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Yum! Brands (YUM) Q4 2024 Earnings Call Transcript

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EPS of \$1.61 **beats by \$0.01** | Revenue of \$2.36B (16.01% Y/Y) **beats by \$18.29M**Yum! Brands (NYSE:[YUM](#)) Q4 2024 Earnings Call Transcript February 6, 2025 8:15 AM ET

Company Participants

Matt Morris - Head of Investor Relations

David Gibbs - Chief Executive Officer

Chris Turner - Chief Financial Officer and Franchising Officer

Conference Call Participants

Dennis Geiger - UBS

Brian Bittner - Oppenheimer

David Tarantino - Baird

Gregory Francfort - Guggenheim

David Palmer - Evercore ISI

Brian Harbour - Morgan Stanley

John Ivankoe - JP Morgan

Operator

Welcome, everyone, to the Yum! Brands 2024 Fourth Quarter Earnings Call. My name is Lauren, and I will be coordinating your call today. There will be an 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

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.

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. 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 will exclude the impact of foreign currency.

Our fourth quarter results included an extra week for business units report on a period calendar basis, however, all figures stated on this call will exclude the extra week. For more information on our reporting calendar for each market, please visit the financial reports section of the IR website.

Finally, our in-person Taco Bell Consumer Day has been rescheduled for Tuesday, March 4, in New York City Taco Bell Consumer Day will take place in the morning and will be preceded by Taco Bell's iconic Live Moss Live event. Due to limited capacity, attendance for both events will be by invitation only. Direct requests can be made by contacting the investor relations team.

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

David Gibbs

Thank you, Matt, and good morning, everyone. I'm incredibly proud of what Yum! brands accomplished this past year. Despite industry-wide challenges, we continue to deliver strong results, underscoring the resilience of our business model, the power of our iconic brands, and the strength of our world-class franchise partners. Our momentum is clear. We achieved remarkable milestones, generating over 50% of our system sales through digital channels, surpassing 60,000 total units globally, with more than 30,000 at KFC alone, and generating more than \$1 billion in core operating profit from the Taco Bell Division for the first time ever. Taco Bell US delivered an incredibly strong year and one that significantly outperformed the industry, showing clearly that Taco Bell is a category of one brand.

Our financial results reflect the strength of our business with full year core operating profit growth of 8%, reinforcing the power of our growth strategy and the durability of our business. One of the biggest drivers of our success, and a major unlock for our future, is our proprietary technology platform. In 2024, we accelerated our technology transformation by integrating our digital and technology teams into a unified global team. Additionally, we are thrilled today to introduce Byte by Yum!, our comprehensive collection of proprietary software-as-a-service products that enables our restaurant to deliver faster, more seamless experiences for consumers, while streamlining operations and empowering teams. Integrating our best-in-class, yet previously disparate solutions into a comprehensive, easy-to-deploy solution will help accelerate platform adoption. KFC, Pizza Hut, and Taco Bell, US, all currently operate on our Byte digital ordering platform, and 25,000 Yum! restaurants across the world are using at least one Byte by Yum! product. As we continue to raise the bar on digital convenience and engagement, we are seeing clear results. Our digital sales grew approximately 15% in 2024, and we're just getting started. With the strength of our brands, the power of our technology, and the dedication of our franchisees and teams, we are well-positioned for another year of strong growth ahead.

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

Starting with our loved pillar and our brands that champion consumer experiences, we're pleased to report that our twin growth engines, Taco Bell US and KFC International, delivered 7% system sales growth and 14% core operating profit growth in the fourth quarter. These two businesses, which represent approximately 80% of our divisional operating profit, continue to be powerful drivers of our long-term success. At KFC, which accounts for 49% of our divisional operating profit, units grew 7% driving system sales growth of 3% for the full year, despite a 2% decline in same-store sales.

In the fourth quarter, same-store sales were flat year-over-year, with international same-store sales improving to plus 1% and sequential momentum building throughout the quarter. We're especially encouraged by strong recoveries in the Middle East, where same-store sales experienced significant growth and robust performance in Africa, Latin America, and Canada, all of which saw mid- to high-single-digit same-store sales growth. In Africa, comps rose 9%, driven primarily by increased traffic as the team successfully executed a multi-pronged marketing approach, emphasizing boneless and core abundant value offerings while also expanding beverage sales. Latin America's strategy, leaning into everyday value and disruptive promotions, broadens its consumer reach and increased frequency, driving a 6% year-over-year same-store sales increase in Q4. We also saw notable quarter-over-quarter momentum in several key markets, including a five-point improvement across our Asia business, excluding China.

Looking ahead to 2025, we remain focused on deepening market penetration by expanding relevant product offerings, including tenders, nuggets, twisters, and sandwiches, while enhancing our value perception. This will involve refining pricing strategies and identifying key category pricing thresholds to ensure we remain at the top of the consumer's consideration.

Turning to Taco Bell, which accounts for 37% of our divisional operating profit, the brand continued its strong momentum in 2024, with full year system sales up 6% fueled by exceptional same-store sales growth. Taco Bell not only gained dollar share of total industry spend, but also increased consumer frequency across all income segments, reinforcing its broad consumer appeal. This momentum carried into the fourth quarter, with same-store sales rising 5% year-over-year, outpacing the U.S. industry by five percentage points, driven by the successful execution of Taco Bell's magic formula. The Decades platform, which brought back five of the brand's most in-demand nostalgic menu items, generated strong product innovation, brand excitement, and exclusive merchandise for loyalty members. The team also underscored value leadership with the \$7 Luxe Box, one of the most compelling value offerings in the industry. At Taco Bell International, same-store sales grew 3% in Q4, marking the strongest quarter of the year. Several key markets, including the U.K., Spain, and India, saw notable sales lifts after successfully refocusing on brand buzz and disruptive value promotions to drive transactions. Taco Bell's consistent market outperformance, innovative product pipeline, and strategic value positioning set the stage for continued strong growth in 2025.

Turning to Pizza Hut, which represents 13% of our divisional operating profit, full year system sales declined 1%, including 2% net new unit growth. In the fourth quarter, same-store sales growth improved 300 basis points sequentially. We saw standout performance in India from successfully driving brand buzz and consumer engagement with innovative limited-time offerings like the Momo Mia Pizza, while also leveraging aggressive value deals to boost frequency in trial. In the US, sales remained under pressure due to more value competition across both the QSR industry and the pizza category. We've seen that everyday value offerings, such as the \$7 deal lovers, effectively drive repeat visits from existing consumers. However, to attract lighter-lapse consumers, we must lean further into disruptive and distinctive value promotions. Looking ahead to 2025, our focus will be on striking the right balance between everyday value and disruptive campaigns to engage a broader consumer base.

Additionally, we are committed to enhancing the digital experience with improvements to our app platform that will elevate engagement and bring value to the forefront of the consumer journey with Pizza Hut. With the right mix of innovation, value, and digital improvements, we are confident in our ability to strengthen Pizza Hut's relative brand positioning and reinvigorate top-line momentum.

At Habit Burger & Grill Division, full year system sales grew 1% driven by unit growth. Encouragingly, same-store sales trends improved in the fourth quarter, fueled by a successful marketing campaign highlighting Habit's recognition as the number-one burger in America by USA Today Reader's Choice. The team will continue to leverage this momentum, emphasizing its suite of award-winning menu items, including the Double Char burger and number-one ranked side, Tempura Green Beans. Beyond top-line growth, we are pleased to see operational efficiencies, translating it to improved profitability. The ongoing labor productivity initiatives launched in 2024 have driven notable improvements in labor throughput, allowing us to reduce restaurant labor expense as a percentage of sales by 150 basis points, despite higher labor rates in California. As a result, restaurant-level margins reached 10% in 2024, 150 basis points higher year-over-year. This progress underscores our commitment to enhancing operational efficiency, strengthening brand equity, and positioning Habit Burger for sustained growth in the year ahead. As we embrace a bolder, more creative approach to innovation, we are taking decisive steps to elevate the consumer experience and meet the evolving preferences of the next-generation consumer.

At KFC in December, we opened Saucy by KFC, a flavor-forward test-concept restaurant in Orlando designed for the next generation of boneless chicken lovers. The menu features tenders and sandwiches paired with 11 irresistible sauces complemented by a diverse 11 beverage lineup, including teas, freezes, and refreshers. Early engagement has been promising, reinforcing our belief in Saucy's potential to drive sales and enhance brand relevance.

At Taco Bell, we are testing Live Más Cafe, an in-store beverage-focused cafe featuring specialty drinks like chillers, Agua Refrescas, coffees, and more. Consumer response has been strong, with the cafe concept driving meaningful incremental sales. These innovations reflect our commitment to staying ahead of consumer trends, enhancing brand differentiation, and creating new avenues for growth. While these are only one-unit pilots today, we plan to expand both test concepts this year to better understand their long-term growth potential and role in our portfolio.

Moving to our connected pillar, we're advancing our ability to serve every consumer everywhere at any time. The strong momentum in digital sales in 2024 is a testament to targeted brand initiatives, loyalty conversion strategies, and continued deployment of our proprietary tech platform. Yum! Digital Sales grew approximately 15% to over \$30 billion, underscoring the impact of our digital-first approach. At KFC, excluding China, digital sales surged more than 20%, driven by expanded kiosk adoption. With more than 50% of stores outside China equipped with kiosks at yearend 2024, our teams are focused on reaching 70% penetration by 2026. As digital engagement grows, so does our loyalty opportunity. At KFC, we are scaling our global loyalty program, now live in 14 markets, and early data is promising. Loyalty members show a 12% increase in visit frequency after joining. Loyalty remains a high potential growth area, and in 2025, we will sharpen our focus on optimizing program effectiveness.

This includes expanding the adoption of loyalty technology across our portfolio, ensuring we continue to deepen consumer engagement and drive repeat visits through personalized, data-driven experiences. At Yum! we take great pride in our unrivaled culture and talent, including our deep bench of amazing leaders. I'd like to start by congratulating Scott Mezvinsky who will assume the role of KFC division CEO on March 1st. Scott started 20 years ago as an analyst at KFC US and has had multiple positions at both KFC and Yum! including key market leadership roles with KFC around the globe and is currently the President of Taco Bell. Scott's innovative approach and strategic vision have significantly contributed to the success of Taco Bell and I have full confidence that his leadership will drive KFC to new heights.

I would also like to recognize and thank Sabir Sami for his years of service and the tremendous impact he made at KFC. Sabir exemplifies what it means to lead with heart, smart, and courage and how these qualities can drive performance. Under his leadership, KFC experienced remarkable growth. As part of our commitment to fostering trust with consumers, communities, and partners, we continue to look for new ways to make our packaging reusable, recyclable, or compostable. KFC US, Taco Bell, and Habit recently participated in the Petaluma reusable cup pilot, which was a strategic opportunity for Yum! to better understand the feasibility of reusables. In addition, Pizza Hut completed the first two of three phases of its initiative to increase pizza box recycling. This project aims to educate consumers about recycling pizza boxes and encourage positive changes in their behavior. Although the pilot is currently limited to one market, we hope that proactive communication about recycling will inspire positive consumer action.

Before handing it over to Chris, I want to emphasize that delivering 8% core operating profit growth in a challenging year for the QSR industry while navigating discrete sales headwinds in select global markets is a testament to the resilience of our business model, the power of our brands, and the world-class talent we have leading our businesses around the globe. Looking ahead to 2025 and beyond, we are more confident than ever in our ability to create long-term value leveraging these core competencies. We are taking bold, decisive actions to evolve our organization, positioning ourselves to capitalize on next generation growth opportunities. At the same time, our investments in 2024 involving technology innovation and operational effectiveness will make us more agile and resilient to ensure we emerge even stronger in the next phase of our journey. Everything we do at Yum! is anchored in our mission to grow iconic restaurant brands loved by consumers, connected through teamwork, technology, and our global scale, and trusted everywhere we operate. We are privileged to steward a portfolio of world-class, globally recognized brands backed by a high margin, recurring free cash flow business model operated by best-in-class franchisees that fuels long-term growth and delivers compounding shareholder value.

With that, Chris, over to you.

Chris Turner

Thank you, David, and good morning, everyone. Today, I'll discuss our 2024 financial results, our balance sheet and capital strategy, and our outlook for the upcoming year. Starting with the fourth quarter, system-wide sales grew 5%, driven by 5% net new unit growth and 1% same-store sales growth. Our topline trends strengthened in the fourth quarter, fueled by our twin growth engines as well as improvements in Taco Bell International and Pizza Hut International. Taco Bell's very impressive performance in the U.S. outpaced the market significantly. At KFC International, a sharper focus on digital engagement, everyday value platforms, and disruptive value offers led to a two-point sequential acceleration in same-store sales growth in markets outside of the Middle East, Indonesia, and Malaysia.

In the Middle East, KFC saw a strong recovery in transactions, with traffic showing strong growth and same-store sales increasing by a notable percentage. By December, transactions had largely rebounded to pre-conflict levels. In China, KFC continued to expand its market share, with these gains further accelerating in the fourth quarter. We remain highly confident in our long-term potential in China, supported by our strong partnership with Yum! China, the largest and most capable restaurant operator in the world.

Turning to our cost-line items, ex-special G&A expenses were \$319 million, reflecting a 7% year-over-year decline. Reported G&A included a \$27 million special expense related to our resource optimization project and costs for our German acquisition and Turkey termination. Restaurant-level margins improved by 20 basis points year-over-year to 17.6%, reflecting strong gains at both Habit and Taco Bell. As a result, core operating profit grew 12% due to higher restaurant-level margins and lower G&A spend. Ex-special EPS for the fourth quarter was \$1.52.

Moving to our full year results, we achieved 5% net new unit growth in line with our long-term aspirations. Same-store sales declined 1% for the year, impacted by broader global consumer sentiment, particularly in markets affected by the Middle East conflict. Ex-special G&A was \$1.1 billion, down 6% year-over-year. Through our resource optimization program, we aim to drive greater efficiencies, enhance collaboration across the organization, and eliminate duplicative work across brands. As a result, we removed approximately \$25 million in G&A expenditures in 2024, translating to \$50 million on an annual basis, some of which we flowed to the bottom line, and some we reinvested into organizational capabilities that drive future growth. As we transition to a more streamlined, digital and technology organization with increased productivity, and as we continue to deploy our capabilities across our system, we're bending the curve on the net P&L impact of our digital and technology investments.

Shifting to restaurant profitability, total restaurant-level margins stood at 16.8%, with Taco Bell achieving 24.3%, its second highest full year margin rate behind 2020. Habit restaurant-level margins improved to 10%, rising at 150 basis points year-over-year and over 500 basis points relative to 2022. Notably, despite higher labor rates in California, Habit's labor costs as a percentage of company sales decreased 150 basis points year-over-year, thanks to strategic labor model enhancements and process optimization. As a result of these moves and the hard work of our teams, we achieved core operating profit growth of 8%, a strong result given the macroeconomic challenges. This reflects the resilience of our multi-brand global franchise business model. Our effective tax rate ended the year at 23.5% outside of our previously communicated range of 21% to 23% due to higher tax expense on the gain realized when we sold our investment in Devyani in 2024. This profit growth drove a 4% increase in EPS to \$5.39, excluding special items and the 53rd week impact, but including a higher year-over-year tax rate impact of \$0.19, as well as an additional \$0.18 headwind due to the combined impacts of year-over-year Devyani net investment losses and current year foreign currency translation headwinds.

Moving on to our robust development engine, we opened over 1,800 new units in Q4 and more than 4,500 for the year, reinforcing the strong investment appeal of our brands and the high confidence of our franchise partners and the long-term growth potential of our brands. KFC led the way, opening a record nearly 2,900 new units this year across 97 countries, with 16 markets opening 25 or more stores. This year, the brand saw its highest ever store openings with record builds in China, South Africa, Japan, the Philippines, Italy, and Chile.

At Pizza Hut, the team opened 512 units in Q4 and 1,280 for the year, driven by expansion in China, India, Saudi Arabia, and Canada. In line with our modernization efforts, Pizza Hut introduced a new US restaurant design concept in November, replicating elements of its successful digital forward model from international markets. This format aligns with evolving consumer expectations by featuring an open kitchen, self-access pickup cabinets, and a digital drive-through with a streamlined menu of high demand items. Taco Bell continued its expansion, adding 347 new units, including 234 in the US and 113 internationally.

Turning to the Middle East specifically, the resilience of our business in the region is evidenced by the fact that we opened 171 new stores in 2024 across our KFC and Pizza Hut brands, excluding Turkey. Thanks primarily to our largest partner in that region, Americana. On a net new unit basis globally, in total, we delivered 1,301 net new units in the quarter and 2,757 for the year, reflecting the strength of our gross openings, partly offset by an uptick in closures of primarily low volume, low royalty stores tied to underperforming markets. Nothing is more important than maintaining high standards and protecting the reputation of our brands. In this regard, last month, we terminated our franchise agreements in Turkey and reacquired the master franchise rights for Germany, which will result in the removal of 284 KFC and 254 Pizza Hut stores in Turkey from our unit count in Q1. From time to time, we remove franchisees from our system when they cannot meet our standards. In those situations, the closing units are typically well below our system average AUVs. As a result, and as was the case with Turkey, the financial impact is typically not significant to our ongoing financial performance from such terminations. These transitions create long-term opportunities for new growth-minded franchise partners, and we are actively searching for the right 3C franchise partner to reopen the Turkey market and drive future success. As a reminder, we had a similar situation in Saudi Arabia in 2020, and that market is now seeing strong growth.

I'll now discuss our connected brand strategy that continues to revolutionize digital and technology across our system, strengthening operations, enhancing consumer experiences and unlocking new insights. Through Byte, we are making significant strides across our easy experiences, easy operations, and easy insights pillars, paving the way for a more connected, data-driven, and efficient future. We continue to focus on delivering frictionless consumer experiences under our easy experiences pillar. In 2024, we made excellent progress deploying our Byte digital ordering platform, formerly the Yum! Commerce platform. Taco Bell, KFC, and Pizza Hut in the US are all now powered by our Byte digital ordering products with Pizza Hut US substantially completing its transition in Q4. We also migrated three Pizza Hut international markets, including the UK, onto the Byte digital ordering platform in 2024. In the UK, the platform facilitated over 50% digital transaction growth on the app channel and drove faster processing times than the previous system.

In 2025, we plan to expand our Byte digital ordering platform to five additional markets while introducing AI-driven personalization and our omni-channel loyalty software. The Byte digital ordering platform and its seamless connection with our Byte restaurant technologies make it easier for consumers to place digital orders while reducing complexity for our team members. Within easy operations, we empower franchisees with our best-in-class Byte restaurant management platform to enhance efficiency and optimize operations. In 2024, we more than doubled the number of stores using Byte's restaurant coach mobile app, formerly SuperApp, to over 20,000 KFC and Pizza Hut locations across 120 countries. This mobile app simplifies routine audits and operations and is the scale platform we will use to deliver AI-driven recommendations to our team members.

Meanwhile, our Byte kitchen and delivery system, formerly Dragontail, is now live in over 8,000 restaurants across multiple markets with full implementation planned for KFC US and Pizza Hut US in 2025 and continued expansion globally. At Taco Bell US, we continue to launch our Byte back-of-house technology, formerly Trax restaurant management system, and reached over 1,500 restaurants in 2024 with plans to scale it across the entire system in 2025.

Lastly, I'll discuss our easy insights pillar. Our AI and data-driven approach is redefining how we engage with consumers. Our rich hub of transactional detail is combined with operations data, guest experience data, and consumer data to power our AI strategies. One area we continue to be excited about is AI-driven marketing to enable hyper-personalized messaging and experiences. Already, our US brands are leveraging AI to execute targeted campaigns with early tests on email promotions resulting in a doubling of consumer engagement compared to traditional approaches. This breakthrough is just the beginning. We expect to scale AI-driven personalization across all brands and digital channels, creating more relevant and engaging consumer interactions. With Byte's rapidly expanding capabilities, we are building an intelligent, integrated digital platform that strengthens our brands, enhances consumer experiences, and empowers our franchisees. As we scale these innovations, we are confident they will drive long-term growth, deeper consumer connections, and a more efficient operating model across our global system. The future is digital, and we are leading the way.

Next, I'll provide an update on our balance sheet and liquidity position. Net capital expenditures for 2024 totaled \$208 million, reflecting \$49 million in re-franchising proceeds and \$257 million in gross capital expenditures. In line with our commitment to deliver shareholder value, today we announced an increase in our quarterly dividend to \$0.71 per share. Throughout the year, we repurchased approximately 3.3 million shares for a total of \$440 million. Combining dividends and share buybacks, we returned \$1.2 billion to shareholders in 2024. Our net leverage ratio ended the year at 4.0x, with our debt balance remaining largely unchanged. Given our continued confidence in Yum!'s future trajectory and that our leverage has drifted lower by a full turn, we plan to deliver materially higher capital returns going forward than in the past two years. Specifically, in subject to market conditions, we expect to stop deleveraging and maintain our net leverage ratio at approximately 4x over the medium term by issuing incremental debt as our business grows.

Overall, our capital priorities remain unchanged and focus on maximizing shareholder value through strategic investments in the business, maintaining a strong and flexible balance sheet, offering a competitive dividend, and returning excess cash to shareholders. Looking ahead to 2025, we remain confident in our long-term growth trajectory while acknowledging some near-term headwinds. Our Q1 unit growth will reflect the 538 units exited in Turkey. We will also, in Q1, move forward with expediting closures of a number of Pizza Hut restaurants in a few markets, resulting in an incremental 200 closures. Despite the resulting decline in our unit count during the first quarter relative to the end of 2024, we expect full-year unit growth in 2025 to reach at least 4% or 5% when excluding the one-time Turkey-related closures. As always, our unit growth is more heavily weighted to the fourth quarter.

We anticipate same-store sales performance will improve in many markets, supported by stronger value perception scores and an ongoing sales recovery in markets affected by the Middle East conflict, and we anticipate another strong year of sales performance at Taco Bell U.S. We expect G&A to increase by a low single-digit percentage, excluding the headwind from the reset of below target incentive compensation experienced in 2024. Including this one-time headwind and assuming an on-target bonus expense, we expect G&A to increase by a mid-single-digit percentage in 2025. We are pleased to share that this G&A profile, coupled with the previously mentioned unit and sales growth drivers, leads us to plan another very strong year of core operating profit growth, delivering on our long-term algorithm target of 8%.

Turning to items impacting net income, excluding the impact of the previously mentioned potential incremental debt issuances, we expect interest expense to fall between \$500 million and \$520 million. Regarding our expected tax rate, we, like other multinationals, are seeing ongoing increases in foreign income tax rates and are increasing our forecasted range for taxes to 22% to 24%.

In summary, we are optimistic about the year ahead, with strong brand momentum across our portfolio as we enter 2025. As Matt mentioned, we are thrilled to host Taco Bell's Consumer Day in New York City on March 4, where we will showcase Taco Bell Live Más Live and unveil the brand's ambitious growth plans. Originally scheduled for an earlier date, we decided to reschedule this event to prioritize the safety and well-being of Los Angeles residents affected by the devastating California wildfires and to avoid distracting from the ongoing recovery and rebuilding efforts in that community. With that, operator, we are ready to take any questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Our first question today comes from Dennis Geiger from UBS,

Dennis Geiger

Great, thank you. I wanted to ask a bit more about international and sort of the solid results and improvement that you saw through 4Q. If you could touch to some extent on the health of international franchisees, perhaps how that impacts your growth trajectory expected through '25, and maybe just any kind of characterization of international conditions, the markets you're in. Are they improving? Is it stabilization? And you're just kind of taking share. Any commentary on that would be helpful. Thanks, guys.

David Gibbs

Yes, hi, Dennis. Thank you for the question. Obviously, international is a complex environment for us in the last year, but the good news is things are improving and we feel a lot of confidence going into 2025. I would break, let's take KFC since it's one of our twin growth engines and their international business, I would break it down into three parts. The first is those markets that had a high impact from the conflict in the Middle East. That would be the Middle East markets plus Malaysia and Indonesia. You can see for the full year, our sales, system sales were down 12% in those markets. But in Q4, we were up 11%. We're regaining momentum, we're getting the lapse that are obviously much more favorable. But that obviously had a fairly significant impact on our full year numbers. The flip side of that is there's a number of markets we're tracking where we believe there was no impact. If you look at all those no impact markets in aggregate, the full year system sales growth was 9%. That is very encouraging that within unimpacted markets, our business is performing very strongly at KFC.

Now if you look at the performance in Q4, it actually accelerated. It's up to 10% system sales growth. So those two things sort of offset each other, and then you've got all the markets in the middle. And just a comment or two on the markets in the middle, there are a lot of markets where we are seeing where we saw some impact on a trade area by trade area basis, not market-wide, but just trade areas depending on the communities they serve. Those markets are also recovering. An example of that would be a market like India that in Q4 saw a five point swing in same-store sales growth to the better. So we're seeing the improvements in the trade area by trade area impacted markets we're seeing them in the fully impacted markets from last year and we, as you added all up for last year was 4% system sales growth but as we go into next year obviously that creates easier lapse and momentum in the business. Chris, I know you'll maybe you can talk a little bit to franchisee health.

Chris Turner

Yes, Dennis on Franchisee Health, you step back we obviously aspire to be and we believe we are the best franchisor in the world in the restaurant industry. Top three spots in the entrepreneur franchise ranking last year, Taco Bell many years in a row being the head of the Franchise 500 and the number one indicator of global franchise health is the gross unit trajectory that we have 4,500 units this year even when we lost a little bit of the gross unit upside from the Middle East situation that's the ultimate test. Always a few situations that we're working you saw a couple of those have good resolution, Americana acquiring the Pizza Oman business and so we're continuing to stay close to our franchisees around the globe but feel good about the overall health of the franchise base.

Operator

Our next question comes from Brian Bittner from Oppenheimer.

Brian Bittner

Good morning. Thanks for taking the question. You talked about 2025 being in an on algorithm year for core operating profit growth of at least 8% and you also mentioned or hinted that unit growth may be a bit below the 5% algorithm because of the Turkey closings in 1Q. So just curious how are you modeling the makeup of that small gap? Do you anticipate same-store sales to be a bit above the algorithm maybe as KFC International recovers? It seems like G&A based on your commentary is not going to be a big tailwind like it was in 2024. So just any additional details on the 2025 algo that you are willing to give would be appreciated.

David Gibbs

Yes, as far as the algorithm goes, as you can imagine, you can get to the outcome of the algorithm, 8% core operating profit in a number of different ways as we have varying royalty rates around the world. The Turkey closures, for example, aren't much of a headwind because that entire Turkey business in aggregate was a \$200 million sales business and with non-material royalty income. So I think the parts of the business that we feel really good about are going to drive our growth this year. And those are our twin growth engines, the recovery in KFC International, that I talked about just a second ago. And then Taco Bell US, a strong fourth quarter, far out distancing the category, a lot of momentum in the business. I don't want to steal our thunder from the Consumer Day that's coming up in just a couple of weeks, March 4th in New York City. But when you take a look at those two twin growth engines and what they're able to do, I think we feel quite confident in our ability to hit that 8% core operating profit number.

Operator

Our next question comes from David Tarantino from Baird.

David Tarantino

Hi, good morning. My question's on your G&A outlook longer term. Chris, I was hoping maybe you could frame up where you think that could go as a persona of system sales now that you, I think you mentioned bending the arc on some of the impact from the tech investment. So should we expect that to move lower over time or I guess any way to frame that up would be helpful.

Chris Turner

Yes, thanks, David, but we're proud of the results that we've achieved with our resource optimization program, coupled with the progress with Byte by Yum! on bending the curve of the net P&L impact of those digital and technology investments. And you saw the result and how that played out in G&A this year. Of course, that was coupled with our incentive comp because of the Middle East trends being below plan. So as we look to this year, you're going to see, as we said in the comments, low single digit percentage increase, which I think is in the ballpark of a normal increase for a scaled asset light franchise or and then on top of that, we've got about a \$35 million year-over-year lap on the reset of that incentive comp. But I think if we go long term, we're going to continue to get leverage on our G&A as we grow the top line. And so to your point, over the long haul, G&A, as a percent of system sales should continue to come down. We of course are going to make investments in things that drive the long-term health of the business. We're doing that in AI right now, organizational capabilities around supply chain. So we're always thinking about long-term health, but yes, in general, we're going to get leverage over the long term.

Operator

Our next question comes from Gregory Frankfurt from Guggenheim.

Gregory Francfort

Hey, thanks for the question. My question's just maybe going back to what you want Scott to do with the KFC US business and how you envision him maybe making his stamp and improvements there. Is this a new product, a new cycle kind of calendar? Is it asset upgrades? Is it kind of a bolder rethink of the box and the format? Just any thoughts on what he can do and what you're envisioning that sort of improvement to look like. Thanks.

David Gibbs

Thanks Gregory. Yes, as far as Scott coming in and taking leadership with the KFC brand globally, there's a lot of excitement. Scott's worked all around the world for KFC, knows the business from the inside out, worked at multiple functions. Fantastic leader, has built a great resume of experiences and success at Taco Bell. And we couldn't be more excited about him assuming leadership of KFC. As far as his fascinating part about all this is he started at KFC US 20 years ago. So he sees the brand in all these countries around the world and grounded in the KFC US business going back as far as 20 years. I think he's got a lot of thoughts about ways to strengthen that business, which will let him describe to you as we get further into this journey.

But the big issues are just more modernizing the experience for consumers, leading into digital, which that work has already started. You've seen what we're doing and you saw some of the press around our saucy concept, which certainly the initial results from that, to put it mildly, have been very encouraging. So we're going to expand that test pretty dramatically this year to try to get a better read on how elements of that or how that solution would play for the KFC US long-term business. So there's a number of things working between digital and concepting and menu innovation that I think Scott will be perfectly positioned to help lead and help refine.

Operator

Our next question comes from David Palmer from Evercore ISI.

David Palmer

Thanks and agree on those comments on Scott. Congrats to him on that promotion. Wanted to ask one about the technology stuff and Byte. I think Yum! brand is a little different than that fast food franchise or peers and the level of vertical and internal build-out of tech capabilities. And obviously it might be different in terms of tech fees for the service. So maybe I'm wrong in drawing that distinction between Yum! and the peer group, but it's obviously a different strategy for the company and it's one that's exciting going forward. Could you just talk a bit about the arguments for and against this type of thing for the franchisees versus an outsourced model? And then what Byte can do for you and your profit growth in '25 in long-term? Thanks.

David Gibbs

Yes, thanks for the question, David. And it's one of the aspects of the business that we are really excited about. We just issued the press release this morning about Byte. So it's a little bit of a coming out party in terms of how we talk about it. My experience working in this business for 35 years is when you're beholden to third party platforms on technology. It's very difficult and it creates a lot of friction in the business. So we go back 10 years. This strategy was started back then as I came into the CFO role and wanted to make sure that we controlled our destiny with the belief that the largest restaurant company in the world, we should have the best technology in the world for our franchise partners at the lowest possible cost. And that we've been on a mission to bring that to life over the last few years. We've done that through acquisitions of world-class technology. We've done that through some in-house development. And one of the really important aspects of this, which is in the release, but I just want to highlight, is the way that we have now built a tech stack that works together.

There are a lot of people that operate restaurants where you might have dozens of different tech vendors that you're trying to coordinate with to get to your restaurant to work every day. Think about the complexities of that and trying to get those different disparate platforms to all work together. It's very difficult. We've experienced that firsthand. By building our own tech stack and making that investment, we're giving our franchisees a much more turnkey solution that gives us more capability in terms of how we can grow sales, make the experience easier for the employees in the restaurant. And that is what's behind putting everything under the Byte umbrella and making sure it all works seamlessly together. We now have all the components to do that. It's been rolled out in parts of the world, as you saw from the numbers. Taco Bell US is the head of the rest of the world in terms of rolling it out, you're seeing the results we're getting there, but the rest of the world is going to catch up. So we're very excited about it. When Chris Turner joined us, he brought in a lot of expertise in this area too, and has been the architect along with Joe Park. And then prior to Joe, Clay Johnson on all of this. So I'll let Chris say a few words as well.

Chris Turner

Yes, David, just building on your point that this is a natural milestone on our journey. Keep in mind that the overall purpose of the journey is to deliver advantage capabilities with advantage economics to our franchisees that will drive faster top line and bottom line growth for both the franchisees and for Yum! That's what's driving all of this. And of course, Byte, as David said, just indicates the underlying spirit and increasingly the reality of the seamless integration between the elements and the ecosystem. Plus it makes it easier for us to communicate that integrated ecosystem. I'll give you a couple of examples of how that speed comes to life. You heard us talk about on the last call and on this call, our AI-driven marketing personalization efforts that we were able to stand up very quickly across all three brands in the US because they all have Byte digital ordering in place.

Historically, that would have taken us a lot longer to do. And we would have done it at different places across each of those brands because of all the integration work with third parties that would have been required. And so that's enabling speed on bringing new capabilities to market. That integration between elements of the Byte ecosystem is also one we were able to move so fast with voice AI at Taco Bell as an example. So we will continue to drive the strategy. We still got a long way to go in deploying Byte across markets around the globe, but we started with our largest brand country combinations in the US. So as we continue to get adoption, that helps us to reduce the impact on the P&L of our investments, but it was the right thing for us to do the last few years to invest ahead on behalf of our franchisees to build and acquire this ecosystem.

As David mentioned, Taco Bell US is the place where we have the most of the elements in place today. And I think it's undeniable that it is adding to Taco Bell's top line success and the bottom line success for our franchisees.

Operator

Our next question comes from Brian Harbour from Morgan Stanley.

Brian Harbour

Yes, thanks. Good morning, guys. I wanted to ask about that topic, too. Is sort of bringing under one umbrella, are you suggesting that there's a pretty significant acceleration and roll out of that this year? Have you sort of accounted for the net impact of that in the guidance that you provided? And I guess you point to Taco Bell US, which is doing very well. Is there any other kind of like illustration in the other brands that you can point to for this is where these technologies are really driving sales or if you sort of separate out some of the markets, have you seen that visible impact?

David Gibbs

Yes, so we do think that bringing together under the Byte umbrella, again, reflecting the underlying integration that we're building will help us to accelerate over the long term and how we deploy. It makes the deployment faster and it makes it easier to communicate to our franchise partners, the benefits of the overall ecosystem. So, yes, we will continue to drive deployments. Of course, at the same time, we think that those deployments will turn into acceleration and top line growth and acceleration and improvements in unit economics, which supports the unit development story.

KFC International, as an example, has had tremendous growth in digital ordering and part driven by kiosks. Every time we convert to digital sales, we hit higher check size, we get increase in frequency, and we get productivity benefits in the restaurant. We talked about KFC loyalty now in 14 markets. France, as an example, we had loyalty sales increase by 40%. So, elements of the overall strategy are coming to life and helping us to drive improvements in the business around the globe, but there's more to come as we do that. Of course, at the same time, as we flow this into the economics. We will need to continue to make investments in the next generation of capabilities to stay at the leading edge. Operator, we've time for one more question.

Operator

Our final question today comes from John Ivankoe from JP Morgan.

John Ivankoe

Hi, thank you. The question is on the unique challenges and opportunities you may have of attracting and retaining technologists, best-in-class leading edge technologists, and Byte by Yum! Obviously, being a restaurant analyst, we haven't quite lived through the gold rush of people searching for AI talent and what have you, but it does certainly appear that that's ongoing in many different companies around the U.S. and around the world. So talk about maybe something special or unique you can do to attract and retain the best, not just kind of today, but as this technology and the demand for talent evolves. Thank you.

David Gibbs

I'm glad you asked that question, John. It's probably something that I was a little bit concerned about myself early on in this journey. But the great news is if you think about Yum! known for being one of the great developers of talent in industry, our culture, the growth that our businesses are experiencing and will be experiencing, this is a very attractive place to work. And we are seeing that we are able to attract great talent. Obviously, Joe Park is already becoming an industry icon and leading our technology work. We're not seeing very high turnover in technology, and I can tell you that team is pumped. This announcement today is the result of a lot of their hard work put by together, and we have people looking to come into Yum! all the time and join the technology team. They've got a really exciting journey and they've got the best case scenario wide open space, lots of funding and backing and all of our 60,000 plus restaurants to roll this technology out to and it is one of our competitive franchises in every part of the business, so we could attract the best talent in the industry and that is true in technology.

I want to thank everybody for the time on the call today. As we talked to investors, one of them had a great way to describe Yum! which I'll just sort of quote. You are a quality compounding investment with diversified global exposure in the more resilient, less discretionary consumer space. And I think that is really well put and what you saw in 2024 is exactly that. We delivered our 8% core operating profit goal despite some massive headwinds and we did that because we've talented leaders around the world. We've some amazing iconic brands and amazing franchise partners. And that will not change. That is our strength and as we go into 2025, as we mentioned, all of that is adding up to momentum at the end of Q4, moving into 2025. And tremendous confidence in our twin growth engines, the ability of those growth engines coupled with Byte and some of the other things we talked about to drive accelerated growth.

I'm looking forward to seeing everybody in New York City on March 4th, so if you haven't reached out to our IR team and if you want to attend, please do so, we love to see there.

Operator

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

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