



YUM CHINA

4Q25 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

February 4, 2026

SPEAKERS

Joey Wat Yum China Holdings Inc - Chief Executive Officer

Adrian Ding Yum China Holdings Inc - Chief Financial Officer

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

CONFERENCE CALL PARTICIPANTS

Michelle Cheng Goldman Sachs - Managing Director

Chen Luo Bank of America Merrill Lynch Asset Holdings - Analyst

Lillian Lou Morgan Stanley - Analyst

Anne Ling Jefferies - Analyst

Christine Peng UBS AG - Head of Greater China Consumer Sector

Ethan Wang CLSA - Analyst

Sijie Lin CICC - Analyst

NYSE: YUMC

HKEX: 9987

MANAGEMENT DISCUSSION

Florence Lip - Yum China, Senior Director, Investor Relations

Thank you, operator. Hello everyone, and welcome to Yum China's fourth-quarter 2025 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 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.

I would like to start by saying thank you to our team for delivering strong results this year, especially in such a dynamic market.

In 2025, we opened more than 1,700 net new stores, taking our total to over 18,000 stores across more than 2,500 cities. Our focus on both system sales growth and same-store sales growth is paying off. Same-store sales growth has been positive for three consecutive quarters. System sales growth improved sequentially in Q4, reaching 7%.

Our dual focus on innovation and operational efficiency also boosted our healthy margins. OP margin expanded year-over-year in every quarter of 2025, reaching 10.9% for the full year. It is the highest level since our US listing, excluding special items. Operating profit grew 11% to \$1.3 billion for the full year and was up 23% year-over-year in Q4.

By brand, both KFC and Pizza Hut exceeded our expectations in 2025. KFC's solid momentum continued, with system sales growth reaching 8% in Q4 and 5% for the full year. Pizza Hut transformed its menu and operations, resulting in 16% same-store transaction growth and 20% operating profit growth in 2025.

While we accelerated growth, we also returned \$1.5 billion to shareholders in 2025 through dividends and share repurchases, which is around 8 to 9% of our current market cap.

Let me share a few key highlights from our core initiatives. And then I'll hand it over to Adrian to go through our results in more detail.

First, we continue to delight our customers with year-round innovation, launching about 600 new or upgraded items annually. At the same time, we stay laser-focused on our hero products, which are significant drivers of sales and repeat purchases. These items have a loyal fan base that is also highly receptive to the new innovations they inspire.

At KFC, our hero-inspired innovations include Spicy Original Recipe chicken (辣味原味鸡) and Crackling Golden Chicken Wings (薄脆金沙鸡翅). In 2025, hero products accounted for one-third of KFC sales, and together with their inspired innovations, they delivered high-single-digit sales growth.

At Pizza Hut, we sold over 200 million pizzas in 2025. The pizza category continued to grow strongly. Our newest thin-crust pizza (手作薄底) – perfectly crispy, with plenty of toppings – has earned top reviews and become our best-selling crust. It now accounts for one out of every three pizzas sold, and is bringing more customers, especially younger ones, into our stores.

Second, we focus on delivering great value for money and emotional value, on top of serving good food. As we shared at our investor day, our pricing strategy has been crucial to our success and has helped us deliver 12 consecutive quarters of same-store transaction growth. Total transactions grew 8%, exceeding 2 billion transactions in 2025.

Emotional value matters too. Last year, we partnered with 70 leading IPs in gaming, animation and sports. Whether tied to the latest hits or tapping into childhood memories, these collaborations help us engage customers and capture additional traffic. Beyond themed toys and special packaging, we decorated select stores and pop-up stores to make the experience more fun for our customers.

Third, we capture new opportunities through front-end segmentation and back-end consolidation. Our multi-brand portfolio, diverse modules and food offerings help us reach more customer segments and serve a wide range of occasions. On the back end, we foster synergies by sharing and centralizing resources in and across stores, regions and even brands.

Side-by-side modules KCOFFEE cafe and KPRO are scaling quickly, reaching 2,200 and 200 KFC locations, respectively. They drive incremental sales and profit with light investment. Last year, we also piloted the Gemini model, which places KFC and Pizza Hut stores side-by-side to support entry into lower-tier cities. With a capex of 0.7 to 0.8 million Yuan for a pair of stores, it's a very attractive model for franchisees. We opened around 40 pairs of Gemini stores last year and expect to ramp up openings in 2026.

Fourth, we are adopting an equity-and-franchise hybrid model to drive faster and more efficient store openings.

We see great potential for growth in China. Recently, I visited Chongqing, China's largest city by population, with over 30 million people. In this vibrant market, I saw a strong appetite for affordable, good food. KFC's density there is only 4 stores per million people, well below the average of 17 in tier 1 and 2 cities, or Shanghai's 28. With menu innovation and multiple store formats, we are confident we can continue to expand our market share in China.

To capture incremental opportunities in lower-tier cities, remote areas and strategic locations, we began accelerating franchise expansion in 2024. The franchise mix of net new openings for KFC and Pizza Hut increased from 25% in 2024 to 36% in 2025. Equity stores remain the core of our business, representing over 80% of our store portfolio. The payback period of our new stores remains healthy at around 2 years for KFC and 2 to 3 years for Pizza Hut.

Last but not least, we are embracing Gen AI across our business to drive growth and efficiency. In our restaurants, we are piloting Q-Smart, an agentic AI assistant that integrates operational data such as labor and inventory. It identifies potential issues, recommends actions and implements. For example, Q-Smart can detect staffing shortages, propose replacement staff and initiate calls to them. This helps our RGMs save time, make informed decisions and run restaurants more smoothly.

And in January, we rolled out Smart K, our AI ordering agent to all KFC Super App users. Smart K helps customers place orders. This feature has already been used by 2 million members, especially those who order breakfast and coffee. Customers responded positively to the added convenience and customized suggestions.

At our Investor Day in November last year, we introduced our RGM 3.0 strategy, which takes a balanced approach across all three aspects of Resilience, Growth and Moat. We also outlined our plans for our next phase of growth, including expanding to over 30,000 stores by 2030. We are confident that we can continue our rapid growth while improving profitability and returning capital to shareholders.

Let me now turn the call over to Adrian. Adrian?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Joey.

Let me now update key highlights by brand, starting with KFC. In 2025, KFC opened 1,349 net new stores, bringing its total to nearly 13,000 locations. System sales grew 5%, and restaurant margins expanded 50 basis points to 17.4%. Same-store sales growth turned positive for 3 consecutive quarters.

In Q4, system sales growth sequentially improved to 8% year-over-year. Same-store sales grew 3% and same-store transactions increased by 3% year-over-year. Ticket average was flat as growth in smaller orders was offset by the increase in delivery sales mix, which carries a relatively higher ticket average.

KFC's side-by-side modules are rolling out rapidly. KCOFFEE cafe tripled its footprint from 700 locations in 2024 to 2,200 locations in 2025. While expanding to more locations, we also increased per-store daily cups sold by 25% year-over-year. Menu innovation has been key in driving repeat purchases. Last year, we launched a new product every week on average. KCOFFEE cafes generated a mid-single-digit sales uplift for their parent KFC stores. We are confident in its future expansion.

KPRO added more than 200 locations in just one year. This light-meal concept offers grain and pasta bowls and superfood smoothies. Backed by KFC's trusted quality and strong value-for-money, KPRO has resonated well with customers and generated a double-digit sales uplift in its parent KFC stores. We aim to double KPRO's footprint to more than 400 locations in 2026, focusing on higher-tier cities.

Now moving on to Pizza Hut. In 2025, Pizza Hut opened a record 444 net new stores, raising its total to 4,168. Restaurant margins improved by 80 basis points to 12.8%, bringing its OP margin to 7.9%, the highest level since our 2016 listing.

In Q4, system sales grew 6% year-over-year, up from 4% in Q3. Same-store sales grew 1%, positive for the third consecutive quarter. Same-store transactions increased 13%, growing double digit for the fourth consecutive quarter. Ticket average was 69 Yuan, down 11% year-over-year, reflecting our mass-market strategy.

Last year, Pizza Hut entered more than 200 new cities. About half of these, around 100 new cities, adopted the WOW format. We continued to refine the store format and test different service models. The capex for a standalone new WOW store is around 0.65-0.85 million Yuan. With lower capex, streamlined operations and a simplified menu, WOW enables us to penetrate previously untapped locations, especially in lower-tier cities. We saw improving restaurant margins and a solid estimated payback period of 2 to 3 years for the new WOW stores, in line with average new stores for Pizza Hut.

Our emerging brands are also making steady progress. Lavazza opened 34 net new stores, including its first store in Hong Kong, taking its total store count to 146. Same-store sales growth turned positive in 2025, and overall store economics improved meaningfully. Its latest Light model requires only 0.5 million Yuan in capex, roughly half the cost of the previous formats. Its retail business of packaged coffee products – the other growth engine – delivered over 40% sales growth and more than doubled operating profit year-over-year in 2025.

Let me now go through our Q4 P&L.

System sales grew 7% year-over-year and same-store sales grew 3%.

Our restaurant margin was 13.0%, 70 basis points higher year-over-year, mainly due to improvements in cost of sales and occupancy and other cost ratios.

Cost of sales was 31.6%, 30 basis points lower year-over-year, mainly due to favorable commodity prices and supply chain efficiency gains. We shared some of the savings with our customers in the form of great value for money.

Cost of labor was 29.4%, 120 basis points higher year-over-year. While overall rider costs were higher due to a higher delivery mix, we maintained non-rider costs as a % of sales at relatively stable levels through operational efficiency gains despite wage inflation.

Occupancy and other was 26.0%, 160 basis points lower year-over-year, mainly due to sales leverage, store capex optimizations and better rent.

Our OP margin was 6.6%, 80 basis points higher year-over-year. Operating profit was 187 million USD, growing 23% year-over-year.

Net income was 140 million USD, 22% higher year-over-year. Excluding our investment in Meituan, net income grew 14% year-over-year. Our investment in Meituan had a negative impact of 0.5 million USD in Q4, compared to a negative impact of 9 million USD in Q4 last year. As a reminder, we recognized 11 million USD less in interest income in Q4 this year due to a lower cash balance, resulting from the cash we returned to shareholders, and lower interest rates.

Diluted EPS was 40 cents, 29% higher year-over-year or up 21% year-over-year, excluding our investment in Meituan.

For the full year, system sales grew 4% and same-store sales grew 1%.

Restaurant margin was 16.3%, 60 basis points higher year-over-year. Both KFC and Pizza Hut's restaurant margin improved year-over-year.

G&A expenses were 4.9% of revenue, 10 basis points lower year-over-year. Operational efficiency gains more than offset higher performance-based compensation in the year. Operating profit grew 11% to 1.3 billion USD.

Diluted EPS was 2.51 USD, growing 8% year-over-year, or 14%, excluding our investment in Meituan. Total capex was 626 million USD. Capital efficiency improved. ROIC reached 17.3%, up from 16.9% in 2024.

Let's now turn to capital returns to shareholders.

We are on track to return a total of 4.5 billion USD to shareholders from 2024 through 2026. That's 1.5 billion USD each year. In 2025, we returned 353 million USD in cash dividends and 1.14 billion USD in share repurchases. In 2026, we remain committed to returning 1.5 billion USD to shareholders.

We are raising our quarterly dividend by 21%, from 24 cents to 29 cents. At 29 cents per quarter, the payout ratio will exceed 45% of our 2025 Diluted EPS, with annual dividends totaling around 400 million USD.

We have also initiated a 460 million USD share repurchase plan for the first half of 2026. With these arrangements, we are well-positioned to deliver on our commitment for the year.

Starting in 2027, as outlined at our 2025 Investor Day, we plan to return approximately 100% of annual free cash flow after subsidiaries' dividend payments to non-controlling interests. And this is expected to translate into an average annual return of 900 million USD to 1 billion plus USD in 2027 and 2028, and exceed 1 billion USD in 2028 and onward.

These commitments are supported by our healthy cash position and robust cash generation. In 2025, we generated 840 million USD in free cash flow, an increase of 18% YoY, and ended the year with 2.0 billion USD in net cash.

Now, moving on to our 2026 outlook.

We are confident we will reach more than 20,000 stores in 2026. This means opening over 1,900 net new stores, with 40 to 50% coming from franchisees for both KFC and Pizza Hut. We will continue to deepen our presence across China, especially in lower-tier cities and strategic locations, using a variety of store formats.

With lower capex per store and a higher franchise mix, we expect total capex to stay in the range of 600 million to 700 million USD this year.

As for other financial metrics, we expect our growth in 2026 to be consistent with our three-year guidance shared at our investor day, that is, 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 margin and OP margin for Yum China.

As activity on delivery platforms remains dynamic, we have factored in different scenarios and are confident that the impact on our businesses will be limited due to our balanced and disciplined approach.

Our full-year projections are based on our current plans and have not assumed any changes in macro. Any improvement would represent potential upside. We will continue to track the progress of our new store openings, module development and rollouts, and other core initiatives, and provide updates as we go.

For Q1, we are working hard to deliver our fourth consecutive quarter of positive same-store sales growth and 13th consecutive quarter of positive same-store transaction growth. On margins, we face a tough YoY comparison.

First, rider costs are the biggest headwind, driven by a higher delivery sales mix. Delivery mix increased from 42% in Q1 to 53% in Q4 last year and is expected to grow further. Second, the benefit from lower commodity prices will be smaller than before. Additionally, last year's base already reflected significant benefits from Project Fresh Eye and Red Eye. KFC's restaurant margin was already 19.8% and Pizza Hut's restaurant margin improved 190 basis points year-over-year in Q1 last year, setting a high base for Q1 this year. We will focus on efficiency and sales leverage, and strive to maintain Yum China restaurant margin and OP margin roughly in line with the prior-year period in Q1.

With that, let me pass it back to Joey for her remarks on the Chinese New Year.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thank you, Adrian. Let me share a few thoughts on the Chinese New Year, our key trading window of the year.

Chinese New Year falls on February 17, considerably later than in most years. Our teams have prepared comprehensive scenario plans by the week, and even daily. People will soon be traveling and gathering for the holiday season. Our brands are focusing on their signature products to capture the heavy traffic during Chinese New Year while maintaining strong operational efficiency.

At KFC, buckets have long been our Chinese New Year signature, offering exciting food and abundant value. This year, in addition to our classic Golden Bucket and wing buckets, we are introducing – for the first time – peanut and sunflower seed mini buckets (花生瓜子桶). These packaged snacks honor Chinese traditions and help create a festive Chinese New Year atmosphere.

At Pizza Hut, we are focusing on one of our hero products, the Super Supreme pizza. This time we are adding new twists by pairing it with our classic Bolognese and trendy salted egg yolk toppings. Customers can also top up the pizza with a mountain of crunchy potato chips and rich sauce (金运熔岩山). These offerings are available in combos designed for family and friend gatherings and to drive ticket average.

Overall, for this Chinese New Year, we are executing according to our plans. Trading year-to-date has been in line with our expectations.

With that, I'd like to wish everyone a happy and prosperous Year of the Horse! 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 comes from the line of Michelle Cheng from Goldman Sachs. Please go ahead Michelle.

Michelle Cheng - Goldman Sachs

Hi Joey and Adrian. Congrats for the very strong results and ending 2025 with these impressive numbers.

My question is about pricing. We noticed that you raised the delivery menu price recently. And earlier, we also hear some other brands are raising the price. So can you comment your expectation on the pricing trend, including any changes in your end market promotion activities? And how this will be reflected in the same-store sales growth, especially, we should have a pretty easy base for the first quarter on both same-store sales growth and overall sales last year first quarter.

And secondly, if I may, regarding delivery mix, we noticed that delivery mix increased quite a lot, but the margin is still pretty good. So unlike other kind of catering business which has been suffering from higher delivery mix and lower margin. And for Pizza Hut, we even see payroll cost is down in fourth quarter. So can you still elaborate a little bit more on how we should think about 2026 delivery mix and impact on the margin? Thank you very much.

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

Thank you, Michelle.

Let me take the question on pricing and Adrian can answer the second one.

The price increase for KFC, it was a mild adjustment. It only affects the delivery menu and it has no change to dine in and takeaway. And we also did not make any change to the signature campaign, such as the Crazy Thursday or the Weekend Buy More, Save More. And the price increase helped absorb some rider cost increase because of higher delivery mix.

With that said, we remain committed to offering great value for money, something we have done consistently for a long time. And therefore, we are very committed to it. And that was thoroughly discussed in our Investor Day, together with our good food and emotional value.

The primary goal of our business and of our commitment is still to drive traffic. So we are still targeting 13th consecutive quarter of same-store transaction growth and fourth quarter of same-store growth in Q1. And so far, the trading has been in line with our expectation.

So overall, in the short term and long term, I hope this demonstrates our confidence in our business model. Adrian?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Yes, sure. Michelle, on your second question regarding margin outlook and also the delivery mix.

I guess very briefly on delivery mix outlook for 2026.

We do expect further increase in mix for delivery for full year 2026. I mean our delivery growth has been pretty solid for the past more than 10 years. And for the past one year, given the dynamics in delivery aggregators, our growth has been particularly high which has driven a

pretty big surge in delivery mix, I think from 42% for Q1 2025 to around 48% for the full year 2025. So it's a pretty significant increase.

And for the full year 2026, we do believe, regardless of the delivery aggregator subsidy dynamics, we do expect that the delivery mix will surge further.

And in terms of the margin impact on Yum China and the two brands, as we mentioned in the prepared remarks, we expect the full year restaurant margin, OP margin to slightly improve year-over-year and we are confident to achieve and deliver that, specifically on two brands.

For KFC, we expect the full year restaurant margin to remain relatively stable year-over-year. It's already at a very healthy level. And as you may recall during our Investor Day three months ago, we actually give a long-term guidance for KFC's restaurant margin which is to be relatively stable over the long term as well at a healthy level.

For Pizza Hut, we expect the full year restaurant margin to slightly improve from 2025 level with streamlined operations, offsetting higher delivery costs and a higher base year-over-year.

I would like to reiterate that for Q1 specifically, we face a tougher year-on-year comparison, as we mentioned in the prepared remarks.

There are different factors that we mentioned in terms of meaningful delivery mix increase and thereby the rider cost increase correspondingly and also the tailwind from favorable commodity prices gradually reduced and also the Q1 last year is a really high base with KFC's restaurant margin being as high as 19.8% and Pizza Hut's restaurant margin improved by 190 basis points year-over-year in Q1 last year.

So both brands have really high base. And obviously, our guidance for the Q1 margin being kind of stable has accounted for the price increase on delivery platforms for KFC.

And lastly, I think you asked about how do we understand each line of the key cost line items for full year 2026?

For COS, cost of sales, we expect it to remain relatively stable. There will be tailwinds for commodity prices, but the tailwind will be smaller, and we will pass good value for money to our consumers.

So COS will be relatively stable for Yum China and for KFC and Pizza Hut.

For COL, cost of labor, obviously, we face continued headwinds from the higher rider cost as a result of the higher delivery mix expected for this year as well. And we aim to maintain the non-rider cost stable, offsetting the low single-digit wage inflation with more streamlined operations.

And lastly, our O&O, Occupancy and Other costs, we continue to explore optimization opportunities and expect O&O as a percent of sales to keep improving year-over-year for the full year 2026, which is supported by store CapEx optimization and better rents.

So hopefully, that address your question. Thank you, Michelle.

Operator

We will now take our next question from Chen Luo from Bank of America. Please go ahead Chen.

Chen Luo - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Hi Joey, Adrian and Florence. Congrats again on the strong results.

In fact, today is Lichun (立春) in China and for those foreign investors, it actually stands for the first day of spring. So China consumption has been in winter for too many years and our strong results have fortunately brought us a touch of warmth.

And my question is more on the sales side. I noticed that our SSSG has actually edged up higher in Q4 versus Q3, despite the fact that the online delivery subsidy intensity has eased a little bit Q-on-Q.

What have we done differently to boost SSSG in Q4? And also, as we are already into the pre-CNY peak season, can you actually share with us some color on the year-to-date trading environment? I understand that we have the calendar distortion. So any comparison based on the lunar calendar would be helpful.

And lastly, I noticed that for the system sales and revenue growth, usually, in previous quarters, revenue growth would be slower than the system sales growth. But in Q4, on a constant currency basis, both numbers came in around 7%. How to reconcile the Q4 pattern versus the previous few quarters? That's all my questions.

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

Thank you. Let me make a few comments on the trading in Chinese New Year and Adrian can tackle the numbers.

So overall, the customer sentiment, as we mentioned at our Investor Day, we continue to see early signs of improving consumer sentiment, which is good news.

With that said, Chinese New Year is a very key trading window, heavy traffic concentrate into several days and it creates a very significant challenge to operation. So we need to balance sales initiatives with operational efficiency as wages are much higher during the public holidays.

Point two is the Chinese New Year this year, as you mentioned, Luo Chen, is considerably later than most year and we actually have yet to reach the peak trading. We call it in Chinese (爬坡). So we are climbing up the mountain, but we have not reached a peak yet. So it's slightly a bit early to make any big comment.

So all we can see right now while sales is ramping up, year-to-date trading has been in line with our expectation.

And last but not least, we will continue our strategy to drive traffic, sales and profit growth for the quarter, all three at the same time. We target to deliver our fourth consecutive quarter of positive SSSG and 13th consecutive positive transaction growth, as I mentioned earlier.

Adrian?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Sure, sure.

Luo Chen, on the second question regarding the comparison between revenue growth and system sales growth, yes. Normally, system sales growth is slightly higher than revenue growth, and that's mainly caused by the higher growth of the franchise business contributing fully to the system sales, but only roughly half to the revenue. And sometimes you do see similar figure or even same figure for the growth of the two metrics, that's partially also because of rounding as well.

But going forward, I think, generally speaking, we do expect a slightly higher system sales growth than revenue growth if we kind of disregard the rounding factor in it.

So hopefully, that address your question, Luo Chen.

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

Sorry, one more line is system sales growth. When we opened a lot of stores during the last quarter, it helps the number, particularly Q4 is slightly smaller one.

Operator

We will now take our next question from Lillian Lou from Morgan Stanley.

Lillian Lou - Morgan Stanley - Analyst

Can you hear me?

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

Yes.

Lillian Lou - Morgan Stanley - Analyst

Hey Joey, Adrian and Florence. Congrats again.

I have one question on Pizza Hut sales momentum, because obviously KFC still delivered very strong momentum in fourth quarter, higher than Pizza Hut's trends. And I recall on the Investor Day we mentioned for 2026 onwards, major sales growth actually will be mainly driven by Pizza Hut, which should be growing at a faster rate than KFC.

So would like to understand, in particular, for 2026, what kind of incremental measures management plan to implement to drive up the Pizza Hut revenue or system sales momentum which could be higher than KFC?

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

For Pizza Hut, first of all, our core business continues to drive very nice growth.

In 2025, you will see we actually entered more than 200 cities. And this is a very big number for Pizza Hut. And that was helped by the Pizza Hut WOW model which alone entered into more than 100 cities. Because for a long time, Pizza Hut city penetration was stuck at 900 cities. But now, we're in over 1,000 cities. And 2024 was the year we share that we feel that Pizza Hut has reached the inflection point.

So 2024 was nice growth and 2025 with the help of Pizza Hut WOW store also grew very nicely. So that's one way.

And the other one I would like to mention is some additional color on the product.

So it's worth trying, if you have not tried yet, it's a Handcrafted Thin Crust Pizza (手作薄底披萨). The new crust actually is really amazing. And within a very short time, it accounts for one out of three pizzas sold. And this is a very big number.

So now we have a good variety of pizza crust with four choices: the thin crust, the pan, the hand-tossed and stuffed crust. And for those who spend a lot of time on pizza, you will know that doing pizza crust is the real deal. It's much harder than doing the topping.

And the other product I would highlight is burger. We have been selling burger for more than a year now and it's mid-single digit of our sales mix.

So from the module to the key products, these are very exciting growth drivers for 2025, and it will continue into 2026.

And I think I'll pause here. Thank you, Lillian.

Operator

We will now take our next question from Anne Ling from Jefferies.

Anne Ling – Jefferies - Analyst

Hi. Thank you management team. A couple of questions here.

So I would like to check, first, regarding the company mentioned about the expanding or ramping up in year 2026, the Gemini stores. So just want to check whether we will have to figure like how much more Gemini stores that we plan to open? And you mentioned that as a new format on the franchising, which is called equity franchise model. I'm just wondering whether it means that Yum China will be investing in the franchise model. And if you can elaborate that?

And second question is on the news -- the coffee format as well as the KPRO. What is our plan for year 2026 and whether this attribute to like same-store sales growth, how much is attributable to same store sales growth in year 2025?

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

Again, I'll take the first question, Adrian, you can take the second one. Thank you, Anne.

So Gemini stores are side-by-side, KFC Small Town and Pizza Hut WOW store is a pair with their own separate entrance and counter. However on the back, we share the in-store resources, the staff, equipment, rent, and it's particularly effective to enter lower-tier cities. And the CapEx is good. It's only RMB 0.7 million, RMB 0.8 million for pair. So very attractive for franchisee.

And the sales is sort of the lighter version of the KFC Small Town and the lighter version of Pizza Hut WOW. So we would like to control the average payback estimate at about still at two years.

The menu will continue to be even simpler. So KFC menu will be similar to the Small Town one. Pizza Hut menu, it's probably only about 20%, 25% of the regular menu, And we expect the margin contribution will be incremental.

And it's still early stage. We only have 42 pairs right now. It's a very small number, and we are testing it, but we do expect the Gemini model to improve its OP margin of our franchise business in the long term. And that's sort of the most updated progress of the Gemini store.

Adrian?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Yes. Sure. Anne, I think you have a small question between the first one and second one, which is what is the equity franchise hybrid model?

Just to clarify, it's not a particular store model. It basically means the acceleration of franchising initiative for Yum China.

So in the future, we'll become a business shifting from an equity-focused business only to a hybrid of equity franchise business. So that's not a particular model, just to clarify on that one.

And then your second question is basically regarding KCOFFEE cafe and KPRO.

As we mentioned, KCOFFEE cafe contributes mid-single digit of incremental sales to the parent KFC store and KPRO, which is a reasonably new initiative. I mean the KPRO model now is quite different from the like the older KPRO stores years ago, right?

So this new version of KPRO we opened more than 200 net new locations in the year 2025, and this contributing double-digit incremental sales for the parent store with incremental profits. But given it's only 200 locations or slightly more than 200 locations, out of 13,000 total store count for KFC.

So you could imagine the KPRO contribution to the same-store sales there for KFC is rather limited.

Similar for KCOFFEE cafes, actually, because if you think about KCOFFEE as a whole, the menu mix for KCOFFEE and KCOFFEE cafe altogether is, we mentioned previously, roughly 4% of KFC's menu mix. So the KCOFFEE cafe alone is even smaller.

But we do have high hopes of both these two modules. When they grow bigger and bigger, when they have more locations, they will represent higher contribution to the same-store sales growth of KFC. Thank you.

Operator

We will now take our next question from the line of Christine Peng from UBS.

Christine Peng - UBS AG - Analyst

Thank you management for the opportunity to ask questions. So I have two questions.

So firstly is about KPRO. So Adrian, can you provide us more details in terms of the economics of the KPRO model, such as ticket value, the margin profile. And most importantly, if you can provide some details in terms of the customer profile, the kind of the differentiation from the major format of KFC. I think that would be very helpful to understand the module in the longer term.

I think the second question is about the Pizza Hut launching burger. The question for Joey is that what's the management rationale behind this? Because obviously this is mostly targeted maybe like a single person menu. And in terms of the product differentiation pricing strategies, what are the differentiations from the KFC burger offering? And what's going to be the longer-term development strategy for this category going forward?

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

Christine, for the KPRO, we plan to double the number of stores in 2026. So from 200 plus to at least 400. And it offers a very good value for money for the light meal with very strong food safety as a brand.

And the menu is very distinct. You just need to cross the border and try in Shenzhen. We have quite a few of those in Shenzhen. It offers energy bowls and smoothies. Smoothies are doing incredibly well there.

In terms of the format, what else I can say is again, it's consistent with our corporate strategy of front-end segmentation and back-end consolidation. So it has its own counter and space for seating space for customer but we share the KFC store space, memberships, equipment, resources, you name it.

And here's some interesting sort of context for the customer. A significant portion of customers, could be as far as 80% or 90% of our sales are from KFC members. And this is a great example of how our membership program is really helping our long-term, short-term business.

So it's an alternative for KFC members and that drives frequency. The frequency so far is very pleasing to us because it gives very little psychological burden to people for the light meal option, I guess. And also, you can imagine the office location worked really well for the KPRO. So we are hopeful for that.

And then let me move on to Pizza Burger. We offer that for over a year now. And it's different from KFC Burger. It's different in both ways. The Pizza Burger, the bun is freshly made in the store with the same pizza crust dough, if that makes sense.

So now you can probably understand why we are doing burger because we have this lovely dough, we can make pizza dough, and we can also make burger bun. Why not? It tastes really good and then with very high-quality meat, and there are two flavor, what fantastic is the burger with pineapple, fresh pineapple, and also bolognese sauce, which is quite creative. Why bolognese sauce? It's pizza sauce. It's a sauce that customers really love. It's classic.

So we have this new product called Burger. And you're absolutely right. It works very well for the single person's offering. And we can see the single person meal is opportunity for Pizza Hut. Right now, the base is low but for 2025 that one person meal is growing at 50% for Pizza Hut.

It's lovely. So we continue to do a bit more of that. And let's see what 2026 will bring us.

But again, it's still early days. It's only one year. We'll continue to learn and do better for our customers. Thank you, Christine.

Operator

We'll take our next question from Ethan Wang from CLSA. Please go ahead Ethan.

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

Sorry, Ethan, you might want to speak louder. We have a hard time hearing you.

Ethan Wang - CLSA - Analyst

Sorry about that. Good evening Joey.

So my question is on the delivery strategy. So if we take a relatively longer-term view, I know delivery is our key strategy to grow our same-store sales growth. You mentioned at Investor Day. But given what is happening in China especially last year, it seems likely that consumers also want dine-in experience when they do so much delivery. And in low-tier cities, maybe consumers also wanted to dine-in.

So I'm just wondering, how do we think about the dine-in and the pickup consumption scenario going forward. Are we saying we still focus on delivery, so that is the only focus or actually we're doing something on those two fronts? That's my question. Thank you.

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

Thank you, Ethan. That's a good question as well.

So as we have observed over the last 10 years trend, as Adrian mentioned earlier, the delivery continued to grow. So we continue to expect it to grow in 2026 too. But at the same time, I'm with you too, the dine-in and takeaway will still continue too.

If I look at Pizza Hut, the takeaway, for example, 2025 takeaway percentage compared to 2019, it almost doubled, and I want to grow more for takeaway. Takeaway is a good business.

But at the same time, dine-in is still an important part of our business. For KFC, dine-in is still about 30% and Pizza Hut is over 40%, about 45%. So it's still a very important part, and we still believe that the business will still be there in the long term.

But at the same time, we are not judgmental. We basically embrace whatever the customer preference in terms of delivery, takeaway and dine-in. And we strive to serve them well in all three channels, and then we'll balance the cost structure to do the best we could.

So yes, we really open-minded, and we'll do our best, but dine-in will continue.

And in the lower-tier city, will dine-in be slightly higher? To a certain extent, in the sense that the ticket average, the big order, big family consumption still is a 刚需 (essential need).

But one last thing is, how do we balance the growth of delivery, while the growth of delivery continues, we protect the margin, as you can see, we have done it. But at the same time, we have new growth drivers such as 车速取 (Drive-thru) or 开门送 (Door-side pickup). Customer right now we see growing in terms of car ownership, right? The car ownership is growing and the business related to that is growing too, and then we will deliver the food closest to customers' car.

And that is growing nicely. Now, we have over 4,000 plus KFC stores have that we call curbside pickup.

So we are doing a variety of the business to balance the sales growth. Thank you, Ethan.

Operator

Our final question today comes from Sijie Lin from CICC.

Sijie Lin CICC - Analyst

Thank you for the last question. Thank you, Joey and Adrian. So my question is on the delivery platform subsidy. We know it's very dynamic, but could you provide a sense on how should we evaluate the trend and impact in 2026? And when the platform competition mitigates, what measures will we take to attract customers back to our own channel?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Sijie.

So on delivery platform subsidy dynamics, as we mentioned in the prepared remarks, we have a different scenario planning for the subsidy, how that evolves. And regardless of what the scenario would be, we believe and we are confident that the impact on our business will be limited because of our disciplined approach to drive sales, at the same time, to protect margin and price integrity. And at the same time, and that's kind of the short-term horizon.

The long-term horizon is we do believe this whole delivery aggregator subsidy, as we previously mentioned, it's good for the merchants, especially the larger merchants in the long run because the merchants have choice of working with multiple parties. And also, we can obviously take the opportunity to secure some long-term benefits during the subsidy war. So that's a response on both the short term and long term.

And I think the natural question has always been in our margin. And as we demonstrated in the previous quarters, we were able to protect our margins actually even slightly increase our margin. And that's why we're confident to give the guidance for the full year 2026. We have an improvement in restaurant margin and OP margin for Yum China slightly.

But I would like to caution again, sorry to repeat myself. For Q1, we face a tough comparison, and our guidance for Q1 is to stay roughly in line for restaurant margin, OP margin year-over-year for Q1.

Thank you, Sijie.

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

This concludes our Q&A session. Thank you for joining the call today.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect your lines.

DISCLAIMER

Yum China reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current beliefs and expectations of JPMorgan Chase & Co.'s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. Factors that could cause Yum China's actual results to differ materially from those described in the forward-looking statements can be found in Yum China's Annual Report on Form 10-K for the year ended December 31, 2024, which has been filed with the Securities and Exchange Commission and is available on Yum China's website (<https://ir.yumchina.com/sec-filings>), and on the Securities and Exchange Commission's website (www.sec.gov). Yum China does not undertake to update any forward-looking statements.