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PRESENTATION

Operator

Good day, everyone, and thank you for standing by. Welcome to Yum China's second-quarter 2026 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

Now, it's my pleasure to hand the conference to Florence Lip, Senior Director of Investor Relations. Please proceed.

Florence Lip - Yum China - Senior Director, Investor Relations

Thank you, operator. Hello everyone, and welcome to Yum China’s second-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.

We delivered strong second-quarter results. For the 9th consecutive quarter, we achieved system sales growth, operating profit growth and OP margin expansion at the same time. I would like to thank our team again for making this possible.

Revenue grew 13%, operating profit increased 14% and diluted EPS rose 21% YoY, partially supported by favorable foreign exchange impact. Excluding F/X impact, system sales grew 6% in

Q2, up from 4% in Q1, and continued to outperform the catering industry. Same-store sales growth also improved sequentially to 1%, driven by the 14th consecutive quarter of same-store transaction growth. We opened 560 net new stores, with expansion accelerating year over year across both equity and franchise stores.

With our dual focus on innovation and operational efficiency, Q2 restaurant margins and OP margins stayed resilient despite significant cost pressure from a higher delivery mix.

Our breakthrough side-by-side modules are scaling rapidly, especially in higher-tier cities. KFC's KCOFFEE café and KPRO are effectively capturing new customer occasions. Pizza Hut's new Burger Bar was well received by our customers. At the same time, KFC's small-town model and Pizza Hut WOW are helping us penetrate lower-tier cities quickly. Together with innovation in our core menus, these initiatives are unlocking new opportunities for us.

Let me start with Pizza Hut, which made significant progress in Q2.

Pizza Hut's same-store sales growth returned to positive at 1%, while new store openings accelerated, almost double what we did in Q2 last year. This brings net new store openings to 381 in the first half, nearly matching our 2025 total.

In April, we launched Fajitas and Shakshukas on the spring menu to enrich Pizza Hut's protein platforms and enhance the dine-in experience. In May, we extended our pizza category into lighter meal occasions with a new multi-grain crust and new protein and vegetable toppings (多谷物能量披萨). The pizza's colorful look, nutrient-packed profile and grain-rich texture made it our best-selling crust since launch in June. We also introduced an individual-sized multi-grain pizza with less than 500 calories, helping us attract more solo and light meal diners.

Beyond pizza, we are taking Pizza Hut's burger category to the next level with a new side-by-side module — Pizza Hut Burger Bar. In just six months, it has expanded to more than 200 locations, contributing double-digit incremental sales and meaningful profit to parent stores. Pizza Hut Burger Bar features a tight menu centered on made-to-order burgers from an open kitchen. Our buns are baked fresh in-store every day (现烤面包), and our patties come straight off the griddle, releasing a rich, savory aroma. Great-tasting burgers, amazing value-for-money and a quick-service model have proved very appealing to young consumers and solo diners. With light investment and by utilizing space in existing stores, we believe Pizza Hut Burger Bar can unlock significant growth opportunities for Pizza Hut. We plan to accelerate the rollout in the second half, reaching 500 to 600 locations by the end of 2026. That would represent around 10% of Pizza Hut's nearly 5,000-store portfolio.

And we are about to reach a major breakthrough by becoming the owner of the Pizza Hut brand in Mainland China, after operating the brand in the market for 36 years. In the near term, the savings in license fees will enhance store economics and make Pizza Hut's restaurant margin closer to KFC's. This will enable more potential new stores to meet our payback requirement of 2-3 years. Over the longer term, brand ownership will give us greater strategic flexibility and allow us to respond more nimbly to market opportunities and consumer needs.

While we are still reviewing our growth plan, our initial assessment points to accelerated store openings beginning next year. In 2027 and 2028, we now expect net new openings to exceed 800 per year, up from our original target of over 600.

As we step up our efforts at Pizza Hut, KFC continues to be our number one growth driver, delivering strong results.

In Q2, both system sales and core operating profit grew 7% YoY. Same-store sales grew 1%. In the first half, KFC opened nearly 800 net new stores, around 200 more than in the first half last year.

KFC's hero products and their extensions continued to drive strong sales and repeat purchases.

Whole chicken has become a major platform for at-home consumption, generating over 2 billion Yuan in sales last year. This category has delivered double-digit growth every year since its launch in 2021 and remains on track for double-digit growth in 2026. In April, we added the Aromatic Paper-Wrapped Roasted Chicken (香焗纸包鸡) to the permanent menu. It's super juicy and high in protein, appealing to consumers seeking lighter meals.

Zinger is another top-selling platform for KFC. In Q2, we introduced the limited-time offer - More Fragrant, Spicier Zinger (更香更辣鸡腿堡). The extra spicy chicken thigh, secret sauce and toasted sesame aroma attracted younger customers. Sales were especially strong in spicy-loving provinces such as Jiangxi and Sichuan. With more regional flavors to come, we see strong potential for the Zinger category to exceed 5 billion Yuan in sales by the end of 2026.

KFC's side-by-side modules, KCOFFEE cafe and KPRO, continue to gain momentum and deliver incremental sales and profit. KCOFFEE café grew to more than 3,300 locations, and we are on track to reach 5,000 locations by the end of 2027. In addition to coffee offerings, KCOFFEE café is broadening its tea and food options, including more egg tart flavors and breakfast pairings, to expand its addressable market.

KPRO has expanded to over 450 locations and has proven more promising than we expected. Earlier this year, we raised our year-end rollout target from 400 to 600 locations, and we now expect to reach around 800 locations. Following its success in higher-tier cities, we are expanding KPRO into select lower-tier cities. Beyond increasing its footprint, we are capturing the growing demand for lighter meals through menu innovation. In addition to our signature energy bowls, we recently launched sandwiches featuring whole wheat buns with chia seeds and high-protein ingredients. The sandwiches became an instant hit with good repeat purchases. In fact, more than 80% of KPRO sales came from KFC members, showing the power of cross-selling and membership. Combined with our trusted food quality standards and strong value-for-money, KPRO is well-positioned to become a leading player in China's light meal business.

Aside from new modules, KFC is also rolling out a car-side pickup service to improve convenience for customers who drive. More than 8,000 KFC stores now offer either drive-thru or car-side pickup, where our restaurant staff bring orders to designated pull-up areas. While customer awareness and habits are still in the early stages, the service is gaining traction, supported by strong repeat purchases. Over 7 million members have used this service this year, yet that still represents only 3% of our active member base, leaving significant room for growth.

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 Q2, both KFC's same-store sales growth and system sales growth improved sequentially. System sales grew 7%, up from 5% in Q1. Same-store sales grew 1%, the 5th consecutive quarter of growth. Same-store transactions grew 4%, more than offset ticket average decreases of 3%. Ticket average was 36 Yuan, lower YoY mainly due to incremental smaller orders from new consumer segments and occasions such as KCOFFEE and KPRO.

Despite significant rider cost headwind, KFC's restaurant margin expanded 20 bps to 17.1% in Q2. OP margin also expanded by 20 bps, once again demonstrating KFC's strong execution and nimble operations at scale.

KFC's side-by-side modules continued to drive incremental sales and profit while improving store economics through model iteration. KCOFFEE cafe delivered around mid-single-digit sales uplift to its parent stores, while KPRO delivered around 20%. Capex for both KCOFFEE cafe and KPRO has come down by around half from earlier modules last year, and both are showing solid margin improvement.

Now, moving to Pizza Hut. In Q2, system sales grew 6% YoY, accelerating from 4% in Q1, driven by the sequential improvement in same-store sales growth to 1%. Same-store transactions grew strongly by 13% in Q2, marking the 14th consecutive quarter of growth, offsetting an 11% ticket average decrease. Ticket average was 68 Yuan, moving closer to our target range of 60-70 Yuan in line with our mass-market strategy, mainly driven by better value for money and incremental smaller orders, including those from solo diners and Burger Bar.

Pizza Hut restaurant margin was down 40 bps, mainly due to the increased costs associated with higher delivery sales mix, better value for money, and expenses related to the launch of Pizza Hut Burger Bar. The new initiative successfully drove incremental sales and profit, with a modest margin investment.

In the first half, restaurant margin was up 10 bps YoY. OP margin expanded by 60 bps, mainly driven by lower closure and impairment expenses, reflecting improved store performance.

In the second half, we expect greater YoY improvement versus the first half in Pizza Hut's restaurant margin, as efficiency continues to improve and rider cost headwinds soften.

Moving on to store opening. We opened around 1,200 net new stores in the first half, about double the pace of the same period last year, and entered more than 200 new cities. Both equity and franchise store openings accelerated year over year. In higher-tier cities, we continued to densify our network, primarily through equity stores, to sustain our powerful brand momentum and operational moat. At the same time, franchisees, which accounted for 40% of total net new openings in the first half, are unlocking incremental opportunities for us. They provide additional resources to help us expand into lower-tier cities, remote areas, and strategic locations. With franchise stores accounting for only 18% of total stores of Yum China, we're confident there are significant opportunities ahead.

Let me now go through our Q2 P&L. System sales grew 6% YoY. Same-store sales grew 1%, sequentially improved from Q1.

Our restaurant margin was 16.1%, in line with the prior year level. Improvements in occupancy and other costs offset growth in cost of sales and cost of labor.

Cost of sales was 31.5%, 50 bps higher YoY, mainly due to better value-for-money offerings, increased packaging costs due to a higher delivery mix, and Pizza Hut's new menu items, which have higher COS and are still being optimized. Commodity prices remained favorable, though the benefit was smaller than before. We also improved our procurement efficiency through menu innovation and dynamic price management.

Cost of labor was 27.6%, 40 bps higher YoY. Rider costs continued to increase year-over-year in Q2, driven by the strong growth in delivery sales mix, which rose from 45% last year to 54% this year. The margin impact from rider costs was 140 bps, slightly lower than in Q1, and we offset most of that through enhanced store operations.

Occupancy and other was 24.8%, 90 bps lower YoY. The rent ratio improved through lease renegotiations and more favorable rent in lower-tier cities. We also implemented other initiatives to enhance operational efficiency.

Our OP margin was 11.1%, 20 bps higher YoY, achieving the 9th consecutive quarter of OP margin expansion. Savings in G&A expenses helped improve OP margins. Operating profit was 348 million USD, a second-quarter record, growing 7% YoY.

Net income was 244 million USD, up 6% YoY. Excluding our investment in Meituan, net income grew 3% YoY. Our investment in Meituan had a negative impact of 6 million USD in Q2, compared to a negative impact of 14 million USD in Q2 last year. As a reminder, we recognized 13 million USD less in interest income in Q2 this year due to a lower cash balance, resulting from the cash we returned to shareholders, and lower interest rates.

Diluted EPS was 70 cents, 14% higher YoY or up 10%, excluding our investment in Meituan.

Now, moving on to our 2026 outlook. Let me start with sales. Since June, we have been lapping a higher delivery sales base, and that tougher sales comparison will continue through the second half. That said, given our disciplined execution last year and multiple growth drivers, we remain confident in our ability to lead the catering industry in China.

July tracked broadly in line with our expectations. We are working hard to maintain positive same-store sales growth in Q3 and deliver the 15th consecutive quarter of positive same-store transaction growth.

Moving on to margins. Before considering the impact of the Pizza Hut deal, we expect Q3 restaurant margin to be stable to slightly positive YoY. Relative to the first half, incremental rider cost pressure is expected to moderate slightly, as delivery sales mix already increased to 51% in Q3 last year. Our continued efforts to improve operational efficiency and optimize store costs, including rent, labor productivity and capex, are expected to support margins, giving us room to reinvest in growth.

We expect OP margin to be roughly in line with Q3 last year. There was a positive margin impact of about 20 bps from some ad hoc government subsidies in Q3 2025 that are not expected to repeat in Q3 this year. Some similar subsidies were already recognized in the 1H this year, though in smaller amount.

For the full year, without considering the impact of the Pizza Hut deal, we are confident in meeting our 2026 targets, 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; and, a slight improvement in restaurant and OP margins for Yum China. Additionally, we remain on track to reach 20,000 stores by year-end.

Now, let's turn to the Pizza Hut deal, which is on track to close in August. We plan to fund this transaction primarily with debt. We expect to borrow an offshore bridge loan of around 1.2 billion USD equivalent for up to 12 months. For longer-term financing, all options remain on the table. We will proceed in the best interests of our shareholders and execute financing when market conditions are appropriate. We will provide an update once our financing plan is finalized.

The savings in the 3% license fee payments to Yum! Brands are expected to add 2.8% to Pizza Hut's restaurant and OP margins after taking VAT into account. This translates to approximately 60 bps for Yum China overall. For Q3, we expect around 30-40 bps positive impact to both Yum China's restaurant and OP margins, and for the 2026 full year, around 20-30 bps.

After accounting for deal-related costs, financing interest expense, tax, and without considering potential higher growth of Pizza Hut, we expect the deal to be accretive to diluted EPS – slightly accretive in 2026, and mid single-digit accretive in 2027 and 2028.

In terms of capital returns to shareholders, we remain on track to return 1.5 billion USD to shareholders in 2026, equivalent to around 10% of our current market cap. In the first half, we returned 718 million USD, including 515 million USD through share repurchases and 203 million USD through quarterly cash dividends. We stepped up share repurchases in Q2, reflecting what we believed was a relatively attractive share price.

From 2027 onward, we remain committed to returning around 100% of annual free cash flow, after subsidiaries' dividend payments to non-controlling interests. This translates to an average of 900 million USD to 1 billion plus USD in 2027 and 2028, and exceeds 1 billion USD in 2028 and beyond. With ownership of the Pizza Hut brand supporting faster growth, we also see potential upside to our future FCF.

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

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thank you, Adrian. Looking ahead, we are firing on all cylinders to drive sales and expand our addressable market. A number of our initiatives have each reached, or are about to reach, the meaningful milestone of 1 billion Yuan in sales, or around 1% of Yum China sales.

KCOFFEE cafe generated around 1 billion Yuan in sales last year. We target to double that to nearly 2 billion Yuan this year.

KPRO is expected to quadruple in sales YoY this year and exceed 1 billion Yuan in sales next year. KFC's drive-thru and car-side pickup are gaining strong momentum. We target to reach 1 billion Yuan in sales this year.

Pizza Hut Burgers, a category we introduced two years ago, is also gaining popularity. We now target over 1 billion Yuan in sales this year, or around 5-6% of Pizza Hut sales.

We remain confident in the strength of our brands and our ability to deliver sustainable growth, even in the current dynamic environment. And we continue to see significant long-term growth potential in China. Together with our team, I look forward to achieving our growth targets for 2026 and beyond.

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*] Our first question is from Michelle Cheng from Goldman Sachs. Please proceed.

Michelle Cheng - Goldman Sachs - Managing Director

Hi, Joey, Adrian, Florence. Thanks for taking my questions and congrats again for the very solid results. My question is about the overall consumption environment and also the pricing and promotion trend.

So we actually heard from many consumer companies and also looking at the macro data, second quarter market has been turning softer and even into third quarter, it's not exciting and definitely the weather didn't help at all.

But you still deliver a very solid result in second quarter. So, can you share with us your observation on the overall consumption trend? And I remember a few quarters ago, you mentioned the promotional activities has been better in China. But given these kind of consumption trends, do you see any risk on the re-emergence of these pricing trend or promotion activities in the market?

And since we know we have an easier base on margin. So still want to hear your thoughts about how to balance this pricing trend and the promotion activities to drive the sales growth. Thank you.

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

Thank you, Michelle. We are encouraged to see the rebound in June retail sales compared that with May actually. And as Adrian mentioned earlier in prepared remarks, July tracked broadly in line with our expectations.

There was some extreme weather, but it was temporary and it has certain regional impact in July. Coming back to the few trends, there are few things here worth noting. Consumers are still willing to spend on certain occasions. They are still growing nicely and present attractive opportunities such as coffee, light meal and their willingness to spend money on innovative products and experiences, strong value for money and emotional value.

And then additional interesting trend is we see some stabilization in pricing trends, more players are willing to take pricing, reflecting a stable consumer environment and the competition between the delivery platform is more rational, so these are positive. And on top of that, we continue to see ongoing increase, what we call chainification. China restaurant chain, the percentage has grown from 20% to 30% plus and it's still relatively low compared with 60% plus in mature market.

And that's also another one little trend going on is since April, the government has tightened oversight of the food delivery related to what is called ghost kitchen. We view this as a positive development, raising the standard of the industry and we expect to benefit from our well-established food safety, which is a strategic moat for us.

Thus, Michelle, Yum China team, we are working hard to drive traffic, sales and profit all at the same time, and we target to maintain positive same-store sales growth in Q3 and deliver 15 quarters of same-store transaction growth as well. Thank you, Michelle.

Michelle Cheng - Goldman Sachs - Managing Director

Thank you, Joey. That's very encouraging.

Operator

Our next question comes from Chen Luo from Bank of America. Please proceed.

Chen Luo - BofA Merrill Lynch Asset Holdings Inc - Analyst

Hi, Joey, Adrian and Florence. Congrats again on the strong results for Q2. My question is focused on our Pizza Hut China brand acquisition. Just now, Adrian mentioned that there will be a 12-month bridge loan. But regarding the future refinancing plan, do we have any options in mind that we can share with investors, say whether these options may include syndicate loans or even CB? And in particular, there have been some market concerns from some investors that if we are opting for CB, whether this will have some negative impact, either in terms of dilution or in terms of the share price performance.

I understand that we are always trying to take a very disciplined approach, always trying to maximize shareholder value. So any color or comment on our future refinancing plan would be appreciated. Thank you.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Sure. Thank you, Luo Chen. So indeed, as I mentioned in the prepared remarks, we expect to take a bridge loan of approximately $1.2 billion equivalent, of up to 12 months to close the transaction first. And by the way, the closing will take place in August, as I mentioned. The bridge loan interest rate will be approximately 2%, so it will be quite favorable.

And your question actually focused on the takeout financing or the long-term refinancing. Indeed, we think all options currently are on the table, including syndicate loans, including bonds, including CBs, etc. etc.

And given you specifically asked about CB, although it's actually pretty preliminary and we don't have any inclination on which instrument we take, but speaking for CB specifically, let's say even if we choose to take CB as the takeout financing option, there are different ways to minimize or reduce the dilution meaningfully, potential dilution meaningfully. For instance, the issuer can take a capped call option, thereby to increase the conversion premium from 20%, 30% to as much as 70% or 80%. That means the share price when it only gets to 70%, 80% premium versus the time when they issue the CB, then the dilution will occur. In which case, the shareholders will be pretty happy, right, the share price is 80% up.

And even at that point in time, there is still an option to use net share settlement, meaning shares will only be issued for the in-the-money portion of the CB. So the dilution all in all will be very limited.

So that's about CB and you can see some of the other big technology companies actually did quite similar things as to what I mentioned to minimize the dilution impact.

Again, we're still studying the different long-term refinancing options. All the different options are on the table, but I just want to share more color given you asked about CBs.

Operator

Thank you. Our next question is from Lillian Lou with Morgan Stanley. Please proceed.

Lillian Lou - Morgan Stanley - Managing Director, Equity Research Analyst

Thank you for the chance to ask a question. Hey, Joey, Adrian and Florence, yes, congrats again on the strong result. My question is focusing on Pizza Hut again. I think in the previous statement you mentioned second-half Pizza Hut margin will see some improvement. Just a little bit clarification, does that include the buyback, the margin accretion from the loyalty fee or is underlying margin improvement? That's more technical question to clarify.

And the major question is more on the Pizza Hut store expansion acceleration. How do you balance this store expansion pace versus maintaining a positive same-store? Thank you.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Yeah, I'll take the question first, Lillian. So on your clarification question, obviously, our guidance, as we mentioned in prepared remarks, is disregarding or without taking into account the Pizza Hut deal, we do expect the restaurant margin for Pizza Hut in the second half will enjoy a greater expansion compared to the first half. And the key reason is the moderation of rider cost pressure. Obviously, in the second half of last year, the delivery sales mix in the base was a bit more normal or comparable to what we see currently. Obviously, in the second half this year, there will still be a delivery sales mix increase, but the delta year-over-year will be much less, meaning the rider cost pressure will be more manageable in the second half.

On other cost line items, I think the trend will be kind of similar. For COS on the second-half for Pizza Hut, it will be broadly stable year over year. In our last earnings release, we guided a full year approximately 34% COS for Pizza Hut. I think we should be able to deliver consistent results compared to our guidance on Pizza Hut COS. On the long-term, COS for Pizza Hut will be 31% plus or minus 1% as we always commented. O&O, we do see opportunity for expansion there. So that's on the first question.

The second part of the question is the relationship between store opening and comp sales for Pizza Hut specifically, I think you mentioned. I think over the past few quarters or even the past few years, we have always tried to balance the different factors, right, like comp sales, store opening, margin, profit growth. And hopefully it's fair to say that we successfully delivered right or proper balance in most of the quarters or hopefully in the past few years in a consistent manner.

And indeed, we see lots of untapped opportunities for Pizza Hut here in China, obviously for KFC too, but you asked about Pizza Hut. So we will open the stores, we will not slow down the store opening and in terms of store opening, we do open stores across different tiers, high-tier city, low-tier city. For Pizza Hut particularly, the low-tier city penetration, there are actually lots of opportunities, right, we are kind of underrepresented there compared to where we are for KFC and compared to some of the local Chinese QSR brands there.

So, and for high-tier cities, we will also continue to defend our market leadership and open stores in high-tier cities. And I think you focus on the relationship between store opening and comp sales, there are different ways where we can manage or reduce the sales transfer by store opening. For instance, when we open stores in strategic channels like hospitals, university campuses, the sales transfer will be rather limited, right, because it's kind of a closed trade zone. For instance, when we open stores in lower-tier cities, because there are lots of white space the sales transfer will be rather limited. And also, that's similarly true for the outskirts areas in high-tier cities too. So as always, we'll try to balance the different metrics and hopefully deliver a set of results that are satisfactory to our shareholders. Thank you.

Lillian Lou - Morgan Stanley - Managing Director, Equity Research Analyst

Thanks a lot, Adrian. That's very clear.

Operator

Thank you. Our next question comes from Anne Ling at Jefferies. Please proceed.

Anne Ling - Jefferies - Analyst

Hi, management team. Thank you very much for taking my question.

Also on Pizza Hut side, we see Pizza Hut Burger Bar, having very good momentum, and we are, like, expanding to more locations. But for me, it's like, I would like to understand, like, because we're offering burger, the product itself, something similar to that of pizza, so how do we, like, prevent from cannibalization? And it seems that, we do have incremental sales. So as a customer, possibly, even when I go to the store, I might want to go for a burger. So in that case, how do we maintain or prevent the cannibalization and also for the incremental growth coming out from the burger bar where do you think the market share is coming from? What is the customers that you have attract that are new to you? Yeah, that's my question. Thank you.

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

Cannibalization with what, Anne?

Anne Ling - Jefferies - Analyst

With existing parent store.

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

Yeah, okay. So, and the overall market of the burger, first of all, is growing very nicely. So that's a good starting point. And when we decided to launch the Pizza Hut Burger, it's very clear among our team that the products need to be very unique.

So it's unique compared to KFC to start with, that the buns are baked fresh in the store. So that is very unique not only compared with KFC but many other incumbent players in the market. And then the patties were prepared based on order. So the quality of product is fantastic. And I think, after learning from over 200 locations, we can see we are probably competing with businesses that focus on beef burger.

So given KFC's beef burger share is mid-single digit, and the burgers are quite unique and different, so KFC is not the target, but from other beef burger-focused brands.

And then in terms of cannibalization with pizza, we see incremental sales because it's always good to offer choices to customer by offering a new category. And we can see that in our number. It's the double-digit sales to their parent stores and the margin is nice. Therefore, within a few months, we built over 200 locations and now we are targeting to increase to 500 to 600 and we are talking about 1 billion yuan sales, which is 5% to 6% of the Pizza Hut sales. So that is pretty fast. And fundamentally, it's the quality of the product that matters most.

And then, of course, the value for money is there and the brand is there, that's how we build our business. So we are very excited and hopeful about this incremental business.

Anne Ling - Jefferies - Analyst

Yeah, definitely. I see that you're also offering burger at Huang Ji Huang. I'm looking forward to have a try.

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

It tastes really good. Yeah, I hope you like it.

Anne Ling - Jefferies - Analyst

Yeah, I'll try. Okay. Thank you.

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

Thank you, Anne.

Operator

Our next question comes from Xiaopo Wei with Citi. Please proceed.

Xiaopo Wei - Citi - Managing Director, Head of China Research

Hi. Hi, Joey. Can you hear me?

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

Yes, please?

Xiaopo Wei - Citi - Managing Director - Head of China Research

Hi. Yeah. I'd like to take this opportunity to talk more about Pizza Hut because this is the first time you talk to investors after announcing the acquisition of the brand.

We just try to understand how big changes you will be to the business after acquisition, for example, from your revitalization experience the past few years. What do you think will be the low hanging fruit on the business after you acquire the brand and what has been the challenges during the revitalization process and how could you use a self-owned brand ownership to bridge the differences and make the challenges more, less, and also will you make big changes in the business looking forward, like, even transforming the business model of Pizza Hut? So, anything, any color on that would be very helpful. Thank you.

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

I suppose we feel like we need a separate meeting just for that topic.

Let me try to answer at the high level here. You are asking about the challenges in revitalization and then with the acquisition of the brand, any additional changes, if that's what I heard you.

We start the Pizza Hut transformation back to 2017. By 2024, we shared with our shareholder that we reached an inflection point. So it has been a long and committed transformation.

And I am very honest to say this, the transformation is mainly fundamental. We rebuilt the core capabilities from the product. For example, the crust, the dough master, the crust technology and know-how, we just launched the multi-grain crust in June and it became instant hit. And this will not happen if we have not built our core capability in the dough in the last many years.

We rebuilt our menu. Pizza right now is only 40% of our sales, which is significantly different from the rest of pizza business outside China. We also recently launched burger, burger business. And I think with this burger story, I would like to sort of answer your question about what is the benefit of the brand ownership.

In the past, because we did not own the brand, even when we have this brilliant idea of doing pizza burger bar, you can imagine there were a lot of conversation behind the scenes. Yum has been very good partner, but still the communication takes time, the explanation, the logic and how would that impact the overall pizza brand globally, all these conversation takes time.

And there are many benefits for the brand ownership because not only we are buying the brand, but we also are going to own the recipe, the trademark and many other things. And with that, we will have better ability to react or to respond to the market changes. Our action would be faster and sharper, and that strategic independence and speed is quite valuable. So among the many other benefits, this is one. And additionally, if I could highlight, it does help us to open stores even faster.

You're very good at numbers. You're probably aware that for quarter one alone, the Pizza Hut China new store opening is more than 100% of the global opening, put it that way. And we could open the store even faster. Why? Because you will understand and fully appreciate when we open store, we want the quality first. That means we would look at what other store reach two to three years payback, and then we open the store.

So now with the additional margin of 2.8% into our restaurant margin, more stores will meet our requirement and thus we are increasing the guideline of next year new store opening to 800 on the condition that they will meet our two to three years payback.

So I think with that, I'm going to pause about what other benefits. And again, I think, yeah, we need more time to go through this particular topic. Thank you again, Xiaopo.

Xiaopo Wei, Citi - Managing Director - Head of China Research

Thank you. We probably need an investor day on this topic. Thank you.

Operator

Our next question comes from Christine Peng from UBS. Please proceed.

Christine Peng - UBS AG - Head of Greater China Consumer Sector

Thank you for this opportunity to raise a question. So I have a question for Joey. So Joey, I noticed that in the presentation you actually, spend quite a bit of time to talk about the new initiative, especially in terms of product innovations. So just to the broader picture, we also noticed that the Chinese government has been trying to advocate a healthier diet for the general public in view of the increasing healthcare cost pressure for the government. So I was just wondering what management thoughts towards this initiative, and also I'm also very keen to understand the supply chain efforts, any challenges when you're trying to, more healthier choices such as KPRO etc., to the consumers of Yum China. Thank you.

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

Thank you, Christine. We want to be more specific about the growth of new initiatives because given KFC's size of business, it's quite hard to highlight the scale of the initiative. But once we point out, they are actually quite big already, like KCOFFEE is 1 billion yuan sales, and then we're going to double it to 2 billion, and then KPRO, we are (going to) quadruple. I mean, the growth is 4x, it's not even 2x, and then we're going to reach 1 billion yuan sales. And all these are very sizable if it's a standalone business, so we highlight that for that reason.

And come to your question about the diet. I would like to point out that KFC and Pizza Hut both offer very healthy diet too. Protein is very healthy. Chicken is very nice protein. What we talk about for KPRO is light meal. And that's the important concept, light meal.

It's growing very nicely as you can see because the concept is good and both in terms of food and also drink. So the light meal is about protein again and that also include Pizza Hut, our recent light meal platform of the multigrain crust pizza with the protein topping like the chicken, the egg and then mixed with vegetable.

And then on the drink side, the drink come with protein, again, it's getting very popular. So certainly an area growing nicely. So for KPRO, it's not something that new. We start to open the first KPRO that was 2017 actually. So we've been working on the menu year after year until we get to the menu that customer like with the right balance of the protein, the calorie and the vegetable, etc.

And then when it comes to the supply chain, the key thing about supply chain in China and for us is food safety. And we are absolutely committed to it and everything we produce, we provide in KPRO and then also the light meal option for Pizza Hut is from our supply chain and we share the suppliers between the two brands and our smaller brands as well. And again, the key thing is committed to food safety. That's the focus. And that's our strategic moat as well. So we are very confident about the light meal option because it's not only it's light, the concept is great, but customers trust our food safety.

As you can see KPRO, we have (六个安心)Six Promises. If we go a bit deeper and make one more comment before I conclude my answer here is food safety for light meals, the requirement is even higher than fried chicken. It's much harder to achieve food safety for salad, whether the Chinese salad or Western salad, than fried chicken. Thank you.

Operator

Thank you. Our last question comes from Ethan Wang at CLSA.

Ethan Wang - CLSA - Analyst

Good evening. Congrats for the result again. My question is on KCOFFEE. KCOFFEE is now an important contributor to KFC sales. I'm just wondering, how is the same-store sales growth trend going in the second quarter and third quarter? Because we noticed for the other coffee and new tea companies, because of the high base, because of delivery subsidy, same-store sales growth has been pretty weak started from second quarter. So just wondering how's that going with KCOFFEE? Thank you.

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

Thank you, Ethan. You know us quite well already. I mean, I'm sure you are aware that whatever we do, the execution is always very disciplined and that applies to KCOFFEE as well. For KCOFFEE, last year, we got sales of 1 billion yuan and for 2026, we are going to get to 2 billion yuan plus. And it's still contributing about mid-single-digit same-store sales to the parent store and ticket average or the price per cup is still a similar level compared to last year. So I'm afraid I'm going to give you a boringly stable answer, which is sort of our style here. Anything else to add, Adrian?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

And so we don't separately disclose the comp sales for KCOFFEE Cafe as a module, but what we can say is obviously, the daily sales is higher than the pre-delivery war period of time, right, that speaks for the consumer mindshare improvement and we have always been making the comment that KCOFFEE Cafe does somewhat benefit from the delivery war and increasing consumer mindshare, thereby helping us do a lot of new location extension. Now it's more than 3,300 locations and we guided more than 5,000 locations end of next year, which is two years ahead of schedule.

One of the key preconditions for us to do that is really the daily cups sold that has to be increasing in a very healthy way, right? And then we're very happy to see and now the delivery war is very rational for, particularly for beverage sector, but the daily cups sold is higher than the pre-delivery war period of time. So we are pretty satisfied with that. Thank you, Ethan.

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

Thank you, Joey, and thank you, Adrian. Now we will conclude our Q&A session. Thank you for joining the call today. Thank you.

Operator

And this concludes our conference. Thank you for participating and you may now disconnect.