale and profitability, delivering 18% operating profit growth on top of 27% growth in Q1 last year, both in reporting currency. Same-store transactions grew for the 13th consecutive quarter, while restaurant margins improved 60 basis points year over year to 15%.

I'd like to say a big thank-you to our team for delivering solid results in this fast-changing environment.

We maintain a strong dual focus on innovation and operational efficiency. Let me share a few updates on our key initiatives. And then I'll hand it over to Adrian to go through our results in more detail.

It always begins with good food and great value. During Chinese New Year (CNY), we offered a wide range of options to cater to both group gatherings and solo diners. At KFC, in addition to our signature Golden buckets, we launched classic limited-time offers (LTOs) such as the Shrimp Burger, Beef Wrap and Wing Bucket to drive additional traffic. Building on last year's hugely successful LTO campaign, Crackling Golden Chicken Wings (薄脆金沙鸡翅) became the first new permanent product we introduced during CNY to our menu.

KFC's innovative side-by-side modules are scaling rapidly, delivering meaningful incremental sales and profit. KCOFFEE cafes are now in over 2,600 locations and KPRO in more than 280 locations. KCOFFEE cafe generated around mid-single digit sales uplift and KPRO around 20% to their parent KFC stores in Q1. Our consumer insights help us identify consumer needs, and our front-end segmentation, and back-end consolidation approach help us meet these needs effectively. By sharing resources with the parent stores, these modules cross-sell existing members, and require far lower investment and operating costs, making them attractive business models. Adrian will provide more updates on these two modules later in the call.

At Pizza Hut, alongside our classic Super Supreme campaign for CNY, we collaborated with popular IPs like Gundam and Butterbear and launched our signature all-you-can eat campaign. In Q1, Pizza Hut accelerated expansion with 207 net new stores, that's nearly half of last year's full-year net new openings. Over 100 new stores used the WOW format, most of them in new cities. Its lower-capex model and simpler operations, supported by the franchisee model, open-up opportunities in lower-tier cities. We also continued to fine-tune the WOW model and enhance the menu, adding signature items from Pizza Hut's main menu while keeping its most popular value items to strengthen both relevance and appeal.

Let me now turn the call over to Adrian. Adrian?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Joey. Let me update key highlights by brand, starting with KFC.

In Q1, KFC system sales grew 5%. Same-store sales increased 1%, marking its fourth consecutive quarter of growth. Same-store transactions also grew 1%, while ticket average was down 1%. The rapid growth of smaller orders was largely offset by the increased delivery mix, which carries a relatively higher ticket average.

KFC's breakthrough side-by-side modules continue their strong momentum and drive incremental sales and profit to their parent stores:

We added around 400 KCOFFEE cafes in Q1, bringing the total to over 2,600 locations across all city tiers. With broader coverage and rising daily cups sold per store, KCOFFEE café sales more than doubled year-over-year. We expect KCOFFEE cafe to keep growing rapidly to unlock further potential, and reach 5,000 locations by year-end 2027, two years ahead of our original target shared at our last year's investor day.

KPRO also gained momentum, reaching 280 locations, up from 200 at the end of 2025. While primarily focused on tier 1 and tier 2 cities, we are expanding into select tier 3 cities as well, especially in eastern and southern China, where the demand for light meals is stronger. KPRO is performing well and showing margin improvement, driven by agile module iteration, including menu innovation and reduced investment requirements. With that, we're raising our KPRO target to 600 locations by year-end, an increase of 200 compared to our plan shared earlier this year.

Now, moving on to Pizza Hut.

In Q1, system sales grew 4% year-over-year, and same-store sales were 99% of the prior year period's level. This year's CNY took place considerably later than usual. Pizza Hut, as a casual dining concept, saw a modest impact as dining and gathering patterns shifted around the CNY holiday. In March, we brought back our popular all-you-can-eat campaign for a limited time. Now in its fifth year, this campaign has become a signature, attracting consumers to try new dishes, effectively driving traffic and broadening appeal.

Same-store transactions grew 5% in Q1, marking its 13th consecutive quarter of growth. TA was down 5% year-over-year, in line with our mass-market strategy and driven mainly by better value-for-money offerings. Pizza Hut's TA is moving closer to our long-term target range of 60–70 Yuan, as shared at last year's Investor Day.

Even with lower TA, Pizza Hut restaurant margins expanded by 60 basis points year-over-year to 15.0%. OP margin also increased by 100 basis points. Efficiency continued to improve at Pizza Hut as we streamlined store operations, centralized processes and advanced automation, supported by our strong food innovation, supply chain and digital capabilities.

Now, moving on to store opening.

We accelerated store openings in Q1 to record levels for Yum China, KFC and Pizza Hut. With 636 net new stores in the quarter, we are on track to open more than 1,900 net new stores for the full year and to surpass 20,000 total stores in 2026. Franchisees contributed 42% of KFC and Pizza Hut's net new stores in Q1, helping us capture incremental opportunities in lower-tier cities, remote areas, and strategic locations. Our franchise portfolio exceeded 2,500 stores at the end of Q1, up from around 1,800 a year ago. We expect to continue driving store network growth with capital efficiency and improving our ROIC over time.

Our flexible store models continue to support franchise growth. Pizza Hut's WOW store model is making good progress. Store count doubled year-over-year to around 390. In Q1, restaurant margins of new equity WOW stores were already in line with Pizza Hut's main model. In addition to standard WOW stores, we are also opening WOW stores side-by-side with KFC, which we refer to as the Gemini model. Nearly 80 WOW openings in Q1 were Gemini stores, mostly in new lower-tier cities and operated by franchisees.

With rising car ownership and the expansion of the highway network, we are leveraging franchisees' resources to tap into the growing on-the-road demand. We have already signed franchise agreements with more than a dozen provincial and municipal highway operators (省交投/城交投) to open stores at their highway service stations. In just over a year, we added nearly 100 stores and are accelerating the pace this year.

We are also meeting new customer needs through innovative solutions. Traditionally, drive-thrus require dedicated car lanes. We expand on this by offering car-side pickup at locations without such lanes but with pull-over areas, where our crew brings orders straight to consumers' cars. This approach significantly reduces capex requirement, and gives us greater flexibility in driving takeaway sales. Today, more than 7,000 KFC stores offer either the traditional drive-thru or car-side pickup services, up from around 2,000 a year ago. While still early in building awareness and habits, in Q1, nearly one-third of drive-thru customers made repeat purchases, showing strong potential and stickiness. We are partnering with multiple car companies, including BYD, to enable in-car ordering, and select stores will have fast-charging stations installed nearby to offer even greater convenience.

Let me now go through our Q1 P&L.

System sales grew 4% year-over-year.

Same-store sales grew slightly year-over-year, but rounded down to 100% of prior year levels. Our performance in January and February was broadly in line with our expectations. March came in slightly softer than expected, as it fell between the CNY holidays and the additional spring break in several provinces, and compared against last year's strong IP campaigns.

Our restaurant margin was 18.2%, 40 basis points lower year-over-year. The decrease was primarily due to increased rider cost from higher delivery mix, partially offset by improved operational efficiency.

Cost of sales was 31.6%, 40 basis points higher year-over-year, mainly due to strong value-for-money offerings. The tailwind from favorable commodity prices is also less than before.

Cost of labor was 26.7%, 100 basis points higher year-over-year. Rider costs increased year-over-year, driven by the strong growth in delivery sales mix, which went up from 42% last year to 54% this year. Rider costs now account for close to 30% of our cost of labor. The margin impact was 190 basis points, and we mitigated around half of that through enhanced store operations.

Occupancy and other was 23.5%, 100 basis points lower year-over-year, mainly due to better rent and other initiatives to improve operational efficiency.

Our OP margin was 13.7%, 20 basis points higher year-over-year, achieving the 8th consecutive quarter of OP margin expansion. Savings in G&A expenses helped improve OP margins.

Operating profit was 447 million USD, a first quarter record, growing 6% year-over-year.

Net income was 309 million USD, flat year-over-year. Excluding our investment in Meituan, net income grew 4% year-over-year. Our investment in Meituan had a negative impact of 9 million USD in Q1, compared to a positive impact of 2 million USD in Q1 last year. As a reminder, we recognized 10 million USD less in interest income in Q1 this year due to a lower cash balance, resulting from the cash we returned to shareholders, and lower interest rates.

Diluted EPS was 87 cents, 7% higher year-over-year or up 11% year-over-year, excluding our investment in Meituan.

Now, moving on to our 2026 outlook. Starting with the second quarter.

On sales, we are working hard to deliver positive same-store sales growth and the 14th consecutive quarter of positive same-store transaction growth. March, sitting between CNY and the extra school spring break in April was slightly softer. However, April benefitted from the additional traffic. Taken together, March and April were broadly in line with our expectations, giving us confidence that same-stores sales growth will sequentially improve for Yum China, KFC and Pizza Hut in Q2.

On margins, rider costs remain the biggest headwind. Although delivery-platform subsidies have moderated slightly, we expect delivery sales to continue growing, which means rider-cost pressure will persist. That said, the tough year-over-year comparison we faced in Q1 restaurant margin will ease slightly in Q2.

At this point in time, we expect the situation in the Middle East to have limited impact on cost of sales this year. We have already secured the majority of this year's procurement contracts. We will continue to monitor the situation closely and manage our procurement and logistics nimbly.

We will maintain our dual focus on driving same-store sales growth and system sales growth, while keeping our operations efficient. All-in-all, we strive to maintain OP margin roughly in line with the prior-year period in Q2.

As for the second half, we expect sequential improvement in year-over-year margin comparisons versus the first half. With higher delivery sales mix last year, the incremental rider-cost pressure should moderate. Our initiatives to optimize operational efficiency and store costs, including rent, labor productivity, and capital expenditure are also expected to support margin expansion.

We are confident in meeting the full-year targets for 2026, which are consistent with the ranges we shared at our Investor Day last year and in February.

These include: Same-store sales index of 100 to 102; Mid- to high-single-digit system sales growth; High-single-digit operating profit growth; Double-digit EPS growth; A slight improvement in restaurant margin and OP margin for Yum China. Additionally, we remain on track to reach 20,000 stores by year-end.

In terms of capital returns to shareholders:

In Q1 we returned 316 million USD, with 214 million USD in share repurchases and 102 million USD in quarterly cash dividends. We are on track to return 1.5 billion USD to shareholders for the full year 2026, around 9% of our current market cap. Of the 1.5 billion USD, we expect around 400 million USD to be distributed as dividends and 1.1 billion USD to be allocated to share repurchases, through a mix of systematic and discretionary buybacks.

From 2027, we plan to return approximately 100% of annual free cash flow after subsidiaries' dividend payments to non-controlling interests. This is expected to be an average of 900 million USD to 1 billion plus USD in 2027 and 2028, and exceed 1 billion USD in 2028 and onward.

With that, let me hand it back to Joey for her closing remarks.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thanks, Adrian. Let's take a moment to highlight our key growth drivers in Q2 and beyond.

At KFC, our six hero products provide a solid foundation, accounting for around 30% of sales and are purchased by about 80% of our active members. We keep innovating to drive repeat purchases. Whole chicken, introduced in 2021, is a great option for at-home consumption and has gained popularity quickly. Sales nearly tripled since 2022, surpassing 2 billion yuan in 2025. In April, we added Aromatic Paper-Wrapped Roasted Chicken (香焗纸包鸡) to the permanent menu, after successful LTO in Q4 last year. This new offering is incredibly juicy, and its simple cooking process ensures the added variety does not increase kitchen complexity.

Pizza Hut also continued to innovate to meet evolving consumer needs. In our latest spring menu launched last week, we introduced over 30 new dishes, about one-third of our entire menu. With this menu revamp, we added new platforms tailored for dine-in sharing and enriched our protein offerings. For example, beef and chicken Fajitas, and Shakshuka, a poached egg in spiced tomato sauce. In May, we are excited to upgrade our hand-tossed pizza with multi-grain crust and colorful

protein and vegetable toppings (多谷物手拍彩虹披萨). These innovations not only taste great but are fun and highly Instagram-worthy, enhancing the casual dining experience.

Beyond serving our existing customers better, we are broadening our addressable market by identifying underserved customers.

For example, we now have offerings for customers on tighter budgets. Through highly selective delivery channels, we offer hearty meals at very affordable prices. KFC's Chinese Bun Stuffed with Mala Chicken (香辣粉蒸鸡肉堡). This bun weighs more than half a pound. It's inspired by a popular Sichuan dish and is the winner of our internal nationwide food-ideation competition. And Pizza Hut offers Roman-Style Spicy Pasta with Sausage (罗马愤怒辣辣意面). Both foods gained instant popularity.

Since our Investor Day in November last year, we continue to be encouraged by the early signs of improving consumer sentiment and more rational competition among delivery platforms. These are positive developments that we believe will benefit our industry over the mid to long term. We are well-positioned for this, supported by our strong brand equity, food that customers love, and a solid set of growth initiatives. We are confident in achieving our 2026 full-year targets, and will continue to drive profitable growth and create sustainable value for our shareholders.

Now, let me pass it back to Florence.

QUESTION AND ANSWER SESSION

Florence Lip - Yum China Holdings Inc - Senior Director, Investor Relations

Thanks, Joey. Now we will open the call for questions. In order to give more people the chance to ask questions, please limit your questions to one at a time. Operator, please start the Q&A.

Operator

[Operator instructions] Thank you, we will take our first question. This is from Michelle Cheng from Goldman Sachs. Please go ahead.

Michelle Cheng - Goldman Sachs

Hi, Joey, Adrian, Florence. Thanks for taking my question. I would like to explore the delivery business a little bit more. Joey, Adrian, you earlier mentioned a bit on this delivery impact. But can you still elaborate a little bit more for the past few quarters, given still more promotional environment, the positive impact from same-store sales growth versus the negative impact from the competition and the margins? And do we see any like changes in the trend in the past one to two months? And looking ahead, what we expected, the subsidies will be more normalized. And

how should we think about the financial impact? And what will be our strategy, especially driving more takeaway and the in-store consumption. Thank you.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer, Director

Thank you, Michelle. I would like to make a few points about your question on the delivery topic. We see early signs of more rational delivery platform competition recently for sure, and we welcome the development and believe that it will benefit our industry over time.

And specifically, the reduction in subsidies right now is more pronounced for smaller orders, but only a slight decrease in QSR. So, we see platforms increasingly focusing on higher TA orders, which is good for our business relative to the drink business as opposed.

We have been very consistent in the past/last year and now that we always maintain a disciplined approach. We balance sales growth, margin potential and brand integrity. So, I believe that we are well positioned for the rationalization of the delivery subsidies. And going forward, in addition to the disciplined approach, we always look at our operational growth, supported by strong brand equity, food innovation, great value and many other levers.

And in my prepared remarks, I talked about the Pizza Hut's new food, like Fajita and Shakshuka, KFC KCOFFEE, KPRO growth mentioned by Adrian and also the car-side pickup. So all these are our focus, and we continue to maintain a disciplined approach. Thank you, Michelle.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Yes. And in addition to that, I guess, as to second part of the question regarding financial impact of the more rationalization of delivery subsidy, as Joey mentioned, we have been very disciplined in taking the delivery subsidy ever since a few quarters ago and we believe we are among one of the better companies positioned in the industry to kind of enjoy the more rationalization of the delivery environment. So I guess, as a little conclusion, we reiterate our annual guidance on top line for 100 to 102 on comp sales, which is something that we're pretty confident to achieve.

And specific to quarter two, as I mentioned in the prepared remarks, we do expect a sequential improvement in our comp sales in Yum China, KFC and Pizza Hut. And more specifically on top line, delivery sales growth, we still believe it's a long-term trend.

Although the subsidy is more rationalized, but still, it is growing on delivery mix. So we still face some rider cost pressure, and the delivery sales mix will increase at least in the near future.

In terms of TA, KFC's delivery orders generally have a higher TA. So slower growth in delivery will translate into a slight decrease in TA from the growth in smaller orders. And looking forward, consistent to what we shared in February earnings, we expect KFC TA to either slightly decrease or stay generally stable for the full year.

And for Pizza Hut, delivery TA, which is a bit opposite to KFC, the delivery TA for Pizza hut is lower than dine-in. So slowdown in delivery sales will translate to a more moderate decline in TA for Pizza Hut.

And lastly, on the margin front, as we mentioned in the prepared remarks, in the second half, given the delivery mix is already a bit higher in the base, the rider cost pressure will moderate. So hopefully, together with our other efficiency initiatives, that will help better support our margin in the second half.

And in terms of the second quarter, the pressure is slightly less, compared to quarter one. And as always, we use a balanced approach to drive sales, at the same time protect our margin and price integrity.

Michelle Cheng - Goldman Sachs

Thank you, Joey, thank you Adrian. Very clear.

Operator

Thank you. And the next question comes from Chen Luo from Bank of America. Please go ahead.

Chen Luo - BofA Merrill Lynch Asset Holdings Inc - Analyst

Hi Joey and Adrian, congrats on the results despite a very fluid environment. In fact, the recent sell-off of share price has actually baked in bear expectations, but after seeing the results, I feel really relieved. So my question is actually on our OP margin guidance. I remember previously, we target a largely stable OP margin in Q1, but the actual result saw like 30 bps OP margin expansion.

And just now we confirm that in the second half, we may see easing rider cost pressure given a more normalized base for the delivery sales mix. And this, together with a lot of cost-saving initiatives, is it fair to say that compared with our previous guidance of flat to slightly upward trend of OP margin, there actually could be upside risks to our full year margin guidance? That's my question.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Luo Chen. I'll take the question on margin. I think our margin guidance shared in early February was a slight increase in our operating profit margin for the Group for the full year. And I understand that in the market, different people interpret slight increase a bit differently, what is slight.

And indeed, in quarter one earnings—sorry, in the quarter four earnings in early February—we mentioned that OP margin the group will be generally stable or broadly in line with the same period last year for quarter one. It turned out to be a 30 basis point expansion in OP margin. So it's still, I guess, broadly in line. And as a matter of fact, second half, indeed, the rider cost pressure will moderate, right, because the delivery mix is higher in the base. And -- but specifically on the three key line items, I guess I'll probably share some more color it would be helpful for you guys and for the other investors to help put together and refresh your model for the coming three quarters and the year. For COS, we expect the COS to be broadly stable for the Group. And as you noticed

that the KFC COS in quarter one is generally stable, and Pizza Hut there is an increase in COS. There are a few reasons.

One is the All-You-Can-Eat campaign, which is definitely great value for money. Second is, as we mentioned last quarter, we have a new, a lot of new menu items, which we are still in the process of optimizing the cost. And thirdly, it's because of the higher delivery mix, which results in a higher package cost for pizza, which is actually a bit more specific to pizza. Because for KFC, the package cost is similar between dine-in and delivery. So with that, the COS for Pizza Hut will be between 33% and 34% for the full year, which is a bit higher than last year.

However, we still guide margin expansion for Pizza Hut, restaurant margin and OP margin, given the tailwind on O&O. So that's on COS for the Group, KFC and Pizza Hut.

For COL, I think it's, we face consistent headwinds on COL because of the delivery mix increase. And we give pretty specific figure on what is the COL pressure due to the increase in delivery mix for the quarter, and I'm sure you can have a reasonably good modeling on the COL for the remainder of the year, depending on your specific assumption on the delivery mix. So that's on COL, we face headwinds that will be worse on COL. O&O, we do face tailwinds on O&O due to our efficiency initiatives.

On one hand, we will have hopefully better rental because currently we do, although there's initial signs of a good turn of the property market or initial sign of stabilization in property market. But still on commercial real estate, it's quite favorable to the merchant as of right now, and we would like to leverage the opportunity to further optimize our rental. So you see a little bit of that benefit in quarter one. Hopefully, that will come in in the coming quarters as well. And our lower capital expenditure, which results in a better depreciation that will benefit O&O as well, together with other initiatives, including A&P, et cetera.

So overall, the annual guidance on margin, which is a slight increase in OP margin for the Group is unchanged. And hopefully, we are able and we are confident to deliver that.

Joey Wat Yum China Holdings Inc - Chief Executive Officer, Director

I just want to add one comment about Pizza Hut margin, which was very nice for the quarter one this year. It's actually, I think one of the highest since the turnaround initiatives in 2018. We'll be very consistent with our duration of Pizza Hut turnaround, sales first, profit later. Now is the later. This is now for Pizza Hut.

Chen Luo - BofA Merrill Lynch Asset Holdings Inc - Analyst

Yes. So that remark is really impressive. I think remember, during the Investor Day, we mentioned a three-year target of 14.5% OP margin — restaurant margin for Pizza Hut. Based on the current run rate, I think that we should actually achieve that target earlier than expected.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer, Director

Slightly, slightly. The inflection point was 2024 indeed, because 2024 we feel like sales was in a good position, then we start to really press the accelerator on the margin side, and we are happy to see what we are seeing. Yep, thank you, Luo Chen.

Chen Luo - BofA Merrill Lynch Asset Holdings Inc - Analyst

Thank you. Congrats.

Operator

Thank you. Our next question is from Lillian Lou, Morgan Stanley. Please go ahead.

Lillian Lou - Morgan Stanley - Analyst

Hello, Joey and Adrian. Thanks for taking my question. My question is actually on the underlying demand trend and related to that, the pricing momentum as well. Because I think in the release, one important statement was you are still very excited, encouraged by the underlying improvement of consumer sentiment. With more moderated subsidy, do we see within merchants, is the competition also getting mild, or actually everybody trying to rush up the traffic without as much subsidy from platforms? So what's the dynamic of the demand and also competition right now? And also on the like-for-like basis, are we seeing chance for some improvement on pricing in terms of the whole industry and also for ourselves? Thanks.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer, Director

I'll make two quick comments on that, and maybe Adrian has a bit more color to add. We have shared our view on the improving consumer sentiment since Investor Day last November. And we certainly have observed some stabilization of pricing trends. Not only we took the pricing, but we also see more players taking pricing. So that might be a sign that shows a slightly more supportive consumer environment.

And right now, the more rational competition among delivery platform is happening. So we believe that's constructive for the mid- and long-term as well. But other than pricing, what we still fundamentally believe is still great food and great value. So, without that, pricing is a bit too lonely to be there. So after the Chinese New Year, we have seen really good performance in breakfast. Breakfast is extremely competitive in terms of pricing. But if you have not tried our (武汉热干面), the hot dry noodle that are selling really well right now. Right now, it's time because it might go out of stock pretty soon.

And then Pizza Hut, we launched the 30 new dishes, the new platform like Fajita, which is the fantastic value for money and really fun way to eat steak. Think about Chinese, we sold almost 40 million steak last year in Pizza Hut, but it's more fun to eat the steak in Fajita with the sauce and wrap. So, all these are happening at the same time, together with pricing, it cannot go alone.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Yes. I guess just one little note to add, which is, as Joey mentioned, the pricing environment is becoming a bit more favorable, and we continue to be encouraged by the improving consumer sentiment. But when that translates to TA, obviously, Pizza Hut TA — our strategy is to decrease the TA to be even more mass-market friendly.

For KFC, as we repeatedly mentioned in the recent earnings that for this year, we do expect KFC TA to decrease. Actually, I think I mentioned in multiple investor calls as well that even in the inflation, in a very inflationary environment, with the speed of our innovation right now, the TA may still decrease. That's because of the mix, the blend, not necessarily because of pricing or discounting. So that's something I would like to caution, right? The higher growth in breakfast, as Joey mentioned, higher growth in KPRO, higher growth in KCOFFEE, those are all lower TA compared to the broader KFC business, so the higher growth itself, the mix itself will cause a slight decrease in TA. So, this is very different from the U.S. market where the TA represents roughly the inflationary index. But in China here, with innovation, it's a different story. Thank you.

Operator

Thank you. The next question is from Sijie Lin from CICC. Please go ahead.

Sijie Lin - China International Capital Corp Ltd - Analyst

Ok, thank you Joey and Adrain. So, I have a small question on KPRO. We see that the KPRO has performed very well and achieved initial success and raised the expansion targets. So could you please elaborate more behind this? And also, if you have an estimate of roughly how many KFC stores are suitable or have potential for opening KPRO next to them?

Joey Wat - Yum China Holdings Inc - Chief Executive Officer, Director

Thank you, Sijie. We are very excited about KPRO as well. Although the model, it actually took seven years to come to fruition. And as we mentioned in the prepared remarks, we are accelerating the development at KPRO to about 600 stores.

The menu, if you have tried those before, are completely different. There's a very lovely sort of video on the social media. It's not from our company but I thought that the guy did a good job to talk about the KPRO story.

The food is the Chinese style light meal. I like the quote there, "it's self-discipline (自律), it's not self-torture (自虐)." So the food is healthy, very reasonable calorie, but you're still full, you're not hungry. That's important. And then the drink mix is very encouraging as well. We are selling very well with the Super Food Smoothie. It's part of the business, and this is much higher than that of the KFC business.

With that said, we think the drink business within KFC has enormous potential. But come back to KPRO. So the product wise, very small menu, but obviously, we are doing something right after learning for seven years. And then Tier 1, Tier 2 cities are doing well. And then we are also testing in Tier 3 cities, and we have some very exciting early results there. So, we'll continue that. And

the result is encouraging, it's adding to about 20% of our sales uplift to the parent store, and the margin is good. So many, many good things.

But the best thing among all is it has incredibly good reputation on food safety. Other than the food tastes really good, the customers really got it that our food safety is very trustworthy. They can feel comfortable about it. And that really shows our long-term strategic moat for Yum China, our credibility for food safety, and that's something money cannot buy. It can only be done over 40 years.

So this year, for 2026, what's the size of business? With 600 KPRO, roughly could be up to RMB1 billion (potential annualized) sales, which is nice. So even after the first quarter, we are adding 200 more stores to our original plan. We accelerated the pace for the second half. We are open-minded about it. It really depends on the testing of the Tier 3 cities. So it's exciting. We are very grateful that our operations team really live up to the challenge, but we are open-minded about the further growth pace.

Sijie Lin - China International Capital Corp Ltd - Analyst

Thank you, Joey, that's really encouraging. Thank you.

Operator

Thank you. And the last question today comes from Ethan Wang, CLSA. Please go ahead.

Ethan Wang - CLSA - Analyst

Good evening, Joey, Adrian. I have a follow-up question on the COL. So Adrian mentioned the pressure will be easing in the second half because of the base. I'm just wondering, is that the case for quarter two as well? And if we just have a longer horizon, the next year or the year after. Should we always expect this COL growth to be moderate and which will be fully offset by the decrease in O&O. Is that what we're trying to achieve when we set the stable restaurant margin target, which means the raw material product doesn't really affect how this trend is going?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Ethan. So in quarter two, as we mentioned in the prepared remarks, the pressure on COL will slight ease. For Yum China, given there's only one month of taking the delivery subsidy in the base, which is the month of June last year.

And for the second half, it's the full second half that the subsidy was in the base and the delivery mix was in the base. So that's why I would say the pressure will slightly ease. Overall, I think our margin guidance in the prepared remark for quarter two was, we expect a broadly stable OP margin for the Group year over year for quarter two.

That's considering the different factors on COS, COL and O&O in the short term. On second half, I think one of the previous responses to Luo Chen actually provide quite a bit of details on the line-by-line breakdown. Your second part of the question on long-term margin, for long-term margin

at this point in time, we're still quite confident in our guidance shared in the Investor Day in November last year, which is for KFC to have a relatively stable margin over the long run. And for Pizza Hut, to have a margin expansion to exceeding 14.5% restaurant margin by 2028.

I think one of the analysts was making a comment that we might be able to achieve that slightly earlier, which at this point in time, we don't have a revision in our guidance. Overall, for COL, in general, given the increase in delivery, with or without a delivery subsidy, the delivery mix will increase and the growth will be solid. So COL we will face pressure on the rider front, although the per ticket cost on rider may decrease. So we hopefully will be able to offset that pressure utilizing the O&O and a bit of COS as well over the mid- to long-run in the next couple of years. Ethan, thank you.

Florence Lip - Yum China Holdings Inc - Senior Director of Investor Relations

Thank you, Adrian. This concludes our Q&A session. Thank you for joining the call today.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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