YUM CHINA
2Q25 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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MANAGEMENT DISCUSSION

Florence Lip - Yum China, Senior Director, Investor Relations

Thank you, operator! Hello everyone. Thank you for joining Yum China's second-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.

I'm excited to share that we delivered solid results once again in Q2. Thanks to the dedication of the entire Yum China team, we achieved second-quarter record highs in Revenue, Operating Profit and OP Margin. Our dual focus strategies have played a crucial role.

First, our emphasis on both Same-Store Sales and System Sales Growth is bearing fruit. Q2 Same-Store Sales Growth turned positive at 1%. Same-Store Transactions grew for the 10th consecutive quarter. We achieved this while opening 336 net new stores in the quarter. System Sales growth reached 4%, showing a sequential improvement of 2 percentage points. This aligns with the mid-single-digit range we targeted for the full year.

At the same time, our margins and profit increased significantly despite our large scale. Restaurant Margin improved by 60 basis points and OP Margin by 100 basis points year-over-year. Operating Profit grew 14% to $304 million.

By brand, KFC remained resilient, achieving 5% System Sales Growth and a very healthy Restaurant Margin in Q2. The brand now operates over 12,000 stores in more than 2,400 cities, having entered around 300 new cities during the past year. We are rolling out innovative modules such as KCOFFEE cafes, leveraging KFC's store space, various in-store resources, and membership to drive incremental sales and profit, both online and offline. Pizza Hut sustained its momentum, achieving 2% Same-Store Sales Growth in Q2. Our new menu resonated with consumers, contributing to a 17% increase in Same-Store Transactions. The brand now comprises over 3,800 stores and 900 cities, having entered around 150 new cities during the past year. Pizza Hut's margins also improved in the first half through our efforts to streamline and automate operations, and enhance supply chain efficiency.

Our sales initiatives were instrumental in driving our results. By offering innovative and good food at great value, we achieved over 1 billion total transactions in the first half, setting a new record.

At KFC, we added creative twists to our well-loved classic products like Zinger (香辣鸡腿堡). In Q2, for a limited time, we launched a new flavor, Crazy Spicy Zinger (疯辣鸡腿堡). The extra spicy chicken and eye-catching red tint drove excitement. Total Zinger sales soared by over 30% during the promotion period. In spicy-loving provinces like Jiangxi and Sichuan, Crazy Spicy Zinger sales were especially high.

At Pizza Hut, we took our thin-crust pizza to a new level and showcased our expertise. This new thin-crust pizza (手作薄底披萨), hand-crafted with lighter dough, features a 10-inch size that allows for more cheese and toppings. This pizza is perfectly crispy and satisfying. Customers love it! Pizza Hut also brought back our popular all-you-can-eat campaign. For limited periods each year, we offer our customers an indulgent meal at an excellent value. This time, the menu featured juicy Tomahawk steaks (战斧牛排), flavor-packed seafood, exotic durian pizzas and more. The campaign generated genuine excitement and drew in a wave of new and young customers eager to savor the diverse and abundant choices.

Emotional value is equally important to our customers. On Children's Day, we achieved the highest daily sales yet in 2025. By partnering with beloved classic IPs like Hello Kitty and Pokémon, we sold over 4 million meal sets with delightful toys during the promotion. These collaborations sparked social buzz and attracted a wide audience, both children and adults. The star of the show was a Hello Kitty-shaped camera toy, which became an instant hit.

In Q2, delivery sales were around 45% of the total sales mix, up from 38% in Q2 last year. The growth was driven mainly by deals on our own channels and increased promotions on delivery platforms. We are open to working with all platforms, but at our own pace. Our goal is to serve customers where they are. By June, all our brands were listed on major third-party delivery platforms.

Leveraging platform traffic, we increased exposure for our emerging businesses, such as KCOFFEE cafe, and attracted new customers to our core brands. We use a balanced approach, driving top-line while protecting margins. In addition to capturing sales opportunities in a disciplined manner, we carefully manage price perception and pursue other long-term benefits.

As a reminder, sales outside the delivery aggregators account for around 70% of our total sales. Our own channels, including SuperApp and mini programs, offer exciting, exclusive deals and membership privileges, continuing to enhance member stickiness.

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

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Joey. Let me start with KFC.

In Q2, KFC System sales increased 5% year-over-year.

Same-Store Sales grew 1%. Our Same-Store Transaction Index remained even with last year. The Ticket Average increased by 1% to 38 RMB. Strong growth in smaller orders caused a downward trend in the ticket averages for both delivery and dine-in. This was offset by a higher delivery mix, which carries a higher ticket average, resulting in a slight increase in overall ticket average.

KFC expanded its Restaurant Margin by 70 basis points through favorable commodity prices driven by supply chain efficiency gains and through streamlined operations. Operating Profit grew 10% year-over-year to 292 million USD. We added 295 net new stores in Q2, bringing our total to 12,238 stores. New store payback remained healthy at 2 years.

New stores bring us closer to our customers. And our side-by-side module, KCOFFEE cafe, increases the number of occasions we can serve them. This quarter, we opened 300 KCOFFEE cafes, bringing our total to 1,300 locations nationwide. Average cups sold at KCOFFEE cafes continued to increase in the quarter, bolstered by our menu innovations and growth in delivery. This summer, our Iced Sparkling Americano became increasingly popular, representing over half of beverage sales in June. We offered a wide range of Sparkling flavors, from our signature Apple Flavor to our new Lychee Brandy Flavor. KCOFFEE cafes have been effective in driving incremental traffic, sales and profit. Given the progress we have achieved in the first half of the year, we are raising our 2025 target from the previous 1,500 to 1,700 locations.

Let's now turn to Pizza Hut. Pizza Hut has sustained its growth trajectory since reaching an inflection point in 2024. Same-Store Sales Growth turned positive to 2%. Same-Store Transactions grew significantly by 17%. The ticket average was 76 RMB, 13% lower year-over-year. These results align with our strategic focus on mass market positioning and are supported by healthy margin expansion. System sales in Q2 grew by 3%. Pizza Hut's moderate system sales growth relative to its same-store sales growth was due primarily to strategic optimization of the brand's store portfolio. We closed some larger, underperforming stores and opened new, smaller stores. The total store operating weeks were also affected by the timing of closures and openings. Store closures came earlier, while store openings were later. We expect both factors to normalize in the second half of the year.

Q2 marks the fifth consecutive quarter of year-over-year margin expansion for Pizza Hut. Our enhanced operational efficiency offset the impact of all-you-can-eat campaign. Restaurant Margin expanded slightly to 13.3% and Operating Profit grew by 15% year-over-year. Pizza Hut reached **3,864 stores** with the addition of 95 net new openings in the second quarter. New store payback remained healthy at 2-3 years. We remain confident in achieving double-digit percentage net new store growth for Pizza Hut in 2025.

Pizza Hut WOW stores are making progress. We saw a meaningful improvement in profitability for the converted WOW stores. We also opened new WOW stores in over 10 new cities where Pizza Hut has no existing presence. The latest capex per store range from 650K to 850K RMB. With streamlined operations and lower entry price points, our WOW model broadens Pizza Hut's addressable market, enabling it to enter lower-tier cities more effectively.

Let me now go through our Q2 P&L.

System Sales grew 4% year-over-year, within the range of our full-year target. Same-Store sales grew 1%, turning positive.

Our Restaurant Margin was 16.1%, 60 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 31.0%, 50 basis points lower year-over-year. Ongoing benefits from Project Red Eye, along with favorable commodity prices, contributed to the improvement. We passed some of the savings on to customers, offering great value for money.

Cost of Labor was 27.2%, 90 basis points higher year-over-year due to higher rider costs as a % of sales. While we continued to lower rider cost per delivery order, the higher delivery mix led to higher rider costs overall. Non-rider costs as a % of sales remained stable year-over-year. And our efforts to optimize operations offset low single-digit wage inflation.

Occupancy and Other was 25.7%, 100 basis points lower year-over-year, as a result of cost optimizations in a number of areas, notably utilities and streamlined operations.

G&A expenses were 4.7% of revenue and 30 basis points lower compared to 5.0% in the prior year. Project Fresh Eye generated incremental benefits year-over-year.

Our OP Margin was 10.9%, 100 basis points higher year-over-year, driven by improved Restaurant Margin and G&A. Operating Profit was 304 million USD, growing 14% year-over-year. Core OP also grew 14% year-over-year.

Effective effective tax rate was 25.8%, 60 basis points higher year-over-year, primarily due to increased cash repatriation resulting in higher withholding taxes.

Net Income was 215 million USD, growing 1% year-over-year. As a reminder, we recognized 6 million USD less in interest income in Q2 this year due to a lower cash balance, resulting from the cash we returned to shareholders. Our mark-to-market equity investments also had a negative impact of 14 million USD in Q2, compared to a positive impact of 6 million USD in Q2 last year.

Diluted EPS was 58 cents, growing 5% year-over-year or 15%, excluding the mark-to-market equity investment impact.

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

In the first half of the year, we returned a total of 536 million USD to shareholders, including 356 million USD in share repurchases and 180 million USD in dividends. For the second half of 2025, we announced our share repurchase agreements totaling 510 million USD, a 43% increase from our share repurchases in the first half. Assuming a quarterly dividend of 24 cents per share, we expect to return at least 1.2 billion USD in 2025.

We remain committed to returning 3 billion USD to shareholders from 2025 through 2026, on top of the 1.5 billion USD in cash we returned in 2024. The average annual capital return is around 8-9% of our market cap. We maintain flexibility regarding the split of capital returns to shareholders between the two years, taking into account factors such as stock price, market conditions and our cash needs. Our cash position remains healthy, with 2.8 billion USD in net cash as of the end of the quarter.

Finally, turning to our 2025 outlook.

Despite the complex and fluid market conditions, we are reiterating our full-year targets for net new store openings and system sales growth. We are revising our full-year outlook on Restaurant Margin and Core OP Margin to reflect our first-half performance and our latest expectations for the second half. Let me provide additional color.

In terms of store openings, overall, we anticipate a ramp-up in net new store openings in the second half of this year, with more gross openings and fewer store closures. We have a solid pipeline and remain confident in achieving our target of 1,600-1,800 net new stores in 2025.

We expect the franchise store mix of net new openings for full year 2025 to be similar to the first half, which was 41% for KFC and 26% for Pizza Hut. That means we will meet our guidance of 40-50% for KFC and 20-30% for Pizza Hut ahead of schedule. We anticipate the franchise mix of our net new stores to further moderately increase within these ranges over the next few years.

With our store expansion plans unchanged, our target of mid-single-digit system sales growth for full year 2025 remains in place. This range is also applicable to the second half.

Predicting Same-Store Sales Growth is more difficult, as consumer spending remains rational. For Q3, we are working hard to achieve 11 consecutive quarters of Same-Store Transaction Growth. The ticket averages for both delivery and dine-in continue to show a downward trend, due to an increase in smaller orders. We aim to achieve steady Same-Store Sales levels year-over-year in the second half.

Regarding delivery, we maintain a disciplined approach to capturing sales. We leverage delivery platforms to enhance visibility and increase traffic especially for our emerging businesses. While sales from smaller-ticket beverage orders grew nicely, the overall impact on our business is more limited. Additionally, higher delivery mix results in higher rider costs. Our balanced and nimble approach enables us to drive sales while preserving price integrity and protecting margins.

Let me now go through our margin expectations for the second half. All comparisons are stated on a year-over-year basis. While we continue to enhance operational efficiency, we face tougher comparisons as more meaningful benefits from Project Fresh Eye and Red Eye were already in last year's base in the second half. Additionally, rider costs driven by a higher delivery mix continue to be a headwind.

For KFC, our aim is to maintain relatively stable Restaurant Margins. For Pizza Hut, we expect Restaurant Margin to slightly improve year-over-year, considering the impact of streamlined operations partially offset by higher delivery costs and a higher base versus the first half.

With G&A % improving a bit, we expect Yum China Core OP margin to also slightly improve. As Q4 is traditionally our low season, with smaller sales and profits, margins may be a bit more volatile.

With our outperformance in the first half, for the full year 2025, we expect the Restaurant Margin for KFC and Pizza Hut, as well as the Company's Core OP Margin, to moderately improve.

On the capex side, we are revising our full-year capex guidance down from around 700-800 million USD to 600-700 million USD, mainly due to lower capex per store.

With that, let me pass it back to Joey for her closing remarks.

Joey Wat - Yum China Holdings Inc - Chief Executive Officer

Thank you, Adrian.

Our end-to-end digitalization initiatives are central to our efforts to drive growth and efficiency. We've been working on this for over a decade. AI – both analytical and generative – is simply our latest iteration.

In June, we held our first-ever AI Day, which featured our very first Yum China employee hackathon. The enthusiasm for AI Day was extraordinary. Participating teams from across the country represented diverse backgrounds in operations, supply chain, finance and more. I was impressed by how they proactively identified frontline needs and tackled problems with innovative solutions. To support promising projects, we set up a 100 million RMB Yum China Frontline Innovation Fund and committed to making AI Day an annual event. Our employees are embracing new technologies like Gen-AI, and by doing so, they help us further deepen our strategic moat.

Our end-to-end digitalization is just that – it starts at our customers, extends to our RGMs and all the way back to our suppliers, and touches everything in between: customer service, our membership programs, store operations, store management, shared service functions, logistics centers, and upstream suppliers. We look forward to sharing more details during our upcoming Investor Day in November.

Before we turn to Q&A, let me recap the three key takeaways from today.

First, we achieved solid results in Q2 despite navigating a dynamic environment. Same-Store Sales Growth turned positive. System sales growth sequentially improved. Restaurant margin expanded year-over-year.

Second, we remain confident in achieving our full-year targets for 2025, including new store openings, system sales growth, and margin expansion.

And lastly, our new initiatives are shaping up well, expanding our addressable market for years to come. For example, KCOFFEE cafe leverages KFC's resources to scale up. Pizza Hut's WOW model is making meaningful progress in improving its profitability and helping us penetrate into lower-tier cities.

Our business remains resilient in a rapidly changing landscape. Our dual focus on operational efficiency and innovation continues to generate strong results. Looking ahead, we are confident in our ability to grow our brands, enhance our competitive edge, and unlock more opportunities in China.

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 give more people the chance to ask questions, please limit your questions to one at a time. Operator, please start the Q&A.

Operator

[Operator instructions] Our first question comes from the line of Michelle Cheng from Goldman Sach. Please go ahead. The line is open.

Michelle Cheng - Goldman Sachs

Hi, Joey, Adrian, Florence. Thanks for taking my questions. And congrats again for the very strong results.

So my question is about the delivery. So, we see our delivery business already grow very strong in second quarter. And this also led to a very solid same-store sales growth in second quarter. But given the elevated -- the delivery platform's promotion activities into the third quarter, can you share with us any thoughts about the upside in the business and same-store sales growth into third quarter?

And also, aside from the revenue, I think you touched base a little bit regarding the margin and also higher rider costs. But can you elaborate a little bit more on this impact on UE, we also heard that the platforms also want brands to participate in some of the promotion campaign. So this is my question.

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

Thank you, Michelle.

Let me give some context and Adrian can fill in more details. The biggest dynamic for Q2 indeed is the intense delivery platform competition, particularly in the small orders or related to drinks in our industry. What I want to provide a context is such a dynamic or disruption is not new to us. We've been through it.

The last time the platform competition was so intense actually was back to 2017. So we might have learned a thing or two for the quarter two. So one thing we really go back and focus on is really focused on building our core competency. So anything from food innovation, supply chain, digital, solid institution and providing value, compelling value to our customer is still the most important thing instead of buying sales.

As I mentioned in my earlier prepared remarks, 70% of our sales are outside the third-party delivery aggregators are still within our control. And for Yum China's approach for quarter two, we have adopt a balanced approach. Balanced approach in the short term to drive the top line, protect the margin and preserve the price integrity of our brands, which is incredibly important, actually.

But in the long term, we also look at how to build the long-term benefit to ensure sustainable growth throughout the last few months, interesting dynamics. With that, I'll pass it to Adrian to provide more details.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Sure. Thank you, Joey, and thank you, Michelle. I think Joey summarized pretty well on the delivery dynamics and our philosophy. And I'll briefly comment on the SSG outlook for the second half related to your question, Michelle. And then now -- and later, I'll go through the UE outlook as well.

As I mentioned in the prepared remarks, predicting SSG is more difficult, given the dynamic market and macro. Consumers stay rational and delivery platform dynamics are evolving, as Joey mentioned. And as a reminder, we faced tough comparison from the aggressive promotions and higher same store sales index back in the second half of last year.

With this said, we are working hard to achieve a steady same-store sales level year-over-year, as I mentioned in the prepared remarks, and 11 consecutive quarters of same-store transaction growth. And then coming to UE, we believe the main impact from delivery aggregators subsidy war is on our COL or rider cost. For our COL, we faced continued headwinds from higher rider cost, with higher delivery mix, even with the lower cost per delivery order, the rider cost as a percentage of sales are expected to increase.

We aim to maintain nonrider cost stable, offsetting the low single-digit wage inflation through more streamlined operations. Now I'll also briefly comment upon COS and O&O given this is related to UE as well. For COS, we expect it to improve year-over-year for the full year, with the ratio to be between 31% and 32% for YUMC and for KFC as well. For Pizza Hut, as I mentioned in one of the previous Q&A in the earnings call, we expect the full year COS to be 32% to 33%.

In the second half, we're lacking a more meaningful benefit from Project Red Eye last year. Turning from favorable commodity prices, as you can imagine, will gradually decrease or gradually reduce. We also dynamically adjust our promotional intensity depending on market conditions and competitive dynamics, obviously. And lastly, in terms of O&O occupancy and other costs, that as a percentage of sales is likely to slightly improve year-over-year for the second half as well.

We continue to explore optimization opportunities to offset cost increases. So overall, from a restaurant margin perspective, as I mentioned in the prepared remarks, for KFC, we expect that to be stable, relatively stable year over year for the second half, and we expect Pizza Hut's restaurant margin to slightly improve for the second half.

And then as a result, for Yum China as a whole, the restaurant margin, OP margin will slightly improve in the second half as well. So hopefully, that address your question, Michelle.
Thank you.

Michelle Cheng - Goldman Sachs

Yep. Thank you Joey, thank you Adrian. Congrats again.

Operator

We will now take our next question form the line of Lillian Lou from Morgan Stanley. Please ask your question.

Lillian Lou - Morgan Stanley - Analyst

Hey, thank you. Hey, Joey, Adrian and Florence.

I have a question about the new format since Joey mentioned this is very important for driving long-term growth, in particular for Pizza Hut WOW. Do we have store opening targets right now for this year and next year, given that it seems we have more confidence about the Pizza Hut WOW performance?

And also, Joey mentioned there has been meaningful improvement. Can you share a little bit more detail about the operation, i.e., what kind of margin level right now we are achieving or any targets we have on the profitability and also the growth pace? Thank you.

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

Thank you, Lillian. WOW concept is very exciting and we start our first store, I think, May last year. And then by now, we have over 200 stores now. All the fundamentals, the operations, the margin, we like what we see. And the exciting part, the most exciting part is among the over 200 stores, there are new stores opened in 10 cities that did not have stores., so its pretty new model in new city.

So again, we like what we see about the sales, the margin level and the OP level and that is incredibly important for the brand because for the past 12 months, KFC opened stores in 300 new cities and Pizza Hut opened in 150 cities. This is a much higher number of new cities compared to previous years.

And WOW, Pizza WOW model will be good to help Pizza Hut penetrate into lower-tier cities, because we talk about -- we know that and we have very clear understanding internally that between the KFC and Pizza Hut, the delta is 1,500 new cities. And historically, the traditional Pizza Hut model is not sharp enough to enter the lower-tier city, and now we have one. So that is incredibly exciting. And on top of many other things, in addition to WOW, that's why we suggest that 2024 with the inflection point and thus, more opportunity. So I'll pause here, Adrian, do you have a bit more?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Sure, sure. So in terms of the guidance on net new open for WOW store, Lillian, we are not giving guidance for an annual open for this particular model, given it's a new model. And especially given its potential significance within the Pizza Hut brand, we do take time to develop and further iterating evolve the model, and that's why we don't give new net annual open guidance. And you are right that we did meaningfully improve the profitability of the WOW model. Actually sequentially improve in all the line items, right, COS as a result of the Project Red Eye initiative, COL as a result of a more efficient and streamlined operation, labor scheduling and all that.

O&O, in terms of small wear, utilities and the AMP as well. So we do see a meaningful improvement in the profit. With this said, the profitability of WOW model for the converted store is still slightly less than the Pizza Hut as a brand overall, still less than the main model.

What is exciting is for the new stores, as Joey mentioned, right, we opened around 15 new stores for WOW. The capital expenditure is somewhere between RMB650,000 to RMB850,000 and the sales performance initially was quite encouraging.

And obviously, there might be some honeymoon effect there. So with the current sales level, the margin is actually pretty satisfactory. But we will continue observing the performance after the honeymoon period.

And once we get more concrete performance of both the new model or the new WOW store as well as the converted store, we'll provide more guidance on the financials as well as net new open for this particular model. But in a nutshell, we are quite encouraged by the WOW model development. It's one of the major breakthroughs over the past few years for Pizza Hut, and we continue to develop the model. Thank you, Lillian.

Lillian Lou - Morgan Stanley - Analyst

Thanks a lot Joey and Adrian. Thanks.

Operator

Thank you. Our next question comes from the line of Anne Ling from Jefferies. Please ask your questions.

Anne Ling - Jefferies LLC - Analyst

Thank you, high management team.

Also questions on Pizza Hut, just wonder what will be the like potential ultimate goal in terms of like the restaurant margin and as well as operating margin? If I take a look at all the way back to the year 2013, it can be as high as KFC right now with 19%, restaurant margin and 15% operating margin. But of course, it is a very different business model as well and a different price point, more high end.

So my question is based on the current model, what would it take to further improve the operating margin as well as the restaurant margin, or it is not realistic for me to aim at that kind of target over time.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Hi Anne, thank you for the question.

I would like to leverage this opportunity to do a little bit of advertising for our Investor Day, this November in Shenzhen. Obviously, at that time, we'll provide some more longer-term guidance, potentially including the Pizza Hut restaurant margin.

But just to briefly address your question, right. Speaking of Pizza Hut margin this year, as I mentioned in the prepared remarks, for second half, we expect the restaurant margin to slightly increase year-over-year for the second half. And with a pretty significant outperformance in the first half by 110 basis points in restaurant margin expansion. For the full year, the Pizza Hut restaurant margin is actually improving pretty moderately and pretty nicely.

And then speaking of mid- to long run, Pizza Hut margin. We do see opportunities for improvement in all the three key line items for Pizza Hut's margin. And that's why in the previous earnings, we did mention that in the mid- to long run, hopefully, Pizza Hut's restaurant margin will improve to somewhere between where it is today and KFC.

So speaking of KFC COS, right, last year, the Pizza Hut COS was roughly 32.7%. This year, we guided a year-over-year improvement in COS. But for the longer term, our optimal COS range is always 31 plus or minus 1%. So there's good room for financial improvement there.

For COL, currently, it's slightly north of 28% for Pizza Hut COL. And in the mid- to long run, given the efficiency improvement, given the streamline operations, given the automation and centralized of the processes, et cetera, we do see a little bit of COL improvement potential there as well.

And then for O&O, for A&P, right, as I mentioned in previous earnings, although we don't disclose the exact A&P split by the 2 brands, but Pizza Hut A&P is a bit higher than KFC and then we do see potential there. Depreciation, right you know, our previous capital standards for store at RMB1.2 million per store. And this quarter, as you noticed in our presentation, it's lower to RMB1.1 million to RMB1.2 million per store already.

So it's 5% to 10% down already. But if you think about the WOW store development, right, the capital expenditure for WOW store is 650K to 850K per store. So with all that, you can expect depreciation for Pizza Hut to also improve over the years to come.

So all in all, I would say there is good room for improvement for mid- to long run for restaurant margin. We have not yet give any guidance on quantitative or figure level, but we might do so in November. So let me advertise for Investor Day again, and thank you for that question.

Anne Ling - Jefferies LLC - Analyst

Ok, thank you, thank you.

Operator

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

Chen Luo - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Hi, Joey, and congrats again on the results. So my question is again related to the online platform delivery subsidy war starting from Q3. So is it fair to say that the majority of the subsidies are borne by the platforms and we only share a very limited portion of the subsidy. That's all my questions.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Luo Chen.

So in terms of the subsidy and whether the merchant contribute to the subsidy, it's actually rather dynamic. In general, as you can imagine, the bigger merchants, or bigger brands like ourselves, do enjoy more favorable subsidies and do enjoy a more favorable subsidy split.

So sometimes the subsidy comes to adding to the entirety of the platform's expense. Sometimes, we do share a split given it's very commercially sensitive, we are not able to give exact guidance on the split, but you can imagine for the larger merchants like ourselves, we are doing a more favorable subsidy arrangement and subsidies that hopefully, that address your question Lou Chen.

Chen Luo - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Just a follow-up question, if I may. So is it fair to say that the online platform subsidies won't have any major impact on our margins in Q3?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Well, Lou Chen, so we don't give quarterly guidance on margin. But for second half, right, as I mentioned, for KFC, we do expect the restaurant market to be relatively stable for the second half year over year. We do expect Pizza Hut margin to slightly increase for the second half year-over-year. This guidance actually took into account the subsidy by the aggregators and the current delivery dynamics. But for Q3 and Q4 split, we are not giving the guidance.

But I do want to give a reminder that quarter four is typically our smaller quarter with smaller sales and more smaller profitability. So it's a bit more volatile there. Thank you.

Chen Luo - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Ok got it. Very helpful, thanks. And congrats again.

Operator

Our next question comes from the line of Brian Bittner from Oppenheimer. Please go ahead.

Brian Bittner - Oppenheimer & Co Inc - Analyst

Thank you. And congrats on same-store sales turning positive in 2Q.

A big piece of this at KFC was the average check change. Average check went from a 4% drag in the first quarter to a 1% tailwind in this quarter. Can you just talk more specifically on what drove that trend change from 1Q to 2Q? And do you anticipate average check at KFC to remain positive in 3 and 4Q and into '26? Thanks.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Thank you, Brian. So indeed, KFC's ticket average was RMB 38 for quarter 2, which is enjoying 1% tailwind. The strong growth in smaller orders caused a downward trend in TA for both delivery and dine-in, as I mentioned in the prepared remarks. But this was offset by a higher delivery mix, which carries a higher ticket average for delivery. The mix impact actually more than offset the drop in tier in both the channels. For second half, we actually expect the downward trend in TA for both the delivery and dine-in to continue, and we aim to contain the YoY decline to low single-digit overall for KFC in the second half and maintain a relatively stable restaurant margin.

So, in other words, the impact of the decrease in TA for both the dine-in and delivery channel in the second half more than offset the increase in delivery mix and thereby, the TA for KFC will have a slight decrease year-over-year. And what I would like to caution is this decrease in TA is not necessarily caused by the promotion intensity with discounts. It's more caused by the mix and incremental small orders we're getting for both the dine-in and delivery channels. For instance, if you think about K-Coffee, the average TA is only mid-teens RMB, right? But that's incremental.

And that helps our incremental sales and profit. That's definitely -- it's rational for us to definitely do as much as a business like that as possible, right? And similarly for breakfast, right, lower TA daypart, but we do have the opportunity of lots of incremental orders. So we do a bit of that. So the mix actually is the major factor that drives the lower TA. And then we do expect the margin to be stable year-over-year in the second half for KFC.

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

Thank you, Adrian. Let me add just 2 comments for this question, Brian. In the longer term, we are expanding our addressable market. So as Adrian mentioned, the drink, the smaller order but also lower-tier cities as we enter even more aggressively to lower-tier city, the ticket average there is indeed lower, but the profit margin stay. That's key.

Secondly, in our business, the ultimate focus among all is to drive the same-store transaction growth, which we are delivering. And because of our robust management of margins. So with the movement of the TA, even with the headwinds, we managed to protect the margin. And I think that capability is demonstrated even more in Pizza Hut than in KFC. So net-net, we do have a very balanced approach of TA profitability, big orders, smaller order, but the ultimate focus is same-store transaction growth. Thank you, Brian.

Operator

Thank you. We will now take our next question from the line of Christine Peng from UBS. Please go ahead.

Christine Peng - UBS AG - Analyst

Thank you management for addressing my question. So my question is about the CapEx. So the earlier presentation, Adrian mentioned the CapEx guidance has been lowered from now the $600 million to $700 million. So Adrian, can you share with us more details in terms of the underlying reason for the CapEx cut? And any colors for 2026 or even beyond?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Sure, Christine. Thanks for the question. So if you look at our guidance for CapEx, the previous guidance of $700 to $800 million is assuming a same assumption of net new open 1,600 stores to 1,800 net new stores, and that target has not changed. So the key delta there is really the CapEx per store.

As you may have noticed from our presentation uploaded earlier today, the CapEx per store for KFC has lowered from 1.5 million per store to around 1.4 million per store. I'm talking about

RMB yuan. And then the CapEx per store for Pizza has lowered from 1.2 million per store to 1.1 million per store. So with that 5% to 10% improvement in CapEx per store, we're lowering our guidance from $700 to $800 million to $600 to $700 million.

Another perspective is if you think about first half, actual right, this year versus last year, there really is a decrease in capital expenditure for the first half actual. And that, in addition to the lower CapEx per store, indeed, the lower equity net new opened for the first half is also partially contributing to that. But, you know, as we mentioned, we do expect the second half of net new open to pick up in pace, and we are quite confident in our ability to achieve our guidance of the net new open 1,600 to 1,800 range. So hopefully, that address your question, Christine.

Christine Peng - UBS AG - Analyst

Can I just follow up? Any indication in terms of the trend beyond -- in 2026 and beyond, will this trend be continuing, meaning that in the future, should we expecting $600 - $700 million of CapEx per year? Or is there any further room to cut the CapEx? Thank you, Adrian.

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

Sure, sure. I mean, I originally plan to give this guidance in November. But I think qualitatively, you're right that going forward for capital expenditure per year, will be similar to our guidance for this year. And then we are keeping our equity net new open relatively stable year-over-year. And then obviously, franchising is incremental on top of that.

And obviously, franchising is not taking any capital expenditure. So hopefully, with that in mind with the improvement in profitability, operating cash flow, if with a relatively stable capital expenditure, our free cash flow will increase at a nice pace. Thank you, Christine.

Christine Peng - UBS AG - Analyst

Thank you, Adrain.

Operator

Thank you. Our next question comes from the line of Sijie Lin from CICC. Please ask your question.

Sijie Lin - CICC - Analyst

Thank you, Joey and Adrian. So I have one question on the franchise mix because we are seeing the franchise mix of store opening quickly achieved our previous guidance. So when we decide whether to open 1 franchise store instead of 1 company-owned store because of macro uncertainty, or we decided to open one franchise store only because this location is only suitable for a franchise store in the foreseeable future. I mean, I'm asking this because after all, the profit contribution of 1 franchise store is less than 1 owned store, right? So trying to understand how to achieve the optimal balance and maximize profit?

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

A. Thank you, Sijie. The context of accelerating franchisee store is based on one alignment within our company, which is the franchise store are incremental because our equity stores actually are fairly profitable. So it would make sense to our business if we open incremental franchise.

So there are 2 types of franchise stores we are talking about. And internally, we are quite clear about the focus in strategy. One is the lower-tier cities, stores that are probably more effective to be managed by franchisee and sort of our management efficiency in those locations are not as good as franchisee, and those are one type of incremental franchise store. So lower-tier city.

Second is strategic channels, such as certain stores in sort of a high traffic, high-speed rail location or tourist location, certain sites that we could not obtain, but the franchisee had. So those are what we call strategic channel franchisee stores. These are the 2 focus.

Sijie Lin - CICC - Analyst

Thank you, Joey.

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

Thank you Sijie.

Operator

In the interest of time, we will take our last question from Ethan Wang of CLSA. Please go ahead.

Ethan Wang - CLSA Ltd - Analyst

Thank you. Good evening. So my question is competition because it seems many other restaurants or drinks company are being pretty active in this round of delivery subsidies battle. But for us, it seems we're just doing things our own way. And Joey mentioned the company has learned the lesson back in 2017. So I'm just wondering when everyone else is doing a lot of promotions in some way, it may sacrifice the margin trying to take market share. What's our take on that? And at the same time, do we think the competition environment actually worsens in the second quarter? That's my question. Thank you.

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

Thank you, Ethan. Well, the China market is always very competitive. It's just in different forms and shape. So quarter two happened, it's slightly unexpected, but thank god that we have learned a few lessons. And one lesson, as I mentioned earlier, one lesson we learned is we don't buy sales.

Back to 2017, KFC business was very robust, and we have a nice balance of the incremental sales we can get versus the margin. And Pizza Hut, actually, that was before I managed the Pizza Hut business was going a bit quite aggressive to get the subsidies to get incremental sales. But then by 2018, obviously, when the subsidy was pulled, then the business sales suffer quite a bit. So we have seen how things play out. So by the time quarter two, this platform competition happened, we know that we have to have a good balance. And the bottom line is we don't buy sales. And we took our time to learn in a small scale about how the, the sort of the numbers work. And we realized that the focus for the hyper-competition was on the smaller order, mainly the drinks.

But we also aware the certain threshold of the ticket average we need to protect the price integrity, need to protect. Otherwise, it just does not work. The numbers don't work. So we took our time to test the dynamic between different moving pieces. And then we figure out what to do.

And I think so far, we have maintained a good balance between the incremental sales in delivery and also the price equity, the price perception. But at the same time, set it up the business in a way that we also see how to grow the delivery business in the long term, particularly via our Super App, our own delivery -- our own takeaway business, et cetera. So I think overall, we see the balance -- as a result, we see the balanced growth of the sales and protect the margin and nice OP growth. Adrian, any further comments?

Adrian Ding - Yum China Holdings Inc - Chief Financial Officer

No, I think that's pretty much it.

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

Thank you, Joey and also Adrian. This concludes our Q&A session. Before we end the call, we are delighted to announce that our Investor Day will be hosted on November 17 in Shenzhen this year. If you're interested in joining, please contact the IR team. Thank you for joining the call today.

Operator

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

ended December 31, 2024, which has been filed with the Securities and Exchange Commission and is available on Yum China's website (https://ir.yumchina.com/sec-filings), and on the Securities and Exchange Commission's website (www.sec.gov). Yum China does not undertake to update any forward-looking statements.