

YUMC Earnings Call Transcript

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Operator: Good day, and thank you for standing by. Welcome to Yum China Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to turn the call over to your first speaker today, Ms. Florence Lip. Please go ahead.

Florence Lip: Thank you, operator. Hello, everyone, and welcome to Yum China Third Quarter 2025 Earnings Conference Call. With me on the call are our CEO, Ms. Joey Wat; and our CFO, Mr. Adrian Ding. Before we begin, I need to remind everyone that our remarks and investor materials contain forward-looking statements. These are subject to future events and uncertainties, and actual results may differ materially. Please consider these forward-looking statements together with the cautionary statement in our earnings release and the risk factors included in our SEC filings. We'll also be talking about non-GAAP financial measures. We encourage you to review the comparable GAAP measures, along with the reconciliation of non-GAAP and GAAP measures provided in our earnings release, which is available on our Investor Relations website at ir.yumchina.com. You can also find both the webcast replay and a PowerPoint presentation on our IR website. Please note that all year-over-year growth rates discussed today exclude the impact of foreign currency, unless we mention otherwise. With that, I will now turn the call over to Joey Wat, CEO of Yum China. Joey?

Joey Wat: Hello, everyone, and thank you for joining us. Building on our first half momentum, we achieved another solid quarter 3, accelerating store openings, driving growth in both same-store and system sales and expanding margins. Delivering growth across all three dimensions was no easy task, but we made it happen. System sales grew 4% year-over-year, outpacing the China restaurant industry. Same-store sales grew for the second consecutive quarter. Restaurant margin expanded to 17.3%. Together, these gains drove an 8% year-over-year increase in operating profit to \$400 million, a quarter 3 record for adjusted operating profit. These results reflect the resilience of our established RGM strategy, which stands for resilience, growth and moat and the steadfast execution of our teams in a dynamic market. Store expansion accelerated in quarter 3 with 536 net new stores. Our total store count exceeds 17,500 stores, keeping us on track to reach 20,000 stores by the end of 2026. As we promised in our last Investor Day, leveraging our portfolio of brands and flexible store formats, we are penetrating deeper into more cities while enhancing convenience in existing cities. By brand, KFC is as resilient as ever with 2% same-store sales growth, strong and steady restaurant margins and a year-to-date record pace of new store openings. Pizza Hut accelerated store openings from the first half of 2025, surpassing the 4,000 store milestone while expanding restaurant margins year-over-year for the sixth consecutive quarter. Our dual focus on innovation and operational efficiency underpins our success, starting with our sales initiatives. We have delivered same-store transaction growth every quarter since 2023, 11 in a row. Notably, Pizza Hut has achieved 17% same-store transaction growth for three consecutive quarters. These results highlight the success of our pricing strategy, keeping KFC price points relatively steady and lowering them at Pizza Hut, amid improving restaurant margins. By making our food more accessible to more consumers, we attract more traffic. At the same time, we have transformed our operations for better efficiency. Great value and great prices must be accompanied by innovative, good tasting food. Our focus spans three key areas: hero products, limited time offers and new growth drivers. First, our hero products remain powerful growth driver and inspire

strong repeat purchases. At KFC, chicken wings have been one of our core categories, featuring our hero products, roasted wings and hot wings. We extended this core category with the launch of the latest Crackling Golden Chicken Wings, [Foreign Language], extra crispy outside, juicy inside. This Chinese style wing is packed with a sweet and spicy garlic punch. During the promotion, sales of the new wings surged, matching the popularity of our roasted wings and showing great potential as a future growth engine. At Pizza Hut, pizzas account for over 40% of sales, with double-digit sales growth this quarter. We serve a broad range of pizzas, including pan and stuffed crust to satisfy diverse taste. Most recently, our new hand-crafted thin-crust pizza [Foreign Language] became our best-selling crust within just 2 months of launch, now making up one in every three pizzas sold. Perfectly crispy with abundant toppings, it earned rave reviews and drove promising repeat purchases. Second is our LTOs or limited time offers. We keep our core menu focused to ensure operational efficiency while introducing highly selective products for limited time periods to drive repeat visits. These offerings are not onetime wonders, but are designed for lasting appeal, in some cases, enduring for decades. [Foreign Language] KFC has developed several classic LTOs with a proven sales record that return periodically, such as Chicken Taco and Double Down each time we add fresh choices, like our Spicy Beef Wrap with crunchy lotus root [Foreign Language] which became our best-selling beef wrap LTO in the last 4 years. Third, we are constantly exploring new growth drivers. New products such as KFC's whole chicken, along with Pizza Hut burgers are showing strong growth. We also see opportunities across our price ranges. Entry-level combos at KFC and entry-level pizzas at Pizza Hut achieved double-digit sales growth year-to-date. Taking it a step further, KFC is now exploring satisfying meals priced below RMB 20 to better reach customers with tighter budgets via select channels in some regions. These initiatives will also strengthen our relevance and appeal in lower-tier cities. With our menu innovation and superb supply chain, we deliver outstanding value and drive traffic to our store at solid margins. While great tasting food is fundamental, emotional value is just as important. We collaborate with leading IPs in animation, gaming and sports on themed food, packaging and gifts, attracting new and young customers. In quarter 3, delivery sales accounted for 51% of total sales, up from 40% in the same quarter last year. While there have been increased promotions on delivery platforms, as we discussed before, our core brands maintain a balanced approach, driving top line growth while protecting margins. KCOFFEE Cafes took the opportunity to increase exposure and drive additional traffic, and Lavazza achieved double-digit same-store sales growth in quarter 3. Let me now turn the call over to Adrian to discuss our results in detail. Afterwards, I will share additional color on our strategy. Adrian?

Adrian Ding: Thank you, Joey. Let me now update key highlights by brand. Let me start with KFC. KFC opened a record of 402 net new stores in quarter 3, expanding its portfolio to 12,640 stores. System sales grew 5%. Same-store sales grew 2%, led by same-store transaction growth of 3%. Ticket average was CNY 38, down 1%, primarily due to the rapid growth of smaller orders. Our side-by-side modules grew nicely and delivered incremental sales and profits. KCOFFEE Cafes expanded to 1,800 locations, well ahead of our expectations. Daily cups sold per store increased 30% year-over-year in quarter 3, driven by strong menu innovations and platforms promotions. We saw strong repeat purchases, particularly for our most popular beverages, Sparkling Americano series. Riding on strong summer demand, sales of this signature series grew over 50% quarter-on-quarter. Similar to KCOFFEE Cafes, KPRO also enjoy synergy with KFC by sharing its store space, in-store resources and membership programs. Offering lighter options such as Energy Bowl and Super Food Smoothies, KPRO is designed to capture the fast-growing light meal market. It stands out with its excellent value for money and KFC's trusted quality standards. We have expanded KPRO to 100 locations. Initial results have been encouraging. We're continuing to refine the model and plan to scale it further, primarily across higher-tier cities. Our membership data indicates that a significant majority of our members have yet to try KCOFFEE and KPRO. As such, we see huge potential for growth. Now turning to Pizza Hut. Pizza Hut surpassed the 4,000 store milestone in quarter 3. Store openings accelerated with 298 net new stores year-to-date, keeping us on track for double-digit percentage growth in total store count for 2025. System sales growth sequentially improved from 2% in quarter 1 to 3% in quarter 2 and 4% in quarter 3. Same-store sales rose 1%, driven by 17% same-store transaction growth for the third consecutive quarter. Ticket average was CNY 70, down 13% year-over-year, in line with our

strategic focus on the mass market segment. Alongside our investments in food and value for money offerings, we improved restaurant margin by 60 basis points by streamlining operations and enhancing supply chain efficiency. Pizza Hut WOW has expanded to 250 stores, adding nearly 50 stores year-to-date with its low CapEx model and streamlined operations. These openings have taken us into 40 new cities with no prior Pizza Hut presence. We'll continue to ramp up new WOW store openings, primarily focusing on lower-tier cities. Let me now go through our quarter 3 P&L; System sales grew 4% year-over-year and same-store sales grew 1%, both in line with our targets. Our restaurant margin was 17.3%, 30 basis points higher year-over-year. Savings in cost of sales and occupancy and other costs offset increases in cost of labor. Cost of sales was 31.3%, 40 basis points lower year-over-year. Our continued efforts to optimize supply chain efficiency and favorable commodity prices contributed to the improvement. This enabled us to pass some of the savings to customers, offering great value for money. Cost of labor was 26.2%, 110 basis points higher year-over-year. While non-rider costs as a percentage of sales remained relatively stable year-over-year, the higher delivery mix led to higher rider costs overall. We continue to optimize store operations to partially offset wage inflation and the impact of higher delivery mix. Occupancy and other was 25.2%, 100 basis points lower year-over-year as a result of better rent and store CapEx optimizations. G&A; expenses were 4.5% of revenue, even with the prior year period. Our OP margin was 12.5%, 40 basis points higher year-over-year, primarily driven by improved restaurant margin. Operating profit was \$400 million, growing 8% year-over-year. Core OP also grew 8% year-over-year. Effective tax rate was 27.6%, 30 basis points higher year-over-year. Net income was \$282 million, 5% lower year-over-year. Excluding our investment in Meituan, net income grew 7% year-over-year. Our investment in Meituan had a negative impact of \$8 million in quarter 3 compared to a positive impact of \$26 million in quarter 3 last year. As a reminder, we recognized \$8 million less in interest income in quarter 3 this year due to a lower cash balance, resulting from the cash we returned to shareholders and lower interest rates. Diluted EPS was \$0.76, 1% lower year-over-year or up 11% year-over-year, excluding the impact from our Meituan investment. Let's now move on to capital returns to shareholders. Year-to-date, we returned a total of \$950 million to shareholders, including \$682 million in share repurchases and \$268 million in dividends. In September, we announced an additional \$270 million share repurchase program on top of the \$866 million previously announced for 2025. With a quarterly dividend of \$0.24 per share, we are on track to return a total of approximately \$1.5 billion to shareholders in 2025. From 2024 to 2026, we are committed to returning approximately \$1.5 billion each year to shareholders or annually around 8% to 9% of our current market cap. Our cash position remains healthy with \$2.7 billion in net cash as of the end of quarter 3. Turning to our outlook. We accelerated store openings in quarter 3, bringing our year-to-date net new store count to 1,119. This keeps us on track for 1,600 to 1,800 net new stores in 2025. Franchise mix of net new stores year-to-date was 41% for KFC and 27% for Pizza Hut. We expect similar ratios for the full year, in line with our target ranges of 40% to 50% for KFC and 20% to 30% for Pizza Hut. Our 2025 CapEx target of \$600 million to \$700 million remains unchanged. Per store CapEx for new openings continue to decrease. KFC per store CapEx has decreased from CNY 1.5 million in 2024 to CNY 1.3 million to CNY 1.4 million currently, while Pizza Hut has fallen from CNY 1.2 million in 2024 to CNY 1.0 million to CNY 1.1 million. For quarter 4, with solid new store openings, we remain on track for mid-single-digit system sales growth. Predicting same-store sales growth is always challenging, but our goal is to keep quarter 4 same-store sales growth at similar levels as quarter 3. We're also working hard toward achieving our 12th consecutive quarter of positive same-store transaction growth. On margins, we continue to expect core OP margin for the second half to be slightly higher year-over-year, with quarter 4 broadly in line with last year due to tougher year-over-year comparisons. Last year's base benefited from Project Fresh Eye and Red Eye, while higher rider costs from a larger delivery mix remain a headwind. We'll focus on enhancing efficiency to mitigate these headwinds. As a reminder, quarter 4 is traditionally our low season with smaller sales and profits. Overall, we remain committed to meeting our full year target of mid-single-digit system sales growth and moderately improved margins. With that, let me pass it back to Joey for her closing remarks.

Joey Wat: Thank you, Adrian. Let me share a few thoughts on our strategy. On the front end, our multi-brand portfolio, diverse modules and offerings cater to a wide range of customer segments and occasions. Through continuous innovation, we unlock new opportunities that drive incremental sales.

On the back end, we are fostering even greater synergies. We expect more sharing, centralization and consolidation of resources in and across stores, regions and even brands. This will enable deeper market penetration and faster, more efficient expansion. For example, Mega RGMs manage multiple stores and support rapid store portfolio expansion. Side-by-side modules share KFC's in-store resources and membership programs to drive additional sales and profits with lighter investment and operating costs. We see tremendous opportunity ahead of us as we leverage synergies to grow our businesses while protecting margins. We are excited about our growth potential and look forward to sharing more at our Investor Day. Before we turn to Q&A, let me recap the three key takeaways from today. First, our dual focus on innovation and operational efficiency enable us to deliver yet another quarter of solid results. We accelerated store openings, recorded 1% same-store sales growth and expanded margins, delivering growth across all three dimensions. Second, we grew our businesses by leveraging synergies while protecting margins. KFC's KCOFFEE Cafes expansion is ahead of plan, and both KPRO and Pizza Hut WOW are building encouraging momentum. And lastly, our established RGM strategy, resilience, growth and moat, and our team's strong execution, we are on track to meet our 2025 targets while setting the stage for future growth. With that, I'll pass it back to Florence.

Florence Lip: Thanks, Joey. Now let me share a quick preview of our upcoming Investor Day, which will be held in Shenzhen on November 17. Joey, Adrian, along with our leadership team, will share updates on our RGM strategy and 3-year growth algorithm. A live webcast of the presentations will be available on our IR website. For those visiting in person, we planned visits to a range of store formats and locations. Investors will be able to gain firsthand insights into the local market, see our operations in action as well as sample our signature and innovative menu items. With that, we will open the call for questions. In order to give more people the chance to ask questions, please limit your questions to one at a time. Operator, please start the Q&A.;

Operator: The first question comes from the line of Michelle Cheng from Goldman Sachs.

Michelle Cheng: Joey and Adrian, congrats again for this very resilient result. We understand that the environment has been very challenging. So my question is about the delivery. So you have been mentioning that you will be disciplined in managing this delivery platform, subsidy campaign. But can you share with us more on your observation on the subsidy impact on the company and the whole market in the near term and in long term? Particularly, I think there is another round of concerns on this deflation. So how should we think about the pricing trend and also the competitive landscape impact? So that's my question. And actually, I just saw a news coming out regarding Yum! Brands, they mentioned something about Pizza Hut. So I'm wondering whether Joey can also comment on that. It looks like there's a review of the strategic options for Pizza Hut. So wondering whether there's any impact on the Yum China Pizza Hut business as well.

Joey Wat: Thank you, Michelle. I would like to make three comments on the delivery and subsidies, and then Adrian can address the Pizza Hut question. Three comments here. One is, we have observed a more pronounced decrease in the subsidies in -- via the delivery platforms in coffee and tea but only a slight decrease in QSR. Point two is, overall, we still expect the impact on us to be limited as we have been and will continue to maintain our strategic focus and balanced approach with our core brands. That means we are driving sales growth while protecting margins at the same time. We will be capturing sales while ensuring long-term brand positioning. Point three, in the longer term, we do see -- and we've learned from the, I think, 2017, last time, similar scenario, that subsidies will eventually normalize. Therefore, it's important that we have the discipline as a company, as a brand to focus on menu innovation, good quality, customer service and protect the price perception, particularly for a well-established brand, like ourselves. So these are all fundamentals to the competitiveness of the business in the long term. Thank you, Michelle. Adrian?

Adrian Ding: Sure, Joey. Michelle, on your question regarding Pizza Hut and Yum! Brands' announcement earlier today, we are aware of the development, and we understand Yum! Brands will be initiating a formal review of a range of strategic options. Obviously, Yum China and Yum! Brands are two independent companies. So we're not in a position to comment on their process of strategic review. But regardless of the outcome, we are confident in the strength of Pizza Hut brand in China, and our ongoing operations and significant growth potential of Pizza Hut here in China remain unchanged. Also, I would like to say that Yum! Brands and ourselves have been close and long-time partners, and it will

continue to be the case. And I guess part of the question is the impact of Yum China, right? I'm not sure if you are implying whether we will be participating in some way or form into this strategic review process. Our policy is not to comment on any specific transactions. With that said, we have always taken a prudent approach, Michelle, as you appreciate, to evaluate potential investment opportunities, and we'll continue to do so. We set a very high bar. We'll conduct M&A; only when the transaction is strategically sound and expected to create great value for our shareholders. Additionally, all M&A; matters are subject to rigorous evaluation and discussions with our Board. Thank you, Michelle.

Operator: The next question comes from Brian Bittner from Oppenheimer & Co.

Brian Bittner: Can you give us a refreshed overview of what you are seeing from a macro perspective as it relates to restaurant industry in China and consumer spending by the China consumer? It seems like visibility is improving relative to past quarters and years, maybe the opposite of what you're seeing with the U.S. consumer. Any color there? And I think, Adrian, you said that you expect 4Q same-store sales to look similar to 3Q. Just want to confirm you said that. Any additional color on that dynamic would be helpful.

Joey Wat: Thank you, Brian. In terms of the macro, as we have observed in quarter 3 and then probably even a little bit on the October holiday, the performance, as we can see the result and also as we can see a little bit now is -- it was good and it's in line with expectations. The traffic is good as people are traveling around, particularly during the holiday. But consumers still remain value cautious. And for us, if we look into the details of the performance across regions, it's similar. Lower-tier cities still, but they perform slightly better due to greater domestic travel here. But again, the consumer is still value cautious. So for us, we are acutely aware that it's not just about having good price. It's about pricing right, providing value for money together with good quality food and emotional value. So we continue to provide our customers with innovative products and together with breakthrough business models. Our focus is still focused on delivering the same-store transaction growth. And although it's nice to have the same-store sales growth as well, particularly for KFC with 2% same-store sales growth. And then along the way, we'll continue to focus on the operational efficiency and innovation at the same time. Thank you, Brian.

Operator: Our next question comes from Chen Luo of Bank of America.

Chen Luo: Joey and Adrian, congrats again on the solid Q3 results. My question is, again, on our expansion strategy to focus on smaller formats and franchise stores. So if we do the math, approximately 10% expansion in Q3 lead to around 4% sales growth. So can we say that this kind of 40% ratio can be maintained in the coming few quarters as we continue to pursue a shift to the smaller format? And meanwhile, if you look at the franchise stores, I understand that we try to improve the economics to P&L; in the future. But where are we now? Is there any progress at the moment?

Adrian Ding: Thank you, Lou Chen. Firstly, I think the observation of system sales growth at around 40% of the store count growth, that will not necessarily be true down the road because there are a few dynamics and nuances. Firstly, as I mentioned in the prepared remarks, both this quarter and previous quarter, this year, we have some strategic optimization of the store portfolio, with closure of some of the large stores with higher sales and opening of some of the smaller stores with a slightly lower sales. And as you correctly pointed out, new store sales is at an initial year at a discount to the mature store. And as I previously provided, the figure, is that the ratio is roughly 50% to 60% for the new stores in the initial year. Obviously, in the first 3 years, it will ramp up. So that's the first factor, right, the strategic optimization. So all else equal, even if the net new store is still 10% growth, if we don't have this factor, the system sales growth would have been a bit higher. So first thing. Second thing is the timing and opening and closure within the quarter affected the total operating weeks. For this quarter, as you can do the math very nicely, the timing of openings, particularly for KFC, there is a shift towards the September, so the third month of the quarter, thereby, even with the similar net new openings, that will impact the store week and thus the system sales growth. And for Pizza Hut, we're catching up in the store openings this quarter as well as the store week. I would say that's more evenly spread across the quarter, across the 3 months. So you can see with a similar net new store openings, the system sales did sequentially improve. And thirdly, as always, we have some little rounding differences. So in a nutshell, the system sales growth as a percentage of the -- compared to the net new build percentage, the discount will not stay the same down the road. And I guess your natural question would be what is

the system sales growth down the road in the coming quarters and years? That exactly leads to our kind of guidance and outlook in our Investor Day in 2 weeks' time. So please bear with us and look forward to the Investor Day. I think the second part of the question -- I can't [think]. Economics. Okay. Franchise improvement economics, yes. So we made some progress in improving the economics for our franchise business. As I mentioned in previous quarters, currently, it's still slightly lower than our equity business, right? Our operating margin for equity business is anywhere between 10% to 11%. For franchise business, without G&A, the operating margin is also around 10%, right, basically 4%, 5% out of 40%, 50% of system sales, so around 10%. But if we do a proper G&A allocation, the franchise operating margin will be high single-digit percentage of sales of our revenue. We did have some progress in the quarter. Obviously, I think some of the analysts and including yourself already noticed that we have some slight revision in our pricing mechanism for our franchisees, basically sharing some of the savings from our Project Eye Fresh and Red Eye between franchisees and ourselves. So that's a little progress. While we have more savings from these efficiency projects, we'll do a bit more of that. And hopefully, in the mid- to long run, the operating margin for franchise business will be in line with the equity business. And overall, in conclusion, I would say, in the short run, there will be no margin dilution from our franchise initiative because the mix is still small, and the margin is actually very similar already. In the mid- to long run, not only there will be no margin dilution, but more importantly, there will be ROIC improvement over the mid- to long run given the efficiency and capital for the franchise business. Thank you, Luo Chen.

Operator: [Operator Instructions] Our next question comes from Lillian Lou of Morgan Stanley.

Lillian Lou: My question is on the delivery as well, but it's more a little bit of short term. So I would like to understand in terms of the delivery order mix from food aggregators and also from our own system because I think in this quarter, the contribution of membership sales kind of dropped sequentially and also on a year-on-year basis. So is it -- are we seeing more orders from aggregators for the time being given the subsidy program, et cetera? And what kind of business initiatives or efforts we're making trying to get the customer back in terms of order generation into our own system? And related to that, I just want to understand whether there's any cost saving initiatives in terms of the riders costs in the future.

Adrian Ding: Thank you, Lillian. So first of all, as you pointed out that the membership sales contribution to the overall sales has slightly decreased for the quarter. I would say this is more of a mechanical or mathematical result because when we account for membership sales contribution, we exclude our members who spend on the aggregators. Because -- actually, we know who are spending on the aggregators. If they are our members, but we exclude those parts. So when aggregator mix goes up, our membership, in the disclosed metric -- membership contribution will slightly go down. So that's a mechanical result. But if we take into account our members who spend on the aggregators and take everything into account, the overall so-called adjusted member sales contribution is actually very stable quarter-over-quarter, year-over-year. So that's the first part of the question. The second part of the question is the increase in delivery mix and the rider cost. Yes, we are actually not only working on the rider cost per ticket, which is indeed going down, but the delivery mix is going up. So that impact of the delivery mix going up have a higher overall impact, thus causing a headwind in our COL. By the way, this is exactly as we cautioned the market back in February, right, before even the delivery-aggregator war started, that we'll face headwind on delivery costs. So we are optimizing the delivery efficiency. But in addition to that, on COL, for the non-delivery part, we are doing a lot to improve the efficiency, right, in terms of streamlining, automating and centralizing processes so that the operational efficiency hopefully more than offset not only the wage inflation, but also partially offset the impact of the delivery mix increase. But all in all, we would say the COL continues to face a headwind. That's actually been very consistent ever since we started to give the guidance back in February. But we'll make all efforts to try to achieve a slightly improvement in both the UC margin and a moderate improvement in OP margin for the year for Yum China. And also, as we commented on the mid- to long run for both brands, we said KFC's margin -- restaurant margin will be stable. Pizza Hut, there's a good potential for margin improvement. Those comments actually do take into account the different scenarios of delivery aggregator subsidy and delivery mix. So hopefully, that addresses your question, Lillian.

Joey Wat: I'll just make two quick comments, Lillian. Adrian talked about all the short term technical

measures we are doing to protect our P&L.; But at the same time, as you can see, we are also pushing for innovation and operational efficiency, at the same time in a slightly longer term, to protect the P&L.; So one example is our continued acceleration of like KPRO and KCOFFEE. When we pursue the front-end segmentation of sales and then back-end consolidation of the operating costs, we -- in the longer term, in a more holistic situation, we manage the cost structure and protect it, if that makes sense. Thank you, Lillian.

Operator: Our next question comes from Sijie Lin from CICC.

Sijie Lin: So I have one question. We see more and more attempts at expanding new store formats and new categories. For example, besides KCOFFEE and Pizza Hut WOW, there are also KPRO, Fried Chicken Brothers, et cetera. So trying to learn more about our strategic planning and methodologies for these. So whether we have identified a few promising categories and concentrate our efforts, or we just try out various options, and they may work as a total? And also, what are the key considerations when we decide to develop a new model or new category? Maybe like, some competitors have proved it's a promising category, or it can create synergy with our other business?

Joey Wat: Sijie, I think we will have more holistic, robust discussion with this particular topic in Investor Day for sure. It's a focus. However, right here right now, I would like to make a few points here. We are very focused on the growth initiatives to focus both of the same-store sales and system sales. So KPRO is one example. KCOFFEE is another one. And KCOFFEE actually were ahead of schedule. We originally tried to get to like 1,500 or 1,600 locations. I think right now, we are there already. So we'll continue to pursue it where we could. And I think KCOFFEE need no further introduction. KPRO, it's a concept we developed actually 9 years ago, but we keep working on it. And then this year, we certainly see the acceleration of the concept. So the thinking behind it, as I mentioned in my prepared remarks and also earlier, we understand we can pursue more growth with front-end segmentation of the customer and occasion. [Foreign Language] But at the back end, we just utilize our equipment, resources, labor, on the back end, to deliver the operational efficiency. So that's one way to do it, and it works. I mean, otherwise, it's very hard to grow new business to deliver incremental sales and incremental profit. Secondly is a promising category. Yes, of course. So we are focusing on fried chicken. But at the same time, KPRO is a concept that we deliver alternative for customers. And as we can see from the membership or the customer of KPRO, a very high percentage of KPRO customers are actually KFC customers. But they need a choice during -- once or twice during the week, and we provide the choice. So it's close enough, the category is niche, and we also have the food safety that customer trust. So we'll just continue to explore. But for new category or new concept, of course, the success rate is not 100%. So there's always some trial and then figure out how the new model -- new module will work. And then KFC fried chicken, Brothers or whatever, it's one of those trials. It's very, very early days. But we keep trying different things. Thank you, Sijie.

Operator: Our next question comes from Xiaopo Wei from Citi.

Xiaopo Wei: I have a question on KFC business. If we look at the 3Q results, 2% same-store sales growth with 5% system sales growth, very impressive. But however, if we look at the restaurant profit growth, which was at 5% and OP growth was only at 6%, we didn't see a lot of positive operating leverage. Shall we say that the delivery-driven strong growth will not have a lot of positive operating leverage in your business? If that is the case, will you work on something to try to improve that part of business to expand the OP margin of KFC to looking forward?

Adrian Ding: Thank you, Xiaopo. KFC is a very resilient business. As we actually guided in the previous quarter's earnings release, we do expect the second half -- we did expect the second half of KFC restaurant margin to be broadly stable year-over-year. And that's kind of consistent to the real results that we see in the quarter. And one key philosophy we've always been mentioning throughout -- actually ever since 2019, over the past 6 years is, we expect the KFC's restaurant margin to be stable in the mid- to long run because it's actually at a very healthy level today, above 17%, full year basis, and it's one of the highest, if not the highest, in the restaurant industry. To the extent we have some leverage -- sales leverage that we generate from KFC today and in the future, we do look to share that margin upside with multiple partners, right, including our suppliers, landlords, frontline staff and also retain a small portion within the group and share with the shareholders. So that's quite consistent with our philosophy there. And tactically, for the quarter, for quarter 3, we do see a significant increase in the

delivery mix, right, to 51% last year, quarter 3 was around 40% or so. So the significant increase in the mix caused a significant headwind in the COL as we cautioned the market. You can see the COL, KFC surge more -- around 160 basis points for KFC as a brand. For the group, it's [1 to 10] basis points. That's all because of the delivery mix increase. And we are -- we were successful in more than offsetting that increase with the benefits of COS and O&O.; So technically, there is that driver there. But philosophically, in the mid- to long run, we do stick to our philosophy of keeping KFC restaurant margin broadly stable at a very healthy level. Thank you, Xiaopo.

Operator: Our next question comes from Christine Peng from UBS. Christine, your line is open. You may unmute locally.

Christine Peng: Sorry, I was muted. So I have a quick question regarding the same-store sales growth of KFC. So obviously, 2% same-store sales growth was upside surprise given Adrian previously mentioned about 0% to 1% same-store sales growth. So I was just wondering how sustainable you think this level of same-store sales will be continued going forward? The reason I ask is because, obviously, in the third quarter, there are some benefit from the subsidy provided by delivery platform. On the other hand, we also noticed that your management has been very diligent to launch new formats such as the tea, coffee, KPRO. So I was just wondering whether management can provide us some colors in terms of the contributions from delivery subsidy and the new formats launching to this 2% same-store sales growth. In addition to that, if you could talk a bit about the KPRO economics just briefly, I think that will be very helpful for us to understand the economic benefits of this new format.

Adrian Ding: Thank you, Christine. So first of all, SSG for KFC, 2%, is actually slightly above our own expectation as well. It's also similar for KCOFFEE Cafes, right? Our own expectation, as Joey mentioned, was like 1,700 or so. And now in quarter 3, we already achieved 1,800 locations for KCOFFEE Cafes. So those are actually encouraging results, and we're happy to be wrong. We're happy to be wrong there. So it's slightly above our 0% to 1% target. And as to whether that level is sustainable, obviously, predicting SSSG is always difficult. The market is still quite dynamic, and consumers stay quite rational. But as we mentioned in the prepared remarks, we are working very hard to keep the quarter 4 SSSG at similar levels of the quarter 3 and achieve 12 consecutive quarters of same-store transaction growth. I think transaction growth is, I guess, slightly more within our control. And for SSG, in overall, it will be subject to different situations, including different factors, including competitive dynamics, including macro, et cetera, et cetera. So I will not be able to give outlook or guidance on whether this level of SSG will be sustainable. And on your second part of the question on KPRO economics, obviously, similar to KCOFFEE Cafes, KPRO is a module. It's a side-by-side module to our KFC mother store, and it contributes incremental sales and incremental profits. And as one can reasonably expect, the incremental sales contributed by KPRO will be larger than the incremental sales contributed by KCOFFEE Cafes because it's a restaurant concept, right, so restaurant module. But we have not given any guidance on the exact economics for KPRO because it's still in the early stage. We only have slightly more than 100 modules for KPRO and -- but the initial progress we made is encouraging. And we'll be ready to share more color on the economics and growth potential for KPRO as well as other modules or other initiatives, as some of the analysts asked during the early part of the call, in due course when we think we're ready. So hopefully, that addresses your question, Christine.

Joey Wat: I'll add some color to the KPRO, Christine. So [the need of] KPRO, we share. We really utilize the synergy with KFC brand. So we leverage KFC store space, the membership program, the kitchen, the COL. And this is incredibly important because then the incremental investment is much smaller than a stand-alone store, which you are familiar with from the KCOFFEE. And because of so much synergy that we're pursuing, so it is -- the concept, it is delivering incremental sales and incremental profit. But at the same time, as you know us well after all this year, whenever we do something new, new concept, new product, we always look at sales first and profit later, step by step. Thank you.

Operator: In the interest of time, we'll now take the last question from Linda Huang from Macquarie.

Linda Huang: My question is regarding for the sales. Because we are pleased to see that in the third quarter, right, our sales up 4% faster than industry. But looking ahead, do you think that we have a chance to accelerate the growth to like high single digit? And if we can achieve this growth rate, will it come from the macro factor? Or is there any company-specific strategy that we can buck the trend to

go faster? So that's my simple question.

Adrian Ding: Thank you, Linda. Well, actually, you asked a question that we will share exactly the same topic in the Investor Day in a couple of weeks' time. So I'll try to keep some secret there to the Investor Day in 2 weeks. But overall speaking, as you correctly point out, from a company-specific perspective, we are ready in terms of lots of fundamental improvement, a lot of new modules are ready, new initiatives are being tested. The innovation is spread across all different parts of business, name it, right, menu innovation, store model innovation, emotional value, the new emotional value, exciting ones that also involves innovation, et cetera, et cetera. So I would say we're very well positioned to capture future opportunities. And obviously, we will not be settled with a mid-single-digit top line growth, system sales growth. But as to the exact growth algorithm over the next 3 years, that will be some topic we'll share in 2 weeks' time. Yes. So please stay tuned. Thank you, Linda.

Joey Wat: Linda, I think I just have one quick comment here is, although KPRO [indiscernible] really exciting because it's new, but the biggest growth driver will still be from the core brand, ourselves. For example, KFC, the small-town mini, the different modules and then Pizza Hut, the bowls are doing very well to enter new cities, which we are very excited about. And then the hero product, in the prepared remarks, we talked about hero product. It's incredibly exciting to, again, focus on "surprise, surprise, fried chicken," and for KFC and then for Pizza Hut, "surprise, surprise, the pizza -- the new thin dough pizza." So we'll go through the building blocks or the key modules of these key drivers of the business in the Investor Day. So we look forward to it.

Florence Lip: Thanks, Joey, Adrian and also thanks, Linda. This concludes our Q&A; session. Thank you for joining the call today.

Operator: Yes. That does conclude today's conference call. Thank you for your participation. You may now disconnect your lines.

Joey Wat: Thank you.

Adrian Ding: Thank you.