YUM BRANDS INC
Form 10-Q
July 21, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

[ ]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 13, 2015

OR

[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _________________

Commission file number 1-13163

YUM! BRANDS, INC.
(Exact name of registrant as specified in its charter)

North Carolina (State or other jurisdiction of incorporation or organization)	13-3951308 (I.R.S. Employer Identification No.)
1441 Gardiner Lane, Louisville, Kentucky (Address of principal executive offices)	40213 (Zip Code)

Registrant's telephone number, including area code: (502) 874-8300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ü] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ü] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer: [ü] Accelerated filer: [ ] Non-accelerated filer: [ ] Smaller reporting company: [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [ü]

The number of shares outstanding of the Registrant's Common Stock as of July 15, 2015 was 431,205,561 shares.

YUM! BRANDS, INC.

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions, except per share data)

	Quarter ended		Year to date	
Revenues	6/13/2015	6/14/2014	6/13/2015	6/14/2014
Company sales	$2,659	$2,758	$4,838	$5,050
Franchise and license fees and income	446	446	889	878
Total revenues	3,105	3,204	5,727	5,928
Costs and Expenses, Net				
Company restaurant expenses				
Food and paper	841	886	1,529	1,611
Payroll and employee benefits	602	620	1,095	1,113
Occupancy and other operating expenses	805	824	1,421	1,457
Company restaurant expenses	2,248	2,330	4,045	4,181
General and administrative expenses	353	352	648	623
Franchise and license expenses	47	34	81	67
Closures and impairment (income) expenses	24	21	27	24
Refranchising (gain) loss	68	(4)	58	(7)
Other (income) expense	(6)	(8)	(9)	(10)
Total costs and expenses, net	2,734	2,725	4,850	4,878
Operating Profit	371	479	877	1,050
Interest expense, net	33	29	67	62
Income Before Income Taxes	338	450	810	988
Income tax provision	102	112	213	251
Net Income – including noncontrolling interests	236	338	597	737
Net Income – noncontrolling interests	1	4	—	4
Net Income – YUM! Brands, Inc.	$235	$334	$597	$733
Basic Earnings Per Common Share	$0.54	$0.75	$1.36	$1.64
Diluted Earnings Per Common Share	$0.53	$0.73	$1.34	$1.61
Dividends Declared Per Common Share	$0.82	$0.37	$0.82	$0.74

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions)

	Quarter ended		Year to date	
	6/13/2015	6/14/2014	6/13/2015	6/14/2014
Net Income - including noncontrolling interests	$236	$338	$597	$737
Other comprehensive income (loss), net of tax				
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature				
Adjustments and gains (losses) arising during the period	39	(25)	(52)	(62)
Reclassification of adjustments and (gains) losses into Net Income	68	2	68	2
	107	(23)	16	(60)
Tax (expense) benefit	(2)	(1)	—	(3)
	105	(24)	16	(63)
Changes in pension and post-retirement benefits				
Unrealized gains (losses) arising during the period	2	(5)	2	(11)
Reclassification of (gains) losses into Net Income	12	6	23	14
	14	1	25	3
Tax (expense) benefit	(5)	—	(9)	(1)
	9	1	16	2
Changes in derivative instruments				
Unrealized gains (losses) arising during the period	(1)	(5)	12	—
Reclassification of (gains) losses into Net Income	1	3	(12)	(1)
	—	(2)	—	(1)
Tax (expense) benefit	—	—	—	—
	—	(2)	—	(1)
Other comprehensive income (loss), net of tax	114	(25)	32	(62)
Comprehensive Income - including noncontrolling interests	350	313	629	675
Comprehensive Income (loss) - noncontrolling interests	1	—	(1)	—
Comprehensive Income - YUM! Brands, Inc.	$349	$313	$630	$675

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions)

	Year to date	
	6/13/2015	6/14/2014
Cash Flows – Operating Activities		
Net Income – including noncontrolling interests	$597	$737
Depreciation and amortization	326	320
Closures and impairment (income) expenses	27	24
Refranchising (gain) loss	58	(7)
Contributions to defined benefit pension plans	(78)	(14)
Deferred income taxes	(77)	(10)
Equity income from investments in unconsolidated affiliates	(16)	(22)
Distributions of income received from unconsolidated affiliates	4	7
Excess tax benefits from share-based compensation	(40)	(25)
Share-based compensation expense	28	25
Changes in accounts and notes receivable	16	12
Changes in inventories	21	5
Changes in prepaid expenses and other current assets	(27)	(11)
Changes in accounts payable and other current liabilities	11	(27)
Changes in income taxes payable	91	96
Other, net	6	(26)
Net Cash Provided by Operating Activities	947	1,084
Cash Flows – Investing Activities		
Capital spending	(404)	(408)
Changes in short-term investments, net	(16)	(227)
Proceeds from refranchising of restaurants	29	17
Other, net	39	4
Net Cash Used in Investing Activities	(352)	(614)
Cash Flows – Financing Activities		
Repayments of long-term debt	(7)	(5)
Short-term borrowings by original maturity		
More than three months - proceeds	—	—
More than three months - payments	—	—
Three months or less, net	—	—
Revolving credit facilities, three months or less, net	65	178
Repurchase shares of Common Stock	(287)	(300)
Excess tax benefits from share-based compensation	40	25
Employee stock option proceeds	11	16
Dividends paid on Common Stock	(355)	(327)
Other, net	(43)	(20)
Net Cash Used in Financing Activities	(576)	(433)
Effect of Exchange Rates on Cash and Cash Equivalents	39	(13)
Net Increase in Cash and Cash Equivalents	58	24
Cash and Cash Equivalents - Beginning of Period	578	573
Cash and Cash Equivalents - End of Period	$636	$597

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions)

	(Unaudited) 6/13/2015	12/27/2014
ASSETS		
Current Assets		
Cash and cash equivalents	$636	$578
Accounts and notes receivable, net	350	325
Inventories	279	301
Prepaid expenses and other current assets	276	254
Deferred income taxes	104	93
Advertising cooperative assets, restricted	84	95
Total Current Assets	1,729	1,646
Property, plant and equipment, net	4,372	4,498
Goodwill	684	700
Intangible assets, net	294	318
Investments in unconsolidated affiliates	39	52
Other assets	554	560
Deferred income taxes	622	571
Total Assets	$8,294	$8,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$1,881	$1,972
Income taxes payable	156	77
Short-term borrowings	568	267
Advertising cooperative liabilities	84	95
Total Current Liabilities	2,689	2,411
Long-term debt	2,831	3,077
Other liabilities and deferred credits	1,141	1,244
Total Liabilities	6,661	6,732
Redeemable noncontrolling interest	8	9
Shareholders' Equity		
Common Stock, no par value, 750 shares authorized; 432 and 434 shares issued in 2015 and 2014, respectively	—	—
Retained earnings	1,726	1,737
Accumulated other comprehensive income (loss)	(157)	(190)
Total Shareholders' Equity – YUM! Brands, Inc.	1,569	1,547
Noncontrolling interests	56	57
Total Shareholders' Equity	1,625	1,604
Total Liabilities, Redeemable Noncontrolling Interest and Shareholders' Equity	$8,294	$8,345

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Tabular amounts in millions, except per share data)

Note 1 - Financial Statement Presentation

We have prepared our accompanying unaudited Condensed Consolidated Financial Statements ("Financial Statements") in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles in the United States ("GAAP") for complete financial statements. Therefore, we suggest that the accompanying Financial Statements be read in conjunction with the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 27, 2014 ("2014 Form 10-K").

YUM! Brands, Inc. and Subsidiaries (collectively referred to herein as "YUM" or the "Company") comprise primarily the worldwide operations of KFC, Pizza Hut and Taco Bell (collectively the "Concepts"). References to YUM throughout these Notes to our Financial Statements are made using the first person notations of "we," "us" or "our."

YUM consists of five reporting segments:

- YUM China ("China" or "China Division") which includes all operations in mainland China
- YUM India ("India" or "India Division") which includes all operations in India, Bangladesh, Nepal and Sri Lanka
- The KFC Division which includes all operations of the KFC concept outside of China Division and India Division
- The Pizza Hut Division which includes all operations of the Pizza Hut concept outside of China Division and India Division
- The Taco Bell Division which includes all operations of the Taco Bell concept outside of India Division

YUM's fiscal year ends on the last Saturday in December. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks. Our subsidiaries operate on similar fiscal calendars except that China, India and certain other international subsidiaries operate on a monthly calendar with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter. International businesses within our KFC, Pizza Hut and Taco Bell divisions close approximately one month earlier to facilitate consolidated reporting.

Our preparation of the accompanying Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The accompanying Financial Statements include all normal and recurring adjustments considered necessary to present fairly, when read in conjunction with our 2014 Form 10-K, our financial position as of June 13, 2015, and the results of our operations and comprehensive income for the quarters and years to date ended June 13, 2015 and June 14, 2014 and cash flows for the years to date ended June 13, 2015 and June 14, 2014. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year.

Our significant interim accounting policies include the recognition of certain advertising and marketing costs, generally in proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate.

We have reclassified certain items in the Financial Statements for the prior periods to be comparable with the classification for the quarter and year to date ended June 13, 2015. These reclassifications had no effect on previously reported Net Income - YUM! Brands, Inc.

Note 2 - Earnings Per Common Share ("EPS")

	Quarter ended		Year to date	
	2015	2014	2015	2014
Net Income – YUM! Brands, Inc.	$235	$334	$597	$733
Weighted-average common shares outstanding (for basic calculation)	437	446	437	446
Effect of dilutive share-based employee compensation	8	9	9	10
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	445	455	446	456
Basic EPS	$0.54	$0.75	$1.36	$1.64
Diluted EPS	$0.53	$0.73	$1.34	$1.61
Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS computation[a]	4.3	5.9	5.3	6.1

(a) These unexercised employee stock options and stock appreciation rights were not included in the computation of diluted EPS because to do so would have been antidilutive for the periods presented.

Note 3 - Shareholders' Equity

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during the years to date ended as indicated below. All amounts exclude applicable transaction fees.

	Shares Repurchased (thousands)			Dollar Value of Shares Repurchased			Remaining Dollar Value of Shares that may be Repurchased
Authorization Date	2015		2014	2015		2014	2015
November 2012	—		2,737	$—		$203	$—
November 2013	1,779		1,270	133		97	—
November 2014	1,901		—	162		—	838
Total	3,680	(a)	4,007	$295	(a)	$300	$838

(a) Includes the effect of $8 million in share repurchases (0.1 million shares) with trade dates prior to June 13, 2015 but cash settlement dates subsequent to June 13, 2015.

Changes in accumulated other comprehensive income (loss) ("OCI") are presented below.

	Translation Adjustments and Gains (Losses) From Intra-Entity Transactions of a Long-Term Nature	Pension and Post-Retirement Benefits	Derivative Instruments	Total
Balance at December 27, 2014, net of tax	$29	$(210)	$(9)	$(190)
Gains (losses) arising during the year classified into accumulated OCI, net of tax	(51)	1	8	(42)
(Gains) losses reclassified from accumulated OCI, net of tax	68	15	(8)	75
OCI, net of tax	17	16	—	33
Balance at June 13, 2015, net of tax	$46	$(194)	$(9)	$(157)

Note 4 - Items Affecting Comparability of Net Income and Cash Flows

Refranchising (Gain) Loss

The Refranchising (gain) loss by reportable segment is presented below. We do not allocate such gains and losses to our segments for performance reporting purposes.

	Quarter ended		Year to date	
	2015	2014	2015	2014
China	$(2)	$(5)	$(4)	$(6)
KFC Division[(a)]	35	1	32	—
Pizza Hut Division[(a)]	36	(1)	37	(1)
Taco Bell Division	(1)	—	(7)	(1)
India	—	1	—	1
Worldwide	$68	$(4)	$58	$(7)

(a) In 2010 we refranchised our then-remaining Company-operated restaurants in Mexico. To the extent we owned real estate related to these restaurants, we did not sell the real estate, but instead have leased it to the franchisee. During the quarter ended June 13, 2015 we initiated plans to sell this real estate and determined it was held for sale in accordance with GAAP. The sales price we expect to receive for this real estate exceeds its book value. However, the sale of the real estate will represent a substantial liquidation of our Mexican operations under GAAP. Accordingly, we are required to include accumulated translation losses associated with our Mexican business within our held for sale impairment evaluations. As such, we recorded a $68 million non-cash charge to Refranchising Loss, consisting of losses of $36 million and $32 million for our KFC and Pizza Hut Divisions, respectively. This loss represents the excess of the sum of the book value of the real estate and related assets, an insignificant amount of goodwill and our accumulated translation losses over the expected sales price. Our current expectation is that the real estate sale will close late in 2015 with limited, if any, additional pre-tax gain or loss. The sale is ultimately expected to result in a taxable gain as the anticipated proceeds will exceed the tax basis in the real estate, though the related tax expense will not be recognized until the sale closes.

Our KFC and Pizza Hut Divisions earned approximately $3 million and $1 million, respectively, of rental income in 2014 related to this real estate that will transfer to the buyer subsequent to the sale of the real estate. We will continue to earn U.S. dollar denominated franchise fees, most of which are sales-based royalties, under our existing franchise contracts.

KFC U.S. Acceleration Agreement

During the first quarter of 2015, we reached an agreement with our KFC U.S. franchisees that gave us brand marketing control as well as an accelerated path to improved assets and customer experience. In connection with this agreement we anticipate investing approximately $125 million over the next three years primarily to fund new back-of-house equipment for franchisees and to provide incentives to accelerate franchisee store remodels. We have recorded charges of $8 million and $10 million for the quarter and year to date ended June 13, 2015, respectively, for these investments. We currently expect a total charge of approximately $90 million in 2015 for these investments, with the remaining charge split between 2016 and 2017. These charges are not being allocated to the KFC Division segment operating results.

In addition to the investments above we have agreed to fund incremental system advertising dollars of $60 million. We currently expect to fund approximately $10 million of such advertising in 2015 with the remaining funding split between 2016 and 2017. These amounts are being recorded in the KFC Division segment operating results. During the quarter and year to date ended June 13, 2015, we expensed $3 million in incremental system advertising expense.

Note 5 - Other (Income) Expense

	Quarter ended		Year to date	
	2015	2014	2015	2014
Equity (income) loss from investments in unconsolidated affiliates	$(7)	$(9)	$(16)	$(22)
Foreign exchange net (gain) loss and other	1	1	7	12
Other (income) expense	$(6)	$(8)	$(9)	$(10)

Note 6 - Supplemental Balance Sheet Information

Accounts and Notes Receivable, net

The Company’s receivables are primarily generated as a result of ongoing business relationships with our franchisees and licensees as a result of royalty and lease agreements. Trade receivables consisting of royalties from franchisees and licensees are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts and notes receivable on our Condensed Consolidated Balance Sheets.

	6/13/2015	12/27/2014
Accounts and notes receivable, gross	$366	$337
Allowance for doubtful accounts	(16)	(12)
Accounts and notes receivable, net	$350	$325

Property, Plant and Equipment, net

	6/13/2015	12/27/2014
Property, plant and equipment, gross	$8,076	$8,082
Accumulated depreciation and amortization	(3,704)	(3,584)
Property, plant and equipment, net	$4,372	$4,498

Assets held for sale, included in Prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets, total $31 million at June 13, 2015, including $16 million related to our Mexico business. Assets held for sale at December 27, 2014 totaled $14 million.

Noncontrolling Interests

Noncontrolling interests include the ownership interests of minority shareholders of the entities that operate KFC restaurants in Beijing and Shanghai, China. The redeemable noncontrolling interest comprises the 7% ownership interest in Little Sheep that continues to be held by the Little Sheep founding shareholders, and is classified outside of permanent equity on our Condensed Consolidated Balance Sheets due to redemption rights held by the founding Little Sheep shareholders. A reconciliation of the beginning and ending carrying amount of the equity attributable to noncontrolling interests is as follows:

	Noncontrolling Interests	Reedemable Noncontrolling Interest
Balance at December 27, 2014	$57	$9
Net Income (loss) – noncontrolling interests	—	—
Currency translation adjustments and other	(1)	(1)
Balance at June 13, 2015	$56	$8

Note 7 - Income Taxes

	Quarter ended		Year to date	
	2015	2014	2015	2014
Income tax provision	$102	$112	$213	$251
Effective tax rate	30.4 %	24.9 %	26.3 %	25.4 %

Our effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside the U.S. where tax rates are generally lower than the U.S. rate.

Our second quarter and year to date effective tax rates were higher than the prior year primarily due to the $68 million non-cash refranchising loss with no associated tax benefit related to the decision to dispose of our real estate in Mexico, the unfavorable impact of the resolution of uncertain tax positions in certain jurisdictions, and lapping the favorable resolution of uncertain tax positions in the prior year, partially offset by a reduction in the cost of repatriating expected current year foreign earnings.

Note 8 - Reportable Operating Segments

We identify our operating segments based on management responsibility. See Note 1 for a description of our operating segments. The following tables summarize Revenues and Operating Profit (loss) for each of our reportable operating segments:

	Quarter ended		Year to date	
Revenues	2015	2014	2015	2014
China	$1,636	$1,709	$2,892	$3,088
KFC Division	694	754	1,336	1,418
Pizza Hut Division	264	265	535	532
Taco Bell Division	476	439	907	830
India	35	37	57	60
	$3,105	$3,204	$5,727	$5,928

	Quarter ended		Year to date	
Operating Profit (loss)	2015	2014	2015	2014
China[(a)]	$144	$194	$334	$479
KFC Division	152	155	321	318
Pizza Hut Division	60	63	141	147
Taco Bell Division	140	109	255	193
India	(3)	(1)	(7)	(4)
Unallocated and General and administrative expenses[(b)]	(54)	(48)	(100)	(83)
Unallocated Other income (expense)	—	3	(9)	(7)
Unallocated Refranchising gain (loss)[(c)]	(68)	4	(58)	7
Operating Profit	$371	$479	$877	$1,050
Interest expense, net	(33)	(29)	(67)	(62)
Income Before Income Taxes	$338	$450	$810	$988

(a) Includes equity income from investments in unconsolidated affiliates of $7 million and $9 million for the quarters ended June 13, 2015 and June 14, 2014, respectively. Includes equity income from investments in unconsolidated affiliates of $16 million and $22 million for the years to date ended June 13, 2015 and June 14, 2014, respectively.

(b) Primarily Corporate general and administrative ("G&A") expenses. Also included are costs associated with the KFC U.S. Acceleration Agreement of $8 million and $10 million for the quarter and year to date ending June 13, 2015, respectively.

(c) See the Refranchising (Gain) Loss section of Note 4.

12

Note 9 - Pension Benefits

We sponsor qualified and supplemental (non-qualified) noncontributory defined benefit pension plans covering certain full-time salaried and hourly U.S. employees. The most significant of these plans, the YUM Retirement Plan is funded. We fund our other U.S. plans as benefits are paid. The YUM Retirement Plan and our most significant non-qualified plan in the U.S. are closed to new salaried participants.

The components of net periodic benefit cost associated with our significant U.S. pension plans are as follows:

	Quarter ended		Year to date	
	2015	2014	2015	2014
Service cost	$4	$4	$8	$8
Interest cost	12	13	25	25
Expected return on plan assets	(14)	(13)	(28)	(26)
Amortization of net loss	11	4	21	8
Net periodic benefit cost	$13	$8	$26	$15
Additional loss (gain) recognized due to:				
Settlement [(a)]	$1	$2	$1	$5

(a) Losses are a result of settlement transactions from a non-funded plan which exceeded the sum of annual service and interest costs for that plan. These losses were recorded in G&A expenses.

We contributed $75 million to the YUM Retirement Plan during the year to date ended June 13, 2015. We do not anticipate any additional significant contributions during 2015.

Note 10 - Fair Value Measurements

As of June 13, 2015 the carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments. The fair values of notes receivable net of allowances and lease guarantees less subsequent amortization approximates their carrying values. The Company’s debt obligations, excluding capital leases, were estimated to have a fair value of $3.4 billion (Level 2), compared to their carrying value of $3.2 billion. We estimated the fair value of debt using market quotes and calculations based on market rates.

The Company has interest rate swaps accounted for as fair value hedges, foreign currency forwards accounted for as cash flow hedges and other investments, all of which are required to be measured at fair value on a recurring basis. Interest rate swaps are used to reduce our exposure to interest rate risk and lower interest expense for a portion of our fixed-rate debt, and foreign currency forwards are used to reduce our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany short-term receivables and payables. The fair values of these swaps, forwards and other investments were not material as of June 13, 2015.

The Company's long-lived assets such as property, plant and equipment, goodwill and intangible assets are measured at fair value on a non-recurring basis if determined to be impaired. During the quarter and year to date ended June 13, 2015, we recorded restaurant-level impairment (Level 3) of $17 million and $18 million, respectively. During the quarter and year to date ended June 14, 2014, we recorded restaurant-level impairment (Level 3) of $14 million and $15 million, respectively. The remaining net book value of the assets measured at fair value as of June 13, 2015, subsequent to these impairments, was not significant.

In addition, during the quarter ended June 13, 2015, we initiated plans to sell real estate within our Mexico business and determined it was held for sale. See Note 4.

Note 11 - Recently Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08), which limits dispositions that qualify for discontinued operations presentation to those that represent strategic shifts that have or will have a major effect on an entity’s operations and financial results. Strategic shifts could include a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of the business. ASU 2014-08 was effective for the Company during the quarter ended March 21, 2015. The adoption of this standard has not had an impact on our Financial Statements.

Note 12 - Guarantees, Commitments and Contingencies

Lease Guarantees

As a result of having (a) assigned our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributed certain Company restaurants to former unconsolidated affiliates; and (c) guaranteed certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2065. As of June 13, 2015, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessees was approximately $600 million. The present value of these potential payments discounted at our pre-tax cost of debt at June 13, 2015 was approximately $525 million. Our franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreements in the event of non-payment under the leases. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our probable exposure under such leases as of June 13, 2015 was not material.

Other Franchise Guarantees

We have provided guarantees of $23 million on behalf of franchisees for several financing programs related to specific initiatives. The total loans outstanding under these financing programs were $76 million as of June 13, 2015.

Legal Proceedings

We are subject to various claims and contingencies related to lawsuits, real estate, environmental and other matters arising in the normal course of business. An accrual is recorded with respect to claims or contingencies for which a loss is determined to be probable and reasonably estimable.

In early 2013, four putative class action complaints were filed in the U.S. District Court for the Central District of California against the Company and certain executive officers alleging claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs alleged that defendants made false and misleading statements concerning the Company’s current and future business and financial condition. The four complaints were subsequently consolidated and transferred to the U.S. District Court for the Western District of Kentucky. On August 5, 2013, lead plaintiff, Frankfurt Trust Investment GmbH, filed a Consolidated Class Action Complaint (“Amended Complaint”) on behalf of a putative class of all persons who purchased the Company’s stock between February 6, 2012 and February 4, 2013 (the “Class Period”). The Amended Complaint no longer includes allegations relating to misstatements regarding the Company’s business or financial condition and instead alleges that, during the Class Period, defendants purportedly omitted information about the Company’s supply chain in China, thereby inflating the prices at which the Company’s securities traded. On October 4, 2013, the Company and individual defendants filed a motion to dismiss the Amended

Complaint. On December 24, 2014, the District Court granted that motion to dismiss in its entirety and dismissed the Amended Complaint with prejudice. On January 16, 2015, lead plaintiff filed a notice of appeal to the United States Court of Appeal for the Sixth Circuit. Briefing on plaintiff's appeal is complete and oral argument has been scheduled for August 4, 2015. The Company denies liability and intends to vigorously defend against all claims in the Amended Complaint. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On January 24, 2013, Bert Bauman, a purported shareholder of the Company, submitted a letter demanding that the Board of Directors initiate an investigation of alleged breaches of fiduciary duties by directors, officers and employees of the Company. The breaches of fiduciary duties are alleged to have arisen primarily as a result of the failure to implement proper controls in connection with the Company's purchases of poultry from suppliers to the Company's China operations. Subsequently, similar demand letters by other purported shareholders were submitted. Those letters were referred to a special committee of the Board of Directors (the "Special Committee") for consideration. The Special Committee, upon conclusion of an independent inquiry of the matters described in the letters, unanimously determined that it is not in the best interests of the Company to pursue the claims described in the letters and, accordingly, rejected each shareholder's demand.

On May 9, 2013, Mr. Bauman filed a putative derivative action in Jefferson Circuit Court, Commonwealth of Kentucky against certain current and former officers and directors of the Company asserting breach of fiduciary duty, waste of corporate assets and unjust enrichment in connection with an alleged failure to implement proper controls in the Company's purchases of poultry from suppliers to the Company's China operations and with an alleged scheme to mislead investors about the Company's growth prospects in China. By agreement of the parties, the matter is temporarily stayed pending the appeal of the dismissal of the securities class action. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On February 14, 2013, Jennifer Zona, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On May 21, 2013, Ms. Zona filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman. The case was subsequently reassigned to the same judge that the securities class action is before. On October 14, 2013, the Company filed a motion to dismiss on the basis of the Special Committee's findings. By agreement of the parties, the matter is temporarily stayed pending the appeal of the dismissal of the securities class action. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On May 17, 2013, Sandra Wollman, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On December 9, 2013, Ms. Wollman filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain current and former officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman and Ms. Zona. By agreement of the parties, the matter was consolidated with the Zona action and is temporarily stayed pending the appeal of the dismissal of the securities class action. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

Taco Bell was named as a defendant in a number of putative class action suits filed in 2007, 2008, 2009 and 2010 alleging violations of California labor laws including unpaid overtime, failure to timely pay wages on termination, failure to pay accrued vacation wages, failure to pay minimum wage, denial of meal and rest breaks, improper wage statements, unpaid business expenses, wrongful termination, discrimination, conversion and unfair or unlawful business practices in violation of California Business & Professions Code §17200. Some plaintiffs also seek penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act as well as statutory "waiting time" penalties and allege violations of California's Unfair Business Practices Act. Plaintiffs seek to represent a California state-wide class of hourly employees.

These matters were consolidated, and the consolidated case is styled In Re Taco Bell Wage and Hour Actions. The In Re Taco Bell Wage and Hour Actions plaintiffs filed a consolidated complaint in June 2009, and in March 2010 the court approved the parties' stipulation to dismiss the Company from the action. Plaintiffs filed their motion for class certification on the vacation and final pay claims in December 2010, and on September 26, 2011 the court issued its order denying the certification of the vacation and final pay claims. Plaintiffs then sought to certify four separate meal and rest break classes. On January 2, 2013, the court rejected three of the proposed classes but granted certification with respect to the late meal break class. The parties thereafter agreed on a list of putative class members, and the class notice and opportunity to opt out of the litigation were mailed on January 21, 2014.

Per order of the court, plaintiffs filed a second amended complaint to clarify the class claims. Plaintiffs also filed a motion for partial summary judgment. Taco Bell filed motions to strike and to dismiss, as well as a motion to alter or amend the second amended complaint. On August 29, 2014, the court denied plaintiffs' motion for partial summary judgment. On that same date, the court granted Taco Bell’s motion to dismiss all but one of the California Private Attorney General Act claims. On October 29, 2014, plaintiffs filed a motion to amend the operative complaint and a motion to amend the class certification order. On December 16, 2014, the court partially granted both motions, rejecting plaintiffs’ proposed on-duty meal period class but certifying a limited rest break class and certifying an underpaid meal premium class, and allowing the plaintiffs to amend the complaint to reflect those certifications. On December 30, 2014, plaintiffs filed the third amended complaint. On February 26, 2015, the court denied a motion by Taco Bell to dismiss or strike the underpaid meal premium class. Class notice will be issued shortly to the two recently-certified classes, and discovery and expert discovery is continuing.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. We have provided for a reasonable estimate of the possible loss relating to this lawsuit. However, in view of the inherent uncertainties of litigation, there can be no assurance that this lawsuit will not result in losses in excess of those currently provided for in our Condensed Consolidated Financial Statements. A reasonable estimate of the amount of any possible loss or range of loss in excess of that currently provided for in our Condensed Consolidated Financial Statements cannot be made at this time.

On May 16, 2013, a putative class action styled Bernardina Rodriguez v. Taco Bell Corp. was filed in California Superior Court. The plaintiff seeks to represent a class of current and former California hourly restaurant employees alleging various violations of California labor laws including failure to provide meal and rest periods, failure to pay hourly wages, failure to provide accurate written wage statements, failure to timely pay all final wages, and unfair or unlawful business practices in violation of California Business & Professions Code §17200. This case appears to be duplicative of the In Re Taco Bell Wage and Hour Actions case described above. Taco Bell removed the case to federal court and, on June 25, 2013, plaintiff filed a first amended complaint to include a claim seeking penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act. Taco Bell's motion to dismiss or stay the action in light of the In Re Taco Bell Wage and Hour Actions case was denied on October 30, 2013. In April 2014 the parties stipulated to address the sufficiency of plaintiff's legal theory as to her discount meal break claim before conducting full discovery. A hearing on the parties' cross-summary judgment motions was held on October 22, 2014, and on October 23, 2014, the court granted Taco Bell's motion for summary judgment on the discount meal break claim and denied plaintiff's motion. Discovery will continue as to plaintiff's remaining claims.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

We are engaged in various other legal proceedings and have certain unresolved claims pending, the ultimate liability for which, if any, cannot be determined at this time. However, based upon consultation with legal counsel, we are of the opinion that such proceedings and claims are not expected to have a material adverse effect, individually or in the aggregate, on our Condensed Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction and Overview

Yum! Brands, Inc. ("YUM" or the "Company") operates, franchises or licenses a worldwide system of over 41,000 restaurants in more than 125 countries and territories, primarily through the concepts of KFC, Pizza Hut and Taco Bell. These three concepts are the global leaders in the chicken, pizza and Mexican-style food categories, respectively. Of the more than 41,000 restaurants, 21% are operated by the Company and 79% are operated by franchisees, licensees or unconsolidated affiliates.

The Company is focused on the following key growth strategies:

- Building Powerful Brands Through Superior Marketing, Breakthrough Innovation and Compelling Value with a Foundation Built on Winning Food and World Class Operations

- Driving Aggressive Unit Expansion Everywhere, Especially in Emerging Markets, and Building Leading Brands in Every Significant Category in China and India

- Creating Industry Leading Returns Through Franchising and Disciplined Use of Capital, Maximizing Long-term Shareholder Value

YUM consists of five reporting segments:

- YUM China ("China" or "China Division") which includes all operations in mainland China
- YUM India ("India" or "India Division") which includes all operations in India, Bangladesh, Nepal and Sri Lanka
- The KFC Division which includes all operations of the KFC concept outside of China Division and India Division
- The Pizza Hut Division which includes all operations of the Pizza Hut concept outside of China Division and India Division
- The Taco Bell Division which includes all operations of the Taco Bell concept outside of India Division

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited Condensed Consolidated Financial Statements ("Financial Statements"), the Cautionary Note Regarding Forward-Looking Statements and our Annual Report on Form 10-K for the fiscal year ended December 27, 2014 ("2014 Form 10-K"). References to YUM throughout this discussion are made in first person notations of "we," "us" or "our."

We intend for this MD&A to provide the reader with information that will assist in understanding our results of operations, including performance metrics that management uses to assess the Company's performance. Throughout this MD&A, we commonly discuss the following performance metrics:

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("FX" or "Forex"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

- System sales growth includes the results of all restaurants regardless of ownership, including company-owned, franchise, unconsolidated affiliate and license restaurants that operate our Concepts, except for non-company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise, unconsolidated affiliate and license restaurants typically generate ongoing franchise and license fees for the Company (typically at a rate of 4% to 6% of sales). Franchise, unconsolidated affiliate and license restaurant sales are not included in Company sales on the Condensed Consolidated Statements of Income; however, the franchise and license fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Same-store sales growth is the estimated percentage change in sales of all restaurants that have been open and in the YUM system one year or more. The impact of same-store sales growth on both our Company-owned store results and Franchise and license fees and income is described elsewhere in this MD&A.

17

- Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin as a percentage of sales is defined as Restaurant profit divided by Company sales. Within the Company Sales and Restaurant Profit analyses, Store Portfolio Actions represent the net impact of new unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in costs such as inflation/deflation.

- In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") throughout this MD&A, the Company provides non-GAAP measurements which present operating results on a basis before items that we have deemed Special. The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present operations, excluding those items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

All Note references herein refer to the accompanying Notes to the Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding.

Ongoing Earnings Growth Model

Our ongoing earnings growth model targets at least a 10% earnings per share ("EPS") growth rate, which is based on our ongoing Operating Profit growth targets of 15% in China, 10% for our KFC Division, 8% for our Pizza Hut Division and 6% for our Taco Bell Division. While we believe India is a significant long-term growth driver, our ongoing earnings growth model currently assumes no impact from India growth. See the Division discussions within the Results of Operations of this MD&A for further details of our Divisional growth models.

2015 EPS, prior to Special Items, is expected to grow at least 10%, consistent with our ongoing targeted growth rate. As communicated in December 2014 (see specific guidance provided in December 2014 at http://www.yum.com) we expected EPS declines in the first half of the year followed by a very strong second half resulting in at least 10% growth for the full year. This was predicated largely on our expectation that the China business would continue to recover from the adverse publicity in July 2014 surrounding improper food handling practices by a former supplier.

For the year to date ended June 13, 2015 EPS, prior to Special Items, declined 7% driven by same-store sales declines in our China Division. As we lap last year's supplier incident, we continue to expect substantial same-store sales and Operating Profit growth in China in the second half of the year given overall trends in sales and brand perceptions. As a result, we believe that we are on track to meet our EPS growth expectation, prior to Special Items, of at least 10% for the full year.

Results of Operations

Summary

All comparisons within this summary below are versus the same period a year ago and exclude the impact of Special Items. All system sales growth and Operating Profit comparisons exclude the impact of foreign currency translation.

For the quarter ended June 13, 2015 diluted EPS decreased 5% to $0.69 per share as sales and profits of our China Division, which is our largest profit contributor, were significantly impacted by residual effects of adverse publicity in July 2014 surrounding improper food handling practices by a former supplier. During the quarter, China Division system sales declined 4%, same-store sales declined 10% and Operating Profit declined 25%.

Also during the quarter:

- The China Division opened 80 new units.
- KFC Division system sales increased 6% and Operating Profit increased 10%. Same-store sales increased 3% and the Division opened 122 new international units.
- Pizza Hut Division system sales increased 1% and Operating Profit declined 1%. Same-store sales were even with the prior year and the Division opened 66 new international units.
- Taco Bell Division system sales increased 9% and Operating Profit increased 29%. Same-store sales increased 6% and the Division opened 58 new units.
- India Division system sales were even with prior year and Operating Profit declined $2 million. Same-store sales decreased 11% and the Division opened 13 new units.
- Foreign currency translation negatively impacted Operating Profit by $22 million.
- Our effective tax rate increased to 25.6% from 24.9%.

Worldwide

The Consolidated Results of Operations for the quarters ended June 13, 2015 and June 14, 2014 are presented below:

	Quarter ended			Year to date		
	2015	2014	% B/(W)	2015	2014	% B/(W)
Company sales	$2,659	$2,758	(4)	$4,838	$5,050	(4)
Franchise and license fees and income	446	446	—	889	878	1
Total revenues	$3,105	$3,204	(3)	$5,727	$5,928	(3)
Restaurant profit	$411	$428	(4)	$793	$869	(9)
Restaurant margin %	15.5 %	15.5 %	— ppts.	16.4 %	17.2 %	(0.8) ppts.
General and administrative ("G&A") expenses	$353	$352	(1)	$648	$623	(4)
Franchise and license expenses	47	34	(36)	81	67	(22)
Closures and impairment (income) expenses	24	21	(8)	27	24	(10)
Refranchising (gain) loss	68	(4)	NM	58	(7)	NM
Other (income) expense	(6)	(8)	(30)	(9)	(10)	(12)
Operating Profit	$371	$479	(22)	$877	$1,050	(16)
Interest expense, net	33	29	(15)	67	62	(9)
Income tax provision	102	112	8	213	251	15
Effective Tax Rate	30.4 %	24.9 %	(5.5) ppts.	26.3 %	25.4 %	(0.9) ppts.
Net Income – including noncontrolling interests	$236	$338	(30)	$597	$737	(19)
Net Income (loss) – noncontrolling interests	1	4	86	—	4	96
Net Income – YUM! Brands, Inc.	$235	$334	(30)	$597	$733	(19)
Diluted earnings per share [(a)]	$0.53	$0.73	(28)	$1.34	$1.61	(17)
Diluted earnings per share before Special Items [(a)]	$0.69	$0.73	(5)	$1.50	$1.60	(7)

(a) See Note 2 for the number of shares used in this calculation.

	Quarter ended		Year to date	
	2015	2014	2015	2014
System Sales Growth, reported	(2)%	4 %	(1)%	3 %
System Sales Growth, excluding FX	3 %	6 %	4 %	5 %

Unit Count	6/13/2015	6/14/2014	% Increase (Decrease)
Franchise & License	32,190	31,452	2
Company-owned	8,785	8,236	7
Unconsolidated Affiliates	773	731	6
	41,748	40,419	3

20

Special Items

Special Items, along with the reconciliation to the most comparable GAAP financial measure, are presented below.

	Quarter ended		Year to date	
Detail of Special Items	2015	2014	2015	2014
Losses associated with the refranchising of equity markets outside the U.S.	$(73)	$—	$(73)	$—
Costs associated with KFC U.S. Acceleration Agreement	(8)	—	(10)	—
U.S. Refranchising gain[(a)]	1	1	8	3
Other Special Items Income (Expense)	2	—	2	—
Total Special Items Income (Expense)	(78)	1	(73)	3
Tax Benefit (Expense) on Special Items[(b)]	3	—	1	(1)
Special Items Income (Expense), net of tax	$(75)	$1	(72)	2
Average diluted shares outstanding	445	455	446	456
Special Items diluted EPS	$(0.16)	$—	$(0.16)	$0.01
Reconciliation of Operating Profit Before Special Items to Reported Operating Profit				
Operating Profit before Special Items	$449	$478	$950	$1,047
Special Items Income (Expense)	(78)	1	(73)	3
Reported Operating Profit	$371	$479	$877	$1,050
Reconciliation of EPS Before Special Items to Reported EPS				
Diluted EPS before Special Items	$0.69	$0.73	$1.50	$1.60
Special Items EPS	(0.16)	—	(0.16)	0.01
Reported EPS	$0.53	$0.73	$1.34	$1.61
Reconciliation of Effective Tax Rate Before Special Items to Reported Effective Tax Rate				
Effective Tax Rate before Special Items	25.6%	24.9%	24.4%	25.4%
Impact on Tax Rate as a result of Special Items[(b)]	4.8%	—%	1.9%	—%
Reported Effective Tax Rate	30.4%	24.9%	26.3%	25.4%

(a) Refranchising gains and losses in the U.S. have been reflected as Special Items due to the scope of our U.S. refranchising program in recent years and the volatility in associated gains and losses.

(b) The tax benefit (expense) was determined based upon the impact of the nature, as well as the jurisdiction of the respective individual components within Special Items.

Refranchising of Equity Markets Outside the U.S.

In 2010 we refranchised our then-remaining Company-operated restaurants in Mexico. To the extent we owned real estate related to these restaurants, we did not sell the real estate, but instead have leased it to the franchisee. During the quarter ended June 13, 2015 we initiated plans to sell this real estate and determined it was held for sale in accordance with GAAP. The sales price we expect to receive for this real estate exceeds its book value. However, the sale of the real estate will represent a substantial liquidation of our Mexican operations under GAAP. Accordingly, we are required to include accumulated translation losses associated with our Mexican business within our held for sale impairment evaluations. As such, we recorded a $68 million non-cash charge to Refranchising Loss as a Special Item. This loss represents the excess of the sum of the book value of the real estate and related assets, an insignificant amount of goodwill and our accumulated translation losses over the expected sales price. Our current expectation is that the real estate sale will close late in 2015 with limited, if any, additional pre-tax gain or loss. The sale is ultimately expected to result in a taxable gain as the anticipated proceeds will exceed the tax basis in the real estate, though the related tax expense will not be recognized until the sale closes. Our ex-Special tax rate for the quarter ended June 13, 2015 was favorably impacted by 2 percentage points as a result of this loss. There will be no impact on the full year ex-Special tax rate.

Additionally, during the quarter ended June 13, 2015 we recognized a Special Items charge of $5 million associated with refranchising initiatives within Pizza Hut Korea. As we had not begun to market the restaurants, no underlying assets have been classified as held for sale at June 13, 2015. Additional charges may occur as the refranchising moves forward, but such charges are not expected to be material at this time.

KFC U.S. Acceleration Agreement

During the first quarter of 2015, we reached an agreement with our KFC U.S. franchisees that gave us brand marketing control as well as an accelerated path to improved assets and customer experience. In connection with this agreement we anticipate investing approximately $125 million over the next three years primarily to fund new back-of-house equipment for franchisees and to provide incentives to accelerate franchisee store remodels. We have recorded charges of $8 million and $10 million for the quarter and year to date ended June 13, 2015, respectively, for these investments. We currently expect a total charge of approximately $90 million in 2015 for these investments, with the remaining charge split between 2016 and 2017. These charges are not being allocated to the KFC Division segment operating results and are instead being presented as Special Items due to their unique and long-term brand-building nature.

China Division

The China Division has 6,853 units, predominately KFC and Pizza Hut Casual Dining restaurants which are the leading quick service and casual dining restaurant brands, respectively, in mainland China. Given our strong competitive position, a growing economy and a population of approximately 1.4 billion in mainland China, the Company is focused on rapidly adding KFC and Pizza Hut Casual Dining restaurants and accelerating the development of Pizza Hut Home Service (home delivery). Our ongoing earnings growth model in China includes low double-digit percentage unit additions, mid-single digit same-store sales growth and moderate margin improvement, which we expect to drive annual Operating Profit growth of 15%.

	Quarter ended				Year to date			
			% B/(W)				% B/(W)	
	2015	2014	Reported	Ex FX	2015	2014	Reported	Ex FX
Company sales	$1,608	$1,683	(4)	(4)	$2,843	$3,039	(6)	(5)
	28	26	2	2	49	49	(1)	—

Franchise and license fees and income								
Total revenues	$1,636	$1,709	(4)	(4)	$2,892	$3,088	(6)	(5)
Restaurant profit	$234	$283	(17)	(17)	$467	$600	(22)	(21)
Restaurant margin %	14.6 %	16.8 %	(2.2) ppts.	(2.2) ppts.	16.4 %	19.8 %	(3.4) ppts.	(3.3) ppts.
G&A expenses	$100	$102	2	2	$168	$164	(2)	(3)
Operating Profit	$144	$194	(26)	(25)	$334	$479	(30)	(29)

22

	Quarter ended		Year to date	
	2015	2014	2015	2014
System Sales Growth, reported	(4)%	21%	(6)%	20%
System Sales Growth, excluding FX	(4)%	21%	(5)%	19%
Same-Store Sales Growth %	(10)%	15%	(11)%	12%

Unit Count	6/13/2015	6/14/2014	% Increase (Decrease)
Company-owned	5,520	5,138	7
Unconsolidated Affiliates	773	731	6
Franchise & License	560	518	8
	6,853	6,387	7

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

	Quarter ended				
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	$1,683	$87	$(161)	$(1)	$1,608
Cost of sales	(531)	(24)	40	—	(515)
Cost of labor	(337)	(17)	21	—	(333)
Occupancy and other	(532)	(30)	35	1	(526)
Company restaurant expenses	$(1,400)	$(71)	$96	$1	$(1,374)
Restaurant profit	$283	$16	$(65)	$—	$234

	Year to date				
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	$3,039	$155	$(315)	$(36)	$2,843
Cost of sales	(949)	(43)	74	11	(907)
Cost of labor	(578)	(32)	26	7	(577)
Occupancy and other	(912)	(53)	62	11	(892)
Company restaurant expenses	$(2,439)	$(128)	$162	$29	$(2,376)
Restaurant profit	$600	$27	$(153)	$(7)	$467

The increase in Company sales and Restaurant profit for the quarter associated with store portfolio actions was driven by net new unit growth, partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit for the quarter were same-store sales declines of 10%, wage inflation of 9% and commodity inflation of 2%, partially offset by labor efficiencies.

The year to date increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth, partially offset by refranchising. Significant other factors impacting year to date Company sales and/or Restaurant profit were same-store sales declines of 11%, wage inflation of 10% and commodity inflation of 3%, partially offset by labor efficiencies.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter was driven by refranchising and net new unit growth, partially offset by franchise same-store sales declines of 11%.

Year to date Franchise and license fees and income was even, excluding the impact of foreign currency translation, with the impacts of refranchising and net new unit growth offset by franchise same-store sales declines of 11%.

G&A Expenses

The decrease in G&A expenses for the quarter was driven by lower incentive compensation costs.

The year to date increase in G&A expenses, excluding the impact of foreign currency translation, was driven by higher compensation costs due to wage inflation and increased headcount.

Operating Profit

The decrease in Operating Profit for the quarter and year to date, excluding the impact of foreign currency translation, was driven by the impact of same-store sales declines and higher restaurant operating costs, partially offset by labor efficiencies and net new unit growth.

KFC Division

The KFC Division has 14,234 units, approximately 70% of which are located outside the U.S. The KFC Division has experienced significant unit growth in emerging markets, which comprised approximately 40% of both the Division's units and profits, respectively, as of the end of 2014. Additionally, 91% of the KFC Division units were operated by franchisees and licensees as of the end of 2014. Our ongoing earnings growth model for the KFC Division includes low-single-digit percentage net unit and same-store sales growth. This combined with restaurant margin improvement and leverage of our G&A structure is expected to drive annual Operating Profit growth of 10%.

	Quarter ended				Year to date			
			% B/(W)				% B/(W)	
	2015	2014	Reported	Ex FX	2015	2014	Reported	Ex FX
Company sales	$505	$558	(9)	5	$950	$1,027	(7)	6
Franchise and license fees and income	189	196	(3)	7	386	391	(1)	7
Total revenues	$694	$754	(8)	6	$1,336	$1,418	(6)	6
Restaurant profit	$78	$72	8	24	$146	$133	10	24
Restaurant margin %	15.3 %	12.9 %	2.4 ppts.	2.2 ppts.	15.3 %	12.9 %	2.4 ppts.	2.2 ppts.
G&A expenses	$93	$94	—	(12)	$172	$170	(1)	(11)
Operating Profit	$152	$155	(2)	10	$321	$318	1	11

	Quarter ended		Year to date	
	2015	2014	2015	2014
System Sales Growth, reported	(4)%	2 %	(2)%	— %
System Sales Growth, excluding FX	6 %	5 %	7 %	5 %
Same-Store Sales Growth %	3 %	2 %	4 %	2 %

Unit Count	6/13/2015	6/14/2014	% Increase (Decrease)

Franchise & License	12,904	12,624	2
Company-owned	1,330	1,282	4
	14,234	13,906	2

24

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Quarter ended					
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	$558	$9	$21	$(83)	$505
Cost of sales	(194)	(5)	—	28	(171)
Cost of labor	(135)	—	(4)	21	(118)
Occupancy and other	(157)	(2)	(2)	23	(138)
Company restaurant expenses	$(486)	$(7)	$(6)	$72	$(427)
Restaurant profit	$72	$2	$15	$(11)	$78

Year to date					
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	$1,027	$15	$42	$(134)	$950
Cost of sales	(358)	(8)	(4)	46	(324)
Cost of labor	(249)	(1)	(5)	33	(222)
Occupancy and other	(287)	(5)	(3)	37	(258)
Company restaurant expenses	$(894)	$(14)	$(12)	$116	$(804)
Restaurant profit	$133	$1	$30	$(18)	$146

The increase in Company sales and Restaurant profit for the quarter and year to date associated with store portfolio actions was driven by net new unit growth partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 4% for the quarter and year to date.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter and year to date, excluding the impact of foreign currency translation, was driven by growth in net new units and franchise and license same-store sales growth of 2% and 4% for the quarter and year to date, respectively.

G&A Expenses

The increase in G&A expenses for the quarter and year to date, excluding the impact of foreign currency translation, was driven by higher incentive compensation costs, higher compensation costs due to increased headcount in international markets and higher pension costs in the U.S.

Operating Profit

The increase in Operating Profit for the quarter and year to date, excluding the impact of foreign currency translation, was driven by growth in same-store sales and net new units, partially offset by higher G&A.

Pizza Hut Division

The Pizza Hut Division has 13,579 units, approximately 60% of which are located in the U.S. The Pizza Hut Division operates as one brand that uses multiple distribution channels including delivery, dine-in and express (e.g. airports). Emerging markets comprised approximately 20% of both units and profits for the Division as of the end of 2014. Additionally, 94% of the Pizza Hut Division units were operated by franchisees and licensees as of the end of 2014. Our ongoing earnings growth model for the Pizza Hut Division includes 3-4 percentage points of net unit growth and low-single-digit same-store sales growth. This combined with restaurant margin improvement and leverage of our G&A structure is expected to drive annual Operating Profit growth of 8%.

	Quarter ended				Year to date			
			% B/(W)				% B/(W)	
	2015	2014	Reported	Ex FX	2015	2014	Reported	Ex FX
Company sales	$145	$142	2	4	$289	$282	2	5
Franchise and license fees and income	119	123	(3)	2	246	250	(1)	2
Total revenues	$264	$265	—	3	$535	$532	1	3
Restaurant profit	$14	$10	40	38	$31	$25	22	21
Restaurant margin %	9.9 %	7.2 %	2.7 ppts.	2.4 ppts.	10.8 %	9.0 %	1.8 ppts.	1.4 ppts.
G&A expenses	$61	$58	(6)	(12)	$118	$107	(10)	(15)
Operating Profit	$60	$63	(4)	(1)	$141	$147	(4)	(2)

	Quarter ended		Year to date	
	2015	2014	2015	2014
System Sales Growth, reported	(3)%	(2)%	(2)%	(2)%
System Sales Growth, excluding FX	1 %	(1)%	2 %	— %
Same-Store Sales Growth %	— %	(3)%	— %	(2)%

Unit Count	6/13/2015	6/14/2014	% Increase (Decrease)
Franchise & License	12,778	12,588	2
Company-owned	801	750	7
	13,579	13,338	2

26

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

	Quarter ended				
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	$142	$8	$(2)	$(3)	$145
Cost of sales	(43)	(2)	4	1	(40)
Cost of labor	(44)	(2)	—	1	(45)
Occupancy and other	(45)	(3)	—	2	(46)
Company restaurant expenses	$(132)	$(7)	$4	$4	$(131)
Restaurant profit	$10	$1	$2	$1	$14

	Year to date				
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	$282	$17	$(4)	$(6)	$289
Cost of sales	(85)	(4)	7	2	(80)
Cost of labor	(87)	(5)	1	2	(89