Seeking Alpha

Transcripts Consumer

Yum! Brands, Inc. (YUM) Q3 2026 Earnings Call Transcript

Nov 03, 2026, 1:25 PM ET | **Yum! Brands, Inc. (YUM) Stock**

SA Transcripts
162.9K Followers

Q3: 2026-11-03 Earnings Summary

Insights

EPS of $1.56 beats by $0.09 | Revenue of $2.05B (3.79% Y/Y) beats by $30.46M

Yum! Brands, Inc. (YUM) Q3 2026 Earnings Call November 3, 2026 8:15 AM EST

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
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Zachary Fadem - Wells Fargo Securities, LLC, Research Division
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division
Jacob Aiken-Phillips - Melius Research LLC

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Yum! Brands Third Quarter 2026 Earnings Conference Call. [Operator Instructions]

I will now hand the conference over to Matt Morris, Head of Investor Relations and Capital Markets. Please go ahead.

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 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 the 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. This conference call is being webcast live on our website and will be available for replay following the call. Our fourth quarter earnings will be released on February 3 with the conference call on the same day.

Now I'll turn the call over to Yum!'s CEO, Chris Turner.

Christopher Turner
CEO & Director

Thank you, Matt, and good morning, everyone. This was a pivotal quarter for Yum! as we completed the divestiture of Pizza Hut at the beginning of September, while also navigating an industry-wide U.S. food safety issue. I couldn't be more pleased with how our teams performed. I especially want to thank the Pizza Hut team members and franchise partners for their many contributions to Yum! and wish them continued success.

With the transactions behind us, Yum! enters its next chapter, having a sharper focus on our Raise the B.A.R. priorities, battling for the future consumer, accelerating restaurant unit economics and reaching the full potential of Byte and our digital capabilities. These priorities will accelerate growth and deliver high-quality, consistent total shareholder returns over the long term.

Let me start with an update on Taco Bell's performance. I'm incredibly proud of how the Taco Bell team and our franchise partners have come together with urgency and focus to drive a rapid recovery. From a low point in July, Taco Bell U.S. same-store sales strengthened week after week. And since the end of September, the brand has been outperforming the QSR industry on same-store sales growth. Our progress to date reinforces our confidence in Taco Bell's magic formula and the ability of our team and franchisees to navigate challenges while positioning the brand for sustained long-term growth. The Taco Bell team is laser-focused on continuing to drive momentum through Q4 and beyond.

Stepping back to broader Yum! results, I'll discuss how our teams brought the Raise the B.A.R. priorities to life in third quarter performance. For KFC, Raise the B.A.R. is reflected in the brand's expectation to be the most modern Chicken QSR globally. As we announced last quarter, this initiative will include a refreshed brand identity, a more buzzworthy marketing calendar, an always-on pipeline of innovation, a famous value platform and a broader menu that will feature items such as upgraded tenders, craveworthy sauces and unique beverages. We will scale loyalty and Byte to further accelerate the brand's modernization.

Let me share a few examples of how this strategy is showing up in KFC's third quarter results. KFC, which represents 62% of Yum!'s divisional operating profit, excluding Pizza Hut, delivered system sales growth of 6%, supported by unit growth of 7% and same-store sales growth of 1%. I will now go deeper on KFC's results in 3 parts: KFC International, excluding China, KFC China and KFC U.S.

I'll start with KFC's International markets, excluding China. Those markets represent over 60% of KFC's global system sales and approximately 75% of KFC's divisional operating profit. System sales grew an impressive 9%, with an acceleration in same-store sales growth to 4%, reflecting disciplined value execution, high-impact innovation and continued digital and delivery growth. The Middle East is a great example of how the new strategy is taking hold. Across 7 countries in the Middle East, KFC rolled out a new everyday value platform called Worth It, taking a page from the Taco Bell playbook, KFC balanced its value news with Craveable Innovation, pairing the new value menu with limited time offers such as Hot Honey and Captain Nacho.

KFC India took a similar approach, complementing its value platform with disruptive offers, including a $1 burger meal paired with a locally inspired innovation called the Double Chicken Dynamite. Same-store sales growth in India and the Middle East improved quarter-over-quarter, accelerating 4 and 6 points, respectively. Several other KFC markets focused on combining strong value execution and culturally relevant innovation, including Japan, Thailand, Greece, Romania, Bulgaria and Cyprus.

In Canada and parts of Continental Europe, KFC continues to strengthen the consistency of its limited time offers and everyday value propositions. The quarter reflected progress on this effort with value-focused promotions, including Hot Wings in Canada, and summer deals in the Netherlands, generating a stronger consumer response. We look forward to KFC's global strategy coming together across its international markets throughout 2027. The U.K. is the first market to have most of the core elements in place, and early results in the U.K. have been promising. U.K. same-store sales growth was 6%. Traffic growth outpaced the QSR industry by 5 points and taste satisfaction scores improved meaningfully. KFC expects to continue expanding elements of the strategy across its top 20 markets through 2027.

Turning to KFC China, which represents approximately 20% of KFC's divisional operating profit, system sales grew 3%, driven by strong unit growth supported by very attractive paybacks. Same-store sales declined year-over-year, reflecting severe weather events in August and a difficult prior year comparison driven by delivery platform subsidies.

Finally, at KFC U.S., which represents approximately 5% of KFC's divisional operating profit, the brand continues to navigate a competitive QSR environment. The KFC U.S. team is advancing its turnaround strategy. And KFC U.S. saw a strong consumer response to the launch of Popcorn Chicken in the third quarter with the menu items selling out in many restaurants. However, KFC U.S. did not lap the successful Wings and Wedges promotion in Q3 of last year. More work lies ahead, and the team is taking steps to return KFC U.S. to sustainable growth.

Moving to Taco Bell, which represents 38% of our divisional operating profit, excluding Pizza Hut, Taco Bell's third quarter same-store sales declined 4%, with international same-store sales up 5% and U.S. same-store sales down 4%, owing to the industry-wide food safety issue. During the quarter, Taco Bell U.S. demonstrated the value and impact of its magic formula. The brand brought back the Decades Menu that included fan favorites from its one-of-a-kind menu archive. In addition, Taco Bell drove brand buzz through exciting menu collaborations with the Mexican music artist, Peso Pluma and iconic chili-lime seasoning brand, Tajín, demonstrating the brand's ability to continually create buzz, stay culturally relevant and give consumers more reasons to engage.

In Q4, Taco Bell is taking its marketing advantage even further, partnering with global pop superstar and longtime Baja Blast fan, Olivia Rodrigo, to launch the first-ever pink twist on the iconic Baja Blast. And just yesterday, Taco Bell hosted the inaugural Live Más Open, an unconventional 9-hole golf tournament hosted by comedian and actor Kevin Hart, which will be streamed to fans later this month.

Of course, another element of Taco Bell's magic formula is providing unmatched value. With higher gasoline prices pressuring household budgets, Taco Bell's value architecture remains a critical advantage over its peers. Value leadership is built on giving consumers choice across price points and occasions. Taco Bell's Luxe Cravings Boxes provide abundant value, while the Luxe value menu offers 10 items for $3 or less and resonates particularly well among lower-income consumers.

The brand also brings distinctive innovation to value through limited time offerings and loyalty exclusives like the Build Your Own Luxe Box, Taco Bell's most ordered digital item. Altogether, Taco Bell can deliver the affordability consumers expect without sacrificing the craveability, innovation, and choice that make it distinctive. Most importantly, franchise partners are very supportive of the value strategy. In fact, over 90% of the system offers all 10 Luxe value menu items for $3 or less.

Internationally, Taco Bell is building relevance and scale. I'm pleased with the strong performance across Taco Bell's largest markets, and I'm very excited about the opportunity ahead as the team starts to leverage Taco Bell's iconic cult favorite products. As a recent example, in the U.K., Taco Bell rolled out Baja Blast at the end of June, becoming the first market outside of North America to offer this exclusive beverage. Since launch, the U.K. market has maintained double-digit same-store sales growth. We are exploring additional markets for Baja Blast while continuing to launch fan favorite cult classics like the Quesarito.

Moving to Habit Burger & Grill. The brand delivered 3% system sales growth driven by unit growth. The team is sharpening its near-term priorities to drive traffic and improve top line trends. For the balance of the year, this includes the launch of the new $10 Dipping Trio Box and the MyHabit Exclusive Value Menu featuring $2, $4 and $6 offerings, while driving cultural buzz and focusing development in markets with the greatest opportunity to scale. Loyalty is central to our Raise the B.A.R. priority of battling for future consumers who seek more personalized, relevant and seamless experiences. It also helps us build deeper, more direct relationships with them. We witnessed the power of our loyalty programs in Q3.

At Taco Bell, following the initial sales decline from the industry-wide food safety issue, loyalty users returned to the brand 2x faster than non-loyalty users. Taco Bell's U.S. loyalty program also grew meaningfully throughout Q3, contributing to 25% growth in total membership year-over-year. KFC is also rapidly expanding loyalty with plans to have loyalty programs in 18 of its top 20 markets by the end of this year. Like Taco Bell, KFC sees strong engagement with 48% growth in global loyalty members, excluding China. Across all of our brands, loyalty represents an important step in deepening consumer relationships and creating more opportunities to drive engagement and frequency over time.

Another important way our brands are battling for the future consumer is the launch of an expanded beverage lineup to meet their evolving preferences and enter new occasions to give them more reasons to visit. The new KWENCH by KFC beverage platform is live in more than 1,000 restaurants across over 10 markets, including 6 of KFC's top 20, and is on track to reach 2,000 restaurants by year-end. The team has plans to double that count by the end of 2027, continuing to scale across Australia and Canada before expanding into some of KFC's largest markets around the world.

At Taco Bell, we're excited by results from Live Más Café. The Taco Bell team is focused on delivering an amazing consumer experience while minimizing build costs and optimizing labor models. Further learnings will come from a new flagship location that is set to open this month in Las Vegas. What is clear at this stage is that the concept is serving as a fantastic innovation platform.

Since launching Live Más Café has introduced more than a dozen new beverage innovations that have expanded to the full Taco Bell U.S. system. Each sip, test and learning is helping inform Taco Bell's broader beverage strategy as the brand works toward its goal of reaching $5 billion in beverage sales by 2030.

Now I would like to share highlights on the people and culture front. People and culture remain a competitive advantage for Yum! and are foundational to how we grow iconic restaurant brands globally. Two weeks after completing the sale of Pizza Hut, we brought together Yum!'s top 150 leaders at our Global Leadership Summit to align around our recipe for good growth, our Raise the B.A.R. priorities and the actions required to deliver on our bold ambitions, all in the context of a more focused Yum!.

Bringing our global leaders together in person is an important way we strengthen connections, reinforce our culture and build the alignment needed to move our business forward. And as we drive growth, we never lose sight of how we show up in the communities we serve. In September, we celebrated our Food and Futures in Action Month, bringing our teams together to help more people access food and build brighter futures.

Through volunteering, our employees helped provide the equivalent of more than 106,000 meals and positively impact more than 86,000 lives. As we look ahead, our Raise the B.A.R. priorities are clear and we are energized about this next chapter for Yum!. With iconic brands, significant global white space and multiple levers to accelerate performance, we are well positioned to capitalize on favorable consumption trends within our categories. We will remain disciplined in execution, investment and capital allocation with a clear objective of delivering dependable results and sustained long-term shareholder value.

With that, Roy, over to you.

Ranjith Roy
Chief Financial Officer

Thanks, Chris, and good morning, everyone. I'll begin by reviewing our third quarter results. Our reported numbers and year-over-year trends for this past quarter reflect 2 unique factors. First factor, the successful completion of the Pizza Hut divestiture during the quarter, which resulted in a onetime gain and only a partial quarter being reported for Pizza Hut.

And the second factor, the impact of an industry-wide food safety issue over the summer, which affected Taco Bell U.S. results in particular. With that in mind, during the third quarter, excluding Pizza Hut, Yum! grew units 7% and grew system sales 3% and grew Core Operating profit 1%. Year-to-date, which includes the first, second and third quarter, excluding Pizza Hut, Yum! Core Operating profit growth was 6%.

In the third quarter, Taco Bell achieved restaurant level margins of 20.2%, demonstrating strong restaurant level execution despite the impact of temporarily lower sales in equity stores, particularly in the more heavily impacted Midwest region, investments in compelling value offers and investments in store level labor.

KFC restaurant level margins were 12.3%, down 140 basis points year-over-year, primarily from mix change from 2025 to 2026 as we added 15 test stores under the Saucy brand that were operated with lower margins. Ex-special G&A, excluding Pizza Hut, was $235 million in Q3, up 8% year-over-year with 3 percentage points of the increase in G&A, consisting of costs associated with Yum!'s biennial Global Leadership Summit held in Q3 this year and the corporate costs associated with continuing transition services to Pizza Hut, the offsetting fee income for which is reported in other income.

Finally, the completion of the Pizza Hut transactions resulted in a pre-tax gain of approximately $1.7 billion. Moving to development. Excluding Pizza Hut, Yum! opened 955 gross new restaurants during the quarter. KFC opened 878 gross new restaurants and surpassed an impressive milestone of 35,000 restaurants globally. We reached this milestone less than 3 years since eclipsing 30,000 units, underscoring the strength of KFC's development engine. Yum!'s world-class franchise partners remain very committed to growth, particularly in large parts of the world with significant white space, markets such as China, India and Brazil and whole regions like the Middle East and Asia ex China.

We currently expect 2026 to be a record year for new unit development in KFC with record gross openings in KFC International as well as KFC International, excluding China. Taco Bell opened 73 gross new units during the quarter, including 36 in the U.S. Despite the temporary sales impact in the U.S. over the summer, Taco Bell U.S. development pipeline for next year and beyond remains robust, and our view of its growth opportunity remains unchanged.

Internationally, Taco Bell opened 37 gross new units, the team recently opened its first restaurant in Germany and in Croatia, with Germany receiving an incredible reception as hundreds of fans lined up for hours to experience Taco Bell. We are encouraged by Taco Bell's near-term expansion plans in countries such as Poland, Denmark and Prague. These planned market entries further build on the brand's existing momentum of having expanded into 6 new markets since the third quarter of last year. Strong and increasingly consistent international same-store sales growth from quarter-to-quarter reinforces our view of Taco Bell's long-term potential outside the U.S.

Across Yum!, we are focused on sustainable unit development, grounded in accelerating unit economics, which is the A in raising the B.A.R. Having great unit economics makes our franchisees' businesses stronger today and opens up more trade areas for our brands tomorrow. An early example would be that over the past year in Saudi Arabia, our team ran a comprehensive program across sourcing and supply chain to drive a significant improvement in future restaurant paybacks.

As we apply a similar lens to other markets around the world as part of raising the B.A.R., we expect to focus on shorter paybacks on new stores over time, thereby broadening our new store pipeline and bulletproofing our unit development engine.

Moving to technology. Reaching the full potential of Byte is the third pillar of Raise the B.A.R. With our unmatched scale, proprietary technology platforms and world-class talent, Byte by Yum! is creating better consumer experiences, simplifying operations and providing greater value to franchise partners. We will continue to further develop our technology suite and to deploy it in additional markets around the globe. A strong example of technology development is the new Byte Kitchen Display System in our Smart Ops bundle, which upgrades the capabilities of KFC restaurants and is now beginning to roll out in the U.S. with plans to expand it to additional markets over time. The system enables team members to manage kitchen demand more efficiently and execute with greater consistency.

In the limited portion of the U.S. system where it is currently deployed, prior to a broader rollout, we are seeing measurable operational gains, 8% faster drive-thru speeds, a 12% reduction in refunds and a more than 20-sec reduction in delivery driver wait times.

Our brands are also using our digital capabilities and AI to battle for the future consumer by delivering more personalized experiences. Our marketing teams are regularly testing millions of permutations across consumer communication channels to improve the efficacy of messages to consumers. When focusing on the team member experience and consumer experience, more than 900 Taco Bell restaurants now use voice AI in the drive-thru and the team expects to expand it to more than 1,500 restaurants by year-end.

In locations where voice AI has been deployed, the brand has seen a 6% improvement in overall drive-thru satisfaction, approximately 1.5% sales uplift driven by higher check and sustained improvements in team member retention compared with our control group.

Looking ahead, our AI pipeline is focused on shifting from AI testing to adoption and then to scaling impact ensuring that the capabilities we develop translate into measurable improvements in restaurant operations, consumer experiences and franchisee economics.

Next, I'll provide an update on our balance sheet and liquidity position. During the third quarter, we completed the divestiture of Pizza Hut to LongRange Capital and Yum! China, for which we received approximately $2.4 billion in net proceeds. We paid off our revolver balance of $675 million and repurchased $543 million of stock.

Cumulatively, during the first 3 quarters of this year, we have returned $1.8 billion to shareholders through share repurchases and dividends. We ended Q3 with $2.1 billion in cash and cash equivalents. And when including our undrawn revolver, we had total available liquidity of approximately $3.6 billion. Our balance sheet remains robust, and our asset-light franchise business model provides flexibility to invest in growth opportunities and return substantial capital to shareholders.

Now turning to our outlook for the rest of the year. I'll start with unit growth, where when excluding Pizza Hut, we expect to exceed our 5% long-term algorithm for the full year. With respect to our expectations for Taco Bell sales in Q4, as Chris shared, same-store sales in the most recent period are once again outperforming the QSR industry. Same-store sales are up approximately 1% quarter-to-date and up roughly 3% over the trailing 4 weeks through last Friday. Contributing to this momentum has been a relentless focus on what makes Taco Bell special: brand buzz through big brand moments and disciplined approach to value, which have helped attract new consumers to the brand and accelerate loyalty registrations.

At this time, we see consumer visits by heavy users of the brand has rebounded fully, while visits by medium and light users are tracking to 95% of prior levels. During the remainder of Q4, we intend to continue focusing on the fundamental drivers of Taco Bell with a view to 2027 growth, including creating big brand moments and leaning into value with a disciplined manner with targeted initiatives. These actions will be taken in our equity stores and with the partnership of the Taco Bell franchise base. We have franchise partners who are willing, capable and committed to investing with us during good times and difficult times. As a result of these actions, we expect Q4 restaurant-level margins in the range of 21.5% to 23.5% representing a sequential improvement from Q3 and also reflects continued sales improvement and easing year-over-year inflation on beef input costs.

We expect Q4 ex-special G&A to be in the range of $285 million to $305 million, which includes approximately $2.5 million per month of Corporate G&A previously allocated to the Pizza Hut Division. We expect offsetting transition services fees to be recorded in other income in Q4. The fee revenue is expected to taper off by mid-2027 as the transition services obligations fall away. As mentioned previously, we expect to mitigate the associated corporate G&A costs over time.

Turning to interest expense. We expect Q4 net interest expense of approximately $130 million to $140 million, excluding the impact of any financing activities. Please note, between now and the first half of next year, we expect to address $1.6 billion of maturing debt.

I would also like to note that beginning with our 2027 Q1 results, Yum! will transition its U.S. brands and select international markets from a period-based reporting convention to a calendar-based reporting convention, aligning the financial reporting close dates across our entire organization. This change will provide greater consistency and comparability in our financial reporting, streamline internal processes and better enable us to leverage our global scale. To support comparability and provide a clear historical baseline, early in 2027, we intend to provide certain historical results recast on a calendar basis.

In closing, we are encouraged by the strength of our business as we enter this next chapter focused on executing our Raise the B.A.R. priorities and delivering durable financial growth. Yum!'s asset-light model and strong cash generation give us the flexibility to invest behind our highest return growth opportunities while also delivering dependable capital returns to shareholders.

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 from Evercore .

David Palmer
Evercore ISI Institutional Equities, Research Division

Congratulations to the Taco Bell team for navigating what must have been an extremely difficult quarter, and it does seem like you're going to be outperforming the industry for this year in spite of that. It's very impressive. So congrats to them on that.

I want to ask a question about KFC. I think one of the things that people appreciate about what you're doing is that you're not -- that you're essentially trying to Raise the B.A.R., as you say, with the international business there. And you mentioned the U.K. market in the mid-single-digit comp outperformance there and the fact that you're going to be rolling out elements of what you're doing there into your top 20 markets by the end of '27.

So I wanted to maybe double click on that a little bit. What elements have really driven the outperformance? It looks like you've been doing well there for much of '25 and now into '26 with accelerating 2-year. So what is particularly helping there? And how much of that do you think could really help these other markets and when?

Christopher Turner
CEO & Director

Yes. Thanks a bunch, David. Like you said, we are really proud of the Taco Bell team and our franchise partners for the rapid recovery they've driven. So I appreciate that comment. When you think about the KFC Global business, we remain really optimistic about the long-term opportunity to accelerate our growth.

The third quarter same-store sales performance was broadly encouraging across our international markets. So if you take KFC Global, excluding China, that leaves about 80% of the division's operating profit, and we had 3% same-store sales growth, which was an acceleration from the prior quarter.

In fact, all but one of our international markets outside of China had positive system sales growth during the quarter. So to your point, how is raising the B.A.R. coming to life? We think about raising the B.A.R. at KFC, it is about getting to a sharper value proposition. It's building greater relevance with consumers through the new brand identity, elevating our tenders, elevating flavors through sauces in a market-relevant way, bringing loyalty to life, bringing the beverage platform KWENCH to life, and of course, making moves to leverage our scale to improve unit economics and deploy Byte. So all of those things are a part of the plan and the KFC leadership team, is actually together right now for one of their regular GM meetings, and they are talking about how do we bring this to life across our markets.

Now it will take time. We've got 150 countries. So it won't translate to sales overnight, but this is part of building the brand over time. But we are seeing those proof points. So you mentioned the U.K. market. Same-store sales were up 6% during the quarter. This is a really competitive market in the U.K. Our transaction growth there outperformed broader QSR by 5 percentage points and it reflects the sharp focus we've got on value, really compelling innovation and a continued drive around store economics in that market.

If I go beyond that, every market has examples of where Raise the B.A.R. is starting. I'll highlight 4 of our markets that you see had double-digit system sales growth. So Asia was plus 12% system sales growth. I visited Korea and Japan a few months back. What you see there are things like elevating the innovation through flavors. In Korea, we've got a range of sauces. We've got great tenders. You're seeing us modernize the assets, and that's improving unit economics.

If you go to Latin America, plus 11% system sales growth. Brazil is a place where our franchise partner has really modernized the menu. That's helping to transform the consumer perception of the brand there. This is a great example in Latin America of accelerating unit economics. Our franchise partner has really distinctive supply chain capabilities that give them a competitive advantage no one else could match.

Middle East, plus 25% system sales growth. We talked about value, elevating food innovation and flavors in that market. That's another place where loyalty. We're actually a leader in loyalty there, a massive loyalty program that's been built in the Middle East. India, plus 20%, value platform and food innovation are at the core of what's happening there. You take those 4 markets, that's 28% of KFC system sales, and we're not fully rolled out in terms of raising the B.A.R. there, but you're seeing those early proof points come to life. So we're excited to continue the strategy. We think the opportunity ahead of KFC is really big.

Operator

Your next question comes from the line of Chris O'Cull from Baird.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

It sounds like Taco Bell sales recovery is tracking roughly in line with your expectations. Does what you're seeing give you confidence the business can return to mid-single-digit comp growth? Or has maybe something changed in the consumer environment that makes that trajectory harder to achieve?

Christopher Turner
CEO & Director

We are really pleased with the rapid recovery at Taco Bell. The recovery to date, I think, has been one of the fastest, if you look at sort of the history in the restaurant industry recovering from an event like this. And that recovery was really driven by the magic formula and the elements of the magic formula. We may have changed the emphasis at various times. The first phase of the recovery was about getting our heavy core users back. You saw us do those Tuesday Drops, which leveraged our loyalty program, leveraged incredible value. That brought our fans back in droves. Now it also resulted in us actually growing the loyalty membership base faster than normal. So we got a long-term benefit that came from that.

As we shifted into the next phase of the recovery and what you're seeing in Q4, is us speaking to those medium and light users and ensuring that they're coming back. We're not fully recovered on that front. But you saw things like the Olivia Rodrigo collaboration with Pink Baja Blast. You've seen the My Usual Meals with Paris Hilton, Doja Cat, Kevin Hart, which match craveable innovation under our Craveable Menu with real value plus that cultural buzz that Taco Bell is known for.

The really exciting thing as you think about this is the consumers that we've acquired since the disruption, they're actually spending 5% more and visiting 6% more frequently than the consumers we lost. So we're not just bringing folks back. We're bringing a really attractive consumer set to Taco Bell. So we're pleased with the recovery to date, but the team is leaning in and continuing to play offense through the end of the year and into the beginning of 2027.

Operator

Your next question comes from the line of Dennis Geiger from UBS.

Dennis Geiger
UBS Investment Bank, Research Division

I wanted to ask a little more about the strength of the global unit development despite presumably macro pressures globally. Can you talk a little more about how the 2 brands and the franchisees are effectively managing challenges to open restaurants at such a solid rate? And is there anything else, as you talk about continuing to strengthen those payback periods? Anything else that you could offer on the visibility of development looking ahead, how that pipeline looks and anything more on the development side of things looking ahead?

Christopher Turner
CEO & Director

Yes. Look, our development trajectory remains strong. We shared on the call from a KFC standpoint, we expect to set multiple records this year in our development trajectory, driven by strong unit economics. So that raising the B.A.R., if you think about accelerating restaurant economics, the KFC leadership team has specific initiatives and specific targets that they are pushing for across markets that are aimed directly at how do we get paybacks down. And of course, paybacks are the lifeblood of development in our industry. Those come through leveraging our scale. And of course, they also come from the sales growth benefits that we get from battling for the future consumer.

If you go into KFC, our development leaders in the quarter, China, obviously, India, South Africa, Thailand, Korea, were all at the top of the list in KFC International. We've entered 6 new countries over the past year: Germany, Croatia, Ecuador, Moldova, Serbia and Sweden, and we've got more new market entries planned. And as the Taco Bell brand continues to become more well-known and more relevant in each of these markets, we expect that momentum to continue. So we're excited about the development path on both.

Ranjith Roy
Chief Financial Officer

I'll also add, look, the thing we take real comfort in is Yum! what we call 3C partners, where our franchisee base, the qualities we look for are 3Cs: capable, committed and well capitalized. We feel very comfortable with the network of franchisees we have. And so they are leaning into growth and excited to develop more restaurants. When you think about the payback periods, as Chris mentioned, paybacks are the lifeblood of development. We see an opportunity to broaden the range of development we have in terms of the number of markets because right now, as you think about it, it's logical, the fastest developing markets today are the ones with the most attractive paybacks. If we can reduce paybacks, that will broaden the number of markets that are accelerating and we certainly intend to do that in the years ahead, and our franchisee base is ready and willing.

Operator

Your next question comes from the line of John Ivankoe from JPMorgan.

John Ivankoe
JPMorgan Chase & Co, Research Division

I ask this question often, but as we have more time to kind of think about the longer-term model and opportunities from both an efficiency and effectiveness perspective to look at G&A as a percentage of system sales. And I understand that would be net G&A as a percentage of system sales. How do you think over the next couple of years, given your priorities, given opportunities with AI? I mean, I guess at this point, assuming you're going to be a 3-brand company, including Habit, how that might evolve? And if I may, to continue on that, how we're thinking about -- if we're thinking about CapEx as a percentage of EBITDA, just longer term, any way to kind of anchor that CapEx number in the model longer term as that does become an increasingly important part of the model overall?

Ranjith Roy
Chief Financial Officer

John, thanks for the question. I'll start with the CapEx question. Look, historically, we've always mentioned we have a very good capital allocation framework, which means the first item in our capital allocation framework is to invest in the business for growth. You should assume that historically, we've never starved any of our brands when we have high return opportunities. And so from a CapEx standpoint, we currently don't see any dramatic change in the amount of CapEx we need to invest to drive our Raise the B.A.R. strategy. Of course, we're always looking for more opportunities to invest.

You talked about the -- the first part of your question was around -- I think you mentioned G&A and productivity. And look, what we say is on the G&A front, we've always been disciplined on G&A, and we'll continue to do so. From an AI perspective, we do expect AI to be transformative to the business and the productivity gains are primarily in empowering our people to deliver the best hospitality experience possible, which results in accelerating business growth.

And so first and foremost, that starts with Byte. It gives us a unique advantage to deploy AI at the front lines of the business, and to drive growth. Voice AI is a great example of that. Across marketing, we previously talked about A/B testing in the drive-thru. We've also talked about personalized messages that we can send to consumers, and we're doing that at scale now using AI. And from an operations perspective, we're excited about developments on the horizon as part of Byte Coach that would help GMs and regional leaders identify and fix restaurant level issues more effectively when AI is teamed up with Byte Coach.

AI usage is at this point -- if you just take a step back, at this point, AI usage is about 40% up across our enterprise, reflecting a shift from where people use AI as a tool to just assist day-to-day tasks to embedding AI truly within the capabilities of our organization. But coming back to first principles, we expect to be highly focused on G&A and maintain discipline on G&A. And we fundamentally think of ourselves as a hospitality business, which involves people and franchise partners. AI is coming to life in a way that empowers our people to deliver a great experience for consumers and drive faster business growth.

Operator

Your next question comes from the line of Zach Fadem from Wells Fargo.

Zachary Fadem
Wells Fargo Securities, LLC, Research Division

Now that the Pizza Hut transaction is complete, could you talk a bit more about the long-term financial vision for Yum! in terms of profit growth outlook? And any additional color you could offer on plans to offset the Pizza Hut dilution and stranded costs would also be helpful. And while we're at it, maybe also thoughts on deploying the $2 billion of cash on the balance sheet.

Christopher Turner
CEO & Director

Yes. I'll start with the long-term view of our strategy. Yum! exits the Pizza Hut divestiture as a more focused company. Our 3 brands have massive white space ahead of them. We have big growth opportunities, and we could be more focused on capturing those. I'm not going to get ahead of any potential long-term guidance or updates to our algorithm today. But we see massive opportunities to strengthen our growth profile on the path to creating long-term shareholder value. And that's what Raise the B.A.R. is really about. It's about raising our aspiration and ambition and we do that through battling for the future consumer, accelerating restaurant economics and reaching the full potential of Byte and our digital capabilities.

If you take KFC, if you think about the white space, we still believe there should be 75,000 KFCs around the globe. So the 35,000 milestone that we hit in this quarter is still less than halfway on that journey. Taco Bell, we laid out a very clear strategy, getting to $3 million AUVs and the Taco Bell team is laser-focused on doing that. And Taco Bell International, we've tripled our system sales in Taco Bell International since 2018. So we've had a tremendous growth trajectory there, and we look to continue that. So you sum all of that up, we are very bullish on Yum!'s long-term growth opportunity.

Ranjith Roy
Chief Financial Officer

To cover your questions around G&A. Look, as I mentioned in an earlier question, that we're going to be tremendously disciplined on G&A as disciplined as we've been in the past. Just to keep in mind on -- particularly on the Pizza Hut and you mentioned stranded costs. When you think about it right now, we completed the divestiture of Pizza Hut. We are still executing on the Transition Services Agreements, and we will continue to do so for the next several months. We have about 74 TSAs in place for the Pizza Hut transaction. The fees for which are in other income, but the costs and those costs are people, effort, facilities, infrastructure, subleases and third-party contracts that are pass-throughs, those costs sit in our G&A.

As those agreements roll off by mid-2027, we'll continue to evaluate the cost structure on an ongoing basis to ensure it is appropriate to our business. I do want us to be clear eyed on timing. It is not practical for us to line up cost management perfectly with when the TSAs roll off. So you can imagine we will have a clean 2028, but there may be certain temporary periods in parts of 2027 where our P&L is exposed to some portion of the approximately $2.5 million per month of TSA support costs. I don't like it, but it is manageable, it is contained and it is temporary. We're going to continue to be very thoughtful and disciplined as we go about this work on maintaining a disciplined approach to G&A.

And regarding the return of capital to shareholders and the proceeds of Pizza Hut, look, our -- we're going to -- as we said in the past, we're going to apply our capital allocation priorities to this. Our historical guidance is to maintain approximately 4x net leverage over time. We're currently running materially below that threshold as we're carrying cash on balance sheet from the Pizza Hut divestiture. Our expectation is to return excess capital to shareholders. And from a prudent standpoint, we will do that after we address near-term debt maturities, primarily through upcoming refinancings. Our capital allocation framework is unchanged, and we expect substantial return of capital to shareholders.

Operator

Your next question comes from the line of Danilo Gargiulo from Bernstein.

Danilo Gargiulo
Bernstein Institutional Services LLC, Research Division

Great. I just have one question more near-term oriented and one more bigger picture. So in the near term, we are seeing a range of protests arising in Europe. So I was wondering if there is anything to call out regarding how the operators are facing challenging times in Europe.

And then if we take a step back and think about the longer-term picture, during this call, a couple of times you mentioned we are accelerating the growth. So does it mean outpacing the growth you've achieved in the past 3 years or maintaining the trajectory you've achieved in the past even without Pizza Hut? And in the case you are accelerating, meaning like going ahead compared to the past 3 years, which part of the algorithm do you feel more confident you could be accelerating and how?

Christopher Turner
CEO & Director

Thanks, Danilo. Let me start with the second part of the question first. Our view is we come out of the Pizza Hut transaction, as I mentioned before, is that Yum! is a more focused company. We're focused on the big opportunities ahead of our business. And as I said earlier, raising the B.A.R. is about having a higher ambition as we look to the long term. We've got so many structural strengths behind each of our businesses. Taco Bell being a category of one in the U.S., KFC International in most of those markets, we are the only scaled chicken-focused player. So we've got real competitive advantage there. And Taco Bell International as it grows, it should have those same strategic advantages as it builds a foothold in each market.

So we think the opportunity is significant and raising the B.A.R. actually addresses all elements of the algorithm -- battling for the future consumers should help us support continued improvements in sales growth, accelerating restaurant economics. That's the lifeblood of development. And of course, the digital capabilities underpin both of those. So we're looking to Raise the B.A.R. on all elements over the long term.

If I turn to Europe, it's a broad range of countries in Europe. We believe we've got significant white space opportunity. If you compare the size of KFC to our competitors in most markets in Europe, our competitors are significantly bigger. We've seen where we get really focused and we get unit economics to an improved place like in Italy, we can see a real expansion and change in trajectory in our growth in Europe. So the team there is working hard, but we think over the long term, there's a big opportunity there.

Matthew Morris
Head of Investor Relations

We have time for one more question.

Operator

Your final question comes from the line of Jacob Aiken-Phillips from Melius Research.

Jacob Aiken-Phillips
Melius Research LLC

You gave some useful data on like the uplifts from voice AI and the better employee retention. But from a franchisee's perspective, how does that translate into incremental restaurant profit after the technology costs? And what determines the pace of adoption beyond the locations targeted for year-end? And maybe if you could expand that to the broader Byte modules as well.

Ranjith Roy
Chief Financial Officer

Look, that's a great question. Look, drive-thru voice AI is one of the many AI initiatives we have across Yum!, and it is particularly visible given its direct impact on the consumer and the team member experience. In our prepared remarks, we did talk about some stats where of the uplift we're seeing at the restaurant level, which benefits -- directly benefits the team members and our franchisees. Voice AI allows restaurant team members to focus more of their attention on delivering a great experience for consumers at the drive-thru window.

The biggest thing when you think about deployment, what we like to think about is deployment is one axis of growth for voice AI. But it's important to differentiate the digital products we have at Byte because they're not static products like just putting up a menu board or putting up LED lighting in a restaurant. These are products which alongside deployment growth, they have the potential for constant new feature development. So in voice AI, for example, the team is already thinking about loyalty integrations, multi-language support, multilane drive-thru support, new operator dashboards to better integrate the human factor in the restaurant with the AI that's helping the human, all of which makes the product more compelling over time.

The reason we are able to do that in a broader Byte context is because of 3 factors. We have a connected technology ecosystem, which we have spent years integrating, which is a competitive advantage. We have the scale of our brands, which is a competitive advantage, and we have the talent at Yum! to go after these opportunities in technology, but also in -- across all of our digital ecosystem.

So on the voice AI front, we're seeing uplift right now. We are focused on executing against the 1,500 deployments in Q4 and getting those right, but the opportunity is much bigger, we believe, both in terms of number of deployments as well as the impact we can have in each deployed location.

Christopher Turner
CEO & Director

All right. With that, thanks, everyone, for making time to join the call. If you step back, Yum! is focused on raising the B.A.R. Taco Bell, really proud of the recovery to date, but the team is still leaning in and playing offense very aggressively as we look forward and the magic formula is resonating with consumers as it always has.

KFC strategy coming to life across markets, and we're seeing those exciting early proof points, very excited about the long-term potential there. And as Roy just said, our digital capabilities continue to elevate our strategy. So we're looking forward to finishing the year strong and looking forward to a strong 2027. Thanks, everyone.

Operator

This concludes today's call. Thank you all for attending. You may now disconnect.

Read more current YUM analysis and news

View all earnings call transcripts

Add to Preferred Sources

COMMENTS

Sort by Newest

If you type a company or ETF ticker symbol in capital letters we will automatically link to the symbol page. You can remove the link by deleting the $ in the comment.