



YumChina

Fourth Quarter & Full Year 2017 Results Presentation

February 8, 2018



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

This presentation contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the fact that they do not relate strictly to historical or current facts and by the use of forward-looking words such as “expect,” “expectation,” “believe,” “anticipate,” “may,” “could,” “intend,” “belief,” “plan,” “estimate,” “target,” “predict,” “likely,” “will,” “should,” “forecast,” “outlook” or similar terminology. These statements are based on current estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable under the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct.

Forward-looking statements include, without limitation, statements regarding the future business plans, earnings and performance of Yum China, anticipated effects of population and macroeconomic trends, the capital structure of Yum China, the estimated impact of the recent US tax reform, the anticipated effects of our digital and delivery capabilities on growth, and beliefs regarding the long-term drivers of Yum China’s business. Forward-looking statements are not guarantees of performance and are inherently subject to known and unknown risks and uncertainties that are difficult to predict and could cause our actual results 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

- 2017 Highlights
- Brand Performance
- Financial Results
- Q&A



2017 Fourth Quarter Results Highlights

Financials

- Total Revenues \$2.2bn, up 9% YoY ex FX; SSSG +5% (KFC +7%, Pizza Hut +1%).
- Restaurant Margin improved by 0.3ppt YoY to 11.3%
- Operating Profit was \$71mn, up 23% YoY
- Net Loss of \$90mn was affected by one-time tax charge of \$164mn as a result of US tax reform; Adjusted Net Income was \$74mn, +18% YoY ex FX
- Diluted EPS of negative \$0.23, inclusive of \$0.42 per share related to the one-time tax charge; Adjusted Diluted EPS of positive \$0.19, up 18% YoY ex FX

Development

- Opened 339 new restaurants and remodeled 359 stores
- Total restaurant count reached 7,983 across 1,200 cities

Digital & Delivery

- Over 5,300 restaurants offer delivery; delivery sales over 15% of Company sales
- Mobile payment represented about 53% of Company sales
- Loyalty members increased to over 110 million for KFC and over 35 million for Pizza Hut

Capital Return

- Cash dividend of \$0.10 per share paid in Q4

2017 Full Year Results Highlights

Financials

- Total Revenues \$7.1bn, up 8% YoY ex FX. SSSG +4% (KFC +5%, Pizza Hut +1%)
- Restaurant Margin improved by 1.5ppt YoY to 16.8%
- Operating Profit reached \$785mn, up 23% YoY
- Net Income of \$403mn. Adjusted Net Income of \$564mn, +24% YoY ex FX
- Diluted EPS \$1.01, Adjusted Diluted EPS \$1.42, +15% YoY ex FX
- Adjusted EBITDA reached \$1.25bn
- Cash and short-term investments at \$1.26bn, up \$0.3bn YoY

Development

- Opened 691 new restaurants
- Remodeled 788 stores mainly led by KFC

Digital & Delivery

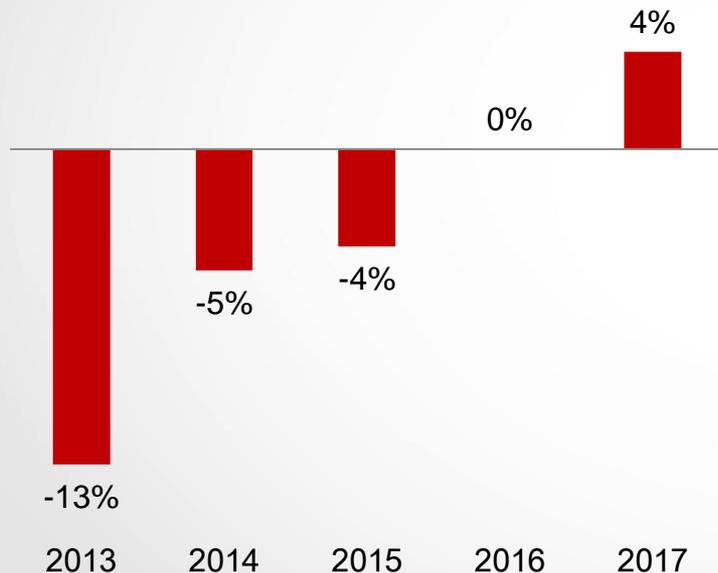
- Delivery sales contributed to 14% of company sales
- Mobile payment represented over 44% of Company sales

Capital Return

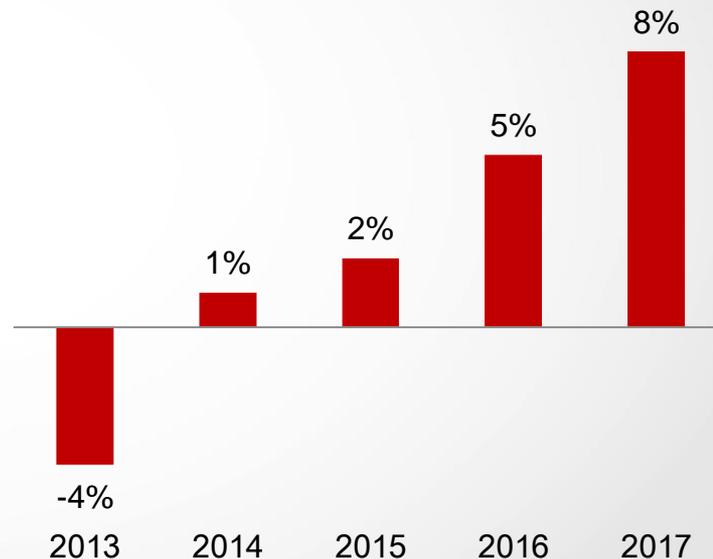
- Spent \$128mn on share repurchases in 2017

SSSG Recovered After 3 Years of Decline

Same-store sales growth (YoY)¹



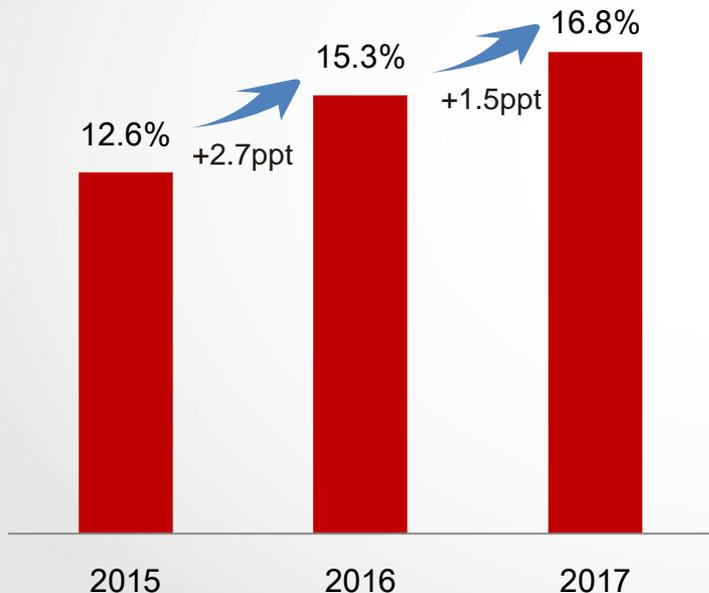
System sales growth (YoY)¹



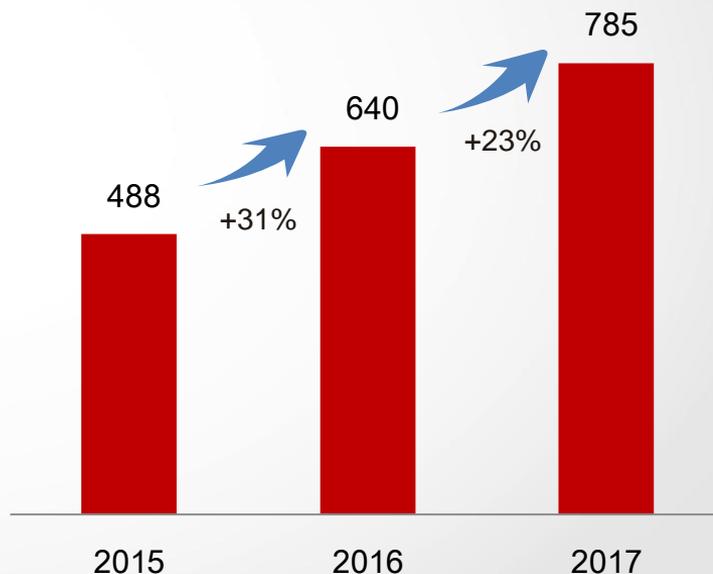
¹Stated in constant currency basis.

Restaurant Margin Expanded to 16.8%, Operating Profit +23% YoY

Restaurant Margin (%)



Operating Profit (\$mn)



Continue to Focus on 4 Key Strategic Priorities in 2018

Focus on China

Invest locally for growth



Digital and Delivery

Invest and maintain lead

Strengthen Core Business

Improve stores, innovate menu, improve quality and value

Innovation

Product categories, formats and day parts

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KFC Delivered Strong Performance in 2017



2017 Highlights



SSSG +5%, system sales¹ +9%



408 new stores, 644 remodels



Restaurant Margin at 18.1%



Operating Profit¹ +29%

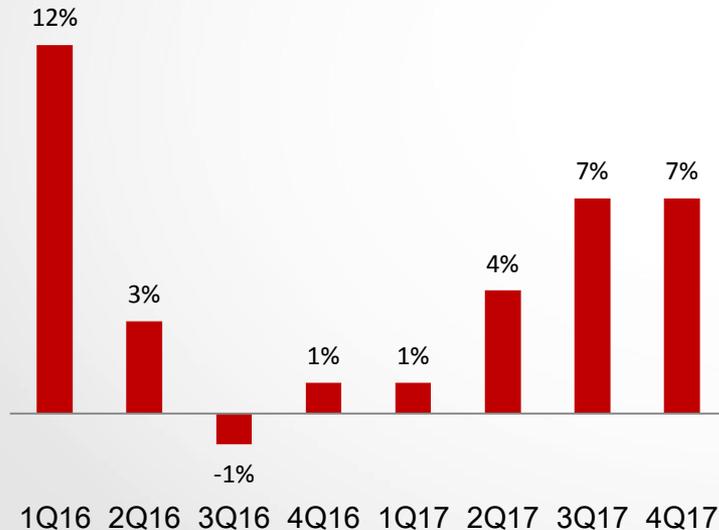
¹Stated in constant currency basis.



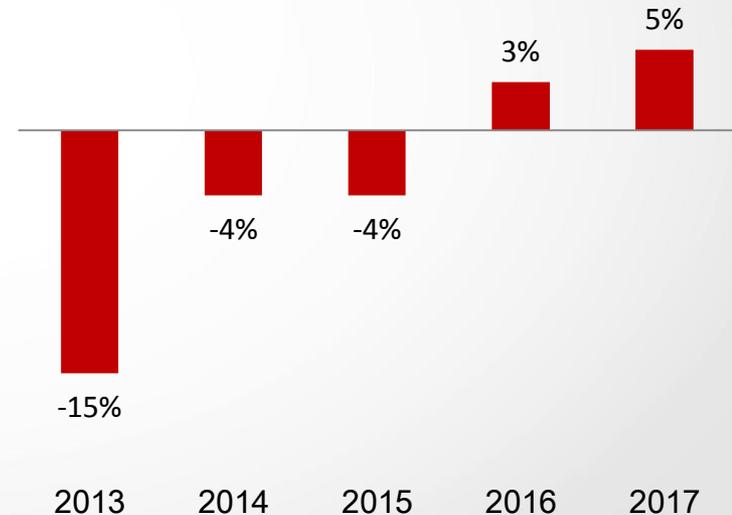
KFC Achieved Strong Sales Momentum in Q4 and Second Year of Positive SSSG

Same-store sales growth (YoY)¹

Quarterly



Annual



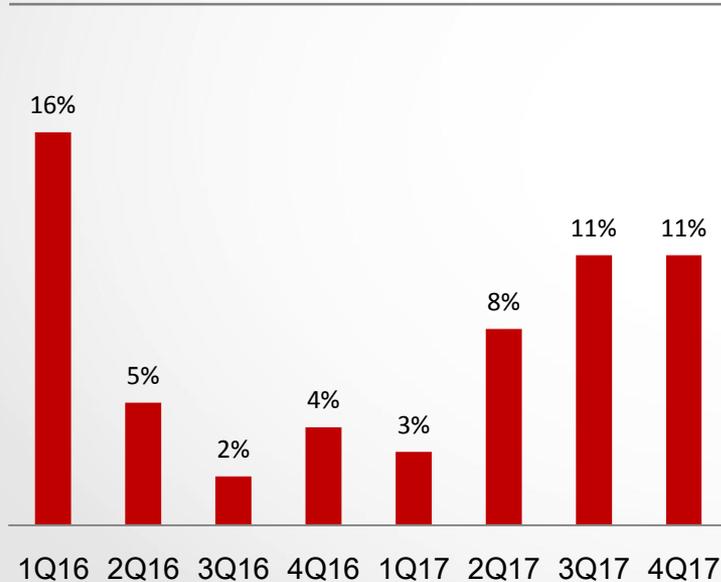
¹ Stated in constant currency basis.



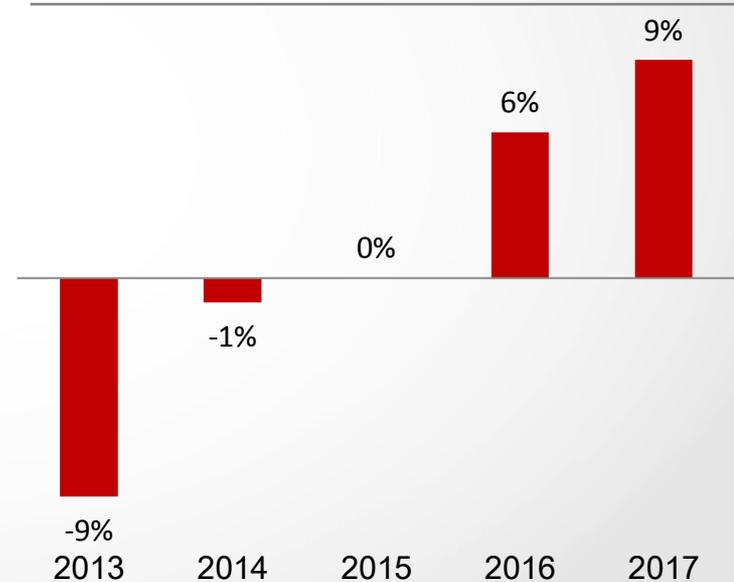
Strong System Sales Growth in Both Q4 and Full Year

System sales growth (YoY)¹

Quarterly



Annual



¹ Stated in constant currency basis.



Continued Focus on Food

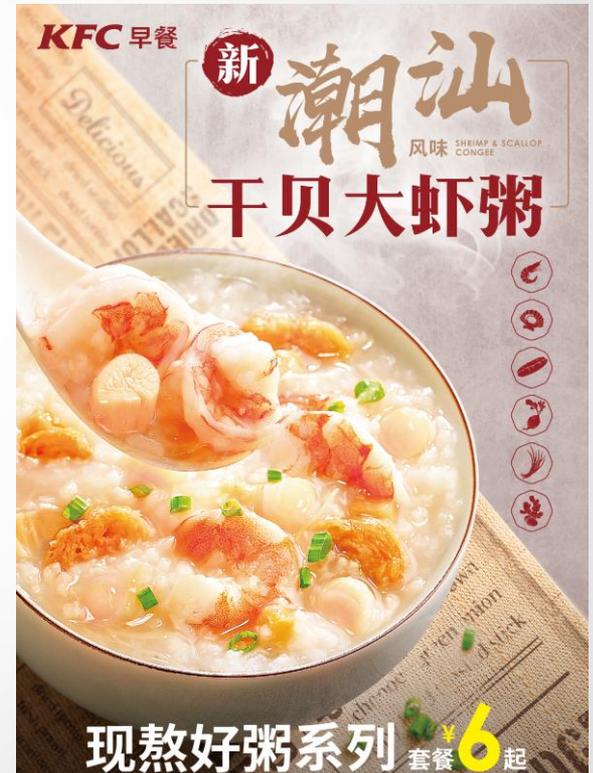
1. Innovative Products



2. Abundant Value



3. Premium Ingredients





Digital Initiatives to Enhance Customer Experience

肯德基
WOW会员

110mn+
Loyalty members

38%
Member Sales %
in Q4

57%
Mobile-Payment
in Q4

肯德基
WOW会员

热烈庆祝百胜中国在纽交所上市1周年
肯德基会员专享同庆

买1送1

会员凭券 使用日期2017/11/1-11/3

- 葡式蛋挞 1只
- 藤椒肯大大鸡排 1份
- 黄金鸡块 5块

吮指十三鲜
小龙虾堡/卷

— 12月28日 —
抢先一天
会员专享

点餐时出示会员码
立享小龙虾美味

会员专享
堡/卷单品价
8折

产品及包装以实物为准

WOW会员
周年庆
2

背后的15分钟
计时功能。

背后的录音功
能分分钟为你
记录好声音。

背后的储藏罐
让你重拾儿时
的小习惯。

背后内嵌一个
霸气的“真”
字印章。

上海阿拉
长衫爷爷

哈尔滨嫩
亮花袄爷爷

HELLO
绅士爷爷

北京福气
黄马褂爷爷

肯德基爷爷经典复刻玩偶4件套
会员价**999**¥ + **199**¥

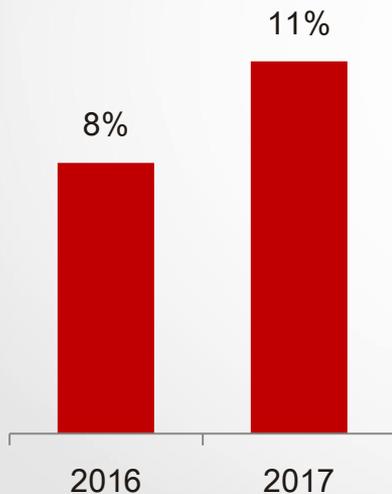
扫一扫
下载肯德基APP



Delivery Sales Continued to be Strong

Delivery as % of sales

Delivery sales grew 47% YoY



Christmas Promotions

Golden Christmas
KFC 宅急送
圣诞季
2017
美味送上门

圣诞外送欢享桶 88元 36元
圣诞外送巨大的桶 128元 62元
圣诞吃过瘾炸鸡桶 39元 18元

圣诞血橙双炫派
熟辣薯片脆皮鸡

官网订

- 圣诞外送欢享桶
- 圣诞外送巨大的桶
- 超级外送全家桶
- 外送全家桶
- 五味小吃桶

① 送2杯 纯纯玉米饮

订餐产品 满130元 再免外送费

每桶还可以换品 价的一半加购 老北京鸡肉卷1份

Delivery Prime

肯德基 WOW 会员

每月仅18元 就免外送费!

宅神卡

立即查看 | 会员特权

吮指回味 自在滋味



Pizza Hut Showed Improvement in 2017



2017 Highlights



SSSG +1%, system sales¹ +7%



180 new stores, 144 remodels



Restaurant Margin at 13.9%



Operating Profit¹ +8%

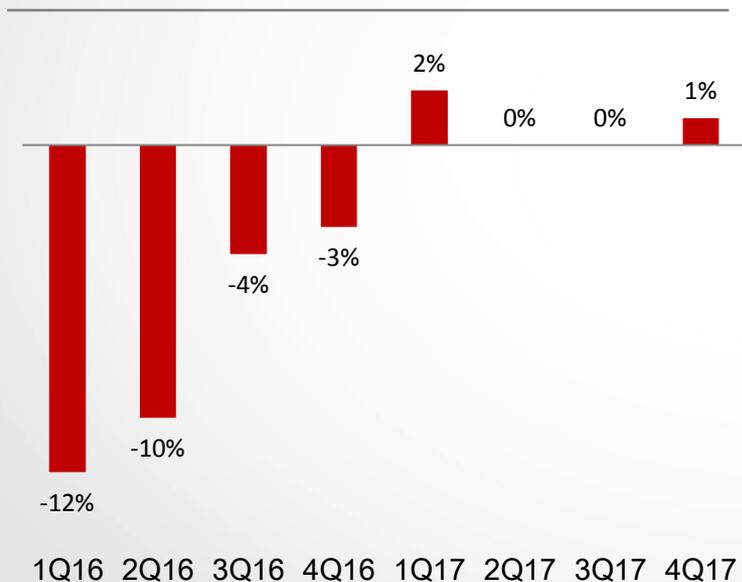
¹Stated in constant currency basis.



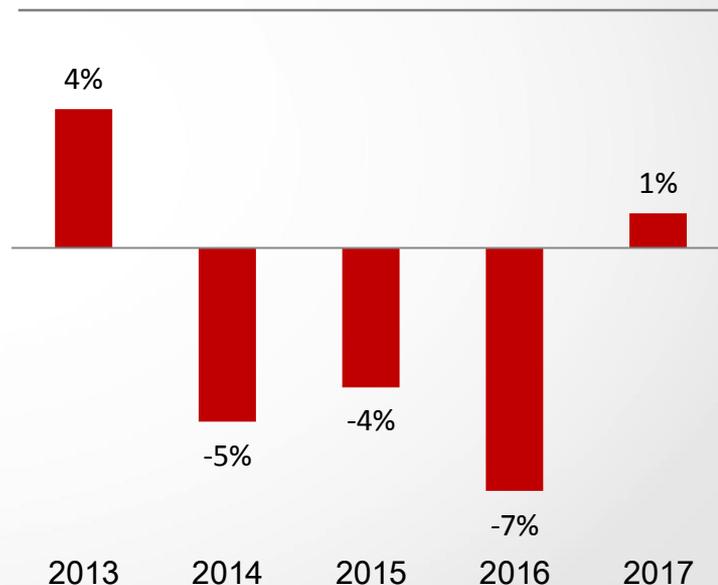
First Year of Positive SSSG since 2013

Same-store sales growth (YoY)¹

Quarterly



Annual



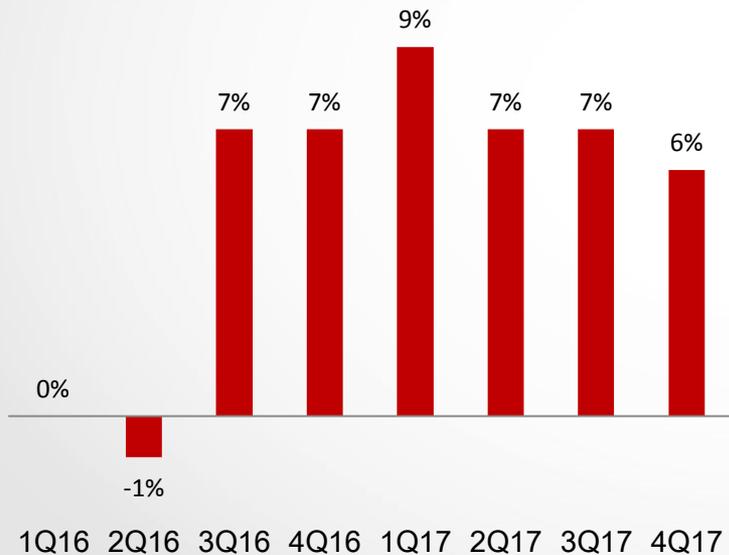
¹Stated in constant currency basis.



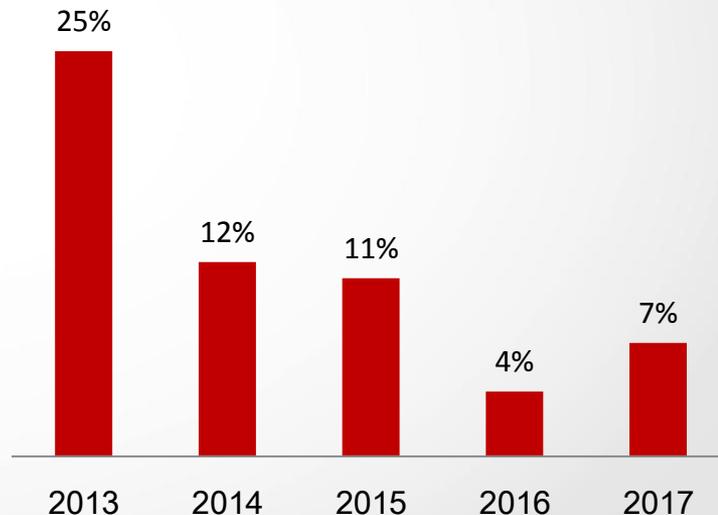
Stabilized System Sales Growth

System sales growth (YoY)¹

Quarterly



Annual



¹Stated in constant currency basis.



Invest in Food and Brand Building

New and Upgraded Menu



Innovation Pilots



Campaigns Supported by Brand Ambassador





Step up on Member Sales and Digital Capability



35mn+

Loyalty members

34%

Member Sales %
in Q4

45%

Mobile-Payment
in Q4

Member privileges



Super App 2.0

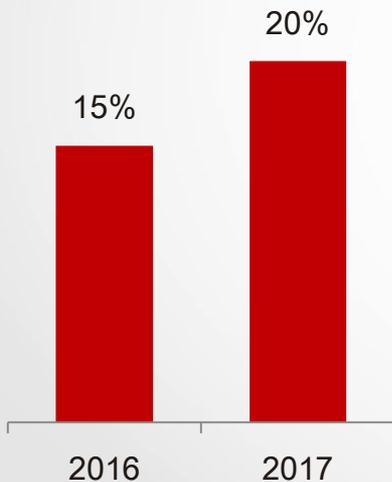




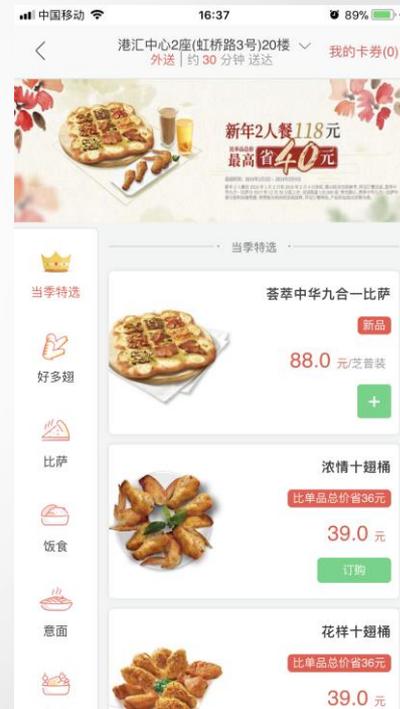
Integrating Delivery System to Support Growth

Delivery as % of sales

Delivery sales grew 41% YoY



Integration on Menu, Promotions, Riders, Platforms etc.





Multiple Models to Better Fulfill Customer Needs

Large Store (~500m²)

Core Model



Faster

Bistro



Smaller

Table Service
Casual Dining

Self-Service
Quick Service



Delivery

Small Store (~90m²)



Stay on Track with Brand Revitalization in 2018



I. Fix Fundamentals

- Menu
- Ambience



II. Enhance Digital

- Digital user base
- Active users



III. Optimize Delivery

- Brand App
- Aggregators



IV. Experiment New Models

- New store format
- Lower tier penetration



Two more Taco Bell restaurants opened in 2017

Wu Jiao Chang



Feng Sheng Li



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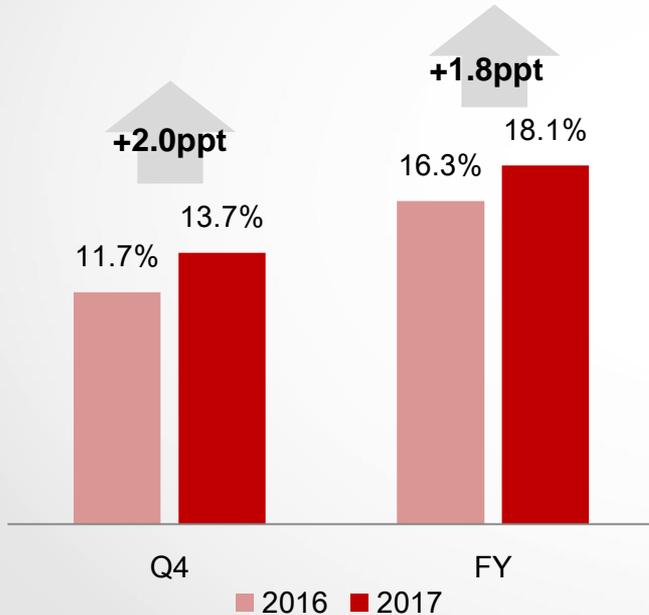
Overview of 2017 Financial Results

	Q4 2017	Full Year 2017
 System Sales Growth	+9% ex FX	+8% ex FX
 Restaurant Margin	11.3% +0.3 ppt YoY	16.8% +1.5 ppt YoY
 Net Income	\$(90)mn YoY: -203%, or -199% ex FX	\$403mn -20%, or -15% ex FX
 Adjusted Net Income	\$74 mn YoY: +12%, or +18% ex FX	\$564 mn +20%, or +24% ex FX
 Adjusted EBITDA	\$245 mn YoY: +6%, or +3% ex FX	\$1,249 mn +11%, or +13% ex FX

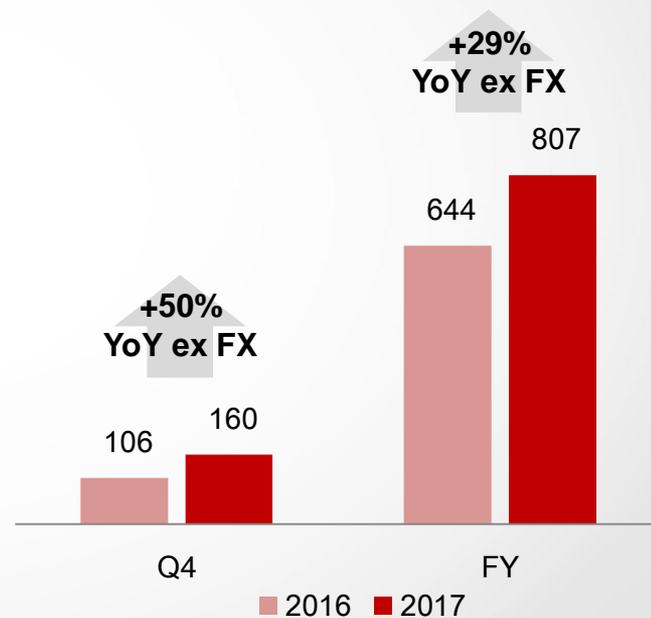


KFC Margin and OP Improved Significantly in Both Q4 and Full Year

Restaurant Margin (%)



Operating Profit¹ (\$mn)

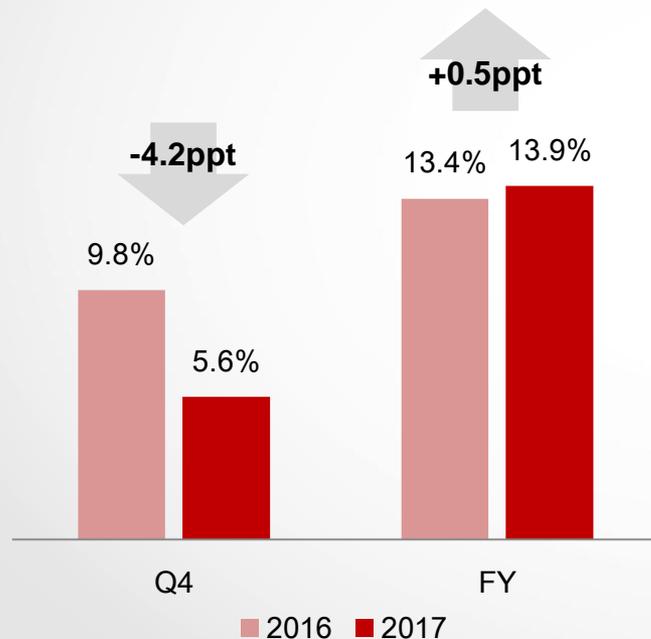


¹Segment Operating Profit before unallocated shared service costs

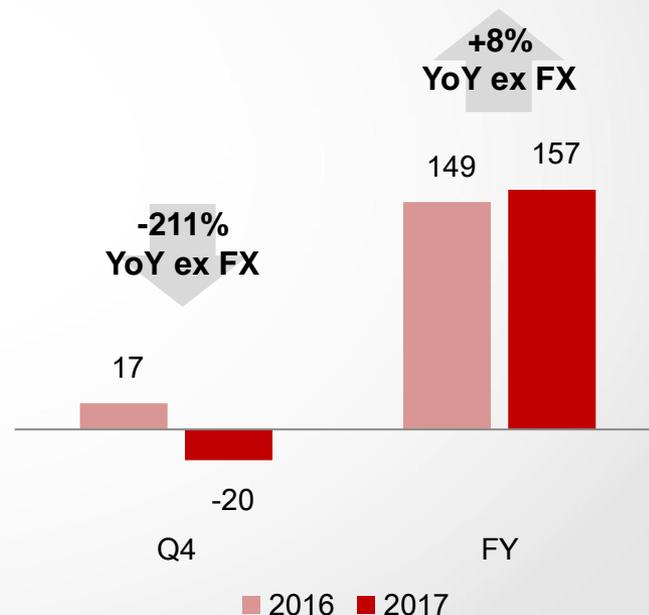


PH Q4 Profit Declined due to Product Upgrades; Full Year Margin and Profits Improved

Restaurant Margin (%)

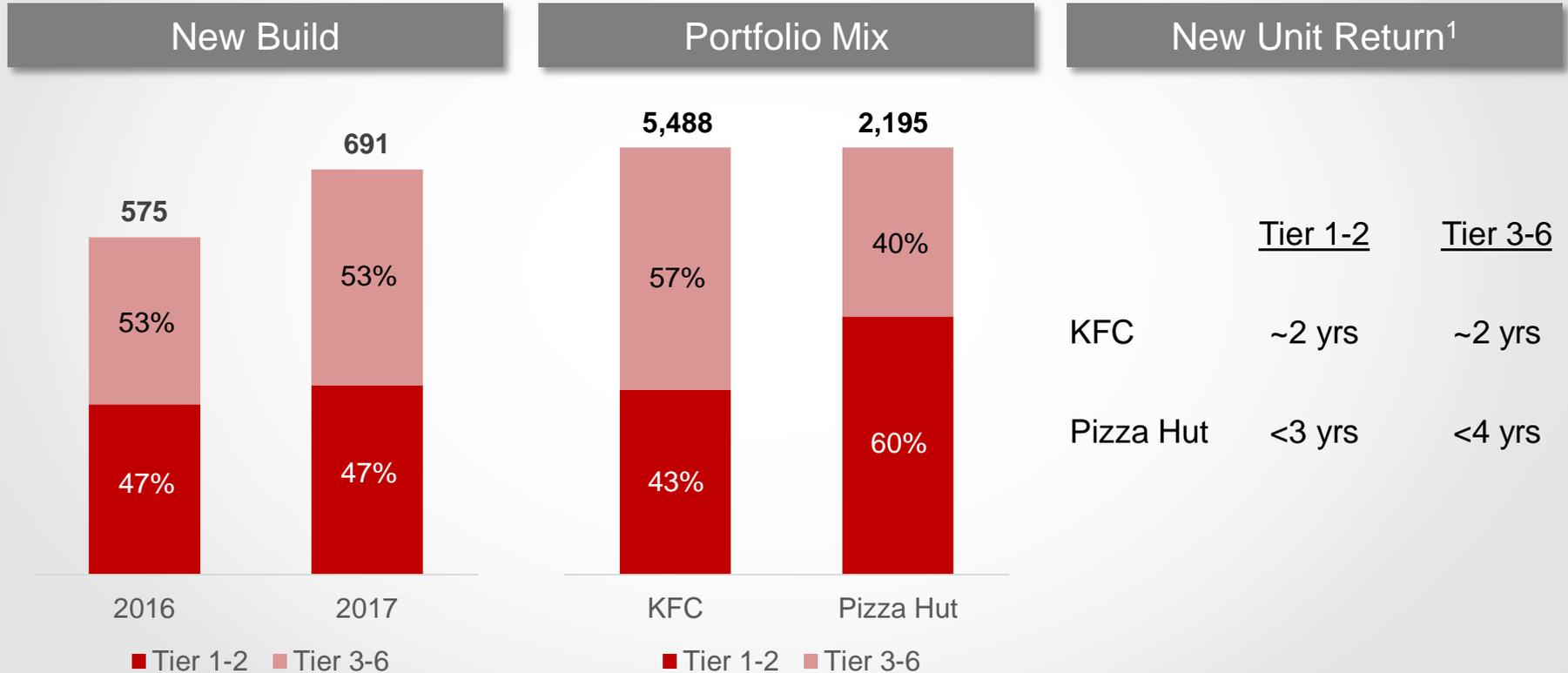


Operating Profit¹ (\$mn)



¹Segment Operating Profit before unallocated shared service costs

Accelerated new restaurant openings nationwide to reach 7,983 stores



¹Refers to Average Pre-tax Cash Payback Period; Includes all units opened from Oct 2015 to Sep 2016, after deduction of 3% license fee.

Key Factors that Impacted 2017 Financial Results

Adjusted Operating Profit¹ (US\$m)



2017 Adjusted Operating Profit ex F/X +23% YoY

¹ Adjusted Operating Profit is non-GAAP financial measures. See the appendix for a reconciliation to the GAAP equivalent.

Impact from US Tax Reform

US Tax Reform Impact

One-time

Estimated tax charge of \$164mn¹:

- \$130mn transition tax + \$34mn from the revaluation of Deferred Tax Assets
- Of this \$164mn, estimated net cash payment of \$83mn over 8 years

Ongoing

Tax exemption of the repatriation of foreign earnings to the US parent company

China Tax Unchanged

- Chinese enterprise income tax at 25%
- Additional 10% withholding tax for any China-sourced earnings repatriated outside of China

Strong Cash Position



**Net cash from
operating activities**

Full Year 2017

\$884 mn



Free cash flow

Full Year 2017

\$469 mn



**Cash and short-
term investments**

As of Dec 2017

\$1.26 bn

Initiated Quarterly Cash Dividend

3 Key Reporting Changes in 2018



ASC 606 Revenue Recognition

- Accounting for restaurant sales remain unchanged
- Franchise initial fee will be amortized
- Revenues and costs related to transactions with franchisees will be grossed up
- No significant impact to income statement



New Quarterization

- Change to four 3-month quarters



SSSG calculation

- Adjust to use a more stable store base for calculation

To recast 2016 and 2017 financial figures in April 2018

2018 Outlook

Tailwind

- Steady growth of economy
- Robust demand in delivery
- Growing membership program
- Sales momentum of KFC

Headwind

- Tough lapping in 1st half of 2018
- Pizza Hut revitalization challenges
- Inflation
- Continued uncertainty of tax laws

Yum China 2018 targets

- Expect to add 550 – 600 new stores
- Expect robust growth from Digital & Delivery to drive system sales & SSSG
- Expect strong free cash flow, enhanced balance sheet position

Ongoing financial targets of high single digit system sales growth ex FX,
~17% restaurant margin and double digit operating profit growth ex FX

Summary

2017

- **Strong KFC performance and Pizza Hut revitalization on track**
- **Strong new unit builds, SSSG and cash position**
- **Double digit operating profit growth**

2018

- **Tough lapping for First Half 2018 over powerful 2016 & 2017 results**
- **Focus on three key priorities :**
 - **Continue to maintain KFC sales momentum**
 - **Continue to revitalize Pizza Hut**
 - **Continue to improve and pioneer in Digital**

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Appendix 1: Reconciliation of Reported Results to Non-GAAP Measures



	Quarter ended		Year ended	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Reconciliation of Net Income (Loss) to Adjusted EBITDA				
Net income – noncontrolling interests	\$ 5	\$ 2	\$ 26	\$ 12
Net Income (Loss) – Yum China Holdings, Inc.	(90)	88	403	502
Income tax provision (benefit)	168	(7)	381	158
Interest income, net	(12)	(4)	(25)	(11)
Changes in fair value of financial instruments	—	(21)	—	(21)
Operating Profit	71	58	785	640
Depreciation and amortization	144	130	409	402
Store impairment charges	30	27	58	70
Special Items Income (Expense) - Operating Profit	—	17	(3)	15
Adjusted EBITDA	<u>\$ 245</u>	<u>\$ 232</u>	<u>\$ 1,249</u>	<u>\$ 1,127</u>

Appendix 2: Reconciliation of Reported Results to Non-GAAP Measures

	Quarter ended		Year ended	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Detail of Special Items				
Reversal of loss associated with sale of aircraft ^(b)	—	—	—	2
Incremental restaurant-level impairment upon separation ^(c)	—	(17)	—	(17)
Income from the reversal of contingent consideration ^(d)	—	—	3	—
Special Items Income (Expense) - Operating Profit	—	(17)	3	(15)
Changes in fair value of financial instruments ^(e)	—	21	—	21
Tax benefit on Special Items ^(f)	—	17	—	16
Impact from the Tax Act ^(g)	(164)	—	(164)	—
Special items income (expense), net of tax – including noncontrolling interests	(164)	21	(161)	22
Special items income, net of tax – noncontrolling interests ^(h)	—	—	—	(8)
Special Items Income (Expense), net of tax – Yum China Holdings, Inc.	(164)	21	(161)	30
Weighted average diluted shares outstanding	399,229,895	379,915,075	398,089,606	369,143,838
Special Items Diluted Earnings (Loss) Per Common Share	(0.42)	0.06	(0.41)	0.08
Reconciliation of Operating Profit to Adjusted Operating Profit				
Operating Profit	71	58	785	640
Special Items Income (Expense) - Operating Profit	—	(17)	3	(15)
Adjusted Operating Profit	71	75	782	655
Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss)				
Net Income (Loss)	(90)	88	403	502
Special Items Income (Expense) - Net Income (Loss)	(164)	21	(161)	31
Adjusted Net Income	74	67	564	471
Reconciliation of EPS to Adjusted EPS				
Diluted (Loss) Earnings Per Common Share	(0.23)	0.23	1.01	1.36
Special Items Diluted (Loss) Earnings Per Common Share	(0.42)	0.06	(0.41)	0.08
Adjusted Diluted Earnings Per Common Share	0.19	0.17	1.42	1.28
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate				
Effective Tax Rate	203.0%	(8.4)%	47.0%	23.5%
Impact on Effective Tax Rate as a result of Special Items	198.6%	(20.6)%	20.1%	(2.7)%
Adjusted Effective Tax Rate	4.4%	12.2%	26.9%	26.2%

Notes for Appendix 2

- a) Amounts presented as of and for the quarter and year ended December 31, 2017 are unaudited, and the Company's Annual Report on Form 10-K for the year ended December 31, 2017 may contain updates to the information disclosed in this press release.
- b) During 2015, we made the decision to dispose of a corporate aircraft in China and recognized a loss of \$15 million associated with the planned sale of the aircraft for the year ended December 31, 2015. We completed the sale during 2016. The sale proceeds of \$19 million was greater than the net book value of \$17 million of the aircraft at the time of disposal, which resulted in the reversal of \$2 million of the previously recognized loss.
- c) Incremental restaurant-level impairment represents additional impairment as a result of including the impact from the license fee paid to Yum! Brands on the individual restaurants future cash flow, which is equal to 3% of net system sales. Such license fee did not impact the impairment assessment prior to the separation as it was considered an intercompany charge at the time, whereas it became a charge from a third party after the spin-off and therefore should be considered in the impairment assessment.
- d) During the year ended December 31, 2017, we recognized income from the reversal of contingent consideration previously recorded for a business combination as the likelihood of making payment becomes remote.
- e) In connection with the investment agreement with strategic investors entered into on September 1, 2016, the Company issued 19,145,169 shares of common stock on November 1, 2016, subject to post-closing adjustment by December 30, 2016, and warrants to purchase additional shares of common stock. The post-closing adjustment and the warrants were accounted for as derivative instruments and liability-classified equity contracts, respectively. These financial instruments were initially measured at fair value on the date of issuance, with subsequent changes in fair value of \$21 million recognized in earnings during the year ended December 31, 2016. No subsequent fair value measurements were recognized after December 30, 2016.
- f) The tax benefit was determined based upon the impact of the nature of each Special Item tax effected at the 25% China tax rate or the 35% US tax rate, except for the \$21 million changes in fair value of financial instruments associated with the strategic investment which resulted in no income tax expense. Additionally, during the year ended December 31, 2016, we recognized a tax benefit of \$26 million related to the legal entity restructuring of our Little Sheep business. \$12 million of this benefit was attributed to previous Little Sheep impairment losses recognized within Special Items in 2013 and 2014 and as such was classified as a Special Item consistent with the classification of those historical impairments.
- g) The Company incurred an estimated one-time income tax charge of \$164 million in the fourth quarter of 2017, as a result of the Tax Act, due to the transition tax on deemed repatriation of unremitted earnings of foreign subsidiaries, and the revaluation of certain tax assets.
- h) During the year ended December 31, 2016, the Little Sheep founding shareholders sold their remaining 7% Little Sheep ownership interest to the Company pursuant to their redemption rights. The difference between the purchase price of less than \$1 million, which was determined using a non-fair value based formula pursuant to the agreement governing the redemption rights, and the carrying value of their redeemable noncontrolling interests was recorded as an \$8 million loss attributable to noncontrolling interests.