

Yum China Reports First Quarter 2023 Results

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Yum China Holdings, Inc.
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Record first quarter performance – Total Revenues reached \$2.92 billion and Operating Profit reached \$416 million
Total Revenues grew 9%; System Sales grew 17% and Same-store Sales grew 8% in constant currency
Operating Profit increased 118% year over year, attributed to sales leveraging and margin expansion

SHANGHAI, May 2, 2023 /PRNewswire/ -- Yum China Holdings, Inc. (the "Company" or "Yum China") (NYSE: [YUMC](#) and HKEX: 9987) today reported unaudited results for the first quarter ended March 31, 2023.

First Quarter Highlights

- **Total revenues** increased 9% year over year to \$2.92 billion from \$2.67 billion (an 18% increase excluding foreign currency translation ("F/X")).
- **Total system sales** increased 17% year over year, with increases of 17% at both KFC and Pizza Hut, excluding F/X. Growth was mainly attributable to same-store sales growth, new unit contribution and lapping of temporary store closures in the prior year.
- **Same-store sales** increased 8% year over year, with increases of 8% at KFC and 7% at Pizza Hut, excluding F/X.
- Opened 233 **net new stores** during the quarter; total store count reached 13,180 as of March 31, 2023.
- **Operating Profit** increased 118% year over year to \$416 million from \$191 million (a 134% increase excluding F/X), primarily driven by sales leveraging and margin expansion.
- **Adjusted Operating Profit** increased 117% year over year to \$419 million from \$193 million (a 133% increase excluding F/X).
- **Restaurant margin** was 20.3%, compared with 13.8% in the prior year period.
- Effective tax rate was 28.5%.
- **Net Income** increased 189% to \$289 million from \$100 million in the prior year period, primarily due to the increase in Operating Profit.
- **Adjusted Net Income** increased 186% to \$292 million from \$102 million in the prior year period (a 131% increase excluding the net losses of \$14 million and \$30 million in the first quarter of 2023 and 2022, respectively, from our mark-to-market equity investment a 148% increase if further excluding F/X).
- **Diluted EPS** increased 196% to \$0.68 from \$0.23 in the prior year period.
- **Adjusted Diluted EPS** increased 188% to \$0.69 from \$0.24 in the prior year period (a 132% increase excluding the net losses from our mark-to-market equity investments in the first quarter of 2023 and 2022; a 148% increase if further excluding F/X).

Key Financial Results

	First Quarter 2023			
	% Change			
	System Sales	Same-Store Sales	Net New Units	Operating Profit
Yum China	+17	+8	+9	+118
KFC	+17	+8	+9	+91
Pizza Hut	+17	+7	+11	+85

(in US\$ million, except per share data and percentages)	First Quarter			
	% Change			
	2023	2022	Reported	Ex F/X
Operating Profit	\$ 416	\$ 191	+118	+134
Adjusted Operating Profit ⁽¹⁾	\$ 419	\$ 193	+117	+133
Net Income	\$ 289	\$ 100	+189	+212
Adjusted Net Income ⁽¹⁾	\$ 292	\$ 102	+186	+207
Basic Earnings Per Common Share	\$ 0.69	\$ 0.23	+200	+222
Adjusted Basic Earnings Per Common Share ⁽¹⁾	\$ 0.70	\$ 0.24	+192	+213
Diluted Earnings Per Common Share	\$ 0.68	\$ 0.23	+196	+222
Adjusted Diluted Earnings Per Common Share ⁽¹⁾	\$ 0.69	\$ 0.24	+188	+208

(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.

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

Joey Wat, CEO of Yum China, commented, "We are pleased to have set new first quarter records for revenues and operating profit. I want to recognize all of our employees whose unwavering dedication has been instrumental in delivering this performance. We started the new year with low visibility into how conditions would unfold. The operating environment was fluid with lingering COVID outbreaks. Through our team's hard work, scenario planning and laser focus to drive sales, we successfully capitalized on critical trading during the Chinese New Year ("CNY") holiday period. Offering delicious food and superior value served us well. We added juicy whole chicken to KFC's signature Golden Bucket to capture at-home consumption around family reunions. Creative twists to our classic Beef Wrap and Supreme Pizza delighted local taste buds. We also fueled traffic with compelling value promotions, including Crazy Thursday, weekday value combos and weekend buy-more-save-more."

Wat continued, "Our performance was enabled by the execution of our RGM (Resilience-Growth-Moat) strategy over the past few years. Today, we are more agile and responsive to the dynamic operating environment. Our robust digital ecosystem has continued to unleash our capabilities in running the entire business, from customer engagement to restaurant operation and supply chain. By planning for multiple scenarios for CNY and incorporating regional variances, we were able to effectively deploy resources as opportunities arose. In addition, we enhanced labor productivity with innovative approaches such as management sharing across stores. As we progress through 2023, we plan to stay nimble to the evolving market conditions. At the same time, we will focus on building sales momentum, expanding our store network, and fortifying our competitive moat to position Yum China for sustainable growth."

Andy Yeung, CFO of Yum China, added, "First quarter sales rebounded significantly year over year and sequentially. Our efforts to focus on driving sales were rewarded, as the country pivoted from strict COVID measures. Margins also improved substantially, benefitting from sales leveraging, cost structure rebasing, and temporary relief from the government and landlords. However, we are still in the early stages of recovery. Sales during the CNY trading period were buoyed by pent-up travel demand, yet same-store sales post-CNY have remained at teens level below 2019. Therefore, driving sales remains our top priority for this year. Consumers are looking for value, so value campaigns would be an important tool to drive store traffic and sales. On the cost side, we expect inflationary pressures to be gradually built-up and the benefit from temporary relief to be phased out over the coming quarters. The pace and the trajectory of the recovery remain uncertain, given the challenging macroeconomic conditions and the lingering effects of the pandemic. Nevertheless, we are confident that with vigorous scenario planning, more flexible cost structures and operational agilities, we can seize opportunities in good times and stay resilient in challenging times."

Share Repurchases and Dividends

- During the first quarter, we repurchased approximately 1.0 million shares of Yum China common stock for \$62 million at an average price of \$60.30 per share. As of March 31, 2023, approximately \$1.1 billion remained available for future share repurchases under the current authorization.
- The Board declared a cash dividend of \$0.13 per share on Yum China's common stock, payable on June 20, 2023 to shareholders of record as of the close of business on May 30, 2023.

Digital and Delivery

- The KFC and Pizza Hut loyalty programs exceeded 430 million members combined, as of quarter-end. Member sales accounted for approximately 64% of system sales in the first quarter of 2023.
- Delivery contributed approximately 36% of KFC and Pizza Hut's Company sales in the first quarter of 2023, on par with the prior year period. Delivery sales continued to grow even as dine-in traffic improved.
- Digital orders, including delivery, mobile orders and kiosk orders, accounted for approximately 89% of KFC and Pizza Hut's

KFC and Pizza Hut Total	First Quarter	
	2023	2022
Member count (as of period-end)	430 million+	370 million+
Member sales as % of system sales	~64%	~62%
Delivery as % of Company sales	~36%	~36%
Digital orders as % of Company sales	~89%	~88%

New-Unit Development and Asset Upgrade

- The Company opened 233 net new stores in the first quarter of 2023, mainly driven by development of the KFC and Pizza Hut brands.
- The Company remodeled 83 stores in the first quarter of 2023.

	Net New Units	Restaurant Count	
	First Quarter	As of March 31	
	2023	2023	2022
Yum China	233	13,180	12,117
KFC	145	9,239	8,441
Pizza Hut	80	2,983	2,679
Others ⁽²⁾	8	958	997

⁽²⁾ Others include Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, and, for 2022, COFFii & JOY.

Restaurant Margin

- Restaurant margin was 20.3% in the first quarter of 2023, compared with 13.8% in the prior year period, primarily driven by sales leveraging, higher labor productivity and operational efficiency, and temporary relief, partially offset by higher promotion cost and wage inflation.

	First Quarter		
	2023	2022	ppts change
Yum China	20.3 %	13.8 %	+6.5
KFC	22.2 %	15.2 %	+7.0
Pizza Hut	14.2 %	10.7 %	+3.5

2023 Outlook

The Company's fiscal year 2023 targets remain unchanged:

- To open approximately 1,100 to 1,300 net new stores.
- To make capital expenditures in the range of approximately \$700 million to \$900 million.

Other Updates

- The Company recently published its 2022 Sustainability Report, which outlines the Company's commitment to environmental and social responsibility and the Company's progress against its sustainability goals.

Note on Non-GAAP 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. In addition, for the non-GAAP measures of Restaurant profit and Restaurant margin, see "Reconciliation of GAAP Operating Profit to Restaurant Profit" under "Segment Results" within this release.

Conference Call

Yum China's management will hold an earnings conference call at 8:00 p.m. U.S. Eastern Time on Tuesday, May 2, 2023 (8:00

A live webcast of the call may be accessed at <https://edge.media-server.com/mmc/p/x72ajhoq>.

To join by phone, please register in advance of the conference through the link provided below. Upon registering, you will be provided with participant dial-in numbers, a passcode and a unique access PIN.

Pre-registration Link: <https://s1.c-conf.com/diamondpass/10029676-te54kl.html>

A replay of the conference call will be available one hour after the call ends until Wednesday, May 10, 2023 and may be accessed by phone at the following numbers:

U.S.: 1 855 883 1031

Mainland China: 400 1209 216

Hong Kong: 800 930 639

U.K. 0800 031 4295

Replay access code: 10029676

Additionally, this earnings release, the accompanying slides, a live webcast and an archived webcast of this conference call will be available at Yum China's Investor Relations website at <http://ir.yumchina.com>.