

## Yum! China Division



Sam Su, President Yum! China Division

Yum!

# #1 Yum Strategy



Home Service



East Dawning

Build Dominant  
**CHINA**  
Brands

Drive PROFITABLE  
International  
Expansion

Run  
GREAT  
Restaurants

Multibrand  
GREAT  
Brands



# China on Track to Further Economic Expansion

- ☑ Yum well positioned to take advantage, market leader
- ☑ Successful, scaled business, early in maturity curve
- ☑ Track record of profitability
- ☑ Relatively low risk way to take advantage of China's opportunity
  - Capital commitments not large in nature, easily controlled
  - Little if any intellectual property right risks
  - Not considered a strategic industry, unlikely to face large, sustained shifts in government sentiments



# Profitable and Scaled

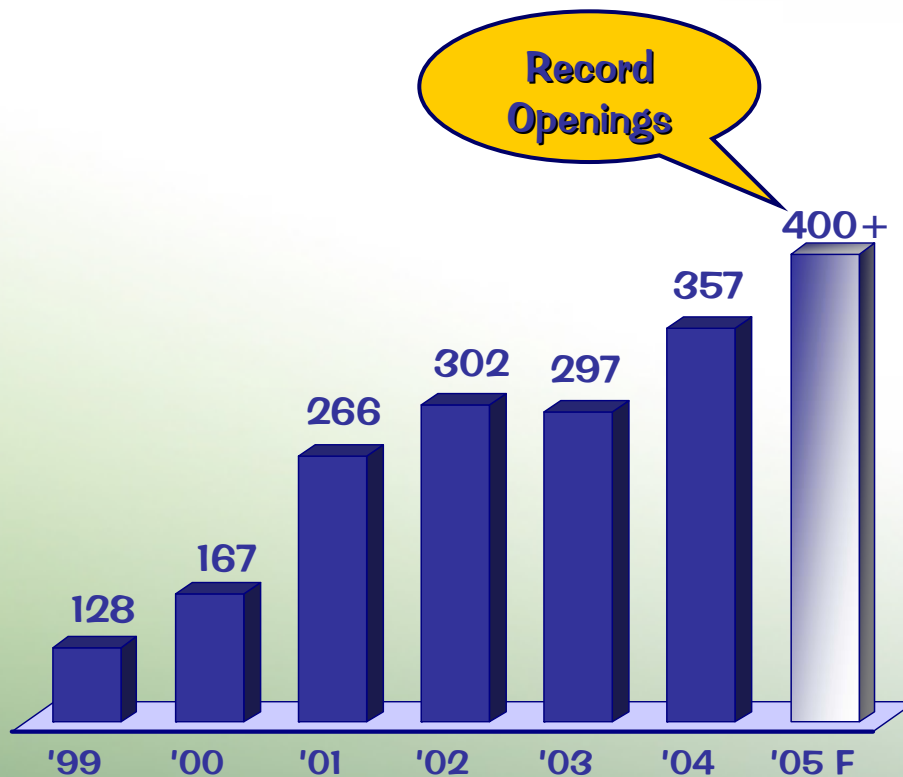
## Mainland China

- ✓ Built significant brand presence, still we are focused on profitability
- ✓ Nearly 1,800 restaurants
  - 360 cities with KFC, 52 with Pizza Hut
- ✓ Capable and tenured leadership team
- ✓ 18 years in market, placed support center on Mainland early ('92)
- ✓ Bulk of biggest, challenging investments behind us
  - People capability, logistics, supply chain
- ✓ Able to self-fund investment in new brands, like East Dawning



# Yum! China Division — Rapid Expansion

New System Restaurant Openings



Operating Profit  
(\$million)



*Includes People's Republic of China, Thailand, KFC Taiwan*



# 2005 — A Challenging Year

- ✓ Flat profits disappointing, but only a short-term setback
- ✓ Red-dye episode. Subsequent disruptions to our calendar stopped sales momentum
- ✓ Avian Flu II
  - Late-year timing leaves no time for full profit recovery in same fiscal year
- ✓ Brands established, category leaders. We believe our long-term picture does not change, it's bullish



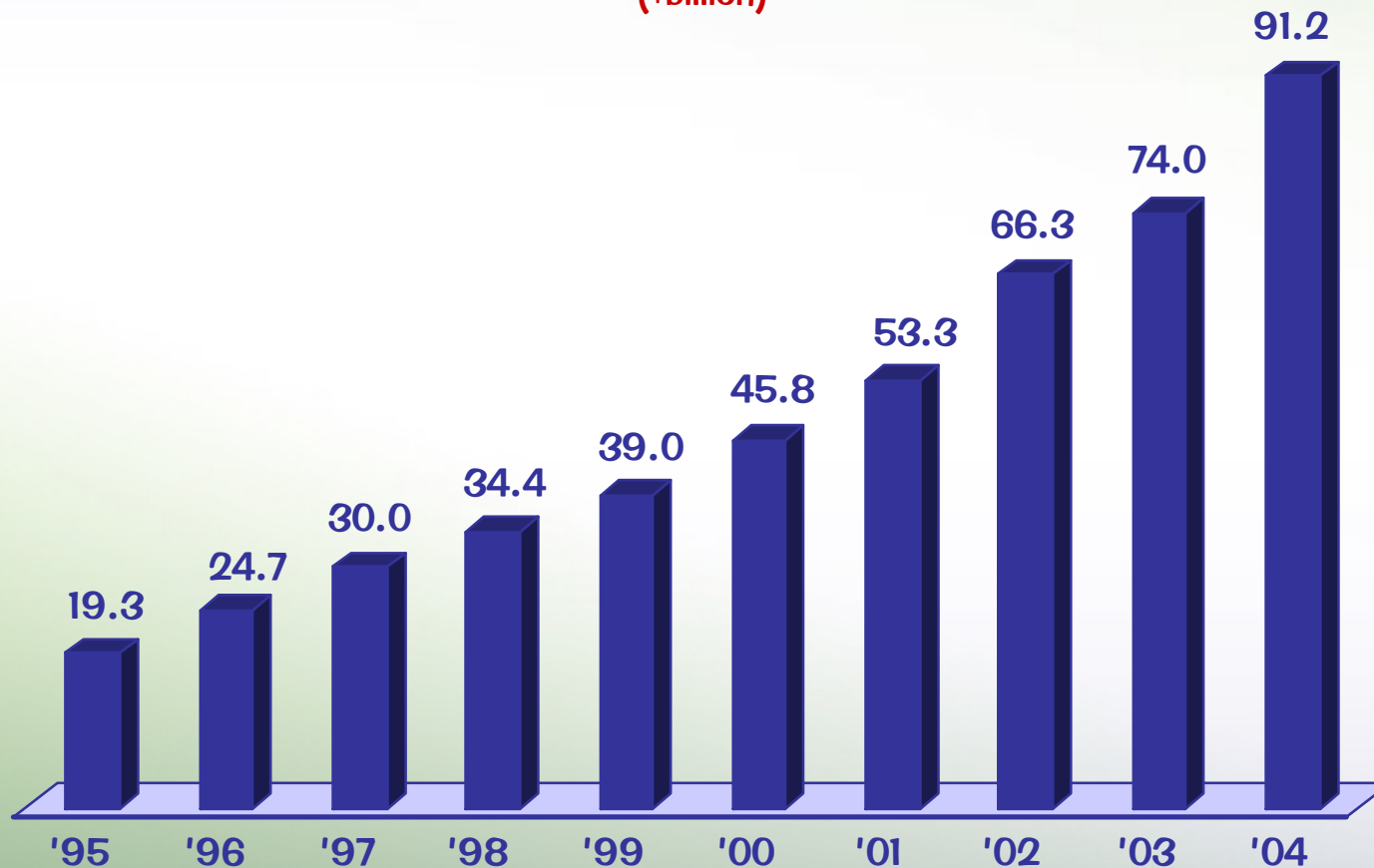
# Favorable Macro Trends Support Our Bullish Views

- ✓ Retail landscape undergoing major upgrades
- ✓ Affordability in our segment's favor as wealth creation continues
- ✓ Consumers are more time starved
- ✓ As we said before, there may be unforeseen ups and downs
- ✓ But China's growing appetite to eat out will not subside



# China Is a Huge Restaurant Market, Still Growing

**Mainland China — Restaurant Industry Sales  
1995 – 2004**  
(\$billion)



Sources: Yearly Statistic Book, China 2004 and National economy and social development statistic publication, 2004





# It's Clear Why We Are So Bullish on China



- ✓ High Brand regard, the best unit economics in Yum
- ✓ Expanding rapidly, 300+ annual builds



- ✓ THE Casual Dining leader — No competition on the horizon yet
- ✓ Expanding rapidly, units up  $\frac{1}{3}$



Home Service

- ✓ Uniquely positioned vs casual dining
- ✓ Profitable now, laying foundation and ready to grow

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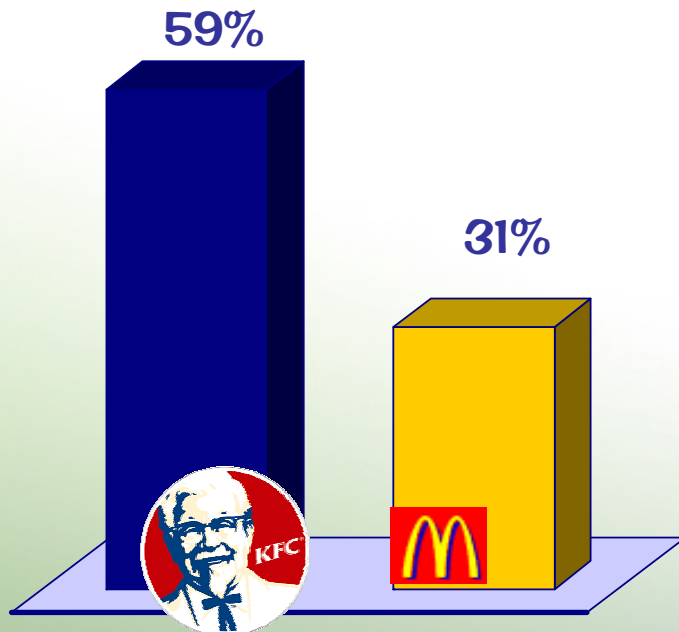
East Dawning

- ✓ Selling Chinese/Asian favorites in China no small task
- ✓ With a potential as big as KFC, it's worth the try

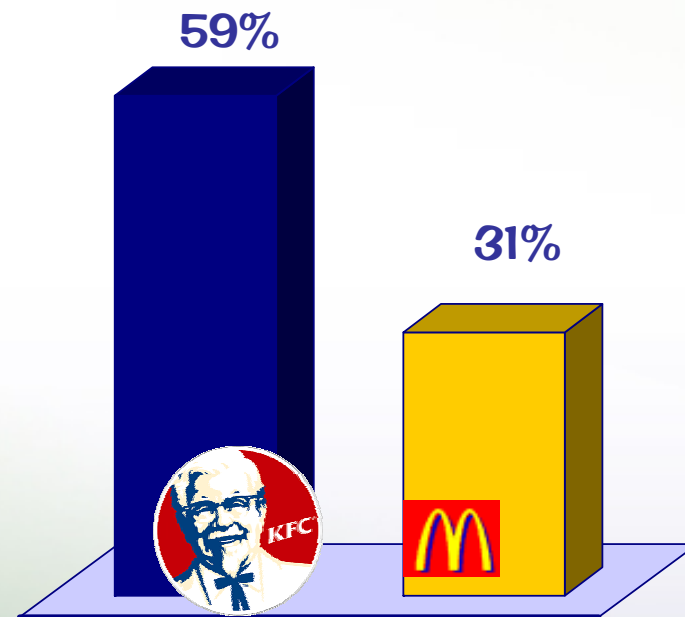


# KFC Today, #1 Brand Across China

Most Preferred Brand



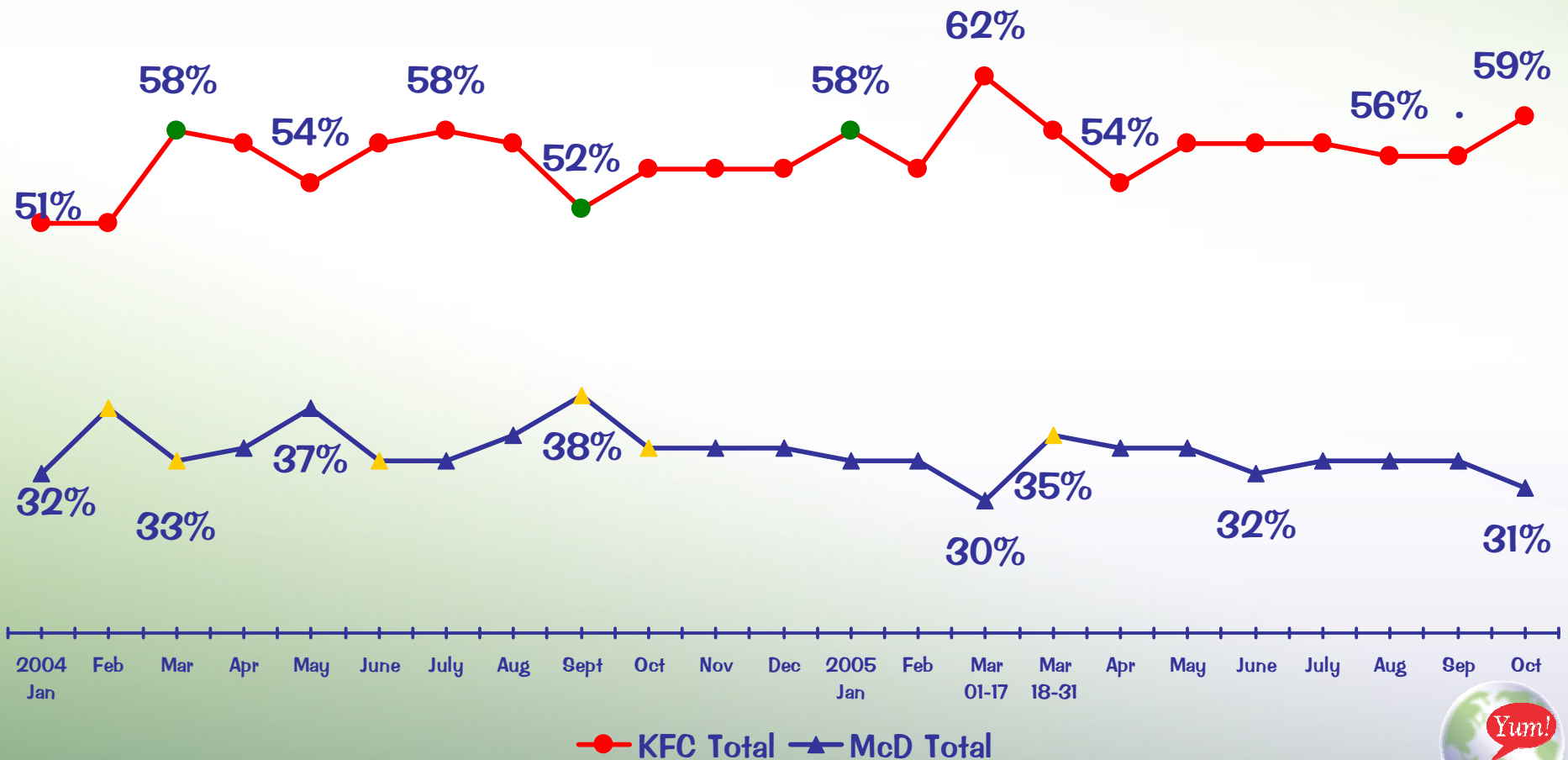
Top-of-Mind Awareness



Source: Internal survey

# KFC Brand's Relative Strength Has Sustained

**Most Preferred Brand**  
**January 2004 – October 2005**



Source: Internal survey

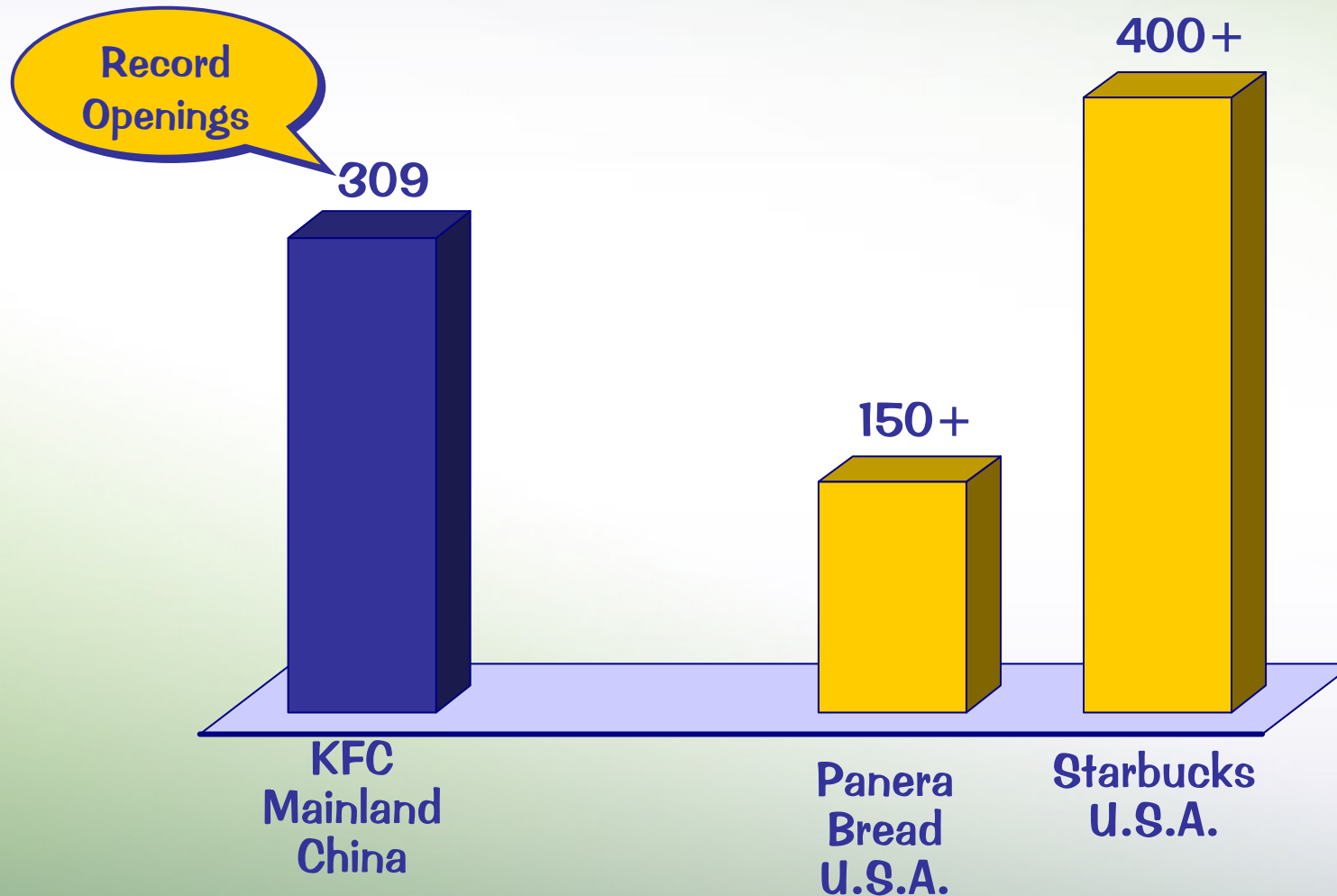


# KFC Mainland China → Great Economics

	<b>'04</b>	<b>'05 F</b>
<b>Avg. Unit Volume</b>	<b>\$1.2 million</b>	<b>\$1.0 million</b>
<b>Transactions</b>	<b>395,000</b>	<b>335,000</b>
<b>Restaurant Margin</b>	<b>23%+</b>	<b>19%+</b>
<b>Cash Investment</b>	<b>\$450 to 500,000</b>	<b>Same</b>

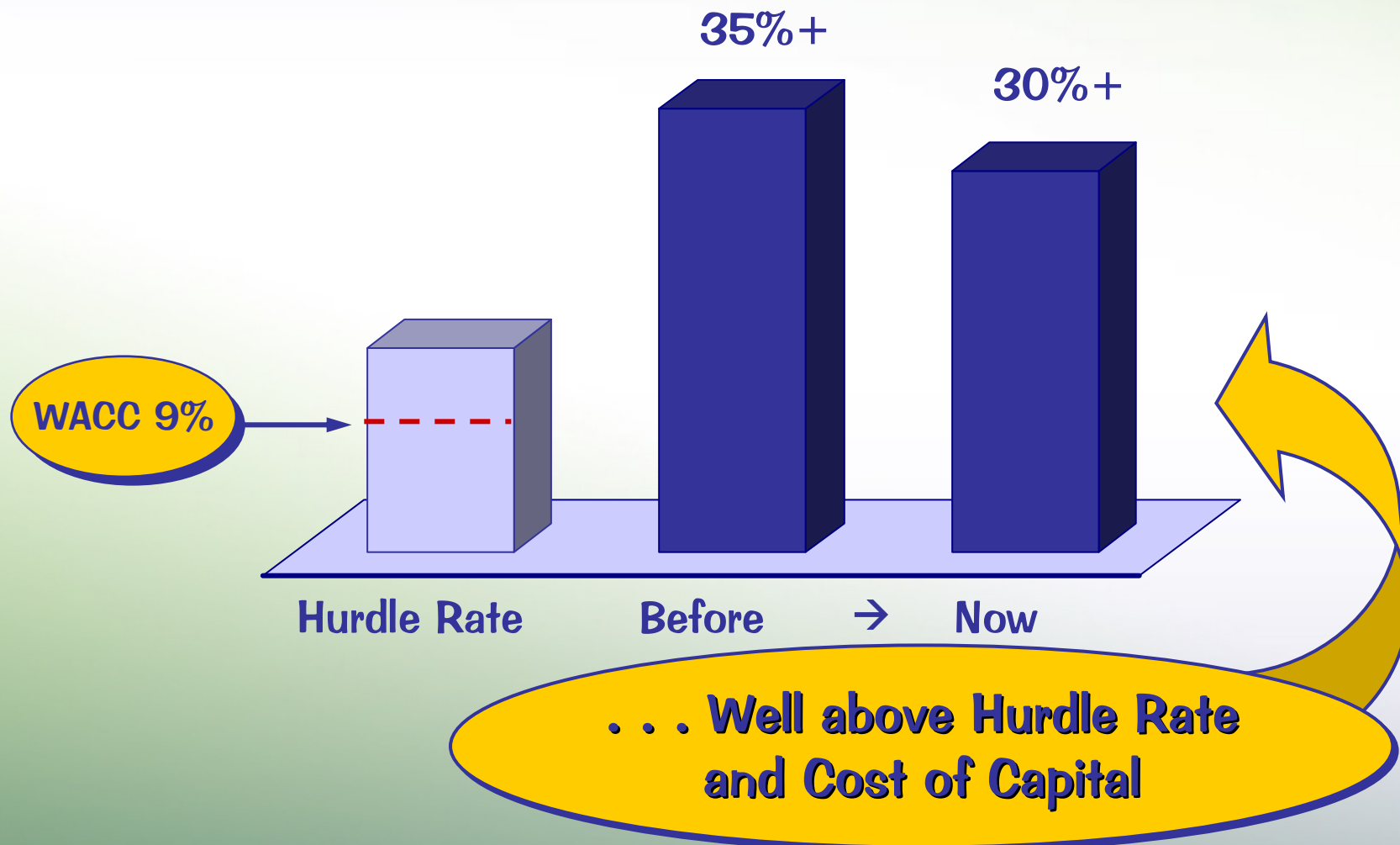


# 2005 F . . . Rapid Expansion with Great Returns



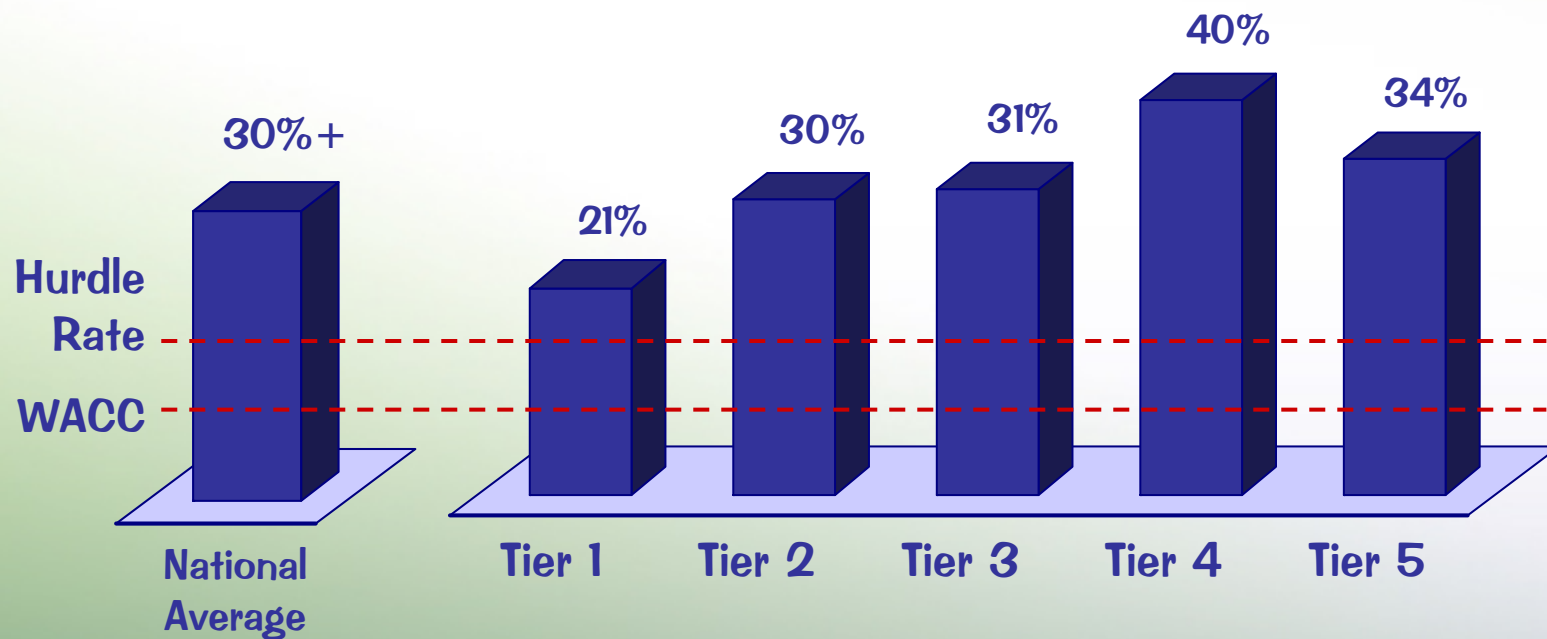
# KFC Returns Remain Very Strong

## Estimated Rate of Return



# Big Cities, "Small" Cities, All Great Results

## Mainland China Estimated Returns by Market Segment

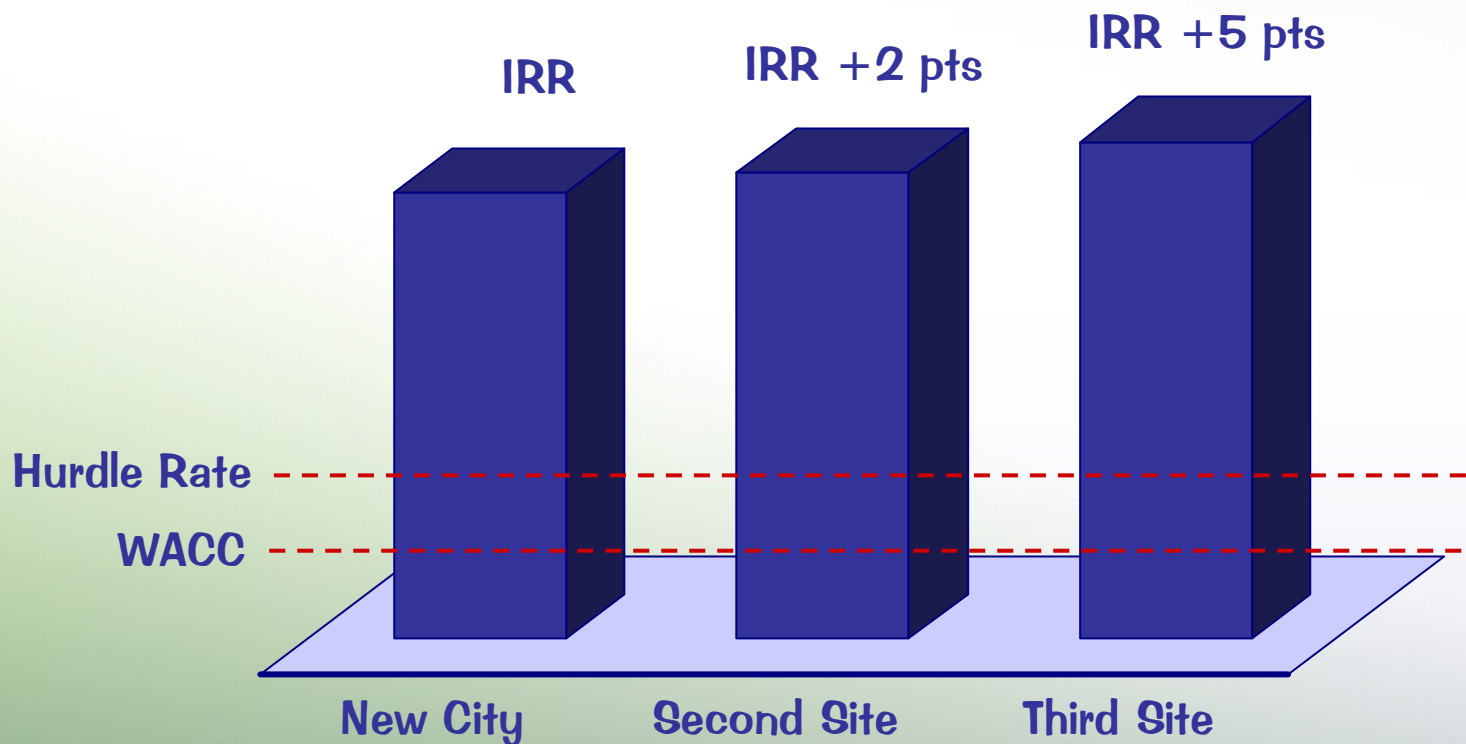


Note: Estimate



# Once We Enter New Cities, the Brand Takes Off

**Mainland China**  
**Estimated Relative Internal Rate of Return**





# Absolute Vigilance on Supply Chain

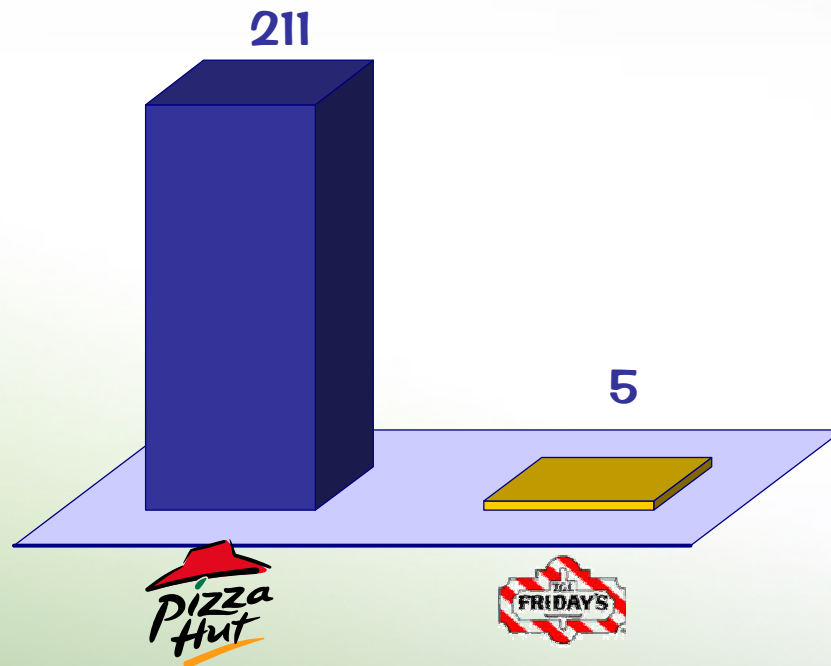
- ✓ As industry leader, Yum! China leading Food Safety agenda
- ✓ Brought in experienced Global QA Chief, singular focus on China
- ✓ Food Safety Office (and Officer) established, well received
- ✓ Strategic partnership with independent body to increase testing of supply
- ✓ Continued communication of safety efforts to consumers

**Goal: Food Safety Leadership**



# Mainland China Pizza Hut #1 in Casual Dining

Restaurant Count  
As of Q3 2005



✓ Brand Awareness (aided)

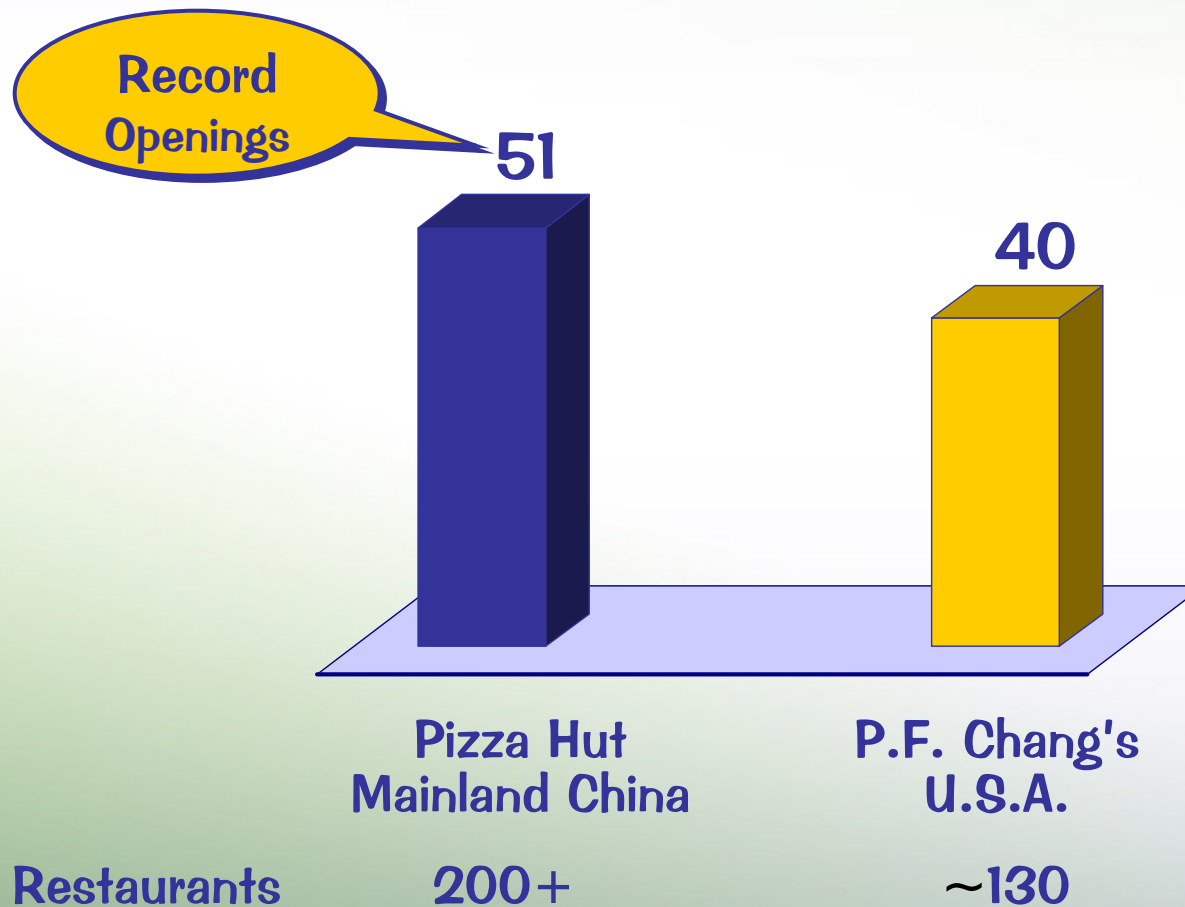
- 99% in key cities
- 80% in up and coming

**5-Star Service at 3-Star Price**



# Growing Rapidly as We Expand Casual Dining

## New-Restaurant Openings 2005 F



# Mainland China Pizza Hut → Great Economics

## Pizza Hut Casual Dining

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Average Unit Volume

\$1.1 million

Restaurant Margin

20%

Cash Investment

\$450 – \$500,000



# Pizza Hut Home Service — Profitable Today

**Mainland China**

**Brand Positioning:**  
**Great tasting pizza-centric food**  
**at affordable prices for time-pressed families**

- ✓ First restaurant in Shanghai mid-2001
- ✓ 25 restaurants in 4 cities: 18 in Shanghai; 4 in Beijing; 2 in Shenzhen; 1 Hangzhou
- ✓ Positioned to capitalize on consumer adoption of home service



# Pizza Hut Home Service — Target Economics

## Pro Forma Targets

Average Unit Volume

\$600 – 800,000

Restaurant Margin

25% – 30%

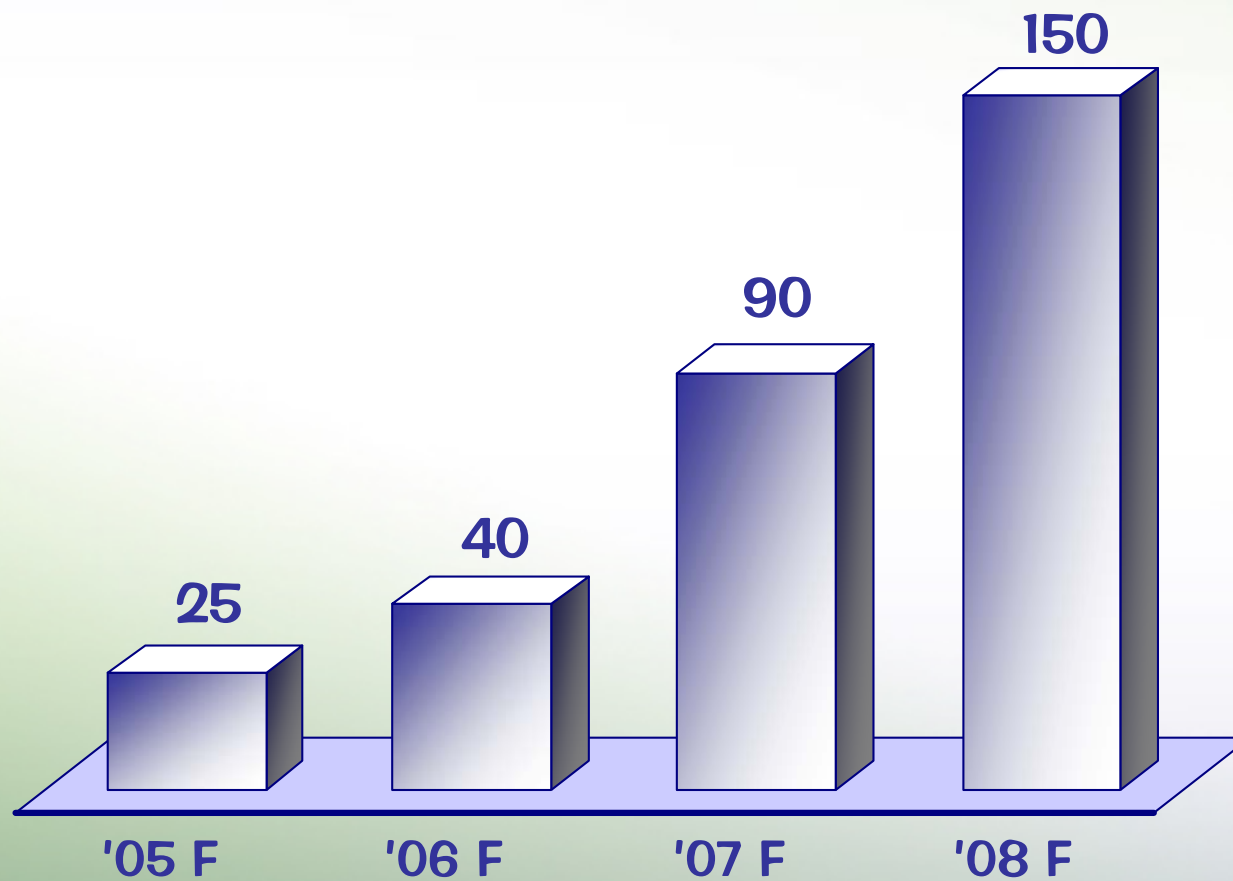
Cash Investment

\$250,000



# Pizza Hut Home Service — Rapid Expansion

Home Service Units



# East Dawning — Continued Concept Work

- ✓ Category size: \$16 billion (est.)
- ✓ East Dawning Positioning
  - For Chinese consumers who appreciate top quality QSR services and convenience, East Dawning offers innovative, differentiated, great-tasting Chinese food
- ✓ Three new builds in '05
  - High satisfaction among QSR users
  - Very high revisit intent
  - Higher visit frequency than KFC
- ✓ Eight more new builds in '06





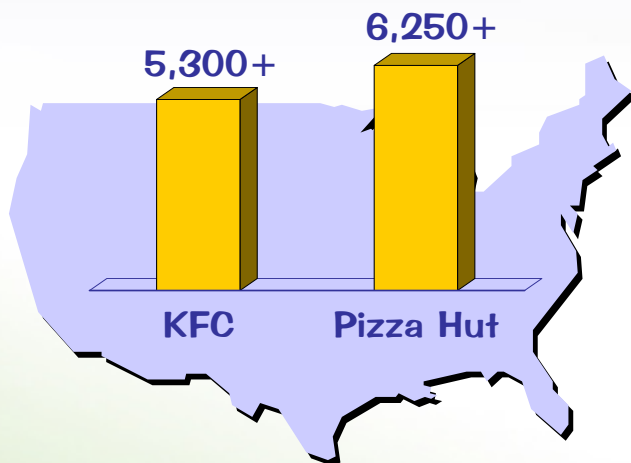
# Full Speed in Development of Yum! China

2006 F

- ☑ 400+ restaurants for China Division  
375+ restaurants in mainland China
- ☑ Reaching 400+ cities in mainland China
- ☑ Expand Pizza Hut Home Service
  - 15 restaurants
  - 2 additional cities
- ☑ Continue to test East Dawning — 8 additional restaurants



# Endless Potential in Mainland China



## Competition:

McDonald's  
Wendy's  
Burger King  
Jack in the Box  
Chick-fil-A  
Papa John's  
Domino's  
Popeye's  
Church's ...



## Competition:

McDonald's  
Local



# Why We Are Confident About the Future

- ✓ Strong portfolio of brands for expansion
- ✓ Tenured team
- ✓ Improved product pipeline, marketing
- ✓ Enhanced product safety
- ✓ Exciting returns from new cities



# What to Expect in 2006

**Yum! China Division**



**Tough First Quarter**



**Over 20% System-Sales Growth**



**Over 20% Operating Profit Growth**



**Over 400 New Restaurant Openings**



**CONTINUED HIGH RETURNS!**





**Yum!**

*Restaurants  
China*

More of What You Want to Know . . .

**Yum!**

# China Division Exceeds 375 Target

## New Restaurant Openings

	'01	'02	'03	'04	'05 F
KFC	151	226	233	284	305+
Pizza Hut Casual Dining	22	33	30	40	50+
Pizza Hut Home Service	1	3	5	9	10+
Thailand/Taiwan	92	40	28	23	30+
ED / TBG	—	—	1	1	5
Total Division	266	302	297	357	400+



# KFC Today a Mix of Company, JVs, and Franchisees

## Mainland China

At Q3 2005	Total	Company	JV	Fran.
# of KFCs	1,417	848	511	58
% of total	100%	60%	36%	4%



# Yum! China Division — 2006 Capital Plan

	'05 F		'06 Plan	
	\$ Million	Restaurants	\$ Million	Restaurants
New Company Restaurants	111	273	125	279
Upgrades	12	49	20	82
Brand Projects	5		5	
Maintenance/Corp	15		22	
Total	143		172	

