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# Yum! Brands, Inc. (YUM) Q1 2025 Earnings Call Transcript

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## Q1: 2025-04-30 Earnings Summary

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EPS of \$1.30 **beats by \$0.02** | Revenue of \$1.79B (11.83% Y/Y) **misses by \$63.65M**

Yum! Brands, Inc. (NYSE:[YUM](#)) Q1 2025 Results Conference Call April 30, 2025 8:15 AM ET

### Company Participants

Matt Morris - Head, Investor Relations

David Gibbs - Chief Executive Officer

Chris Turner - Chief Financial Officer

Dave Russell - Senior Vice President and Corporate Controller

## Conference Call Participants

Brian Bittner - Oppenheimer

David Tarantino - Baird

Dennis Geiger - UBS

David Palmer - Evercore ISI

Danilo Gargiulo - Bernstein

John Ivankoe - JPMorgan

Andrew Charles - TD Cowen

## Operator

Hello, everyone, and thank you for joining the 2025 First Quarter Earnings Call. My name is Sami, and I'll be coordinating your call today. [Operator Instructions]

I would now like to hand over to your host, Matt Morris, Head of Investor Relations to begin. Please go ahead, Matt.

## Matt Morris

Good morning, everyone, and thank you for joining us today. On our call are David Gibbs, our CEO; Chris Turner, our CFO; and Dave Russell, our Senior Vice President and Corporate Controller. Following remarks from David and Chris, we'll open the call to questions.

Please note that this call includes forward-looking statements that are subject to future events and uncertainties that could cause our actual results to differ materially from these statements. All forward-looking statements are made only as of the date of this call and should be considered in conjunction with the cautionary statements in our earnings release and risk factors discussed in our SEC filings. Please refer to today's release and filings with the SEC to find disclosures, definitions and reconciliations of non-GAAP financial measures.

Please note that during today's call, systems sales and operating profit growth will exclude the impact of foreign currency. For more information on our reporting calendar for each market, please visit the Financial Reports section of the IR website. We are broadcasting this conference call via our website. This call is also being recorded and will be available for playback. We would like to make you aware our second quarter earnings will be released on August 5 with the conference call on the same day.

Now, I'll turn it over to David.

### **David Gibbs**

Thank you, Matt, and good morning, everyone.

I'm thrilled to report that we delivered a strong first quarter with core operating profit up 8%, fueled by exceptional results from our twin growth engines, Taco Bell U.S. and KFC International. The success evident in the performance of these two businesses reflects significant and durable competitive advantages, including the operational advantage provided by our AI powered digital platform, Byte by Yum!

Our ability to quickly integrate new technology that leverages Yum!'s vast proprietary data sets into our digital ecosystem, along with an ability to scale and grow with highly capable 3C partners, is an enormous competitive advantage in the global restaurant space.

Earlier this quarter, I announced my intention to retire next year after what will be a 37 year career with the company. I reached this decision after much reflection in recognition of the great work that has been done over the last year to set up the business for long term success. With the business in a position of strength, this feels like the right time for a transition. And having a year to identify a successor ensures we can do so thoughtfully and seamlessly. I'll be working closely with the Board to ensure a smooth leadership transition.

That said, I couldn't be more excited about the direction of the business and the momentum we're seeing across our key growth engines to start the year.

Let's start with our twin growth engines. First, Taco Bell U.S. delivered a staggering 9% increase in same-store sales, an impressive achievement, especially against the backdrop of soft industry trends. Notably, this quarter, Taco Bell saw a significant expansion in consumer penetration, reflecting our efforts to elevate our positioning and broaden our relevance, which helped us to grow traffic low-single digits.

Taco Bell's digital momentum is also accelerating. Byte by Yum! has reduced system limitations, empowering Taco Bell's world class advertising team to push creative boundaries. One area in marketing with enormous potential is the expansion of AI driven decisioning to enable personalized experiences for consumers.

For example, we are testing the use of these tools to enable us to deliver one-to-one communication to our consumers. Recall at the Taco Bell Consumer Day, the team shared that they expect to generate over \$225,000 in additional per store sales by 2030 or an approximate 10% increase to AUVs through expanded digital channels and loyalty membership. What truly sets Taco Bell U.S. apart, however, is its unique ability to deliver compelling value while improving store level margins, a rare combination in the industry.

This winning combo helped drive an astounding 16% increase in operating profit for the quarter. With such a stark contrast in performance versus the industry, it's no wonder Taco Bell was once again named the number one franchise by Entrepreneur Magazine's Franchise 500 for the fifth consecutive year. This honor reflects Taco Bell's brand strength, loyal consumer base and the confidence of our franchise partners.

Our other twin growth engine, KFC International, also earned top honors for the second consecutive year as Entrepreneur Magazine's fastest growing international franchise. Additionally, with 524 gross openings across 50 plus countries, KFC International outpaced its first quarter development plan.

KFC International posted accelerating same-store sales and strong gains in brand perception, driven by bold investments in value, crave worthy new offerings and distinctive media and innovative partnerships. Globally, KFC International achieved low single-digit traffic growth, including in markets like China, which delivered its ninth consecutive quarter of traffic growth.

This quarter also highlighted strong progress in the bold initiatives designed to meet the next generation of consumers and add new layers of growth. At Taco Bell, our first Live Mas Cafe, a specialty beverage concept featuring drinks like chillers, agua refrescas, coffees and more alongside the classic menu launched in December and is off to a phenomenal start.

The test location has experienced a 40% sales lift with guests purchasing over 300 specialty beverages daily on average. Energized by this strong performance, we are planning a rapid expansion this year. Look for an exciting update on Live Mas Cafe from Taco Bell in the coming weeks.

We piloted Quench by KFC in 38 restaurants in the UK, the first KFC market to experience our innovative entry into the fast growing specialty beverage category. A globally led initiative born from insights by Collider Labs, Yum! Strategy branding and innovation consultancy, Quench features 10 handcrafted drinks across four specialty drink categories: lemonades, refreshers, shakes and iced coffees.

Early results have been promising with participating restaurants seeing growth in both transactions and beverage sales, outperforming previous specialty drink offers. Building on this momentum, we have expanded the pilot to Australia, where results are already exceeding forecast and driving incremental traffic. Plans are in motion to scale to additional markets in the coming months.

In the U.S, our bold new concept, Saucy, is exceeding expectations. Sales are at more than double the U.S. system average, placing this Saucy location among the top 15 locations in the KFC U.S. system. We're planning a phased expansion to at least 20 stores, targeting sites that allow us to unlock marketing synergies through geographic proximity.

I'll now discuss the strategic drivers that underline our commitment to being the most loved, deeply connected and always trusted brands for consumers around the world. Afterwards, Chris will provide a deep dive on our first quarter results, balance sheet position and capital strategy, followed by our outlook for the balance of 2025.

Starting with our loved pillar and our brands that champion consumer experiences. The KFC division, which accounts for 51% of our divisional operating profit, grew system sales by 5%, driven by 6% unit growth and 2% same-store sales growth. Internationally, we reset core value across several markets while modernizing the brand through menu upgrades and breakthrough innovation, including the Double Down Zinger in the UK, Crispy Naan in France and Zinger Nachos in Australia.

Sustained investment in the value layer improved our net value score by seven points versus our largest competitor. Relevant partnerships and new media strategies also drove a 2 point gain in brand perception among younger consumers globally. A number of markets experienced meaningful momentum, including Canada, where same-store sales accelerated to 6%, reflecting strong consumer engagement following a collaboration with Mike's Hot Honey.

Korea delivered 13% same-store sales growth and double-digit transaction gains, fueled by expanded lunch and snacking options and higher delivery sales. Africa recorded 8% same-store sales growth, supported by improving consumer sentiment and effective value led promotions.

U.S. performance was driven by a double value promotion, \$5 bowls and the \$10 Tuesday bucket, leading to low single-digit transaction growth. Taco Bell, which accounts for 37% of our divisional operating profit, delivered an exceptional quarter with system sales up 11%, fueled by impressive same-store sales growth of 9%. Top-line performance was driven by low single-digit traffic increases across all income cohorts.

The brand generated strong buzz with the success of its Crispy Chicken Nuggets, Milk Bar Churros, Cheesy Dipping Burritos, and Steak and Queso Crunchwrap Sliders. The \$5, \$7 and \$9 luxe boxes offered compelling value, with the \$9 luxe cravings box featuring rotating limited time innovations.

Taco Bell also expanded category entry points with bold offerings like Caliente Cantina Chicken and Steak Nacho Fries. We've now seen multiple quarters of rapid adoption in digital with mix reaching 42% and sales growing 37% year-over-year. In March, Taco Bell hosted both its Consumer Day and Live Mas Live events, spotlighting the brand's bold innovation and powerful fan connection.

At Consumer Day, the team unveiled the ambitious global R.I.N.G., Ring The Bell Strategy, outlining a compelling long term vision to drive sales, improve margins, expand its footprint and accelerate digital growth. Live Mas Live brought together top social media influencers and die-hard Taco Bell fans for an immersive celebration of the brand's boldest new menu innovations and experiences.

The event buzzed with excitement, blending exclusive tastings, live entertainment and behind the scenes access to what's next for Taco Bell, including exclusive limited edition merch collaboration and awards for its most loyal supporters.

Pizza Hut, which represents 12% of our divisional operating profit, had system sales decline 3% in Q1. The decline in system sales was primarily attributable to disappointing same-store sales performance in the U.S. Excluding the U.S., same-store sales were positive for the quarter with meaningful improvements across Asia, Europe and The Middle East.

In the U.S, sales started soft in January and improved through February and March, with the last few weeks showing sequential gains in revenue and transaction growth. The U.S. business faced an intense competitive environment. To drive momentum, Pizza Hut U.S. leaned into group occasions with its Stuffed Crust and Wings promotion and Ultimate Hut Bundle, both of which increased check and attracted new users.

During the Super Bowl, the Ultimate Hut bundle helped deliver Pizza Hut's highest ever digital sales per restaurant. Looking ahead, Pizza Hut U.S. Will focus on its 3D strategy: distinctive offerings for group occasions, dependable everyday value through platforms such as the \$7 deal levers and disruptive innovation to gain share in a competitive market.

Habit Burger and Grill system sales growth was flat this quarter. Tempura Avocado Wedges launched this quarter and became one of the brand's highest performing side LTOs in recent history. This quarter, Habit shifted its marketing to focus on brand fame, including an amplified social media presence and a Super Bowl placement that drove 10 million total impressions. Looking ahead, Habit is in the early stages of expanding local restaurant marketing through on the ground field teams.

Strong same-store sales growth in Florida, Washington and New Jersey reinforced our confidence in the brand's long term growth potential and the impact of market specific engagement.

Moving to our Connected pillar, we're advancing our ability to serve every consumer everywhere at any time. Earlier this year, we announced Byte by Yum!, our proprietary suite of AI-powered software as a service products designed to deliver integrated, seamless technology across our restaurants. This strategic investment is delivering results with digital sales up 12% year-over-year.

As mentioned previously, Pizza dot U.S. achieved its highest Super Bowl sales ever with every digital order processed through Byte Commerce, marking a major milestone in our digital transformation. This success highlights the scalability and reliability of our platform.

We're also seeing stronger consumer engagement, including a \$4.5 million quarter-over-quarter increase in KFC loyalty members. At Taco Bell, active loyalty membership grew 45% year-over-year, fueled by unique experiences like build your own Luxe Box and the Spring Break Fan Favorite Vote. Looking ahead, we're excited about our new partnership with NVIDIA, which will accelerate the development of innovative AI technologies across Yum! Worldwide. Chris will share more about this shortly.

The cornerstone of Yum! Brands is our unrivaled culture and talent, and I would like to congratulate two executives who are taking on larger leadership roles. Meg Farren, who was previously GM of KFC UK and Ireland, was promoted to the position of President of Taco Bell North America effective February 10; and Catherine Tan-Gillespie, formerly the CMO and CDO for KFC U.S, became President of KFC U.S. Effective April 1. I am confident Meg and Catherine will help lead these storied brands to even greater success.

Speaking of the talent in the Yum! System, we recently witnessed the company's collaborative culture in action when nearly 1,000 people attended our global franchise convention in Australia. The four day summit was attended by world class franchisees from all over the globe, with some traveling more than 10,000 miles to attend. The power of each brand and Yum! Collectively was on display demonstrating the advantages our system has in driving profitable growth for franchisees and Yum! alike.

This strong sense of unity and shared purpose among our global franchise partners is also reflected in the way the company integrates responsibility and community impact into its core values. Those efforts were recognized by the Conference Board, which presented the company with its Corporate Responsibility Award on April 23. The award celebrates organizations that have fully embedded responsible business practices into their core strategies, driving business efficiencies and creating long term value.

To wrap up, I'm thrilled with our first quarter results, which clearly demonstrate the strength of the Taco Bell brand and the momentum in KFC. Our recent investments in KFC to enhance our value proposition, modernize our brand and update our menu are delivering sustainable improvements and top line trends. I left our global franchise convention knowing Yum! is simply one of the best positioned QSRs with an unbelievable international franchise base that is more than ever committed to grow their portfolios and capitalize on the strong financial returns offered by our brands?

For investors and as a long term shareholder myself, the bold initiatives we're taking that will give us a leading edge in all markets is an aspect to our story that can't be ignored. And I look forward to sharing the continued progress in that pursuit and unlocking the multiple unique levers for profitable growth.

With that, Chris, over to you.

### **Chris Turner**

Thank you, David, and good morning, everyone.

Today, I'll discuss our first quarter financial results, our balance sheet and capital strategy, and our outlook for 2025. As David mentioned, we are off to a good start in 2025 with momentum in our top line, impressive growth in digital mix, and strong profit flow through to the bottom line.

First quarter system sales grew 5%, driven by 3% same-store sales growth and 3% unit growth. Ex special G&A expenses were \$274 million up 3% year-over-year. Reported G&A was \$302 million and includes \$24 million in special expenses related to our resource optimization program that is unlocking efficiency in the organization along with investments related to our brand headquarters consolidation.

Yum!'s core operating profit was \$586 million up 8%, highlighting the strength of our global multi-brand portfolio. Delivering an 8% core operating profit is a strong result in a complex consumer environment driven by the contributions of our twin growth engines. Taco Bell delivered 16% core operating profit growth led by double-digit system sales growth and strong profit flow through on flat G&A. KFC grew operating profit 9% driven by 5% system sales growth and lower G&A, a good example of the impact of the strategic actions we've taken to remove duplicative work across the system.

At Pizza Hut, first quarter operating profit growth was negatively impacted by 7 percentage points or approximately \$6 million due to expenses associated with transitioning stores from four franchise entities to new ownership and by three percentage points due to timing of technology spending within franchise advertising and other services expenses. One important driver of Yum! Overall performance is our store level margin performance, particularly for our largest equity estate, Taco Bell.

Taco Bell's magic formula allows it to deliver category leading value, while also maintaining industry leading margins. The expansion of Taco Bell's Luxe Cravings Box lineup at \$5, \$7 and \$9 price points delivered exceptional value across income levels, with the \$5 Luxe Box becoming a massive win with low income consumers.

As we announced at Live Mas Live, we expect Taco Bell U.S. Full year margins to come in at 24% to 25%. At Habit, restaurant level margin performance was commendable with an impressive 310 basis point improvement year over year despite meaningful labor headwinds in California. Another factor supporting store level margins across all brands is the acceleration in digital sales. At Taco Bell, digital mix reached 42%, while Habit expanded digital mix 10 points, driven by kiosk sales increasing to 17% of mix, up from 10% last year.

First quarter ex special EPS was \$1.30, reported EPS was \$0.90 including an unfavorable tax impact of \$0.33 relating to a tax reserve in a foreign jurisdiction. Finally, in general, our business has minimal supply chain related tariff risk as most markets source within their country or with countries where there is not currently tariff risk.

As a result, we expect tariffs to have an immaterial impact on our system wide supply chain. Our global scale offers our system advantages to drive supply chain efficiencies and our expert teams are partnering with suppliers and franchisees on the limited items where there is potential impact.

Now, on to development. While Q1 development reflects previously signaled and planned closures including in Turkey and across Pizza Hut, unit development in the first quarter was in line with our forecast and we are on track to deliver 5% unit growth excluding Turkey this year. Our development engine remains healthy with 751 new stores opened in Q1, roughly in line with Q1 last year across 68 countries. KFC led the way with 528 openings, the second highest for a first quarter in their history, driven by growth in China, India, Japan and Thailand.

Globally, KFC offers highly attractive paybacks with the global average below five years and even stronger paybacks in markets like China, Thailand and The Middle East. Pizza Hut delivered solid development with 198 new units across 34 markets, while Taco Bell added 24 gross units. Taco Bell's net unit development in Q1 reflects planned phasing, closures in Malaysia and the closure of remaining restaurants in China's Tier 2 cities. As announced at Taco Bell Consumer Day in March, the team is on track to deliver 100 international net new units this year, with growth strongest in the UK, Spain and India.

Lastly, Habit continues to improve at store level paybacks and is exploring opportunities to capitalize on lower cost conversions from fast casual brands closing stores in its core markets. As a reminder, the termination of our franchise agreement in Turkey resulted in 537 closures, 283 KFC locations and 254 Pizza Hut locations.

As shared on our last call, the Pizza Hut team also accelerated planned closures or engaged with franchise partners to strengthen our system, specifically in markets such as Chile, the UK and the U.S. Notably in the U.S. and UK, we facilitated a transfer of more than 200 stores to more capable franchise partners.

In Latin America, recently, the Serrano Group signed a binding agreement for majority ownership in a joint venture with IMC, our KFC franchisee in Brazil. The Serrano Group is one of our world class 3C partners who started with their first KFC store in Ecuador and now manages nearly 800 stores across six countries in Latin America. Over the past three years, they've opened 183 new stores, leveraging a sophisticated supply chain that includes in house commissaries and chicken processing facilities. We believe this strategic deal paves the way for accelerated unit growth in a large and underpenetrated market.

As David mentioned, earlier this month, we hosted our Global Franchise Convention in Sydney, Australia, bringing together franchisees from around the world. The energy and enthusiasm were unmistakable. Over several days, we aligned on brand strategy, covering everything from world class development capabilities to cutting edge marketing analytics, while showcasing the power of our global network and the competitive advantage that comes from sharing best practices across markets.

We also celebrated franchise partners who delivered outstanding results, underscoring the strength of our system. The chance to speak with so many of our franchisees made it clear that sentiment in the Yum! System is strong with many eager to grow their portfolios and help to reinforce one of Yum!'s greatest advantages, a network of strong corporate minded franchise partners who see opportunity and are willing to invest even in times of macro volatility.

I'll now discuss our connected brand strategy that continues to revolutionize digital and technology across our system, strengthening operations, enhancing consumer experiences, and unlocking new insights. Byte by Yum!, with emphasis on both foundational and AI driven capabilities, was showcased extensively at the franchise convention and our D&T leaders engaged in meaningful one on one conversations with our largest and most strategic franchisees, deepening relationships and reinforcing our shared vision for growth.

We held in-depth product demonstrations for our Byte platform and highlighted some of the unique innovations only possible with an integrated technology stack. As a result of this, we have overwhelming interest from our franchisees in adopting Byte in their restaurants. Completing the rollout of Byte in our U.S. brands remains a top priority in 2025, but given the level of interest, we're beginning to work with our international franchisees on how we can scale Byte into their markets in an accelerated fashion over the coming years.

We are also thrilled to announce our partnership with NVIDIA this quarter, a milestone that enables us to accelerate the development and deployment of cutting-edge AI technology solutions across our system.

We're focusing on three key areas of the business: voice automated drive through and call center operations to deliver more natural and seamless ordering experiences for our consumers, computer vision technology to enhance back of house and drive thru efficiency through real time analytics, and advanced restaurant intelligence to equip general managers with personalized action plans that drive operational excellence.

These innovations will enhance operational performance, support our teams and elevate the guest experience across our brands. We believe AI will become the new operating system of restaurants, and our partnership with NVIDIA positions Yum! At the forefront of that revolution.

Now, let me highlight the significant strides across our easy experiences, easy operations, and easy insights pillars. Starting with our easy experiences pillar, where we prioritize delivering frictionless consumer experiences. This quarter, Pizza Hut UK, powered by the launch of our Byte Commerce platform, achieved impressive digital momentum with a 67% year over year increase in mobile app transactions.

In 2025, we're set to scale Byte Commerce to four new Pizza Hut international markets and introduce AI powered personalization to drive higher average order value and accelerate transaction growth. KFC is also making strong progress in this area with kiosks now representing its largest digital sales channel, accounting for nearly 50% of all digital sales excluding China, highlighting the growing consumer preference for this convenient ordering option.

Turning to our easy operations pillar, where we're focused on optimizing operations to support and empower our team members. In Q1, we expanded Byte Restaurant Coach to an additional 5,000 stores. The Byte Coach's digital routine tools and training have enabled more proactive, consistent, and scalable performance management across our restaurants.

At Taco Bell U.S, we onboarded an additional 1,500 restaurants to Byte's Back of House platform, bringing the total stores live to 3,000. This continued momentum reflects strong operator engagement and meaningful progress toward building a fully connected kitchen ecosystem that drives efficiency and data informed decision-making.

Lastly, under our easy insights pillar, we're leveraging data to drive smarter, more informed decision making. Our U.S. brands are harnessing our powerful data engine and first of its kind cross brand consumer data platform to deliver personalized marketing campaigns, which for our first test through the email channel delivered 2x the improvement in consumer engagement compared to traditional email marketing. Since the end of last year, we've expanded AI-driven marketing use cases across our brands, further embedding intelligence into how we engage and convert consumers. These advancements are driving smarter targeting, increased efficiency, and stronger returns on our digital marketing investments.

Next, I'll provide an update on our balance sheet and liquidity position. Net capital expenditures for the quarter totaled \$56 million reflecting \$15 million in refranchising proceeds and \$71 million in gross capital expenditures. Throughout the quarter, we repurchased approximately 1.56 million shares for a total of \$228 million. Our net leverage ratio ended the quarter at 3.9x.

Subsequent to quarter end, we took advantage of a favorable window of interest rate volatility to enter into a new three year interest rate hedge, reducing our exposure to interest rate risk on \$1.5 billion of variable rate debt for which hedges had recently expired.

As a result, we expect \$10 million in interest rate savings versus our planned interest expense for 2025, which had contemplated higher interest rates on that debt. As I shared on the last call, subject to market conditions, we expect to maintain our net leverage ratio at approximately 4 times over the medium term by issuing incremental debt subject to market conditions as our business grows.

Overall, our capital priorities remain unchanged and focus on maximizing shareholder value through strategic investments in the business, maintaining a strong and flexible balance sheet, offering a competitive dividend and returning excess cash to shareholders.

Now, let me share our latest outlook for the full year. 2025 is shaping up to be a complex year to navigate given economic uncertainty and geopolitical challenges. However, we believe this is another year that will demonstrate the resilience of our business model. In the U.S, Taco Bell, which represents approximately 80% of our U.S. profit, is incredibly well positioned to navigate this environment as the value leader with an opportunity to take share from higher priced competitors. Its robust innovation pipeline, including the return of crispy chicken nuggets in Q2, reinforces our view.

Internationally, we are seeing that KFC, which represents 85% of our international profits, is recovering from the Middle East Conflict and gaining momentum around the world. More broadly, the strength of our diversified portfolio of four brands and more than 155 countries, combined with our well capitalized 3C partners, allows us to manage country specific challenges and continue investing through uncertainty.

Given these advantages and after a strong Q1 performance, we remain confident in our plan to deliver 8% core operating profit growth this year, excluding the lap of the benefit of the 53rd week in 2024. As for the shape of the profit growth this year, in Q2, we expect to experience lower profit growth in part due to 1x expenses such as our global franchise convention. As a result, we expect second half operating profit growth to be higher than the first half, landing us on algorithm for the full year.

Finally, on FX, with the U.S. dollar's recent move lower, at current spot rates, we expect a \$10 million tailwind to GAAP operating profit for the remainder of the year.

To close, while the near term macro environment remains uncertain, our leaders at Yum! are focused on the long term opportunity, the vast underpenetrated white space around the globe. We're making significant progress toward becoming a more efficient, adaptable and data driven organization. And in a challenging consumer environment, we remain energized by the momentum behind bold initiatives like Live Mas Cafe, Saucy and Quench, each offering distinct avenues to grow our top line and expand market share. Our 98% franchise structure, global footprint, and consistent cash generation give us flexibility and confidence no matter the near-term noise.

With that, operator, we are ready to take any questions.

## **Question-and-Answer Session**

### **Operator**

[Operator Instructions] Our first question comes from Brian Bittner from Oppenheimer.

### **Brian Bittner**

Thank you and good morning. My question is on KFC International. It's obviously a very important driver of the Yum! model and it was very encouraging to see the same-store sales for KFC International accelerate in the first quarter to that 3% level. We're sensing some worry by investors out there that perhaps American brands like KFC could be seeing softness outside the U.S. from geopolitical dynamics, although it's really hard to find evidence of that happening.

So I would love for you to address your take on this and how you're thinking about the sustainability of KFC's improved trends moving forward?

**David Gibbs**

Thanks for your question, Brian. Yeah, we agree. We are encouraged by what we are seeing out of KFC International. You mentioned the 3% same-store sales growth. Actually, there was an issue with Ramadan timing that negatively impacted the quarter and if you backed out China, our sales internationally were up 5% same-store sales. And that growth is actually quite widespread. If you look at the table in our earnings release, you can see system sales was up in all 10 markets that we measure.

So, we are sort of putting the issues from the Middle East behind us in most of the world and feel good about the recovery there. And we have not seen, and we are - we obviously monitor this and any other kind of consumer change behavior. We have not seen any anti-American sentiment impacting our stores.

One thing I will say is, I think the team is doing an amazing job navigating this environment. They're leaning in a little bit more on value. The Canadian market was up strongly this quarter, leaning in on the \$5 price point. Korea did a buy one get one free. I mentioned some of the innovation they're doing - that we're doing around the world.

In the UK, we launched the Double Down Zinger Burger and stole share from competitors. In France we had a really creative offering. I think I mentioned in the prepared remarks the Crispy Naan Burger that drove really strong sales growth, outdistancing the market and taking share from others. So, there's a lot to like about the recovery for KFC globally. It's widespread, and sets us up for a good year on KFC.

**Operator**

Our next question comes from David Tarantino from Baird.

**David Tarantino**

Hi, good morning. Chris, I wanted to ask about the full year guidance. And I appreciate your comments on your confidence in achieving the 8% operating income growth. But I wanted to ask related to the back weighted nature of that, your degree of confidence in the second half acceleration in the profit growth, and what gives you that confidence in light of maybe an uncertain macro backdrop?

**Chris Turner**

Yes. Hey, thanks a bunch, David. If we look at the full year, we're off to a good start in Q1, 8% core operating profit in Q1, despite the impact of the strategic moves that we mentioned at Pizza Hut. If I think about the rest of the year, company store margins were on plan in Q1, but Q1 is seasonally low. So if we look at the full year, we expect to be on plan in terms of our company store profit margins. Full year we mentioned on Taco Bell at 24% to 25%.

Pizza Hut, if you look at the quarter, those strategic moves, and the timing that we mentioned, it was about an \$8 million impact. So big for Pizza Hut, but small in the grand scheme of things at Yum! And if we look at the back part of the year on Pizza Hut, we've got some favorable profit laps that the team thinks that they can lap. And if we look at our full year plan right now for Pizza Hut, we expect to get to roughly flat profit on the full year.

Obviously, we're working to drive sales every day. We're pleased with Q1, but our plan isn't dependent on sequential acceleration on same-store sales in the U.S. throughout the year. We've got plenty of levers to drive the full year profit. We're confident in the 8%.

**Operator**

Our next question comes from Dennis Geiger from UBS.

**Dennis Geiger**

Great. Thanks guys. I wanted to ask you another on broader international or sort of impacts from the global macro environment, but specifically on store development across the portfolio. Could you talk a little bit more about that unit development outlook for the year and thinking sort of what sounds like a strong trajectory excluding the planned closures?

It sounds like franchisees are in a good spot, returns are encouraging, but any additional commentary on sort of the confidence in the development outlook even if the macro would have a downturn, your confidence there to kind of continue to hit numbers?

### **Chris Turner**

Yeah, we're confident in the development plan. As we said, we were just in Australia with our global franchise convention. The mood was incredibly upbeat despite all the complexities around the globe. Our franchisees are confident in the future of our brands. And of course, as you know, our franchisees are larger and more sophisticated and well capitalized on average than franchisees in other systems. So they think long term and they invest through near-term noise.

If you look at the year, gross openings in Q1, for the company were higher than in 2023. So we're off to a good start on gross. Really what we had were the planned closures in Turkey and the strategic closures in Pizza Hut. Of course, those closures were significantly lower volume than our systems averages, so the economic impact wasn't significant on those.

KFC, second highest Q1 ever from a gross build standpoint. We opened in 53 countries in Q1 versus 43 countries last year. Paybacks remain strong in KFC. If you go to Pizza Hut, obviously Q1 was lower than normal given all the factors that we just described. But if we look at the next three quarters, for the remainder of the year, we expect net development will be higher year over year. So, on a full year basis, we feel good about the development plan, we feel good about the confidence of our franchisees.

**David Gibbs**

Yeah. And I'll just add, caught China's call this morning, they reiterated their confidence in their development plan and their guidance, which obviously is a big part of our development plan.

**Operator**

Our next question comes from David Palmer from Evercore ISI.

**David Palmer**

Thanks. David, congratulations on what will be I just was checking this out on your bio that you're going to have a 37 year career at Yum! And yet somehow you still seem pretty young. So good job and well done on that. That's pretty incredible.

At Taco Bell, I wanted to ask you, Chris on Byte. It feels like early days in a good way for Byte, not just at Taco Bell, but for Yum! As an enterprise and for your franchisees with other systems. And what I wonder is, right now, maybe this is a period of investment in that you're going to be training models like your voice AI, for example, in the drive thru. It's going to be getting better.

So maybe the benefits today are going to be a fraction of what they'll be as that those models get stronger and more robust and the fidelity is greater and you get to over 90% fulfillment and those things could happen more rapidly than we think. Maybe it's one or two years and you have something that even becomes an external revenue source for Yum! as you're sharing these tools and becomes sort of an AWS for you guys. So maybe a comment on that.

And then separately on Saucy, we visited that concept, down when we were at the ICR, and it's great concept. I wonder what you're going to do with that. That was a converted KFC, but that kind of looks expensive. Do you -- it's doing big volume. So maybe it becomes a growth concept in and of itself, but maybe you can find some ways to sprinkle a little Saucy onto your existing KFCs in somewhat more of an approachable price point.

## **Chris Turner**

Thanks, David. Two good questions. I'll start on Byte. The \$1 billion we've invested in our digital technology strategy over the last several years is one of the best investments that Yum! has ever made, and you're seeing it come to life. We shared a lot of the data and insights from the impact on the Taco Bell system at the Live Mas Live and then the Consumer Day event just a few weeks back. The data is indisputable. Where we see by helping to drive digital mix expansion, you see faster top-line growth and faster bottom line growth for our franchisees.

And we're really just getting started. We've made a lot of progress in the U.S., but at our global franchise convention, Joe Park and the team did an incredible job bringing Byte to life, and we had a ton of interest from franchisees there. So we're looking forward to how we grow by outside of the U.S., and that's our priority is to continue to deliver for our system.

As you say, as we incorporate AI, the acceleration should continue in terms of the impact that we can deliver. I won't rule out someday that we may be able to serve restaurants beyond the Yum! system, but our priority right now is serving our franchisees in the system.

If I go to Saucy, as you said, it's a great experience, a great start with the concept Saucy by KFC down in that one store in Orlando. We're 4 months in, lots of learnings, but we're very pleased with the start, as we said on the call, one of the highest performing stores in the KFC system in the U.S. We are looking at multiple avenues to expand. Of course, we always over the long term, grow with our franchise partners.

So you could expect in the long-term franchise stores and company stores, but we're being very methodical, making sure we pick the very best partners to work with, and we want to scale it while preserving the unique identity that comes to life when you're there in that restaurant, plus we've got to scale the supply chain and real estate that goes along with it. So more to come as we go forward on Saucy.

## **Operator**

Our next question comes from Danilo Gargiulo from Bernstein.

## **Danilo Gargiulo**

I want to ask a question beyond the dual engine approach. So it's very clear the dual engine of growth is working exceptionally well. But for an acceleration further, you maybe need to lean more into the remaining 20% of the operating profit, so KFC U.S. and Pizza Hut. And this might be offering outside returns given that there is a relatively compressed expectation from investor base. So can you expand more on the 3D strategy? And by when do you expect to see same-store sales and traffic to be more sustainably positive?

## **David Gibbs**

Yes. Great question, Danilo. Obviously, the twin growth engines are what powers our long-term algorithm. But that doesn't mean that we are incredibly excited about that other 17% and what it can do to further accelerate our growth. Taco Bell International, in particular, is really starting to get a lot of traction.

One of the things that came out of this global franchise convention was just massive enthusiasm from our existing franchise base at Pizza Hut and KFC and starting to get more involved with Taco Bell as we're seeing more success around the world. So we talked about that we'll get to 100 new units this year, but their plans are much more aggressive as we go forward, and that will start to become a meaningful contributor to our growth model.

In the U.S., KFC International -- KFC U.S. actually had positive transaction growth this quarter. And I think with Catherine-Tan coming in to lead that business, some of the work that's being done on that traditional business as well as the opportunity to leverage Saucy, as David Palmer noted, I think there's lots of reasons to be excited about the future of KFC U.S.

And then finally, at Pizza Hut, Pizza Hut in a tough category right now in QSR in the U.S. and certainly the pizza category with everybody reporting negative sales is pressured. But we've obviously seen Pizza Hut have significant growth in years past when they do -- when they get the offerings right for consumers like with melts and value. I know Carl Laredo, who just assumed that the leadership role of Pizza Hut U.S. last year around this time, has got big plans to grow the brand and accelerate expansion in the U.S.

And internationally, Aaron and the team have -- as we've commented, have got pretty good positive same-store sales growth last quarter internationally. And lots of reasons to be excited about the recovery that's occurring there coming out of the Middle East. So we don't -- we manage each and every business that we have as a growth business, invest in it and have robust plans for their growth going forward. It's -- we talk about the twin growth engines, obviously, because that's the majority of where our profit comes today.

## **Operator**

Our next question comes from John Ivankoe, JPMorgan.

## **John Ivankoe**

The question is on the NVIDIA partnership. Really what Yum! expects to accomplish, I guess, both in the short term and the medium term? And if you can help educate us what is exclusive or proprietary or unique between NVIDIA and Yum! that you will be able to take advantage of that presumably many others in your industry that you compete against will not be able to?

**David Gibbs**

Yes. Thanks for the question, John. Obviously, we're incredibly excited about the partnership with NVIDIA. This has been over a year in the making. I was there were in the first meeting with their team when we started to discuss this. And you can see their eyes light up when they start to realize the capabilities that we had at Yum! that we built with thousands of people in our tech department.

In terms of what we're working on, obviously, a lot of that is going to be proprietary. What we've said publicly is we're working with them on voice AI. We're working with them on vision, and we're working with them on analytics. But we have 40 different AI initiatives that are staffed and distinct projects at Yum! right now. So there's a world of opportunity for us to work together.

And I think they recognize that in the restaurant space, there's nobody that's built the capability that we have. We're the perfect partner for them. The relationship is off to a fantastic start. And as I think somebody said earlier, we really just scratched the surface on what we can do with the tech that we've built. It's been a \$1 billion investment. We've built this Ferrari, now it's -- we're just starting to get it out on the track and hit the gas.

So I'm excited about the impact that we can have on all parts of our business across the customers, employees, franchisees and their profitabilities. It just has -- it's a virtuous cycle. The bet that our tech gets, the more we can do with it.

**Operator**

Our final question comes from Andrew Charles from TD Cowen.

**Andrew Charles**

Great. And just to echo David, congrats on the story career at Yum! Very encouraging Taco Bell performance in the first quarter and a very tough U.S. domestic backdrop. I'm curious, is it realistic to expect that Taco Bell is up 10% performance on a 2-year basis can persist throughout 2025?

### **David Gibbs**

Yes. First of all, Andrew, thank you for the comments on my career, and thank you for acknowledging what is the absolutely standout quarter for Taco Bell, plus 9% when we're seeing everybody else reporting negative numbers, and we know the industry is flat to negative. And to the point about while the trends continue, obviously, I'm not going to give very specific guidance for the full year on exactly where Taco Bell sales are going to end because we're constantly navigating a changing environment.

But I will say in terms of April trends, we have seen a general continuation of what we saw in Q1. I know this is a tough operating environment for everybody else in the industry. It just is probably an environment that favors Taco Bell, and that's what you're seeing. They're firing on all cylinders. We talked about it in the prepared remarks how their penetration is going up. So we're bringing more customers into the brand.

That's with things like Cantina Chicken, which launched a year ago and is bringing light and lapsed users into the brand. The value that we're offering really stands out in this environment. Nobody else has the \$5, \$7 and \$9 box offerings we have, coupled with the cravings value menu. And then, of course, the hallmark of Taco Bell is their innovation in things like Crunch Wrap sliders.

We can go have an event like Live Mas Live and unveil our innovation for the entire year and not have to worry about anybody copying it because nobody sells anything close to what we sell. And that is a very enviable position in the industry. It's why we call Taco Bell a category of 1 brand.

And yes, we are seeing a continuation of the trends into Q2, although our lap obviously gets much harder as we start to lap Cantina chicken, so the 1-year numbers have come down a little. So we're excited about the impact of Taco Bell is going to have this year, but really the way it's set up for success, very much fueled by the digital work that Chris has been talking about.

## David Gibbs

So just to wrap up, I think this was another quarter that demonstrated the strength of the Yum! business model, the resiliency of that model. In 2024, we delivered on our 8% core operating profit commitment when most of our competitors were not able to given the international challenges. And we did it again this quarter, again, with a backdrop of a lot more challenges and the softer U.S. consumer. The consistency of our growth, I think, is the envy of the industry.

Our twin growth engines are firing in all cylinders, and the milestones that we reached this quarter on digital, I think we'll look back as incredibly important. The launch of Byte by Yum!, the reaction that we've gotten from the international franchise community, the partnership with NVIDIA, the \$1 billion investment is really starting to pay dividends, hitting 55% digital sales this quarter numbers that would have been unheard of just a few years ago.

So we're off to a good start for the year, and I'm excited about finishing this year really strong.

## Operator

This concludes today's call. Thank you very much for joining. You may now disconnect your lines.

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