Yum China 2023 Investor Day Transcript
September 14, 2023

Florence Lip, Senior Director, Investor Relations, Yum China:

Hello ladies and gentlemen. I'm Florence Lip, Senior Director of Investor Relations. It's a great pleasure to welcome you to Yum China's 2023 Investor Day. We have a full agenda today and tomorrow. First, our management team will update our latest strategy this morning, followed by site visits in the afternoon and tomorrow morning.

Before we get started, I would like to go through some administrative items.
Today's presentation materials will be in English. Some of our management team will speak in Chinese. Simultaneous translation from Chinese to English will be provided. For our guests here in Xi'an, you need a headset to listen to the simultaneous translation. If you need a headset and haven't got one, please let our staff know. For our webcast audience, you can also choose the channel, just follow the instructions online.

Our Investor Day presentations contain forward-looking statements, which should be considered in conjunction with the cautionary statement in our presentation deck and the risk factor included in our filings to the SEC. You can find the webcast of our presentation on our IR website. Without further ado, let's get started.

[Video playing]

Joey Wat, CEO, Yum China:
Welcome, welcome, welcome! It almost feels a bit emotional to see so many friends after all these years, but a very big welcome to Yum China's 2023 Investor Day. On behalf of Yum China, a huge "Thank You" – to our roughly 430,000 employees, our shareholders, hundreds of millions of our loyal customers, and of course all of you today. It is wonderful to see everyone in person. I hope you have a good time in Xi'an. Your trust and support got us through the three-year pandemic and we believe that we have emerged stronger and more resilient. Today's presentations will provide you with updates on our progress, our opportunities, and strategies going forward. I'm excited to unveil our ambitious targets for the next three years, which I'll do in my closing remarks, so I'm going to make you wait a little bit. I will do it after Andy's presentation. Let's start with a brief recap of our RGM strategy. RGM stands for "Resilience, Growth, and Moat." It also pays tribute to the most important people in

our company, the Restaurant General Managers. As you may recall, we introduced our RGM strategy at our 2021 Investor Day. Suiting the times, we put a very strong focus on Resilience, and yet, we did not back off from our commitments to Growth and investing to deepen our strategic Moat. The last three years were pretty tough, but our RGM strategy served us well. Over the last three years, we have transformed our business. We added more than 4,400 net new stores. We opened a lot more than that, and we closed under-performing ones, achieving 4,400 net new stores. And we were also profitable. We generated over $3.6 billion in operating profits and were profitable each and every quarter, returning over $1.3 billion US dollars to shareholders over the past three years.

Winston Churchill once said, “Never let a good crisis go to waste.” Indeed, there are very few good things to say about the pandemic, but we made the most of it, and we strongly believe that every great company is the child of winter. We would like to believe that we have worked very hard in order to get close to being that great company.

There are three areas I would like to highlight. First, we transformed our store portfolio. There’s a lot of focus on same-store sales compared to 2019. However, we actually have expanded our store network by 55% over the past four years. So for our store portfolio right now, a lot of growth is coming from the stores we opened after 2019. And at the same time, when we opened these many stores, quality is still the most important criteria. We maintained a two-year payback for KFC for new stores opened, and we reduced the payback for new stores opened for Pizza Hut to three years.

Secondly, customers now enter 90% of their orders digitally, while off-premise consumption, which is a combination of delivery and takeaway, is over 60% of our sales. Why is this important to us? Because that is resiliency. We learned it from the pandemic. Even when some of the stores could not open, we still can keep our business going. And even when dine-in businesses were not operating properly, there was sales transferred from the dine-in business to delivery. Therefore, even during Q4 of 2022, which was a very difficult quarter, we still delivered a profit to our shareholders.

We also rebased our cost, and the focus here is fixed cost. You will hear a lot more about that today. We reduced our top three store-level fixed costs by as much as 20-25% over the past four years, which lowered our cash investment per store by more than 35%. This comes back to the point on why we can open so many stores, with such profitability. Because the investment is lower. And also it lowered the operating cost. As a result of our transformation, as you can see here, not only did we avert disaster and perform during the pandemic, it also enabled us to become a stronger and better company. Compared to the first half of 2022 last year, our revenue (in 1H 2023) grew 16%. Only 16% not 50%, because we did not lose 50% during 2022, right? So, same-store sales is always a mirror of last year. Our restaurant margins improved by 530 basis points, and our operating profits doubled. Compared to the first half of 2019, we’ve improved significantly on virtually every measure, store count, revenues, margins, and overall operating profits. We're bigger, stronger, leaner and more profitable.

Going forward, we are shifting the emphasis of our RGM strategy from Resilience to Growth. I think that’s very natural to do, because right now we are able to do business on a daily basis, which we are very, very happy about. We’re calling it RGM 2.0. It centers on three primary areas for growth: One, expanding our store footprint. Two, increasing sales. Three, boosting profits. Looking back at Yum China’s history, We started our first store back in 1987. It took us 16 years to get to 1,000 stores. Now when we look back at it we feel it’s a bit slow. But it’s always very difficult for a new brand to establish. And then, it took another nine years to get to 5,000. But from 2012, from 5,000, it took a few years to get to 10,000 by 2020 in the middle of pandemic, and right now we are at over 13,600 stores. And that makes us one of the world’s largest QSR operator by equity store count, because a lot of restaurant companies are actually franchised based, and we actually run the business ourselves, which has a slightly different level of sophistication and challenges.

And, the interesting chart here is, while our stores accelerated very fast in last three years, the GDP growth actually came down, from double-digit to high-single-digit, and then right now at mid-single-digit. However, let’s remind ourselves that China still is one of the fastest-growing economies in the world. And, the big question in this room is, can we continue the acceleration of store opening when the GDP is slowing down? How does it work? The answer is Yes. We are actually, this is the first big news we are going to share today, we are setting an ambitious goal of 20,000 stores by 2026, just three years from now. Because now, you know, things are back to normal, we can see things a bit more in a predictable way. So we feel confident that we can put forward an ambitious target. And that means we are adding about 1,800 net new stores annually for the next three years.

So, the scale of the economy, as you can see, when it comes to 2023, the scale of the economy is something incredibly important for the consumer industry and in particular for our business here. Right now, China is about 18% of global GDP, it's about $17 trillion, and of course population exceeds 1.4 billion. And we believe that the combination of the scale economy, even with modest growth, is more than enough to fuel the growth of our business. Let's put things into perspective. 5% growth of China GDP adds nearly about $900 billion to our economy, and that is more than double the size of Vietnam's GDP. So we are adding 2x of the Vietnam GDP to our China economy every year, even with 5% growth, because the scale is so big already. And with 5% GDP growth and $900 billion, it contributes about 30% of the total GDP growth worldwide. The number might be slightly different, but it shouldn't be too far off.

And then secondly, we look at the urbanization. It's still happening. The number of cities is still growing. Right now, China has about 14 million people moving to urban areas, and that's about one-and-a-half New York City populations moving to China's cities annually. When we look at the middle class population, which is also addressable market. You can call it 450 million, 500 million, not too far off. And interestingly, this number is quite similar to our total membership size of Yum China right now. Our membership stands at 445 million. So if we look at the glass half full/half empty situation, what does that mean? That means while we already have 445 million loyal customers – and KFC is a very accessible brand, it's affordable, it's convenient – that means there are nearly 1 billion Chinese consumers who still today don't have convenient access to our stores, or find our prices still beyond their reach in particular area like Henan or Guizhou or Guangxi, or for other reasons. So the opportunity is still there.

Just to reinforce our conviction on growth potential is the fact that the penetration of China's QSR is still very low. I mean, we are talking about only 7 stores per million people, and when we compare to the lovely country of Japan, the penetration is 24 stores per million people. I mean Japanese food is very good, Chinese food is very good, but among these wonderful Chinese foods and Japanese foods, there's still a big appetite for our type of convenient and good foods. So, the conclusion is, the demand is still way way bigger than the supply in our industry in China.

After looking at the market potential, let's turn focus back to Yum China. The question is, are we ready for this aggressive, ambitious growth target? Absolutely! Let's look at the capex. This is over a longer time period, from 2014 to 2022. Why

2014? Because I joined at that time. So I'd like to look at, just back to almost ten years ago. We reduced the capex per store by as much as 50% or 60% for KFC and Pizza Hut independently. What does that mean here? Remember, in the capex, it has the components of sunk costs and equipment. For the equipment that we invested in, we can always move it around. If one store doesn't work, we move the equipment to the other stores. And then the other part is the sunk costs. When we reduced the total investment by this much, you bet, we achieved a large reduction in sunk costs over 8 or 9 years' time. And that resulted in what? Lower depreciation of our operating margin. And also, strategically, it has lowered the cost of making mistakes, which is very good.

Secondly, each brand has developed their own primary store designs and supplementary modules, like drive-thru, "to-go," coffee trucks and even pop-up stores during holidays or night markets(夜市). This approach ensures brand consistency with customization, and also it allows us to open stores in locations where we could not open before. What does that mean? Either a store we could not afford before because the investment is too much or the shape of the store is too odd and didn't work. But now we can do it, as long as the location is right and the unit economics works, we can open these stores. This makes us more flexible to adapt to the market.

Third, franchising. We've planned to unlock opportunities in strategic locations with about 15-20% of our new builds from franchising. All of you here know that we were reasonably conservative about franchising before. Why? Because we are very protective of our food safety. And I will talk about that later when I talk about our investment in end-to-end digitalization. We now have full visibility of our inventory system in each store. So now we feel that we can effectively manage food safety in all of our franchise stores, and therefore we are ready to have more franchise stores.

Here are some very interesting numbers. With the pandemic, food safety has become more important. We have the opportunity to open stores in Zhejiang University, Fudan University, Shanghai Jiaotong University, and more to come with over 3,000 universities in China. And then, with highway service stations, we have signed quite a significant number of agreements with our strategic partners to open stores in these service centers. If you drive through Hainan, you can experience how it feels to stop at every single important service station and see a beautiful KFC store there compared to a local store where you might not want to put that food into your kid’s mouth. And a lot of these highway stations and tourist locations are doing well in China right now.

And also, 36,000 hospitals across China. We do really, really good business in hospitals and there are many reasons for that. Doctors and nurses love our food because they're very busy. Our food is convenient and quick, and during the pandemic we actually delivered free food to hospitals, not for any particular reason, just in being a good citizen. We delivered free food to thousands of hospitals in more than 30 provinces and we had a customized menu for patients, including all-day congee which is the best thing for patients, at least for Chinese ones.

So, accelerating store expansion builds system sales but also has a little bit of challenge here. It has sales transfer of same-store sales growth. You open more stores, sales will transfer from the old store to new store. So we have to work even harder to protect our same-store sales growth. How? With amazing food at big scale. We started with classics such as Original Recipe Chicken back to 1987. Since 2000, the second row you can see, egg tart and Dragon Twister, which is the famous (老北京鸡肉卷), these localized foods have driven growth. Since 2014, these are our new star products. Durian Pizza, surprise, surprise to us too, who will think that this would be so big. Last year we sold more than $100 million, we're talking about U.S. dollar here, of Durian Pizza alone and Supply Chain has a big task to make sure we have enough durian for our Chinese customers. Single-Bone Chicken is a very special cut of the chicken. In the past, Supply Chain didn't know what to do with these pieces of meat, and then we started using them for this product. It was a very good value item particularly for promotions and low tier cities, to start with. Now, it's popular everywhere.

Burgers: who would think a fried chicken company would sell that many burgers? We launched it recently in the last two to three years, and they only became part of our permanent menu last year, including the Wagyu beef burger. A Wagyu beef burger in KFC — I just love the idea. We developed this burger just for the Chinese people. So for the non-Chinese people here in this room, I'm sorry that's not targeted for you, because for the Western customer, the barbecue flavor of the beef burger is important. But for Chinese, very few of us have the luxury of having a barbecue in our backyard. We love a juicy burger. We do not cook the burger on the grill, we actually cook it in our oven. We are one of the very few, if not the only QSR company that invests heavily in oven technology. You don't often see this beautiful oven. They're imported from a very nice European country. You don't see these oven at other QSRs, but you do see them in Michelin Star restaurants. They use the same brand as our oven. Therefore, we can cook amazing food with this oven.

Whole Chicken: we developed this product during the pandemic, targeting at-home consumption so you can eat the whole chicken at home. But, occasionally you see young people who demolish the entire chicken in a store by themselves. That's when you look at them and you feel like, it’s wonderful to be young, isn't it? We cook this chicken by steaming it in our oven and then it fries very quickly in oil so it has the crispy flavor skin. It's doing very well, not only in-store but at home, especially on holidays and weekends.

And then, with coffee, we upgraded to fresh ground coffee at KFC around 2014-15. Coffee is a big category with over $200 million in sales.

So when we do promotions, not only do we want to bring the value to the customer, we also want to build big categories, and we want our products to survive and become classics over the long term. This strategy has been proven to work.

To further support same-store sales growth, we have to work even harder. One unique thing about China is the rent is always high when you want a good location. So we have to work very, very hard. One single day part is not enough to cover the rent to make good business. And it's OK, we can do it, because our brands are powerful, and we can build from the fundamentals all the way to incubate disruptive innovation for our brands. We always start with the core menu and then we do viral UGC campaigns. What is UGC? User-generated content. So Crazy Thursdays, Scream Wednesdays — they have become a cultural phenomenon right now.

And then, we extend the day parts. So, unlike many other QSRs outside China, here we have to have good breakfast business, lunch business, afternoon business, dinner business, late night business, 24 hour business, delivery business, holiday trade. And we can do it.

And, we need to do even more to drive the same store sales. Now we are even going outside the store to having pop-up stores and extensions like K-Coffee. You will see more and more standalone K-Coffee outlets, either stores or trucks or to-go counters, in order to drive same store sales.

Occasionally we do toys as well and I think many of us here still remember the amazing Psyduck last year, it went completely viral and of course we continue to do that this year, and then the games, etc. So with all these efforts, not only do we provide good food, but we provide emotional connection with our customer. That's how to keep the brand alive and young. The pandemic actually even brought back the emotional connection with our customers. Tying it all together is our membership program which I talked about a little bit earlier. And here's one last thing I want to say about membership: for the most loyal 1 million customers of KFC, they visit our store more than 100 times a year, and that's our ultimate goal for membership program. Of course they are at the top of the pyramid, but we at least have a target.

Let's focus on our brands a little bit more. The largest brand is KFC. We are in 1,900 cities with over 9,500 stores. Look at our net store openings during and before the pandemic. In the three years before the pandemic, 1300 stores, during the pandemic, twice as fast, 2500.

Going forward, this is our focus: Expand the store footprint, continue to build the core menu and new growth pillars including the new retail, expand signature campaigns and rebase the core structure. Warton, our first GM of KFC who started from store management trainee, will provide you an in depth overview of our expansion strategy.

Pizza Hut is revitalized and is ready to take off. Pizza Hut right now operates over 3,000 restaurants, and look at the speed that we have achieved with new store openings. Before the pandemic, 200 stores in three years, over the pandemic, 600 stores — three times as fast — and we're going to continue to accelerate because we are ready. And the focus: expansion of footprint, Pizza leadership, off- premise business, because for off-premise business, the percentage is still low, from our group’s point of view; there's opportunity to go higher. Also, creating more affordable moments, and transform cost structure, because, of course we are working on improving the profit margin as well.

And Jeff Kuai, actually who started as an IT guy — see, the management team is from very diverse backgrounds — will share more detail for Pizza Hut.

Let's take a quick look on emerging brands. We are committed to investing in them for longer-term growth, but the total investment in the smaller brands is only low-single digit of our total operating profit. However, we are having a very long-term view on this one. Lavazza actually has achieved a key milestone, opening 100 stores. This Italian coffee brand — I hope you like the coffee outside — has a solid growth trajectory with huge potential in China. Adrian Ding, the GM of Lavazza will elaborate on our strategy.

For Taco Bell, the focus is localizing and innovating the Mexican QSR for Chinese consumer — not an easy task, but it must be done. And right now we have over 100 stores. Actually we accelerated store openings at Taco Bell in the last two years compared to 2021.

Huang Ji Huang, a pioneer in Chinese-style simmer pot, is recovering well and continues to deliver decent profits. Actually Huang Ji Huang even delivered a profit during the pandemic. So it's actually quite a resilient business model. Our focus is to grow the scale.

Little Sheep: We clarified the brand positioning as Mongolian hot pot concept. It’s close to break-even during the first half of this year. And we'll have a chance to taste their food tonight in Xi'an. Both Chinese dining concepts (Huang Ji Huang and Little Sheep) have pretty good business in the Northwestern part of China.

Moving on to profit growth, we achieve a record high operating profit during the first half of the year and the largest factor was cost of sales. Here's an example. This is the iconic Original Recipe chicken, right? You see a pretty significant inflation in chicken price, but we maintained a stable cost of sales ratio over the past year, and this is the secret that allows us to provide customers with deep value for money while protecting profitability. People sometimes think that when we run good value campaigns, we just, you know, sacrifice the profit. Well, a little bit in the short term, but the real trick of having good value campaigns over a long time is to have a very strong supply chain. You can see the gap actually widened significantly from 2020 onward. Well, that takes more than just a standard level of procurement expertise. That gap is a result of many innovative solutions through our entire upstream value chain. Howard Huang, our Chief Supply Chain Officer, another great homegrown talent, will provide you with an overview of our supply chain strategy.

On rent, the focus on our rent is to shift from fixed rent to variable rent, to enhance our business resiliency. Outside China, variable or percentage rents may be more common, but they are not common in China. Over the past decade, we lowered our total rent ratio from 10.8% to 8.7%. And of course, you guys are very smart to figure out this is pure profit contribution. It's amazing. It really helps. And today our new leases, about 70% of leases, are variable rent. Our brand power and particularly credibility built during the pandemic and flexible store formats are the key enablers. In many large shopping malls in China, KFC and Pizza Hut may be some of the very few brands who can enjoy full variable rent structure. Our small brands are not strong enough to get there yet.

Next, People. Despite our store count, which we increased by almost 80% across all these years, we have maintained a pretty flat headcount of around 430,000 people. How did we do that? We reduce administrative burden for RGMs and store teams by investing in system automation and tools.

Going forward, we're going to simplify the management structure. The new management structure is called “Mega RGM.” That means one store manager, 1 RGM, that manages multiple stores. Not only does that improve labor productivity — think about the RGM, actually it's a fixed cost for our store, right — but it also solves our biggest bottleneck of aggressive new store opening, which is good RGMs. The biggest bottleneck is always good people, not cash. Later, Jerry Ding, our Chief People Officer, will detail our approach to our most important asset, people.

We completed our multiple-year end-to-end digitalization project during the pandemic years. It connects all parts of our business together from farm to table. We integrated the customer phasing functions with the restaurant back-of-house operation allowing our AI-based inventory system to directly align with customer orders. It provides a seamless customer experience, boosts operational efficiency and facilitates store expansion, including franchising that I mentioned earlier. So going forward, we will continue to invest in technology and including generative AI. We are very, very curious. Later our Chief Technology Officer Leila Zhang will present our digital strategy.

The foundation of all what I have mentioned about is actually our culture. Our RGM No.1 culture lies at the heart of our values, which can be summarized by “Fair, Care and Pride.” Fairness and inclusion are fundamental to us. It's about treating our people right, with respect and without biases. We strive to create a workforce where everyone gets a fair chance. I'm very, very proud to mention again several members of our leadership team have risen through the ranks, from store management trainee to top leadership positions. Warton, Howard and another wonderful colleague of ours, Herman, who is our Chief Development Officer opening stores for us.

We were also one of the very first in the industry to launch Angel Restaurants for employees with special needs and disabilities. They were the absolute star at the recent Winter Olympics in Beijing, amazing ambassadors for our brands and for our country.

In addition to our competitive pay, we're proud to offer one of the leading employee care programs in China. Actually during the pandemic, we upgraded the medical insurance coverage for our RGMs and their families to include their parents. I believe we are one of the very few companies that actually offers medical coverage for our store managers' parents. There were no layoffs during the pandemic. So our business performance is a big source of pride for our team, particularly during the Pandemic. So as a result our RGMs, they vote with their feet. There is only a 9% of turnover rate in our company for store managers which is way lower than the industry average.

We simply care deeply for communities as well, at group level we have our focus initiative one year donation, we've been focusing on it for 16 years now, you know, raised over 240 million RMB and helping the children in the rural China. At KFC, we focus on the Little Migratory Birds Fund, with a focus on migrant children and left-behind children. And Pizza Hut's focus is on the "Grow Local Initiative" to source locally and directly from local farmers, and then we provide training and support from our supply chain experts to make it happen.

We are also committed to protect the planet as we expand. In 2021, we took the important steps of joining the Science-Based Targets Initiative and committing to achieve net-zero greenhouse gas emissions by 2050. We also set a mid-term target: by 2035, reduce 63% for Scope 1 and Scope 2 and 66.3% for Scope 3. It is a very aggressive target because we have to grow. Because by then, it's likely that our store network will have grown two- or three-fold. But we are still committed to this target, because it is the right thing to do.

Several initiatives underway, Virtual Green Power Purchase Alliance, launched earlier this year, are helping to drive the low-carbon transformation across the entire value chain. And we also just opened the China's first cold chain logistics center to run completely on renewable energy – without increasing utility costs. We found a way to pay for it instead of impacting the profit to our shareholders.

Finally, let me introduce our management team on screen. I am very, very grateful to our outstanding management team — the men look smart, the women look very smart too — without whom none of the Yum China achievements would be possible.

So, thank you so much and today, you will hear from them and interact with them.
I am sure you'll be impressed by them as much as I am!
So, let me welcome Warton Wang, General Manager of KFC to the stage right now.

Warton Wang, General Manager, KFC

Thank you, Joey. Good morning, everyone. My name is Warton Wang and I'm the General Manager of KFC. I first joined KFC as an operations management trainee in 1998. Over the years, I have served as the Market General Manager of Harbin and Hangzhou markets as well as Regional Vice President of Eastern China, overseeing KFC brand operations.

In 2020, I assumed the role of Yum China's Chief Development Officer, leading the group's business development, store openings, and franchise expansion. Last May, I returned to KFC. Welcome to Yum China's Investor Day. Thank you for all the love and support for Yum China and KFC.

Today, I would like to share with you about the brand in three parts. First, we are confident about KFC's growth potential in China. Second, we have identified Resilience, Growth, and Moat as effective strategies for rapidly expanding our business. Third, I would like to share our thoughts on KFC's future development.

KFC first came to China in 1987 and we've been growing with China ever since. So far, we have over 9,500 restaurants in more than 1,900 cities across China. In December this year, we are going to host a grand ceremony in Hangzhou to celebrate KFC's significant milestone of 10,000 stores.

In our commitment to delighting consumers with delicious food, while we continue to offer KFC classic menu items, we never stop innovating. In 2003, the Dragon Twister (老北京鸡肉卷) was launched, which has been widely embraced and loved. Ever since that, original new product offerings such as the Egg Tart and our New Orleans-style Grilled Chicken Wings gradually became iconic products for our brand. 15 of our exciting menu items now have annual sales exceeding $100 million each.

As consumer preferences evolved, they require increasing convenience. We strove to explore additional service scenarios. In 2006, we launched delivery services. Today, our annual delivery sales are approaching $3 billion. In 2015, we rolled out digital service offerings amid the digitalization boom in China. As an industry pioneer in digitalization, in just a few weeks, we made digital payment available in our 5,000 restaurants. Now, more than 90% of our orders are currently fulfilled via digital payment.

KFC is without doubt one of the most successful restaurant brands in China. We boast over 9,500 stores, more than 1 billion annual transactions, over 400 million members, and our Super App monthly active users exceed 28 million. As we all know, restaurant brands in China face intense competition. I would like to specifically mention that most restaurant brands only survive for an average of less than two years, while KFC has been with China for 36 years. We have been part of the rapid economic growth propelled by China's reform and opening up, and we successfully navigated the challenging pandemic business cycle. As an increasingly sophisticated mega brand, we continue our rapid growth momentum.

Considering China's population size and the large number of cities, we see huge growth potential. KFC's market share in China's quick service restaurant (QSR) market is around 5%, while the market share of the other top 10 brands combined is less than 10%. Yes, we already cover 1,900 cities, yet there are still 1,100 more cities that are ripe for our expansion goals, and we are in the process of identifying the right locations.

In recent years, we have been expanding our brand to cover more strategically targeted scenarios, with openings across more highway service centers, hospitals, college campuses, gas stations, etc. These are highly suitable locations and we will continue to capitalize on opportunities for more openings in these types of locations.

If you look at our stores per capita over the past five years, there has been a rapid increase in KFC stores per million people. This growth reflects the trends in urbanization that have brought an increase in population concentration, and rapid economic growth boosted a rise in consumer purchasing power. With the continuous strengths of our brand, our expanded service, and our business development capabilities, we are now seeing increased potential for opening new stores.

We also have many exciting opportunities to expand our consumer base. Our core target consumer groups include college students and small-town youths. Building on our knowledge of these core development groups, we are actively gaining more insight by expanding our presence on college campuses and in small towns. Through more accurate prospect identification and precise marketing, we expect to garner more growth from both constituencies.

I would also like to call your attention to another customer group, the value-conscious consumer, which represents a huge group. We are developing more cost-friendly products and extending price ranges on select products to expand our reach among these groups.

In addition, China’s growing elderly population represents another growing demographic for us. We expect this increasing number of scenarios to have higher and more frequent demands for dine-in, delivery, and takeaway. As long as we have the right food with our appealing scenario-based marketing, seniors will also contribute to further growth.

Another growth opportunity for us is higher consumption frequency. At present, the annual purchase frequency for new and activated members is three times per year. It rises to six times per year for existing members and 26 times for privileged members. For the top 1 million privileged members, our most loyal consumers, their annual frequency is as high as 100 times per year. It is clear that there is a lot that we can achieve further. In short, we believe huge growth potential lies ahead of us.

Next, the second part of my update is on RGM 2.0 strategy. The benefits of our RGM 2.0 strategy will allow us to expand rapidly and efficiently. Echoing what Joey said, we have been continuously accelerating the pace of our store openings, with average annual growth in net new KFC stores over the past five years exceeding 22%. Currently, we continue to optimize our investment in new stores. Over the past five years, we have reduced our average per-store investment by 9%, and last year's per store cash investment dropped to approximately ¥1.5 million.

The quality of our new stores is outstanding with the payback period remaining at around two years.

So, how have we managed to open so many stores? First, we operate under a variety of new store models and modules. There are four different store models. Average size of standard stores is 180 square meters. Future stores are opened in special business districts, featuring customized designs that showcase our brand identity. Mini stores cover a more modest area, around 120 square meters. Due to their smaller size, the investment requirement for mini stores is about one third lower than standard stores. Mini stores are mainly to increase our restaurant density in higher-tier cities.

Likewise, the level of investment for low-tier stores is also relatively low. But unlike mini stores, the reduced investment of low-tier stores is not driven by decreasing size and is mainly attributable to less equipment and decoration. As the name indicates, low-tier stores are mostly opened in lower-tier cities, with a large area of coverage that is sufficient for holiday peak sales, with a smaller financial investment that enables us to get a higher success rate.

In addition to these four store models, we have multiple function modules, which can serve as add-ons to any of our new store models with flexible mix-and-match. For example, by adding the in-lane ordering function to our standard stores, the

Drive-Through was created.
Building on this concept, To-Go is a new module we launched this year. It is designed as a simple window in the wall with a counter inside where a customer can pick up their food, avoiding the need to go into the restaurant. They have the option to order ahead or place your order at the window, which people love. The quick service window option is especially resonant with consumers grabbing a quick coffee or ice cream on the go.
Moving on to our Side by Side module, this is our feature that was designed to expand our coffee business in lower-tier cities. With Side by Side, the seating area is separated from the parent store, providing our customers with an independent coffee shop while the food production area and equipment are otherwise shared, which effectively reduces our costs.
As for K-Coffee Trucks and Mini Stations, they both serve as a complement to their parent stores by maximizing customer traffic and expanding the customer base for parent stores. As you can see, the variety of flexible models can easily be combined with the design of new stores. Modules can also be added to existing stores to meet evolving needs, driving same-store sales growth.
Another major driving force to accelerate store opening is franchising. There are two primary franchise models that operate. The first is channel franchising, which is used primarily to achieve rapid store opening and expansion in major business districts. For example, as Joey just addressed, to open stores in highway service centers, due to limited resources and low availability of dedicated locations, it would be hard for us to engage in each store and open each store individually, not to mention the prolonged store opening process.
So we reached out to Zhejiang Communications Investment Group and they became our channel franchisee for highway service centers. In just a few years, we opened 32 restaurants in highway service centers across Zhejiang province. We have partnered with resourceful channel franchisees at highway service stations in 12 provinces.
Our channel franchisees also include universities, hospitals, tourist locations, gas stations, etc. Of course, if anyone here or you know have access to these resources and interests, please let us know.
The other franchise model we utilize targets lower-tier cities and remote areas. Our goal here is to accelerate store openings in these markets and improve management efficiency. For example, our Tibet partner has opened 16 KFC restaurants in Tibet.
As you can see from the picture, in Nagqu, Tibet, we have the world's highest KFC restaurant at 4,510 meters. It is located 1,500 meters higher than Lhasa. You cannot imagine how hard it would be for us to open and manage restaurants directly in such areas. In such examples, franchising is how we enter low-tier cities in remote

locations where we see huge potential for small restaurant openings. Rather than attempt to open and manage these stores directly and face low store efficiency, we will continue to work within our franchise model for these types of locations. At present, there are over 1,000 KFC franchise restaurants. Moving forward, we expect 15% to 20% of annual new store openings to take place under such franchise models.

Now let's look at sales growth. There are several drivers propelling KFC sales growth. Our products are first and foremost, especially our main dishes. The KFC restaurant brand's mainstay is meals. The variety of food we offer not only affects our consumer base but also impacts consumption frequency.

In building our primary food offerings, we utilize multiple strategies. First, we continue to add new food categories to attract more consumer groups to create new growth avenues. Leveraging our specialty as a chicken expert, we have seized opportunities to address consumer demand for whole chickens. With the launch of our “add a dish on weekends" program, we have been able to offer a larger range of sharing meals for family and friend gatherings.

Our Juicy Whole Chicken product was successfully launched in 2020. In 2022, it was added to our regular menu and its sales exceeded $100 million. Beyond chicken, the beef burger category is crucial for KFC to diversify and offer our consumers alternative protein choices. While continuing to emphasize our brand's sense of value, in 2021, burgers secured a spot on our regular menu, and in 2022, their sales exceeded $250 million.

The second aspect is to diversify the price range of our food so that consumers can choose from a variety of price options that appeal to even the most value-oriented consumers. We have found it especially important to explore the lower end of price scale. Over the past year, we developed two chicken burgers at lower cost that taste great. One is our Golden SPA chicken burger made with Sichuan pepper-flavored fried chicken breast and the other is Sizzling Roasted Chicken Thigh Burger.

Leveraging these two cost effective products, we have combined the sales of both burgers, one fried one roasted, into our weekday value combos, extending the price range of our combo meal options to below ¥20. The initiative has had meaningful implications, showcasing our ability to attract more consumers with lower purchasing power while boosting demand with higher product appeal. Concurrently, we are also seeing strong sales momentum in these two products.

Thirdly, we continue to research and develop innovative food choices tailored to our customers in China which are visually appealing, taste great and make people happy. The Bullfrog Taco we rolled out this year knocked it out of the park. We use bullfrogs exclusively bred for KFC, with customers immediately raving after our creative Taco hit the market in May 2023. We introduced another engaging product, the K-zza, using the wrap from the Dragon Twister with a topping of popcorn chicken. The K-zza is then baked. It is one of our unique KFC offerings. Likewise, our Double Down sandwich has also been incredibly popular since its market launch. We expect these innovative products to become new classics.

To effectively drive KFC sales growth, in addition to unrivaled products, we need effective marketing. I am sure you are familiar with the Crazy Thursday. Buzzwords such as “V ME 50” generated during the campaign have been widely shared across social media in China.

With the success of Crazy Thursdays, we rolled out a Sunday “Buy More, Save More program”, attracting consumers with great deals as well as lucky draws, and offering free cars and trips to the Maldives. Consumers had a lot of fun and enjoyed these value deals. The program boosted our Sunday sales, with sales still growing at a faster pace.

This year we also launched another value program, Classics at Old Prices (疯狂老友季), , designed to refresh market exposure for KFC classic items through new storytelling to evoke emotional connections between consumers and classic products. We combined this aspect with attractive deals to draw consumers into our restaurants and boost dine-in sales. Furthermore, our brand’s marketing team is getting stronger. This team boasts young talent with great energy, passion and creativity. Their contributions have continued to elevate our branding and marketing capabilities, which are widely recognized in the industry.

Moving to our third driver which is exploring new business opportunities. We continue to see abundant opportunities in market campaigns with toys and games. One example is the Psyduck sensation last year. During this year's Spring Festival, Teens in Times and Pokémon also generated enormous traffic and notable sales growth for us. We also made our “Children's Day” special Sanrio toys available for sale on May 20, (Chinese Valentine's Day), quadrupling the launch day sales volume of last year's Psyduck, setting new record highs for us on both Children’s Day and Chinese Valentine’s Day.

And we also believe there is huge potential in K-Coffee. There are more consumers becoming coffee drinkers. The coffee market in China has expanded to lower-tier markets. We expect that in 2023, the sales volume of K-Coffee will reach 180 million cups, an annual increase of at least 30%. This year, we launched new models and new products, such as the new K-Coffee stores in Xiaogang, Hubei, as well as in Changyi, Shandong. The all-new K-Coffee stores have become local must-sees for social media postings. We also have got some new products, such as the Iced Sparkling Americano with Zesty Lemon and Carrot Americano. These new store models and products have been well received by consumers.

Compared with other brands, owing to KFC's large scale of nearly 10,000 stores, our over 400-million member base, and powerful online and offline penetration capabilities, we are confident that we will maintain double-digit growth in our K-Coffee business over the next couple of years. In 2024, we will further step up our coffee business. We hope that we can double the number of new products, increase our marketing spending, as well as speed up our expansion to lower-tier cities. We set a clear goal to steadily launch high-quality products at friendly prices, with a strong presence nationwide.

Apart from these businesses, we also have some new business streams, including new retail opportunities. We expect sales from our new retail business in 2023 to exceed ￥600 million. For example, "KFC Grandpa's Tea" has launched eight pilot stores in Suzhou and we are pleased with the excellent performance. As for K PRO, with our initial efforts in healthy, light food over recent years, we have learned a lot, and I think that it will contribute to our brand identity and creativity. We will continue to open several new K PRO stores.

Now let's move on to resilience. Over the past three years of COVID, we rebased our cost structure in order to reinforce the resilience of our brand and provide consumers with the best value for money.

There are several important aspects. Firstly, we will transform more fixed costs into variable costs. About 70% of new KFC stores pay variable lease terms. We introduced the Mega RGM initiative. Traditionally, RGMs would oversee a single restaurant, but they are gradually taking on more responsibilities to oversee multiple restaurants. So, this is changing restaurant management fixed cost into variable cost.

Secondly, we will also move certain in-store restaurant operations to centralized operations to leverage our economies of scale. I would like to share two projects. First is to shift our restaurant-made marinating to central kitchen marinating. We will also deploy city-wide hiring instead of restaurant-specific recruitment; as well as use centralized training for restaurants located in the same city or business district. We also plan to move more administrative responsibilities out of restaurants to middle-office operations in order to improve our efficiency and allow our restaurants to be more focused on customer service.

Thirdly, we would like to talk about efficiency that we are achieving with new technology. We have used in-store IoT, automatic cleaning devices, automatic order replenishment systems, and shared labor scheduling systems to improve our operating efficiency. Fourthly, we are more effectively prioritizing our resources by cutting out untargeted discount promotions and directing our resources to more impactful promotional campaigns to build a platform that carries long-term value.

This helps us better serve customer demand for good food and service at a good value. As a result of these efforts, our restaurant margin has become increasingly healthy.

Next, let's take a closer look at strategic moat. Digitalization is our brand’s most important moat. In this aspect, we have developed dual-core capabilities. First, we have got membership programs. There are four kinds of members — non-members, new and reactivated members, existing members, and privileged subscriptions. The core of our membership operations is to continuously promote membership upgrade. Each upgrade increases our average revenue per user (ARPU) value. Now, for a privileged paying member, their ARPU value can reach more than seven times that of new members’ ARPU. The number of KFC’s existing members has reached over 400 million, the number of KFC’s active members has reached over 190 million with the ARPU increasing to 277 RMB.

The second core digital capability is digital stores. We have four categories of digital stores. The first is our SuperApp. This is our proprietary transaction platform. The second is the Mini Program. That is our store on the WeChat platform. The third are the delivery aggregators such as Meituan and Ele.me that support our food delivery business. And the fourth are local service platforms such as Douyin and Kuaishou. We have set up live-streaming capabilities in our branded shops and our gross merchandise value (GMV) ranks the first in the industry. And all these are very important to us.

At present, we are focusing on promoting App downloads and usage. Having our own digital assets is playing a very important role in our business. At present, the proportion of transaction values generated on our App has increased to over 30%. The number of downloads has exceeded 260 million. In other words, we have opened 260 million digital stores on the mobile phones of consumers. A very encouraging achievement.

In addition, Customer Mania 2.0 and RGM No. 1 are very important Moats. We have more and more stores. How to serve their needs and how to manage the restaurants are our core competitiveness. And there are two aspects to it.

First, we continue to build our system and training infrastructures. We have developed a customer-centric listening system, which enables us to hear feedback from the customers across all channels, including social media platforms. Using big data, we can better understand our customers’ preferences. We can respond quickly and make improvements. This is what we call Customer Mania 2.0.

Another initiative is RGM No. 1. We rely on our RGMs. They must manage their restaurants well, and their success means the success of our brand. First of all, we are cutting unnecessary KPIs to allow restaurants to be more customer-centric. And meanwhile, we are optimizing restaurant workflows by removing some components that the managers were previously responsible for, such as recruiting and training, in order to release RGMs' capacity to oversee more restaurants. We have also built a platform for communications with RGMs so that we can have more integrated management and quickly respond and address any issues. This enables us to improve efficiency of management as well as improve our services.

Turning to the final part of my presentation, the KFC brand will be opening its 10,000th store in China very soon. As we approach this milestone, we have thought a lot about our future. I'd like to share some of these thoughts with you today.

Looking ahead, we intend to maintain our position as the number one brand in China's restaurant industry. In order to do this, we must maintain our leading market share and continue to lead the industry's development in all aspects including mindset, products, services and innovation.

To achieve this vision, there are three important aspects. First is "Forever Tasty". We are a restaurant. If customers think our products are tasty, we are already halfway towards our goal. Our first priority is classics. We selected nine classic menu items that customers like the best which account for more than 40% of our total sales. These are our legacy. We will continue to create compelling stories for these products to communicate their value, so that consumers, especially young consumers, will remember us.

Secondly, we will also continue to introduce upgrades of these products to maintain their relevance with the customers. While preserving our classics, we will innovate our product offerings, providing a foundation for our brand's ability to remain vibrant. Chicken Taco, Double Down burger, Juicy Whole Chicken — these items that we launched in recent years have been embraced by consumers and have the potential to become new classics. We maintain rigorous quality control of our products from ingredient selection, sourcing, product development to staff training. We deliver the highest quality in every product that we give to the customers.

Our second direction is Forever With You. KFC is not an aloof brand and we aim to keep it within easy reach so that consumers in China can always enjoy our products and services anytime, anywhere.

To that end, we need to ensure two key factors. Affordability is the first. We spend a lot of effort to make sure that our products have an affordable price. In our efforts to expand our price range, we make it possible for consumers with varying purchasing power to become our customers as well. This is the most meaningful form of companionship that KFC can provide for China's consumers. The second is availability or accessibility anytime, anywhere. We have accelerated the pace of store openings, extending our presence in more small cities and business districts. We do

drive-throughs, coffee shops and to-go in order to improve consumer convenience. So whenever consumers have a need, KFC is there.
The third direction is Forever Love and Care. Love and Care are our wishes for the brand's emotional connection, including connections between the brand and consumers as well as employees and partners. We prioritize cultural humility and embrace the diverse backgrounds of consumers and employees. We respect the preferences and choice of our customers. Customer Mania has been our corporate culture for decades. We listen to consumer feedback and innovate and make adjustments in response to consumers' evolving needs. This is our shared mission.
As for our staff and partners, we trust and support each other. In the most difficult years of the pandemic, we did not cut salaries nor lay off employees. We did not default on payables to our suppliers or our rent payments. This demonstrates our commitment and passion for our brand, something that has helped us to get through difficult times. We believe in the power of Care and Love. We believe in the power of a shared vision that fosters a team culture of encouragement and overcoming difficulties to forge ahead.
We are also a socially responsible brand. We have three main themes and five projects in community welfare and social responsibility. First is the Red Heart theme, which includes the Little Migratory Bird program and the Angel Restaurant initiative. Next is the Green Eco-Friendly theme, including little green shops and food station programs. Also we have the Sports theme, which operates teen three-on-three basketball tournaments. Going forward, we will continue to lead our employees and inspire consumers to help us to reach our society's collective goals.
Our team has produced a short video clip to provide a glimpse into our mindset and initiatives for the KFC brand. Please join us in watching this short video.

[video playing]

A few years ago, Joey led us in a reflection and discussion on KFC's development in China. On KFC brand's journey of accompanying Chinese consumers as they grow, we salute everyone who appreciates life with positivity and optimism and who strives to move forward in pursuit of a more joy-filled, better life. Cherishing the beauty we possess and forging ahead with a heart full of love is part of our inherited brand identity and something that we will perpetuate. Looking forward, we will forge ahead with this spirit and continue to give our best in all that we do. Thank you again.

Jeff Kuai, General Manger, Pizza Hut

Thank you Warton. Good day, everyone! I am Jeff Kuai, General Manager of Pizza Hut. Welcome to the Pizza Hut investor update. I am thrilled that we can finally meet in-person this year.

Before I get started, let us kick things off with a short video highlighting some of the exciting developments over the past few years.

[video playing]

Today there are three key messages I want to share with you.

First, after building a strong foundation over the past few years and achieving a number of significant milestones, Pizza Hut is ready to take off.

Second, even with our substantial scale, we see huge opportunity for further growth in the years ahead.

Third, we have a clear strategy to seize the opportunity and get an even larger share of the market.

Next, I will elaborate on these key messages in detail.

Pizza Hut stands as an undisputed leader in the casual dining sector in China, with a strong presence of over 3,000 stores in more than 650 cities. We dominate in all of our core categories: pizza, steak and pasta.

Over the past 12 months, we have sold over 100 million pizzas, 20 million steaks and more than 50 million pasta dishes, far exceeding both our pre-pandemic levels and also other players in these categories in China.

Our strong financial performance reflects our leading position in the market. We now operate 36% more stores compared with the first half of 2019 and we just hit our 3000-store milestone this past April.

Our restaurant margin has climbed to 13.3%, which is higher than pre-pandemic levels back in 2019. In addition, our operating profit for the first half of 2023 also outpaced the same period in 2019 by 14%. Behind these strong numbers is a significant improvement of our brand foundations and overall competitiveness. Customers are acknowledging the improved taste of our food as well as our enhanced value for money. The resilience of our business is also more evident, with the off-premise sales mix up to 46% in the first half of this year from 29% in 2019. Our business has also been transformed to be more digitalized. We now have over 145 million members, more than double that of 2019, and they contributed around two thirds of our total sales. From these figures, it is clear to see Pizza Hut is in good shape and ready to further accelerate our growth.

Looking ahead, we see a huge runway for future growth for Pizza Hut. The Casual Dining sector in China is large yet highly fragmented. As an absolute leader in the sector, our slice of the market is bigger than the next nine brands combined. Despite our leading position, there is still tremendous opportunity for us to gain an even larger share of the market.

First of all, on geographic expansion. Besides deepening our penetration in 650 cities that we are already in, there is more than 1,200 cities in China that have KFC but have no Pizza Hut. Many of these cities are ready for us to enter.

Second, on consumers. While we continue to appeal to families, who are our stronghold segment, we are expanding our focus to cover younger generations and those on a budget.

Third, on products. Besides our core areas of pizza, steak and pasta, we are introducing new items, such as burgers and more coffee drinks, each representing substantial market opportunities.

Lastly, on consumer needs. We are well-known as a place where customers can share a meal together. Now, we are beefing up meal solutions for everyday needs such as individual meals, breakfast and working day lunch. These areas represent relatively untapped opportunities for us to further expand our business.

Our growth-focused agenda aligns with Yum China's overall RGM 2.0 strategy which you heard about from Joey earlier this morning. I will now share more on how we plan to accelerate store development, drive same-store sales growth, and expand our restaurant margin.

I will start with our game plan for footprint expansion. We have accelerated our new store development pace since 2021. Last year, we achieved our highest net new stores since the spin-off, opening more than 300 stores. And 2023 is going to be a record-breaking year for store development. About two-thirds of our recent store openings are delivery-focused stores, which have delivered a stable payback period of 2-3 years even during the pandemic, and the margin of these new stores surpassed the ones we built in 2019.

Looking ahead over the next three years, we plan to add 400 to 500 stores a year, while maintaining a healthy payback period of 2 to 3 years.

Next, I would like to share more on our strategy to accelerate high quality store development. First and foremost, we are deepening our penetration in high-tier

cities. To do this, we will leverage the success of our satellite stores, which have a payback period of close to 2 years, to increase the density of delivery trade zone. This improves our delivery speed and customer experience, helping us to gain a greater share of the delivery market. At the same time, we will introduce a new compact store model which has a selective menu, requires less investment, and has a faster payback period than the standard dine-in store model. The new compact store model will enable us to penetrate into more shopping malls and community centers, providing a good supplement to our satellite stores. Finally, we are upgrading our Standard casual dine-in store model to a fast casual model which will provide faster and lighter service in a comfortable setting. Our goal is to offer customers a relaxed yet inviting dining experience while improving our labor efficiency.
The second part of the strategy involves low-tier penetration and franchising. We are expanding rapidly into new cities, especially those where our sister brand KFC has already built multiple stores and demonstrated strong sales performance. In addition, we are partnering with franchisees to enter into the locations that are not efficient for us to manage by ourselves like remote areas, small towns, or locations that franchisees have more resources to get in, like transportation hubs or touristic areas.

Now let us talk about our strategy to drive same store sales growth. We will focus on five key areas: Reinforcing our Pizza Leadership position, expanding into new categories, occasions, and consumer segments, creating more affordable moments, driving Delivery growth and enhancing Digital Capabilities

I will elaborate on each of these key pillars in detail in next few pages. Let us talk about Pizza first. Over the past few years, we have put in tremendous effort into strengthening our Pizza category. Just a few examples: we introduced hand-tossed pizza, upgraded stuffed crust pizza, and built up our durian Pizza series. In the first half of this year, our Pizza sales rose 56% compared to the same period in 2019. This has been a leading factor in driving same-store sales growth. To continue reinforcing this leading position and drive category growth, we will focus on three key areas: First of all, we will continue to strengthen our Pizza expert reputation with improved taste and more choices. We are upgrading the dough recipes of our Pan Pizzas and Hand-Tossed Pizzas. At the same time, we are introducing a Neapolitan-Style Pizza for customers who are seeking an authentic Italian Pizza experience. Second, we are upgrading our signature Pizzas, like the Super Supreme, to drive repeat purchases. Lastly is to continue innovate new flavors to bring more excitement to our customers. Our newly launched Bolognese Pizza and Durian Lava Pizza have already become instant hits with our customers.

Moving onto our second growth pillar. I would like to share how we are expanding into new categories, occasions and consumer segments. First is product category: We are preparing to launch our new line of burgers, an area where we have many advantages. A large chunk of our existing customers are also burger lovers, making this a natural extension for us. Our burgers will be made-to-order, ensuring unparalleled quality and flavor, and we will do this leveraging our existing restaurant infrastructure and skilled workforce, keeping marginal costs low. We strongly believe burgers will be a key engine for same-store sales growth going forward.

Coffee presents another massive opportunity for us. Starting from this month, we are partnering with Lavazza to introduce premium-grade Lavazza coffee in Pizza Hut. This will nicely complement our current beverage offerings.

Next, we are creating even more occasions for customers to love Pizza Hut. Our upgraded individual-size pizza is a perfect choice for one person meal, fulfilling the needs of solo diners and office workers. We are also enriching our breakfast offerings, maximizing our store utilization while catering to our customers who are craving for our food.

Finally, we are broadening our appeal into more consumer segments. We are strengthening our collaboration with gaming IPs, introducing more trendy toys and pet toys to our customers. Our partnership with Genshin Impact became a phenomenon in the industry not only brought us tremendous new customers and significant incremental sales, but also offered Genshin Impact gamers an opportunity to experience the game better and engage with other players offline better. We are also catering to a growing sector of pet lovers with our adorable pet toy offerings.

Our third growth pillar is value. At Pizza Hut, we strive to offer our customers great food at an even more amazing value for money. To create more affordable moment for our customers: First of all, we are widening our price range to cover lower price tier, enabling us to tap into a broader market to serve a wider range of customers on everyday needs. This move will also allow us to compete more effectively with other players in the market. Second, we will continue to enhance our signature value platforms, such as “Scream Wednesday” and “All you can eat” programs to give our customers more reasons to visit. Lastly, we will continue to create delightful surprises for customers. Our “Buy-one-get-one free” offers and “59 for 2” campaigns have resonated very well with consumers, generating huge social buzz and bringing us significant incremental sales.

Our fourth growth pillar, Delivery, has been one of the most important growth engines for us. In the first half of this year, our delivery sales grew by 68% compared to 2019, with its mix going up from 25% to 37% within the same period. Going forward, we foresee the delivery market will continue the strong growth. Given that pizza is a product naturally suited for delivery, we are well positioned to capture the growth of delivery market. On top of our natural fit for the delivery business, we will focus on two main areas to expand our delivery sales: First, we will continue to improve our delivery experience. We have been improving our delivery speed. At present, we are able deliver orders to customer within 25 minutes after they place the order in twelve Tier-one and Tier-two cities. With that capability in place, we are ready to roll out our 30-minute delivery commitment in these cities. Moreover, a faster delivery time is not just about customer experience, but also to keep the food hotter and therefore taste better, and in return, contributing to a higher rate of return customers. Another focus here is to tailor-made our offers for delivery customers in different regions and city tiers so that the overall attractiveness and repeat purchase of our products will be higher.

The last growth pillar I would like to talk about is digital, which touches all aspects of our business. Our efforts focus on three main areas: First, acquire new members to expand our member base. New members bring us incremental sales, and as customers become our members, we can communicate with them more effectively. Second, we will continue to drive member visit frequency through VIP programs and targeted offers based on their food and value program preference. Finally, we are constantly improving our customer ordering experience. With 92% of our orders on digital channels, every bit of improvement on ordering experience will boost our online traffic conversion rate and bring us more sales. Our approach involves improving system response speed, streamlining the user interface and providing real-time order tracking to ensure a best in class online ordering experience.

To sum up our growth strategy: with continuing efforts on strengthening the core categories, expanding to more, improving value for money, driving delivery growth, and enhancing digital capabilities we are confident that Pizza Hut will generate even stronger sales momentum and enhance our leading position in the market.

In the next few slides, I would like to share some of our new store design concepts we have launched over the past few years. We believe a comfortable restaurant ambience is critical to our customer. We have been launching these new designs on yearly basis to attract new attentions. This is one of our newly launched store design concepts called “Young and Modern.” Here is another one called “City Hangout” With these new concepts, we hope to create inviting spaces for our customers to have their own lasting experiences with their friends and family. So far, 89% of our stores are either new or refurbished with new designs in the past several years, helping to give our customers a great dine-in experience and raise our brand equity.

Lastly, I would like to share our plans to achieve margin expansion. The first element is to reduce the work done in-store. We will reduce duty management and administrative workloads significantly with centralized support. We are moving towards a shared management model, where one RGM is in charge of multiple stores, essentially like our satellite store management model. Further, we will promote more self service facilities in stores. Finally, we will streamline production procedure, and move some of the more complicated preparatory work to central kitchens. With all the efforts I mentioned, we target to reduce the workload in store by 30% over the next 3 years. Second, we will continue to leverage the power of Automation and AI to further improve labor efficiency. So far, we have deployed over 1,000 automatic Stir Fryers and delivery robots in our stores, we plan to double this number over the next 3 years. And we will also implement AI-empowered systems to automate all major restaurant management tasks, from sales forecasting, labor scheduling, inventory management to material replenishment. Lastly, we will move as much fixed cost to variable cost as we can to enable our stores to achieve higher margins even in low seasons. We will substantially increase the percentage of working hour contributions from our flexible crew, and proactively seek variable rents for new stores. As we forge ahead, a guiding principle for us is Respect. We have a deep respect for our employees and RGMs. We actively listen to their feedback, help them solve problems, support their work with technology and constantly seeking ways to take better care of them and their families. We also respect our customers deeply. We have built systems to effectively gather their feedback on different channels, analyze this feedback, respond to them in a timely manner, and ultimately design solutions to serve them better. The culture of "RGM No.1" and "Customer Mania" and the culture of respect and people first are the cornerstones of our business and will enable us to continue to grow big and grow strong. As we focus on propelling our growth, we remain committed to give back to communities and the society. Through our Grow Local Initiative, we actively support training for local farmers, and use locally-grown ingredients whenever we can. We are also collaborating with partners and other brands on initiatives across more than 50 cities to help reduce food wastage, foster good reading habits among children, and take care of stray animals. We will continue to amplify these social responsibility efforts to make a meaningful impact beyond business.

With our solid foundation, huge market potential, and clear strategy in place, we are confident to further accelerate our growth. We are ready to take off, and ambitiously to forge "the most innovative pizza brand in the world." Let us set sail and embark on this exciting journey together.

This concludes my presentation for today. Next, let's welcome Adrian Ding, our Chief

Investment Officer and GM of Lavazza, to give you a quick update on our Lavazza JV.

Adrian Ding, Chief Investment Officer, Yum China; General Manager, Lavazza JV:
Thank you, Jeff. Hello, everyone. I'm Adrian Ding, Chief Investment Officer of Yum China, and General Manager of the Lavazza JV. I'm excited to provide you with an update of Lavazza JV's business development. I'd like to first show you a short video which introduces Lavazza brand, the JV's recent updates, as well as a few words from our JV partner, Lavazza Group.

[video playing]

Thank you. The joint venture between Yum China and Lavazza has made encouraging progress over the past couple of years. Two synergetic growth engines have emerged: the coffee shop business and the retail business. The "coffee shop business" surrounds our own Lavazza stores while the "retail business" involves selling coffee retail products beyond Lavazza coffee shops, namely into other B2B or B2C channels. Since the time we introduced the Lavazza JV at our 2021 Investor Day, our footprint has grown fivefold to reach over 100 stores across 11 cities in China. Our first half revenue in 2023 has also more than doubled year-over-year. On the digital front, we have been improving our digital & delivery capabilities. Approximately 70% of our sales come from digital orders, and 37% of our sales are contributed by delivery. We have also grown our member base to over 2.4 million, which has enhanced our sales resilience. Notably, member sales represent 80% of our non-delivery sales. And loyal members who have transacted five times or more with us contributed around half of our member sales in the first half of this year.

While Lavazza has 128 years of history in its native Italy, it is still a young brand here in China. Since opening our first flagship store in Shanghai back in 2020, we've gained knowledge and insights that are benefitting our continued growth. We have formulated and been executing our four strategic pillars:

First, Brand Building: At this stage of development, growing Lavazza's mindshare among Chinese consumers is critical. We focus on building our brand through our own marketing initiatives - for instance, our "Italian Coffee Icon" campaign, as well as through selected co-branded collaborations.

Second, Menu & Calendar: we have come up with three key themes: "Who We Are," "How We Differentiate," and "Blend with Local Market." I will share some more color of each of these three key themes shortly, as to how they enhance our competencies.

Third, Digital & Delivery: We are building an effective and diversified digital presence, driving repeat purchase among our members, and strive for delivery excellence.

Finally, Store Models: This involves upgrading our store design, improving customer experience, and enhance store economics to foster our winning edge.

And we are confident these four strategic pillars will help us set solid business fundamentals to better position us for future expansion.

Let's now take a deeper dive into understanding each of our four strategic pillars. The first one is Brand-Building. Lavazza is positioned to deliver a unique and authentic Italian coffee experience. We have great brand assets to work with. Lavazza is the original inventor of blended coffee beans, a technique now widely used throughout the global coffee industry. Furthermore, Lavazza is recognized globally as the "Master of Espresso." As Italy's leading coffee company, Lavazza has contributed to building espresso and espresso-based beverages' global popularity. We are leveraging these techniques, we are leveraging these unique branding assets to promote our coffee expertise to our target consumer groups, including white-collar professionals, Gen-Z coffee lovers, affluent middle-class consumers and family-oriented coffee enthusiasts. We aim to offer an accessible premium and contemporary Italian experience that embrace our local consumers.

CASA LAVAZZA is an example of our brand building efforts. This is a unique event we hosted at Shanghai's Sinan Mansions [思南公馆]. The event immersed our consumers in the rich Lavazza brand heritage, and gave them a first-hand and interactive brand experience of Lavazza coffee.

We have also been heightening our brand awareness and exposure through high traffic events such as coffee festivals and music festivals through our coffee trucks and booths. Through these events, our baristas built experiential engagement with large groups of consumers. Beyond our own branding programs, co-branded collaborations are helping to amplify our brand recognition. For example, earlier this year, we had a collaboration with a gaming IP from MiHoYo, Tears of Themis (未定事件簿). The collaboration was a big success. It not only grew our sales and recruited a meaningful number of new members, but also generated significant social buzz among young consumers.

Next month, Lavazza will sponsor the Rolex Shanghai Masters, which is one of the top global tennis tournaments. To promote the event, we will launch sports-themed coffee drinks in our coffee shops and associated campaigns, including offline events featuring offline customers and global tennis stars. We will also be the exclusive coffee service provider on site at the tournament. Overall, we are investing in and shaping our brand in China in a holistic way through four aspects: First, products with high quality and perceived value, second, customer-centric service, third, cozy and contemporary Italian store experience, and lastly, brand communication that conveys our brand essence and activates consumer engagement.

As evidenced by our leading consumer feedback ratings across all major third party platforms, you can see that all of the above aspects are helping us win over consumer recognition, build our brand equity and effectively grow our business.

Now we come to the second strategic pillar, which is menu & calendar. This is critical to win in a competitive market. We have identified three key themes in this pillar: Who We Are, How we Differentiate, and "Blend" with Local Market. Who we are: This reinforces Italian-ness as Lavazza's identity. For example, via our cappuccino campaign this spring, on social media platform, we became a consumer top-of-mind choice for cappuccino, a symbolic Italian coffee drink.

How We Differentiate: We leverage our coffee expertise and authentic Italian experience to win over our consumers. One example is our KAFA bean. It is a unique single-origin Arabica bean coming from Ethiopia, which is considered to be the first coffee on earth. This product has earned rave reviews from our consumers for its high quality and great taste.

Third, "Blend" with Local Market: We do this by selling innovative coffee drinks and delicious food that tailor to local taste buds. When it comes to how we execute all of these, we adopt an approach of moving from "Me-Also," to increasingly, "Me-Better," "Me-First" and "Me-Only." We provide a wide assortment of products including market favorites and those that we add our special Italian touch to create a captivating new twist. We also capitalize our Italian identity and Lavazza heritage to develop unique winning menu items and calendar ideas.

Next, Who we are: authentic Italian-style products effectively convey our Italianness and Who We Are to our consumers. A great example is our Tigelle sandwich. This idea comes from an authentic Italian food coming from northeast Italy called Tigelle. Interestingly, it looks very similar to a traditional famous Chinese street food coming from Xi'an, called Rou Jia Mo (肉夹馍). Products like this enhances our Italian identity while also bridging perfectly to the local market.

How We Differentiate: Lavazza's high-quality beans and blending expertise enable us to launch various beans regularly — each with a different flavor note and a unique story to tell. Roma beans, one of our signature beans tailored to local consumers' taste, is a great example demonstrating our state-of-the-art blended coffee techniques. Yunnan beans are the first bean Lavazza has sourced from China. And we are exploring to potentially bring Yunnan beans to the world by potentially adding it to Lavazza's global procurement.

Critical to our uniqueness, our product presentation aims to demonstrate traditional Italian coffee rituals. For example, dipping a croissant into coffee is a distinctly Italian way to enjoy coffee – in Italian it's called "inzuppo". Communicating these types of coffee and food ritual differentiates us from competition and bring our brand story to life for our consumer in a very real way.

Thirdly, Blend with Local Market. While authentic Italian-ness is part of our strategy, we strongly believe that it is important to offer products that cater to local consumers' preferences. With this in mind, we add elements such as "buffalo milk" and "coconut" in our drink products. And these products have effectively enhanced our sales performance. For example, the "buffalo milk" series coffee drinks have added double-digit percent of incremental sales in the first month after launch last year. On food, we innovate with similar approach. We sell Bignola, this is a kind of Italian-style puff, but we sell it in packaged retail format so we can better tailor to local consumer's delivery and take-away needs.

Let me now introduce to you our constantly improving Digital & Delivery capabilities. We leverage private domains and online traffic-driving channels to recruit new members and drive repeat purchase. Our digital engagement is further enhanced by ecosystem partnerships spanning delivery aggregators and other major digital channels. Now, we have over 2.4 million members and we focus on building membership value and long-term brand loyalty. Member sales represent 80% of our non-delivery sales, and as we mentioned, loyal members who have transacted with us 5 times or more will be around half of our member sales. In addition, delivery has contributed around 37% of our overall sales in the first half of this year. Lavazza is committed to provide our consumer with an unparalleled experience. We are systematically enhancing our digital outreach while strengthening our digital infrastructure. One example of this is our Mini Program. With just a few simple clicks, consumer can tailor their coffee drink to their own specific preferences. And in addition, our specially designed user interface demonstrates Lavazza's unique brand story and our fine selection of coffee beans. Beyond this, we are also utilizing social media platforms such as Dianping and Douyin to bolster incremental sales. Various coupons and live-streaming initiatives nicely extend our touch points with consumers and effectively covert them to our private domain.

With off-premise consumption booming across China, delivery is a key growth driver for us. Delivery sales mix was up by 6ppts in 1H 2023 compared to the same period in 2021, and accounts for 37% of our sales. More importantly, our ratings on third party platforms excel over other major chain coffee brands. To further drive our delivery sales, we will continue working very closely with delivery aggregators. And at the same time, we are further enhancing our digital and operational capabilities to continuously improve our delivery experience.

To create a memorable experience for our consumers, store model and design are critical elements. We have constantly evolved and enhanced our store models. Our journey started with Store model 1.0, where we explored a classic Italian ambiance. Building upon this foundation, we rolled out Store model 2.0 last year, distinguished by its contemporary Italian design and elevated consumer experience. Importantly, with our Store Model 2.0, we successfully reduced capital expenditure per store by more than 20%. Our pursuit of excellence in both consumer experience and cost efficiency has led to our latest iteration, Store model 2.5. During the first half of 2023, the new openings from this period adopting this new model have demonstrated better unit economics compared to the overall store portfolio, yielding a meaningfully improved store-level UC margin. Lavazza now offers four distinct store formats catering to a variety of property settings. We conduct our store rollout using a pyramid portfolio strategy, carefully shaping distinct positioning for each of our store model.

To illustrate this systematic approach, our Flagship & Large stores serve as iconic branding in prime locations, while Standard and Compact stores play a crucial role in adding density in core areas of cities. Additionally, our presence extends to office and community spaces via our Lobby store format. And we have developed beautiful new store designs that resonate with our consumers. With its mix of contemporary Italian design, iconic visual elements and coffee credentials, our design emphasizes the charm and history of coffee while telling the unique story of Lavazza’s pioneering role in the coffee world.

I welcome you to visit our stores and experience for yourself how our stores use design and environment as important touchpoints to make our brand story resonate with consumers.

As of today, we have entered 11 cities across China with over 100 stores. Our current footprint brings us closer to more customers than before and further strengthens our growing brand awareness. As we continue to grow, we plan to both increase store density in existing cities as well as entering into new cities with high consumption capacity.

Here comes our second growth engine, Retail. Retail is the other engine to drive our business growth. A key asset in this growth engine is Lavazza’s position as an iconic Italian brand in coffee, widely recognized in the roast & ground, and capsule coffee categories. We have established distinct routes-to-market by growing our e-commerce business, as well as fostering a close collaboration with premium to-B partners, including upscale hotels, fine dining establishments and various retailers across China. As we continue to build this engine, we will introduce more product categories tailored to the local Chinese retail market. We hope to make Lavazza a meaningful and cherished element in the daily lives of coffee lovers across China.

In conclusion, I want to reiterate our excitement and passion for Lavazza. Through our "Four-Pillar" strategy, we will continue enhancing our fundamentals and grow the business. Looking ahead, we aim to achieve 1,000 stores in the next 3-5 years, and become a leading experiential coffee brand in China.

Thank you very much for your attention.

Leila Zhang, Chief Technology Officer, Yum China:

Welcome back. Hello, everyone. I am Leila Zhang, Chief Technology Officer of Yum China. As you may know, in the restaurant industry, Yum China has always been a leader in digital innovation. We have always regarded digitalization as an important strategic Moat. Just now in the KFC, Pizza Hut and Lavazza presentations, you learned that how we continue to make investments in digital platforms, delivery, and membership. Today I am very happy to share some of our achievements and plans for Digital.

In the past two years, we have further improved our digital customer experience ecosystem, consisting of our Super Apps, mini programs, membership, and third-party channels. Our total number of members now exceeds 445 million with digital orders accounting for approximately 90% of company sales. At the same time, the market conditions during the past two years experienced significant changes and consumers consumption behaviors has changed correspondingly, putting forward more requirements for digital capabilities.

The following video introduces our fundamental end-to-end digital capacity building, which has further unlocked the potential of digitalization.

[video playing]

As introduced in the video, we combine smart hardware with data and AI capabilities to open up the end-to-end digital capabilities from farm to customer. Thus, we are able to widen and deepen the digital and intelligent moat while empowering both our business and partners, such as franchisees and suppliers, to form a closer ecosystem.

Today I will share a few notable cases. The first is intelligent store management, which makes store operations more efficient; as well as the smart supply chain from farm to table. The second is the digital franchise, which helps the rapid expansion of our franchise business. And finally, all these digital capabilities are built based on a unified Yum China cloud infrastructure.

Let us go through each of these cases in detail. First, a very important part is our “from farm to store” digital and intelligent supply chain. The following initiatives are included: We have further advanced technologies such as RFID and IoT to enable automatic inventory checking and monitoring in an efficient way, accurately identifying products, and helping to reduce human error.

Our smart replenishment system reduces the risk of inventory losses while ensuring we can meet sales requirements. In particular, for new products, we can make our sales forecasts (for inventory needs) more accurate. It greatly enhances testing efficiency and empowers faster product iterations.

With our supply chain control tower, we can integrate core suppliers, logistics, and store data, enabling more intelligent decision-making.

Leveraging a knowledge graph algorithm, our AI-powered food safety risk monitoring system proactively identifies and mitigates risks based on big data of food safety, significantly improving food safety control efficiency.

Intelligent store capabilities have systematically improved restaurant management efficiency. Starting from 2016, the number of store counts has increased by 80% while our employee headcount has remained relatively flat. Combined with the efforts of all our colleagues, a number of digital tools empowering our restaurant management teams have helped to make that possible:

Firstly, AI-enabled operation analysis. We have introduced AI-assisted decision-making. Based on the big data we have accumulated, we have can use AI for sales forecasting, inventory replenishment and labor scheduling, enhancing our operational efficiency while enabling us to analyze the opportunities to reduce cost and enhance efficiency.

Next is remote supervision. The restaurant management team can supervise operations at their stores remotely to expand management scope and improve operational efficiency.

Thirdly, Intelligent monitoring. This is based on a visual recognition system. It includes unmanned security, unmanned delivery and product quality recognition, etc. The system helps to reduce repetitive and manual tasks while enhancing quality control efficiency and reducing the complexity of our work.

With these digital tools, our initiatives such as store management team sharing, flexible employment, and centralized management are proceeding as planned,

collectively supporting our rapid store expansion.
With franchising becoming an increasingly important part of our business strategy, “digital and intelligent” also means supporting the rapid growth of our franchise business — elevating store opening capabilities via improving franchise management capabilities, optimizing franchisee management and ensuring consumer experience.
We have launched an all-in-one franchise portal which integrates various functions from franchisee selection to store opening, training and operations. This enables a turnkey experience for franchisees, reducing the complexity of store openings while ensuring unified operational and management standards for both self-operated and franchise stores. Currently, this App covers KFC and Pizza Hut franchisees.
In addition, Huang Ji Huang and Little Sheep, our two Chinese dining brands, adopt a franchise-based model. Adapting this model for Chinese dining, we have upgraded our cloud-based POS systems, developing the Wukong(悟空) cloud-based POS and the Zhang Gui(掌柜) all-in-one Pocket Manager for our Chinese dining franchisees.
All of our digital and smart capabilities are inseparable from the support of our Yum China Cloud infrastructure. As one of the earliest enterprise cloud platforms in China, the Yum China Cloud project has completed the first phase of its development and construction.
Our transaction volume is large and has high degrees of fluctuation. By integrating public and private cloud capabilities, the Yum China Cloud is capable of supporting peaks of transaction volume one after another. With mass demand from our customers, the Yum China Cloud supports agile iterations of systems and products while its service level achieves an industry-leading 99.99% ensuring seamless user experience online. At the same time, the Yum China Cloud has organically combined multiple clouds and therefore helps to control costs effectively.
In addition, a comprehensive multi-dimensional security service system is embedded in the Yum China Cloud. With content security, data security, network security, and system security all covered, we are able to ensure the secure development of our business.
Since 2016, Yum China has always been at the forefront of digitalization and intelligence. We constantly apply new technologies to improve customer experience and store operation efficiency, facilitating the rapid growth of our business. Ahead to the future are the rapid advancement of new AI technologies such as large language models and generative AI. Yum China is fully embracing this new era of AI. On top of our existing decision-making AI capabilities, we are introducing new generative AI capabilities. This will enable our company's intelligent capabilities to rise to the next level.
Now, I would like to share some of our thoughts in AI technology application. AI will

reshape our entire customer journey in member services, ordering, and delivery, and customer service. Decision-making AI has already promoted sales through recommended ordering, as well as optimized delivery routes.

Going forward, we will use AI-generated content (AIGC) to improve customer experience. We will use the latest AI technology to innovate new business scenarios and solutions, such as media creatives generation, digital avatars, live streaming, and customer service, to enrich customers' experience in Yum China's various brands and create an “intelligent dining brand” perception.

For store operations, we will upgrade Pocket Manager, which will integrate more generative AI capabilities. We will upgrade to AI plus Smart store assistant to improve the working effectiveness. There are three aspects here:

The first aspect is analysis to action. Super Brain is a strong analytical tool. However, it cannot speak natural language. Generative AI [AIGC] will help to formulate action guidelines for store operations. AIGC can speak natural language and provide operators with more accurate analysis and insights. The second aspect is “from silo to integration”. Generative AI can empower not only employee recruitment, training, evaluation, promotion, as well as store operations. We can realize a closed loop of store management. The third aspect is to combine generative AI and decision-making AI technologies to explore new business scenarios that include proactive equipment maintenance, dynamic business district planning, etc.

In an era of big data, data is a core to link the value chain. In this new era of AI, unstructured knowledge together with structured data will become the key to empowering our ecosystem. This will happen in three steps:

First, we will build in-house large language models. These AI capabilities will be upgraded to help us understand better business needs and scenarios.

Second, generative AI will expand more scope for innovation to empower our employees, franchisees, as well as suppliers and partners to improve the whole ecosystem capability. We will also establish the company’s knowledge base and ecosystem knowledge base. We will synergize unstructured knowledge and structured data to create greater value together with our partners.

We are full of confidence to develop these AI-empowered business scenarios. Our confidence comes from our company's persistence in developing core digital tech capabilities. In Shanghai, Nanjing, and Xi'an, we have a large number of digital data and AI experts. They represent the best in-class digital assets of the company.

A notable example is the Yum China Digital R&D Center established in October 2021. In just two years, this team developed phase one of Yum China Cloud. We also have built a lot of mid-offices for recommendation (大千), delivery （孔明）, operation

（子牙）, as well as engineering（鲲鹏）.

R&D capabilities alone are not enough. We also have technical capabilities through our Digital Service Center. I welcome everyone to visit our Xi'an Digital R&D Center as well as the Digital Service Center office to closely observe more about these digital capabilities that we have.

In summary, our AI capabilities and positioning for the future can be summarized with “AIGC”:

A stands for agility. The market and businesses are always changing. We will upgrade and iterate our AI and digital capabilities to ensure that the latest AI capabilities can help us to create business value efficiently.

I stands for integration. We will integrate generative AI, decision-making AI, and a company-wide knowledge base, among other relevant technologies, to build Yum China's AI capability system and realize the complementarity and synergy of different technologies.

G stands for generality. We will build our mid-office capabilities and build general AI capabilities. For new business scenarios, existing AI solutions can be quickly repurposed and applied. This will propel business innovation in a more efficient way.

C stands for collaboration. We will continue to work with industry-leading AI providers to test and adapt the latest AI technologies and adapt them to business scenarios. We will be a pioneer in the technology-empowered catering industry.

The new era of AI is coming. In the future digital blueprint of Yum China, AI will act as an important cornerstone. We believe that through strategic investment in AI and other cutting-edge technologies, we will further revamp customer experience, improve employee working efficiency, and fortify our ecosystem together with our partners. The digital Moat will be wider and deeper. With the empowerment of advanced technologies, we will steadily move towards the milestone of 20,000 stores.

It's been a pleasure to share with you today some of our thoughts on digital capabilities and I hope to have more opportunities to communicate with you. Thank you. Next, I would like to invite our Chief Supply Chain Officer Howard Huang to the stage.

Howard Huang, Chief Supply Chain Officer, Yum China:

Thank you Leila, and good morning ladies and gentlemen, I am Howard Huang. I have served as Yum China’s Chief Supply Chain Officer since 2021. Previously, I was KFC’s Market General Manager for more than 10 years. I also served as Pizza Hut’s Regional

Vice President for 3 years. It is my great pleasure to present this overview of our supply chain ecosystem to you today.
Yum China operates a robust and integrated supply chain which has been built and refined over the past 30-plus years. Our supply chain function covers a wide area of responsibilities, including food safety, procurement management, food innovation, logistics, engineering, sustainability and supply chain strategy. We have fostered a working environment of respect and trust that has enabled us to solve many challenges together and achieve growth. To provide a better understanding of our strategy, we have prepared a short video. Let's take a look.

[Video playing]

As Joey mentioned earlier, our goal is to reach 20,000 stores by 2026. To achieve this, we have developed four strategic pillars to better support the development of our brands: including food safety, innovation, efficiency and sustainability. Over the years, we have achieved consistent quality results through building a holistic food safety quality assurance management system. This system covers the entire value chain, from farms to stores. It leverages various digital tools to help control and monitor potential risks and raises alerts to enable pre-emptive actions. Importantly, through digital data collection, we can help our suppliers and operations teams optimize their processes and improve performance.
Another critical part of what we do is cost management. As Joey mentioned earlier, we've maintained a stable COS ratio over the past few years, and the slide shows just one example of the results we have achieved. A few ways that we mitigate cost inflationary pressures include proactively managing end-to-end processes, working with upstream suppliers and continually optimizing the cost of our products and logistics infrastructure. In these areas, what sets us apart is our strong innovation capabilities and the creative utilization of materials. This allows us to provide more choices to our customers, and improve customer experience, and accelerate our brand growth.
One example is what we call "full chicken utilization." Through new processes, we better utilize various cuts and parts of "White Feather" chickens in products for KFC and Pizza Hut. By doing so, we can provide our customers with more product choices at lower prices.
Take one example as Warton mentioned, the Golden SPA chicken burger. We redesigned all parts of the whole chicken to help maximize yield and achieve cost efficiency. And we then used our unique recipe combining rolling and tumbling processes to make the meat juicier and more tender. Moreover, we are increasing

the use of other chicken types. For example, KFC’s Juicy Whole Chicken, one of our rising star products, uses a smaller chicken called “817.” Our Whole Chicken innovatively combines two different cooking processes – steaming and light frying – to seal in natural juices and lock in flavor. Our customer feedback has been very positive, and about 36 million chickens were sold in the first half of 2023.

Another product we are serving in Pizza Hut restaurants is chicken soup. We creatively leveraged layer hen’s breeding cycle and developed the soup with our egg suppliers. Chinese consumers consider chicken soup to be highly nutritious. By serving this product at a reasonable cost, we can provide our customers with high perceived value, leading to a better overall dining experience.

Let’s turn now to how we will invest to further improve our supply chain operational efficiency. The investment will mainly focus on three areas: intelligent network, automation and infrastructure. About half of the investment in supply chain will be spent on logistics and the rest is planned for other capability development, especially on product innovation and central kitchen. Recently we invested in a production facility of a strategic seasoning supplier to further deepen collaboration in product innovation.

An important initiative we are working on is intelligent network planning. We started this project with the opportunities that arose during the pandemic. During this time, when our regular truck transportation routes were not available to ship materials, we came up with an alternative solution — using railway and sea freight as backup channels. Multimodal delivery adds flexibility to our network. This involves strategic site selection and coordination with suppliers and vendors to shorten transportation times and distances and achieve cost savings. Going forward we are planning to co-develop logistics centers and food industrial parks together with suppliers and other strategic partners to further streamline operations and reduce transport costs.

We have implemented a diverse array of automation solutions at our logistics centers. The high density four-way shuttle system at our Xi’an logistics center is expected to increase storage capacity by 50%, shorten delivery time by 51% and improve operational efficiency by 45%. Many of you will visit there this afternoon.

We also plan to install an industry-leading automated storage and retrieval system at our Shanghai Nanxiang Logistics Center. This will better leverage space and support our chicken stock needs. With our logistics infrastructure, we are planning ahead to support our brands’ accelerated growth. Our current network covers the stores in more than 1,900 cities and towns, with capacity to cover more than 3,000 cities and towns. With our long-term growth in mind, we plan to reach 45-50 logistics centers in the next 3 to 5 years, aiming to cover more than 5,000 cities and towns to reduce service lead time and transportation costs. About 30% of these logistics centers are expected to be company-owned. Company-owned infrastructure helps us better adopt customized technology and automation solutions to support our long-term development. It also helps us meet our sustainability goals, like our Nanning, Guangxi logistics center which is now operating on 100% green power.

This leads us to our last pillar, sustainability. We are working to protect the planet through a more sustainable supply chain as we continue to grow our business.

As Joey mentioned, we are focusing on three priorities on sustainability: such as climate action, circular economy and upstream collaboration.

Under climate action, technology tools, such as Kitchen Internet of Things, are now used to improve energy efficiency for Scope 1&2 emissions. We are rolling out this project nationally, and expect to cover 500 stores by the end of this year; and projecting to save 3% energy per store.

We are accelerating our green energy transition. The Nanning Logistics Center is a good example. By leveraging virtual power purchase agreements and installing solar panels on future new logistics centers, we will power more stores & logistics with green energy.

For Scope 3 emissions, we successfully launched a Yum China Supply Chain Distributed Photovoltaics and virtual Power Purchase Agreement Alliance, with more than 40 key suppliers. The objective is to speed up their transition to green energy at competitive costs through collective purchasing. Our circular economy efforts focus on reusable packaging and waste recycling, while also achieving cost savings, which I will explain this a bit more on the next slide.

Here are some examples of our efforts to reduce waste and recycle more. For waste recycling in stores, we have converted over 3,000 tons of used cooking oil into biodiesel as of 2022. This translates to 9,000 tons of greenhouse gas emissions reduction. At the same time, we also had a successful pilot run to fuel our logistics fleet with biodiesel in Shanghai logistics centers. We also partnered with a local company to recycle packaging waste for the Shanghai market following a successful pilot project with 66 stores at the end of last year.

In selected KFC stores, we have introduced a new serving basket and tray to replace original plastic ones. Believe it or not, they were made with 10% coffee grounds recycled from our Shanghai KFC stores. As a next step, we are in the process of rolling out these baskets and trays to more stores.

At the same time, our team is proactively exploring new business opportunities with existing resources and capabilities. One new stream we are offering is providing supply chain services, such as logistics services, procurement and other sourcing and quality consulting services to third parties. We doubled the revenue from such a

stream in 2022 and expect to further grow the business in 2023.
With industry-leading infrastructure, a high level of efficiency, innovation and cost management capabilities, along with a world-class team, we are well-positioned to support our continued rapid growth towards 20,000 stores in the next three years.
Now, please welcome our Chief People Officer, Mr. Jerry Ding to the stage. Thank you.

Jerry Ding, Chief People Officer, Yum China:
Thank you Howard. It is a pleasure to be here with all of you today. I am Jerry Ding, CPO of Yum China. First of all, I would like to take this opportunity to express my sincere gratitude to our people at Yum China, for their dedication, commitment and service that have helped us navigate all the challenges of the past three pandemic years. Their strength and resilience really have been pivotal to us, emerging here today a much stronger and more agile company.
As we look into the future and reaching our ambitious goals, our people will continue to play an instrumental role to us. Our future-ready people strategy boils down to two key components. First, building a sustainable workforce that supports the company's future growth. As we strive towards 20,000 stores, hiring, training and retaining a highly operative and efficient workforce is critical.
Second, ensuring we have the mechanisms in place to properly incentivize and energize our people; keeping them engaged and united in purpose. Making sure everyone is aligned with our mission and vision. So, to reach our goal of 20,000 stores by 2026 means we will need to staff and support around 50% more stores than we have today.
On the other hand, we must navigate an increasingly complex environment with a declining birth rate and a highly competitive labor market. Our frontline, like our restaurant general managers (RGMs), is the key to address this. Since last year, we have initiated a centralized recruitment process. This frees up RGMs from spending significant amount of time on recruiting, so that they can focus on other tasks such as customer experience and driving sales. In addition, with the help of digitalization and automation, we have been enabling more of our RGMs to manage multiple stores. At KFC, for example, a single RGM can now manage three restaurants, instead of one-per store. We are also rolling out this approach at Pizza Hut and in our emerging brands. Results are actually very promising. Simply put, we won't need 20,000 RGMs when we reach 20,000 stores.
As you can see here, a range of digital tools allow us to implement our multiple-store management model while upholding high operation standards. Pocket Manager and

Super Brain are a few examples that Leila has just shared. These help our frontline employees optimize workflows and streamline operations. At the same time, we have enhanced the visibility of store operations. This allows our RGMs and management teams to make smarter and timely decisions.

We have also invested in technology to accelerate our recruiting fulfillment pace. With a scale like us, we receive around 300,000 CVs just for one position alone, our Operations Management Trainee. Imagine how much effort we would need to do the manual screening of these CVs! So to better enable our teams, we have deployed AI technology to assist with initial screening, interview scheduling, and even interviews. These innovations have provided us with our candidates with an improved interview experience. They have also shortened our lead time to fill the positions. We can now extend an offer within just five days from the moment we receive the CV. This is a significant 60% reduction from the previous average of 12 days.

We are now also exploring AI-generated content, or AIGC. This holds potential to enhance operation efficiency, improve our service, and provide our employees with a more personalized at-work experience. We are now exploring how AI applications can embed in our recruiting process and learning and development programs, providing us with enhanced insights to really step change our HR function in the future.

So, while maximize our productivity is important, it must never come at the expense of delivering exceptional customer experience. To that end, we have invested extensively in training to continuously improve the skills of our people so that they can serve our customers with excellence. Our training outcomes clearly show the results here, with our brands continuing to be highly rated by customers for guest experience.

We are committed to hiring and developing the best people to work at Yum China through industry leading care programs, competitive salaries and clear career paths. We have a robust talent develop strategy in place to build our leadership pipeline. Our career planning program is systematic and transparent.

At Yum China, we see the value in promoting from within. 100% of our market general managers are home-grown and promoted from within the company. The average tenure of these senior leaders in their operation teams exceeds 20 years. Some of our senior leaders, including Warton and Howard who you just met, started their career as Operation MT some 20 years ago. This practice supports our goals in building a sustainable workforce, ensuring we have high caliber talent at all levels.

Now that we have talked about building a sustainable and high-performing team, let’s talk about how we motivate and engage our over 430,000 employees towards our common objectives. Like Joey said, that can be summarized in our people

philosophy: Fair, Care and Pride.
Fairness and inclusivity are fundamental to our core values. At Yum China, over 50% of our employees are female. We also strive to provide people with disabilities not only career opportunities but also the dignity to make a lasting contribution to society. We were one of the very first in the industry to launch 'Angel Restaurants,' helping employees with disabilities to gain useful professional skills. We’re also expanding investment in education to encourage our employees to pursue higher education. We provide them with necessary resources and support. Our "Pursue Your Dream" program has supported over 5,000 employees in realizing their goals.

We are proud to offer one of the leading employee care programs in China. During the pandemic, we upgraded the medical insurance coverage of our restaurant management teams in appreciation of their services. Notably, this includes up to 1 million RMB in medical coverage for RGMs and free critical illness medical coverage even for their parents. This gives our people a peace of mind, knowing their families’ well-being is secure. They are focused on work responsibilities and better serving our customers.
Our RGMs are also our shareholders. We have launched equity incentive plans so that we can share our growth of business with our motivated and talented employees.
These initiatives have been well received by our employees. Our RGM turnover rate was 9% in 2022, one of the lowest in the industry. This stability has helped us create an anchored environment, and also contributes to the growth of high-performing teams.
Providing volunteer opportunities for employees to give back to the society is really fostering a sense of personal pride. Charity programs like One-Yuan donation are deeply rooted in our culture. This is the 16th year of this program and it is very well-known among our employees. Additionally, our people are engaged in a range of volunteer initiatives, such as mentoring teenage students, providing aid for disaster areas, promoting safety education for the public, and many others.
Last year our employees collectively volunteered over 4 million hours in various projects. I think one moment that stands out in my mind and perhaps for all of us in 2022 was the feeling of pride when we offered eight of our KFC 'angel employees' the opportunity to support the Beijing Winter Olympic Games on behalf of Yum China. They provided catering service to athletes from all over the globe, demonstrating the Olympic spirit and our brand vitality.
Our efforts to care for and engage our people have been constantly recognized. In the past five years, we have been ranked as Top Employer and ranked as the first in

the industry in the past two years (2022-2023). We are proud of what we have achieved and we will continue this momentum going forward.

So, in closing, our people are the foundation of our business. They represent a strategic moat that enables our resilience and growth. Our journey in building a future-ready people strategy is characterized by a clear vision, technology innovation, and a steadfast commitment to our people’s well-being. Through this collaborative approach, we will ensure robust, sustainable growth while setting new industry standards for excellence. Thank you all. And now let’s welcome our CFO Andy Yeung to the stage.

Andy Yeung, CFO, Yum China:

Thank you Jerry. It is really good to see everyone here. My name is Andy Yeung, CFO of Yum China. My heart is racing. I’m sure it’s because I am very excited to see you all here today, or maybe it’s because Lavazza’s coffee is kicking in right now. Again, thank you for joining us on our Investor Day in Xi'an today. As you have heard from Joey and our other team members, we have very exciting initiatives to capitalize and drive growth in the coming years. Now, without further ado, I would like to share more with you on what they mean in dollars and cents and how finance can help our company’s strategy.

Now, let’s get started with a recap of our current performance. As Joey mentioned in her presentation, we have emerged from the pandemic stronger and better positioned, ready for growth. This is reflected in the significant improvement on almost virtually every metric – from store count to revenues, to our operating profit, to our margins. Now if you look at it on a yearly basis and also on a comparison to our 2019 first half, you will see that we have improved on almost every metric. Now, with the reopening from the pandemic, our RGM strategy is transitioning from an emphasis on Resiliency to one on Growth.

Our RGM 2.0 strategy focuses on three key areas for growth for us: expanding our store network and footprint, increasing sales, and also boosting profits.

First, let’s talk a little bit about our store network expansion. We’ve set, as Joey mentioned, an ambitious goal to reach 20,000 stores by 2026. This objective is supported by a number of strategic factors: 1) We plan to take advantage of the still very robust economic growth in China. 2) We have identified considerable white space, untapped markets for further expansion. 3) Our innovative models, as Warton and Jeff and Adrian have mentioned, we have a lot of innovative store models coupled with our diverse brand portfolio, which really place us in a very good position to satisfy evolving consumer demand.

4) Our strategic franchise partners are expected to play an even bigger role in our expansion in the coming years. We expect for them to account for about 15 to 20% of our new store openings in the next three years.

Central to our store footprint expansion is to identify areas with strong growth potential. Currently, we've identified over 3,000 cities, which is about 300 more than we have identified just two years ago. The key factors that would increase the number of stores in cities and towns, where our brands can potentially operate, include: economic growth, our new store format, and also our restaurant unit economics. Out of the 3,000 cities that we have identified, KFC already has a presence in 1,900 of them. And there are still over 1,100 cities that remain untapped by KFC.

The opportunity for Pizza Hut is even more pronounced. More than 1,200 cities currently have a KFC, but not a Pizza Hut. Regions like Jiangxi province, with faster economic growth but low brand penetration, offer tremendous growth opportunity for us. Furthermore, if we look at the top-tier cities and regions like Shanghai and Jiangsu province, our focus shifts to increasing our network density. By doing so, we can cater to the rising demand for off-premise dining and benefit from the network effect from having a denser store network.

Not only we are expanding our footprint, but we are also ensuring the quality of our new store openings. Both KFC and Pizza Hut boast fantastic unit economics and store payback, particularly for the smaller models.

Now, if you look at the cash payback periods for our new store openings, we have been relatively consistent over the years, roughly 2 years for KFC and 3 years for Pizza Hut. Smaller models for KFC offer a compelling payback period of 2 years and cash margins of about 21%. Now, Pizza Hut's satellite store model also offers a fantastic payback period of 2 years and a cash margin of 16%. This success comes from our consistent and disciplined approach to store opening. These innovative store models require lower upfront investments, therefore unleashing significant growth potential for our brands. This is especially true for Pizza Hut, which saw a significant ramp up in new store openings, from 41 in 2019 to more than 300 last year alone.

Now, besides of store openings, same-store sales growth is another key driver for our overall sales growth. Even with the fast-paced store expansion, we generated an average of ~2% SSSG before the pandemic. While we have bold objectives for store openings over the next three years, we also have strategies and initiatives in place to offset the impact of the fast pace of store openings and more importantly to drive positive same-store sales growth in the coming years. Warton and Jeff have already gone through them in detail, so I will just highlight a few key points here:

Food Innovation: Good food attracts customers. We will continue to innovate in our

new product introductions, introducing new delicious dishes to our consumers; enhance our signature dishes; and widen our price options so that we can appeal to a broader consumer base.
Brand Engagement: Our brands resonate well with consumers. Many of our marketing campaigns like "Crazy Thursday" have gone viral online.
Convenience: To cater to the increasing demand of speed and ease for our customers. Our goal is simply to be there whenever and wherever our customers need us.
Customer Loyalty: Retaining customer loyalty is very crucial to us. We're utilizing our advanced digital infrastructure to broaden our membership base, promote cross-brand selling, and to increase the purchase frequency and also spend by our members.
Our emerging brands are very important to our future growth, They are also making very encouraging progress at this time. Collectively, our emerging brands operate around 1,000 stores. A little more than three years since its debut in China, Lavazza has just recently celebrated the opening of its 100th café. As Adrian mentioned earlier, Lavazza is on a solid trajectory, making good progress on brand recognition, product development, and store formats, with all that leading to better unit economics and sales. We are confident that Lavazza will become one of the top coffee brands in China.
Taco Bell also recently celebrated its 100th store this year. We are pleased with the momentum and also the customer buzz that was created by our Taco Tuesday campaign, which featured NBA star LeBron James.
Meanwhile, our Chinese Dining Business overall is making good progress and had a strong recovery this year and became profitable as well. Huang Ji Huang remained profitable throughout the pandemic. And we are seeing a further improvement in its sales and also its franchise store growth.
Little Sheep continues to make progress in its turnaround and is recovering in same store sales. It is getting close to breakeven in the first half of this year.
Our emerging brands, as I mentioned before, are very important to our future growth. And so, we will continue to invest with discipline in our emerging brands, investing a small percentage of our operating profits into the operation of our small brands.
Now, let's talk about profit growth. We've worked hard over the past few years to restructure our cost base and it paid off. Compared to the first half of 2019, we reduced the top 3 store-level fixed costs by 20-25%. We expanded our restaurant margins by 160 basis points and meaningfully lowered the breakeven sales, therefore enhancing our overall business resiliency and opening up more room for further development. More importantly, we did it by rebasing our cost structures that

benefit our margins in the long run. For example, by improving cost structure. By introducing store management team sharing initiatives, we empower our capable RGMs to manage multiple stores. Secondly, by enhancing our labor productivity by investing in digital infrastructure. Thirdly, by optimizing depreciation by reducing upfront investment per store. Lowering rental costs by securing more favorable rental agreements and also shifting more fixed rental costs to variable costs.

Certainly, as the leading restaurant company in China, we face some potential challenges in the long run, like rising commodity prices, increasing wages, and challenges in hiring and retaining quality staff. But as we have demonstrated over the past few years, with hard work and innovations, even in very challenging times, we can sustain and even improve our margins over time. We aim to keep our Cost of Sales and our Cost of Labor as a percentage of revenue stable while we work to improve on our operational leverage in our fixed costs and expenses. Now, to achieve these goals, we will continue to focus on product innovations, labor productivity, and leverage our investments in digital, technology, and supply chain infrastructure. Naturally, we can only achieve these goals with the dedication of our staff, consistent cost management in our restaurants, and leverage in G&A expenses.

When it comes to capital allocation, we take a balanced and systematic approach which is underpinned by our very strong cash flows. Over the past 3.5 years, we generated over $4.6 billion from our operations. By the end of the second quarter, we had about $4.1 billion in cash, cash equivalents, and short and long-term deposits. Our capital allocation priorities are: working capital and reserves for potential contingencies, capital expenditures to drive organic growth, strategic investments to improve our capabilities & capacity and last, but not least, returning excessive cash to our shareholders.

At our 2021 Investor Day, we have introduced a five-year capex plan of $5-6.5 billion for network expansion, digital and supply chain investments. For the first two years of the plan, which including this year, we are on track to invest roughly $1.5bn in capex for increasing our store count by 2,500+, building eight logistic centers, rolling out a number of automation initiatives at our restaurant and logistic operations, and also completing our initial end-to-end digitalization plan. For the coming three years, we plan to invest a total of $3.5-5bn in capex. Of which, $2.3-3bn will be invested in expanding our store network to 20,000 stores by 2026 and keeping our existing stores fresh. Another $700mn-$1 billion will be invested, we have earmarked it for our supply chain enhancements. We plan to expand logistics and further digitalize and automate our supply chain to keep it safe, agile and efficient.

We expect the ratio of our company-owned logistic centers to reach about 30% by 2026. Now, this would enable us to further invest in end-to-end digitalization for the

long run.
Another $500mn-$1 billion will be reserved for investments in digitalization to further strengthen our technology moat, from IoT and Cloud Computing to Automation and expanded AI applications. Now, this investment, we believe, will help drive sales and productivity, improve customer service, while ensuring cybersecurity and system stability. Another area for our capital allocation is our M&A and strategic investments. While we're receptive to investments that will foster growth and enhance our core capabilities, we maintain a disciplined approach to our strategic investments, primarily focusing in three key sectors:
1. We consolidated KFC's legacy joint ventures in three critical market areas: Wuxi, Hangzhou and Suzhou, which together accounted for roughly 17% of our total KFC stores.
2. We also invested in brands development and acquisition. Our joint venture, as we mentioned earlier, with Lavazza is really helping us to strengthen our position in China's rapidly growing coffee sector. Our strategic acquisition of Huang Ji Huang has also enabled us to gain economies of scale in our Chinese dining business and also enhanced our innovations in Chinese food.
3. We have invested also in strategic partners like Sunner and Meituan, to fortify our ecosystem.
Recently, as you may have heard, we have formed a joint venture with Bolex to accelerate our central kitchen initiative.
Now, let's discuss a very, I guess, dear topic to a lot of investors here today, returning excessive cash to our shareholders. Since our spinoff in 2016, we have returned $2.5 billion to shareholders. Despite the challenges during the pandemic, we have returned approximately $1.3 billion to our shareholders over the past three and a half years. This last year alone, we have returned $668 million to shareholders through dividends and share buyback. At the beginning of this year, we have increased our quarterly dividend from $0.12 per share to $0.13 per share. In total, we are on track to return roughly $600-800mn to shareholders this year alone. We are committed to returning excessive cash to shareholders. And Joey will provide a more concrete update on our returning cash to shareholders in her closing remarks.
But before I conclude my presentation today, I will just give you a quick update you on our 2023 outlook. In the first half of this year, our sales have notably improved compared to the same period last year. Indeed, our same-store sales have rebounded to roughly 90%, when compared to the level in the first half of 2019. Recent economic data certainly point to potential soft patch in the Chinese economy. However, the encouraging news for us is that, despite the near-term economic headwinds, our recovery trajectory remains fairly stable. We anticipate that the

recovery of our same-store sales maintain a relatively steady pace for the full year 2023, at roughly 90% of the 2019 levels.
Furthermore, our system sales should continue to benefit from our robust pace of new store openings as well. Given the current pace of store openings and our store development pipeline, we are now expecting net new stores to be in the range of 1,400 to 1,600 for the full year of 2023. That is an increase from the previous expectation of 1,100 to 1,300 net new stores. We continue to expect capital expenditures to be in the range of $700 million to $900 million. So with that, I will conclude my presentation today. Thank you. Let me now invite Joey back to the stage to give her closing remarks.

Joey Wat, CEO, Yum China:
Thank you, Andy. Hello again. As we come to the end of our presentations today, I want to thank each one of you again. It’s been a pretty busy morning. Many people, beginning with Plato, have observed that “necessity is the mother of invention.” And so the pandemic was to us. The many measures that we took to survive over the last few years added up to a transformation of almost every aspect of our business. I am confident that our amazing team, world-class capabilities and our powerful brands will make us one of the very best of our restaurant industry in this world.

Before we transition into the Q&A session, as promised previously, I am thrilled to unveil our key targets for the next three years:
First, we're pleased to announce that we are targeting to return about $3 billion in cash to shareholders from 2024 to 2026. We intend to achieve this target with the combination of a significant increase in stock buybacks and a double-digit increase in dividends over the upcoming three years. With things really back to normal now, particularly even after a second wave of COVID in the middle or slightly before the middle of the year, we see the response from the market, from the customer. We feel we are there, and things are back to normal. We can continue to trade as a normal business. Therefore, we are comfortable to make this commitment, and we make this commitment without sacrificing our aggressive investment into our business, our stores, our digital capabilities and our supply chain capabilities. Second, other than the cash, let's talk about the next target, growth target. We mentioned many, many times, so it should be very clear that we intend to reach 20,000 stores by 2026. And there are three ambitious financial targets here:
1. High single-digit to double-digit growth in system sales in the next three years;
2. High single-digit to double-digit growth for operating profit for the next three

years; and
3. Double-digit growth of EPS in the next three years.
These targets reflect our commitment to delivering value to our shareholders, our confidence in our prospects, expanding our reach and driving robust growth. And very importantly, our vision remains unchanged, which is to be the most innovative pioneer in our industry globally. One more time, it's not because we are that arrogant to think that we can be that amazing. It is the humble belief that in order to survive and to excel in this industry, being innovative is the most critical and basic capability that we have to build. So as we conclude our Investor Day presentation, now I want to extend my heartfelt thank you to all of you. Again, thank you for your support. Really thank you. And let's do Q&A. One last thing, it is Crazy Thursday Today. V me 50!

Florence Lip, Senior Director, Investor Relations, Yum China:
Thanks Joey. Please stay on the stage. May I also invite our other presenters to come in, to join us on the stage for the Q&A session. We have about 30 minutes for questions. Feel free to ask the question in Chinese or in English. However, please limit your question to one per person because of the limited time. If you'd like to ask a question, please raise your hand. Please state your name and the company you represent before you ask the question. Let us get our management ready first. Alright, okay let's take our first question. Luo Chen, you're the first to arrive here today, so feel free to ask the first question.

Chen Luo, Analyst, Bank of America:
Okay, thank you. It's my privilege to ask the first question. I would like to thank you all. I'm from Bank of America. I'm an analyst. My name is Luo Chen. What impressed me a lot is that at 12 o'clock, we finished the presentation on time and started Q&A. This is the sixth Investor Day that I have attended this year. The previous five really ran very late on their schedule. It really represents the flawless execution from Yum China being on time. I really admire Joey and Andy's flow management of all the presentations because you really saved the most exciting part that we all want to listen to, to the last five minutes.
It's the first time that Yum China has organized Investor Day in person for the past four years. The last time was in March 2019. It was in the Waldorf Hotel, if I remember correctly and that was well before COVID as well as before the worsening of the China-US relations. A lot has changed in the past four years, and not in such a good way. There have been a lot of changes in Yum China, but in a very good way as it has become stronger and more resilient.

The capital markets are all asking this question. What are the future prospects of China's economic development? Everyone is talking about consumption downgrade as well as the heightened competition. I would like to share with you my observations in the following five aspects.
First of all, I think that everyone in the industry are now doing value campaigns. We have got Crazy Thursday, but we have to be crazy every day, let alone our competitors.
The second observation is that if you look at the digital channels, more and more traffic comes from digital channels. Over the past six months, we had a lot of coupons on Douyin, the Chinese version of TikTok. I don't know how much sales from Douyin account for the total sales of the company. Even if we are exploring this channel, our competitors are also using Douyin as a channel to drive traffic. I wonder what impact will it have on our future ASP.
Third, in the categories of tea drinks and coffee drinks, with brands like Heytea, Luckin Coffee, etc. They do a lot of value campaigns. Fourth, you also shared a vision of accelerating the speed of store locations, but a lot of competitors are doing the same.
Last but not least, we have seen some emergent competitors like Tastien, who are Chinese-style burgers. They are opening up stores quickly, totaling 4,000 to 5,000, not just in lower-tier cities but also in top-tier cities like Beijing, Shanghai as well.
So my question, based on these five observations, is what is the implication for our margins? I think that we have capabilities to maintain the margin, but if we have reinvestment needs, will these cap the upside of margins? And the second is the implications to our same-store sales recovery and space for opening up new stores in the lower cities. And the third, what are the implications to our new businesses such as Lavazza? And finally, in face of such intense competition, how do we differentiate ourselves from peers? I'm sorry, I have really asked a lot of questions. It's just a dozen, not that many.

Joey Wat, CEO, Yum China:
Let me respond to your questions in a very concise way. First of all, when I talk about value, I think that value is really very attractive, but we cannot simply rely on value. If you always talk about value, value, it's not enough. You must have tasty food, and it all comes down to our capabilities to deliver that. It's not just about marketing or value. Everyone can do that, but we have to have long-term commitment to supply chain, R&D, and innovation. These are our long-term commitments and we have been doing it. We have invested for the long term with a lot of manpower input for KFC, for Pizza Hut, for all the other brands. These are very important enablers

without which value alone is not enough.
Secondly, on competitors in lower-tier cities, it's true for all brands. We welcome competition. It means there is confidence in the market. Despite the economic downturn, there are still abundant opportunities. There are so many questions from the investors because the size of the market, the size of the economy is there. So intense competition is good news.
As for competition in lower-tier cities, I think internally, it's also good news. Here, I think that we are the only company in our industry where the boss is saying that we must penetrate into lower-tier cities. There are a lot of other companies that may be objecting to this idea because they think it is too hard to do. And then there are competitors like Tastien, etc. However, with the competition, our brands have more passion to penetrate into the lower-tier cities. Jiangxi province was a market that was previously neglected. But now with the participation of competitors, we are talking about doubling our Pizza Hut and KFC business in these locations. And on top of that, we have been doing a lot in terms of marketing, including on Douyin. Warton can elaborate further on this.

Warton Wang, General Manager, KFC:
I would like to touch upon the competition aspect as well because you mentioned Tastien. First of all, I think that there is a lot of room for further development and innovations have opened up new opportunities for store openings like lower-tier cities, gas stations, and remote areas. There is more space for innovation in the future. Second, I think the brand is fully capable of facing up to the competition in several dimensions.
First is on products. We have all the core categories that competitors have. We will do better than our competitors. Our products like whole chicken and beef burgers are very good examples. In Jiangxi, Fujian, and Henan provinces, we are testing Chinese-style burgers as well. By the end of this year, we will roll this out nationwide.
Second, price competition. Before in the past, we were relatively weak in the lower than ¥20 menu. That's where the other brands have grown very rapidly. That's why we have weekday value combos at ¥19.9. It has been very competitive in the market. So with the support of the supply chain, we will have more cost-friendly products to extend our price range. As long as we have more products lower than ¥20, we can be very competitive.
Third, competitions in store openings. We have so many models and modules. We are constantly developing them as well. Also with less capital needed to open each store, it will speed up our store opening pace. There are a lot of space for us to tap into this market. And the innovative ones in terms of driving sales will be the

winners.
You also asked about value. This is a constant theme. If you do not do anything, you just do marketing and promotion, margins will decline. This is simple math. To prevent this from happening, we proactively manage this with highly targeted allocation of resources.. We maintain a budget for our value campaigns and spend money wisely to generate as much return as possible.
Over the past few years, we have done quite a lot of promotions. And our cost structure is as sound as pre-COVID levels. We have the confidence to maintain a steady cost structure in the future.

Joey Wat, CEO, Yum China:
I'll add a little bit more to this. Value is simply not enough, you need flexibility at different price points. I'll give you an example: for our customers, our beef burger is relatively pricey, but it sells very well, because it is a high quality product at a good perceived value.

Next question, please.

Florence Lip, Senior Director, Investor Relations, Yum China:
Let's take our next question.

Xiaopo Wei, Managing Director, Head of China Research, Head of Asia Consumer Research, Citi
Hello. Thank you so much. I will be very short. Congratulations for this great presentation. We are so glad to be here to see the high energy of Joey and the leadership team, even better than during COVID.

I think what's different about the company is that over the past three years, as we experienced COVID, you sped up investment in infrastructure. I think this is something that differentiates your company from others. My question is very simple. Have you ever considered that digital capabilities are the hidden gem of your company, and if so, have you ever considered to capitalize on that, to budgetize on that, to monetize on that? If we can monetize on these infrastructures, will you open these infrastructures to third parties to get more revenue streams and to drive more sustainable revenue growth for you?

Leila Zhang, Chief Technology Officer, Yum China：
Thank you, Xiaopo. Digitalization is something that we have been a frontrunner in

the restaurant industry. Utilizing our digital infrastructure, which supports KFC and Pizza Hut, we also have a Software as a Service (SaaS) platform to help our emerging brands like Taco Bell and Lavazza. And if you look at emerging brands, they are benefiting from it.

For any SaaS platform, basically, you need to have 3,000 stores to have economies of scale. So, we benefit from the scale of KFC and Pizza Hut, to have the capability to empower our emerging brands. We can also empower our Chinese dining brands on this SaaS platform. We have already monetized these infrastructures from this sense. And in the next step, if more industry peers can work together to co-build these platforms, we can empower each other and digitalization will progress even faster.

In this era, it's all about openness when it comes to online platforms. I think that for our systems, openness and the compatibility of our systems are areas that we need to address. I hope that I answered your question.

Florence Lip, Senior Director, Investor Relations, Yum China:

Michelle Cheng from Goldman Sachs.

Michelle Cheng, Managing Director, Co-Lead of Asia Consumer Research Team, Goldman Sachs:

Joey, We are encouraged to see that there will be a lot more shareholder return and the target for store openings is more concrete. I want to ask about the franchise model. In the past, we were conservative about franchising. But going from 1,400, 1,600 to 1,800 stores, many of them will come from franchising opportunities. Can you share more on the opportunities of franchising and the potential economics of your franchising business?

Joey Wat, CEO, Yum China:

We deeply understand the economic models of franchising. KFC and Pizza Hut have quite a large number of franchising businesses. And we are looking at it from a strategic point of view. Warton has shared in his presentation on this as well.

At Yum China, we are a highly efficient team. In big cities, these efficiencies can be best represented, but in lower-tier cities and remote areas, the efficiency will go down. It's like a guerrilla war in lower-tier cities. There are strategic points. For example, highway service stations, schools, hospitals. Very frequently, it's very hard to get to these places. So we have to work together with franchisees. We have been quite conservative on this in the past because food safety is our #1 priority, something that we do not compromise.

Huge technological advancements have enabled us to open up new opportunities for franchising. For a lot of the operation, franchisees don't need to do anything. We have automatic inventory replenishment and sourcing. For quality control, we can do random inspections anytime because everything is online. So our overall management and control is much stronger compared with the past. Food safety is a priority among priorities. But now we have full confidence in our capabilities. And that's why we dared to open up more opportunities for franchising.

COVID has also brought us quite a lot of business opportunities as well. After three years of hard work in China, we have quite a lot of suppliers, partners, and consumers who have placed their trust in us. It was very difficult to get into or have access to the university market. But now we have the opportunities. We have really had to work hard on that.

That's basically our strategic thinking. Thank you.

Florence Lip, Senior Director, Investor Relations, Yum China:

Lillian from Morgan Stanley, please.

Lillian Lou, Equity Research Analyst, Morgan Stanley:

Thank you, management. I'm Lillian from Morgan Stanley. My question is a bit relevant to Michelle's question. Overall, thank you for the presentation, Joey. We will reach the target of 20,000 stores. We are more light capital because we deploy franchise models and small and mini stores. And the target Joey shared with us is very encouraging. Our growth of profit is higher than the growth of revenue.

So in a nutshell, based on all your development models, what is the margin of your restaurants? Joey said that dine-in service is not only about profitability but also the traffic. I would like to know – you have 17% margins, right? What will be the trend in future in terms of the margins for restaurants?

Second, in terms of ROE. ROE, now it is mid-low teens – with less and less investment of capital, your ROE might significantly improve, right? Do you have any specific target for ROE?

Andy Yeung, CFO, Yum China:

I think the first questions is about restaurant margins? I think as we have mentioned in our presentations, in the first half of this year, when you compare our restaurant margin to last year, obviously it improved significantly. More than 500 basis points compared to last year. And then when you compare with even 2019, we have expanded our restaurant margins by more than 150 basis points. We are very glad about that.

For restaurant margins, the most important thing, obviously, is restaurant sales. That's the biggest driver for margins. And then, as we have mentioned, over the next few years, our goal is really to maintain and potentially expand our margins. And the way we do it is that, obviously, we utilize our supply chain.

Duoduo has mentioned a lot of initiatives that we do to keep our cost of sales stable, despite potential volatility or, as we mentioned, marketing and promotion activities. We also intend to keep our cost of labor stable. We anticipate a continued wage increase. In fact, in the second half this year, we have increased the wages at our restaurant level by low- to mid-single digit. So I think, going, looking forward, in China, we will continue to see some wage inflation. To sort of manage that cost of labor is really, one, as we mentioned, trying to reduce the administrative workload at the restaurant level. We also invest in technology and automation so that our staff can do their job more efficiently, better. And so that way, by increasing labor productivity, we try to keep our cost of labor stable.

Now, the lever there is really the fixed cost area. All and all, we will continue to work to restructure that. And we have been very successful over the last 10 years, not just the last few years. And that is a really great way to drive leverage. And obviously, we will continue to work, to work to gain leverage in our G&A expenses. Although we continue to invest in digital, which would increase depreciation, we're confident that in the long term, our G&A expense increase would be below the sales level. And so that's how we look at the restaurant margin and overall operating margins.

Florence Lip, Senior Director, Investor Relations, Yum China:

Okay. May I invite our investors to ask questions? Yes, the gentleman.

Jack Wang, Associate Director, Temasek:

Thank you. I'm Jack from Temasek. In terms of strategic investment, what is your plan? You made some investment in some other companies, such as Sunner or even cooperation with Bolex. In the upper stream partners, do you have any thinking? Do you have any future plans? Thank you.

Andy Yeung, CFO, Yum China:

So I think the question is about strategic investment, the direction that we have. As mentioned, we always are receptive to investment that can help us to foster growth and improve our capabilities.

The key focus for us in the coming years in strategic investment is in the upstream supply chain, where it can help us to improve our capabilities. And also, especially, if you think about direct sourcing or our central kitchen initiative, all that would have a

long-term implication for us in terms of our ability to manage costs and be very competitive in the marketplace and also help us to innovate in our product development.
And so, I think going forward, these are the areas you will see as a key focus for us. We have, as I mentioned earlier, recently invested in a joint venture with an upstream supplier in our Central Kitchen initiative.

Joey Wat, CEO, Yum China:
Let me just add a little color here. You can see actually over the last few years, one big investment is the joint venture consolidation, which did not get a lot of attention, and there's no consolidation risk – management risk – because we've been running the business. So when the opportunity presents and the numbers work, we will invest and get a better shareholder return.

When we invest, we always ask ourselves whether we can build the capability ourselves. If we can, we do it internally. Like, technology-wise, we may do it internally because we want the capabilities to stay with us for the long-term as well as the IP, etc.
But there are also areas where we think we can be much faster and more effective if we use our capital to invest, such as the recent investment in Central Kitchen. Because it's a very different story to run factories or a Central Kitchen. It will be more effective if we learn from someone. I mean, no matter who we are, Yum China, we always need to maintain the humility that there are so many things that we don't know and we need to learn.
So we have constantly updated ourselves about the upstream opportunities, particularly in some very key categories. Because we sell everything at a very big scale. So we have to make sure that, one, that it's good. Two is that's enough for us in the long term. So we will always look at the upstream opportunity and hopefully make some investments that unlock bottlenecks and support the core business. The focus is always about our core business. We are not going to go sideways because our core business is more than enough for us to focus on. Thank you.

Florence Lip, Senior Director, Investor Relations, Yum China:
Okay. Next question. Maybe the gentleman.

Ivan Su, Equity Analyst, Morningstar:
Ivan Su from Morningstar. My question is on your Capex. Do you still expect your unit Capex to decline going into the next couple of years? And then number two is, if we

were to extrapolate your Capex guidance for the next three years, there seems to be a pretty big step up in 2024. So I want to get a better understanding of what's driving that step up in Capex. Is it more remodeling or supply chain, digital-related investments? Thanks.

Andy Yeung, CFO, Yum China:

So in terms of our Capex spending, obviously, as we mentioned, we have a pretty ambitious target over the next three years. We plan to reach 20,000 stores. So there's an acceleration in store openings. And then, as we mentioned, we have a bigger portfolio of stores now. So, we're also going to invest money into remodeling and keeping our stores fresh.

As we mentioned, for us, the 20,000 stores is just the next milestone. We continue to look forward to future growth. And our supply chain investment has to come ahead of store openings. And so, our target is to open more logistics centers over time. And also, as we look forward into the future, we probably, as we mentioned, will own more of our logistic centers. The reason to do that is because if we want to invest in automation, it's better to have your own operation, own warehouse, than leasing it for five, ten years, and then you may have to dismantle your automations.

With regards to technology, we have a lot of confidence in deploying AI and other technologies to help enable our employees to be more productive, make our operations more efficient and better serve our customers. So that's another area that we have mentioned. We are earmarking about $500 million to $1 billion over the next three years for technology enhancements.

Joey Wat, CEO, Yum China:

I'll talk about supply chain in this aspect. As for the supply chain, in the past, we rented a lot of logistics centers, but now we have a high bar for warehouses. We need a lot of technology investment. That's why it's smarter that we own and operate them ourselves.

As Duoduo (Howard) mentioned, prior to the COVID-19 period, we mostly used trucks for transportation. But during COVID-19, we found out that we can combine trucks with ocean, as well as other modes of transportation. If we can run our own supply chain, we can be very flexible and mix and match. If there are no available products and solutions on the market, we find a way to do it ourselves. That's how we can move forward, and we have seen very good results. Also, in our goal to deploy renewable energy to our stores and facilities, we have shown that we can make breakthroughs by ourselves.

As for store investments, I will pass over to Warton.

Warton Wang, General Manager, KFC:

As for the store investment in restaurants for KFC and Pizza Hut, single restaurant investment continues to decline. Let's take KFC as an example. In the past few years, the per-store investment has declined by 8-9%. Last year, our average cash investment in new restaurants was ¥1.5 million per store. Several years ago, it was as high as ¥3 million. In the future, will it continue to go down? Yes, it can. There are good opportunities to enable this and we have the capabilities to do so.

First, we can develop different models depending on sales volume. So we can invest more for big stores and invest less for smaller ones. And, second, we can design very good seating areas that are well received by consumers, but do not cost a lot. Second, you don’t need to remodel every store based on the forecast of your sales. You can wait a little bit until the sales grow to a certain number before you do the full decoration, to minimize the risk of the further investment.

Thirdly, there is a new project called Flexible Kitchen. In future, all the kitchens will be assembled. They will not be fixed. It will be module-based. All the kitchens will be produced in a factory, and then moved to the locations to be installed. Also, components can be removed if they become unnecessary. All of these designs will help us to reduce the investment for our new stores.

Florence Lip, Senior Director, Investor Relations, Yum China:

I think we have time for one more question. Our shareholder, Li.

Li Geng, Investment Analyst, T. Rowe Price:

Hi, I'm Li from T. Rowe Price. Thanks for the presentation. I'm thrilled to see YUMC to be well-positioned for a period of accelerated growth after it further strengthened its Moat and resilience in the past few years. I'm going to play the devil's advocate here and ask a what-if question. If Yum China's stock price halves in three years' time compared to what it is today, what do you think would be the possible causes, and what would you do in that scenario? Thank you.

Andy Yeung, CFO, Yum China:

I guess this question is for me. It’s a really good question, I think. And then, you know, I think it’s probably on a lot of people’s minds as well, just given the market volatility. But I think, hopefully, that is not going to happen. Because, obviously, we’re delivering a pretty strong performance. Hopefully the market will recognize that value there.

Now, if that scenario happens, two things I would feel like. One thing, is that I would feel very bad for all the investors here because you would have lost money. And the second part is that I may feel bad for myself, because I probably would have lost my job already.
But I think, with all seriousness, I think, if that happens, that would be pretty good value for a lot of investors. Because, think about this, our current market cap right now is only around $23 billion. If it got cut in half, our market cap would be down to about like $12 billion. We are sitting on about $4 billion in cash. That means our enterprise value is only $8 billion. That's a little bit more than six times our EBITDA or our operating cash flow, right? So imagine that, if you have $8 billion, you can buy it. And then in six years, you can own it debt-free. And then a business that would spit out at least $1.4 billion, which we have done last year. Maybe more. As we have mentioned, we continue to see growth in our business. So I don't think that will happen. But if that happens, I think a lot of people will see great value in our company. Thank you.

Joey Wat, CEO, Yum China:
We still see some people with questions. Maybe we can extend for two more questions.

Florence Lip, Senior Director, Investor Relations, Yum China:
Okay. Our management is very generous with their time. So maybe we'll take two last questions. Maybe our shareholder as well, Giles.

Giles Warren, Investment Manager, Guardcap:
Thank you. I'm afraid it's going to be in English. Good afternoon, everyone. I just wanted to ask a question about the RGMs and then they're working multiple stores. And, I think you said three was probably the maximum. Is that what is happening already? And can you talk about how it works in practicality of these restaurant managers working more than one store? Thank you.

Warton Wang, General Manager, KFC:
Yes, indeed. 30% of our restaurants have one RGM working on several restaurants. Is it practical? First of all, we have to be more razor-focused. We cut unnecessary KPIs. The restaurants can then focus on their core business. We reduce the burden for the RGMs. Any operations that can be removed outside the restaurant will be removed. Recruitment and training are the biggest responsibilities. As you may know it is not easy to recruit new staff. We now have city-wide hiring with the support of HR. So we

ask the functional departments to do more so that RGMs can manage more restaurants.
Second, we utilize automated systems, which is totally different from several years ago. Previously, scheduling, replacement, ordering must all be done by the managers. But now these functions are automated, saving a lot of administrative manpower.
To sum up, we are enabling RGMs to focus on the core businesses and reduce their pressure from unnecessary work. I think that if we do well, it will be possible for an RGM to manage five restaurants in the future.

Joey Wat, CEO, Yum China:
Only the better RGMs. It is an incentive for the better performing RGMs. And of course, we pay them more. That's point number one. Point number two is, it's happening at KFC, Pizza Hut, and all the other smaller brands as well. The speed will be slightly different depending on the situation. Because for the smaller brands, the distance between the stores is much bigger. So we have to do things slightly differently. But we are having pretty decent progress and will continue to improve and learn as we go along. Thank you.

Florence Lip, Senior Director, Investor Relations, Yum China:
All right, our last question. Maybe at the back. GIC?

Earth Aganitpol Sivakul, Sector Portfolio Manager, GIC:
Thank you. I'm Earth from GIC. Sorry, I can't speak Chinese as well.

Joey Wat, CEO, Yum China:
No need to say sorry.

Earth Aganitpol Sivakul, Sector Portfolio Manager, GIC:
Just wondering, this acceleration of your store network, I want to understand why is there an acceleration? I know you are more than capable of doing so, but you're already a leading restaurant network company in China. And it's possible for you to also go for a current network of 1,000-ish openings, optimizing between store growth and same-store sales, optimizing your margin.
But the reason that you are accelerating the store growth, I want to understand the real reason. Is it because you see a lot of capability? You're seeing rent being quite cheap still in China? Or is it pressure from other competitors opening a lot of stores? Because you're accelerating when the Chinese economy in general is slowing down. So I'm just wondering why. Thanks.

Joey Wat, CEO, Yum China:

This is an important question. I'm going to stand up. We actually always have had a goal of 20,000 in the past few years. We just never have a specific year target. And this time, we are able to be very clear about 2026. Because we have learned enough, and acquired enough capability in the last few years. And we feel that the current environment is actually is pretty normal right now compared to the last three years. So it's more predictable and therefore we can have a plan.

Two more points here. One is we always do things at the speed that we can. We try our very best to be a very competitive player. But we always do things at the speed that we can. Not that many years ago, we were being criticized for being too slow when some other brands opened a few thousand stores and then shut down. And as you see, we have taken our time to build our pace.

Pizza Hut is a great example. Because right now you might have the same question. Oh, the smaller brands, it seems that they are not moving that fast compared to many other competitors in the market. And I would urge you to come back to look at Pizza Hut. We embarked on a journey of revitalization back to 2017. And this is the sixth year. When we started the journey of revitalization, the number of stores that we opened that year back to 2019, 41 stores. 41 stores in 2019. And this year we're going to open 400 stores — 10x.

So, before we move fast, we have to make sure that we are absolutely doing the right thing. We fix the store model, the cost, the people, the infrastructure, the food, the price, the customer preference, the branding, you name it.

I mean, I was once on the analytical side of the business when I was in consulting. The privilege of being an analytical person is we always say, “Oh, there are five things or three things to focus on.” As if they manage the whole business. When we are on the operations side, I am very honest about this. As an operator, we make 10, 20, 30 decisions every day or 100 decisions every day. And we hope we make a few of them right.

There are so many decisions, so many aspects of the decision that we have to fix and tweak. It's like, well, I love business, so I think it's a piece of art, okay? So, an analogy is you throw the fishnet, and you have, like, 20 threads that you want to pull, and you pull it bit by bit. Get it right first before you run fast. This is our speed.

And why right now, why are we ready to run so fast? Because we can. Because we are ready. We need to have a very clear goal, because a clear goal is motivating, it's exciting. We only live once. Let's do something exciting when we could. If we have the opportunity to do it, why not? We have the opportunity to do things right and have an exciting target. And we worked very hard for this moment, so now we are ready to have this exciting target and put every ounce of energy into this goal. It's very fun and exciting.

Sometimes when we try to run fast, people say, “Oh, you might be too fast.” When we are taking our time, people say, “You are a bit too slow.” But it’s okay. We are taking our own pace. And we are ready. Thank you.