

# Yum China Reports Second Quarter 2020 Results

*Yum China Holdings, Inc.*

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Over 99% of stores are now open

Total Revenues recovered to 89% of prior year. System Sales recovered to 96% of prior year in constant currency

Opened 169 new stores and Reported \$128 million Operating Profit despite Unprecedented COVID-19 Impact

SHANGHAI, July 29, 2020 /PRNewswire/ -- Yum China Holdings, Inc. (the "Company" or "Yum China") (NYSE: [YUMC](#)) today reported unaudited results for the second quarter ended June 30, 2020.

## **Impact of COVID-19 Outbreak and Mitigation Efforts**

Second quarter operations improved since the COVID-19 outbreak. More than 99% of stores in China are now open, with sales and profits trending unevenly. Sales improved sequentially in April and May but softened in June. Sales were primarily impacted by significantly reduced traffic at transportation and tourist locations, delayed and shortened school holidays and resurging regional infections. These factors and the lingering effect of COVID-19 continue to impact operations in July.

The unevenness in recovery was most pronounced in the differences between regions and trade zones. Eastern China recovered faster than other regions. Northern China's recovery was notably slower, primarily due to more stringent public health measures. Transportation and tourist locations, which accounted for high single digits of sales, continue to experience significant year over year traffic declines. The pace of recovery also varies across days of the week. Weekdays recovered the fastest as people returned to work and school, followed by weekends, with holidays lagging behind.

The Company's primary focus continues to be safety, efficiency and driving traffic. The Company drove traffic during the second quarter by leveraging its digital and operating capabilities and adapting to changing consumer demand. While dine-in improved when compared to the beginning of the COVID-19 outbreak, delivery and takeaway continued to grow year over year and contributed over half of Company sales in the second quarter. Member sales also grew double digits year over year and exceeded 60% of system sales. Digital ordering grew in popularity, accounting for approximately 80% of Company sales in the quarter.

Sales deleveraging and additional costs reduced restaurant margin and operating profit compared to the prior year period. Those negative impacts were partially offset by the realignment of our cost structure and labor productivity improvements. The Company also received one-time relief from landlords and government agencies.

## Second Quarter Highlights

- Results for this quarter include the consolidation of the recently acquired Huang Ji Huang operations from the date of the acquisition on April 8, 2020.
- **Total revenues** declined 11% year over year to \$1.90 billion from \$2.12 billion (a 7% decline excluding foreign currency translation ("F/X")).
- **Total system sales** declined 4% year over year, with declines of 6% at KFC and 12% at Pizza Hut, excluding F/X (7% decline excluding the consolidation of Huang Ji Huang).
- **Same-store sales** declined 11% year over year, with a 10% decline at KFC and 12% decline at Pizza Hut, excluding F/X.
- Opened 169 new stores during the quarter. Including 607 Huang Ji Huang restaurants, total store count reached 9,954.
- **Restaurant margin** was 13.7%, compared with 14.7% in the prior year period.
- **Operating Profit** declined 38% year over year to \$128 million from \$204 million (35% decline excluding F/X). **Adjusted Operating Profit** declined 36% year over year to \$132 million from \$204 million (33% decline excluding F/X).
- Effective tax rate was 25.2%.
- **Net Income** declined 26% to \$132 million from \$178 million in the prior year period, primarily due to the decline in Operating Profit partially offset by gains from our equity investment in Meituan Dianping ("Meituan").
- **Adjusted Net Income** declined 23% to \$136 million from \$178 million in the prior year period (35% decline excluding the \$31 million and \$17 million net gains in the second quarter of 2020 and 2019, respectively, from our equity investment in Meituan, 31% decline if further excluding F/X).
- **Diluted EPS** declined 26% to \$0.34 from \$0.46 in the prior year period.
- **Adjusted Diluted EPS** declined 24% to \$0.35 from \$0.46 in the prior year period (34% decline excluding the gains from our equity investment in Meituan in 2020 and 2019, 31% decline if further excluding F/X).
- The Company sold a portion of its equity investment in Meituan during the quarter. The Company currently owns 4.2 million shares of Meituan.

## Key Financial Results

Second Quarter 2020					Year to Date Ended 6/30/2020			
% Change					% Change			
	System Sales	Same-Store Sales	Net New Units	Operating Profit	System Sales	Same-Store Sales	Net New Units	Operating Profit
Yum China	(4)	(11)	+14	(38)	(13)	(13)	+14	(56)
KFC	(6)	(10)	+9	(22)	(10)	(11)	+9	(37)

Pizza Hut	(12)	(12)	-	(48)	(25)	(22)	-	NM
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## Second Quarter

## Year to Date Ended 6/30

(in US\$ million, except

% Change

% Change

per share data and percentages)

2020

2019

Reported

Ex F/X

2020

2019

Reported

Ex F/X

Operating Profit

\$ 128

\$ 204

(38)

(35)

\$ 225

\$ 507

(56)

(54)

Adjusted Operating Profit[1]

\$ 132

\$ 204

(36)

(33)

\$ 230

\$ 507

(55)

(53)

Net Income

\$ 132

\$ 178

(26)

(23)

\$ 194

\$ 400

(52)

(50)

Adjusted Net Income[1]

\$ 136

\$ 178

(23)

(20)

\$ 199

\$ 408

(51)

(49)

Basic Earnings Per Common Share

\$ 0.35

\$ 0.47

(26)

(23)

\$ 0.51

\$ 1.06

(52)

(49)

Adjusted Basic Earnings Per Common Share[1]

\$ 0.36

\$ 0.47

(23)

(19)

\$ 0.53

\$ 1.08

(51)

(49)

Diluted Earnings Per Common Share

\$ 0.34

\$ 0.46

(26)

(24)

\$ 0.50

\$ 1.03

(51)

(50)

Adjusted Diluted Earnings Per Common Share[1]

\$ 0.35

\$ 0.46

(24)

(20)

\$ 0.51

\$ 1.05

(51)

(50)

[1] See "Reconciliation of Reported GAAP Results to non-GAAP Adjusted Measures" included in

the accompanying tables of this release for further details.

*Note:* All comparisons are versus the same period a year ago.

NM refers to changes over 100%, from negative to positive amounts or from zero to an amount.

Percentages may not recompute due to rounding.

System sales and same-store sales percentages exclude the impact of F/X. Effective January 1, 2018, temporary store closures are normalized in the same-store sales calculation by excluding the period during which stores are temporarily closed.

## **CEO and CFO Comments**

"I am proud of the results we achieved in Q2. We continue to operate in a tough environment, facing significant headwinds from reduced traffic, particularly at transportation and tourist locations, delayed and shortened school holidays and regional resurgences of COVID-19 infections. Nevertheless, we continued to operate safely, serve our communities and recover sales, and remained profitable," said Joey Wat, CEO of Yum China. "I take great pride in our employees, who are committed to serving our customers and remained responsive to the circumstances on the ground. Our business model is resilient and adaptable. We quickly adjusted our operations and marketing campaigns to meet evolving consumer preferences and market limitations. Rapid innovation, our leading digital infrastructure and our membership program supported product launches and value offers that were necessary to drive traffic. We protected margins through the flexible cost structure we have developed and optimized over the years. These, along with our other core capabilities such as supply chain and operations, make me confident in our ability to navigate the challenges ahead."

Wat continued, "Seeing this great team in action, I am optimistic about our long-term prospects. Despite the uncertainties brought about by the COVID-19 pandemic, we grew our footprint. And in July, we reached a major milestone of 10,000 stores! Our 2020 target to open 800-850 gross new stores remains unchanged. With our innovation capabilities, strong digital strategy, and resilient business model, I believe we will emerge from this pandemic stronger than ever, and ready to capture the exciting long-term market opportunity in China."

Andy Yeung, CFO of Yum China, added, "Our system sales recovered to 96% of the prior year, or 93% excluding Huang Ji Huang, in constant currency. Same-store sales also improved to 89% of the prior year, 4 percentage points higher than the first quarter. We are especially encouraged by the improvement at Pizza Hut, where same-store sales recovered from 69% in the first quarter to 88% in the second quarter. At Yum China, this is achieved amid ongoing reduced traffic at transportation and tourist locations, delayed and shortened school holidays, and resurging regional infections. The recovery is non-linear and uneven with differences across regions and trade zones. These impacts, together with the lingering effects of the COVID-19 outbreak, will continue to put pressure on our sales and operations in the third quarter."

Yeung continued, "Our realigned cost structure and productivity improvements helped us achieve a \$128 million operating profit and generate strong free cash flow in the quarter. However, with

restaurant traffic still below pre-outbreak levels and the global pandemic still evolving, we are prudently managing our financial position. We believe our financial strength enables us to respond to contingencies and invest in our top opportunities in the future."

## Dividends and Share Repurchases

- As announced in the first quarter 2020 earnings release, the Company temporarily suspended its share repurchases and, through the end of the third quarter of 2020, cash dividends on the Company's common stock.

## Digital and Delivery

- As of June 30, 2020, the KFC and Pizza Hut loyalty programs had over 265 million members. During the quarter, member sales represented approximately 65% of KFC's system sales and 53% of Pizza Hut's system sales.
- Delivery contributed to approximately 27% of KFC's Company sales and 35% of Pizza Hut's Company sales in the second quarter of 2020, up from approximately 18% and 24% from the prior year period, respectively.
- Digital orders, including delivery, mobile orders and kiosk orders, accounted for approximately 86% of KFC's Company sales and 61% of Pizza Hut's Company sales in the second quarter of 2020, up from approximately 62% and 29% from the prior year period, respectively.

## New-Unit Development and Asset Upgrade

- The Company opened 169 new stores in the second quarter 2020, mainly driven by development of the KFC brand.
- The Company remodeled 310 stores in the second quarter 2020.

New Units			Restaurant Count	
	Second Quarter	Year to Date	As of 6/30	
	2020	Ended 6/30/2020	2020	2019
Yum China	169	348	9,954	8,751
KFC	142	307	6,749	6,179
Pizza Hut	8	19	2,258	2,252
Others[2]	19	22	947	320

[2] Others include Taco Bell, Little Sheep, Huang Ji Huang, East Dawning, COFFii & JOY and Lavazza.

## Restaurant Margin

Restaurant margin was 13.7% in the second quarter of 2020, compared with 14.7% in the prior-year period, primarily attributable to same-store sales decline and value promotions, combined with wage and commodity inflation, partially offset by improved productivity and relief provided by landlords and government agencies.

	Second Quarter			Year to Date Ended 6/30		
	2020	2019	ppts change	2020	2019	ppts change
Yum China	13.7%	14.7%	(1.0)	12.2%	16.7%	(4.5)
KFC	14.6%	16.1%	(1.5)	14.1%	18.1%	(4.0)
Pizza Hut	11.2%	11.3%	(0.1)	6.4%	12.9%	(6.5)

## 2020 Outlook

The Company is affirming the following fiscal year 2020 targets, subject to revision based on future development of the COVID-19 situation:

- To open between 800 and 850 new stores (gross), excluding Huang Ji Huang
- To make capital expenditures between \$500 million and \$550 million

The Company believes that the COVID-19 outbreak will continue to have a material and extended adverse impact on its operational and financial results in 2020. Future operations, as well as the Company's cash flows and financial position, may be materially and adversely influenced by further developments related to this global outbreak, including potential additional announcements and actions from governments and local authorities, disruption in our supply chain, our inability to provide safety measures to protect our employees, or other reasons. Nevertheless, the Company is well-positioned to capture future growth opportunities through its resilient business model, strong capabilities and dedicated team.