



## CLSA Investors' Forum 2018

Joey Wat | Chief Executive Officer | Yum China  
September 10, 2018

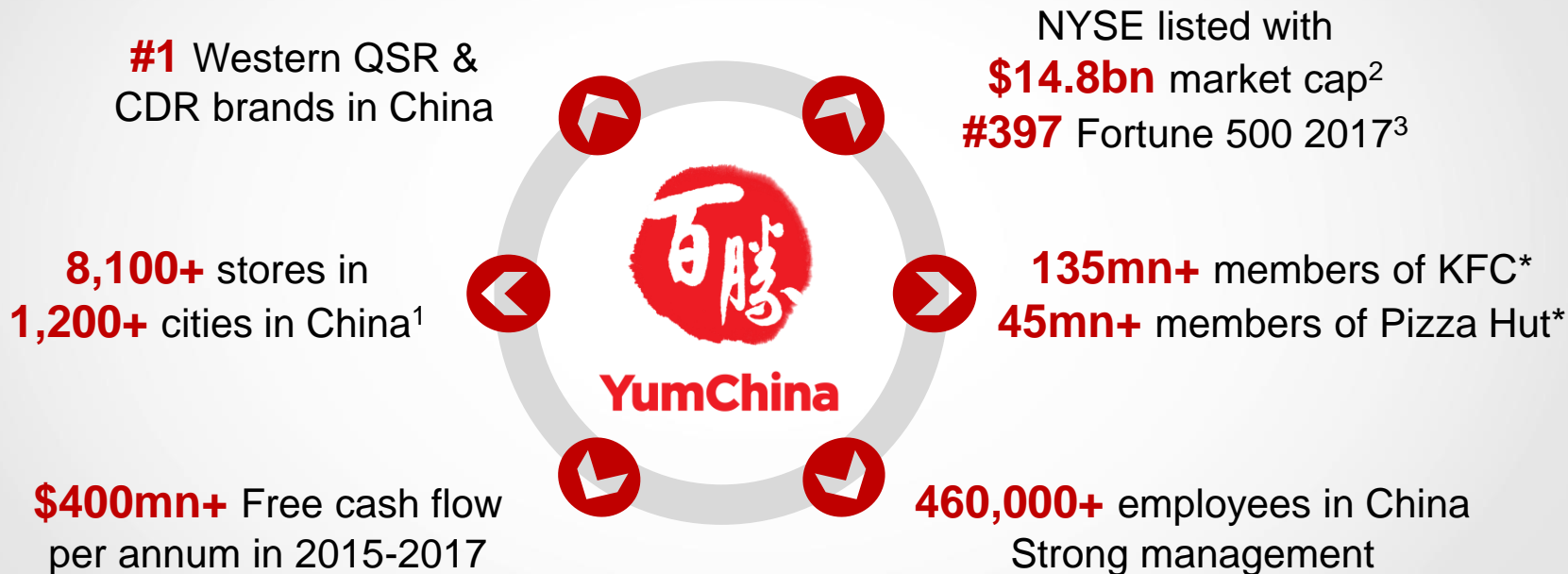


## Cautionary Statement on Forward-Looking Statements & Non-GAAP Measures

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,” “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 business plans, earnings and performance of Yum China, statements regarding the revitalization of Pizza Hut, anticipated effects of population and macroeconomic trends, the capital structure 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 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 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 “Forward-Looking Statements” in our Annual Report on Form 10-K) 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.

# Yum China by the numbers – a powerful business

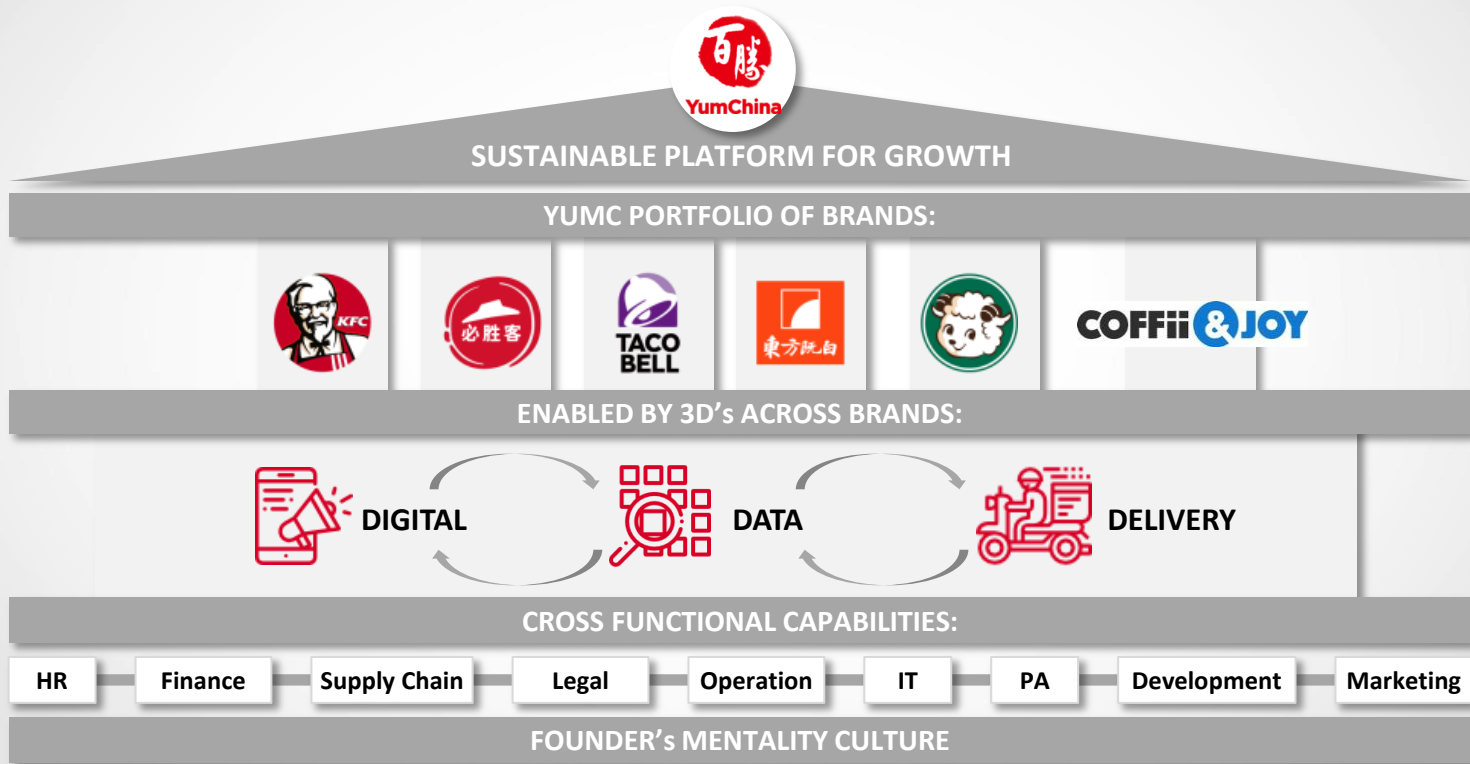


<sup>1</sup> Store and member counts as of 2018 Q2

<sup>2</sup> As of the close of September 4, 2018

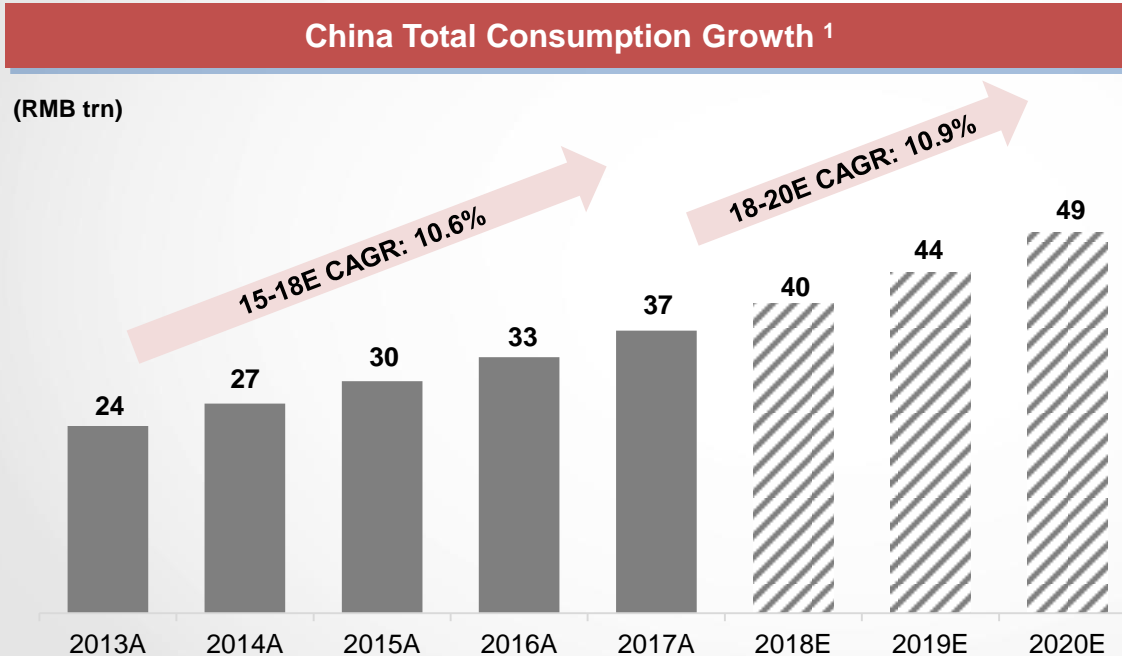
<sup>3</sup> In terms of sales

# Long-term YUMC Strategy: Building Capabilities for a Sustainable Platform



Potential to grow to 20,000 stores over the long term, 2.5x today's store base

# Strong Consumer Sector Underpinning China's GDP growth for Next Few Years

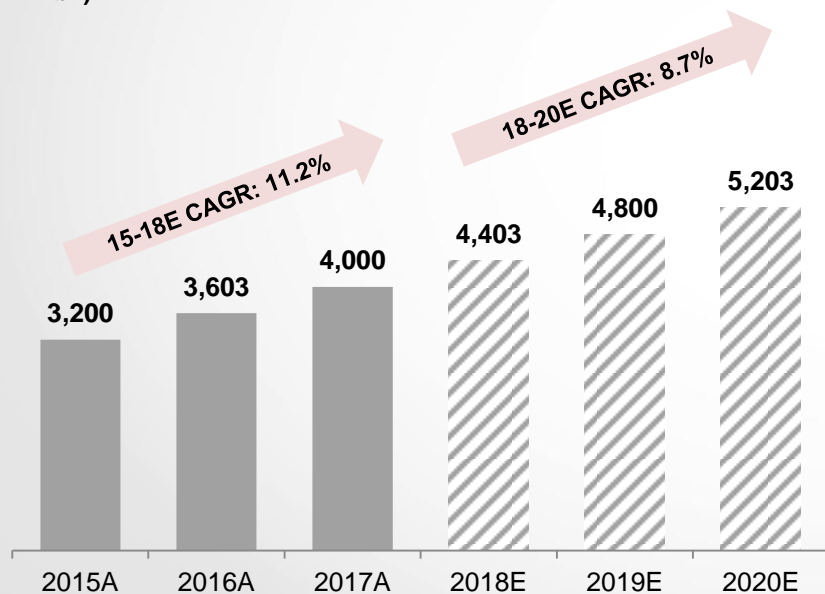


Consumption is expected to grow at ~11% CAGR between 2018 and 2020

# Fast Growing Dining Market Driven by Rapid Shift to Online-based Consumption

## Growing China Dining Market Size

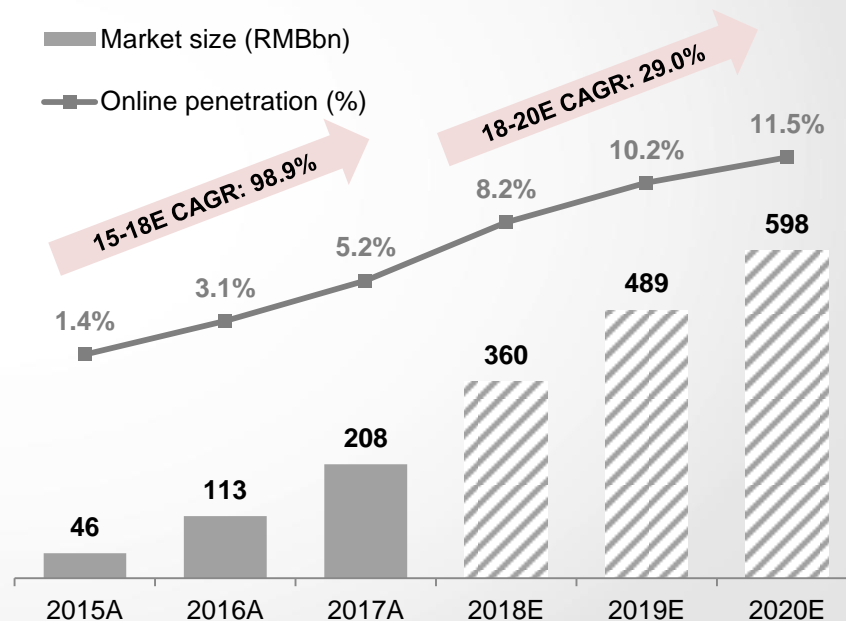
(RMBbn)



## Increasing Penetration of China Online Food Delivery Market

Market size (RMBbn)

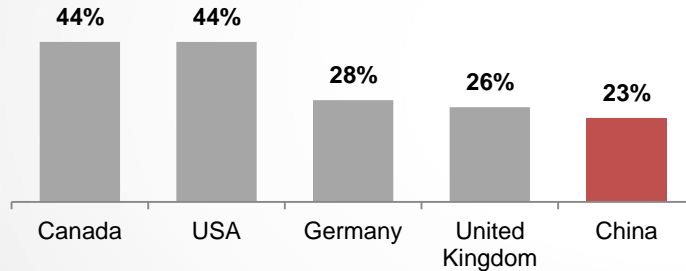
Online penetration (%)



# Huge Market Potential for Continued Expansion

## QSR Penetration – China vs Western Mature Markets

QSR Market as % of Overall Food Service Market <sup>1</sup>

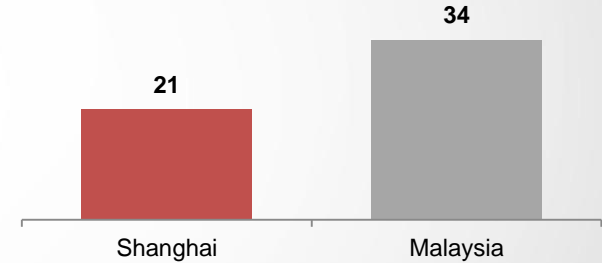


Market Size:

Total Food Service (\$bn)	44	524	45	90	728
QSR Market (\$bn)	19	228	13	24	166

## QSR Penetration – Shanghai vs Malaysia <sup>2</sup>

Restaurants per Million Inhabitants



KFC + PH	496 restaurants	1,082 restaurants
Population	24mm	32mm

Source: Euromonitor; Bain analysis.

<sup>1</sup> QSR penetration based on Bain 2016 analysis.

<sup>2</sup> Restaurant numbers and population as of 2017 year-end.

# Leveraging Strong Fundamentals to Invest for the Long Term

## 2018 1H Summary

### YUMC Overall

- Building capabilities for a sustainable platform
- Accelerated new builds and invested for growth
- Achieved moderate growth in revenue and profit despite challenges
- Generated \$589mn free cash flow in the first six months of 2018
- Returned \$150mn to shareholders through dividends & share repurchases

### KFC

- Robust system sales growth lapping two strong years
- Multiple initiatives to drive long term growth

### Pizza Hut

- Tightened margin management and improved productivity gain in Q2
- Progressing along four pillars of the revitalization plan

### Digital & Delivery

- Delivery continued to grow at double digit
- Strengthening delivery, digital and data capabilities across brands





# Robust System Sales Growth Supported by Accelerated New Builds

## 1H 2018 Highlights



SSSG +3% YoY<sup>1</sup>, System sales +7% YoY<sup>1</sup>



1H 2018: 272 new stores, 400 remodels  
1H 2017: 167 new stores, 257 remodels



Restaurant Margin at 18.9%, -0.3ppt YoY



Operating Profit +8% YoY<sup>1</sup>

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



# Opportunities to Grow in Breakfast

Value for  
Money

KFC 早餐

## 省省吧

吃顿6/7/8/9好好开工

2.26-4.1 优惠仅限五周

¥6	状态唤醒套餐	¥7	鲜甜启动套餐
雪菜笋丁鸡肉粥 + 安心油条		芝士鸡肉肠煎包 + 鲜豆浆 (80)	

¥8	丰盛唤醒套餐	¥9	只够醒脑套餐
皮蛋瘦肉粥 + 安心油条		黄油脆皮煎蛋卷 + 鲜豆浆 (80)	

Product  
Innovation/  
Localization

“鲜香流油  
绵密起沙  
融合提香  
手工现做”

## 金沙咸蛋黄

— 肉酥饭团 —

Pre-Order

送餐点 请选择送餐点 >

送餐时间 明天 (5/20) 9:00 >

- 豆浆糯米粥 + 安心油条 ¥8
- 咖啡 + 汉堡 ¥18
- 豆浆糯米粥 + 汉堡 ¥12

Breakfast  
Prime

## 早餐 两件套 5折

仅需50元, 连续30天有效

仅需50元购买, 即可享受:

- ✓ 连续30天, 早餐两件套5折
- ✓ 24款套餐畅选
- ✓ 最高可享折扣255元\*



# Excited about K Coffee, Fast Growing Category



- Leverage extensive KFC store network and delivery capabilities
- **77 million** cups sold in 2017
- Target double digit sales growth in 2018

Broaden  
Coffee Portfolio



Strengthen  
Convenience



Competitive  
Value







# Grow Dessert Category and Expand Kiosks Coverage

## Dessert Product Innovation



## Kiosks Expansion





# Powerful Digital Capabilities

**135mn+**  
members

**45%**  
members  
sales

**50mn+**  
brand app  
downloads

## Delivery



## Pre-order



Note: No of members and app downloads as of Q2 2018; member sales % for Q2 2018



# Building Digital Ecosystem within Brand App

## Coupons



## Prime



## E-Commerce



## Kids







# Delivery Continues to Drive Growth

## Drive Coffee & Dayparts



**13%** of Company sales\*  
**+33%** delivery sales YoY  
**68%** of stores  
**1,010** cities

### Breakfast

预约  
早餐



### Coffee

咖啡  
上门



### Late Night

深夜  
嗨吃



## Data Driven Marketing



### Delivery Prime

- Drive frequency
- Attract new users
- Strengthen own channel
- Cross-selling opportunities

## Drive System Efficiency



Note: Results for and as of Q2 2018. All YoY comparison stated in constant currency basis. Delivery stores exclude franchise stores.

\* Delivery as % of Company sales exclude KFC Wuxi



# Expand with Multiple Store Formats and Different Designs







# Pizza Hut Faces Challenges but Revitalization Continues



## 1H 2018 Highlights



SSSG -5% YoY<sup>1</sup>, System sales -1% YoY<sup>1</sup>



1H 2018: 68 new stores, 90 remodels  
1H 2017: 70 new stores, 30 remodels



Restaurant Margin at 10.8%, -6.6ppt YoY



Operating Profit -58% YoY<sup>1</sup>

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



# Progress Made Along Four Pillars



**I. FIX  
FUNDAMENTALS**



**II. ENHANCE  
DIGITAL**



**III. OPTIMIZE  
DELIVERY**



**IV. EXPERIMENT  
NEW MODELS**





# Rapid Improvement in Digital and Delivery Capabilities

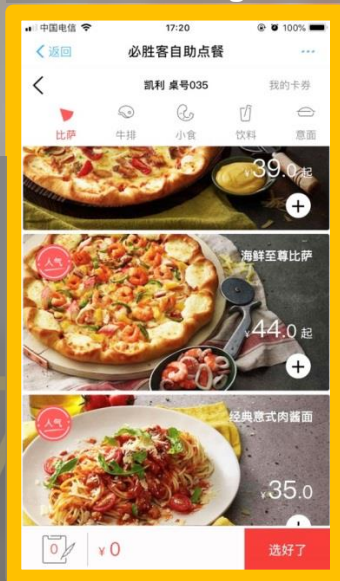
## Digital

**45mn+** members

**46%** members sales

**11mn+** brand app downloads

### In-store tableside ordering



## Delivery

**24%** of Company sales

**+18%** delivery sales YoY

**450+** cities



Note: No. of members, app downloads and cities as of Q2 2018; other results for Q2 2018; All YoY comparison stated in constant currency basis.



# Reinforce Our Pizza Expert Image

## More comprehensive dough choices



Increased dough choices from 2 to 4  
(Pan, Stuffed-crust, Thin-crust and Italian handcraft)

## Innovative pizza toppings



Capture the latest trends – e.g. durian, crayfish





# Healthy and Family-Friendly Choices

## SUPER JUICE

超级鲜榨果汁

HPP高压冷榨  
精妙果蔬MIX  
不添加水和糖



## SALAD PLATTER

沙拉至尊拼盘 49元



Conceptual; not final product



流金闪耀咖喱牛肉蛋包饭  
「OMURICE WITH CURRY BEEF SAUCE」



OMELET  
RICE



# Trendy and Instagram Worthy Desserts



Salted Egg and Durian Ice-cream

Dirty Series Drinks & Desserts







# New Store Design



Accelerate remodeling with new design



# Experiment New Models: Bistro, Express & Kiosk



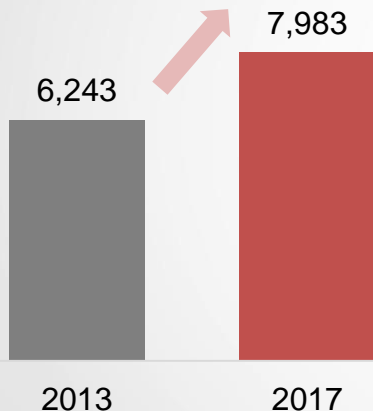
Chongqing Airport - Express



# YUMC Delivered Solid Growth in the Past 4 Years



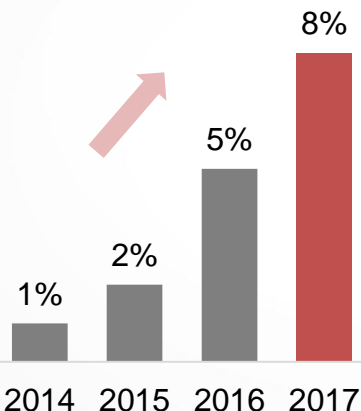
## Total Store Unit



Store unit **+28%**  
**686** gross new unit p.a.



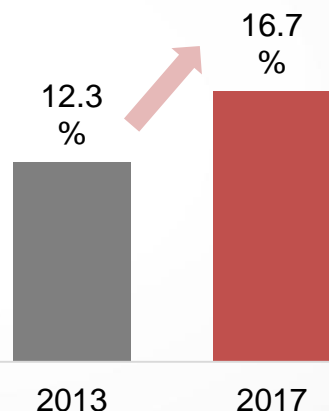
## System Sales YoY<sup>1</sup>



System Sales  
**+4% CAGR<sup>1</sup>**



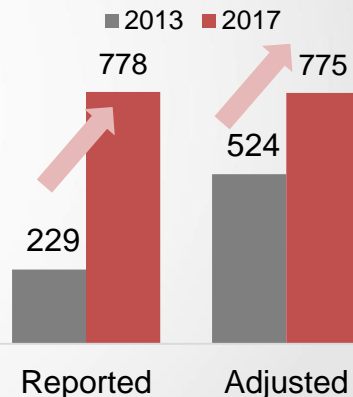
## Restaurant Margin<sup>2</sup>



Restaurant Margin  
**+4.4ppts**



## Operating Profit (\$ mn)<sup>2</sup>



Reported OP n/m  
 Adjusted OP **+48%<sup>1</sup>**

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

<sup>2</sup> Restaurant margin and Operating profit before spin off was stated in carve-out basis; 2013 financials not recast for ASC606 accounting change

# Maintained Strong Cash Position



**Net cash from  
operating activities**

Jan-Jun 2018

**\$819 mn**



**Free cash flow**

Jan-Jun 2018

**\$589 mn**



**Cash and short-  
term investments**

As of Jun 2018

**\$1.54 bn**

**Cash Dividends of \$77 million, and  
Share Repurchases of \$73 million in 1H 2018**

# Strategic Priorities Remain Unchanged

## Focus on China

Invest locally for growth

## Digital and Delivery

Invest and maintain lead



## Strengthen Core Business

Improve stores, innovate menu, improve quality and value

## Innovation

Product categories, formats and day parts

# 全球最创新的 餐饮先锋



The World's Most Innovative Pioneer  
In Restaurant Industry



YumChina



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

	Year ended 12/31/2017	Year ended 12/31/2013
<b>Detail of Special Items</b>		
Little Sheep impairment <sup>(b)</sup>	—	(295)
Income from the reversal of contingent consideration <sup>(c)</sup>	3	—
Special Items Income (Expense) - Operating Profit	3	(295)
Tax Benefit on Special Items	—	18
Impact from the Tax Act <sup>(d)</sup>	(164)	—
Special items Expense, net of tax – including noncontrolling interests	(161)	(277)
Special items income, net of tax – noncontrolling interests	—	19
Special Items Expense, net of tax – Yum China Holdings, Inc.	(161)	(258)
<b>Reconciliation of Operating Profit to Adjusted Operating Profit</b>		
Operating Profit	778	524
Special Items Income - Operating Profit	3	(295)
Adjusted Operating Profit	775	229

- a) Amounts presented for the year ended December 31, 2017 has been recast to reflect the impact of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), and related accounting interpretations, which we adopted in the first quarter of 2018 on a full retrospective basis. 2013 financials not recast for ASC606 accounting change.
- b) As a result of sustained declines in sales and profits in Little Sheep, we recorded impairment charges to the trademark, goodwill and PP&E of \$69 million, \$222 million and \$4 million, respectively, in the year ended December 31, 2013.
- c) During the year ended December 31, 2017, we recognized income from the reversal of contingent consideration previously recorded for a business combination as the likelihood of making payment becomes remote.
- d) The Company incurred an estimated one-time income tax charge of \$164 million in the fourth quarter of 2017, as a result of the Tax Act, due to the transition tax on deemed repatriation of unremitted earnings of foreign subsidiaries, and the revaluation of certain tax assets.