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 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 March 31, 2021 as filed with the SEC on May 4, 2021 (the "First 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 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)	Quarter ended		
	2021	2020	% B/(W)
Company sales	$ 355	$ 346	2
Franchise and property revenues	514	466	10
Franchise contributions for advertising and other services	352	312	13
Total revenues	$ 1,221	$ 1,124	9
G&A expenses	$ 160	$ 172	6
Operating Profit	$ 423	$ 285	48

Unit Count	3/31/2021	3/31/2020	% Increase (Decrease)
Franchise	43,301	43,005	1
Company-owned	817	907	(10)
Total	44,118	43,912	-

	Quarter ended	
	2021	2020
Same-store Sales Growth (Decline) %	9%	(9%)
System Sales Growth (Decline) %, reported	14%	(6%)
System Sales Growth (Decline) %, excluding FX	10%	(4%)

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 6,377 and 6,323 U.S. Taco Bell franchise units were excluded from the Restricted Group as of March 31, 2021 and 2020, respectively, as the Restricted Group no longer receives franchise fees from these restaurants.

Franchise and Property Revenues

- Franchise and property revenues of $143 million and $130 million were excluded from the Restricted Group for the quarters ended March 31, 2021 and 2020, 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 $11 million of additional company restaurant expenses for each of the quarters ended March 31, 2021 and 2020 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 $30 million and $31 million for the quarters ended March 31, 2021 and 2020, 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 $121 million and $9 million were excluded from the Restricted Group for the quarters ended March 31, 2021 and 2020, respectively.

- Franchise and property revenues of $1 million and less than $1 million were excluded from the Restricted Group for the quarters ended March 31, 2021 and 2020, respectively.

- Company restaurant expenses of $110 million and $10 million were excluded from the Restricted Group for the quarters ended March 31, 2021 and 2020, respectively.

- G&A expenses of $12 million and $1 million were excluded from the Restricted Group for the quarters ended March 31, 2021 and 2020, respectively.

- A goodwill impairment charge of $139 million recorded to Other (income) expense was excluded from the Restricted Group for the quarter ended March 31, 2020.

- A total of 257 and 245 company units and 36 and 31 franchise units were excluded from the Restricted Group as of March 31, 2021 and 2020, respectively.

Subsequent to the end of the first quarter, on April 8, 2021, the Habit Entities were contributed by YUM to the Restricted Group.

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 $4 million for each of the quarters ended March 31, 2021 and 2020.

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			
			% B/(W)	
	2021	2020	Reported	Ex FX
System Sales	$ 343	$ 311	10	9
Same-Store Sales Growth %	4	(4)	N/A	N/A
Company sales	$ 208	$ 198	5	5
Franchise and property revenues	19	18	7	6
Franchise contributions for advertising and other services	118	107	10	10
Total revenues	$ 345	$ 323	7	7
G&A expenses	$ 1	$ 7	99	101
Franchise and property expenses	7	11	36	36
Franchise advertising and other services expense	116	106	(9)	(9)
Operating Profit	$ 54	$ 34	62	61

Unit Count	3/31/2021	3/31/2020	% Increase (Decrease)
Franchise	642	602	7
Company-owned	474	473	-
	1,116	1,075	4

Company Sales. The quarterly increase in Company sales was driven by same-store sales growth of 4% and unit growth.

G&A Expenses. The quarterly decrease in G&A expenses was driven by lower headcount, lapping higher severance expenses and lower travel related costs offset by higher expenses related to our deferred compensation programs.

Operating Profit. The quarterly increase in Operating Profit was driven by same-store sales growth and lower G&A expenses.

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 and into 2021, 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 for the quarter ended March 31, 2021. Beginning in 2020 and continuing through the first quarter of 2021 we have been able to mitigate the loss of sales due to temporary unit closures, dining room closures or other limitations on access through the strength of our off-premise channels, aided by increasing consumer access to our brands via digital channels.

Credit Agreement

On March 15, 2021, KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC (collectively, the “Borrowers”), each of which is a wholly-owned subsidiary of the Company, completed the refinancing of the then existing $1.9 billion term loan B facility, $431 million term loan A facility and $1.0 billion revolving facility through the issuance of a $1.5 billion term loan B facility maturing March 15, 2028 (the “Term Loan B Facility”), a $750 million term loan A facility maturing March 15, 2026 “the “Term Loan A Facility”) and a $1.25 billion revolving facility maturing March 15, 2026 (the “Revolving Facility”) pursuant to an amendment to the Credit Agreement (as defined in our 2020 Form 10-K).

Subsequent to the end of the first quarter, on April 23, 2021, the Borrowers issued a notice of redemption for June 1, 2021 for $1,050 million aggregate principal amount of 5.25% Subsidiary Senior Unsecured Notes due in 2026 (the “2026 Notes”). The redemption amount is equal to 102.625% of the principal amount redeemed, reflecting a “call premium”, plus accrued interest to the date of redemption.

Subsequent to the end of the first quarter, on April 1, 2021, Yum! Brands, Inc. issued $1.1 billion aggregate principal amount of 4.625% YUM Senior Unsecured Notes due January 31, 2032 (the “2032 Notes”). The Company intends to use the net proceeds from the 2032 Notes to fund the redemption of the 2026 Notes.

Refer to the Form 10-Q for the quarter ended March 31, 2021 for further discussion.