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YUMC - Q4 and Full Year 2016 Yum China Holdings Inc Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Yum China's fourth quarter and full year 2016 earnings release conference call. (Operator Instructions).

I must advise you that this conference is being recorded today, Wednesday, February 8, 2017.

I would now like to hand the conference over to your first speaker today, Ms. Christie Ju, VP, Finance and Investor Relations, for Yum China. Thank you. Please go ahead.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thank you, Vincent. Good morning, good evening everyone. Welcome to Yum China's first earnings call for fourth quarter and 2016 full year results.

A live broadcast of this call and a PowerPoint presentation are available on the IR section on Yum China's website. It's under Events & Presentations, so you will be able to get a copy.

Joining me today are our CEO Micky Pant, CFO Ted Stedem. We are also joined by Ms. Joey Wat. As announced earlier today, Joey has been promoted to the role of President and Chief Operating Officer, with oversight of KFC, Pizza Hut Dining and Pizza Hut Home Service brands. We will start with opening remarks from Micky and Ted, and then open the floor for Q&A.

I would like to remind you that our earnings call and investor presentation contain forward-looking statements which are subject to future events and uncertainties. Our actual results may differ materially from these forward-looking statements. All forward-looking statements should be considered in conjunction with the cautionary statement in our earnings release and the risk factor included in our filings with the SEC.

Now let's move on to the agenda page, which is on slide three please. Micky will start with the 2016 highlights, company overview and brand performance. Ted will discuss Yum China's financial results. Micky will then return for summary and outlook, before we enter Q&A session.

Now I would like to turn the call over to Mr. Micky Pant, CEO of Yum China.

Micky Pant - *Yum China Holdings Inc - CEO*

Thank you, Christie, and thank you everyone for joining our very first earnings call. We celebrated Chinese New Year last week, and on behalf of 420,000 Yum China employees, I would like to wish you a happy and a prosperous Year of the Rooster.

2016 was a historic year for Yum China. We successfully debuted on the New York Stock Exchange on November 1 and became China's largest public restaurant company, with governance standards for US domestic companies. With 575 new stores opened in the year, we passed the 7,500 store milestone for the first time in our history. For those of you who are able to access our presentation from the website, I'm on page four.

On the back of plus 3% comp sales growth at KFC, we delivered a same-store sales growth turnaround. We have strong operating profit growth and margin improvement, and Ted will go through our financial results in more detail.

We also launched our very first Taco Bell in Shanghai. It has been my experience globally that the quality of the real estate is one of the most important indicators of future success. Our real estate in China ranks among the best in the world of Yum Brands. With over 75% of our stores built or renovated in the past five years, we are very well positioned to drive future growth.

And last but not least, 2016 is a groundbreaking year for Yum China in digital and delivery. Total delivery sales of our company was around $700 million and we have the largest presence online as a restaurant operator. Cashless payment accounted for about 30% of total company sales and our loyalty program has over 80 million members between KFC and Pizza Hut, ranked number one in the restaurant industry worldwide.

So, moving on, let's get a move on, and you can see from slide five that we will now discuss a quick company overview.

On page six, Yum China has had a long and successful track record of doing business in China. Our first KFC opened in 1987 in Beijing, Qian Men. We were one of the first foreign companies that entered China following the reform and Open Door Policy, and we benefited from the tremendous growth of the Chinese economy. Today, as one of the largest employers in China, we're an integral part of the community. 2017 marks the 30th anniversary of KFC in China. While we are proud of our heritage, we believe that the best is ahead of us.

Over the past three decades, and you can see on slide seven, we have built an unrivaled national presence, and today we have over 7,500 restaurants across 1,100 cities in China. There are more KFCs in China than in any country in the world, including the United States.

Pizza Hut Casual Dining restaurants have almost doubled in the last five years, from just over 800 in 2012 to over 1,700 today. Our new unit returns remain healthy and we expect to strengthen our leadership position going forward. Our numbers only tell part of the story. Our first-mover advantage in China has resulted in a national presence that is very difficult for anyone to replicate today.

Moving on to slide eight, I would like to highlight our key competitive advantages. In addition to our commanding national presence, we operate two iconic brands, KFC and Pizza Hut, and these are ranked number one in the quick service restaurant and casual dining restaurant sectors in China, respectively.

A strong national presence and number one brands result in over 2 billion customer visits per year across our business. We benefit from our economies of scale in China, from our best-in-class supply chain, and logistics capability allow us to operate efficiently.

Importantly, we believe our digital and delivery capability is number one amongst restaurant operators in China. We see digital and delivery as the robust new growth engine to drive restaurant industry going forward, and we believe we are very well positioned to benefit from this secular growth trend.

We believe these competitive advantages provide a solid foundation and we will be able to deliver good operating performance and financial results and generate high returns to our shareholders in the long run.

Let's move to slide nine. As you can see, our same-store sales turned around, with positive trend in 2016, reversing a three-year period of declines. While there are challenges ahead, our system sales and same-store sales have shown an encouraging trend.

In 2016 we started the year with a very strong first quarter, but faced some tough headwinds in the middle of the year. Importantly, we overcame these challenges, our sales recovered, and we finished the year on a strong note. I'm confident we are on a solid trajectory to drive future growth.

Now let us take a look at our individual -- how our individual brands performed in 2016, starting with our lead brand, KFC. On page 11, under the leadership of Joey Wat, KFC performed strongly in 2016, with same-store sales of plus 3% for the year. On a constant currency basis, system sales were up 6% year on year.

In 2016 we built 323 new KFC stores and we remodeled a further 720 units. The financial performance of KFC is equally impressive, and Ted will cover that in more detail later.

I would draw your attention, if you can see the slide, to the two products on the slide -- Nashville Hot, which debuted successfully in the USA and was launched in China, and we introduced Cremia ice cream in selected KFCs. Cremia is from Japan and is one of the world's best-quality ice creams. These product introductions illustrate the power of adopting global successes and bringing them to China.

Moving on to slide 12, you can see the strong growth was driven by four key pillars. The first, a focus on our core menu and value, which includes core product enhancement, innovation around the core, and abundant value, and these help drive traffic and ticket sales.

Number two, as mentioned before, digital and delivery. Digital and CRM help drive frequency and traffic. We continue to expand delivery, maximizing our own platform as well as those of all the aggregators.

Number three is multiple business models. We develop multiple business models to serve different locations and accelerate remodeling of existing stores to improve store image and customer experience.

And lastly, number four, customer service and people, with a focus on quality of service. We have simplified our operations to improve productivity.

Let us go to slide 13. On a constant currency basis, KFC delivered plus 3% same-store sales and plus 6% year-on-year growth on system sales in 2016. This is a strong turnaround after a tough three-year period. We're looking to the future with increasing confidence in our ability to drive same-store sales growth and enhance the profitability of KFC.

If you move to page 14, you can see that KFC continue to run innovative marketing campaigns through the year, and four of the elements are highlighted here.

The first is seasonal promotions, taking full advantage of the rich cultural heritage of China, and the range of festivals that populate the calendar in this country. Joey and her excellent team have not only maximized the power of Chinese festivals like Chinese New Year and the Autumn Festival, but they've also made significant sales drivers out of western festivals like Christmas and Valentine's Day.

Number two is digital marketing. They organize marketing events around digitally significant dates. It is an emerging area and we're excited by it. So for example, Singles' Day on 11/11 or the digitally significant date of December 12.

Number three is to identify cultural icons and celebrities to keep our communications fresh and relevant. And research has confirmed that the KFC brand image has become younger and more vibrant during this year. The successful association with Luhan, pictured above, is an example of working with the best-known icons in China. And Luhan, for those of you who are not aware, is one of China's best-known celebrities.

And number four is innovative ways to communicate with customers. The example shown is of the whole roast chicken box, which went viral during the Christmas holiday.

Let's move to slide 15. I mentioned it before, but my experience with KFC worldwide has shown that one of the most important indicators of brand health is the quality of the real estate. We have diligently invested in our business in the past five years. The work done in this area will provide multiple benefits in the future, from improved customer experience to better staff retention. We are very proud of the fact that over 75% of our KFC stores have been built or remodeled in the last five years, and we believe the quality of our stores in China is amongst the very best of KFC anywhere in the world.

On slide 16, some more details on the important digital innovation. Under the leadership of Joey, KFC has made excellent progress in this area and fully embraced the new digital era. KFC is an early mover on adopting cashless payment across China. Mobile payment accounted for about a third of the company sales in December 2016 and has continued to grow rapidly. Mobile payment not only speeds up transactions, it provides convenience for customers, and it improves labor efficiency. Most important, it captures the customer journey in the digital world.

After just one year of launching the KFC WOW membership program, we already have over 60 million members, over 20 million Super APPs were downloaded by customers. And sales of our KFC Online Tmall Store reached over RMB100 million in just four months. Not only have the KFC team led with creative online promotions, they have established excellent partnerships with leading digital technology partners in China. This foundation provides a strong basis for continued growth and innovation and will provide new opportunities to drive customer interaction and sales.

Slide 17, the rapid growth of delivery is an exciting new development in our industry and has implications for all aspects of our business model. KFC is the number one online restaurant operator in terms of sales and the single largest delivery brand in China. We have our own proprietary platform that interacts with customers directly, and in addition, we also collaborate with all major third-party aggregators to drive orders. Importantly, KFC delivers all orders and a dedicated KFC rider interacts with customers directly. And we own the customer database.

We believe we are well positioned to leverage our unique dual-engine growth model to drive delivery sales going forward. This will grow our delivery business and allow us to deliver profitably.

Overall on KFC, as you can see, we are very pleased with the progress that we have made and the results in 2016, and we have strong plans for the future.

Now let's move on to our second brand, Pizza Hut Casual Dining, and you can get details on slide 18. Pizza Hut is a powerhouse brand in the casual dining market in China, with a national footprint and a strong brand equity. In 2016 we built 178 new restaurants and remodeled a further 69 stores. Same-store sales declined by 7% during the year, though system sales showed an increase of 3% for the year.

On the profitability front, Pizza Hut improved and grew both restaurant margins and profits, and Ted will cover that in more detail. However, we recognized a same-store challenge at Pizza Hut, and it is a top priority for us to turn this around. And I'm pleased that we were able to announce today that our Board of Directors approved the appointment of Joey Wat as the President and Chief Operating Officer. Joey has had prior successful experience in brand turnaround and I am delighted that she will provide strategic leadership and oversight, in addition to KFC, to our Pizza Hut business as well.

On slide 19, although new unit builds continued for Pizza Hut, same-store sales were negative. We have identified several reasons for the decline, including an analysis of competition both online and offline. Based on this analysis, we have formulated a five-point plan to restore sales growth. As you can see, as part of that, we have reduced our 2016 new unit build rate by over 100 units, and we target to maintain a healthy and sustainable rate of new unit builds in the future.

On page 20, learning from the successful turnaround with KFC, these are the five key steps that I referred to. Number one, focus on our core strength, and we have seen an encouraging response to driving innovation in our pizza business, like for example, the durian pizza and the Peking duck pizza promotions this year -- or in 2016. This includes improving the quality of our core products, a renewed focus on ingredients and on operations.

Number two is to streamline our menu and thus make it easier to order and to increase our speed of service. Number three, and very significantly, brand integration. Historically we have run our Pizza Hut Casual Dining and Pizza Hut Home Service business as two separate businesses. However, starting now, we are integrating our management and business approach. This will allow us to combine our large restaurant base and create a network of 2,000 stores in which we can deliver. This will be by far the largest delivery base in the pizza category in China.

Number four, as mentioned before, sustainable development. As mentioned earlier, we have adopted a more sustainable build rate of about 10% of the estate, whereas in 2015 we were at over 20%.

And lastly, number five, as with KFC, digital. In China today, the rapid adoption of digital technology by consumers is impacting many aspects of the dining experience, from store and menu selection, to payment, and feedback. Digital technology is transforming every step of the customer journey, and we are taking steps to make this a competitive advantage to drive sales.

On slide 21, the good news is that our estate is vibrant and competitive. On slide 21, you can see that in the last five years we have also continued to upgrade our store designs for Pizza Hut to provide customers with a better dining environment. And we've also gotten more varieties and local elements into our store designs. In Pizza Hut, new and remodeled stores in the last five years account for over 85% of our units, and we are delighted with this estate.

On slide 22 we provide a few more details of digital and delivery. On the delivery side, combined sales between Pizza Hut Casual Dining and Pizza Hut Home Service grew by 47% from the fourth quarter 2015 to the corresponding quarter in 2016, making Pizza Hut the number one delivery brand in China. With an integrated approach to management that we have now announced, this will accelerate in the future.

In December 2016, mobile payment accounted for about one-fourth of our company sales and the Pizza Hut membership program also recruited over 20 million members in less than one year. We are continually investing in in-store technology to enhance the customer experience.

Overall on Pizza Hut, while fully recognizing the same-store sales challenge, we believe that the steps that we are taking across multiple fronts will enable us to restore sales momentum going forward.

Let's go to slide 23, and we were delighted with the initial reception of the Taco Bell restaurant opened at a flagship site in Shanghai. This is our first store, and while it is just too early to judge long-term prospects, this first restaurant has received very favorable reviews on Dianping, which is the leading restaurant evaluation website in China, and has already been ranked in the top 30 western restaurants in the City of Shanghai. The menu has been intelligently localized and the brand position of Live Mas is seen as a sustainable base for building a profitable brand in China, just as it has been in the United States.

Finally, on slide 24, an area that we don't often talk about in the past is the excellent effort by Yum China in giving back to the country from which it has received so much. The Kid's Book Club initiative at KFC has become very popular, and we gave away 14 million children books in 2016. Our One Yuan Donation program has raised RMB150 million to benefit children living in poverty since 2008. And socially responsible programs have been tailored to key needs like the problems faced by kids left behind with grandparents as their parents migrate to cities in search of better jobs.

So that concludes my comments, and now let me turn the call over to Ted Stedem, our CFO of Yum China, to walk you through our financial performance.

Ted Stedem - *Yum China Holdings Inc - CFO*

Well, thanks, Micky, and good morning to those of you calling in from Asia, and good evening to those calling in from the US.

For those who we met during our [pre-spin] roadshows last fall, you may recall that we viewed China to be the biggest growth opportunity in the global restaurant category and that Yum China was exclusively focused and best positioned to take advantage of that opportunity. We summarized our investment proposition as -- we have the best brands with an experienced management team that knows how to grow them, and that we're starting our journey as an independent public company and a very strong foundation for growth.

Today I will provide you with my thoughts on our fourth quarter and full year performance and I'm going to highlight some important factors for you to consider as we review these results.

Moving on to slide 26. We met or exceeded the key financial goals that we established for 2016. Our 2016 adjusted EBITDA was $1.13 billion, representing an increase of 19% year over year, excluding the impact of foreign exchange, versus our target of approximately $1.1 billion.

Operating profit before special items was $655 million, an increase of 37% year over year excluding the impact of foreign exchange, versus our target of at least $600 million. And finally, our full year restaurant margin was 15.3%, an increase of 2.7 percentage points versus 2015, versus our target of at least 14% restaurant margins.

Finally, we opened 575 new restaurants in 2016, led by KFC with 323 new builds. This included opening 96 new restaurants in 56 new cities. This development was across all tiers, skewed somewhat towards lower-tier cities. We continue to get great sites across China for all of our brands. In 2016, our development team did another great job of continuing our leadership position as the number one restaurant developer in China.

Let's turn to the financial results of our two most important brands, KFC and Pizza Hut Casual Dining. First, on slide 27, let's review the results for KFC, which is our biggest and most important brand and which generates approximately 80% of our total segment profits.

KFC delivered strong financial performance in Q4 and for the full year 2016, with full year restaurant margins reaching 16.3%, up 3 percentage points versus 2015 and full year operating profit of $645 million, up 36% versus 2015, excluding the impact of foreign exchange. As Micky indicated, we are encouraged that our turnaround strategy for KFC is delivering results. This strategy is focused on the four pillars of focusing on core menu and value, driving digital and delivery, deploying multiple business models, and customer service and people. And we believe that this strategy has clearly taken hold with consumers. I'd like to recognize Joey and our entire KFC team for delivering these great results in 2016.

Let's turn to slide 28 where you can see the financial results for Pizza Hut Casual Dining, which represents approximately 20% of our total segment profits. Pizza Hut Casual Dining delivered full year restaurant margins of 14%, up solidly versus 2015, and generated $150 million in operating profit for the year, an increase of 11% excluding the impact of foreign exchange.

While our same-store trends improved sequentially during 2016, we have more work to do to deliver same-store sales growth at Pizza Hut dine-in. Our Pizza Hut team is extremely focused on improving these results and restoring same-store sales growth via the initiatives that Micky covered earlier.

Turning to slide 29, it is important to note that the financial performance for both our brands in total Yum China benefited substantially in the fourth quarter and full year from the retail tax structure reform or VAT pilot program. Let me give you a quick reminder of the reform mechanism.

Effective May 1, a 6% output VAT replaced the 5% business tax that had historically been applied to certain restaurant sales. Entity by entity, input VAT generated from the purchases of materials and services is credible against output VAT. When output VAT exceeds the input VAT, the difference is remitted to tax authorities, usually monthly.

The VAT impact is most visible and impactful on our food and paper costs where you can see as a percentage of sales our costs were lower by 2.8 percentage points for 2016. Other items such as utility cost and rental expense also benefited from the VAT reform.

The VAT benefit extends to capital spending where we invest significantly in new restaurant development and remodels and also impacts the balance sheet as referenced in our last 10-Q. When input VAT paid to our suppliers is greater than our output VAT against revenue, the difference is treated as an input VAT credit asset. This input credit asset never expires and it is used to offset future VAT payables.

The VAT benefit has fluctuated since its inception and was higher than we expected for the fourth quarter. As this was an industry wide reform, we chose to reinvest some of the VAT benefits back into our business, as we've decided not to take additional pricing to offset continued wage inflation and commodity inflation in the fourth quarter.

Further, we added substantially to our KFC remodel program for 2016, which incurs costs and temporary restaurant closures. We believe that both of these actions will strengthen our long-term brand positions.

To summarize, we're only nine months into the implementation of a major structural reform. The current VAT pilot program will be subject to final enactment by the Chinese government, the timetable and ultimate VAT rates of which remain uncertain.

Moving on to slide 30. There are several other items that impacted our financial performance in 2016 that I would like to point out to review our results, including currency impact, inflation and G&A.

First, foreign currency translation negatively impacted our operating profit by 5% or $36 million. This impact is likely to continue into 2017 based on the current RMB/dollar spot rate, versus the average translation rate that we incurred for our 2016 results.

Second, wage inflation impacted our 2016 restaurant labor cost by 8%. For the full year, commodity inflation was essentially zero but skewed from deflation in the first half to inflation in the second half, and it was highest in the fourth quarter. Our G&A increased 13% in local currency due to higher incentive compensation costs and public company expenses.

In addition, I'd like to mention two more items. Our diluted share count for 2016 includes only two months of the impact from public company stock compensation programs and the additional shares acquired by our two strategic investors. This is also explained in the release but I wanted to be sure that you're aware of this as it will have an impact on our 2016 EPS results. When you factor in these two common share items for a full 12 months in 2016, our diluted share count would be adjusted to 395 million shares versus the 369 million shares used for our 2016 EPS calculation, or 7% higher.

Finally, please note that our effective tax rate in 2016 was lower than expected. In 2017, we believe the effective tax rate is likely to normalize to the high 20s. So please be aware of these as you make your assessments for our 2017 results.

Finally, on slide 31, you can see that we had a strong year in terms of cash generation. Cash from operations was $864 million, free cash flow was $428 million, and we ended 2016 with an exceptionally strong balance sheet, including $964 million in cash and short-term investments.

Now I'd like to highlight an important recent action by our Board of Directors which was noted in our release. I'm pleased to report that we received authorization from our Board of Directors to buy back $300 million of our shares. We view our opportunity to continue to increase shareholder value as significant given the long runway for growth in China and our position as the leading restaurant developer and operator. As you saw from our 2016 results in terms of profitability and free cash flow generation, we have the ability to return significant levels of cash to our shareholders, and we will continue to assess the best, most effective way to do so going forward.

Of course, our first priority is to grow and invest in our Yum China business. As you saw in 2016, our capital spending was $436 million, including our industry-leading new restaurant development, 791 remodels and new project spending for our restaurants to enhance our customers' experience.

All right, that wraps up my comments, and I'm now going to turn it back over to Micky to provide a summary and outlook.

Micky Pant - *Yum China Holdings Inc - CEO*

Thank you, Ted. So, two more items and then we will turn to Q&A. The first is to provide you a quick summary, and the second is to discuss our 2017 outlook. So let me start on page 33 with a quick summary.

As you can see, Yum China is the number one restaurant operator in China, and has been an integral part of the Chinese economy for 30 years, with a deep knowledge of the Chinese consumer. Our world-class supply chain and logistics capability provides scale advantages.

An exciting feature for Yum China is not just our past, but also our confidence in future growth. We plan to continue to grow our business through new unit development, same store sales growth, and margin expansion.

We shoot digital and delivery as a robust new growth engine for our industry. We believe we are very well positioned to benefit from this secular growth trend for both KFC and for Pizza Hut. And lastly, while Taco Bell has just started, initial response points to another opportunity for future growth.

So let us move to the last slide that I have, which is slide 34. In providing you with the outlook for 2017, we have captured for you here the key opportunities and risks. On the plus side, we expect the economy to grow and for our sector to grow at a healthy rate. The newly introduced retail tax structure continues to be beneficial for margins, and our digital presence is a rich source of growth especially in the delivery business.

However, we do see some risks. There is growing debate about globalization and a trend towards protecting national interests, on the fiscal side, the continued strength of the US currency depreciates international profits and also we expect to see food inflation of low single digit, and labor inflation of high single digit. Lastly, as with retail worldwide, the growth of online sales is both an opportunity and a threat.

So if you put all of this together, we would describe our outlook as cautiously optimistic. We remain confident that we will continue to grow our store base by building about 550 to 600 new restaurants in 2017. We expect to grow same store sales and our focus is sharply on restoring positive comps to Pizza Hut. With growth in sales and continued VAT benefits, we expect to expand our margins and feel optimistic about delivering a double-digit operating profit growth excluding the impact of foreign exchange.

Lastly, we are very pleased with the strength of our balance sheet, and we expect to strengthen it further with a strong cash generation.

So this concludes the prepared remarks from Ted Stedem and myself. I will now hand you back over to Christie to start the Q&A.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thank you, Micky. Now, we will open the floor for Q&A. Ms. Joey Wat, our newly appointed president and COO of Yum China, she will be available to answer your questions in addition to Micky and Ted.

We would like to take as many questions from everyone as possible, and would appreciate if everyone can limit your questions to two each time.

Vincent, let's open the floor for Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Our first question today comes from the line of John Glass from Morgan Stanley. Please ask your question.

John Glass - *Morgan Stanley - Analyst*

Thanks and good morning to you all. First, can you just maybe talk about what kind of lift you are seeing from the expansion of the delivery business. If I look at the KFC sales in absolute, they are still relatively modest versus maybe some other western QSRs experience in the fourth quarter.

Can you disaggregate how much of the benefit you are getting from delivery or is this just the table stakes of doing business in China now, so maybe it isn't list sales but you got to be there in order to capture those customers who want to get delivery?

Micky Pant - *Yum China Holdings Inc - CEO*

Okay, I would like to make just a quick opening clarification regarding Q4, and then I will hand over the floor to Joey, who is overseeing the growth of delivery.

When you compare us with our competitors, just keep in mind that the period of comparison may be different. Our fourth quarter is a four month quarter, starting from September and ending in December, so four months. And as we have mentioned in our Q3 earnings call, in the month of September, we started the quarter with modestly negative same store sales.

So as you can see, we ended the quarter positive so when you compare us with competitors, please keep in mind that the quarters for them are likely October through December, or three months.

So with that, Joey, would you like to make some comments in delivery and what you are seeing?

Joey Wat - *Yum China Holdings Inc - President and COO*

Thank you, Micky. Hi, John.

It's always helpful to interpret the number within the context, I guess, and there are a few things that might be helpful to interpret the number. So one factor is what Micky just mentioned. The other context is the number of cities and what are these cities.

So we are in 1,100 cities and our closest competitor is, I would say in about 400 cities. And the growth of delivery across China is growing a bit more in top tier cities than lower tier cities. So if I look at our number, the KFC number in top tier cities, the growth is very, very impressive as well, particularly deliveries.

In addition to that, it's always helpful to look at the number compared to a year before. It's relevant, isn't it? And so the good news is December 2015 actually was a very good one for us and in the fourth quarter of December 15, we already were on the road to recovery.

Last, we do both third party delivery and we also do delivery through our own app and we are quite pleased to see the growth from both channels equally impressive. With that said, when we run our business, we run our business based on all the 5000 stores and each of our stores does both dine in and delivery and we grow the sales and we serve the customer together in one store.

And it's a very important part of the business model and so I hope that helps put some context to the numbers.

John Glass - *Morgan Stanley - Analyst*

Thank you.

Joey Wat - *Yum China Holdings Inc - President and COO*

Okay.

John Glass - *Morgan Stanley - Analyst*

If I could just follow up the second question on the outlook in the double-digit profit increase in margin expansion. How much of the margin -- first of all, is it margin expansion at the restaurant level and operating profit or are you giving some difference between those two, are they acting differently, for example, lapping some G&A expenses? And if you think about the VAT increases, it really is just all due to that and the underlying business is still delivering, or do you expect the underlying business excluding the VAT benefit to actually -- margins to expand as well in 2017?

Micky Pant - *Yum China Holdings Inc - CEO*

Okay, thank you, John, I will turn this over to Ted for that.

Ted Stedem - *Yum China Holdings Inc - CFO*

Sure, John, I think the margin outlook Micky provided is a restaurant level margin. And I think when you look at the VAT benefit as I made in my comments, this is an industry wide benefit. And we are viewing the VAT as something we have to evaluate in the context of how we manage the entire business.

So the outlook that we are providing of at least double-digit operating profit growth excluding the impact of foreign exchange, obviously includes the four month impact from the VAT but it also reflects how we plan to manage all of the other components of our business.

And we don't think it's appropriate to break down specific drivers other than we are looking at this business in its entirety in evaluating what our competitors are doing and trying to make sure we get the best outcome for our customers, for our brand, so we can grow our sales, expand our margins and exceed or hit all of our financial targets.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thank you, Ted. Operator, can we have the next question please?

Operator

Sure. Our next question today comes from the line of Christine Peng from UBS. Please ask your question.

Christine Peng - *UBS - Analyst*

Hi, management. For Joey, I have two questions. The first question is that -- can you share with us the more details you plan to execute towards the KFC digital strategy. I think in addition to Joey's promotion, I also realized that the new CEO of KFC will be Johnson which previously was responsible for the technology development of KFC. So I'm sure there will be more plans in Joey's mind for her to further promote the digital strategy of KFC going forward. So I would like to hear more thoughts on that regard.

And I think the second question I would like to raise to Joey again is since you are promoted to the president of Yum China, what is your view towards Pizza Hut's future strategy development. I also realized that if you look at Q4 numbers, the delivery is already around 20% of Pizza Hut's whole revenue including Pizza Hut's home delivery services. And Micky also mentioned that you already combined the Pizza Hut delivery services with Pizza Hut Home Dining.

So what is your view towards Pizza Hut's future development to turn around business going forward? Thank you.

Joey Wat - *Yum China Holdings Inc - President and COO*

Thank you, Christine. Good morning to you. Let's start with KFC first. For the KFC digital strategy, let me highlight two focus. One is one the digital journey, the other one is on the CRM. So the digital journey, we have already started, we just need to continue and further improve the customer experience. So we already started before you come to the store with things on the (inaudible), you can open up your Baidu Map and whatever the most nearby store, we can do customized advertisement or information with that store. And then before you arrive at the store, you can use your mobile to order -- pre-order and then pay and then you can pick-up the food, or you can choose to eat in our restaurant. And then you can use the mobile payment and then after that, there is the CRM and then bring the loop back to the next purchase or the next experience with that.

So we have actually completed the loop but I don't think we are at the point where we can say that we are very, very happy about what we have. There is a lot that we can continue to improve on and then I think that related to your question about Johnson given his technology background. I believe that he can bring a lot of his technical expertise and customer experience expertise to the whole digital journey of our customer.

And recent example why we are still pushing ourselves is the very popular Roast Chicken, the product that we just launched recently. A few thousand of the chicken in Shanghai was sold out in actually a few minutes.

But it's a test of, not all the stores in Shanghai, just some stores and then the experience is not perfect yet so we are trying new things and we need to continue to try new things. So that is one part of the digital strategy. The second part is the CRM strategy. So as you are aware, as Micky mentioned, we have 16 million members in our KFC database alone. That is a fantastic number and when we look at certain regional numbers like Huadong, East China, the percentage of population in our customer base is very, very high, particularly in some important cities like Hangzhou, etc.

So what is next? Of course, we want more customers, however, in 2017 and beyond, we also want to focus on quality. How many times customers shop with us? So other than quantity, we want quality as well and I think that is a very natural and right migration of our focus. So that is the first question.

When it comes to the Pizza Hut question, well, I've just been appointed today and so it is a bit early to share with you the strategy. However, I would like to make a few comments. First of all, to call it turnaround actually is slightly harsh because it is still a very profitable business and we have a fantastic team of the Pizza Hut team, and there are so many great people who have built up this great, great brand over such a long time.

And there are many great things there. So what do we need to do going forward to consolidate what we have.

And then if you also look at what other improvement areas because you know, every business has challenges, I don't know any business of our history that doesn't have challenges, so it's very normal.

So what are our key challenges that we need to focus on? I guess, number one is to upgrade our customer taste as we learn from KFC's experience or many other successful business experiences. Customer -- particularly the Chinese customers, their taste, their tongue, their requirements on food, they are very, very demanding, we are very demanding, rightly so.

So what do we need to do to improve our food to make our customers happier because they are changing all the time. And secondly, our service operation, we are very good, we have very good operation team but I'm sure there are many other things that we can do as well. And then a third thing is the delivery that you just mentioned is also a very key growth area, not only for KFC but for Pizza Hut. The good news is we have learned tons in the last two years and particularly in KFC, so there are a lot of good learning experiences we can leverage across the brand to help Yum China overall in our digital capabilities and delivery business.

So I hope that helps address your question. Thank you, Christine.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thanks, Christine. Operator, can we take the next question, please?

Operator

Our next question today comes from the line of Sara Senatore from Bernstein. Please ask your question.

Sara Senatore - *Sanford C. Bernstein & Co - Analyst*

Yes, hi, thank you and congratulations, Joey, on the new role.

I do have a few questions. The first is just going back to this issue of your value and reinvesting the VAT. It does look like your margins were generally better than we might have expected and while I note that you have a different calendar quarter, I just -- I'm trying to understand if maybe your other of your major competitors are going more aggressively after value and if there is any trade off that you might think you could make between maybe slightly lower margins and better comps, or maybe it happened through the quarter and you exited at a much faster pace than maybe I appreciate?

So I guess that is the first one, kind of where value sits versus potentially driving a faster comp?

And then the second question is on Pizza Hut and it's a little bit bigger picture. You know, I think we have seen in the US that delivery is much more robust in terms of demand than the dine in experience, do you see any reason to think that China is headed in that same direction, that there is a parallel there? And maybe your dine in assets could be less productive going forward just as people shift more towards delivery or are you not seeing the same kind of trend in China that maybe we have seen in the US?

Thank you.

Micky Pant - *Yum China Holdings Inc - CEO*

Okay, well, Sara, thank you for your questions, as always, very powerful questions. I will just make a couple of quick comments and then I will hand over to both Ted and Joey for further clarifications.

On the VAT side and the question of reinvestment, I believe we are very satisfied with the level of reinvestment we made into our plans. I believe we are well positioned in value. We don't want to drive empty transactions for the sake of it, I mean we can always do that by launching products at RMB10, but that just creates confusion, it doesn't get any real value, customers are not satisfied, you get -- that is easy to do but we have resisted doing that.

As Ted mentioned, I covered in my presentation, spent a lot on store refurbishment, that cost us in terms of capital as well as store closures and it has an impact on sales but we did it, because it is the right thing to do for the future. I think we are very well balanced at the moment in terms of what VAT benefit will flow to our bottom line and what we reinvested behind our brands and I feel satisfied.

We do have this luxury of the VAT benefit and as Ted mentioned, for four months, we could have it non-lapping because it started May 1 of this year. So we continue to keep that as an option if we do not need to drive sales, but a better way to drive sales is actually to give fundamentally better experience in products to customers. As I mentioned several times, I feel very satisfied that KFC has made that journey successfully.

Pizza Hut remains a work in progress, I think Joey made some comments already. On the bigger picture on Pizza Hut, Sara, I think there are many countries in the world where we maintain a vibrant Pizza Hut dining business even in this part of the world, including nearby Hong Kong or Indonesia or you know, several parts of Central America or even in developed countries like the UK, India.

So I don't see any intrinsic reasons why we cannot maintain a very strong and healthy dine in business, but there is no doubt that the dramatic growth is going to come from delivery. I think Christine mentioned earlier in her question that delivery is about 20%, while -- and to take the overall picture, that is probably low compared to other countries in terms of the delivery percentage. So for sure, home consumption will increase dramatically so I think on Pizza Hut, we see it as a dual growth engine and I will hand it over to Joey to make some quick comments but maybe Ted, first, if you can add to the VAT question or any other observations?

Ted Stedem - *Yum China Holdings Inc - CFO*

Micky, I think you covered the VAT question quite well and I covered in my comments, so I think the one thing I would say is we certainly are making an evaluation and focus on driving long-term improvements and while we have run some short term value campaigns, I would say that we have not found the magic of driving sales and transactions with that.

For example, at Pizza Hut, in the fourth quarter, we did see positive transactions but we also experienced a ticket decline of about 4%. So as we evaluated, we are testing a lot of options and we are focused on driving long-term improvements and we will reinvest that wherever we think we can drive that and that is what we have done in the fourth quarter.

I'll take a -- I just wanted to make a comment as well on your question about our dine-in assets -- less productive. The way we view it and I think KFC has been particularly effective at this and Pizza Hut Dine-in is doing it as well, as you're aware with Home-Serve, is -- as the delivery trend increases and we have more of our sales moving off-premise, we have been able to reduce the footprint of our new builds. And in 2016, we saw the size of our new builds at Pizza Hut Dine-in decrease by approximately 40 square meters, and we also saw the size of our new builds at KFC come down by a little bit less than that.

So the trends in delivery, we will reflect, we want to capture the delivery sales, that is where their growth is and we will continue to focus on getting our new unit models, the right size and scale to take advantage of the opportunities we see in the trade zone and where the sales are coming either dine-in or off-premise.

Micky Pant - *Yum China Holdings Inc - CEO*

Joey?

Joey Wat - *Yum China Holdings Inc - President and COO*

Micky and Ted have covered very comprehensively both questions, I just want to make two quick comments. One is about value. There are varying interpretations of value and one is the typical way, have a bit more food with very good price. And there is another way of interpreting the value for money is to have something -- to have some amazing food with very reasonable costs. One example is the Cremia ice cream that Micky mentioned earlier. We sell Cremia for $4, US dollars, not Renminbi, and our normal ice cream in KFC is $0.50, US dollar. When we launched Cremia in Tianjin at freezing temperature, winter, we sold more than 3000 pieces a day and that was a world-record for Cremia.

Why? Because even though we charge more than $4, it is a lot cheaper than anyone of us here, to buy a few hundred US dollar ticket to fly to Hokkaido to try the ice cream. Because this particular ice cream is only available in Hokkaido of a gentlemen's few decades hard work, is one of the best, if not the best ice cream in the world, and that is a good value for money.

So the alternative $4 versus a few hundred dollars, $4 is very, very cheap. So other than it creates excitement for our customer and for the brand, that is another way of delivering value for money.

So the second comment will be on the delivery. Delivery is certainly, I mean I don't think we need to emphasize how promising the growth is. It's the way that we -- the customer live, the way the customer, the consumption behavior or the way of living, they change, and delivery just fit into right there. And delivery is also a very robust business. It's a lovely business because I was in the UK, during the longest sort of economically challenged period of time in the past few years, before I came back to China, even when the economy is not doing well, the delivery business will thrive because it is a very good trade down from dine-in.

So it's a lovely business to have and I'm so pleased to see in both KFC and Pizza Hut, we are growing the delivery business. And together with the dine-in business and we will certainly continue to focus on both of them.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Okay, operator, can we go to the next question, please?

Operator

Sure. Our next question today comes from the line of Joshua Lu from Goldman Sachs. Please ask your question.

Joshua Lu - *Goldman Sachs - Analyst*

Hi, good morning, everyone and congratulations to you, Joey, on the new role. Two quick questions. One is maybe a question for Micky on your comment on the 2017 outlook. Interesting that you talk about that the restaurant industry revenue growth maybe at the high single digit. Now, if I think about that the KFC or Yum China's growth in 2016 was 5% ex FX, if we assume that the Company's growth will be in line with that forecasted industry growth, are we suggesting that the growth rate actually could accelerate a little bit from a macro inflation store opening, etc?

That would be the first question.

And I guess a part of the question is how does inflation, even though that is a temporary impact to the cost of goods, how do you think that will impact same store sales?

Micky Pant - *Yum China Holdings Inc - CEO*

Thank you, Joshua. Thanks for following our company. I think at the outset, let me clarify that we are not in a position to provide guidance for 2017 with regard to revenue, or our same-store sales or system sales for 2017. The guidance that we have provided is on our new store builds, likely to be 550-600, and our feeling that we will be able to deliver double-digit operating profit growth excluding the impact of foreign exchange.

So we are not able to, at this time, give you guidance on 2017 and just an anticipation of future questions, particularly Q1, we are not able to give you any guidance because during the middle of Q1, and while it's a very powerful quarter for us, as you know, in Chinese New Year, particularly the lapping effect is tricky, so we will not be able to give you any information. In early April, we will announce our Q1 results.

On the more general question of our business model, it is true that we have mentioned several times during our road show in the past that our business model is predicated on high single-digit revenue growth in the long term and we feel good about that number. The inflation number, Joshua, is hard to predict, it depends on what happens to China inflation in general.

In this year, in general, our industry has seen a gap on revenue growth because of the VAT benefit, which is an industry benefit, but we have to see how that goes.

So I'm sorry not to be able to give you a more specific answer for 2017 particularly. The long-term, we feel good about prospects of growing revenues.

The comment that I have made was our conviction that the industry will grow and we feel good about that.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Okay, operator, can we --

Joshua Lu - *Goldman Sachs - Analyst*

Maybe a second, sorry, can I just maybe very quickly, to Joey, on the second question? Joey, in your December presentation in Shanghai, one of the things that you talked about is fixing the problem stores. Could you give us an update on how that is progressing and what -- would that still remain the key priority going to 2017?

Joey Wat - *Yum China Holdings Inc - President and COO*

With our portfolio of both businesses, 7,500 stores, there is always a certain percentage of the stores that we need to fix. For KFC, I would say overall, is no longer a very top priority issue, but it's an ongoing issue that we need to maintain. And I am very pleased that my team has done -- and the entire Yum China team -- has done an amazing job to make it happen.

And the beautiful thing is if we can fix the problem store, we can certainly run the profitable store. And then on the Pizza Hut side, I think we again, I'm just appointed today, and I certainly will look at the number and I'm sure there will be opportunities for us to consolidate the problem stores for the Pizza Hut business. And I believe that there might be some opportunities there and also some areas there to learn because I think I mentioned it before, if there is area to focus on to learn what is going wrong with the most challenging areas, go to the problem store, you will find all the problems that you are looking for.

So I'm quite excited to open up the area and see what we can learn as a company.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thanks, Joshua. Operator, let's take the next one, please.

Operator

Sure, our next question today comes from the line of Brian Bittner from Oppenheimer. Please ask your question.

Brian Bittner - *Oppenheimer - Analyst*

Thanks very much. Congratulations, guys, on your first quarter as public company. Two questions, first on the guidance for 2017, you know, with the double-digit growth in operating profits when you look below the operating line and the puts and takes there with the share repurchase plan and the tax rates. Do you expect EPS to grow similarly to operating profit growth or differently if you could explain that?

And then the second question is just on the mobile as a percentage of the sale, that is quite extraordinary to see that go from 12% of sales to 35% of sales in one year. What really drove that huge step up and how do you see that playing out going forward? Thanks.

Micky Pant - *Yum China Holdings Inc - CEO*

Okay, so I'll do the second question first and then I'll hand it over to Ted to talk about some commentary on the guidance for 2017. I think, you, Brian, are familiar with the country, but I have not, from the experience around the world, seen a single country where the adoption of digital technology is at a higher level than China.

It's extraordinary how people's lives revolve around digital technology. And particularly impressive is the transition of almost over two years from zero credit card or anything other than cash to suddenly, in some stores, cashless payment being a majority of our sales. So I think that this rapid increase has been two factors, one is the adoption by technology by customers in general, outstanding technology partnerships like WeChat Pay or AliPay, and we have been their lead partners in expanding it.

I'm very optimistic that that number will continue to grow. And then of course, it's being driven on the back of all the great work that Joey and the team have done on digital marketing in general which links the customer experience with the ability to pay.

But you go to stores in China now, and regularly, you will see people paying with their cell phones in a variety of retail formats. So we expect that to continue to grow and we are encouraged by it.

Like I mentioned, it does multiple things other than just provide a better experience.

So, Ted, do you want to take on the question of guidance, and then Joey, you can follow up with digital.

Joey Wat - *Yum China Holdings Inc - President and COO*

Yes, sure.

Ted Stedem - *Yum China Holdings Inc - CFO*

Sure. Okay, Brian, you know, our guidance was on double-digit operating profit growth excluding the impact of foreign exchange. We are not going to be providing EPS guidance for 2017. With that said, there were a number of, as you called out, headwinds, primarily headwinds or tailwinds that we referenced in the script. Specifically, we have talked to the impact of the dilution, both from the strategic investment shares that were issued on November 1, as well as all of our public company compensation and fully diluted impact from those and we have detailed that in our press release.

The other item I talk to was the tax rate. In 2016, our tax rate was lower than expected, it was 26.2%. There are a number of puts and calls but it was primarily driven by a one-time tax benefit related to recorded losses associated with our Little Sheep business and going forward, we do see our tax rate in the high 20s.

The third impact which -- we are not going to be able to make a call on is the impact of foreign exchange, what we do know today is if you look at the average RMB dollar rate today, we are facing a headwind on FX and we are not going to predict exactly where that goes given some of the uncertainties that could impact that.

I will turn it over to Joey if you have any additional comments on them.

Joey Wat - *Yum China Holdings Inc - President and COO*

Thank you, Brian, and thank you, Ted.

I would like to make an additional comment on the mobile payment. Other than what Micky just mentioned earlier, the customer, the partner, and obviously certain business that we drive, drive the mobile payment such as mobile pre-order. We have been driving the mobile pre-order business like before the customer come to our store -- you know we Chinese, we're very impatient -- on the way to the restaurant, we start to order. That's very normal and particularly happening in the morning. So you know, when you drive that kind of business, naturally you drive the preorder. But I would also like to make a comment, which is sometimes it's easily forgotten but absolutely critical in driving our digital capability and also mobile capability and mobile prepayment, is the quality of our staff.

We always -- we compare QSR and particularly KFC, the average age and education level of our 300,000 staff versus a normal Chinese restaurant, I would like to believe that it's quite hard to compare. All of our store managers have tertiary education degrees. Most of our staff, they are young and very digitally savvy. So whatever new program that we try to try or the mobile preorder technology that we want to implement, our store staff have no problem to learn and get it and they can do it.

Without that, no matter how wonderful our technology is, whatever, the plan is, it won't happen. So that is a very, very strong competitive advantage for KFC and also for Pizza Hut. So for our [420000](corrected by company after the call) strong staff, the quality is absolutely stunning. So I'm quite, you know, hate to say confident but I really believe in our staff, we can continue to make great progress in digital and mobile technology.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thank you. Thanks Joey, thanks Brian. Given we are running a bit out of time, but we do want to take as many questions as possible, we will move on. Please make your questions concise and we will all try to answer all the questions. Next one please.

Operator

Our next question today comes from the line of Matt McGinley from Evercore ISI. Please ask your question.

Matt McGinley - *Evercore ISI - Analyst*

Great, thanks for taking my questions. The first one I have is on the follow up on the VAT. Ted, you had mentioned that the VAT fluctuated in 2016 and I know that initially there was a learning curve in how that was implemented and that you didn't know how much the impact was going to be, but I believe you said that the benefit got bigger as the year went along. Is that to say that you didn't realize the full benefit that you should have in May as you did maybe in December when you were doing it longer and that there may be some additional benefit you could have after that May 1 deadline or May 1 implementation date?

The second question is on the capital deployment. You have about $900 million or so of cash on the balance sheet and if you get that double digit EBITDA growth in 2017 and you only redeploy the $300 million in buybacks, your cash balance is going to be very high. So I guess my question is -- is the $300 million the Board authorized likely to be reloaded or is there something or some reason why the cash balances should be higher or have the cash needs of the business gone up that you need to have a bigger balance going forward?

Ted Stedem - *Yum China Holdings Inc - CFO*

Let me answer your VAT question first and then we'll talk about the capital allocation. So Matt you are right, the benefit has fluctuated of the VAT and that's really a reflection of the learning curve we had to make sure that we interpreted all of the new rules and regulations and that we captured all of the input credits and switched over our supply base. It would be fair to assume that there is a little bit of upside in the early months of the VAT implementation. So I think that was your first question -- it would be fair to assume that.

Your second question on capital allocation -- you know, I just started at a high level. As I said, we view the opportunity we have to drive long-term shareholder value with significant for multiple reasons. One is our position as the leading restaurant developer, the long runway we have for growth and our focus on driving consistent same store sales growth and margin expansion.

With that said, our top priority is to make sure that we're driving growth in the existing businesses through our capital investments, in our new stores, in our remodels and our brand projects. So at the end of last year we did conduct a thorough analysis of all the capital allocation options and we determined that a share repurchase was the best opportunity to create shareholder value. Given our stage as a newly formed public company, we feel that $300 million was appropriate and that is what our Board has authorized on us to do.

I will say that you have seen that we have the ability to generate substantial operating cash flow and substantial free cash flow and we're going to continuously evaluate all of our options for capital allocation as we proceed throughout the year and I'll make sure to keep you updated as I have any information to update you on after we discuss it with our Board.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thank you Ted. Next question please.

Operator

Our next question today comes from the line of Lillian Lou from Morgan Stanley. Please ask your question.

Lillian Lou - *Morgan Stanley - Analyst*

Hi, good morning management. Just another two questions as a follow up. First for -- [do] we understand 2015 last year (inaudible) -- year was a very strong season and what we have done this year to keep on the strong momentum as Micky mentioned and in detail? Also, is that long-term goal of restaurant margin continue to be 17%? Especially this year we are seeing increasing inflation and people are talking about bird flu, any impact on the pricing and also on margin we are seeing?

Second question is on -- I think it's the buyback. It's a $300 million buyback is just a one year goal or actually--

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Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Sorry Lillian, it's already three questions. Okay, we're going to take the first two.

Lillian Lou - *Morgan Stanley - Analyst*

Okay, sorry. Okay.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Chinese New Year and (inaudible), okay.

Micky Pant - *Yum China Holdings Inc - CEO*

Okay just -- I'll have Joey answer the Chinese New Year question. Just as a clarification, Q1 of 2016, KFC was up plus 12, Pizza Hut was actually in negative. So KFC had a particularly strong quarter. I'll let Joey talk about what she did for this year.

Joey Wat - *Yum China Holdings Inc - President and COO*

Thank you Micky, 2017, Chinese New Year is a tough year but we -- in Chinese saying, we always say "nian nian nan guo nian nian guo". Every year is difficult but we somehow manage to handle every year. (Inaudible) 2017 we've put together a very, very strong program.

We are still in the process actually because Chinese New Year this year is actually at the end of January. So to build the momentum we actually start the program back to December. So the December program was part of Chinese New Year to build the momentum and in terms of how to attack that, we have our traditional TV program. Of course we have new food, new food introduced and then we also have the digital element, the Aiqiyi Qipadahui, we sponsored the whole program and then also at the store, we have the program by (inaudible) so we introduce each of our 17 markets in China, they can select whatever the local art they would like to celebrate in the stores.

So in Suzhou, "su xiu", the embroidery. In Nanjing it will be the "yun jin", in Beijing it will be the Peking Opera and then we invite the real experts to come to our store to teach the kids about Chinese traditions that we are so proud of. We compete nationally, see who is doing the best and the winner will be awarded with the (inaudible) and will be issued nationally.

So we have a very, very big program to support the Chinese New Year and I think we have seen very good momentum. We start with the new product, the fried chicken, Nashville chicken, supported by Lu Han back to December. And then come to early part of Chinese New Year, we have the China female volleyball team to talk about the power of starting up, "kai shi de li liang" and then come to the second part, the end of Chinese New Year -- second part of Chinese New Year we have Liu Xiao Ling Tong, our national hero, Monkey King, to talk about - it's actually not that -- it's not exactly the most difficult thing to handle the challenges like the Monkey King have, but the starting up a new year is the most [powerful bit].

So the program is very complete and we are very excited and proud of what the team has put together to celebrate "wen ji qi wu", the Year of Rooster. We still in progress because "yuan xiao" which is the Chinese Valentine's Day and the Chinese New Year and after that, we have the post Chinese New Year program to continue to share the excitement and of course hopefully some sales. So it's not done yet. It's still going on.

Micky Pant - *Yum China Holdings Inc - CEO*

Ted.

Ted Stedem - *Yum China Holdings Inc - CFO*

Okay. On your margin question Lillian, you know I think from Micky's guidance we've indicated that we are expecting to see commodity inflation in 2017 in the low single digits. We see it coming at about 3% today but we do have uncertainty in the second half. We also have labor inflation coming in in the high single digits. So we're viewing those as certainly inflationary headwinds. When we think about the margin, we also obviously have the VAT benefit and as I mentioned in my earlier call, we're really trying to view the business holistically. We're closely monitoring what's happening in the competitive environment.

As it comes to pricing, we do feel like we're competitively priced today but we also feel like our brands have pricing power, should we need to take pricing. I'm not going to comment on our pricing strategy for competitive reasons, but we feel that when you evaluate the inflation that we see combined with the VAT benefit and our competitiveness, we'll be in a position to deliver the financial results that Micky indicated is our target which is double digit operating profit excluding the impact of foreign exchange.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thanks Joey and Ted. Can we have the next one please?

Operator

Our next question today comes from the line of RJ Hottovy from Morningstar Research. Please ask your question.

RJ Hottovy - *Morningstar Research - Analyst*

Thanks. Thanks for taking the question. Just two quick ones, both following up on mobile order. First and probably for Joey on this one. I appreciate your confidence and your cruisability to handle the technology aspect, but obviously throughput and congestion has become kind of a hot button issue as more mobile orders become more prevalent. Could you talk about whether or not you've run into these issues as consumers increasingly adopt mobile order and whether or not you think that you might need any kind of operational labor investments to handle that additional mobile order as they come in?

The second question I had is just wanted to see if you've seen any difference in behavior among mobile and in-store customers with respect to order size and frequency? Thanks.

Joey Wat - *Yum China Holdings Inc - President and COO*

Thank you. For the first question, for the mobile ordering technology, look we -- I know the numbers show that we are doing something well but we have to be suitably modest in this area, that this is the area that we have been learning the last two years and we are actually not a technology company, but this is the area that we absolutely had to excel in order to survive, to be honest and to succeed. So we will make whatever investment necessary to help improve the customer experience and it's not the area to be stingy about.

The second question is the behavior -- again, we are learning but the beauty here is we have -- for KFC and Pizza Hut, we have 80 million customers who are willing to give us their information, they are members and we'll continue to learn more about their behavior and then hopefully provide better service. I can give you a little interesting thing about their behavior. We do find customers like to use the preorder, particularly in the morning. Actually, not even on the way to our restaurant is when they get up -- when they get up, I guess before even brushing their teeth, they put down the order and then get ready and then come to our store, pick it up.

So I still find it absolutely fascinating, I'm intrigued why, but these are the areas that we'll continue to learn and help improve our customer service. Thank you.

Christie Ju - *Yum China Holdings Inc - VP, Finance and Investor Relations*

Thanks Joey. We are seriously overrun. I will take the last question please.

Operator

Our last question comes from the line of Anne Ling from Deutsche Bank. Please ask your question.

Anne Ling - *Deutsche Bank - Analyst*

Hi management team. Two questions. Number one is that in terms of the same store sales number for year 2016, what was the ASP as well as the traffic growth for both KFC and also Pizza Hut and in terms of year 2017, what will be the driver? Which one will be driving faster? Then the second question is I just want to double check, regarding the double digit operating profit guidance, is it like -- I think like you mentioned earlier it is just for the restaurant margin or the restaurant growth?

If that's the case, because we are a listed company starting from November onwards, so how should I look at -- in terms of the G&A growth for the whole of year 2017? Thank you.

Ted Stedem - *Yum China Holdings Inc - CFO*

Okay, let me start with your first question which I believe is asking how did our same store sales break down for the full year for both the KFC brand and the Pizza Hut dine-in brand. So KFC same store sales were 3% through the full year. That reflected a 4% decline in transactions which was offset by a 6% increase in our average [guest check] and pricing contributed less than 2% of that [guest check] growth. On the Pizza Hut dine-in side, the Pizza Hut dine-in same store sales declined 7% which included a 6% decline in transaction, 1% decline in our average [guest check] and the pricing impact at Pizza Hut was about 1%.

Your second question around our guidance on operating profit, that is for our total Company operating profit and that excludes the impact of foreign exchange. Your question on G&A, you are correct that we will have a full year of public company expenses in our 2017 financials. Again the big buckets of those public company G&A are the stock based compensation expenses, the compensation and the other expenses to support our public company functions and our Board of Directors and then the consulting and advisory fees associated with being a public company.

In 2017 we expect our G&A to increase in the high single digits, excluding the impact of foreign exchange translation.

Joey Wat - *Yum China Holdings Inc - President and COO*

I would like to provide some context of the TC and TA number. I'm pretty sure I have mentioned this before in other occasions so for those who have heard it before, I'm sorry, I'm repeating myself here. Two comments on the TA versus TC number. One is the more delivery we grow, the higher TA will be and the lower TC will be. Because for KFC, particularly for KFC, Pizza Hut I haven't really looked at it in detail yet, for KFC, our -- unlike the third party delivery where the TA can be relatively low, our TA, ticket average, of delivery business in KFC is double of our ticket average in dine-in.

So basically it will consolidate two TC in dine-in into one TC delivery. Internally we even converted it back to see what is the number because it's very consistent. It makes sense because why would you pay the delivery charge if you buy two meals, right? So that's one point.

The second point is we have been driving a lot of business in [buckets] of group meals. So I'll give you example. For Chinese New Year alone, during the height of Chinese New Year time, as much as 20% of our sales will go through buckets. So when we put the meal into bucket, this is typically for two to four people. So in that case, the number of TC again will be compressed, number TA will go up and that's not because of our pricing. So with two impact combined, which are both quite particular really, you will see some pressure on the TC but it's okay. As a business operator, we want to see more customers coming to our stores, spending more money as long as that happen, it's okay.

Micky Pant - *Yum China Holdings Inc - CEO*

Okay thank you very much. I know that was the last question and I appreciate you may have further questions and my team and ourselves will be available to address these offline. You can always send your questions through to Christie Ju. We will be announcing the date for our Q1 earnings call but it will be in the first half of April, so we look forward to giving you more detailed updates at that time. Before that, we look forward to seeing some of you during our roadshows and other interactions.

With that, on behalf of Yum China, I'd like to thank you for your attention and have a great day.

Operator

Ladies and gentlemen, that concludes our conference for today. We thank you all for your participation. You may now disconnect.
