



TRANSFORMATION JOURNEY NEARLY COMPLETE AND A WORLD OF OPPORTUNITIES FOR YUM!

Dear Fellow Stakeholders:

2018 was another year of celebrating and achieving milestones. Our diverse portfolio of iconic brands generated over **\$49 billion in system sales** and ended the year with over 48,000 global restaurants. Combined across our brands and led by over **2,000 world-class franchisees**, we opened a record of eight gross new restaurants per day. Additionally, we made significant progress on our transformation commitments, having achieved our goal of becoming **at least 98 percent franchised**. Focus on our growth drivers, increased collaboration and a new mindset are clearly fueling improved results.

Our **four growth drivers** are the foundation on which our sustainable, long-term results are being built. These growth capabilities, outlined below, are the key drivers of same-store sales and net-new unit growth and serve as our guiding principles in all business decisions.

- 1. Distinctive, Relevant & Easy Brands.** We will innovate and elevate iconic restaurant brands people trust and champion.
- 2. Unmatched Franchise Operating Capability.** We will recruit and equip the best restaurant operators in the world to deliver great customer experiences using our 3C approach. This includes partners who are Committed to providing consistently bold value and brand strategy. These partners are also Capable to deliver a great customer experience and operational standards. And finally, our partners have Capital – both to grow new units and modernize existing assets.
- 3. Bold Restaurant Development.** We will drive market and franchise unit expansion with strong economics and attractive returns.
- 4. Unrivalled Culture & Talent.** We will leverage culture and people capability to fuel brand performance and franchisee success.

I firmly believe our culture is a competitive advantage for Yum!. With culture as the driving force behind our results, I'm pleased to share the following highlights from 2018:

- **Worldwide system sales growth of 5 percent**, led by 6 percent growth at KFC, 6 percent at Taco Bell and 1 percent at Pizza Hut
- **Same-store sales growth of 2 percent**, led by 4 percent growth at Taco Bell and followed by 2 percent at KFC with Pizza Hut even for the year
- **Net-new unit growth of 7 percent**, including **3,021** gross unit openings, which is 389 more openings than in 2017, and the addition of 1,282 Telepizza units
- Ended the year with over **48,000 global restaurants** in approximately 270 brand-country combinations
- Achieved our goal of becoming **at least 98 percent franchised**, with 856 company units by the end of 2018



Greg Creed,
Chief Executive Officer
Yum! Brands Inc.

- Core operating profit growth flat and in line with expectations
- Returned **\$2.4 billion of capital to shareholders** through share repurchases and dividends

Our iconic brands continue to focus on our four key growth drivers, which are the catalysts behind our successful results.

KFC is “Finger Lickin’ Good.” KFC continued to bolster its “Always Original” brand positioning and beloved core menu items with innovative new products such as the Dunked Burger and Chicken & Waffles. KFC remains dedicated to making the brand R.E.D., relevant, easy and distinctive, by investing in innovation, technology and enhanced asset formats.

Pizza Hut celebrated its 60th birthday in 2018 by reaching a milestone of over 18,000 restaurants worldwide, all while continuing its commitment to ensuring every customer has a Hot, Fast and Reliable experience around the globe. In the U.S., Pizza Hut became the official sponsor of the NFL and kicked off the \$5 Lineup with intense focus on value. Internationally, the brand continued to lay the foundation for an off-premise centric business with the Telepizza alliance paving the way.

Taco Bell is truly a “Category of One” for everyone. 2018 was the brand’s seventh consecutive year of positive same-store sales growth, a testament to the strength of the leadership team and the partnership with franchisees. In addition to a relentless commitment to value and innovation for which Taco Bell is known, I am particularly excited that in 2019, Taco Bell delivery will be available in over 4,000 restaurants across the U.S. through our strategic partnership with Grubhub.

Overall, 2018 showcased the benefits of the Yum! system. We leveraged our scale and expanded our capabilities to improve unit level economics. First, we entered into the U.S. strategic partnership with Grubhub to provide a world-class delivery experience to both our customers and franchisees. Second, we closed on a strategic growth alliance with Telepizza. This landmark deal places Pizza Hut in the no.1 category position across Latin America and Iberia in terms of unit count and provides a pipeline for future accelerated growth. Third, we acquired QuikOrder, our third-party online ordering service provider for Pizza Hut in the U.S. Running our own e-commerce platform will enable us to more quickly provide breakthrough products and convenient services to our customers that will allow for better franchise economics over the long term.

In 2018, we also sharpened our Global Citizenship & Sustainability Strategy and launched our first investor-grade sustainability report called our Recipe for Good. This work unites our system and keeps our employees, franchisees and suppliers focused on socially and environmentally responsible growth.

In closing, I am very proud of what we have been able to accomplish in just two short years since we announced the transformation of Yum!. We made significant progress on all our 2016 transformation goals, including completing our refranchising program. We closed creative and transformative deals to drive profitable system sales growth for our franchisees for years to come. We achieved healthy same-store and system sales growth with improvement throughout the year. Heading into 2019, our commitment to being more focused, more franchised and more efficient continues to strengthen our enviable business model. We are confident Yum! is well positioned to leverage our massive scale and expand our capabilities in order to improve franchise unit economics and accelerate growth.



Greg Creed, CEO