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Yum! Brands, Inc. (YUM) Q2 2024 Earnings Call Transcript

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Press Release



10-Q

EPS of \$1.35 **beats by \$0.02** | Revenue of \$1.76B (4.51% Y/Y) **misses by \$39.54M**Yum! Brands, Inc. (NYSE:[YUM](#)) Q2 2024 Earnings Conference Call August 6, 2024 8:15 AM ET

Company Participants

Matt Morris - Head, Investor Relations

David Gibbs - Chief Executive Officer

Chris Turner - Chief Financial Officer

Conference Call Participants

David Tarantino - Baird

Jon Tower - Citi

Andrew Charles - TD Cowen

Brian Bittner - Oppenheimer

Dennis Geiger - UBS

Brian Harbour - Morgan Stanley

Danilo Gargiulo - Bernstein

Operator

Hello, and welcome to the Yum! Brands 2024 Second Quarter Earnings Call. My name is Lauren, and I'll be coordinating the call today. There'll be opportunity for questions at the end of the presentation. [Operator Instructions]

I will now hand you over to Matt Morris, Head of Investor Relations, to begin. Please go ahead.

Matt Morris

Thanks, operator. Good morning, everyone, and thank you for joining us. On our call today 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.

Before we get started, 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 statement in the earnings release and the risk factors included in our filings with the SEC.

In addition, please refer to our earnings release and the relevant sections of our filings with the SEC to find disclosures, definitions and reconciliations of non-GAAP financial measures and other metrics used on today's call. Please note that during today's call, all system sales growth and operating profit growth results exclude the impact of foreign currency.

As a reminder, several of the Yum! Brands business units report on a period calendar basis including all US and Canada brands, KFC UK and KFC Australia. When forecasting 2024, please keep in mind this year will include an extra week in the fourth quarter for those entities. 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 of the upcoming Yum! investor events and the following. Our third quarter earnings will be released on November 5th with the conference call on same day.

Finally, on our last call, we shared the timing for our talk about consumer date originally planned for December of this year. We are finalizing a revised date for early next year. Please stay tuned for more details and invitations to follow.

Now I'd like to turn the call over to David Gibbs.

David Gibbs

Thank you, Matt, and good morning, everyone. Despite continued challenging operating environment, I'm pleased Yum! was able to deliver 10% growth in core operating profit this quarter, thanks to our team's strong execution and progress on the initiatives laid out on our last call. While we take comfort in improving global trends and still expect the first quarter warrant the low for same-store sales growth, significant volatility remains, and we recognize sales in some markets are not where we want them to be.

The impacts from the Middle East conflict, in addition to a more cost-conscious consumer, have presented headwinds to same-store sales. Despite these tougher waters, we are confident we will deliver on profit growth in line with our long-term algorithm for 2024 and are set up for continued strong growth in 2025. Fortunately, we are well-positioned to navigate these consumer headwinds given the strength of our brands and reputations for value no matter the environment.

Nonetheless, ensuring we provide consumer's affordable options has been an area of greater focus for us since last year with all of our brands having offered disruptive deals and introduced or reintroduced the track of everyday value with examples in the US such as KFC's Taste of KFC deals, Pizza Hut's \$7 Deal Lovers, and Taco Bell's Cravings Value Menu. As a result, our brands experienced improving trends relative to the first quarter in the US market, and we continue to refine our offerings in international markets to recapture similar momentum.

The second quarter offered signs of improving fundamentals. For example, at Taco Bell, we've begun to see sensitivities to check management stabilize to improve from Q1 into Q2, and have witnessed year-over-year check growth led by items per transaction. Internationally, KFC markets excluding China, that we believe were not impacted materially by the Middle East conflict, reported an encouraging mid-single-digit increase in same-store sales.

Across our system, our 2024 commodity inflation has come in lower than we expected heading into the year, helping our franchise partners navigate recent sales volatility. Furthermore, momentum in the critical and strategic areas of our business remains strong. This includes robust increases in digital sales, progress leveraging our scale, continued deployment of our proprietary technology ecosystem and efficiency improvements in our cost structure from efforts underway in the next phase of our journey to be a leading global digital restaurant company.

Our twin growth engines, Taco Bell US and KFC International, helped Yum! deliver 3% system sales growth driven by market share gains at Taco Bell US and strong unit growth at KFC International. Combined, these two powerful business units delivered 7% operating profit growth.

At an individual level, unmatched innovation fueled Taco Bell US' 7% increase in system sales with Cantina Chicken performing above our expectations. Taco Bell is a clear standout in today's environment, not only achieving same-store sales growth well ahead of the QSR category, but delivering restaurant-level margins near a record high. In addition, Taco Bell's same-store sales grew mid-single digits across all income cohorts, proving that craveable innovation even at a higher price point wins with today's consumers.

At KFC International, on a quarter-over-quarter basis, same-store sales showed strong improvement on a two-year trend, and unit growth in the quarter was an impressive 9% year-over-year as franchisees take advantage of strong paybacks. I know from experience, this powerful brand is not constrained by expansion opportunity, but rather its growth and success are tied closely with having the right franchise partner. This is why we are very intentional about who we choose to allow into our system.

For example, our new franchise partner in South Korea took over in April 2023 and has drastically improved performance with same-store sales up 17% this quarter. In that vein, the KFC team is tirelessly working to give our franchisees the tools to succeed, including furthering the expansion of SuperApp and the KFC global loyalty program, which is now live in 14 markets.

Now I'll discuss our relevant, easy and distinctive brands or RED for short, followed by our unrivaled culture and talent and good growth strategy. Chris will provide an update on our second quarter results, followed by our bold restaurant development, unmatched operating capabilities and balance sheet position and capital strategy.

Beginning with the KFC division, which accounts for 49% of our divisional operating profit, we grew system sales 2% led by 8% unit growth. Our same-store sales were down 3%, largely on account of scattered pockets of weakness in a number of markets relating to the Middle East conflict and underperformance in the US market. This quarter, we did not see any improvement in the most directly impacted markets. If Q2 trends hold, the pressure on same-store sales growth for the set of directly impacted markets will begin to abate as we lap the prior year's sales impact beginning in November.

Beyond the most significantly impacted markets of the Middle East, Malaysia and Indonesia, we've seen sales impacts from the Middle East conflict surface in several other markets based on store performance comparisons across neighborhoods.

In other parts of the world, we witnessed trends improved from the first quarter, including Canada and Central and Eastern Europe, while South Africa's transactions began to improve during the quarter.

Another exciting development in the quarter was Yum China celebrating its 200th KCOFFEE, which consists of an adjacent storefront that is part of an existing KFC, allowing a reduced investment and lower operating costs from sharing KFC kitchen facilities. The Yum China team has averaged one new KCOFFEE per day since the beginning of 2024. While these do not count as new units in our system, they are a driver of future same-store sales growth. This quarter, we acquired 216 KFC restaurants in the UK and Ireland, and we have started to optimize restaurant operations there.

Lastly, KFC digital sales, excluding China grew nearly 20% with an impressive 40% growth in kiosk sales.

Moving on to the Taco Bell division, which represents 37% of our divisional operating profit. US same-store sales grew 5%, outpacing the US QSR industry by a wide margin. Taco Bell executed its winning formula this quarter through introducing a variety of compelling innovations such as the Cheez-It and Secret Aardvark fries.

The second quarter also reflected sales contribution from the Cantina Chicken menu, our foray into an elevated chicken offering and a new platform to innovate around. Since the platform launch, Taco Bell's chicken sales mix has increased 10 points with nearly one in four orders, including a Chicken Cantina item.

Another part of the team's winning formula is digital in, which digital sales continue to grow at a breakneck pace. In Q2, Taco Bell's loyalty sales were up over 30%. At Taco Bell International, the team is working on building brand relevance. It is still early days in many markets and trends remain volatile, but we remain confident in the long-term opportunity. A restored emphasis on value has forced our teams to be creative with a more limited national marketing budget.

In more mature markets within Europe, which accounts for over 40% of Taco Bell International system sales, we saw encouraging signs of improvement with the introduction of value offers.

Next, I'll discuss our Pizza Hut division, which accounts for 14% of our divisional operating profit. System sales were flat this quarter and units expanded 3% year-over-year. International same-store sales remained negative in part because of a stalled recovery in Malaysia and Indonesia. We're encouraged Pizza Hut same-store sales trends have improved four points from last quarter with progressing trends in the US and encouraging recoveries in Thailand and Hong Kong.

Around the world, our team is actively expanding My Hut Box and introducing Melts, including most recently in India and Thailand. Both platforms lift underdeveloped day parts, expand individual meal occasions and provide attractive price points to our consumers.

Since joining Pizza Hut as CEO in 2021, Aaron Powell has assembled an amazing team and is providing strong leadership to drive efficiency, increase accountability, reduce complexity and align the brand to consumer trends. In the US, momentum accelerated throughout quarter with an increase in weekly per restaurant average transactions attributable to a number of value-based promotions and the launch of My Hut Box.

Lastly, at the Habit Burger Grill, second quarter system sales declined 1%. Habit's restaurant count increased 5% year-over-year as a result of new regulations in Habit's home market of California that have raised the cost to business, Habit's leadership team has been focused on protecting profitability to remain competitive. Those efforts led to a comprehensive store level labor optimization effort, which contributed to an impressive 520 basis point expansion of restaurant level margins from the first quarter, despite a double-digit increase in restaurant level labor rates in California stores.

Same-store sales growth remained suppressed, but we're encouraged by the improvement from first quarter trends despite a more challenged regional backdrop. Subsequent to quarter end, I was pleased to learn Habit's Double Charred Burger, reigned supreme in USA TODAY's 10 Best Readers' Choice Award for Best Quick Service Burger, landing the number one spot and beating out all other QSR and better burger competitors.

Now I'll turn to our good growth strategy, starting with our people pillar. One of Yum!'s hallmarks is our people-first culture, which drives recruitment of amazing talent and also builds a deep bench of leaders within the organization. I'm excited about the great work going on at Pizza Hut from a talent perspective, where we recently welcomed Carl Laredo, as the brand's US President. Carl is a seasoned marketing leader with deep experience in delivering impressive results at some of the world's largest and best-known brands. We also welcomed former PepsiCo Executive, Kalen Thornton, as Global Chief Brand Officer, leading the Pizza Hut division's global brand strategy and marketing, including harnessing the power of engaging consumer connections across physical and digital touch points.

It is also rewarding to see leaders from Yum!'s deep bench of talent assume bigger roles. Melissa Friebe recently joined Pizza Hut US, as Chief Marketing Officer, after spending 27 years at Taco Bell in various finance, marketing, insights and brand strategy positions. In addition to recruiting and promoting talent and professionals, we're furthering our culture of collaboration and building capability across our company in powerful forums such as KFC's annual global marketing planning meeting. KFC gathered marketing leaders, franchise partners and vendors from around the world to share best practices and consumer insights to keep our iconic brand RED, discuss innovative strategies and sale of delicious products from various markets.

Moving on to the planet pillar of our Good Growth strategy. We are making progress on our global goal of reducing greenhouse gas emissions nearly 50% by 2030 with a focus on renewable energy and energy efficiencies in our restaurants and ongoing collaboration with our food suppliers. For example, KFC has reduced emissions by focusing on key areas such as cooking and holding systems, refrigeration and cooling and lighting while Pizza Hut and Taco Bell are collaborating with partners to reduce on-farm emission and encourage sustainable practices.

In terms of packaging, we are making progress against our global goals with many markets eliminating unnecessary plastic items like straws, cup lids, stirrers and cutlery. And finally, we're also making a meaningful impact in the communities we serve by continuing to unlock opportunities. As an example, in Thailand, KFC partnered with non-profits and the Thai government to launch the country's first-ever flexible learning curriculum to help students who dropped out of school, gain critical job and entrepreneurial skills.

To wrap up before handing over to Chris, we are pleased our second quarter built to a 10% growth in core operating profit despite system sales system sales pressures. While our teams work to improve system sales trends, we are confident the investments we are making in tandem to be more agile, resilient and stronger as part of the next phase in our technology journey will lead to a promising year in 2025. All these efforts underscore our commitment to be the franchisor of choice and deliver more, better, faster, cheaper and safer technology services to our partners.

I'm excited about our plans to harness the power of AI, including the expansion of drive-through Voice AI technology with plans to roll this capability out to hundreds of Taco Bell US stores by year-end in addition to testing with KFC in an international market. We are hard at work driving the next phase of our technology journey to unlock future growth by strengthening our business resilience and ensuring we deliver exceptional shareholder value in the years ahead.

With that, Chris, over to you.

Chris Turner

Thank you, David, and good morning, everyone. Today, I'll discuss our financial results, our bold restaurant development and unmatched operating capability growth drivers, our balance sheet and capital strategy, and provide an update on our outlook for the remainder of the year.

Beginning with our second quarter results. System sales grew 3%, driven by 5% unit growth. Consumer sentiment relating to the conflict in the Middle East continued to pressure system sales growth in the quarter. The recovery trajectory we observed in Q1 for the Middle East, Malaysia and Indonesia, flattened in Q2. And while hard to precisely quantify, we continue to observe conflict-related impacts in a broader set of markets. Despite these pressures, Yum! delivered an impressive 10% core operating profit growth, reflecting the resilience of our scale, global, multi-brand business model, increasing benefits of our digital and technology strategy and the expert management of the business by our leaders around the globe.

A prime example of factors underpinning our resilience was profitability in our 488 company-owned Taco Bell stores in the US, our single largest estate of company-owned stores, representing approximately half of our total global company-owned store revenue. Store level margins were 25.6% with mature stores achieving over 27%, reflecting the strength of the Taco Bell business model and its magic formula, which enables the brand to simultaneously deliver an outstanding consumer experience, tremendous consumer value and exceptional store-level margins for our franchisees and Yum!

Importantly, Taco Bell operations leaders are taking advantage of the continued growth in digital sales mix, which is now 35% to further digitally enable our operations in ways that not only improve consumer and team experiences, but also improve labor productivity.

Another contributor to profit growth was improved expense leverage. As we shared in January, we expected throughout the year to see the benefits of our ongoing resource optimization program, which strategically leverages our scale to free up general and administrative expense for reinvestment in future growth drivers such as AI, which will benefit both Yum! and our franchisees in addition to some beneficial onetime G&A expense overlaps.

Second quarter ex-special G&A expense was \$256 million, down 9% year-over-year. Reported G&A was \$281 million, reflecting \$25 million of special expense related to our resource optimization program. We expect to generate additional savings on an ex-special basis from the resource optimization program in the second half of the year.

Reported operating profit increased 6% as foreign currency translation continued to be a headwind with a \$12 million negative impact in the quarter. Historically, given our global footprint, foreign currency translation has at times been a significant tailwind to our reported operating profit and at other times, a headwind. Since interest rates in the US began to rise in Q1 2022, our current annual operating profit reflects a headwind of nearly \$180 million in foreign currency, equivalent to roughly one year of operating profit growth under our long-term growth algorithm during that period.

Second quarter ex-special EPS was \$1.35, reflecting a \$0.20 negative impact from a higher year-over-year tax rate and lower year-over-year investment gains. Additionally, foreign currency translation unfavorably impacted Q2 EPS by \$0.03.

Moving on to our bold restaurant development growth driver. Yum! opened 894 units, the second highest number of Q2 gross openings in Yum!'s history, leading to our unit count expanding 5% year-over-year, contributing 4 points to total system sales growth. In the quarter, we transferred certain rights related to the trademarks of the Gino's Pizza and Telepizza brands in Latin America to our local franchisee, enabling our teams and Latin America to focus exclusively on driving growth in the Pizza Hut brand. As a result, we removed 120 low volume and low royalty rate units associated with those brands from our store base in exchange for nominal compensation. Excluding the impact of this transfer, our unit growth was 6%. Our growth remains diversified across brands and countries with 195 brand country combinations contributing growth during the last 12 months.

Moving to brand-specific development. In the KFC division, we opened 598 units across 57 countries. This brings our year-to-date gross openings in KFC to 1,107 units, a new all-time record for KFC for the first half of the year. China, India, Thailand and Japan led development. Over the last year, we've seen positive development trends in South Africa, the Philippines and Brazil. In the quarter, we closed on the transaction to purchase 216 stores in the UK and Ireland, one of our highest average annual unit volume markets. Our total equity estate at KFC is now 434 stores, the majority of which are located in the UK market.

The Pizza Hut division opened 236 units across 30 countries. Pizza Hut's year-over-year unit growth is trending higher from this time last year for several of our largest markets, including China and Japan, which is offsetting closures in the US and the conflict-related slowing of development in Indonesia and Malaysia.

At Taco Bell, we opened 56 units this quarter, including 17 new units in our international markets across 10 countries. Our US gross openings are running higher year-over-year for the first half, and we expect international store growth to pick up in the second half of the year. Excluding China, Taco Bell international unit count was up 7% year-over-year.

Moving to our digital and technology initiatives. You will recall that on our last earnings call, David and I discussed our journey to become the leading global digital restaurant company. The first phase of this journey is focused on acquiring, building and scaling a comprehensive suite of owned platforms that enable ownership of our data, control the digital ecosystem, speed of innovation and cost advantages through scale leverage. Within this phase, we are accelerating deployment of our foundational platforms, such as the Poseidon POS system, Yum! e-commerce platform, Dragontail, SuperApp and our Global Data Hub. In the next phase, we are focused on maximizing the value creation potential of our platforms through AI and leveraging our extensive data assets.

Data is becoming a crucial differentiator, enabling us and our franchisees to generate better insights and make better decisions. We believe we are still only scratching the surface of the full value creation potential of our capabilities.

Let me now discuss additional digital and technology accomplishments for Q2 across our easy experiences, easy operations and easy insights pillars. I will begin with our easy experience pillar, focused on providing frictionless experiences to our consumers. As you recall, last quarter, we discussed plans to expand drive-through Voice AI technology to more Taco Bell stores.

I'm excited to announce that given our encouraging early results, the team has accelerated the rollout. And as of today, we now have this technology operational in over 100 Taco Bell stores. We plan to scale the technology to several hundred stores by year-end, while the pilot test is underway in KFC Australia. In our tests, we have witnessed consistent consumer experiences and higher team member productivity. This technology leverages digital menu boards, which will be a Taco Bell brand standard in 2025 and Yum!'s proprietary point-of-sale system, Poseidon.

On the e-commerce front, we have made significant progress in implementing the Yum! commerce platform at Pizza Hut US. We are currently transitioning to this platform at Pizza Hut in the UK, which will be the second international Pizza Hut market to operate on the Yum! commerce platform with Pizza Hut Canada next in line.

Next, I'll discuss our easy operations pillar, where we continue to deploy our world-class technology to provide our franchisees and team members with the capabilities to operate their stores more effectively and efficiently. We have fully deployed our Poseidon point-of-sale system within Taco Bell US and are in the early stages of incorporating this system into the KFC US estate.

With respect to Dragontail, our AI-enabled restaurant management system, we plan to have the system rolled out to nearly the entire Pizza Hut US system by year-end. As an example of Dragontail's impact, in the first 1,000 Pizza Hut US stores to implement the technology, we have measured a 7% increase in overall consumer satisfaction due to hotter and fresher pizzas leading to improved consumer frequency.

Finally, we are in the process of scaling SuperApp, our restaurant General Manager support app at Pizza Hut US, and we plan to achieve the 10,000 store milestone across KFC globally by year-end.

Lastly, I'll discuss our easy insights pillar. We deepened our AI pursuits this quarter, taking steps to unlock the benefits of our R.E.D 360 database and engage with an innovative start-up in the AI-driven personalization space to leverage our massive first-party data assets. This partnership covers the application and integration of a deep learning AI approach known as reinforcement learning, which we expect to be broadly and easily scalable across brands. This partnership will focus on our basic CRM channels and in the future, may extend to our other consumer sales and communications channels, for instance, paid media.

Next, I'll provide an update on our balance sheet and liquidity position. As a reminder, our capital priorities are guided by maximizing shareholder value and include investing in the business, maintaining a resilient balance sheet, offering a competitive dividend and returning excess cash to our shareholders.

Net capital expenditures for the quarter were \$31 million, reflecting \$50 million in gross CapEx and \$19 million in refranchising proceeds. Our net leverage ratio ended the quarter at 4.1 times. We have a strong balance sheet and no debt maturities until 2026.

During the second quarter, we are pleased to have resumed share repurchases by buying back \$50 million in our stock, which for context is the same value of shares repurchased during the entire year of 2023. Going forward, absent any attractive investment opportunities like our recent acquisition of KFC UK restaurants, we plan to continue to return excess cash flow to shareholders through share repurchases.

Finally, I'll discuss our outlook on the balance of 2024. We remain on track to achieve 5% unit growth for the full year despite the extended impact the Middle East conflict. On a global basis, our planned number of gross unit openings for the full year is expected to be similar to our number of gross openings in 2023. We should also note some certainty on the future path in the Middle East markets.

For example, there are approximately 210 restaurants currently temporarily closed across the Middle East, Malaysia and Indonesia. While there are plans in place to reopen some of those restaurants starting later this month and throughout the second half of the year, there is risk that some could close permanently pending the future trajectory the conflict impact. These stores have not been producing royalties while temporarily closed, but our reported unit count would be negatively impacted if these stores were to permanently close.

With respect to company store profitability, we expect full year Taco Bell company-operated store margins to be in the range of 23% to 24%. Regarding G&A. Excluding 53rd week, we now expect ex-special G&A expense to be lower on a year-over-year basis by a low single-digit percentage. As for sequencing, Q3 G&A will be higher year-over-year as we lap last year's recovery of cyber-related insurance proceeds and as we incur costs relating to our Global Leadership Summit.

Finally, despite updating our balance of year sales outlook to reflect the continued softness we're seeing tied to the Middle East conflict, we remain confident that we will deliver at least 8% core operating profit growth on a full year basis excluding the benefit of the 53rd week. I'm very proud of the work our teams continue to do to position Yum! as a resilient growth business going forward and to further cement Yum! as the global franchisor of choice. We are making incredible strides toward our distinctive digital and technology ambitions, our 50% plus digital sales mix and our continued rollout of distinctive digital and AI technologies are testaments to that pursuit.

In markets around the world, we have the privilege of working with outstanding 3C that is capable, well-capitalized and committed franchisees who want to grow with our system and our iconic brands.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from David Tarantino from Baird. David, your line is muted. Please proceed with your question.

David Tarantino

Hi, good morning. My question is on your outlook, given all the cross currents we're seeing in the macro environment. And I was wondering if you could maybe elaborate on how you're thinking the same-store sales could progress with the second half plays out. And I know you have easing comparisons, but there's a lot of a lot of uncertainty in a lot of markets that you called out. So just wondering, if you could provide some context on how you're thinking about it within your 8% profit growth or core profit guidance for the year? Thanks.

David Gibbs

Yeah. Thanks, David. I think our thinking hasn't changed, although we learn more, obviously, every week. As I think we said beginning of the year, as we progress through the year, we see sequential improvement every single quarter in same-store sales growth. Obviously, Q4 becomes a much easier lap as we start to lap the Middle East conflict.

Q3 is actually a slightly harder lap for Taco Bell, but in general, an easier lap for Yum! And, therefore, we are -- we continue to forecast an improvement quarter-to-quarter in same-store sales growth, tough to forecast. But we know we have all the right levers to pull, and our brands are performing well despite some of these challenges.

I mean, KFC International, for example, is up 11% on a two-year basis despite the Middle East impacts. You saw what Taco Bell did in Q2, I think there's a lot of reasons to be optimistic. But as you say, a choppy environment. We know we can get through it this year and then obviously get to much easier laps next year.

Operator

Thank you. Our next question comes from Jon Tower from Citi. Jon, please go ahead.

Jon Tower

Great. Thanks. I was hoping to dive a little bit in the G&A because obviously, that seems to be a mover on the core operating profit growth for the year. And I was hoping you can maybe provide a little bit more color on some of the puts and takes through the first half, and then what you see in the back half unfolding? And specifically, how we should think about this piece of the business growing into 2025, should we expect it to return back to normal cadence, especially if incentive comp resets again?

Chris Turner

Yeah. Thanks, Jon. Look, I think what you're seeing happen this year is the plan that our management team has been driving is playing out as expected. If I were to kind of sum up what we're doing, we're reallocating and streamlining our G&A to drive faster and more efficient growth for Yum! and for our franchisees. And there's a few buckets of levers that are driving that. Of course, we've said that there are some one-time benefits this year on a net basis with the full year.

The second, digital and technology is an important area here. So we talked about that this year, we're starting to bend the curve. And what we mean by that is, over the past few years, we invested ahead on behalf of our franchisees, which burdened the P&L a bit. But as we get more and more adoption of our platforms and we have fee income from that, it reduces that burden.

We also acquired four companies, hired a lot of people in the last several years. Those capabilities are maturing. And as we mature, we find ways to operate more effectively internally to organize better, and that allows us to get more done at lower cost, which benefits Yum! and our franchisees. And we've got strong governance of tech spend in place.

I think the third area is productivity in other parts of the business. We've been driving this resource optimization program. We're finding ways to operate more effectively in parts outside of D&T. Now in some cases, that's enabled by becoming a more digital company.

And then finally, as we said in the remarks, our GMs are doing a really good job driving their plans as they see how the business is on pulling around the globe. So those are factors that are driving the G&A trends this year.

Now it's important to note that we are reinvesting at the same time. We're putting investments into AI. We mentioned on the last call, 40-plus AI projects in motion. We're investing in areas like our marketing capabilities, supply chain and then culture and talent. So at the same time, we're driving the long-term health of the business.

If you look to 2025 and beyond, we're going to continue to get leverage on the G&A line. You set aside year-over-year factors like changes in incentive comp, we expect to get good leverage on the G&A line, and I think you'll see a normal growth rate in terms of G&A for an asset like a company ours.

Operator

Thank you. Our next question comes from Andrew Charles from TD Cowen. Andrew, please go ahead.

Andrew Charles

Great. Thank you. I have a two-part question on Taco Bell. I'm looking to understand how you retain Taco Bell's US 2Q same-store sales strength as you shift promotional -- to new menu items away from Cantina Chicken while the remainder of the drive-through segment intensified the focus on value. And the bigger question is that can you share your confidence in the ability to hold Taco Bell's 2Q to your trends in the back half of 2024? Thanks.

David Gibbs

Sure. Obviously, Taco Bell is a lot of really positive results coming in, in Q2, and we feel good about we feel good about Taco Bell for the balance of the year. Why do we feel so good about the brand? First of all, in this environment where the consumer is probably pulling back a little bit, being the always on value brand. Remember, Taco Bell's Cravings Value menu is always on. It's got 10 items. They're unique items that nobody else in the industry has. And they're not like junior-sized versions of a core item. They're unique. They stand in their own right. They're incredibly craveable. That has served us well, and it really put a moat around when it comes to value.

In addition, we have onetime offerings like the Luxe Box at a \$7 price point, which is an incredible amount of great tasting food for that price. So we have a great way to play value that makes it hard for others to compete. And then when you couple that with things like the Cantina Chicken launch in Q2, which is really a platform that we'll continue to innovate off of as we move forward.

You saw in Q3, we just launched the Cantina Chicken Cheesy Street Taco Chalupas that are off to a good start. That's an example of what we can do with that menu. We'll probably rehit Cantina Chicken in Q4. And then you've got all sorts of other great things going on at Taco Bell like speed of service, improving loyalty program launches. So hopefully, again in the sense of confidence we have in Taco Bell as we move forward. And in this environment, I think we're really seeing Taco Bell stand out from the crowd, outperforming the QSR industry by a wide margin.

Operator

Thank you. Our next question comes from Brian Bittner from Oppenheimer. Brian, please go ahead.

Brian Bittner

Thanks. Good morning. Congrats on navigating a challenging backdrop. You delivered 8% core operating profit growth year-to-date, despite negative same-store sales year-to-date. And this operating profit growth in the first half is on par with the full year guidance, of course. And I know the environment is still challenged, but there reason to believe that overall, Yum! will have better sales trends in the second half versus the first half as comparison these as we've talked about on this call. And G&A is going to remain favorable in the second half. I know there's some timing differences between the third quarter and fourth quarter. But is there an opportunity for profit growth to accelerate in the second half? Is the guidance for 8% now that you've already had that in the bag in the first half, possibly conservative? Or is there anything maybe I'm not looking at in the second half versus first half that I should be more aware of?

Chris Turner

Yeah, Brian, as we said on the call, we remain confident in delivering at least 8%. Of course, as you mentioned, it's a complex operating environment. There are lots of unknown still yet to unfold in the back part of the year. But as David said, we do have sequential improvement in the forecast quarter-to-quarter from a sales standpoint. And as we said, we expect full year G&A to be balanced.

We're going into the back half of the year with a good starting point here at the midpoint. And it's our job to deliver as much profit growth as possible, while still investing in the long-term health of the business. And so that's what our management teams are focused on doing, driving the short-term and the long-term simultaneously.

Operator

Thank you. Our next question comes from Dennis Geiger from UBS. Dennis, please go ahead.

Dennis Geiger

Great. Thank you. I wanted to ask a little bit more about the strength of global unit development. Obviously, some macro pressures out there, but impressive growth, even still, particularly at KFC. Could you talk a little bit more about how the brands and the franchisees are effectively managing the challenges, continuing to open restaurants at a solid rate? And specifically, if there's anything else to offer on visibility that you've got into development looking ahead, including how that pipeline looks, et cetera? Thank you.

David Gibbs

Yeah. Thanks, Dennis. The development picture is really one that is strongly encouraging. When you think about the impact of the conflict on sales in particular markets, we are still seeing quite widespread growth all around the world. I think I mentioned in my remarks, about two-thirds of our brand country combinations over the last 12 months have built a store. There's a lot of countries that are quite small that don't even have an opportunity to build a small store. So that is impressive right there that it's widespread. As we mentioned, our ability to open gross units looks like going to be very similar to what we did in 2022 and 2023.

Now we would like that number to go up every year. So there's probably some small impact from the Middle East that's showing up in that gross unit line. And potential for some, as Chris mentioned in his remarks, potential for some additional closures, perhaps greater than normal the second half of the year. But any stores that would close, particularly in the Middle East markets would have been lower volume stores that people are just pruning their portfolio. We expect the full year impact from development in terms of the ability to drive additional system sales to be very similar this year to last year.

So the development story is good. Why is that? Because I think the franchisees have a lot of long-term confidence in the strength of our brands and their businesses around the world and they're getting good paybacks. We meticulously track the paybacks in every market around the country to make sure that our franchisees are getting good returns on their investments.

Operator

Thank you. Our next question comes from Brian Harbour from Morgan Stanley. Brian, please go ahead.

Brian Harbour

Yeah, thanks. Good morning guys. I think you mentioned in your prepared remarks just some broader impacts of some of the Middle East issues. I was curious what markets you're referring to with that. And I guess, just more broadly, could you comment on like Europe or some of the other markets that you sometimes highlight has been stronger or weaker? And if there is anything to call out there?

David Gibbs

Look, I think in general, we've highlighted, obviously, the Middle East markets have been impacted in addition to Indonesia and Malaysia in terms of significant markets for us. Beyond that, we're not going to -- first of all, it's very hard to pull out the impact because it can be trade area trade area by in a given market. But you can imagine the types of markets that would be further impacted. And it's not -- but it's not a precise science. We just know them from the stories that we're hearing from the field some of the data that we see trade area by trade area in markets that the impact is a little bit broader than just the Middle East and Indonesia and Malaysia, but very hard to measure.

I think the important thing is, despite all that, I mentioned it at the start -- the Q&A, we've seen 11% two-year same-store sales growth for KFC around the world. If we back out and just take a look at some of the markets where we know there's very little impact from the Middle East, we're seeing mid-single-digit growth for KFC. And then places like LA&C, which really are a clean read on our business ex-Middle East, no impact at all, we're seeing -- they put the second -- KFC put up a second consecutive quarter of plus 13% same-store sales growth that's on top of 10% last year. So it's 23% same-store sales growth in Latin America for KFC. You can tell that the foundation of our business is really quite strong. And we're getting through this headwind from the Middle East really as best as could be imagined.

Matt Morris

Operator, we have time for one more question.

Operator

Thank you. So our final question comes from Danilo Gargiulo from Bernstein. Danilo, please go ahead.

Danilo Gargiulo

Thank you. I have a question on the sustainability of margins at Taco Bell. So the margins are quite impressive in the context of the labor pressures you're seeing in California, the value -- spend from consumers. So how sustainable do you think these margin improvements are at Taco Bell? And what incremental levers do you expect to deploy going forward? In other words, wouldn't be able to talk about maybe 26%, 27% margin in the next two to three years? Thank you.

Chris Turner

Yeah. Thanks, Danilo. Look, I think the Taco Bell margin story is very impressive in the context of a value-oriented environment. The Taco Bell business is serving consumers, creating buzz in the market, bringing great innovation to bear and delivering value when consumers need it. And yet you're seeing us maintain these industry-leading margins. That comes from leveraging our scale on our food purchases and our franchisees take advantage of that scale. And I think in the long run, you'll see us continue to be more and more productive in terms of how we operate the restaurants.

As we become more and more digital, 35% digital mix, you heard us talk about Voice AI, which is accelerating at a faster pace than we expected just three months ago. And that is just one more example of a digital lever that allows us to provide a great a great customer experience, team member experience and be more productive in back of house.

Lots of other things happening on that front, I think it sets up well for us to continue to be able to provide strong value to consumers and great margins for -- for our franchisees and our company stores going forward.

David Gibbs

Well, thank you, everyone, for your time today. I appreciate all the questions. Obviously, we're proud of the results we put up this quarter despite headwinds but we're even more proud and excited about the future as we go into the second half of this year and into 2025. Inflation is moderating, margins are getting stronger, our brands are getting stronger in this environment, Taco Bell putting up really good numbers. The work that we're doing behind the scenes to reinvent how we run the business, to reallocate G&A, to really lean in on our digital leadership and our investments in the AI, the laps are getting easier. We talk about our twin growth engines and how they performed this quarter.

But also this quarter, I spent some time with our international Taco Bell franchisees at Taco Con, where we get everybody together from around the world to talk -- compare marketing calendars and the excitement at that convention about the future of Taco Bell was incredibly strong, the quality of the partners that we have for that brand, and although we're not calling that one of the growth -- the twin growth engine today, it's clear that the future for Taco Bell International is quite bright and another reason to be excited about the future. So a quarter that I think demonstrated the resilience of our business model and the strength of our brands and excitement about the future as we go into Q3. Thank you, everybody, for your time.

Operator

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

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