

# Yum China Reports Second Quarter 2021 Results

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**Yum China Holdings, Inc. →**  
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*Total Revenues grew 29%. System Sales grew 14% and Same-Store Sales were up 5% in constant currency*

*Opened 404 new stores; Total stores reached 11,023, an increase of 1,069 stores year over year  
Reported \$233 million Operating Profit*

SHANGHAI, July 28, 2021 /PRNewswire/ -- Yum China Holdings, Inc. (the "Company" or "Yum China") (NYSE: YUMC and HKEX: 9987) today reported unaudited results for the second quarter ended June 30, 2021.

## Impact of COVID-19 Outbreak and Mitigation Efforts

Second quarter operations improved from a year ago. System sales and operating profit grew year over year. System sales growth was led by accelerated new store openings and same-store sales growth. Operating profit growth was further driven by lower commodity prices, and productivity improvements.

The COVID-19 pandemic continued to impact the Company's operations and results in the second quarter. Same-store sales recovery to pre-COVID levels was interrupted by the Delta variant outbreak in southern China, which started in late May. Local authorities tightened preventive health measures and social distancing requirements. Many communities were locked down. At the peak of this outbreak, approximately 400 of our restaurants were either temporarily closed or provided delivery and takeaway services only. This represents nearly 30% of our restaurants in Guangdong province, which has two of the four tier one cities in China, is the largest economy in China and one of Yum China's largest markets. Across China, cautious consumer behavior persists as sporadic outbreaks remind consumers of the lingering risks. Same-store dine-in volume is still well below 2019 levels while off-premise occasions continue to grow rapidly. Overall, the pace of recovery varied by region with eastern and western China recovering relatively faster.

Traffic at our transportation and tourist locations improved from the first quarter but remained well below pre-COVID levels. According to government statistics, tourism spending for the three holidays in the second quarter was still down 20% to 40% compared to 2019. The impact was more pronounced for KFC, with its higher mix of stores in transportation and tourist locations. ☞

As we entered July, traffic and sales continue to be pressured by lingering effects of COVID-19, such as reduced travel, a shortened school holiday and regional outbreaks in Yunnan. The latest outbreak in Nanjing, the capital city of Jiangsu province, is still evolving. The Company continues to expect that a full recovery of same-store sales will take time, with the recovery path impacted by regional resurgences and the corresponding public health measures. We will continue to focus on the elements of the business under our control, such as food innovation, compelling value propositions, a focus on customer experience, and operating efficiency, to drive sales and protect margins.

Second Quarter Highlights

- **Total revenues** increased 29% year over year to \$2.45 billion from \$1.90 billion (a 17% increase excluding foreign currency translation ("F/X")).
- **Total system sales** increased 14% year over year, with increases of 14% at KFC and 16% at Pizza Hut, excluding F/X.
- **Same-store sales** increased 5% year over year, with increases of 4% at KFC and 11% at Pizza Hut, excluding F/X.
- Opened 404 **new stores** during the quarter.
- **Total store count** reached 11,023 as of June 30, 2021, an increase of 1,069 stores over the past year.
- **Restaurant margin** was 15.8%, compared with 13.7% in the prior year period.
- **Operating Profit** increased 83% year over year to \$233 million from \$128 million (a 65% increase excluding F/X).
- **Adjusted Operating Profit** increased 80% year over year to \$237 million from \$132 million (a 63% increase excluding F/X).
- Effective tax rate was 24.8%.
- **Net Income** increased 37% to \$181 million from \$132 million in the prior year period, primarily due to the increase in Operating Profit.
- **Adjusted Net Income** increased 36% to \$185 million from \$136 million in the prior year period (a 72% increase excluding the net gains of \$5 million and \$31 million in the second quarter of 2021 and 2020, respectively, from our mark-to-market equity investments; a 55% increase if further excluding F/X).
- **Diluted EPS** increased 24% to \$0.42 from \$0.34 in the prior year period.
- **Adjusted Diluted EPS** increased 20% to \$0.42 from \$0.35 in the prior year period (a 52% increase excluding the net gains from our mark-to-market equity investments in the second quarter of 2021 and 2020; a 37% increase if further excluding F/X).
- Results include the consolidation of Huang Ji Huang since April 2020, and Suzhou KFC since August 2020.

Key Financial Results

	Second Quarter 2021				Year to Date Ended 6/30/2021			
	% Change				% Change			
	System	Same-	Net New	Operating	System	Same-	Net New	Operating
	Sales	Store Sales	Units	Profit	Sales	Store Sales	Units	Profit
Yum China	+14	+5	+11	+83	+24	+8	+11	+156
KFC	+14	+4	+13	+50	+19	+5	+13	+81
Pizza Hut	+16	+11	+7	+151	+33	+23	+7	NM



(in US\$ million, except per share data and percentages)	Second Quarter				Year to Date Ended 6/30		
			% Change				%
	2021	2020	Reported	Ex F/X	2021	2020	Reported
Operating Profit	\$ 233	\$ 128	+83	+65	\$ 575	\$ 225	+155
Adjusted Operating Profit <sup>(1)</sup>	\$ 237	\$ 132	+80	+63	\$ 582	\$ 230	+153
Net Income	\$ 181	\$ 132	+37	+24	\$ 411	\$ 194	+110
Adjusted Net Income <sup>(1)</sup>	\$ 185	\$ 136	+36	+23	\$ 418	\$ 199	+109
Basic Earnings Per Common Share	\$ 0.43	\$ 0.35	+23	+11	\$ 0.98	\$ 0.51	+92
Adjusted Basic Earnings Per Common Share <sup>(1)</sup>	\$ 0.44	\$ 0.36	+22	+11	\$ 0.99	\$ 0.53	+90
Diluted Earnings Per Common Share	\$ 0.42	\$ 0.34	+24	+12	\$ 0.95	\$ 0.50	+90
Adjusted Diluted Earnings Per Common Share <sup>(1)</sup>	\$ 0.42	\$ 0.35	+20	+9	\$ 0.96	\$ 0.51	+88

(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 not meaningful.

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 percentages excluding the period during which stores are temporarily closed.



CEO and CFO Comments

Joey Wat, CEO of Yum China, commented, "We delivered another quarter of solid performance. Pizza Hut achieved stellar performance and is expected to become another growth engine. KFC remained resilient and drove robust system sales and operating profit growth. Yum China continues to accelerate store network expansion. In less than one year, we increased total store count from 10,000 to over 11,000 stores. With 719 gross new stores opened in the first half, we now expect to open around 1,300 new stores in 2021. In addition to unit growth, we are focused on driving consumers back to the stores with our great food and compelling value offers. We are also capturing off-premise demand with our hybrid delivery model and increasing network density. Leveraging our vast membership base and digital platform, we are more nimble than ever."

Wat continued, "Despite the challenges posed by the pandemic, we are well-positioned to capture the market opportunities in China. Consumers love the delicious food and value-for-money that KFC and Pizza Hut offer. COFFii & JOY and Lavazza are also making good progress. Our digital platform and operational excellence help to enhance customer experience. We are committed and confident in achieving sustainable growth for many years to come."

Andy Yeung, CFO of Yum China, added, "We achieved solid system sales and operating profit growth, both comparing to the prior year and to pre-pandemic 2019 levels, even though the recovery trajectory in the quarter was disrupted by the Delta variant outbreak in southern China. On a two-year basis, Pizza Hut's system sales growth returned to positive and KFC's system sales grew an impressive 7% led by rapid new store openings. Our strong operating profit growth reflected operational excellence and continued improvement in operating efficiency."

Yeung continued, "With the lingering effects of the pandemic, we continue to expect full recovery of same-store sales to pre-pandemic 2019 levels to take time, with a recovery path that is nonlinear and uneven. We plan to invest more in marketing, value proposition and customer



service to drive traffic. In addition, rising commodity prices will become a headwind and likely turn into inflationary pressure in the later part of this year. Recent wage increases will also put more pressure on the margins for the balance of the year. Nevertheless, we are committed to driving long-term returns for our shareholders. After careful deliberations that balanced the COVID-19 risks and our strong liquidity position, the Board of Directors has approved the resumption of share repurchases."

Dividends and Share Repurchases

- The Board of Directors declared a cash dividend of \$0.12 per share on Yum China's common stock, payable as of the close of business on September 16, 2021 to shareholders of record as of the close of business on August 25, 2021.
- The Board of Directors has approved the resumption of share repurchases.

Digital and Delivery

- The KFC and Pizza Hut loyalty programs exceeded 330 million members combined as of quarter-end. Member sales accounted for approximately 61% of system sales in the second quarter of 2021.
- Delivery contributed approximately 30% of KFC and Pizza Hut's Company sales in the second quarter of 2021, an increase of approximately one percentage point from the prior year period as consumers are still cautious about dine-in.
- Digital orders, including delivery, mobile orders and kiosk orders, accounted for approximately 85% of KFC and Pizza Hut's Company sales in the second quarter of 2021.

KFC and Pizza Hut Total	Second Quarter		Year to Date Ended 6/30	
	2021	2020	2021	2020
Member count (as of period-end)	330 million+	265 million+	330 million+	265 million+
Member sales as % of system sales	~61%	~62%	~61%	~61%
Delivery as % of Company sales	~30%	~29%	~31%	~32%
Digital orders as % of Company sales	~85%	~80%	~85%	~80%

New-Unit Development and Asset Upgrade

- The Company opened 404 new stores in the second quarter of 2021, mainly driven by development of the KFC brand and acceleration of the Pizza Hut brand.
- The Company remodeled 316 stores in the second quarter of 2021.

	New Units		Restaurant Count	
	Second Quarter	Year to Date	As of June 30	
	2021	Ended 6/30/2021	2021	2020
Yum China	404	719	11,023	9,954
KFC	280	533	7,609	6,749
Pizza Hut	64	108	2,425	2,258
Others <sup>(2)</sup>	60	78	989	947

<sup>(2)</sup> Others include Taco Bell, Little Sheep, Huang Ji Huang, East Dawning, COFFii & JOY and Lavazza.

Restaurant Margin

- Restaurant margin was 15.8% in the second quarter of 2021, compared with 13.7% in the prior year period, primarily attributable to improvement in sales, favorable commodity prices and higher productivity, partially offset by lower temporary relief provided by landlords and government agencies and wage inflation.

	Second Quarter			Year to Date Ended 6/30		
	2021	2020	ppts change	2021	2020	ppts ch
Yum China	15.8%	13.7%	+2.1	17.3%	12.2%	-
KFC	16.8%	14.6%	+2.2	18.4%	14.1%	-
Pizza Hut	13.1%	11.2%	+1.9	14.2%	6.4%	-

2021 Outlook

The Company is updating the following fiscal year 2021 targets:

- To open approximately 1,300 gross new stores, an increase compared to the original target of 1,000, primarily due to the acceleration of KFC and Pizza Hut store expansion.
- To make capital expenditures of approximately \$700-800 million, an increase compared to the original target of \$600 million, as a result of additional new stores and stepped-up investment in infrastructure and digitalization.

Other Updates

- On June 8, 2021, the Company announced that it has signed the Business Ambition for 1.5°C Commitment Letter, as part of the global Science Based Targets initiative (SBTi). In committing to the SBTi, the Company pledges to align its business with the most ambitious aim of the Paris Agreement, to limit global temperature rise to 1.5 °C above pre-industrial levels and reach net-zero global emissions by 2050. The Company will also disclose its climate impact through CDP.
- On June 18, 2021, the Company issued its 2020 Sustainability Report, which highlights Yum China's commitment to sustainability and provides an overview of progress made in 2020 towards its sustainability goals.
- The Company will host a virtual Investor Day on Thursday, September 23, 2021 (Beijing/Hong Kong Time). A webcast will be available at Yum China's Investor Relations website at <http://ir.yumchina.com>.

Note on Non-GAAP Adjusted Measures

Reported GAAP results include Special Items, which are excluded from non-GAAP adjusted measures. Special Items are not allocated to any segment and therefore only impact reported GAAP results of Yum China. See "Reconciliation of Reported GAAP Results to Non-GAAP Adjusted Measures" within this release.