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, 2020 filed with the SEC (the "2020 10-K") on February 19, 2021; (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 Consolidated Financial Statements ("Financial Statements") and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2020 10-K 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 2020 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)	Amount			% B/(W)	
	2020	2019	2018	2020	2019
Company sales	$ 1,464	$ 1,546	$ 2,000	(5)	(23)
Franchise and property revenues	1,915	2,060	1,944	(7)	6
Franchise contributions for advertising and other services	1,332	1,391	1,206	(4)	15
Total revenues	$ 4,711	$ 4,997	$ 5,150	(6)	(3)
Restaurant profit	$ 246	$ 260	$ 309	(5)	(16)
Restaurant margin %	16.9 %	16.9 %	15.5 %	- ppts.	1.4 ppts.
G&A expenses	$ 888	$ 778	$ 766	(14)	(2)
Franchise and property expenses	145	180	188	20	4
Franchise advertising and other services expense	1,314	1,368	1,208	4	(13)
Refranchising (gain) loss	(34)	(37)	(540)	(9)	(93)
Other (income) expense	11	4	7	NM	NM
Operating Profit	$ 1,169	$ 1,418	$ 1,830	(18)	(23)

For fiscal years 2020, 2019 and 2018 rent expense for the Restricted Group was $116 million, $121 million and $151 million, respectively.

				% Increase (Decrease)	
	2020	2019	2018	2020	2019
Unit Count					
Franchise & License	42,897	42,958	41,142	-	4
Company-owned	845	913	856	(7)	7
	43,742	43,871	41,998	-	4

	2020	2019	2018
Same-Store Sales Growth (Decline) %	(8)	3	2
System Sales Growth (Decline) %, reported	(6)	6	4
System Sales Growth (Decline) %, excluding FX	(6)	9	4
System Sales Growth (Decline) %, excluding FX and 53rd week	(5)	8	N/A

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 6,324, 6,299 and 6,126 U.S. Taco Bell franchise units were excluded from the Restricted Group for the fiscal years 2020, 2019 and 2018, respectively, as the Restricted Group no longer receives franchise fees from these restaurants.

Franchise and Property Revenues

- Franchise and property revenues of $594 million, $600 million and $538 million were excluded from the Restricted Group for the fiscal years 2020, 2019 and 2018, 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 $49 million, $51 million and $57 million of additional company restaurant expenses for the fiscal years 2020, 2019 and 2018, 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).

G&A Expenses

- Management fees of $137 million, $132 million and $123 million for the fiscal years 2020, 2019 and 2018, 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 and franchise and property revenues of $346 million and $1 million, respectively, were excluded from the Restricted Group for the fiscal year 2020.

- Company restaurant expenses and G&A expenses of $337 million and $33 million, respectively, were excluded from the Restricted Group for the fiscal year 2020.

- Goodwill impairment charges of $144 million recorded to Other (income) expense were excluded from the Restricted Group for the fiscal year 2020.

- A total of 253 company units and 34 franchise units were excluded from the Restricted Group as of December 31, 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 $6 million, $7 million and $6 million for the fiscal years 2020, 2019 and 2018, respectively.

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)				% B/(W)			% B/(W)		
				2020			2019		
	2020	2019	2018	Reported	Ex FX	Ex FX and 53rd Week in 2019	Reported	Ex FX	Ex FX and 53rd Week in 2019
System Sales	$ 1,333	$ 1,410	$ 1,459	(5)	(5)	(4)	(3)	(2)	(4)
Same-Store Sales Growth %				(8)	N/A	N/A	4	N/A	N/A
Company sales	$ 882	$ 921	$ 1,037	(4)	(4)	(3)	(11)	(11)	(13)
Franchise and property revenues	68	73	52	(7)	(7)	(6)	38	39	38
Franchise contributions for advertising and other services	487	485	429	—	—	2	13	13	11
Total revenues	$ 1,437	$ 1,479	$ 1,518	(3)	(3)	(1)	(3)	(3)	(4)
Restaurant profit	$ 176	$ 170	$ 187	3	3	6	(9)	(9)	(11)
Restaurant margin %	20.0 %	18.5 %	18.0 %	1.5 ppts.	1.5 ppts.	1.6 ppts.	0.5 ppts.	0.5 ppts.	0.4 ppts.
G&A expenses	$ 21	$ 49	$ 54	57	57	59	9	8	6
Franchise and property expenses	33	38	28	16	15	15	(33)	(33)	(32)
Franchise advertising and other services	484	481	428	(1)	(1)	(2)	(12)	(12)	(11)
Operating Profit	$ 190	$ 164	$ 161	16	16	19	2	2	(1)

Unit Count	2020	2019	2018	% Increase (Decrease) 2020	% Increase (Decrease) 2019
Franchise	628	596	476	5	25
Company-owned	475	468	470	1	—
Total	1,103	1,064	946	4	12

Company Sales. In 2020, the decrease in Company sales, excluding the impact of lapping the 53rd week in 2019, was driven by company same-store sales declines of 3% and refranchising, partially offset by net new unit growth.

Restaurant Margin Percentage. In 2020, the 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. In 2020, the decrease in G&A, excluding the impact of lapping the 53rd week in 2019, was driven by lower incentive compensation, lower travel related costs, higher management fees paid by the Taco Bell Securitization Entities, decreased professional fees and decreased salaries, partially offset by higher share-based compensation.

Operating Profit. In 2020, the increase in Operating Profit, excluding the impact of lapping the 53rd week in 2019, was driven by lower G&A costs, lower restaurant operating costs and net new unit growth, partially offset by same-store sales declines and higher restaurant asset impairment charges.

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. As a result of COVID-19, we and our franchisees have experienced significant store closures and instances of reduced store-level operations, including reduced operating hours and dining-room closures. The impacts of COVID-19 significantly impacted our results in the year ended December 31, 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 the 2020 10-K for further discussion.