



YUM CHINA

1Q25 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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SPEAKERS

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MANAGEMENT DISCUSSION

Florence Lip - Yum China, Senior Director, Investor Relations

Thank you for joining and China's first-quarter 2025 earnings conference call. On today's call are our CEO, Ms. Joey Wat, and our CFO, Mr. Adrian Ding.

I'd like to remind everyone that our earnings call and investor materials contain forward-looking statements, which are subject to future events and uncertainties. Actual results may differ materially from these forward-looking statements. All forward-looking statements should be considered in conjunction with the cautionary statement in our earnings release and the risk factors included in our filings with the SEC.

This call also includes certain non-GAAP financial measures. You should carefully consider the comparable GAAP measures. Reconciliation of non-GAAP and GAAP measures is included in our earnings release, which is available to the public through our Investor Relations website located at ir.yumchina.com.

You can also find the webcast of this call and a PowerPoint presentation on our IR website. Please note that during today's call, all year-over-year growth results exclude the impact of foreign currency, unless otherwise noted.

Now, I would like to turn the call over to Joey Wat, CEO of Yum China. Joey?

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Hello, everyone. And thank you for joining us.

In quarter one, we delivered another solid set of results. Our dual focus on operational efficiency and innovation led to improvements in both our top and bottom lines. We achieved first-quarter record highs in Revenue, Net Income and Diluted EPS. Our Same-Store Sales Index advanced to 100% of prior year level, for the first time since the first quarter of 2024, for both KFC and Pizza Hut. Same-Store Transactions have grown for 9 consecutive quarters. As our top line expanded, our margins also improved. Restaurant Margin expanded by 100 basis points year-over-year. As a result, our Operating Profit grew by 8%, and Diluted EPS increased by 10%. This performance underscores our team's diligent efforts and the effectiveness of our strategy.

Last quarter, I mentioned that I felt Pizza Hut had reached an inflection point. I'm pleased to report that we've been able to sustain the positive momentum. In Q1, we achieved notable improvements in both Same-Store Sales Index and margins. Pizza Hut's 2025 new menu further enhanced its value-for-money proposition and mass market positioning, driving significant traffic growth. It also enabled simpler operations, contributing to the restaurant margin improvement in Q1.

KFC remains a resilient fortress, achieving solid growth and profitability through both good times and bad. In Q1, KFC System Sales grew by 3%, and its Restaurant Margin expanded to

19.8%. In Q1, we also opened 300 KCOFFEE Cafes, reaching a total of 1,000 locations nationwide.

Let me now turn the call over to Adrian to discuss our results in detail. Afterward, I will share additional color on our strategies. Adrian?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Joey. Let me start with KFC.

In the first quarter, KFC delivered solid sales and profit growth. We added 295 net new stores, bringing our total to 11,943 stores. New store payback remained healthy at 2 years. System Sales increased 3% year-over-year. Same-Store Sales Index advanced to 100% of prior year level, for the first time since the first quarter of 2024, fueled by Same-Store Transaction Growth of 4%.

We observed strong growth in smaller orders, driven by wider price ranges, lower delivery fees and rapid growth in coffee. The ticket average in Q1 was 40 Yuan, 4% lower than the prior year period, similar to the trend in the second half of 2024. There may still be some short-term fluctuations, but we expect TA to be relatively stable over the long run. Despite a lower TA, Restaurant Margin improved by 50 basis points year-over-year to 19.8%. Operating Profit grew 5% year-over-year to 386 million USD.

We innovated by adding fresh twists to our classic menu items to excite customers and fulfill their changing needs. KFC launched a spicy flavor of Original Recipe Chicken, for the first time since we entered China in 1987. The classic taste pairs well with the exotic spicy flavor. Sales mix of Original Recipe Chicken increased 50% during the promotion period. We also introduced the Spicy Original Recipe Chicken Burger, which, of course, comes with mashed potatoes. These innovative new products resonate well with our consumers, not just regionally but nationwide, attracting new traffic.

Serving buckets has been a Chinese New Year tradition for KFC. This year, we enhanced the Golden Bucket by including our popular whole chicken, making it even more ideal for sharing. To address the trend to smaller gatherings, we also offered a variety of smaller buckets. Total sales of our CNY buckets grew over 50% year-over-year.

Let's now move on to Pizza Hut. For 4 consecutive quarters, Pizza Hut has achieved significant progress, marked by sequential improvement in the Same-Store Sales Index and year-over-year margin expansion. Operating Profit also grew 29% year-over-year in Q1.

In Q1, System Sales increased 2% year-over-year. Same-Store Sales Index advanced to 100% of prior year level, also for the first time since the first quarter of 2024, up 2 percentage points versus Q4 last year. Same-Store Transactions grew substantially by 17% year-over-year, driven by rapid delivery growth, increased popularity of pizzas below 50 Yuan and the successful launch of the new menu. The ticket average was 78 Yuan, 14% lower year-over-year, consistent with our strategy and driven mainly by better value-for-money offered by our new menu.

Again, despite the lower TA, Restaurant margins improved 190 basis points year-over-year. Our new menu allowed for simpler preparation at our stores. We also automated key kitchen processes. Additionally, Pizza Hut's all-you-can-eat campaign that took place in Q1 last year was shifted to Q2 this year, and this accounted for nearly half of the year-over-year margin improvements.

Pizza Hut has expanded to 3,769 stores, with a net addition of 45 stores in Q1. This number is lower than last year due to the timing of store openings and closures. For the full year, we expect double-digit percentage net new store growth for Pizza Hut. The payback period for new stores remains healthy at 2-3 years.

Pizza Hut has made tremendous efforts to improve its menu and widen its addressable market. The new menu launched in December 2024, bolstered Pizza Hut's value-for-money perception and significantly boosted consumer traffic. In March, we further upgraded the menu with new products, such as an expanded selection of Pizza Dough Burgers and more one-person meal options. For a limited time, consumers enjoyed our Super Supreme Pizza at just 39 Yuan, half the regular price. Consumers love our flagship Super Supreme flavor, so we extended it from our pizza platform to other platforms, such as burgers, pasta and rice.

Let me now go through our Q1 P&L.

For Q1, System Sales grew 2% year-over-year and Same-Store sales index was 100% of prior year level. System sales growth was moderate this quarter for three reasons: First – 2025 has one fewer business day, as 2024 was a leap year, a 1% impact.

Second - we had slightly more temporary closures during the Chinese New Year holiday this year compared with the prior year. We carefully evaluated holiday traffic patterns in various trade zones and dynamically adjusted our store operations. This enabled us to serve our consumers' needs better and more efficiently.

In Q1, net new units contributed 4% to sales growth. We are opening more smaller stores and expanding into lower-tier cities. Also, we strategically closed more stores to enhance the strength of our store portfolio for better overall performance. This led to lower sales growth in Q1, which will normalize as the year progresses.

Our Restaurant Margin was 18.6%, 100 basis points higher year-over-year. Savings in Cost of Sales and Occupancy and Other costs offset increases in Cost of Labor.

Cost of Sales was 31.2%, 90 basis points lower year-over-year. Cost of Sales improved through favorable commodity prices and continued benefits from Project Red Eye. We continued to pass these savings from these initiatives to our customers, offering excellent value-for-money. The timing shift of Pizza Hut's all-you-can-eat campaign also positively impacted Q1 COS.

Cost of Labor was 25.7%, 30 basis points higher year-over-year due to higher rider costs as a % of sales. While cost per delivery order lowered, increased delivery volume led to higher overall rider costs. Non-rider costs as a % of sales remained stable year-over-year. Simplified operations helped offset low single digit wage inflation for our frontline staff.

Occupancy and Other was 24.5%, 40 basis points lower year-over-year, as a result of cost optimizations in a number of areas, notably utilities and simplified operations.

G&A expenses were 4.6% of revenue and 10 basis points lower compared to 4.7% in the prior year.

Closure and impairment expenses increased year-over-year due to our strategic store optimization.

Our OP Margin was 13.4%, 80 basis points higher year-over-year, mainly driven by improved Restaurant Margin.

Operating Profit was 399 million USD, growing 8% year-over-year. Core OP also grew 8% year-over-year.

Effective Tax Rate was 27.8%, 90 basis points higher year-over-year.

Net Income was 292 million USD, growing 3% year-over-year. As a reminder, we recognized 12 million USD less interest income this year due to a lower cash balance, as a result of cash used for shareholder returns. Our mark-to-market equity investment also had a positive impact of 2 million USD in Q1, compared to a positive impact of 6 million USD in Q1 last year.

Diluted EPS was 77 cents, growing 10% year-over-year, or 12%, excluding the mark-to-market equity investment impact.

Let's now move on to capital returns to shareholders.

We are on track to return 3 billion USD to shareholders in 2025 through 2026. This is on top of the 1.5 billion USD in cash we returned in 2024. The average annual amount of capital return over the three years is around 8-9% of our current market cap. In Q1, we returned 262 million USD, with 172 million USD in share repurchases and 90 million USD in quarterly cash dividends. Our cash position remains healthy: we ended the quarter with 2.8 billion USD in net cash.

Finally, moving on to our 2025 outlook.

We are operating in a complex and evolving landscape. Consumer spending remains rational. Our strategy is to offer innovative food and great value to drive traffic to our stores. We are working hard to achieve 10 consecutive quarters of positive Same-Store Transaction Growth in Q2. That said, we remain cautious about potential fluctuations in Same-Store Sales Index.

Even with the many moving parts, we reiterate our 2025 full-year guidance of mid-single-digit system sales growth. We expect to ramp up net store openings as the year progresses: for the full year, we are on track to open 1,600-1,800 net new stores. In Q1, we opened 247 net new stores, with franchise stores accounting for 41% of KFC net new openings and 33% for Pizza Hut. Franchise net new store mix for the 2025 full year is expected to be lower. Mid- to long-term, our outlook is unchanged. We expect the franchise net new store mix to reach 40-50% for KFC and 20-30% for Pizza Hut over the next few years.

We also target to maintain or slightly improve Core OP margins for the full year.

On the Cost of Sales front, we anticipate modest year-over-year improvements compared to 2024, remaining between 31 and 32%. We expect no material impact from tariffs, as over 90% of our procurement is sourced locally. The direct impact from US imports on our cost is expected to be minimal. Additionally, we have evaluated the indirect impact of tariffs on our upstream suppliers. Alternative raw material solutions are available along our supply chain, so we're protected at the moment, but we will monitor the situation closely.

Moving on to Cost of Labor. We continue to face pressure on total rider costs driven by rapid delivery growth. Our goal for non-rider costs is to keep them stable by offsetting the wage inflation of frontline staff through more automation, simplification and centralization.

In terms of Occupancy and Other, as a percentage of sales, these are likely to stay relatively stable year-over-year. We continue to explore optimization opportunities to offset cost increases.

By brand, we expect restaurant margins at KFC to be healthy and stable year-over-year and Pizza Hut's margins to improve in the mid- to long-run.

Lastly, we expect our G&A expenses as a percentage of revenue to slightly decrease and the effective tax rate to be in the high twenties.

In terms of quarterly phasing, we expect tougher year-over-year margin comparisons later in the year. More meaningful benefits started to trickle in from Project Fresh Eye in Q2 2024, and from Project Red Eye, in the second half of 2024.

Overall, we are working hard towards our full-year targets. Let me pass it back to Joey for her closing remarks. Joey?

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thank you, Adrian. Now, let me spend some time on our strategy.

Like everyone else, we are navigating choppy waters. But we have an excellent team capable of turning challenges into opportunities. We will stay alert and concentrate on what we can manage. Our customers continue to love our brands, our delicious, innovative food, and our very affordable prices. Our widened price ranges fueled healthy transaction growth.

We also offer abundant emotional value to customers. The 85th anniversary of KFC's Original Recipe Chicken (原味鸡 85 周年) brought back childhood memories for our customers. Pizza Hut celebrated Chinese New Year by wishing them good fortune with the Fortune Cat Crust pizza (招财猫饼底). We also collaborate with top IPs to offer member-exclusive deals through our own online and offline channels. A notable example was our campaign with the popular Chinese mobile game Identity V (第五人格). We included tangible and virtual accessories with our meals, successfully engaging many young customers.

Besides our amazing food and value, we offer exceptional convenience. With over 16,000 stores in 2,300 cities across China, we are rapidly expanding our store portfolio and deepening our reach. Our innovative and flexible store models help us profitably expand our addressable market and capture additional dining opportunities.

At KFC, KCOFFEE sustained strong growth in Q1, with both cups and sales up around 20% year-over-year. We see huge growth potential by leveraging KFC's customers and membership base. In particular, a large majority of our members have yet to try KCOFFEE. By utilizing KFC's footprint, KCOFFEE Cafe is expanding rapidly in this high potential market. The incremental investment is light; both equipment and resources can be shared. With 1,000 KCOFFEE Cafes now, we're aiming for 1,500 locations by the end of 2025, which is 200 more than our original target. On the menu side, in addition to our signature Sparkling Americano (气泡美式), we introduced premium Geisha beans (瑰夏咖啡豆) for coffee lovers at just 12.9 RMB. We also launched a Matcha (抹茶) lineup for tea drinkers, boosting afternoon sales. Having coffee in the morning and tea in the afternoon is a great way to stay energized.

At Pizza Hut, WOW is a simpler and more efficient model. Compared to the regular Pizza Hut, WOW's per person spending is lower. Its simpler menu, entry price point products and sharp value for money appeal to young people and solo diners. As we fine-tuned the model, restaurant margin has expanded year-over-year. Building on the successful conversion of some Pizza Hut stores to the WOW model, we have started opening new WOW stores. A brand-new WOW store's capex can be as low as half of a regular Pizza Hut store. With reduced capex, lower per person spending and simplified operations, WOW seems suitable for lower tier cities, thereby expanding Pizza Hut's addressable market.

Turning to our dual focus on operational efficiency and innovation.

Our approach is to rethink our operations from fresh perspectives. Over the past 2 years, we launched Project Fresh Eye and Project Red Eye. These initiatives will continue to benefit us far into the future. We have streamlined our menus, simplified food preparation, centralized certain processes, and deployed more automation. Our innovative approach enables us to maintain consistent standards for quality and service.

Technology and innovation play a crucial role in boosting efficiency. Our end-to-end digitalization covers key operational processes, from customer service and quality control to staffing and inventory management. There are numerous examples. Just to name a few, we leverage AI to analyze customer feedback from various platforms. This means we can swiftly adjust our operations after a new product launch, often within just a day or two. In our digital customer service center, Generative AI helps customers resolve around 90% of issues before they reach our team. We are also exploring the use of robotics to further advance our operational capabilities.

Before we turn to Q&A, I'd like just to recap the three key takeaways from today.

First, KFC continues to be a resilient fortress, performing well through both good times and bad. Pizza Hut has maintained its positive momentum following last year's inflection point.

Second, we are broadening our addressable markets with expanded menus, widened price ranges and innovative models. These include our KCOFFEE cafe, as well as KFC small-town mini and Pizza Hut WOW models.

Lastly, we remain committed to our dual-focus strategy of enhancing operational efficiency and fostering innovation to capture the amazing opportunities in China and create long-term value for our shareholders.

With that, I will pass it back to Florence.

QUESTION AND ANSWER SESSION

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

Thanks, Joey. Now we will open the call for questions. In order to get more people the chance to ask questions, please limit your questions to one at a time. Operator, please start the Q&A.

Operator

Thank you. As a reminder, to ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one, again. Please stand by while we compile the Q and A queue.

Our first question comes from the line of Lillian Lou from Morgan Stanley. Please go ahead. The line is open.

Lillian Lou - Morgan Stanley - Analyst

Hello, can you hear me?

Joey Wat - Yum China Holdings - Chief Executive Officer

Yep.

Lillian Lou - Morgan Stanley - Analyst

This is Lillian. Okay. Thanks, Joey and Adrian and Florence. My question is more on the competition and the demand trends. After first Q, we've been seeing a bit general consumption slowdown post Chinese New Year. So I want to understand any kind of new update of our business trend. And in particular, since April, we all know that JD started to push on delivery with big subsidies, and a lot of our competitors and the local players are joining. So, any impact to our business so far and our strategy for this, for the aggregator competition if such competition is going to last for the longer run. Thank you.

Joey Wat - Yum China Holdings - Chief Executive Officer

Thank you, Lillian.

So far, our April performance is in line with our expectations, and we have not observed any significant negative impact. But, yet we continue to be watchful. Let me comment on the consumer trends and then touch upon the JD question. As I mentioned, we really have not observed any significant negative impact on our business. But of course, the situation remains fluid. And we will continue to be alert and monitor the trends with multiple scenarios marketing planning.

So, with all these macro sort of challenging environment, I just want to point out that we have successfully navigated a wide range of market conditions in the last 30-some years. Even in the last few quarters, we have faced challenging market conditions for some time. But we have consistently demonstrated our ability to thrive in both good times and bad times.

I would like to make three points about the consumer sentiment. Point one is we are in China and dedicated to serving the Chinese people. And both KFC and Pizza Hut have a well-recognized brands beloved by Chinese consumers. We serve over 2 billion customers annually. We have earned very strong customer support and established deep connection with them. And in general, Chinese consumers have become more rational, sophisticated and very pragmatic. Point two is we are also well recognized for supporting millions of jobs in China and giving back to the community. You know, some examples, 18 years of one-year donation and then food bank in over 1,000 store, et cetera, et cetera.

And three is our suppliers and franchisees and business partners are very supportive, so we have good momentum. In terms of competition, in terms of the question regarding the JD, I would like to make two points, Lillian. One is, we are open to work with all platforms. Our goal is always to serve customers where they are and attract new customers. With that, we do things at our own pace, we always balance short-term and long-term considerations.

Second point is even as we expand our aggregator platform—and by the way, we have continued to grow our delivery business for 11 years, and we just deliver another double-digit or 13% increase in delivery business—we continue to maintain strong control of our business. Over 70% of our sales are outside the delivery aggregators. So, these 70% business include dine-in, takeaway and our own, very own delivery channels. Our own APP exclusive perks further drive customers. So that's where we are. And I think as of yesterday or today, there's another company stepping up delivery and competition. So we will remain watchful. And then we'll balance our strategy in the short and long-term, Thank you, Lillian.

Lillian Lou - Morgan Stanley - Analyst

Thanks a lot, Joey. That's very helpful.

Operator

Thank you. We will now move on to our next question. Our next question comes from the line of Michelle Cheng, Goldman Sachs. Please go ahead. Your line is open.

Michelle Cheng - Goldman Sachs - Managing Director

Hi Joey, Adrian and Florence. Thanks for taking my question. My question is regarding Pizza Hut, the first quarter Pizza Hut same-store sales and margins were really impressive. Especially, we know that actually first quarter last year the same store sales base was high, given the all-you-can-eat campaign. So, can you share with us how do you think about the same-store sales trajectory in the rest of the year?

In the second quarter, we know we launched the all-you-can-eat campaign again, so, on top of that, we have easier base supposedly for second quarter last year. So should we have a better expectation on the same store sales? And also on margins, with the all-you-can-eat campaign, how these will impact the near-term margin while these WOW efficiency gain and the same store sales operating leverage is positive and this will be a positive driver for the rest of year. So just wondering that for the rest of the quarter, how should we think about the good performance in first quarter to carry on to Pizza Hut?

Thank you very much.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Michelle.

Yea, if it's okay with you and let me take this chance to actually address the question for both Pizza Hut and KFC and the Group as a whole. Obviously in terms of SSSG, your question breaks down to two parts. One is top line and one is the margins. I'll speak of top line first. In terms of SSSG, the market environment is still quite evolving and complex. Consumers stay rational, and as Joey mentioned, while we have not observe any significant negative impact of our business to date, we continue to be watchful for the development. And April trading is generally in line with our expectation. But it's worth noting that for the month of June, we have a tougher lapping for that month.

So overall for quarter two, we're striving to achieve 10 consecutive quarters of positive same-store transaction growth. Amid the uncertain market conditions, we remain cautious about the potential fluctuations in same store sales index. And this comment is actually true for both KFC and Pizza Hut. And now comes down to margin, right, specific to Pizza Hut, indeed the Pizza Hut all-you-can-eat campaign that took place in Q1 last year was shifted to quarter two this year. So there is, you know there's a quarterly shifting on the margins.

But broadly speaking, in terms of the margin and outlook for the two brands respectively, I would say there is no change to our 2025 full year guidance on margin. We expect the core OP margin for the Group as a whole to stay either steady or slightly improve. That's our guidance provided three months ago.

And by brand specifically, we expect the restaurant margin for KFC to be healthy and stable year over year in this year and also over the mid to long run. And for Pizza Hut margin to slightly improve this year and for mid to long run, hopefully, the restaurant margin for Pizza Hut will improve in a bigger magnitude compared to this year.

On the top line, you know, the top line is obviously a very important factor, you know, deciding on the restaurant margin. We reaffirm our guidance for the top-line growth, which is a mid-single digit growth in the system sales. And then I also like to take this opportunity to provide some more color on the line-by-line margin outlook.

For COS, as I mentioned, there is a quarterly shifting for Pizza Hut's all-you-can-eat campaign, but more broadly speaking for COS as a whole, we expect modest improvement year over year this year over last year, mainly driven by the benefits of Project Red Eye and deflation. And we continue to look to return much of the benefits to our consumers, we continue offering great value for money to our consumers. And breaking down into these two brands, specifically, we expect the COS for KFC to remain in the range of 31% to 32% for the full year. And for Pizza Hut to be in the range of 32% to 33% for the full year. And again, both these percentage will have a modest improvement year-over-year this year over last year.

For COL, you know, as mentioned in the previous earnings release, we face some headwinds on the COL front, particularly, you know because of the increase in delivery mix. Although the delivery cost per order decreased this year, but you know the, driven by the increase in delivery mix, the overall rider cost as percentage of sales will increase for the Group and for the two brands this year. And we'll make all efforts to try to offset the wage inflation, which is, you know, kind of the non delivery part, by the efficiency gain by the simplification, automation and centralization. So try to keep the non delivery part of cost of labor to be stable year over year.

And then comes to occupancy and other costs as percent of sales, that line item is likely to be stay stable and we continue to explore optimization opportunities to offset the cost increases within that line item.

And I think it is very important to note and as you also alluded to in the question, there is a quarterly phasing for the margin. We expect tougher year-over-year comparison on both restaurant margin and operating profit margins later in the year. And this is because more meaningful benefits started to trickle in for Project Fresh from Q2 of last year and from Project RedEye from second half of last year. And obviously, the tailwinds from the favorable commodity prices will be narrowing in the second half of this year as well.

And lastly, a couple of items of interest income will obviously be lower as a result of lower cash balance, given we significantly stepped up our shareholder return. And also there may be some headwinds on foreign exchange rate. And, you know, I guess one last item is the mark to market equity investment impact on Meituan that's a bit volatile quarter-over-quarter and year-over-year.

So overall, we maintain and reaffirm our annual guidance on margin and our top line. And then, you know, in terms of the line-by-line color, as I described.

Thank you, Michelle.

Michelle Cheng - Goldman Sachs - Managing Director

Thank Adrian for the very detailed line-by-line explanation.

Operator

Thank you. We'll now move on to our next question. Our next question comes from the line of Brian Bittner from Oppenheimer & Co., please go ahead. Your line is open.

Brian Bittner - Oppenheimer & Co. - Managing Director

Thank you. Hi. Just for your investors outside of China, can you just maybe talk more about the consumer environment in China and how it's evolving so far in 2025? Are you seeing any positive indicators of may be a potential inflection moving forward in the consumer?

And separately, just, I wanted to address the transaction growth, particularly at KFC it's been very solid transaction growth, up 4% in the first quarter. Can you help us understand how this compares to the industry? What is the industry transactions looking like, so we can understand how much market share KFC is taking recently. Thank you.

Joey Wat - Yum China Holdings - Chief Executive Officer

Thank you, Brian. Let me start with the consumer sentiment. We have not seen sort of very different consumer sentiment change so far. But if I could make some general comment of the consumer preference and that sort of reflecting in our numbers is the preference toward sort of the wider price range and products with even better entry price and still very innovative food.

So that is still working for us. And therefore, you know, you can see our transactions are growing very nicely both in terms of our food business and drink business. So, the food business is the breakfast and then the delivery business as well. We have captured very nice incremental sales from lower delivery order, particularly in lower-tier cities. So that helps a lot because the delivery, the delivery transaction for KFC, the TC growth actually is 24%, while the delivery sales is 13%. A similar trend in Pizza Hut, while the Pizza Hut also achieved 13% growth in delivery, the transaction growth for the sort of lower TA about 30 to 60 TA is actually over 50% growth. So that gives you a sense of where we are going.

And also in terms of drinks, I just want to quote you one number. Our KCOFFEE, so the coffee that we sell in all our KFC stores, the increase of cups and sales is actually 20%. So that is sort of overall, overall direction. And I think you know, we see sort of similar trend in the industry, but I'm happy to report in both KFC and Pizza Hut based on our limited information because it's a very fragmented market in a way, we see some meaningful increase of our market share, particularly in the delivery business.

So, so I hope that gives you a sense about where things are. And going forward, we still stick to our focus. Still focus one is innovation. That means innovation in food, in everything we do. And then operational efficiency. And you know, and that's where we get our margin from and supporting our innovations. One last interesting introduction of the innovation, look at our KCOFFEE business, not only coffee, we're actually moving to tea as well. So, I hope that gives you a flavor of where things are, Brian, thank you.

Brian Bittner - Oppenheimer & Co. - Managing Director

It does. Thank you, Joey.

Operator

Thank you. We'll now move onto our next question. Our next question comes from the line of Chen Luo from Bank of America. Please go ahead. Your line is open.

Luo Chen - Bank of America - Analyst

Hello?

Joey Wat - Yum China Holdings - Chief Executive Officer

Hi. Yes?

Luo Chen - Bank of America - Analyst

Yes, hi. Hi, Joey and Adrian agencies, this is Luo Chen from Bank of America. First, congrats on the same-store sales growth turning flattish in Q1. And just now also here you mentioned, 第五人格 (Identity V) and it happens that my daughter is a big fan of 第五人格 (Identity V) so that actually means for me.

Yes, so my question is regarding the new store expansion. And in our earnings announcement, I noticed that new store contribute around 4% revenue growth, despite around 11% something new store year-on-year growth. And last quarter, in Q4 last year, the new unit growth also contributed only to roughly around 5% revenue growth.

So if you do the math, if we compare the revenue growth from new stores divided by the new store expansion pace, so this gives you roughly around 40% something ratio. I understand that we tend to open smaller and smaller stores and I guess this could represent the long-term trend in the future.

Is it fair to say that in the foreseeable future, because of our mix shift towards the smaller stores, for around 10% to 11% new store expansion, we can only expect around 4%, or at best 5% something, revenue growth from new stores because of the dilutions of the smaller new stores opened? That's my question.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Luo Chen. Yes, let me address the question quite directly.

I think for this year, as we mentioned in the prepared remarks, in terms of the growth rate in our top line, we do expect the system sales growth to be in the mid-single-digit range. So that's a reaffirmation of our guidance. And we target to open, you know, 1,600 to 1,800 net new stores. And obviously, there's some timing -- quarterly timing shifts for the net-new open this quarter versus the rest of the quarter of the year.

And then specific to your question on the 4% of net-new units contribution to the top line. You mentioned the 10% of net-new store increase as a percentage. But obviously, that's end of the quarter store count. And even with all, all the end of store, end-of-quarter store count growth rate the same, the store week when we open or close the store within the quarter is actually a very important factor as well. So, you know, the end of the quarter store count only tells one side of the story.

And then obviously on the 4% new unit contribution, we are opening smaller stores as we expand into lower-tier cities. Around 70% to 80% of our new stores in this quarter are smaller stores, that's opening this quarter, are smaller stores. And as we guided to the market previously, in the previous earnings release, new-store sales are around 50% to 60% of our mature stores in terms of the weekly sales. And there's a ramp-up period for the new-store sales too. We mentioned previously that's normally three years of ramp-up period when the new-store gets to a mature store.

And importantly, our new-store remain very healthy and maintain very healthy payback periods and profitability. Specific to this quarter, right, in addition to the smaller store factor, this quarter, we strategically closed more stores to enhance the strength of our overall store portfolio, as we mentioned in the prepared remarks, and the net-new store -- net-new store open figure will normalize as the year progresses.

So that's more of this year, right? But speaking of mid to long-run, you know, if we open, let's say, 10%, 11%, 12% of net-new stores in the quarter-end figure, what's the system sales growth rate? Will that be mid-single digit or low-single digit or high-single-digit?

I guess the store week and the smaller store is one-side -- one aspect of the algorithm. The other aspect, important aspect, is the same-store sales growth. And as we mentioned just now, we remain cautious on the near-term, especially this year same-store sales index. You know, there may be some fluctuations there. In the mid to long-run, obviously, we don't have the crystal ball. We will control things within our control and continue to deliver excellent value-for-money for consumers. And then if we can have some benefits in the mid to long-run same-store sales growth, that will benefit the top-line system sales as well. Luo Chen, hopefully that address your question.

Luo Chen - Bank of America - Analyst

Thank you. So that's very helpful. I also look forward for your more cooperation with more IPs because my daughter is really a big fan of all different kinds of IP. Thank you.

Joey Wat - Yum China Holdings - Chief Executive Officer

The IPs are super to offer emotional values for young people, which is as important as the value sort of in the physical world; the virtual world, physical world, we have to take care of both these days.

Luo Chen - Bank of America - Analyst

Yes, totally agree. Absolutely.

Joey Wat - Yum China Holdings - Chief Executive Officer

Thank you.

Operator

Thank you. We'll now move on to our next question. Our next question comes from the line of Christine Peng from UBS. Please go ahead. Your line is open.

Christine Peng - UBS - Head of Greater China Consumer Sector

Hello. Thank you for the opportunity to have the question. So my question is about the KCOFFEE. So Joey, you mentioned that the, this year you plan to open 200 more KCOFFEE stores than your initial target. So can you share us more long-term view towards this KCOFFEE? And I was also wondering, what's the impact on the KFC store economics by opening KCOFFEE side-by-side.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thank you, Christine. In the long term, we are committed to the KCOFFEE business and particularly the K Cafe business because we see very promising growth momentum of this particular business.

Right now, our target is 1,500 cafe by end of 2025, 200 more. And we only started last year. And the most promising bit is huge, huge percentage of our members have yet tried the KCOFFEE and that is fantastic base.

And in terms of the top line and bottom line, the top line is very nice addition. Additional same-store sales growth for the stores with the KCOFFEE Cafe, I mean it's still sort of low-single digit, but it's very nice to that particular store.

And then in terms of bottom line, because we share the equipment, we share the location, we share the cost of labor. So the bottom line is very protected as well. So these two are both very important to our business as well.

And if I could comment on the third bit, which is the business bit, the menu, the ambience and the menu include the food and drink, we are making very good progress. And although we only start to open the KCOFFEE Cafe last year. But in 2024 alone, we launched 52 coffee drinks or food items and we already have some very nice signature product like the sparkling coffee, like the gigantic egg tart and some really quirky, that quirky is the right word to describe this product, our Original Recipe Chicken Latte is a bit challenging in terms of name, but I can assure you that the taste is really quite good.

And then this year, we are moving on to introduce a more premium Geisha beans for just RMB12.9. So the product itself are getting into the mindset of the customer. And as I mentioned earlier, we even start to launch the matcha drink. And as of right now, we sell Longjing, the tea leaf, Longjing with latte as well. So we are committed and we are very positive about this KCOFFEE Cafe, not only it drives the uplift in top line, but it also drives incremental profit. Thank you, Christine.

Christine Peng - UBS - Head of Greater China Consumer Sector

Thank you, Joey.

Operator

Thank you. We'll now move on to our next question. Our next question comes from the line of Sijie Lin from CICC. Please go ahead. Your line is open.

Sijie Lin - CICC - Analyst

Hi, thank you Joey and Adrian. I have one question. So we are doing good on new products, new store model, high operational efficiency and we're also doing good on brand marketing. But regarding the brand marketing, maybe there are some new trends in the market.

For example, some are focusing on healthiness. Some are focusing on the emotional value, we just talked about that. For example, choosing like brand ambassadors, joint brands, IP toys that are popular among consumers. And maybe some are connecting the brand promotion with product and innovation. So do we have any new observations and involving plans regarding these aspects regarding the brand marketing? Could you talk more about this? Thank you.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thank you, Sijie. I'll try to respond to your question in two ways. One is, our strength in brand marketing certainly is shown through our ability to market fried chicken or pizza brand almost as a bit of fashionable brand. We always stay in touch with our consumers in terms of their preferred IP and something relevant to them and we would like to believe that we grow with them. We grow up with them or we grow with them, period. So we'll continue to do that, and it seems that we've been doing it reasonably successfully.

And then you also asked about other trends in terms of healthy food, et cetera, et cetera. Well, I mean, we plan to introduce this concept to our investor and all of you guys in our Investor Day. So please, so I'll just take a chance to make an advertisement for that. Is the, is the module, it's a module called KPRO and some of you guys have already tried a product.

So what is KPRO? It's a module. Again, we continue to share the KFC store space and membership and equipment, everything. Why sharing? Because the incremental investment is very light. And we have some of these stores in Beijing and Shanghai, in particular. And the menu is very different. And they are sort of very focused, it means very short menu there, particularly focused on energy bowls and smoothies.

So what we call this is the lighter meals. And these consumers, or customers, they are -- they're also our KFC members, but we just serve them with slightly different food. And so far, we really like what we have seen in both Shanghai and Beijing. Actually, there are some stores in Shenzhen as well. So if you cross the border from Hong Kong, in Shenzhen, you can try the product. I mean, I like it myself very much and so as our KFC members.

So we do try to offer a slightly different food to our customers. And it's hard to just talk about the new concept without trying the food and without you guys seeing how it works. So we are looking forward to build more of these stores, particularly in tier 1 and tier 2 cities. And then hopefully, we'll have a chance to introduce a full menu -- not full menu, but a wider range of menu to you guys when you come to the Investor Day later on the year.

I'll pause here. Thank you.

Sijie Lin - CICC - Analyst

Thank you, Joey. Looking forward to the Investor Day, the new product and new concept. Thank you.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Yes. And if I can add on the Pizza Hut, we have amazing innovation as well. And last year, we have tried the WOW, Pizza WOW menu and we'll continue to streamline the menu and we continue to work on the menu. Obviously, we will include that in the Investor Day as well. Thank you.

Operator

Thank you. Due to time constraints, this concludes our question and answer session. So I'll hand the call back to Florence for closing remarks.

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

Thank you. And thank you, Joey and Adrian. This concludes our Q&A session.

Before we end the call, as Joey mentioned, we're going to host our Investor Day later this year. It will be in November in Shenzhen, a tier 1 city in China. We will provide more details in due course. Thank you for joining the call today. Thank you.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thank you.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you. Bye, bye.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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