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CORPORATE PARTICIPANTS

Florence Lip *Yum China Holdings, Inc. - Senior Director of IR*
Joey Wat *Yum China Holdings, Inc. - CEO & Director*
Ka Wai Yeung *Yum China Holdings, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Chen Luo *BofA Merrill Lynch, Research Division - MD*
Dylan Chu *CLSA Limited, Research Division - Research Analyst*
Kin Shun Ling *Jefferies LLC, Research Division - Equity Analyst*
Lillian Lou *Morgan Stanley, Research Division - Executive Director*
Michelle Cheng *Goldman Sachs Group Inc., Research Division - Executive Director*
Xiaopo Wei *Citigroup Inc, Research Division - Director & Head of Asia-Pacific Consumer Research*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Yum China 2019 Third Quarter Earnings Conference Call. (Operator Instructions) I must advise you that this conference is being recorded.

I would now like to hand the conference over to your speaker, Florence Lip. Thank you. Please go ahead.

Florence Lip ***Yum China Holdings, Inc. - Senior Director of IR***

Thank you, Raq. Hello, everyone, and thank you for joining Yum China's Third Quarter 2019 Earnings Conference Call. Joining us on today's call are Ms. Joey Wat, CEO of Yum China; and Mr. Andy Yeung, CFO of the company.

Before we get started, I'd like to remind you that our earnings call and investor presentation contain forward-looking statements, which are subject to future events and uncertainties. Our actual results may differ materially from these forward-looking statements. All forward-looking statements should be considered in conjunction with the cautionary statement in our earnings release and the risk factors included in our filings with the SEC.

This call will include certain non-GAAP financial measures. You should carefully consider the comparable GAAP measures and reconciliation thereto.

Today's call includes 4 sections: First, Joey will cover Yum China's third quarter 2019 highlights, and Andy will cover the financial results before Joey provides an update on our strategic priorities. We will then open the call to questions.

The webcast of this call will be available on our IR website. A PowerPoint presentation, which contains operational and financial information for the quarter, is available for download as well.

At this time, I would like to turn the call over to Ms. Joey Wat, CEO of Yum China.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Florence. Hello, everyone, and thank you for joining us today. Let's start with the overview. We are pleased with our continued strong performance and robust operating profit growth in the third quarter. We continue to build on our market-leading position in China and further strengthen our competitive advantages in the area of innovation, digital and delivery across the whole of our business.

Let me share some highlights from the quarter. First, we delivered our 12th consecutive quarter of system sales growth since spinoff with positive same-store sales growth at both KFC and Pizza Hut. Second, we are on track to hit the high end of our new store target of 800 to 850 for 2019. This is driven by the good performance of our brands, in particular KFC, and the many attractive opportunities to expand our portfolio across China. Third, we continue to innovate on multiple fronts. This includes launching exciting new products and leveraging technology to drive sales and operational efficiency. We continue to see strong growth in our digital KPIs, including total members, members' contribution to sales, digital orders, Privilege subscriptions and delivery sales.

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I also want to formally welcome Andy Yeung, who has recently joined as our new CFO. Andy brings a wealth of finance experience, specifically given his tenure serving as CFO at other companies, including a New York Store Exchange-listed technology company. I would like to thank Jacky for his leadership over the last several years and wish him all the best as he relocates back to Hong Kong to be closer to family.

With that, I would like to walk you through the third quarter performance. Let me start with the progress we have made on the digital and delivery front as they are a crucial driver of our success. Maintaining our market leadership in our digital and delivery capabilities is a key component of our vision: to be the world's most innovative restaurant company. We continue to leverage our powerful digital ecosystem to drive sales, improve the customer experience and increase operational efficiency.

The bedrock of our success is our large and growing digital memberships. KFC and Pizza Hut together have grown by over 1/3 in the last year to 230 million digital members, and they account for half of our sales. Digital orders continue to grow materially as our customers embrace the convenience offered. Our Privilege subscriptions continued to be very popular with over 4 million sold during the quarter. Other than the Delivery Privilege membership that you are familiar with, we launched several new attractive offers, including an updated coffee Privilege program at KFC and steak Privilege program at Pizza Hut, aiming to drive adoption and stickiness of these categories. All are showing encouraging results.

Delivery continues to grow and now accounts for 20% of sales, with sales via our own channels growing faster than that by aggregators. We continue to drive improved efficiency and performance with the ongoing optimization of our recently upgraded delivery dispatch system and a rebuild of our in-house Pizza Hut capabilities. In addition to the digital and delivery initiatives, we have also leveraged technology to improve our operational efficiency, for example,in improving our real-time monitoring and management of our supply chain and labor productivity.

Now let me walk through the performance of our key brands, starting with KFC. KFC reported another strong quarter with system sales growth of 10% and same-store sales of 3%. We delivered margin expansion and operating profit growth of 16% in constant currency despite a slightly moderated sales growth compared to the first half of 2019. This is the result of lowering the intensity of promotional activities, which we highlighted last quarter; strong management of the chicken cost increase; and improvement in labor productivity.

Let me provide some detail about these initiatives, starting with our menu innovation. For menu, meeting and exceeding customer wishes for new and improved products has always been our focus. To this end, we launched several exciting burger LTOs during the quarter. We offered our first vegetarian burger, a premium price point portobello mushroom burger, showcasing our protein innovation capabilities. The Double Down bunless chicken burger is an example of a popular KFC product launched by Yum! Brands internationally that we were able to leverage and launch in China. Aside from burgers, we launched an exciting new trial of Spicy Skewers and stew pots, (ChuanChuan and LuWei), in 10 cities, and we are gradually expanding the coverage. Spicy Skewers is a Sichuan-flavored street food particularly popular for late-night dining. Lastly, we drove strong sales growth in our key categories of breakfast, coffee and dessert with exciting new products and captured cross-selling opportunities enabled by our digital memberships.

We have witnessed our Privilege members more than double their spending during the subscription period, driving incremental operating profit. For example, our coffee marketing has been primarily driven by digital initiatives, and we have sold 98 million cups of coffee in the first 9 months of the year, exceeding the total sold for full year 2018.

With respect to promotions, we continue to focus on smart value. Our signature value promotion, Crazy Thursday, continued to grow sales above the results from last year's successful campaign. As we adjusted our offer, we were able to increase average ticket and improve margin.

Next, allow me to spend some time describing our approach to cost management. The team has done an excellent job of managing the impact from commodity inflation, in particular, the recent increase in chicken prices. This has been achieved through a combination of: one, leveraging our scale and long-term relationships with our suppliers to negotiate lower-than-market increases; and two, focusing on menu innovation capabilities on optimizing the mix of chicken products used and diversifying away from chicken through the

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introduction of new non-chicken menu options. On labor, we drove strong on-year productivity gains during the quarter. This was due to a careful planning for peak summer staffing and new real-time automated labor management tools. These tools were particularly effective in optimizing management of the seasonal labor demand during the peak summer season.

To conclude, during the quarter, we strategically lowered our promotion intensity and drove double-digit system sales growth through our menu innovation, digital and delivery initiatives and new store openings. Despite the pressure from ongoing elevated chicken prices, our diligent cost control, enabled by our scale and improved labor productivity, allowed us to drive excellent operating profit growth. This was a successful execution of the short-term strategy we outlined last quarter. The results highlight our resilient business model and ability to adapt effectively to changing market conditions in China.

Our long-term strategy for KFC remains unchanged. We continue to open stores across China and innovate across the business to serve our customers' evolving demands while maintaining a strict focus on efficiency.

Next, I'll provide some color on Pizza Hut's performance. Pizza Hut continues to cement the progress being made in its revitalization program with near-term priorities on driving traffic and sales. We achieved our third consecutive quarter of same-store sales growth and fourth consecutive quarter of traffic growth led by a significant increase in dine-in traffic. Our crucial investment in revitalizing the brand has impacted our operating profit in the third quarter. However, we are focused on the long term and believe we are doing the right things for the successful revitalization of the brand. Short-term flexibility is required to achieve our long-term objectives.

Let's talk about the 4 pillars of our revitalization program, starting with fixing the fundamentals, which is really about getting our menu, promotions, operations and service right. For our signature Scream Wednesday promotions, we introduced new offers on items like appetizer and desserts. Various additional promotions were targeted directly to our customers via our digital memberships. We have seen good consumer response, both in sales and consumer survey results. We also launched various new products such as seafood platter and Chinese-style double chili chicken pizza. Steak remains an important growth category. Sales of steak was up strong double-digit year-over-year to account for about 13% of sales. To give you an idea of scale, this amounts to over 30 million servings of steak during the past 12 months.

Turning to our second pillar, digital. In addition to the achievements I mentioned at the beginning of the call, we launched the national test of our carryout function on our Super App and see great potential from promoting this efficient, off-premise dining opportunity.

Delivery, our third pillar, grew to 26% of sales. This has been powered by strengthened operations as we rebuild our in-house delivery infrastructure. Overall, delivery growth has been driven by our channel -- our own channels, thanks to our successful digital CRM program and dedicated promotions.

Lastly, we are enhancing our asset portfolio, our fourth pillar, through accelerated remodels and multiple store formats. You can see our beautiful stores on Slide 19 of the presentation. We remodeled 126 stores in the third quarter, a significant increase in pace compared to the first half. We will continue to accelerate the pace aggressively in the fourth quarter and target to complete above 500 for the full year.

Together, these 4 pillars are having a very positive impact on the business. Moving forward, we will maintain focus on these 4 pillars to drive the long-term restoration of traffic, then sales and then profitability. We will continue cementing our positive changes along the way while anticipating quarterly fluctuations as we continue to invest and adjust appropriately as the revitalization matures.

Finally, we announced in August an agreement to acquire controlling interest in Huang Ji Huang, a restaurant chain focusing on simmer pot, (MenGuo), a subcategory of hotpot. Huang Ji Huang has over 640 restaurants, almost all of which are franchise-operated. We will provide additional details once the deal is completed, currently expected in early 2020, subject to the satisfaction of closing conditions.

With that, I'll hand over the call to our new CFO, for the first time, Andy.

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Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thank you, Joey. Good day, everyone. Thank you for joining us today. I'm very excited to have joined Yum China recently. I look forward to meeting with everyone in the coming months.

Now let us turn our attention to the third quarter financial results. Total revenues was $2.3 billion in the third quarter of 2019, up 8% year-over-year, excluding foreign exchange translation. Total system sales grew 8% year-over-year, excluding FX, driven by same-store sales growth of 2% and new store openings. We opened 231 new stores during the quarter, increasing our total portfolio to 8,917 restaurants as of the end of September. We have opened 646 restaurants year-to-date and are on track to hit the high end of our target, which is 800 to 850 new store openings for 2019.

KFC same-store sales grew 3% driven by a 4% year-over-year increase in ticket average. This was due to increased share of delivery, lowered promotional activity and increased pricing. Traffic decreased 1% year-over-year primarily due to fewed value promotion.

Pizza Hut achieved its third consecutive quarter of same-store sales growth of 1%. Traffic increased 6% year-over-year, remaining positive for both dine-in and delivery. This was largely driven by increased promotional activity year-over-year, which also drove a 5% year-over-year decrease in ticket average.

Overall, Yum China restaurant margin was 17.7%, slightly up compared to the same period last year. Wage inflation was 5%, while commodity inflation was 2% compared to the same period last year. We continue to expect overall commodity inflation to be low single digits for 2019.

KFC restaurant margin increased 0.9% year-over-year to 20.1%. It was driven by sales leverage, lower intensity of promotions and excellent management of core sales and labor productivity during the critical summer peak season. Combined, this more than offset margin pressure from wage inflation and commodity inflation. Finally, the margin also benefited from a onetime adjustment during the quarter. This is related to tariff rebate that added approximately 0.3% to the margin.

Pizza Hut margins during the third quarter was 11.4%, down 2.4% year-over-year. The margin pressure was primarily due to: one, our investment in higher promotional activities to drive traffic; two, acceleration of remodels; and three, ongoing wage inflation. Partially offsetting these factors were savings in commodity costs as we leverage our scale and optimized product offerings. However, we began to lap some very successful initiatives that were implemented during the second half of 2018. The significant year-over-year savings in labor productivity, as seen in the first half of 2019, were not repeated in the third quarter. But net-net, year-to-date, Pizza Hut margins are still slightly above last year's levels, a strong achievement given the long-term investments being made to revitalize the brand.

G&A expense was up 3% year-over-year and 7% year-to-date, ex FX. The third quarter benefited from higher government incentive, in part due to some incentives received in the fourth quarter last year but we received them in the third quarter this year.

Yum China operating profit for the third quarter of 2019 increased 11% year-over-year.

Now due to depreciation of RMB against the U.S. dollar, foreign exchange translation negatively impacted our total operating profit by $9 million or 3% during the quarter. Excluding FX, operating profit [increased] 14% year-over-year.

Our effective tax rate during the third quarter was 26.9%, 2.7% higher than the same period last year, primarily due to higher accrued residual U.S. tax. Our best estimate of the effective tax rate in 2019 continues to be below 28%, excluding any impact from the mark-to-market gain or loss from our equity investment in Meituan.

Finally, diluted EPS was $0.58 in the quarter compared to $0.51 in the same period last year. Diluted EPS includes a mark-to-market gain of $12 million or $0.03 per share from our equity investment in Meituan.

Next, let me cover capital allocation. Our strong cash flow generation continued in the quarter. In the first 9 months of 2019, we

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generated more than $1 billion net operating cash flow and $735 million free cash flow after subtracting $310 million in capital expenditures. In the third quarter, we returned $109 million to shareholders, including a cash dividend of $45 million and share repurchase of $64 million. At the end of September, there was roughly around $750 million remaining under the share repurchase authorization.

Our quarterly dividend remains at $0.12 per share, and we will continue to review our dividend policy in conjunction with the Board quarterly. We will continue to invest for growth given the strong return for new builds. However, with tremendous effort in optimizing new store and remodel CapEx, we now expect full year CapEx for 2019 to come in at the low end of our $475 million to $525 million range, including the expected impact of currency translation.

Now I would turn to our outlook for the fourth quarter of 2019. While we continue to drive sales across all of our brands, we are facing some tough comparisons as we began lapping some very successful sales initiative that started in the second half of 2018. Also, we will step up investments in various important areas to ensure long-term vitality of our brands, including a focus on remodels, which will be back-end loaded in 2019. It is important to note that the fourth quarter is not only seasonally the lowest quarter for sales but also the biggest quarter for store remodeling for us this year. So small changes in operating results or investments can have a significant percentage impact on operating profit for the quarter.

Turning to specifics for KFC and Pizza Hut. At KFC, there are some very successful sales initiatives implemented in the fourth quarter of 2018, including the first full quarter of Crazy Thursday. The lapping of this successful initiative and our strategic decrease in promotional intensity to protect margin are expected to result in a moderation of sales growth in the fourth quarter. We will continue our relentless effort to manage margin pressure from continued elevated chicken prices. Also, investment in remodels are expected to increase year-over-year. This will impact sales and margins in the short term but it's an important investment for our long-term success. Finally, several onetime benefits in the third quarter, in particular, the tariff rebate and significant year-over-year increase in labor productivity are not expected to carry forward into the fourth quarter.

At Pizza Hut, we are very encouraged by the progress of our brand revitalization program. But we'd expect quarterly fluctuation as we roll out our initiatives at scale. We'll be driving this via value promotions. In addition, our remodeling program will ramp up with approximately half of our full year program to be completed in the fourth quarter. Again, these initiatives will impact the restaurant sales and margins in the short term but are important components of the long-term revitalization of our brand.

Now let me hand the call back to Joey to comment on our current strategic priorities. Joey?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you. Thank you, Andy. I wanted to take a few minutes at the end of the call today to highlight our overall strategic priorities. In short, we are focusing on a number of key areas that will drive our long-term growth.

First, we will focus on expanding our core brands, KFC and Pizza Hut. In the near term, as Andy mentioned, we have a very busy investment program in terms of both remodels and new builds in the fourth quarter. In 2020, we expect to open stores at a similar pace compared to 2019.

Second, we will continue to invest in key growth opportunities, including our smaller brands. We expect to accelerate the store openings of our smaller brands. In particular, we'll be increasing our investment in expanding our presence in the coffee category. We believe coffee has a bright future in China, but it would take additional patience, hard work and investment to fully realize this segment opportunity within our diversified portfolio.

Third, we will leverage and increase our investment in our industry-leading digital and technology capabilities. Fourth, we will be vigilant on controlling costs and driving efficiencies to protect margins.

That being said, given the current pressures across the protein supply due to pork shortage, we anticipate 2020 will be another challenging year for commodity inflation. We will be prudent on the portion of these costs that's passed on to our customers, particularly

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for Pizza Hut. We will continue to build on recent gains made in our value-for-money perception. We will provide additional details on specific 2020 targets with our Q4 earnings release in early 2020.

With that, I'll pass it back to Florence to start the Q&A. Florence?

Florence Lip ***Yum China Holdings, Inc. - Senior Director of IR***

Thanks, Joey. We will now open the call for questions. (Operator Instructions) Operator, please start the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question comes from the line of Michelle Cheng from Goldman Sachs.

Michelle Cheng ***Goldman Sachs Group Inc., Research Division - Executive Director***

Congrats for the very good results, especially KFC. It's such a competitive and high-protein cost inflation market, we'll still deliver strong margin improvement. But can you please give us some color about the chicken cost increase in the third quarter or year-to-date? And I believe you probably have some visibility on the first quarter's cost trend, can you also share with us? And given we have such a strong product innovation and cost efficiency, can we have some idea about how should we look at the margin trend into next year for KFC?

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Okay. I will take this question. This is Andy. So regarding overall commodity price inflation, I think it was 2% in the third quarter for us and about 3% in the first half this year. For full year, again, we expect that to be at low single digits. I think all through this year, we've seen significant price increase in protein in China driven by the African swine flu, and that is likely going to continue. The commodity prices are volatile so it's hard to predict going forward. Chicken prices, as far as we know, up almost 20% to 30% year-over-year in China this year. For us, because we have very strong supply chain and procurement management, so we are able to manage that significantly below that. And in fact, we have probably managed that below 10% this year.

In terms of commodity prices, again, it's very hard to predict because if you look at spot prices, for example, in September, I think it reached a new record, up almost 60%-plus year-over-year. So I think we'll continue to monitor the situation and give you guys an update. But again, I want to mention that our team have done an amazing job in mitigating the impact of elevated chicken price inflation through several initiatives, supply chain relationship, leveraging our scale and long-term partnership with our suppliers. And then our team also have tremendous product innovation creating products using our chickens and also non-chicken protein choices. So we have been able to manage that commodity price pretty well this year.

And so if you think about this, with all the effort, the impact will be more significant. So chicken is about 40% of our cost of sales, and it has increased by 20% to 30% this year. So that would normally mean 8% to 12% commodity inflation just from chicken alone and about like 2.5% to 3.5% impact on our margin. Obviously, we haven't seen that kind of impact on our overall margins and our sales increase. So hopefully, our team will continue to be able to do a good job in managing that pressure as well. Joey?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Sure. I just want to add 2 comments, Michelle. One is we are excited and committed to our vision of becoming the most innovative restaurant company in the world. So in this -- in facing the challenge of chicken price hike, we certainly take this vision even more serious than otherwise it would be. So for Q3 alone, we have some really exciting new products like the portobello mushroom burger, which is we replaced the meat with the entire piece of portobello mushroom with cheese in the middle. We have the duck wrap instead of -- other than chicken wrap that we traditionally have, we have the duck.

We also, in our combo, start to introduce chicken strips to replace chicken wings. So although still chicken, but the cost on chicken strip, which is essentially breast meat which is not very popular among the Chinese customer, the price of chicken strip is lower. So our product

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innovation will continue for the rest of the year and going forward for next year. And it's very exciting. We even get to the point of selling a lot of (JiChiJian), which is the last small tip of the chicken wing, which is not something you think that we can sell but we could because there are a group, not a huge group, but there's still a group of people who just love it. So that's point one.

Point two is our commitment to good food. If we look at our cost structure, let's say with Pizza Hut, we can see improvement of the cost management in almost every line, but we leave the flexibility to cost of sales. Why? Because it's our commitment. We would push ourselves to drive efficiency and effectiveness in everything. However, we have the commitment to pass all these savings, better food, to serve our customers.

(DiandaBuQiKe) Even though we are a big business, but we need to have that sincerity, and good food is sincerity to a customer. And we have the commitment. And thus, we always have the flexibility there in terms of investment, but we must have the good product of us to drive good traffic and increase sales. Thank you, Michelle.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Yes. I think I'll answer the -- sorry, I think I'll answer the same question, some part of the question, which is about the margin trend for KFC. I think a couple of things, right? One is that I think, in the fourth quarter, as we mentioned before, we're going to accelerate our store remodeling, so that will have an impact on our sales and margins. And also, if you look at KFC, it also benefit from some onetime items, including the tariff rebate, which impacted -- benefited our margin by 0.3%. And then also, we also benefited, as Joey mentioned, to a very successful rollout of some of our productivity, especially in the summer peak season. We gained a lot of productivity improvement, and that may not be as prominent in the fourth quarter, which is traditionally a smaller quarter and not a peak season for us.

So overall, I think also for the sales, also if you look at KFC, we'll be lapping some very successful initiative, right? We have the first full quarter of Crazy Thursday that rolled out in 2018. So that will be a tough comparison lapping that. So all in all, I think the margin trend, we have done a great job and I think better than we have expected probably in the third quarter, and I think it will normalize more in the fourth quarter.

Operator

And our next question comes from the line of Chen Luo from Bank of America Merrill Lynch.

Chen Luo ***BofA Merrill Lynch, Research Division - MD***

I've got a question on the sales. Just now, Andy mentioned that we expect a moderation of sales growth in fourth quarter. Are we talking about the slowdown of same-store sales growth compared with Q3? And we also highlight that in Q3, we have purposely scaled back the promotional intensity to achieve a balance between margins and same-store sales growth. But going forward, we are going to see very tough laps of same-store sales growth. Are we going to continue with this balanced strategy or, if necessary, we are going to actually step up promotion again to sustain same-store sales growth? Any color on that front will be helpful.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thank you, Chen. So yes, you're right. Like so if you look at the third quarter, the margin improved at KFC partially due to the strategic management of promotional activities. So again, I think our team will continue to look at balancing between promotional activity versus protecting margins and respond to the market appropriately. And so -- but we do expect that selective in promotional activities is likely in the fourth quarter for KFC. So hope that answers your question.

Chen Luo ***BofA Merrill Lynch, Research Division - MD***

Yes. Okay.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

I think Andy just mentioned a bit earlier that we just have to remind ourselves that quarter 4 last year for KFC was very strong. That's the first full quarter of Crazy Thursday, which is one of our best promotions now. And with that strong result, naturally, we will have the challenge of lapping this year for the Q4. But at the same time, as we mentioned a few times already, given the cost pressure particularly

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in Q3 and looking at Q4, we also look for ways to protect our margin as well. The third point is same-store really is not the only criteria for Yum China. Despite the scale of our business, we are still growing very fast, and the market opportunity is still very exciting there. We will not be doing something good and fair for our shareholders if we do not have a good balance of same-store sales and system sales growth.

So if we look at Q3, for KFC, the same-store sales is 3%, but the system sales is 10%, which is fantastic given the scale of our business already. So Q4, as Andy mentioned, we -- while we are driving the same-store sales, this is also a very big quarter for us to build new stores. And we must keep this pace going to maintain our dominant market leadership in our business. So therefore, you can see the balanced consideration from a management team's point of view towards Q4. Thank you, Chen.

Operator

And your next question comes from the line of Xiaopo Wei from Citigroup.

Xiaopo Wei ***Citigroup Inc, Research Division - Director & Head of Asia-Pacific Consumer Research***

Andy, welcome to the company. I have one question regarding the new opening and, as you mentioned, on the release that you accelerate opening in the third quarter. Interestingly, we are seeing very impressive improvement in KFC restaurant margin. Shall we say that actually, the new store restaurant margin on a like-for-like basis actually is better than last year? Because we are seeing you are opening more stores looking forward, shall we say that the drag of a new store looking forward on a like-for-like basis actually will be much less than previous years? Because I'm seeing the trend that your top line is more driven by the new opening looking for rather than the same store. If your restaurant margin of the new store, it is better than previous years, shall we say that the margin pressure will not be as much as we feared by normal operation?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Xiaopo. Let me take this question. For the Q3 restaurant margin, there are a few contributing factors. One, as Andy mentioned earlier, there are some one-offs, like the tariff rebate, like the government incentive that was happening in Q4 last year. This year, it moved to Q3. But more importantly, actually, we have some very impressive labor productivity gain during the Q3. I mean that number is big, and that number is from all stores. And there are reasons behind it. And the cost does not go down by itself. Usually, it's a result of a very aggressive management and hard work behind. So the hard work behind the all-store labor productivity and thus the restaurant margin is our new real-time automated labor scheduling system in place.

So right now, for all my store managers in KFC, the data of the operational detail, particularly for labor scheduling, is real time, it's in their phone, we call it (KouDaiJingLi), the manager in your pocket. So the transparency of the data and then the automation of the labor scheduling, gives our store managers a very good tool so that they can respond and react immediately. And this particular benefit is very, very important. And it was proven in our Q3, which is our peak trading season for the summer, right, it's very, very significant. And thus, Andy also mentioned earlier that such benefit is less likely to replicate in Q4 because Q4 is a very small quarter. So we spend a lot of money on labor cost, and the saving there is slightly more impressive. So the restaurant margin really is -- the improvement is the result of all store margin not only a new openings. But all our new opening stores, we do have a bottom-up approach. Each store, the decision to open 1 single store, any store in Yum China, we have a very robust process to approve it. However, when the new store mature, then we are expecting a bit more benefit from it as well. Thank you, Xiaopo.

Operator

And your next question comes from the line of Anne Li from Jefferies.

Kin Shun Ling ***Jefferies LLC, Research Division - Equity Analyst***

I have a question. Regarding Pizza Hut, Pizza Hut always have promotion. We noticed that not only is it Scream Wednesday but also Scream Monday, Tuesday and Wednesday for some of the weeks in the third quarter. So is that 1% same-store sales like up to management's expectation? And we also see like margin a little bit more volatile. I think we can understand that. But like what do you think that -- in terms of restructuring Pizza Hut, what is still missing? Is it more like -- in the 4 pillars, which one will be the one that you want to highlight a little bit more about? Are you happy with your current ASP for Pizza Hut? If not, what are the trends?

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And maybe just one follow-up question from -- a sales question. Regarding the one -- you mentioned about the one-off costs -- one-off gains regarding the labor efficiency. Is it fair to say that although it happens in the third quarter, it might not be that impressive in 4Q and this efficiency will come back again in first quarter and third quarter next year because it's a high season?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Anne. There are quite a few questions here. Let me try to start with the big picture. For Pizza Hut, we are very happy with the third quarter of same-store sales growth and then also the consecutive fourth quarter of traffic growth, which is the first time we achieved since 2014. And then the year-to-date margin is actually 12.4% versus last year, 11.8%. So with all the good efforts going in despite the seasonal -- despite the quarterly fluctuation, we are very happy with the overall trend. So when it comes to the same-store sales growth, is it in line with our expectation? We always want a bit more if we could. But we are happy with the positive same-store sales. And in terms of ASP and all the 4 pillars that we are all familiar with, my thoughts are as follows. One is it's very good for the business in the long term when we are driving traffic, even when the ticket average or ASP is going down. What does that mean? It means that we are rebuilding value for money, which is absolutely critical for our business. So for our dine-in business, the trade-off is very obvious, and the result is impressive. We are increasing 10% TC and then TA go down 9%. That's what we wanted. That's good.

In terms of 4 pillars, I guess the question is what else can we do. The answer is we continue to drive 4 pillars. But the focus will shift slightly along all 4 pillars as well. As we get something under the belt, we'll move on to the next thing that we can focus on. Let me give you an example, the fundamentals. We are talking about menu, the product, the value for money, the layout, et cetera. So all these fundamentals are good, and we are very happy that the new menu that we introduced back in March, that there are only 77 items versus 120 before. What's different? The difference is this new menu continues through the rest of the year. And that's very different because in Pizza Hut's history, we used to do 2 menus -- menu changes in the past, and that was a massive amount of effort. And this year, we managed to have 1 menu, and it carried us through for the whole year. That is good.

Now what else do we need to do? Well, now we got the dine-in menu under control that we're happy about. What about the delivery menu? So we're going to move our focus to fixing the delivery menu because the requirements are different. The dine-in menu needs to be something very, very nice, very pleasing for any -- and you can put on the video online, the cake, the lava cake will flow down. It doesn't work for delivery. So we need to move some menu items that can keep the heat, the temperature much better, that can come out from the kitchen much faster to help us drive the delivery business.

So let me also highlight digital. Digital, we launched the Super App 2017, and then we continue to roll out the taste -- table side ordering, et cetera, and we're still trying it. So what is new this year? Well, we just rolled out the carryout ordering on Super App as well. The carryout ordering, right now, is still single digit, is still early stage, but it's fantastic because it does not take our space in the store, and it does not require delivery cost either. So now we started it, and we need to push, and we need to get it right and then push the delivery.

I talked about the menu, and we took back the last-mile delivery at the end of last year, and we have spent massive amount of effort and work to rebuild the infrastructure, okay? The infrastructure is rebuilt. Now we have to go to a very detailed management of the trade zone. We are going through 1 trade zone at a time in the entire country where we have the delivery business and try to make it better to reduce the customer complaints. So that is the quality. And you can even see that delivery business coverage actually reduced from 97% to 91%. And why? So only 91% of our stores right now offer delivery business instead of 97%. Why? It doesn't make sense. No, it does make sense because we realized there are some stores that are doing the delivery business at suboptimal scale. So a few stores that are close enough, we combine them. We still keep the sales, but we improve the cost and we improve the quality to the customer.

So as said, we have done 126 remodels in Q3, as Andy mentioned. We still have half of remodeling to do for the rest of these few months, for the year because it's low season. So of course, we're going to work harder to prepare for next year. And then the hub-and-spoke, we mentioned it in the Investor Day this year, and we now have 20 of them, and we continue to test, to fine-tune the hub-and-spoke model. And then hopefully, we can roll it out in bigger scale next year.

So as I mentioned at the beginning of this year, when we turned the corner of achieving positive same-store sales, which is fantastic, but we also mentioned that the business is going to take another 2 to 3 years to cement all the changes.

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The last bit of your question is for labor productivity for KFC in particular, so we have seen the good result in the Q3 this year. Next Chinese New Year will be the first Chinese New Year where we will go through with our -- providing you with our real-time automated scheduling. And every single peak season is like a big battle for us. We're starting to trial very fast. And the dynamic is different because although the Q3 is a peak trading season, the Q2 -- the Q1, the Chinese New Year this year is Q1 actually because it's earlier, is a completely different dynamic. It's going to be another lesson learned experience, and we certainly would try our best.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Well, I would add a little bit more to that. So like if you look at the labor book, you see improvement in the summer season, I think that's because during the summer peak season, normally, we have a larger temporary crew. And generally, the labor productivity because of that is lower. But with this real-time, almost automated, labor scheduling tool, we're able to see significant improvement in labor productivities. Now we continue to expect this tool to be helpful in improving labor productivities throughout the year. But obviously, the lowest-hanging fruit for that is in the summer peak season where labor, demand and supply are more different. So hopefully, that addressed your question.

Operator

And your next question comes from the line of Lillian Lou from Morgan Stanley.

Lillian Lou ***Morgan Stanley, Research Division - Executive Director***

I think a lot of questions were answered. I have a follow-up question. I think so far, Pizza Hut is on a very good trend. As Joey mentioned, positive traffic is a very important metric that we need to follow at this stage. So in terms of balancing Pizza Hut and KFC rolling over to 2020, I know it's still early to give exact guidance, but in terms of strategic focus, between those 2, what's the most biggest challenge in 2020 for KFC and Pizza Hut?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Let me share my thoughts, Lillian, thank you. For 2020, a more specific target guidance we'll give in Q4. But I think as we can look at it right now for KFC, obviously, the same-store sales because Q1, Q2 this year was very, very strong, it was phenomenal, like 5% same-store sales plus the new store opening, that is very, very tough to lap. And then the chicken price, it will continue -- the chicken price pressure, it will continue. And then the third bit is the labor productivity. While we are very happy with the Q3 improvement, Q4 -- for next year, every year is a challenge because of the government minimum wage challenge to the fundamental nature for our business and how are we going to continue to learn to use our new automated scheduling tool. So these are the sort of the top 3 challenges that we are paying a lot of attention to.

And last but not least, the new store openings, obviously, while we are targeting and pushing ourselves for same-store sales -- for positive same-store sales, we are acutely aware that there's huge opportunity in China market because we're only in 1300 cities, and there are still 700, 800 cities that we don't have a KFC, and we still want to keep the pace. So to balance the multiple sort of focus for the business is always a tough game.

For Pizza Hut, the revitalization will continue, as I mentioned many times before, the focus is still on 4 fundamentals. And it does take 2 to 3 years' time after turning around the same-store sales to cement all the changes I mentioned along the 4 key pillars and others that I did not mention. Because for a turnaround -- for a revitalization process, because Pizza Hut is still very profitable, it just require tweaking the key dimension of the business, but also everything else.

However, there's still a fundamental difference between the 2 businesses. What are the differences here? For our priority of making decisions, we are very clear, we want the traffic first. We want the sales, and then we want to profit. So Pizza Hut, because of where it is, we certainly focus on the traffic and sales, and we give a bit more flexibility to the profit because that's where the business is. However, for KFC, the return is higher. Not only we wanted traffic, we wanted sell but we also want the profit. So this is something someone clever described that sales is vanity, profit is sanity. And as a good business people, we want a bit of both. And we certainly want a bit of both for KFC, and we are probably okay for Pizza Hut if we have a bit more vanity than sanity for the time being. So thank you, Lillian. Andy, any...

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Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Yes. So I'll add a little bit. So I think it's a little bit too early to provide specific guidance for outlook for 2020. But as Joey mentioned, I think there are a couple focus that we're going to have, right? One is that we're going to continue to drive sales through product innovation, so again because we're going to face some headwinds in the commodity prices. And then the second part is that we will also invest in a number of areas, right, store remodeling, we'll also invest in technology, that's very important for us next year as well. We'll also continue to invest in our own delivery platform. And so it will be likely an investment year for us in 2020 as well. So I think -- overall, I think we will see some tough comparisons, for example, because both Pizza Hut and KFC have very strong first half 2019 so it would be a tough comparison. If you remember, like we achieved same-store sales growth of almost 5% in the first half for KFC, so that would be a pretty tough comparison. So as Joey mentioned, we expect then to have both vanity and also sanity, so that will be a component for them to balance between continuing sales growth and also of maintaining, protecting margins going forward. So thank you, Lillian.

Operator

And your last question comes from the line of Dylan Chu from CLSA.

Dylan Chu ***CLSA Limited, Research Division - Research Analyst***

Actually, most of my questions have been cleared, so thanks for a lot of details. I guess, could I please maybe ask about your coffee strategy? Because I recall, Joey, you mentioned this is still a large potential area but you still need patience. So I'm just wondering if you could elaborate a bit on that. Sort of what kind of signs, which you need to see or what kind of metrics do you need to see before you want to invest in coffee a bit larger scale? And what kind of initiatives would drive to do that? Just slightly longer term, coffee is certainly a big potential category. But currently, it seems mostly food drives coffee. Coffee is sort of a supplement to our other food categories. In the future, do you think coffee has the potential to drive food, the other way around, at least in some of the dayparts? Just any color on that will be really helpful.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Dylan. We believe in the great potential of the coffee business, and we are committed to grow our coffee category. And there are 2 areas that we are focusing on right now. One is K-Coffee. Because coffee is a very, very resilient business model already, and we are introducing or growing the coffee as a product inside the business. So as I mentioned, year-to-date, we sold 98 million cups already, and that's more than the total of 2018 full year, which is about 49%. Well, let's round it up, call it, 50% increase. So that's very, very impressive growth. And this number of coffee cups growth is comparable to some other pretty significant other coffee players in the market. However, given the base of business, our coffee business, even with almost 100 million cups sold, it's only 3% of our business. And we are very happy with the growth, in the 3%, but it just gives you the sense of the scale of the overall KFC business and Yum China business there and thus the challenge of growing.

The other bit of the coffee strategy is the C&J, the COFFii & JOY, which we are building and rolling out. And this is a new brand. When it comes to building a new brand, it takes time, right? Whatever successful brand that we're testing up in China like KFC, Pizza Hut and others, it does take time because not only does it take a great product that customers know already, but we have to build the store prototype, build the brand, build the supply chain, build the member base, build the talent pool and the complementary offering, such as food, in order to build the brand. And right now, we are also testing the scale and network effect as we increase density of our store in a given trade zone.

So where we are right now, we have opened 19 stores in Q3 -- by Q3, and we are targeting to get to 40, 45 stores by the end of the year. And next year, we'll commit -- we are committed to increase our investment. But the decision is always dynamic. It's a dynamic process, which is the same as Pizza Hut and KFC when it comes to new store openings. It's a dynamic process. It's a bottom-up process. But we are committed to grow the scale so that we can continue to learn all these building blocks of a new coffee brand, including the scale and the network effect. So that's where we are in terms of the coffee strategy, Dylan. Thank you very much.

Florence Lip ***Yum China Holdings, Inc. - Senior Director of IR***

All right. Thank you for joining the call today, and we look forward to speaking with you on the next earnings call. That concludes today's call, have a great day.

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Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Florence. Thank you.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thank you.

Operator

And that does conclude your conference for today. Thank you for participating. You may all now disconnect. Speakers, please stand by.

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