



YumChina

First Quarter 2017 Results Presentation

April 6, 2017



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

This presentation contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the fact that they do not relate strictly to historical or current facts and by the use of forward-looking words such as “expect,” “expectation,” “believe,” “anticipate,” “may,” “could,” “intend,” “belief,” “plan,” “estimate,” “target,” “predict,” “likely,” “will,” “should,” “forecast,” “outlook” or similar terminology. These statements are based on current estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable under the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Forward-looking statements include, without limitation, statements regarding the future business plans and earnings and performance of Yum China, anticipated effects of population and macroeconomic trends, and statements regarding the capital structure of Yum China. Forward-looking statements are not guarantees of performance and are inherently subject to known and unknown risks and uncertainties that are difficult to predict and could cause our actual results to differ materially from those indicated by those statements. We cannot assure you that any of our expectations, estimates or assumptions will be achieved. The forward-looking statements included in this presentation are only made as of the date of this presentation, and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law. Numerous factors could cause our actual results to differ materially from those expressed or implied by forward-looking statements, including, without limitation: whether we are able to achieve development goals at the times and in the amounts currently anticipated, if at all, the success of our marketing campaigns and product innovation, our ability to maintain food safety and quality control systems, our ability to control costs and expenses, including tax costs, as well as changes in political, economic and regulatory conditions in China. In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You should consult our filings with the Securities and Exchange Commission (including the information set forth under the captions “Risk Factors” and “Forward-Looking Statements” in our Annual Report on Form 10-K) for additional detail about factors that could affect our financial and other results. This presentation includes certain non-GAAP financial measures. Reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures are included in this presentation where indicated. You are urged to consider carefully the comparable GAAP measures and reconciliations.

Agenda

- 1Q2017 Highlights
- Brand Performance
- Financial Results
- Q&A



An encouraging start to the Year of the Rooster

This year, 2017, is significant in many ways:

- Our first full year as a Public Company
- The 30th anniversary of the launch of KFC in Beijing in 1987
- Lapping a highly successful Chinese New Year promotion in 2016

While we still have 3 quarters ahead of us, we are pleased with the start in Q1:

- Both KFC and Pizza Hut recorded positive same-store sales growth
- We are encouraged by the rate of new unit builds
- Our margins, profitability and cash position are very strong

Overall, we are now facing the future with increased confidence

1Q2017 Highlights

Financials

- SSSG +1% (KFC +1%, Pizza Hut Casual Dining +2%), lapping a strong 1Q2016
- System sales grew 4% YoY, ex FX
- Restaurant margin improved to 23.0% vs 19.3% last year
- Operating profit reached US\$254mn, up 22% YoY, or +27% YoY ex FX
- On diluted basis, our EPS was \$0.44, up 12% YoY
- Strong cash flow and balance sheet with \$1.25bn in cash and short term investments

Development

- Total restaurant count reached 7,663
- Opened 133 new restaurants, remodeled 32 stores

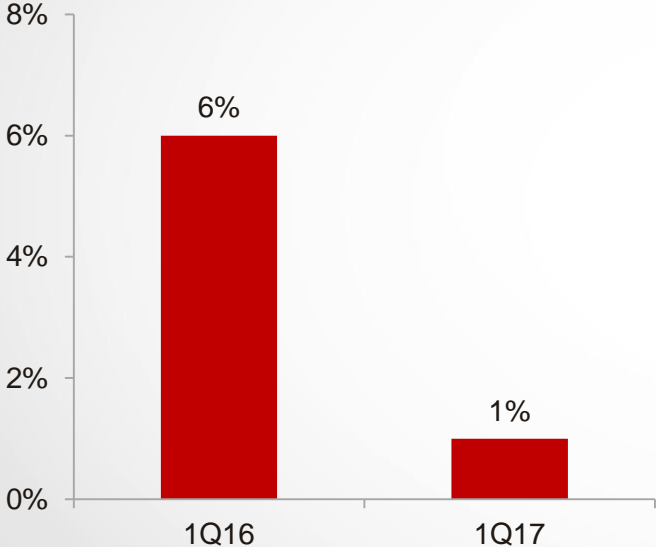
Digital & Delivery

- Total delivery sales more than US\$150mn, over 12% of company sales
- Mobile payment about 30% of company sales; cashless payment over \$500mn
- About 70mn loyalty members at KFC, and 23mn members at Pizza Hut Casual Dining

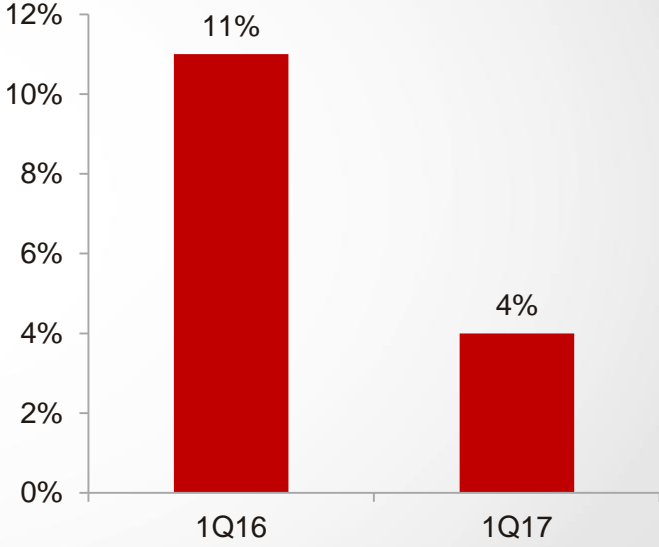
Lapping a strong 1Q2016, SSSG +1% in 1Q2017



Same-store sales growth (y/y)¹



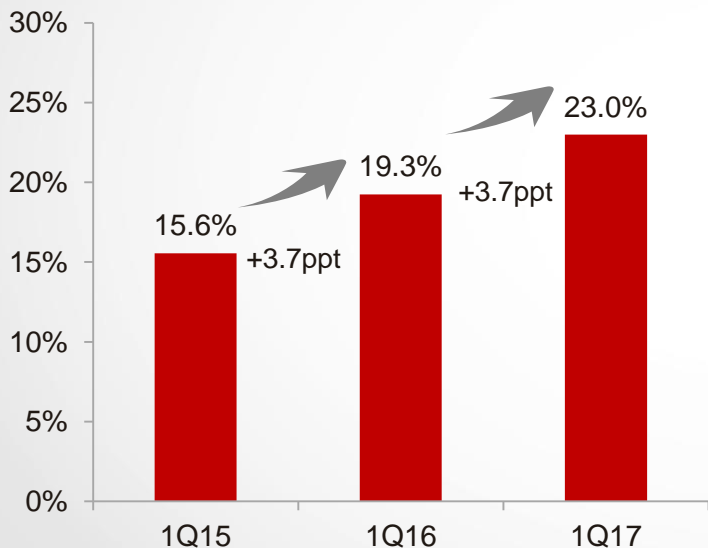
System sales growth (y/y)²



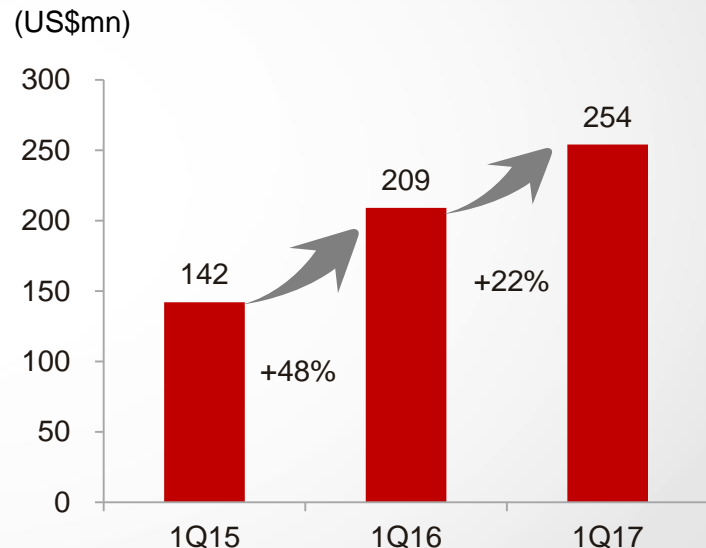
¹ First quarter 2016 had an extra day resulting from leap year which has been excluded from same-store sales growth calculation.
² Stated in constant currency basis.

Restaurant Margin expanded to 23%, Operating Profit up 22% y/y

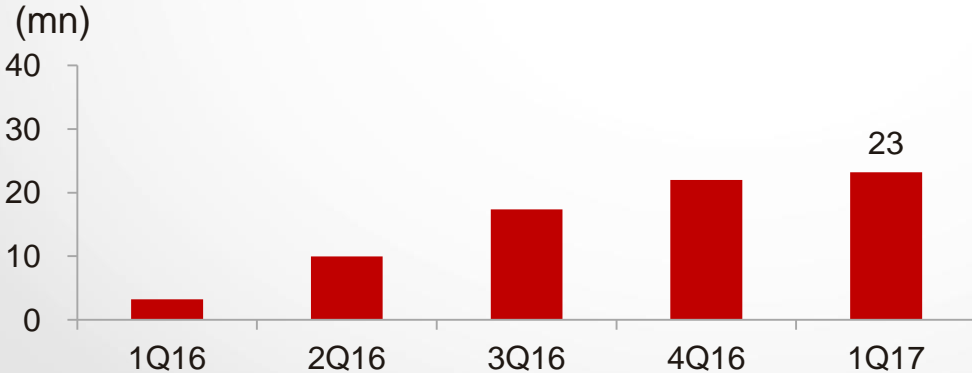
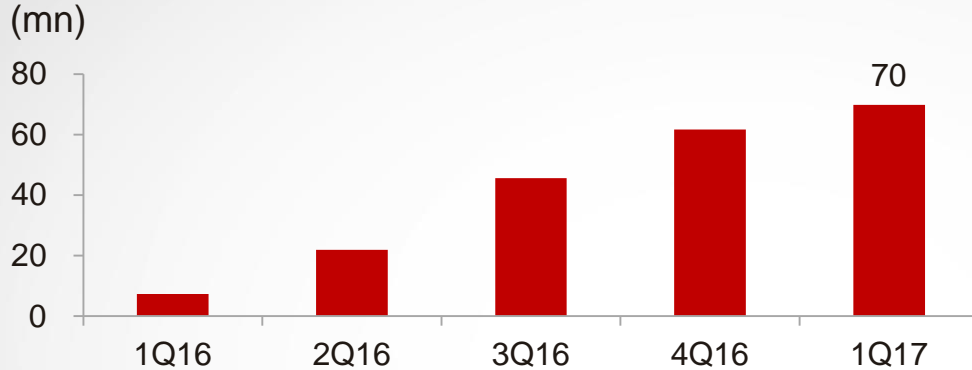
Restaurant margin



Operating profit



Industry Leading Loyalty Membership Program



Engage with loyalty members effectively:

- Targeted promotions
- Enhanced transactions
 - Pre-order
 - Dine-in
 - Delivery
- Real customer feedback

“Back to 1987”-- KFC 30th Anniversary Celebration



- ~150mn coupons electronically distributed to loyalty members
- Total views in 1 week:
 - Weibo >70mn
 - WeChat >10mn

“It was a Children’s Day when my parents took me to KFC for the first time. I fell in love with the Original Recipe Chicken at the first bite. It has been 30 years, my dad passed away. And now it’s my turn to take my little boy to KFC, he absolutely loves the delicious Original Recipe Chicken!”

One example of the thousands of comments by our members

Agenda

- 1Q2017 Highlights
- Brand Performance
- Financial Results
- Q&A





KFC 1Q2017 Highlights



SSSG at 1%, system sales¹ +3%



72 new stores



Restaurant margin reached 23.6%



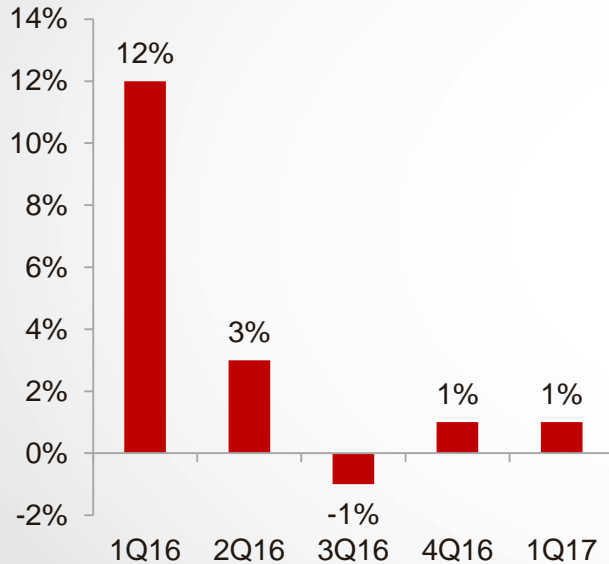
Operating profit at \$207mn, +9%

¹Stated in constant currency basis.

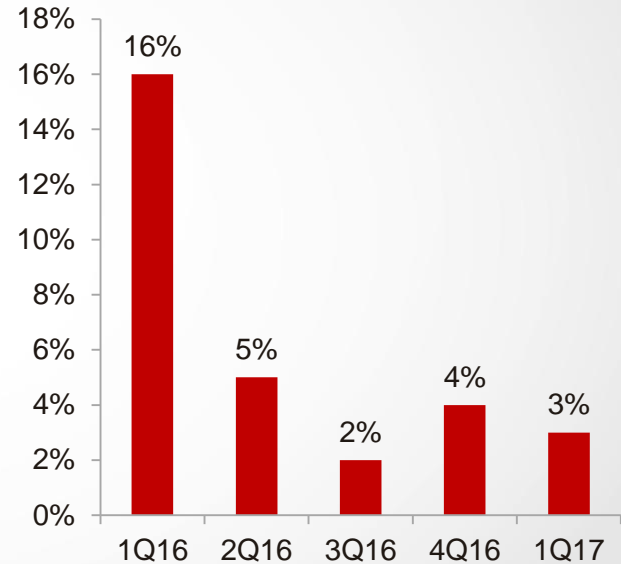


KFC +1% in SSSG, Lapping +12% in 1Q2016

Same-store sales growth (y/y)¹



System sales growth (y/y)²



¹ First quarter 2016 had an extra day resulting from leap year which has been excluded from same-store sales growth calculation.

² Stated in constant currency basis.



Successful CNY Campaigns Drove Sales

Strong Product Portfolio



Resonating Theme



Local Customer Interaction



**21 Chinese Arts
and Crafts
X
100+ KFC Stores**



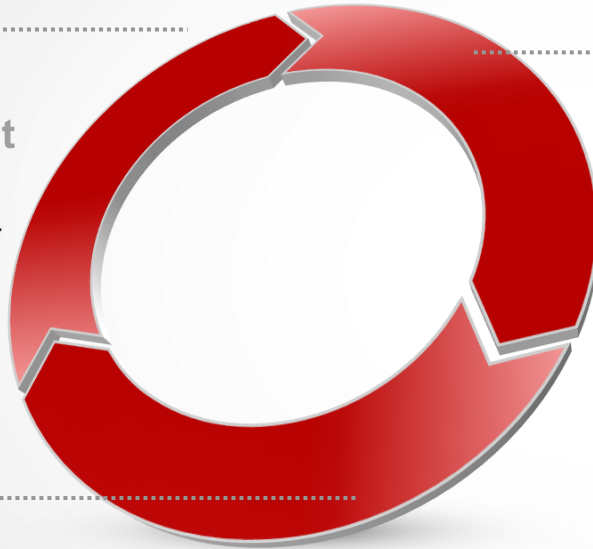


Building a Digital Eco-System

Before

More efficient

- *Mobile pre-order*
- *Virtual store geo-targeting*



In Store Enhanced Experience

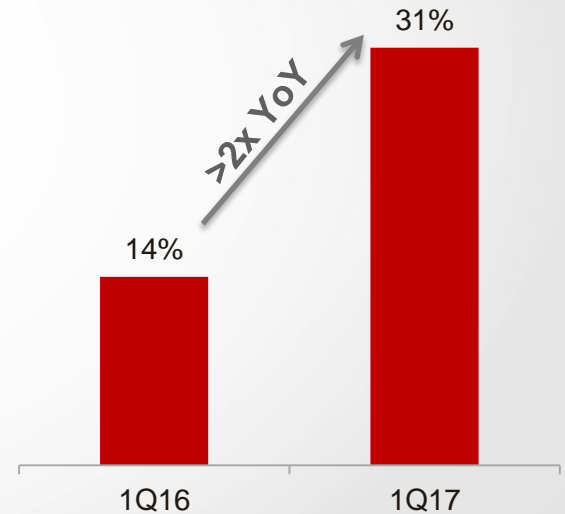
- *Ordering*
- *Payment*
- *Pick-up*
- *Entertainment*

After

Customized Service

- *Customized membership services*
- *Real customer feedback*

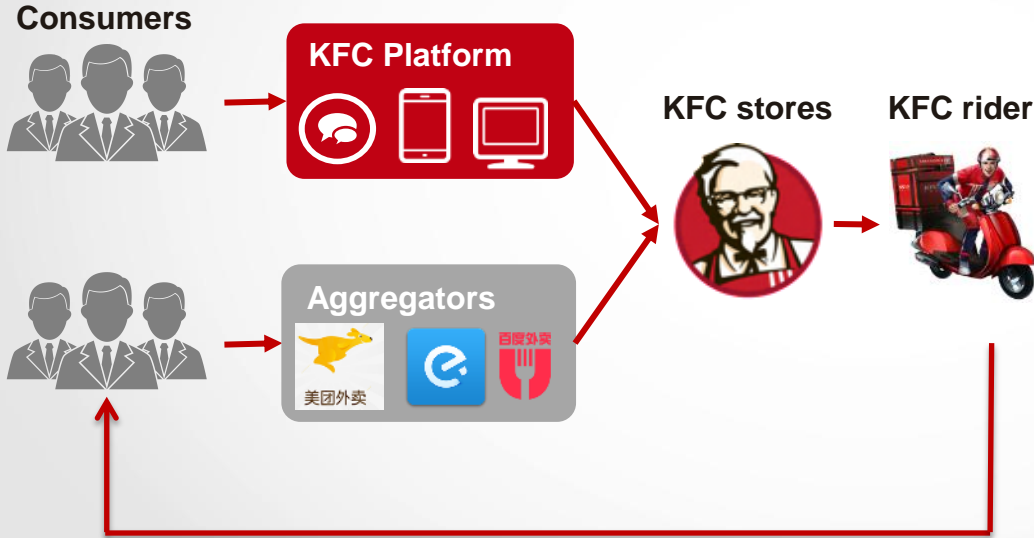
Mobile Payment as % of company sales





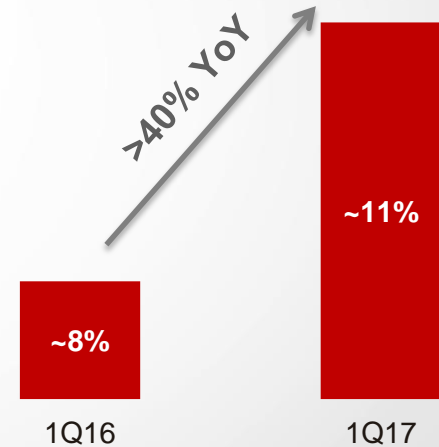
Delivery to Drive Sales and Profitable Growth

KFC Delivery Business Model



We charge a delivery fee of Rmb 9 per order.

Delivery as % of company sales





Pizza Hut Casual Dining 1Q2017 Highlights



SSSG at +2%, system sales¹ +9%



30 new stores



Restaurant margin at 23.0%



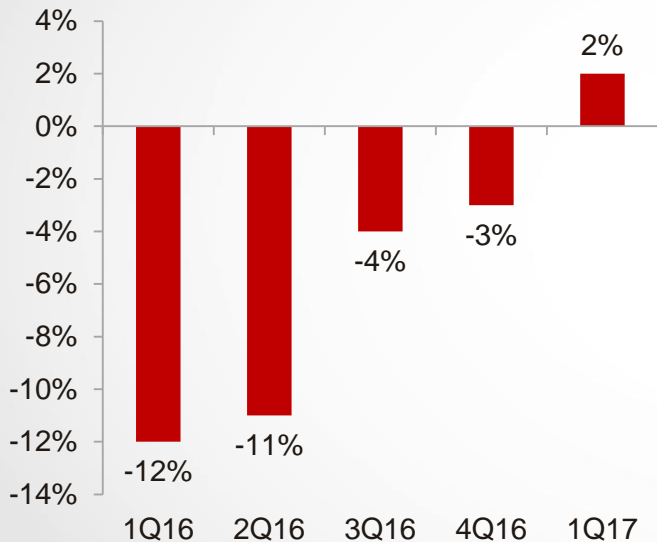
Operating profit at \$65mn, +67%

¹Stated in constant currency basis.

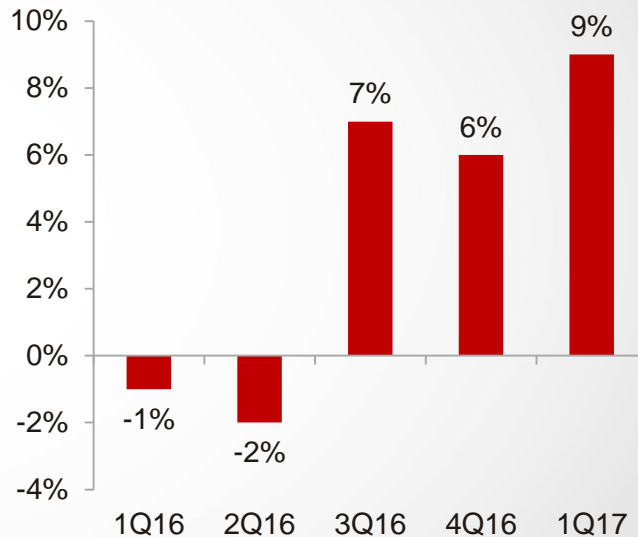


SSSG Turned Positive, 1st time in Past 10 Quarters

Same-store sales growth (y/y)¹



System sales growth (y/y)²



¹ First quarter 2016 had an extra day resulting from leap year which has been excluded from same-store sales growth calculation.

² Stated in constant currency basis.



Effective Campaigns Drove Sales Recovery

Seasonal Offer



New Products



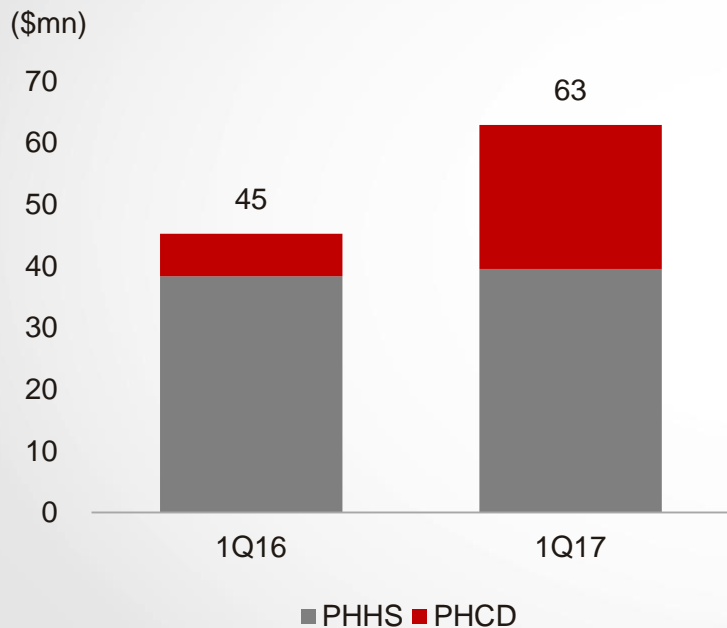
Digital Events



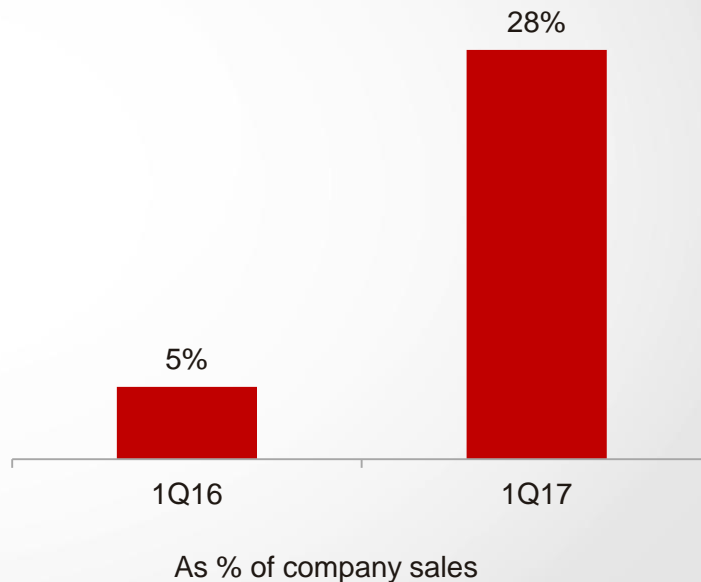


Digital & Delivery – The Key Growth Driver

Delivery sales grew ~40%



Mobile payment grew 4x





Initial Steps to Revitalize Pizza Hut Sales



Enhance digital capability

- Allocate more resources to drive digital marketing



Product innovation

- Core product enhancement and innovation



Asset optimization

- Adjust asset portfolio to support multiple business models



Operational improvement

- Enhance operation efficiency and improve customer satisfaction

Agenda

- 1Q2017 Highlights
- Brand Performance
- Financial Results
- Q&A



Overview of 1Q2017 Financial Results



System Sales Growth

+4% ex FX,
or +5% ex FX and leap
day



Restaurant margin

23%
+3.7 ppt YoY



Adjusted EBITDA

\$320 mn
+14% YoY,
or +20% YoY ex FX



Operating profit

\$254 mn
+22% YoY,
or +27% YoY ex FX

Robust New Unit Returns



Opened 133 new restaurants

- 65 restaurants more than 1Q16
- Entered 9 new cities

New unit returns remain robust

- Pre-tax cash payback period¹ is under 3 years for KFC, and under 4 years for Pizza Hut Casual Dining

2017 full-year target is unchanged

- 550-600 new unit addition on a gross basis

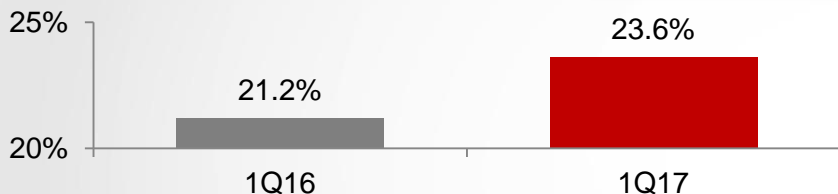
¹Includes all units opened from December 2014 to November 2015, after deduction of 3% license fee.

Restaurant Margin and Operating Profit



Restaurant margin

+2.4 ppt YoY



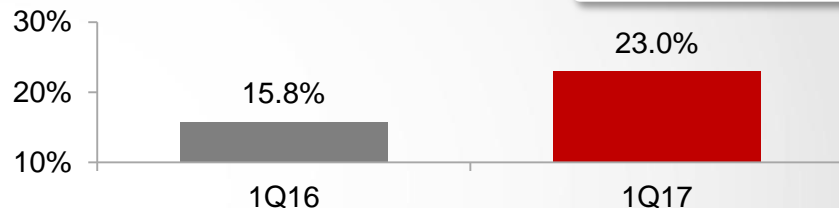
Operating profit

+9% YoY,
or +14% YoY ex FX



Restaurant margin

+7.2 ppt YoY



Operating profit

+67% YoY,
or +75% YoY ex FX



 Retail Tax Structure reform¹ contributed significantly to our 1Q results

¹Please refer to appendix or our latest 10K for more details on Retail Tax Structure Reform.

Other Factors that Impacted 1Q17 Financial Results



Currency translation

\$12mn negative impact on operating profit

G&A

+5% ex FX, mainly due to compensation and headcount increases

Inflation

**Wage +7% YoY
Commodity +4.5% YoY**

Strong Cash Position



**Net cash from
operating activities**

\$357mn



Free cash flow¹

\$283mn



**Ending cash & short
term investment**

\$1,254mn

Commitment to return value to shareholders

¹Represents net cash from operating activities of \$357mn less capital spending of \$74mn.

Summary and Outlook

1Q2017 Summary

- Encouraging start despite tough lap
- Strong new unit builds, margins, profitability and cash position

Yum China 2017 targets (ex FX)

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

With increasing confidence, we are now focused on three key priorities :

- 1. Continue to build SSSG momentum for both brands**
- 2. Pizza Hut strategic plan including integrating Dine-in and Delivery**
- 3. Long term plan to deploy our cash for growth and shareholder returns**

Agenda

- 1Q2017 Highlights
- Brand Performance
- Financial Results
- Q&A



Appendix – Retail Tax Structure Reform



Reform implemented on May 1, 2016 for our industry



Benefit impacts P&L, capital spending & balance sheet



Impact has fluctuated and exceeded expectation



Reinvested portion of benefit to strengthen brand positions

Appendix: Reconciliation of Reported Results to Non-GAAP Measures



	Quarter ended	
	2/28/2017	2/29/2016
Reconciliation of Net Income to Adjusted EBITDA		
Net Income – Yum China Holdings, Inc.	\$ 175	\$ 145
Net income – noncontrolling interests	5	4
Income tax provision	76	62
Interest income, net	(2)	(2)
Operating Profit	254	209
Depreciation and amortization	64	68
Store impairment charges	2	2
Adjusted EBITDA	<u>\$ 320</u>	<u>\$ 279</u>