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Yum! Brands, Inc. (YUM) Q1 2026 Earnings Call Transcript

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Q1: 2026-04-29 Earnings Summary

Insights

EPS of $1.50 beats by $0.11 | Revenue of $2.06B (15.22% Y/Y) beats by $15.84M

Yum! Brands, Inc. (YUM) Q1 2026 Earnings Call April 29, 2026 8:15 AM EDT

Company Participants

Matthew Morris - Head of Investor Relations
Christopher Turner - CEO & Director
Ranjith Roy - Chief Financial Officer

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division
David Tarantino - Robert W. Baird & Co. Incorporated, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Andrew Charles - TD Cowen, Research Division
Hyun Jin Cho - Goldman Sachs Group, Inc., Research Division
Andrew Barish - Jefferies LLC, Research Division
Jeffrey Bernstein - Barclays Bank PLC, Research Division

Presentation

Operator

Thank you for standing by. My name is Cailin, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Yum! Brands, Inc. 2026 First Quarter Earnings Call. [Operator Instructions] I would now like to turn the call over to Matt Morris, Head of Investor Relations. You may begin.

Matthew Morris
Head of Investor Relations

Good morning, everyone, and thank you for joining us today. On our call are Chris Turner, our CEO; Ranjith Roy, our CFO; and Dave Russell, our Senior Vice President and Corporate Controller. Following the remarks from Chris and Roy, 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, system sales and operating profit growth will exclude the impact of foreign currency. For more details on our reporting calendars by market, please refer to the Financial Reports section of our IR website. We are broadcasting this conference call via our website. This call is also being recorded and will be available for playback. We'd like to make you aware that our second quarter earnings will be released on July 30 with a conference call on the same day. Now I'll turn the call over to our CEO, Chris Turner.

Christopher Turner
CEO & Director

Thank you, Matt, and good morning, everyone. At Yum!, we remain committed to our mission to grow iconic restaurant brands globally by building the world's most loved, trusted and connected brands. In support of that mission, we recently unveiled our Raise the Bar priorities to drive our next chapter of global growth. These priorities include battling for the future consumer, accelerating restaurant unit economics and reaching the full potential of Byte. Our world-class franchisees, along with our unrivaled culture and talent are critical enablers of these priorities, giving us the scale and expertise to win across the 155 countries in which we operate.

We expect Raise the Bar to come to life over time, and the momentum reflected in Q1 across these priorities in key parts of our business is encouraging. Yum!'s Q1 results mark a solid start to the year with our fundamentals as strong as ever. We are incredibly pleased with the company's top line performance, the integration of new company-owned Taco Bell stores, improved KFC restaurant level margins and disciplined G&A spend, all of which contributed to strong profit growth.

To give more context, I'll review Q1 performance and the momentum across our priorities, starting with KFC, which represents 53% of our divisional operating profit. In Q1, KFC delivered 6% system sales growth. To battle for the future consumer, KFC is elevating its menus through high-impact collaborations and innovation and expanding its sauces platform, building on insights and best practices from Saucy by KFC.

The platform includes globally deployable dunked and dripped flavor lineups, enabling faster speed to market and more consistent execution across geographies. 8 of KFC's top 20 markets are reactivating or launching one of these sauce platforms in 2026, including South Africa, India, Germany, the U.K., France and the Middle East. In parallel, KFC is leveraging its new global innovation pantry, which helps markets replicate successful proven menu innovation.

For instance, KFC U.K. is off to a very strong start with a 7% increase in Q1 same-store sales growth and is seeing strong momentum to start Q2, driven by the Pickle Mania menu, which featured 4 pickle-topped items. Pickle Mania is the most successful limited time offer in KFC U.K. history. The U.K. team pulled this concept from KFC's global innovation pantry after Canada had a successful launch in 2025.

Cultural relevance is essential to drive engagement with the next generation of consumers. And as a result, KFC continues to add more food options with rice bowls, boneless chicken and occasion-led innovation. A great example in Q1 is the Toowoomba Kenchi Bap bowl that launched in Korea, which rapidly became a fan favorite and sustained double-digit weekly growth into its fifth week.

On top of KFC's distinctiveness and innovation, the brand is driving system sales through industry-leading development with 7% unit growth in Q1 and a record number of Q1 gross builds. KFC added new stores in 45 countries. Strong unit economics are a key factor behind this momentum. In partnership with its franchisees, KFC is working to accelerate restaurant economics even further across several key markets.

Recently, KFC brought one of its best franchisees into Brazil, who is innovating its store formats. The franchisee recently opened one of its first prefabricated restaurants in Chile. These stores are assembled in a manufacturing facility over 45 days and only require 15 days to assemble on site. This represents a reduction in construction time of 17 weeks versus traditional builds. This is just one small example of the ways in which we will encourage our teams and franchisees to take bold ideas to improve franchisee unit economics.

Moving to Taco Bell, which represents 39% of our divisional operating profit. Taco Bell's magic formula is firing on all cylinders. Taco Bell U.S. reported 8% same-store sales growth, meaningfully outperforming the industry. This is Taco Bell's eighth consecutive quarter of U.S. same-store sales growth ahead of the industry. On a 2-year basis, Taco Bell's U.S. same-store sales have grown 18%, miles ahead of the overall QSR industry.

Same-store sales growth in the quarter reflects 3 percentage points of transaction growth with value scores and value mix both increasing, thanks to the successful launch of the Luxe Value Menu. As the Taco Bell leadership team laid out in their 2030 Ambitions at Consumer Day in March 2025, the brand has a clear multiyear plan to expand its offerings with long-term targets that reflect persistent market share gains.

As one example of the impact of the strategy, expanded use occasions among light consumers has led to perception gains for Taco Bell on factors, including good for dinner, good for large groups and good for healthier options. These expanded perceptions show that Taco Bell is driving not only short-term sales momentum, but importantly, long-term brand strength.

Taco Bell is battling for the future consumer by pairing unbeatable value and innovation with cultural relevance. The power of this combination was on display at its Live Más LIVE event last month, where the brand unveiled more than 20 menu innovations for 2026. The event was streamed on Peacock with headline-making guest appearances from Doja Cat, Davante Adams, Ariana Madix, Benson Boone, Yeat, Fernando Mendoza, Jason Sudeikis, DJ Pee .Wee, Myke Towers and many, many more. Social media mentions and media coverage were 60% higher than last year, and Taco Bell believes the event can be even bigger next year.

Live Más LIVE is a powerful example of Taco Bell's unique ability to create a marquee brand moment, amplify innovation at scale and reinforce its position at the center of culture. Furthermore, Taco Bell's success is fueled by more than value and innovation. Operationally, Taco Bell is executing at a superior level on key measures, including consumer satisfaction and order accuracy.

Taco Bell improved its consumer satisfaction scores in every period since March of last year. The brand relentlessly tracks order accuracy in part by monitoring consumer complaints, which have declined this year since rolling out operational improvements in 2025. I am confident that Taco Bell will continue to lead the industry, thanks not only to value and innovation, but also improved consumer experiences coming to life through superior execution, superior speed, and superior digital and loyalty platforms.

At our smallest brand, Habit Burger & Grill, we are pleased with the top line momentum generated from aggressive moves to enhance value, bring new innovation like the Baja Crispy Fish sandwich to its menu and to elevate brand distinctiveness. The positive impact comes while the team continues working to mitigate the ongoing bottom line impact of inflation, particularly from beef prices.

One bold move to enhance brand positioning in Habit's home market of Southern California is the new partnership with the L.A. Dodgers. I had an opportunity recently to experience the amazing new Habit location inside Dodger Stadium and the nearby Dodgers-themed restaurant in Echo Park.

Yum! is also investing smartly in testing bolder bets around innovations to keep our brands ahead of consumer shifts. For instance, through findings from Collider, our in-house consumer insights agency, Taco Bell and KFC are leaning into the fast-growing beverage category by introducing highly-differentiated offerings.

Starting with Taco Bell. In 2025, 62% of the brand's orders included a beverage, making this an important area in which to increase the pace of innovation and deepen consumer engagement. From the beginning, the team has been intentional from ideation to development to ensure that even the Taco Bell beverage platform becomes a category of one. Taco Bell continues to pilot Live Más Café in 38 restaurants and a unique set of Taco Bell style drinks that won't be found anywhere else, such as churro chillers and a sweet empanadas and cream chiller.

Taco Bell is already leveraging learnings from the pilot to broaden the beverage menu across the entire system with proven successes such as Midnight Baja Blast and Agua Refrescas. In fact, 43% of Taco Bell's specialty beverage sales are stand-alone orders without food, proving the opportunity for incrementality is very high.

Similar excitement for beverages is building at KFC. This year, KFC is scaling its Kwench beverage platform to the U.K., Australia and Canada and building a pipeline of additional markets for further expansion. On top of better operational execution, buzz-worthy innovation and compelling value, our brands are also delivering superior results through our digital channels. This quarter, digital mix increased to 63% and digital sales approached $11 billion. Expanding loyalty is fundamental to growing our digital business and broadening consumer appeal.

This year, KFC is planning a loyalty expansion to 20 additional markets, putting the brand on a path to triple its 90-day active user base. Our proprietary Byte by Yum! technology platform powers our digital business. A key element of our efforts to reach the full potential of Byte is expansion into new markets. This quarter, Taco Bell U.K. became the first international market to roll out both the digital ordering and smart ops bundles.

Shifting to Byte from previous disparate third-party technologies provides the business with a single unified platform, enabling greater agility and consistency in execution. The capabilities in the Byte platform provide Taco Bell U.K. with more integrated digital and restaurant experiences, and greater opportunities for personalization on digital channels and in the restaurant.

In addition, use cases for AI continue to multiply, reinforcing the value of Yum! owning our digital ecosystem. This gives Yum! a powerful advantage. Our global data assets, coupled with Byte's reach, allow us to scale new AI features quickly for consumers. We also benefit from AI-driven efficiency gains within our digital and technology teams, benefits about which Roy will share more in a moment.

All of our bold ambitions from redefining beverages to earning the right to host star-studded streamed innovation events are made possible by our people and our franchisees. We remain unified by our pursuit of accelerating growth into the future. As a testament to that, right now, in our Plano office, nearly 500 KFC marketing, development and franchise leaders and GMs from around the globe are gathered for KFC's marketing planning meeting and development summit, sharing insights and best practices, showcasing what's working locally and how it can scale globally, all in service of raising the bar in our largest brand.

Stepping back, what encourages me most is that the first quarter results reflect the strengths we believe matter most. We have incredible brands that our consumers love. Our brands are benefiting from strong long-term consumer consumption trends in the categories in which we play. Specifically, Mexican and chicken are projected to grow well ahead of the overall limited service restaurant market over the next 5 years.

We have world-class franchise partners who are experts at navigating dynamic environments. We have proprietary digital and technology capabilities that create seamless experiences for consumers and enable more productive restaurant operations for our franchisees. We are still early in 2026, and we know the environment remains dynamic, but our teams are executing with focus, our brands are staying close to the consumer, and we remain confident in the opportunities ahead as we raise the bar. With that, Roy, over to you.

Ranjith Roy
Chief Financial Officer

Thanks, Chris, and good morning, everyone. I'll begin with reviewing our first quarter results before discussing Yum!'s balance sheet, liquidity position and guidance for the year. Beginning with the top line. In the first quarter, Yum! system sales grew 6%. We grew new units by 5% and same-store sales globally at 3%. Digital sales approached $11 billion with digital mix reaching a new high now at 63%. Taco Bell U.S. achieved restaurant-level margins of 23.9%. We are pleased that despite significant inflation, Taco Bell has again demonstrated its ability to expand U.S. company-owned margins.

KFC restaurant-level margins were 10.3%, up 100 basis points year-over-year, driven by a 240 basis point increase in U.K. restaurant margins. Ex special G&A was $284 million and was up 4%. Franchise and license expense was $43 million, $9 million higher year-over-year, primarily due to the investment in marketing and innovation testing as part of the Hut Forward program. Excluding Pizza Hut, Yum! system sales grew 7%, G&A grew 3% and core operating profit grew 10%.

Now on to development. We opened 1,030 new stores in the quarter. KFC opened 648 new stores, driven by a strong start in China and development across 45 countries. As we focus on our Raise the Bar priorities, you can imagine we are actively prioritizing ways to further accelerate unit economics, including optimizing restaurant build costs and introducing new equipment suppliers and specifications.

Additionally, KFC's creativity around innovation is playing a role in accelerating unit economics. The brand's new beverage platform, Kwench, provides attractive refit ROI with paybacks under 3 years as seen on existing U.K. stores. But this package also improves overall paybacks on new restaurant builds. Our innovation and growth mindset continues to help us identify, attract and support world-class franchise partners who are eager to join our system and take advantage of these opportunities.

We expect further momentum in KFC markets that have recently transitioned franchise partners, including in Turkey, Italy and Japan, where total units are up 9% year-over-year. While the Middle East conflict creates uncertainty globally, the impact on development has thus far been relatively minor and has included short-term delays to obtain government permits and procure equipment in select markets such as the UAE and Turkey. At this time, we see no change to our KFC development plans for the year, and note that 90% of KFC's development outside of China is contractual through development agreements with our well-capitalized franchisee base that believes in the brand.

Moving to Taco Bell. The brand opened 30 gross units in the first quarter, including 14 in the U.S. and 16 internationally. In the U.S., the brand has a long-term opportunity of 10,000-plus stores, representing over a decade of future growth and capturing exciting new opportunities such as college campuses and airports. In international markets, Taco Bell total international system sales were up 16% in Q1. This is backed by strong performance in many key markets, including 2-year stacked same-store sales growth of 23% in the U.K., 18% in Canada and 45% in India. Success in these larger markets is generating increased interest from new partners to launch Taco Bell in other new markets, such as Poland and Germany. Recall, Taco Bell entered 5 new markets last year and plans to expand its market count further this year.

Shifting to technology. We continue to raise the bar on modern QSR technology and digital experiences with Byte by Yum!. As we mentioned on our previous earnings call, the U.K. and Australia markets for KFC are on track to roll out Byte bundles this year, representing 2,000 incremental restaurant locations native to Byte once that rollout is complete. And as Chris said, in Q1, Taco Bell U.K. became the first international market to onboard both the Byte digital ordering and smart ops bundles, demonstrating the platform scalability across markets and brands.

Within Byte and beyond, our digital and technology leaders are focused on the myriad ways we can adopt AI, which can be a powerful enabler of Yum!'s long-term growth. We are embedding AI in our consumer-facing technologies and innovations across our restaurant operations.

In Q1, Taco Bell U.S. piloted AI-driven A/B testing in the drive-thru with plans to roll out the technology nationwide this year. This new feature can dynamically change the layout, content and visuals on a car-by-car basis, allowing the brand to generate insights more quickly and make more effective national adjustments. Whether it is voice AI in the drive-thru or AI-driven dynamic menu boards, the seamless rollout of these new tech features has been made possible due to the physical and digital assets we have developed and deployed over the years, including the underlying integrated Byte technology and the physical investments in digital menu boards that we and our franchisees rolled out over several years.

Similar AI-driven enhancements will be tested and scaled across our brands to drive loyalty, adoption and growth. Beyond consumer-facing technologies, as Chris mentioned, Yum! is also uniquely positioned to capture efficiency improvements from AI that will accelerate productivity within our enterprise. We are currently building an enhanced version of the Byte kitchen display system with an overall team that is half the size of what it would have been in the past, enable us to accelerate the pace of technology innovation substantially and expand the pipeline of value-added digital and technology initiatives our team members can work on. We are excited about the potential that AI provides to our business.

Next, I'll provide an update on our balance sheet and liquidity position. For the quarter, gross capital expenditures totaled $75 million. Our net leverage ratio ended the quarter at approximately 3.8x. During the quarter, we repurchased approximately 1.2 million shares for a total of $185 million. As a reminder, we generate a run rate of approximately $1.8 billion in operating cash flow ex Pizza Hut. When you couple that with the additional debt capacity we generate each year from our profit growth and our 4x net leverage ratio expectation, that is a run rate of over $2.5 billion of cash generated annually that we expect to grow at a healthy clip each year going forward.

We are disciplined around our priorities and the use of this capital to maximize shareholder value through: first, prioritizing strategic investments in the business; second, maintaining a strong and flexible balance sheet; third, offering a competitive dividend; and fourth, returning any remaining excess cash to shareholders.

As we refinance upcoming maturities, we will have the ability to upsize debt offerings and return substantial excess capital to shareholders. And subject to financing market conditions, we intend to do so. For this year, we expect our full year interest expense to fall in the range of $510 million to $520 million, excluding any potential debt issuances. More broadly, as we look ahead to the balance of the year, we remain very confident in our ability to meet or exceed each component of our long-term growth algorithm when excluding Pizza Hut. We now expect Taco Bell U.S. restaurant-level margins to be between 24.5% and 25.5%, reflecting better top line momentum and higher margins than originally planned from the acquired Taco Bell stores.

As we shared last quarter, full year ex special G&A growth, excluding Pizza Hut, is expected to be up mid-single digits. As a reminder, amortization of reacquired franchise rights is anticipated to increase $30 million this year, largely due to the acquisition of franchise stores by Taco Bell in Q4 2025.

To help model the shape of the year, we expect Q2 to reflect high single-digit growth year-over-year ex special ex Pizza Hut G&A due to the timing of project spend. Additionally, we expect approximately $5 million of noncash closure expenses for Habit as we opportunistically optimize our store network by making a small number of closures in subscale markets.

Turning to Pizza Hut. The brand saw strength across many international markets. Note 11% system sales growth in the Middle East and 8% system sales growth in both China and Latin America. Pizza Hut's Q1 core operating profit growth was in line with our guidance, and we expect Q2 core operating profit of approximately $70 million. Both Q1 and Q2 core operating profit includes expense related to the onetime Hut Forward investment that we previously disclosed. With regard to the strategic options review for Pizza Hut, that process has progressed since our last earnings call, and we remain on track to complete the review in 2026.

As previously communicated, the objective of the review is to create value for Yum!, Pizza Hut and its franchise partners by determining the optimal approach to capitalize on Pizza Hut's structural advantages, its strong brand equity, experienced franchise partners and meaningful scale.

In closing, Yum! delivered a strong start to 2026 with core operating profit growth, excluding Pizza Hut of 10%. We are only in the early innings of executing against our Raise the Bar priorities that will help refine Yum!'s next chapter of growth. We are excited for the journey ahead. And with that, operator, we are ready to take questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of David Palmer with Evercore.

David Palmer
Evercore ISI Institutional Equities, Research Division

Always enjoy getting some color from you on global demand trends and what you're seeing out there. It looks like, as we look at the system sales results by market for KFC, China and Canada may be a little bit of slowing on a 1- and 2-year basis, but Asia, India, Middle East look very strong, if not accelerating. Europe is pretty stable. So any color as you look around the globe in terms of demand trends as we think about the rest of the year?

Christopher Turner
CEO & Director

Yes. Thanks, David. We're pleased with the progression in KFC International. If you look over the last 4 quarters, we've seen acceleration on a 2-year same-store sales basis in each of those quarters in KFC International. Lots of good things happening. As you said, if you look across those markets, you got plenty of double-digit system sales growth markets. And we gave a few examples in the speeches. U.K. is at the lead of bringing to life a more vibrant consumer proposition, leveraging innovation, expanding consumer use occasions. Korea, I was with the Korea team from KFC earlier this week. They have doubled their system sales over the last few years. They've reached the highest rate of unit development last year, nearly 3 to 4x their previous pace.

In Latin America, as the Serrano Group moves into Brazil, we're seeing great things. But if you step back and say what's driving that, Scott Mezvinsky has now been in the business for a year. He, of course, was part and parcel of building the Taco Bell strategy that we laid out last year, and he's bringing the same thing. He's setting a very high aspiration. He's creating some specific targets, and then he's building the strategies that will bring that to life. Of course, given 150 markets, that's going to take some time to come to life, but those countries that I mentioned are proof points that his strategy is working, and we're excited about the momentum ahead.

Operator

And your next question comes from the line of David Tarantino with Baird.

David Tarantino
Robert W. Baird & Co. Incorporated, Research Division

Chris, another question on international. And I guess mine is more focused on the franchisee appetite for unit growth given all the geopolitical issues that are out there. And I know you mentioned on the call that there was still a good pipeline for this year. But thinking more into next year or the next few years, are you seeing any signs of pause related to the unit growth either for KFC or Taco Bell? I know Taco Bell International is a big opportunity for you. So if you can comment on that as well, that would be great.

Christopher Turner

CEO & Director

Yes. Thanks, David. As we look at our unit development outlook, we have high confidence. We just set a new record for Q1 unit development in KFC. The Taco Bell International unit development story continues to grow. If you think about KFC, as we mentioned on the call, we're actually with our KFC franchisees and our development leaders here this week in Plano. We're talking about the elements of the Raise the Bar strategy.

Of course, the first part of that is battling for the future consumer, which should lead to higher same-store sales growth and higher AUVs. The A is accelerating restaurant economics and the R is reaching the full potential of Byte. But that accelerating restaurant economics is about leveraging those higher AUVs over time and leveraging our scale in supply chain, in prototype design and the scale that Byte provides us to improve unit economics. And that will ultimately help us to broaden the number of markets from which we get strong unit development. We have incredible unit economics in our biggest unit development markets today, China, India, Middle East, but we know there is so much white space that we can get to if we can improve paybacks in broader markets. Europe is a prime example of that. Our team and our franchise partner in Italy has shown us that, that is possible.

If we go to Taco Bell International, we're continuing to see great growth. If you look at those system sales numbers and those same-store sales growth numbers that Roy shared, a lot of great things happening there. It was in 2021 that we had 100 units in Spain. We're now at 180 units today. 2022 is when we had 100 units in India and the U.K. We're now at 156 and 142 in those 2 markets. Canada will probably be the next market that gets to 100 units, and we're adding new markets all the time. So we're pleased with the progress there. Our long-term aspiration is to sustain or even accelerate our pace of unit development.

Ranjith Roy

Chief Financial Officer

And David, I'll just add to that. If you look at history in KFC, there's no more consistent unit developer than KFC global over time because it's underwritten by a really strong investment case in many markets around the world and amazing well-capitalized franchisees. So if you look in times of disruption in the past, 2021 and 2022, you had a lot of supply chain disruption. KFC grew net new units 8% and 11% in those years. In 2024 and 2025, you're talking about the Middle East crisis and its aftermath, we saw 7% net new unit growth in both years, when you exclude the impact of Turkey and Russia exits. And as for the current conflict and its relevance to unit growth, the entire Middle East represents less than 150 units in our current pipeline. And as of today, our partners in that region expect no change to plans. And so we have a lot of confidence in KFC, both based on track record as well as what we're seeing on the ground.

Operator

And your next question comes from the line of John Ivankoe with JPMorgan.

John Ivankoe

JPMorgan Chase & Co, Research Division

I was curious how you're currently thinking about the organization post Pizza Hut. You obviously have an opportunity, including the use of modern AI to really rethink your organization from a top to bottom perspective. It's really an opportunity, if you will, for Yum! to kind of restart itself and how it thinks about managing the business from the store level all the way up. So how should we think about total dollar spent, whether it's G&A as a percentage of system sales, whether we should just revert back to kind of AI and Byte specifically bending the curve on G&A, just to give us some guideposts in terms of how you're thinking about this potentially big overall efficiency and effectiveness opportunity for the overall Yum! G&A spend?

Christopher Turner

CEO & Director

Yes. Thanks, John. Of course, the Pizza Hut process, as we said, continues to progress well. We'll share more once we conclude that process. But if I step back and think broadly about the impact of AI on the organization, we're very pleased with the progress we're making. Of course, it is enabled by the fact that we have gotten to more consistent platforms through Byte by Yum! and that's both across our restaurant footprint, particularly in the U.S., and we'll be expanding more and more internationally, but also in our above-store systems.

And if I think about our philosophy as it relates to AI, first and foremost, we want to use AI to drive growth. That's what's exciting in our business, and you're going to see us have use cases like the one we mentioned. Being the leader in rolling out A/B testing to our digital drive-thrus in Taco Bell is all about driving growth and getting a better consumer experience out there faster. We're also going to use AI to elevate our team members. Whether in the restaurants or in our above-restaurant roles, we want to help make our jobs easier and allow people to be more productive and do things faster.

And so just a couple of examples from an org standpoint that are pretty interesting. I was with our GM of KFC U.K. this week. That team has really embraced AI. They now have 10 different AI agents that are playing roles in the organization. For example, there's a virtual team member on the KFC U.K. development team that's helping with permitting, and it's taking care of a lot of the basic analysis and fact gathering, which is speeding up our applications for permits on new units there.

Our corporate learning and development team has a virtual team member, Judy, who is doing some great work in helping us build training programs, getting those out faster and being more productive in how we do it. So we're really pleased with the progress. More to come there, but we're going to use it to drive growth and make our jobs more productive and easier for our team members.

Operator

And your next question comes from the line of Dennis Geiger with UBS.

Dennis Geiger
UBS Investment Bank, Research Division

I wanted to ask a bit more about Taco Bell's impressive momentum and the outlook for the U.S. with Taco Bell. Chris, you gave a lot of good color in the prepared remarks. But could you touch a little bit more on how the brand generates these strong results even in this particularly difficult consumer environment? And the second piece, just as it relates to the dynamic around the Live Más Café, anything more to share on what you're seeing there and sort of the potential for those cafes looking ahead?

Christopher Turner
CEO & Director

Yes. Yes. Thanks a bunch. Look, the Taco Bell team has continued to put up quarter after quarter of great results. It's an amazing business. And if you dig into why does Taco Bell continue to perform, it's really about delivering what consumers need in any environment. It's not just one thing. It's multiple things. That's grounded in structural advantage. The Mexican category is growing ahead of the overall restaurant space, and Taco Bell is a category of one in that space. We also have a business model there that allows us to deliver value, while also ensuring high margins for our franchise partners. So structural advantage is one piece, and then you got a great strategy.

Sean and his team laid that out very clearly last year at the Consumer Day event. They raised their aspirations. They set a very specific target to strive for $3 million AUVs by 2030, and then they laid out an actionable strategy to bring that to life, and we are on track with that strategy. They're doing a great job executing it. Of course, that strategy covers ensuring we have a culturally relevant brand. We mentioned some examples of that, craveable innovation that is broadening the consumer use occasion. So it's given more consumers more reason to come to the brand more frequently. And that is driving transaction growth at all income levels. It's allowing us to expand with families, with children. We also have very easy experiences, the fastest drive-thru of any large-scale QSR player and those operations are getting better, as we mentioned.

And of course, we deliver unbeatable value. The Luxe Value Menu that we revamped in Q1 is performing very well. 1/3 of all Taco Bell tickets have an item from the value menu there, and people are really building meals with a lot of variety using the value menu. So lots of strength, but we're just in the starting stages of the strategy that Sean laid out. So we're very excited about future continued momentum in Taco Bell. As we go to beverages, the Live Más Café, I think of right now as the seed for broader beverage expansion already across the entire Taco Bell business.

If I open up my Taco Bell app right now, I can find 15 different specialty beverages available there. Some of those came from Live Más Café like the Refrescas. But you've got dirty sodas, you've got freezes. So already a really distinctive business, coupled with our proprietary [in QSR] Baja Blast platform through our partnership with PepsiCo. So we're already getting tremendous returns from the Live Más Café investments. We'll continue to see how that pilot goes to see where we take the specific concept.

Operator

And your next question comes from the line of Gregory Francfort with Guggenheim Securities.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

I just -- maybe a clarification. Are you guys disclosing the KFC U.S. and international comps anymore? And then my question is on Saucy and the thought process. I think, Chris, you made some comments about taking elements of Saucy and bringing them to different markets around the world. I guess are you viewing this as maybe a testing hub for the rest of the system? And I guess, do you expect to maybe bring some elements of it into the U.S. system at some point in '26 or '27?

Christopher Turner
CEO & Director

Yes. Thanks. Let me start with the KFC U.S. business. It is a strategically important business for us. It's our biggest brand. It's our home market and a vibrant chicken market. We've said over the last few years, we've been dissatisfied with the trajectory of performance in that business. And we're very pleased with what the U.S. leadership team is doing to change the trajectory there. Some good moves in Q1, the partnership with Matty Matheson, which is increasing relevance to a broader consumer set.

We, of course, are still serving the core. We have the build your own bucket $20 value offering in Q1. And as we came into Q2, we've rolled out a revamped value construct with $7, $9, $11 options. So lots of good things happening there, and they are -- they have a big pipeline of innovation that they are working. That ties to Saucy by KFC. Similar to Live Más Café, we are already earning a big return on the Saucy investment across the global business. So if you were in our marketing planning meetings here in Plano this week, you would see how the Saucy learnings are leading to tenders innovation globally to sauce innovation, the way the process that we use to identify the specific sauce formulation that will resonate with consumers in any market, and even concept inspiration. Christophe Poirier, who developed the Saucy concept is now the KFC Global Chief Concept Officer. So we are leveraging Saucy in a big way in terms of powering the broader KFC business.

Ranjith Roy
Chief Financial Officer

Yes. And in terms of your question on the disclosure, look, we're always focused on providing the appropriate level of transparency and disclosure. If you noticed in our press release, we've moved KFC U.S. from being a subsegment where more details are disclosed to the system sales table. So it's still in the system sales table and restaurant counts. But as we look this quarter, we periodically review our disclosure to ensure that it aligns with drivers of growth and profitability that are most relevant to everyone following our releases.

U.S. KFC's place on our disclosure now is reflective of its scale in the overall Yum! portfolio, where it currently comprises materially less than 5% of Yum! operating profit ex Pizza Hut. And of course, we'll continue to focus on it strategically. But from a disclosure standpoint, that's where it landed.

Operator

And your next question comes from the line of Andrew Charles with TD Cowen.

Andrew Charles
TD Cowen, Research Division

A quick clarification on the question. So the clarification is, does the KFC development guidance for the year reflect the ripple effect of the Middle East conflict and what we're hearing about LPG shortages in some international markets outside of the Middle East? Or are you just speaking to the direct Middle East region faring okay?

And then, Roy, my question was about just helping to level set investor expectations on Taco Bell. What do you believe to be the most instructive way for investors to think about this for the remainder of 2026 following 1Q strength? In the past, we've heard about holding 2-year stack steady. Is that a fair way to think about how the remainder of the year should progress for Taco Bell? Or is that overly simplistic amid gas prices north of $4 a gallon?

Christopher Turner
CEO & Director

Andrew, first, on the Middle East with KFC, just to clarify what Roy shared earlier, we are confident in global KFC unit development on this year and beyond. As he mentioned, the Middle East represents mid-single-digit percentage of our total unit development plan in KFC. There have been some supply chain implications on equipment, so the lead times may be a little longer and some costs may be a little higher, but our franchise partners in the region are doing a really nice job navigating that situation. And of course, their first priority is keeping team members safe and keeping consumers safe in this environment, but they're doing a great job navigating the business. So overall, no change to KFC's unit development outlook.

On Taco Bell, look, as I mentioned, this is a multiyear strategy that the team laid out. Of course, they're continuing to refine and elevate that strategy for the long term. But you saw at Live Más LIVE, the innovation agenda for the year that's going to come to life. It is incredibly exciting. It continues to add and build new consumer use occasions. There are other elements of the strategy that are helping us to retain these consumers who we are attracting to the brand.

If I just take loyalty and digital, we're now approaching a 50% digital mix in Taco Bell U.S. and our loyalty program continues to grow. We had 30% growth in loyalty sales year-over-year, and it's because the loyalty program is resonating with consumers, and it's helping people to engage with the brand more and more frequently. So a broad range of drivers that will drive the strategy going forward. We're confident in Taco Bell's continued strength.

Ranjith Roy
Chief Financial Officer

And I think on your question around the remainder of the year, look, we're not going to give quarter-to-quarter guidance. But I will say from our prepared remarks and what you're hearing in our voice, we have confidence in Taco Bell momentum, I'd say more confidence than we had even earlier in this year, and you're hearing that from us. And I'd say that's not just top line, but also on the margin front where we've taken up guidance on margins. Just know, when you think about Q1, what's really impressive is you have not just the backdrop of the consumer, but you have the backdrop of inflation. We launched a rebrand of our value platform and expanded restaurant margins at the same time. And so that gives us a lot of confidence in Taco Bell as we look towards the remainder of the year and to Chris' point, beyond as well.

Operator

And your next question comes from the line of Christine Cho with Goldman Sachs.

Hyun Jin Cho
Goldman Sachs Group, Inc., Research Division

Congrats on a great quarter. A few quarters ago, I think you mentioned plans to appoint a Chief Scale Officer. And I think I'd love to hear your latest thinking on how you intend to align and incentivize the organization and leadership to really focus on driving improvements in unit economics globally. That seems to be central to your Raise the Bar framework.

Christopher Turner
CEO & Director

Yes. Yes. Thanks so much. Look, we've got an amazing leadership team in our business. Of course, we're powered by the best talent and culture in the industry. We do still intend to add that Chief Scale Officer role. We're taking our time to make sure we get that right from an organizational standpoint. But we're not delaying our focus on the scale benefits that can come from those teams. The teams that would sit underneath that leader are in place today, and they are doing great work.

If I took the global supply chain organization, which we pulled together over the last 1 to 2 years, we've got an incredible team there. They are focused on the international sourcing across markets. They are bringing great leverage. They're going category by category with specific goals for how to drop dollars to the bottom line for our franchise partners, leveraging Yum! scale. They've already got many, many wins on the board and many more to come. So we are focused on that. And of course, our brand leaders, as part of Raise the Bar, have specific efforts that they are taking on in conjunction with that to ensure that we're accelerating restaurant economics. So lots of good work happening there. As we move further on filling that role, we'll share updates when they're ready.

Operator

And your next question comes from the line of Andy Barish with Jefferies.

Andrew Barish
Jefferies LLC, Research Division

Just back on Taco Bell, kind of, if you wouldn't mind sharing sort of philosophically your thoughts on equity ownership, obviously, the deal in the 4Q. And I think there was a small cleanup deal in Australia in the 1Q or early 2Q. And just kind of how should we think about where kind of the Taco Bell franchise system is at least domestically?

Ranjith Roy
Chief Financial Officer

I sense a few different parts to that question. The first one I'd say is like about equity. You talked about the equity portfolio in Taco Bell. Can you clarify, is it about our equity ownership or about our franchise base?

Andrew Barish
Jefferies LLC, Research Division

No, no. It's about your philosophy in terms of being opportunistic in buying more Taco Bell stores.

Ranjith Roy
Chief Financial Officer

Got it. Okay. Look, we love being an asset-light business. We continue to have amazing franchise partners around the world in KFC, Taco Bell who run world-class restaurants. Historically, we made, as you know, opportunistic acquisitions that are relatively small. If you think about the Q4 Taco Bell acquisition we made of 128 restaurants out of a worldwide base of 60,000 restaurants that we have, it's relatively small.

That said, these strategic acquisitions, we view them as providing a number of benefits. First, there's a financial benefit. When you think about the returns we get buying at reasonable multiples and driving growth in those restaurants itself, we can drive returns that materially exceed the hurdle rates we have for investment. Second, the strategic benefits. So you think about some of the acquisitions we made like the KFC U.K. restaurants and the Taco Bell Southeast restaurants, and the results that drives in those markets and the ability to open up white space, there are strategic benefits to the broader system that are way beyond the actual investment that we actually made.

And thirdly, it does add mindset and muscle in those markets where you have to run a restaurant and you have to think like an operator, and that provides broader benefits. So look, I'd say there's a number of benefits that we see from those, and we're going to do it selectively and strategically. And when we do it, it will be for specific reasons where it has maximum impact. We're going to keep our eyes open for the opportunities that provide that.

Operator

And your final question comes from the line of Jeffrey Bernstein with Barclays.

Jeffrey Bernstein
Barclays Bank PLC, Research Division

Great. Chris, just a question on the broader QSR segment positioning. Just thinking about it from an industry perspective, I don't think anybody is more knowledgeable on QSR trends with your global portfolio. But in the past, U.S. macro slowdowns, I think most people thought QSR was well positioned, retaining the lower income with value, inheriting trade down from above. But it does feel like this go around is increasing investor concerns that QSR is maybe losing the lower income with less value and not inheriting from above. Just to be clear, clearly, you're not seeing that at Taco Bell, but just wondering, as you look across the QSR segment more broadly, I guess, more of an industry question, do you think QSR positioning has changed at all or should QSR again be the beneficiary in the more challenged macro?

Christopher Turner

CEO & Director

Look, as I look at the U.S. macro landscape and the U.S. consumer, I have to look at it through the lens of our business. And our largest business in the U.S. is Taco Bell. And I think what you're seeing is that when you deliver what consumers want and need, you can win with consumers in any environment. And Taco Bell is bringing that combination that we mentioned earlier, a culture-leading brand, craveable food with great innovation, an easy experience that is enabled by digital and technology and, of course, leading value.

And I think if Taco Bell were just bringing 1 or 2 of those things, you wouldn't see these results. It's the combination that is winning with consumers. And of course, they've got the structural advantage that will allow us to sustain that. And we see that in all of our markets around the globe. The consumer has had various pressures across markets for a number of years now, and we continue to prove that when you deliver what consumers want and need, you can win with those consumers.

So thank you all for making time for the call. We appreciate you being here. We've got a great start to 2026. Really proud of the performance that our teams are delivering. Our largest brands are performing well, enabled by structural advantage, strategies that are working and an incredibly scaled digital presence that will continue to grow over time. That's leading to growth and sustainable market share gains, all while we Raise the Bar for the future. Thanks so much.

Operator

This concludes today's conference call. You may now disconnect.

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