MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise noted, the section references to (i) "us", "our", "we", "the Company" and "YUM" refer to YUM! Brands, Inc. and its consolidated subsidiaries, (ii) "the Parent" refers to YUM! Brands, Inc., on a stand-alone basis, (iii) "the Issuers" refers to KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC, which are direct wholly-owned subsidiaries of the Parent and co-issuers of $1.05 billion of 5.25% Senior Notes due 2026 and $750 million of 4.75% Senior Notes due 2027 (collectively, the "Subsidiary Senior Unsecured Notes") and co-borrowers under the Credit Agreement, as defined in our annual report on Form 10-K for the year ended December 31, 2019 filed with the SEC (the "2019 10-K") on February 19, 2020; (iv) "the Specified Guarantors" refers to collectively Yum Restaurant Services Group, LLC, Restaurant Concepts LLC and Taco Bell Corp. (including their subsidiaries except for Taco Bell Funding, LLC and its special-purpose, wholly owned subsidiaries), which are directly wholly-owned subsidiaries of the Parent and guarantors of the Subsidiary Senior Unsecured Notes and under the Credit Agreement; (v) "the Companies" refers to collectively the Issuers and the Specified Guarantors, (vi) "the Taco Bell Securitization Entities" refers to collectively Taco Bell Funding, LLC, a Delaware special purpose limited liability company and wholly owned subsidiary of Taco Bell Corp, and its special-purpose, wholly owned subsidiaries, (vii) "the Habit Entities" refers to collectively The Habit Restaurants, Inc., The Habit Restaurants, LLC, HBG Franchise, LLC, and Habit Employment, L.P. and (viii) the "Restricted Group" refers collectively to the Companies and their subsidiaries, other than the Taco Bell Securitization Entities which will not be subject to the covenants under the Indenture governing the Subsidiary Senior Unsecured Notes and the Credit Agreement, and also excludes the Parent, the Habit Entities and ABR Insurance Company which will not be subject to such covenants as well.

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements ("Financial Statements") and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our quarterly report on Form 10-Q for the quarter ended September 30, 2020 as filed with the SEC on November 5, 2020 (the "Third Quarter 10-Q") and contains additional information related to the pro forma results of operations and financial condition of the Restricted Group. None of the financial information in this discussion has been audited or reviewed by our auditors. This discussion has been prepared and posted to our website in accordance with our reporting obligations under the Indenture governing the Subsidiary Senior Unsecured Notes and the Credit Agreement. You should read the following Restricted Group's pro forma results of operation and financial condition together with the information included in our 2019 10-K, especially the information under the heading "Risk Factors".

Pro Forma Results of Operations for the Restricted Group

The following table sets forth certain unaudited financial and operating data of the Restricted Group as of the dates and for the periods indicated after giving pro forma effect to the exclusion of the Taco Bell Securitization Entities and the exclusion of the Habit Entities as well as the exclusion of Parent Entity Expenses from the Restricted Group.

(in millions)	Quarter ended			Year to date		
	2020	2019	% B/(W)	2020	2019	% B/(W)
Company sales	$ 368	$ 364	1	$ 1,013	$ 1,056	(4)
Franchise and property revenues	492	505	(2)	1,349	1,482	(9)
Franchise contributions for advertising and other services	323	330	(2)	905	957	(6)
Total revenues	$ 1,183	$ 1,199	(1)	$ 3,267	$ 3,495	(6)
Restaurant profit	$ 71	$ 60	17	$ 159	$ 172	(7)
Restaurant margin %	19.6%	16.9%	2.7 ppts.	15.8%	16.3%	(0.5) ppts.
G&A expenses	$ 214	$ 177	(22)	$ 602	$ 523	(15)
Operating Profit	$ 355	$ 359	(1)	$ 836	$ 1,036	(19)

Unit Count	9/30/2020	9/30/2019	% Increase (Decrease)
Franchise	42,649	42,079	1
Company-owned	872	883	(1)
	43,521	42,962	1

	Quarter ended		Year to date	
	2020	2019	2020	2019
System Sales Growth (decline), reported	(2%)	6%	(8%)	5%
System Sales Growth (decline), excluding FX	(1%)	7%	(7%)	8%
Same-store Sales Growth (decline) %	(4%)	2%	(10%)	3%

Taco Bell Securitization Entities:

The Securitization Transaction and the exclusion of the Taco Bell Securitization Entities from the Restricted Group had the following pro forma impact on the financial and operating data of the Restricted Group and the Taco Bell Division of the Restricted Group in comparison to the corresponding data of YUM and the Taco Bell Division:

Units

- A total of 6,323 and 6,196 U.S. Taco Bell franchise units were excluded from the Restricted Group as of September 30, 2020 and 2019, respectively, as the Restricted Group no longer receives franchise fees from these restaurants.

Franchise and Property Revenues

- Franchise and property revenues of $147 million and $140 million were excluded from the Restricted Group for the quarters ended September 30, 2020 and 2019, respectively, due to the exclusion of the franchise fees paid by all U.S. Taco Bell franchise restaurants as a result of the Securitization Transaction.

- Franchise and property revenues of $410 million and $408 million were excluded from the Restricted Group for the years to date ended September 30, 2020 and 2019, respectively, due to the exclusion of the franchise fees paid by all U.S. Taco Bell franchise restaurants as a result of the Securitization Transaction.

Company Restaurant Expenses

- The Restricted Group includes $13 million and $12 million of additional company restaurant expenses for the quarters ended September 30, 2020 and 2019, respectively, due to the payment of royalty fees of 5.5% of annual sales to the Taco Bell Securitization Entities by all U.S. Company-owned Taco Bell restaurants (which are part of the Restricted Group).

- The Restricted Group includes $34 million of additional company restaurant expenses for each of the years to date ended September 30, 2020 and 2019 due to the payment of royalty fees of 5.5% of annual sales to the Taco Bell Securitization Entities by all U.S. Company-owned Taco Bell restaurants (which are part of the Restricted Group).

G&A Expenses

- Management fees of $31 million and $29 million for the quarters ended September 30, 2020 and 2019, respectively, were paid by the Taco Bell Securitization Entities to Taco Bell Corp. as manager of the Taco Bell Securitization Entities, and were recorded as a reduction of G&A expenses for the Restricted Group. On an annual basis, these management fees are equal to the sum of a base fee of $35 million (subject to 2% per annum escalation, compounded annually) plus 15.1% of total securitization cash revenue paid to the Taco Bell Securitization Entities by U.S. company stores and U.S. franchisees for the year.

- Management fees of $94 million and $88 million for the years to date ended September 30, 2020 and 2019, respectively, were paid by the Taco Bell Securitization Entities to Taco Bell Corp. as manager of the Taco Bell Securitization Entities, and were recorded as a reduction of G&A expenses for the Restricted Group. On an annual basis, these management fees are equal to the sum of a base fee of $35 million (subject to 2% per annum escalation, compounded annually) plus 15.1% of total securitization cash revenue paid to the Taco Bell Securitization Entities by U.S. company stores and U.S. franchisees for the year.

Consequently, the overall operating margins of the Restricted Group are negatively impacted due to the exclusion of franchise and license fees from U.S. Taco Bell franchised restaurants and our obligation to pay franchise fees on U.S. Taco Bell Company-owned restaurants to the Taco Bell Securitization Entities, with no corresponding reduction of Restricted Group expenses (other than a partial offset by the management fee paid to the Restricted Group by the Taco Bell Securitization Entities as reimbursement for a portion of G&A expenses).

Habit Burger Grill:

On March 18, 2020, YUM! Brands, Inc. completed the acquisition of all of the issued and outstanding common shares of The Habit Restaurants, Inc., which owns the restaurant concept The Habit Burger Grill. The Habit Entities are not included in the Restricted Group. The exclusion of the Habit Entities from the Restricted Group had the following pro forma impact on the financial and operating data of the Restricted Group in comparison to the corresponding data of YUM.

- Company sales of $118 million and $231 million were excluded from the Restricted Group for the quarter and year to date ended September 30, 2020, respectively.
- Franchise and property revenues of $1 million were excluded from the Restricted Group for the year to date ended September 30, 2020.
- Company restaurant expenses of $115 million and $226 million were excluded from the Restricted Group for the quarter and year to date ended September 30, 2020, respectively.
- G&A expenses of $11 million and $22 million were excluded from the Restricted Group for the quarter and year to date ended September 30, 2020, respectively.
- Goodwill impairment charges of $5 million and $144 million recorded to Other (income) expense were excluded from the Restricted Group for the quarter and year to date ended September 30, 2020, respectively.
- A total of 251 company units and 31 franchise units were excluded from the Restricted Group as of September 30, 2020.

Parent Entity Expenses:

Amounts transferred to or on behalf of Yum! Brands, Inc. as Parent Entity Expenses (as defined in the Indentures) or operating costs and expenses incurred in the ordinary course of business (as permitted by the Credit Agreement) are excluded from G&A expenses of the Restricted Group. G&A expenses of the Restricted Group were reduced for such costs by $1 million and $2 million for the quarters ended September 30, 2020 and 2019, respectively, and $6 million for each of the years to date ended September 30, 2020 and 2019.

Restricted Group - Taco Bell Division

The following table sets forth certain unaudited financial and operating data of the Taco Bell Division of the Restricted Group as of the dates and for the periods indicated after giving pro forma effect to the exclusion of the Taco Bell Securitization Entities from the Restricted Group.

(in millions)	Quarter ended				Year to date			
			% B/(W)				% B/(W)	
	2020	2019	Reported	Ex FX	2020	2019	Reported	Ex FX
System Sales Growth			(1)	(1)			(6)	(6)
Same-Store Sales Growth %			(4)	N/A			(10)	N/A
Company sales	$ 218	$ 216	1	1	$ 610	$ 626	(3)	(3)
Franchise and property revenues	18	18	(1)	(1)	50	52	(2)	(1)
Franchise contributions for advertising and other services	118	115	3	3	$ 333	$ 328	1	1
Total revenues	$ 354	$ 349	2	2	$ 993	$ 1,006	(1)	(1)
Restaurant profit	$ 47	$ 38	24	24	$ 118	$ 110	8	8
Restaurant margin %	22.3%	18.2%	4.1 ppts.	4.1 ppts.	19.5%	17.6%	1.9 ppts.	1.9 ppts.
G&A expenses	$ 2	$ 11	72	72	$ 14	$ 36	59	59
Franchise and property expenses	8	9	19	19	24	26	10	10
Franchise advertising and other services expense	117	113	(3)	(3)	330	325	(2)	(2)
Operating Profit	$ 57	$ 38	54	54	$ 134	$ 104	30	30

Unit Count	9/30/2020	9/30/2019	% Increase (Decrease)
Franchise	602	521	16
Company-owned	475	474	-
	1,077	995	8

Company Sales. The quarterly increase in Company sales was driven by net new unit growth and same-store sales growth of 1% partially offset by refranchising.

The year to date decrease in Company sales was driven by refranchising and same-store sales declines of 3% partially offset by net new unit growth.

Restaurant Margin Percentage. The quarterly increase in restaurant margin percentage was driven by the favorable impact of higher guest check, lower restaurant operating costs such as labor costs due to dining room closures as a result of COVID-19 and lower advertising costs, partially offset by transaction declines.

The year to date increase in restaurant margin percentage was driven by the favorable impact of higher guest check, lower restaurant operating costs such as labor and repairs and maintenance costs due to dining room closures as a result of COVID-19 and lower advertising costs, partially offset by transaction declines and a COVID-19 related bonus for restaurant employees.

G&A Expenses. The quarterly decrease in G&A was driven by higher management fees paid by the Taco Bell Securitization Entities, lower travel related costs and professional fees.

The year to date decrease in G&A was driven by higher management fees paid by the Taco Bell Securitization Entities, lower travel related costs, decreased professional fees and lower expenses related to our deferred and incentive compensation programs.

Operating Profit. The quarterly increase in Operating Profit was driven by lower G&A costs, lower restaurant operating costs and same-store sales growth in Company stores, offset by same-store sales declines in International stores.

The year to date increase in Operating Profit was driven by lower G&A costs and lower restaurant operating costs, partially offset by same-store sales declines.

Additional Information Related to Restricted Group:

The Novel Coronavirus (COVID-19) Global Pandemic

In late 2019 a novel strain of coronavirus, COVID-19, was first detected and in March 2020, the World Health Organization declared COVID-19 a global pandemic. Throughout 2020, COVID-19 has spread throughout the U.S. and the rest of the world and governmental authorities have implemented measures to reduce the spread of COVID-19. These measures include restrictions on travel outside the home and other limitations on business and other activities as well as encouraging social distancing. Moreover, COVID-19 cases have recently been increasing in the U.S. and various other regions of the world in which we have operations, which has resulted in some governmental authorities, including some in Western Europe, re-imposing restrictions on business and other activities that were previously lifted or reduced. As a result of COVID-19, we and our franchisees have experienced significant store closures and instances of reduced and limited store-level operations, including reduced operating hours and full or partial dining-room closures. The impacts of COVID-19 significantly impacted our results in the quarter and year to date ended September 30, 2020.

Adoption of Topic 326

In June 2016, the Financial Accounting Standards Board ("FASB") issued a standard that requires measurement and recognition of expected versus incurred credit losses for financial assets held. As required, we adopted this standard on January 1, 2020. The impact on the Restricted Group Operating Profit was not significant.

Refer to Note 1 of the Form 10-Q for the quarter ended September 30, 2020 for further discussion.