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PRESENTATION

Joey Wat *Yum China Holdings, Inc. - CEO & Director*

(presentation)

Hello, everyone, and welcome to Yum China's Investor Day. I'm Joey Wat, CEO of Yum China. The 2 years since we met last in Shanghai have certainly been challenging for everyone. We hope that all of you have remained safe and healthy. We look forward to the day, hopefully soon, when we can all meet again in person.

Our theme today is fortifying resiliency, accelerating growth. Our agility and resiliency show in our results. Even during the pandemic, we capture new opportunities and accelerated the growth of our store network. We delivered solid profits and generated meaningful cash. We see plenty of opportunities to grow quickly even at our size today. More city penetration, new store formats, new concepts, new dayparts, occasions in delivery, takeaway and at-home consumption, we have so many exciting avenues to grow.

Resiliency, growth and moat, RGM, they represent both our strategy and the people who are critical to making it all happen, restaurant general managers. RGMs are our brand ambassadors turning ideas into tangible results. We succeed with the commitments of our RGMs and the hard work of our 420,000-plus employees. With RGM as a strategic framework, let's discuss the resilience of our business.

We entered China in 1987 and opened our first KFC restaurant in Beijing. Our Original Recipe Chicken was an instant hit. Over the next 34 years, we continually expanded our store network in good time and bad time. Our store growth accelerated, especially in the last 5 years.

In 2020 alone, we opened, on average, 3 stores a day. We reached 10,000 stores last year, a key milestone for us. How did we do it? First, food. Whether it's fried chicken, pizza or innovative new menu items, we never lose focus on our #1 goal, bringing good food to every customer. Second, our world-class supply chain network. Our investments in supply chain help us create a resilient and agile infrastructure. Third, digital. We have built a powerful digital ecosystem that ensures our customers have a great experience while driving operational excellency.

We serve great food but we never stop innovating. In 2020 alone, we introduced almost 500 new or upgraded menu items. At KFC, Original Recipe Chicken drew the crowds decades ago, it still does. But now we also offer dozens of other delicious items. For example, we offer crispy air chicken to enhance our chicken offerings.

At Pizza Hut, we introduced chicken curry to the menu, which is perfect for 1-person meal. How do we get this amazing food to our customers? Our world-class supply chain enabled us to deliver solid performance in 2020 despite the pandemic challenges. Partnered with suppliers, supply chain team managed to fulfill demand across our store network.

We were able to keep a majority of our restaurants open even at the peak of the outbreak. Not an easy task when the whole country was sort of locked down. We are also using technology to improve our food safety management and upstream supplier tracking. You will hear more from Danny today on how we plan to fortify this competitive advantage.

Digital is a key competitive capability that underlines our resiliency. Yum China is a pioneer in digitization in the restaurant industry. We have introduced our front-end customer digital engagement in the past. This time, I want to draw your attention to how we use digitization to transform our store operations.

For example, Super Brain and Pocket Manager are new technologies to help RGMs to do their job and make informed decisions. See, I'm having the watch here is what the RGM use in the store to help manage our business, and this is the Pocket Manager. On my watch, I can see many information in the stores. Smart delivery is an AI-enabled rider management system that helps us optimize delivery order queuing and delivery trade zones.

Our digital infrastructure drives productivity improvement. Such improvement is particularly pronounced in the long run. Between 2016 and the first half of 2021, we have add almost 3,500 stores, a 45% increase. Yet we now employ almost the same number of people as compared to 2016. Our CTO, Leila, will explain how our digital infrastructure will expand even more, allowing staff to spend more time on serving customers while further optimizing store operations.

I hope by now you have seen how resilient we have been in the past, including the pandemic since last year. Going forward, we faced a few challenges, potentially more regional outbreaks, changing consumer behavior and sentiments and intensified competition. As we face these challenges, resiliency and perseverance will continue to be critical.

First, the safety of our employees and customers is paramount to us. Drawing on our product innovation, supply chain resiliency and digital capabilities, we will manage to mitigate the risks in the short term.

On the other hand, our commitment to China remains steadfast. Over the long term, we will continue to accelerate store network development, expand to new categories, grow our emerging brands and reinforce our strategic moat.

Let's talk about how we will accelerate the growth in the future. There are still tremendous growth opportunities in China. With continued urbanization and economies of inland provinces likely to become more prosperous, along with our innovative store models, we see over 1,200 unserved cities that KFC could expand. That is over 500 new cities we are tracking now compared to just 2 years ago.

Compared to our meeting 2 years ago, the new angle to consider is how the COVID pandemic has changed our lives and habits. The shift in consumer behavior such as at-home consumption and single-person dining are creating opportunities in off-premise occasions, 1-person meals and retail product offering. We have adapt our business model to cater to our customers wherever, whenever and however they want our products.

Looking at the opportunities ahead, the foundation we have laid, we are accelerating new store openings and aiming to grow our network to reach 20,000 stores much faster than the rates at which we reached the first 10,000 stores. Our capital resources and allocation plan support this growth. CFO, Andy, will walk you through later. By the end of the day, we believe you will share our confidence and passion.

The accelerated pace of expansion will be led by our core brands, KFC and Pizza Hut. KFC is the largest quick service restaurant brand in China. Customers love KFC's good food. Our stores are modern and relevant. Our hybrid delivery model and upgraded rider management system enable us to drive tremendous growth in delivery. You will hear more from Johnson, KFC's General Manager, on how we will make KFC even bigger and stronger.

I'm pleased that the multiyear transformation at Pizza Hut is yielding great results. Fundamentals have significantly improved. Sales and profit also grew year-over-year. The satellite store format is showing high potential. Going forward, we will focus on making Pizza Hut more resilient and accelerate its store expansion. Jeff, Pizza Hut's General Manager, will update you on Pizza Hut's strategy.

Our coffee business is making good progress. Over the past couple of years, we fine-tuned the business model of COFFii & JOY and significantly improved this business. We are now applying the valuable know-how from COFFii & JOY to scale up Lavazza.

Our strategic partnership with Lavazza is really exciting. In addition to accelerating store expansion, we are working together to introduce more Lavazza products to Chinese consumers, leveraging our online and offline channels. Thomas, our Chief Marketing Officer, who also overseas COFFii & JOY and Lavazza, will share our strategy to make coffee a meaningful part of Yum China.

Dining and delivery are the core of our business, yet we are also convinced of the huge potential for our 3R products. 3R stands for ready-to-cook, ready-to-heat and ready-to-eat, which we refer to as new retail. The opportunity here is to use our brands and reputation for delicious food to capture more at-home occasions. With our extensive store network, vast membership base and well-established online channels, we are well positioned to capitalize on this trend.

Targeting a 20,000-store milestone requires a future back plan to build the infrastructure today. This will mean a step change in every aspect of our business from supply chain and digital to sustainability and people.

Last but not least, let's talk about how we will invest in widening our strategic moat. We will accelerate the growth of our logistics network. We will also strengthen the logistics infrastructure and enhance automation capabilities to drive efficiency and resiliency. We are working on many initiatives to advance our end-to-end digitization. These initiatives are supported by our recently launched R&D centers. We will also explore leading edge and disruptive technologies through joint venture with industry leader and collaboration with outstanding institutions.

As a responsible corporate citizen, we strive to incorporate sustainability into our daily operations. We commit to a series of public goals for sustainability priorities, including our latest commitment to reaching net zero greenhouse gas emissions by 2050.

Meeting these commitments will be anything but straightforward. We will collaborate with internal and external experts to define the road map. We are a big supporter of local communities. Our signature One Yuan Donation program is entering its 14th year. So far, we have raised over RMB 220 million, provided 55 million nutritious meals for children and helped to modernize school kitchens for over 1,200 schools in remote areas of China. We are quick to help people in need. We have provided over 200,000 free meals to frontline medical workers in 28 provinces since the pandemic last year.

We also advocate reading in the community by organizing reading activities through our restaurant and online platforms. Over 76 million children books have been distribute without extra charge. Over 690,000 storytelling sessions have been held since 2015.

Our efforts are recognized externally, including Bloomberg and Dow Jones Sustainability Index.

To conclude my session, let me remind us how we started RGM, representing both our strategy, resiliency, growth and moat and our restaurant general managers, the people who are critical to making it all happen. We are incredibly grateful for the trust and support of our employees, our customers and you, our shareholders. We are determined to navigate into the future and build an even more resilient, fortified and growing company.

Now it's my great pleasure to introduce Johnson Huang, General Manager of KFC, to talk about KFC's strategy. Thank you.

Johnson Huang

Thank you, Joey. Welcome, everybody. My name is Johnson Huang, General Manager of KFC. I'm excited to be here to share with you how KFC managed through the COVID pandemic and how we intend to win in the future.

During the COVID pandemic, since the beginning of 2020, KFC has demonstrated its resilience. We kept most of our stores open when there were widespread shutdowns across the country, Supported by 300,000 employees and strong supply chain network, our team acted nimbly, adjust operations and marketing offers to target both dine-in and off-premise occasion. Our delivery business capture the off-premise demand when dining was impacted during the pandemic.

Our leading digital capability, including over 300 million members, also enabled us to quickly deliver target product and promotion messages. Our resilience is reflect in our solid results. For the first half of this year, system sales grew 6% and operating profit grew 15% comparing to the pre-COVID 2019 level. In addition, we capture market opportunities and expand our store network to over 7,600 stores. Our new store payback remains healthy at around 2 years.

The pandemic is not over yet. The Nanjing regional outbreak was challenging due to its widespread impact across 16 provinces. Sales at our tourist and transportation locations, which is an indicator of consumer mobility, have not recovered to the pre-pandemic level. Dining volume is also down as consumers are still cautious about eating out. The slow recovery of customer demand is creating pressure never seen before.

To deal with this challenging situation, we launched innovative product and in-store promotions to drive dine-in sales. We also extend service beyond dine-in as we see greater consumer desire for convenience and less eating out. We offer user-friendly pickup options, empowered by our wide store coverage and automated equipment such as self-driving cars and self-pickup option.

For delivery, we provide compelling offers to recruit new digital member and drive repeat purchases. We have also introduced the packaged food for retail. The customer can enjoy our delicious food conveniently at home at any time. We do believe these initiatives will help us to drive sales in the near term and profitable growth over the long term.

Let's watch a video of what our brand has done and what we see as the opportunities ahead of us.

(presentation)

Johnson Huang

Over 34 years of growth in China, KFC has become part of Chinese consumer daily life. We offer convenience, coziness and reliability. We provide customers with good food and sense of belonging.

In the digital era, we continue to lead the industry with integrated online and offline customer service and efficient operations. Good food and seamless experience, store expansion and operating efficiency are KFC's 4 growth pillars for the new era.

Let's look at our first pillar, good food. Our success in China has been driven by our tasty and popular core chicken products. As our customer base continue to grow, we are aggressively extending the menu to increasing -- to include more value options as well as innovative new categories. This allows us to cater to increasingly diverse taste across China while targeting for more occasions.

First, we strive to let our customers enjoy all part of the chicken with unique flavors and affordable prices. Over 430 million pieces of chicken-on-the-bone were sold last year. We focused on our core category, chicken, to enhance our leadership position. Original Recipe Chicken has been a signature item on our menu since entering China in 1987. And our innovation continue with the new crispy chicken. More tasty new product are underway. For example, one new initiative is our just launched juicy whole chicken, crispy on the outside, yet tender and juicy inside. It is golden, flavor packed and delicious and was very popular during the launch in around 150 city. In the meantime, we will leverage our supply chain capability to maximize the potential of whole chicken category.

We're also tapping into other proteins to fulfill more customer desire in Q2. We added Angus and Wagyu beef burgers to our permanent menu items, and they are proving to be successful. Besides premium burgers, we are building a beef burger platform covering different price points.

Coffee and new tea drink are booming in China. As 1 of the top 3 coffee player in China with 140 million cups of K-Coffee sold in 2020, we are leveraging our advanced innovation capability and extensive store network to capture this market opportunity.

We are also speeding up our innovation effort in key across several dimensions, such as new product development, equipment automation and labor efficiency. The new product, for example, the launch of 4 new seasonal fruit teas in the beginning of August, has doubled the category mix.

With deep roots in China, we are always in search of rich flavors across the country. Years of operating in China equips KFC with the know-how and supplier network to create wonderful new regional menu while overcoming the complexity of food innovation, supply, logistic and operations. Hot and dry noodles in our Wuhan market and meat wonton term in our Fujian market have inspired us to further expand the regional menu to other areas, dayparts and categories.

We capture a notable consumer behavior change to more consumption at home since the COVID outbreak. We now offer packaged foods for either immediate consumption or later use. This is a good extension of how we put our delicious food on our customers' plate. We are selecting food categories relevant to KFC.

From a customer perspective, KFC's well-known brand name enable us to effectively build consumer awareness. We also leverage our extensive store network, co-gen facility, digital and delivery capabilities. The earlier success in chicken product, white rice and coffee is encouraging. We continued to explore attractive products for future growth.

Besides food, we also provide our customer good experience. KFC has over 300 million members that accounts for over 60% of our sales. Our Super Apps has accumulated 159 million downloads and 85% of orders are now placed digitally. Years of building and operating our digital infrastructure provide a good foundation to understand our customer better and enabling us to offer an integrated online and offline customer experience.

Our capability and infrastructure have enabled us to grow our delivery business by almost 3x over 3 years. Off-premise consumption perfectly extends KFC's touch point with customers. In the future, digital and data will further enable us to increase delivery coverage. For instance, we can optimize delivery coverage as demand shift over dayparts, which will ensure on-time delivery of fresh, hot food. We can also leverage our delivery platform to provide packaged food such as ready-to-heat or ready-to-cook to off-premise occasion.

Besides CRM, we are riding the wave of social e-commerce via group chat to engage with our customers. The online community provides a 2-way communication platform to allow our store manager directly interact with customers, different from traditional CRM. This drives awareness and more importantly, builds long-term brand loyalty. We have built a digital store operation team to extend customer service from offline to online. By leveraging our 7,600 stores managers, KFC is set to win this new channel.

We are the largest QSR brand in China and intend to reach over 7,900 stores by year-end. Despite our size, we are accelerating store expansion with close to 1 new store open every 8 hours in the first half of this year. Even the tough time of 2020, we were able to open 840 gross new stores, doubling the rate of 2017 in good location.

As we continue to expand our footprint in China, we utilize distinct store models that fit different city tiers and trade zones. China's economic growth has resulted in many wonderful shopping malls, which are a great location for us. We opened a beautiful flagship store in iconic prime location to build brand image. In lower-tier city, we are scaling up the small town model. It requires lower capital investment and offers especially designed menu with lower entry price, enabling us to serve communities with smaller population and lower income level. We are encouraged by the earlier result of these pilot stores and will further fine-tune the models as we grow.

Another try is our compact model for local communities and workplaces in higher-tier city. We reduced the front and back of store areas and streamlined the store management to adapt to different property type and address rising labor costs. Better accessibility and faster off-premise service are expected to increase customer frequency, allowing us to open more stores in higher-tier city. With this model, we can further speed up store growth in both higher and lower tier cities.

We have penetrated over 1,500 city in China. With our current store footprint, we can get closer to more customers. As we continue to create new store models and with the rapid development of China, we not only have over 1,200 potential cities to enter, but also increased store density in existing city. The national average density of KFC store is nearly half of that in Tier 2 city and 1/3 of that in Tier 1 city. We see a vast opportunity to increase our density in a lower tier city.

Last but not least, our operating efficiency. Automation and leading-edge technology allow us to improve our efficiency and effectively manage per store head count in the midst of our rapid expansion. This not only helps us manage rising labor cost but more importantly, enable employees to focus more on serving our customers. By leveraging data and advanced IT systems, we continuously optimize productivity in people, place and product.

For example, our automated inventory management system enables shift managers to monitor stock level in real time. This helps us to reduce wastage and improve cost of sales. The Super Brain system provides our shift managers with a store operation dashboard, analysis and basic decision guidelines. Moreover, the digitalized training system with modules such as an augmented reality restaurant tour and video assist training courses enable new employees to get onboard more smoothly and efficiently. Our CTO, Leila, will introduce more of this later.

KFC has witnessed the growth of China. Looking ahead, we have established a solid foundation for future growth. With action we have in place, we are confident that we will be able to capitalize the opportunities in China and grow with our customers, our employees, our ecosystem partners and, you, our investors. Thank you.

Now please allow me to introduce my fellow team member, Jeff Kuai, to update you on Pizza Hut's strategy.

Jeff Kuai ***Yum China Holdings, Inc. - General Manager of Pizza Hut***

Thank you, Johnson. Good day, everyone. I'm Jeff Kuai, General Manager of Pizza Hut brand. Welcome to the Pizza Hut investor update. Before I get started, I would like to share with you a short video to showcase the brand and some exciting developments over the past couple of years.

(presentation)

Jeff Kuai ***Yum China Holdings, Inc. - General Manager of Pizza Hut***

Today, I'm very pleased to announce that Pizza Hut is back in every respect. In 2017, we made the commitment to revitalize the brand. And now we can say we fully met those commitments. On a year-over-year basis, system sales in the first half of 2021 grew 33%. Operating profit went from negative in the first half of 2020 to nearly $100 million in the first half of 2021. More encouraging to see is that the same-store sales improvement on a 2-year basis is led by increase in same-store traffic.

In the following session, there are 3 key points I want to share with you. First, Pizza Hut is the clear leader in this large and fast-growing West casual dining market in China. The competitive advantage that made Pizza Hut successful are very difficult for other to replicate. Second, our revitalization initiatives have yield great result despite the challenges posed by COVID. And lastly, we have a competing strategy in place to make our brand more resilient.

The West casual dining market was estimated to be more than $40 billion in 2021, although sustainably impact by the COVID outbreak. It has been growing at a double-digit rate over the past few years. This presents incredible growth potential for us. We are the leader at scale in this market with 6x more stores and the second largest player in China.

Our core competitive advantage lie in multiple areas. First of all, we have a strong and versatile product portfolio. Not only are we the #1 pizza brand, but we are also the #1 steakhouse in China. Our strong product portfolio enable us to seize the growth opportunity in multiple categories and offer our customer the variety they crave.

Second, our family-friendly food and dining experience appeal to customers with kids. This is a large segment in West casual dining market, reflecting the growing Chinese middle class.

Third, we have more than 2,400 stores across China with nearly 245 million customer visits every year.

Fourth, over the past few years, we have built a deep strategic moat on digital front. We recently reached the milestone of 100 million Pizza Hut digital members. The Pizza Hut Super APP and a mini program, membership program, helped us to better engage with our customers and drive sales. Restaurant digitalization such as intelligence kitchen also helps our stores operate more efficiently.

Last but not least, we have a world-class operation team with in-depth experience. We have accumulated know-how for running a successful West casual dining business for more than 30 years. We are very confident that we can continue to grow the brand by reinforcing these strengths.

I'm sure you recall the 4-pillar strategy that we introduced 4 years ago as part of the revitalization plan. We executed on this strategy and developed and delivered what we promised. Our strong performance even during the pandemic period reinforces our confidence in this strategy.

Now that we are back, we have shaped our strategies to make us more resilient in the future. First of all, we'll continue to improve fundamentals. Strong branding, great food and customer experience are the 3 most important drivers of our long-term growth. Secondly, we will further expand dine-in, delivery, takeout and new retail channels to drive incremental sales and fortify our resilience. Thirdly, we will continue to strengthen our digital capabilities, improving the digital experience for our customers while broadening our member base. And finally, we'll continue to refurbish our stores, improve store economics and leverage the satellite store model to deepen our penetration and accelerate our growth.

Next, I will highlight some successes in the past couple of years and outline our priorities of the 4 strategical pillars. First and foremost, creative food innovation. Over the past few years, we simplified our menu and improved the food. In June this year, we upgraded our hand-tossed pizza dough. We leveraged Yum China's food innovation capabilities to develop a brand-new dough recipe, specifically for the China market. This new pizza crust is softer than before and especially suitable for delivery. Along with the launch of this new pizza dough, we also developed 13 new pizza flavors to add more variety, and we also enhanced the value proposition with an expanded price range. With pizza offerings starting from RMB 40, we can capture more market share. This strategical move is succeeding.

Moving forward, we'll strengthen our leadership position in pizza category with product innovation and a great value proposition. And beyond pizza, steak will be our second strategical focus. We expanded our portfolio by introducing our premium steak category. We recently launched high-end products such as a surf-and-turf platter and Beef Wellington. These products resonate with customers and contribute nicely to sales and profit. We plan to upgrade our steak category by putting grills in the kitchen and launching more premium products in the future.

We also developed an innovative appetizer category with tapas and baked crayfish which show great potential to drive incremental sales. Furthermore, we have been launching stylish and "TikTok-able" drinks and desserts to attract customers. For example, smoothie with yogurt cup and ice cream cake. We believe providing great food with great value is the most important growth driver for Pizza Hut.

We have been strengthen our value proposition in the past few years. We started our signature Scream Wednesday promotion in 2019, and we'll continue to reinforce it. All-you-can-eat campaigns are effective in attracting customer back to our customer -- to our stores, especially for young customers who love to enjoy 80-plus different great food products at an abundant value. And on top of that, we are exploring new ways of providing our customer better value for money. For example, all pizza 30% off, a free upgrade to stuffed crust pizza and so on.

As Joey and Johnson mentioned, we're still challenged by regional COVID outbreaks, especially the recent Delta variant outbreak, which started in late July in Nanjing, is the most widely spread outbreak since Q1 2020. Consumers are traveling much less and spending more time at home. Under these circumstance, Q3 is very challenging for us. But we are not sitting still. Our multiple channel strategy is more important now than ever. We not only leverage dine-in and delivery channels, but also drive takeout and new retail business to fuel our sales momentum and fortify our resilience.

Next, I will go deeper on the strategy of each of our sales channels. First, delivery is a critical growth driver for us. Delivery grew 40%

compared to 2019 and accounts for around 35% of our sales. To drive the delivery business, we have focused on 4 areas.

First of all, we have strengthened the Pizza Hut brand for delivery customers. Second, we are building new growth engine for delivery, launching delicious product that are better for delivery is critical to win over customers such as the new hand-tossed pizza. Third, we will continue to work with delivery aggregators closely to drive growth in these sales channels. And finally, we are focused on enhancing our operational capability to improve the customer experience.

With the launch of intelligent kitchen, we have reduced around 10% of delivery order production time. We have also focused on improving offerings for dine-in and take-out throughout the day. For example, we strengthened our takeout offer for breakfast and drove 30% incremental sales in that daypart without cannibalizing other dayparts.

To adapt customer behavioral change after COVID outbreak, we launched 1-person meal to see the customer's shift in behavior of smaller party size. Our customers can enjoy individual meal with a drink with the comfort of our service at a reasonable price.

To drive other daypart growth, we also introduced an afternoon tea set, upgraded protein for dinner and late night drinks and appetizers. Since the COVID outbreak, we have observed the customer are switching more and more to home or cooking occasion. So we seized the trend and launched the ready-to-cook products last year. This new initiative has contributed nearly RMB 100 million sales first half of this year and shown its continuing momentum and drive incremental sales, especially in regions impact by outbreaks. We'll continue to build up our product portfolio and expand channels to drive its long-term growth.

Our digital capabilities have helped us navigate through the pandemic period and continue to be more resilient. We have focused on recruiting new members and improving member engagement. Now over 50% of our sales are from members. We have been continuing to refine our Super APP and the mini program to provide them more seamlessly digital experience.

Digital ordering increased significantly from just 31% in 2019 and to around 83% in the first half of 2021 as delivery and table-side mobile ordering become more popular. Moving forward, we will continue to broaden our member base, systematically enhance our digital outreach in every step of the customer life cycle and provide our customers a best-in-class digital experience.

For the casual dining business, I cannot emphasize enough the importance of store ambience. Three years ago, we set a target to shorten our remodeling cycle from 7 years to 5 years and to refurbish all outdated store by 2021. I'm very proud that we did it. In the past 3 years, we remodeled 1,200-plus stores, and now the average time since last refurbishment or new opening is less than 3 years.

We also developed beautiful new store designs that enable us to stay relevant to customers. We would love to have you to visit our beautiful store in China. But since you cannot come this year in person, I would like to showcase a few of our new stores.

This design on this page is called metropolitan enchanté. And this one is called flower escape. Both new designs received great customer feedback.

And last but not least, with our improved business fundamentals and improving sales and margin improvement we are accelerating our store development, especially delivery-focused small stores and the satellite stores.

In 2019, we unveiled a new satellite model pilot program designed to increase store density with great effort from the entire team. This model has shown great success, will afford us much more room to grow. So basically, the satellite store model leveraged the existing dining stores as a hub and builds branch stores or satellite stores within a 5-kilometer radius. This arrangement improves the delivery trade zone coverage and delivery speed with a much lower capital investment. As of June 30, we have opened nearly 80 satellite stores. Average new store payback period is about 2 to 3 years. We have a quick video to provide you a more in-depth look at our satellite stores.

(presentation)

Jeff Kuai ***Yum China Holdings, Inc. - General Manager of Pizza Hut***

There are 1,000 cities that have KFC but have no Pizza Hut stores. We are very excited about the possibility of leveraging our multiple store strategy to enter into those greenfield. By the end of this year, we target to grow to 2,500-plus store nationwide. Looking forward, we are committed and confident to achieve sustainable growth in the years to come. Let's seize the moment at Pizza Hut.

Next, please welcome Thomas, Chief Marketing Officer of Yum China, to give you the update of Yum China's coffee business. Thomas, over to you.

(presentation)

P. Thomas Chen

Hello, everyone. I'm Thomas Chen, Chief Marketing Officer of Yum China. I also oversee COFFii & JOY and Lavazza brands. Next, I will spend around 20 minutes showing you the exciting progress that we are making in developing this high-growth potential business.

First, I will elaborate on our vision to lead the overall coffee category. This category covers not only our dedicated base but also retail products. And then I will share lessons learned from COFFii & JOY, which is our first initiative in the experiential segment of coffee category. Lastly, I will conclude with an update on our strategic joint venture with Lavazza which can help us leapfrog our competition effectively.

Okay, first and foremost, we define success in coffee by leading beyond just cafes. Cafes are key drivers for sure. But we want our coffee products and services to penetrate deeper into the daily life of Chinese consumers. We want to satisfy their coffee craving at all times and locations, whether it is that first cup of coffee at home to start a day or that mid-afternoon refresher downstairs in the office building or that relaxing finishing to a great dinner at your favorite restaurant.

Two years ago, Yum China first revealed our vision for the coffee category. Our belief and passion in this vision is even stronger today. Despite the COVID pandemic impact, we see robust growth for the coffee category in China, both coffee products and cafe segments are growing. Naturally, this reinforces our confidence in this potential of this category.

As we drive development, we start from a positioning of strength. Yum China is already a strong player in coffee category. Our popular K-Coffee, launched in 2015, is now available to customers at over 7,000 KFC stores throughout the country. And last year, we served more than 140 million cups of K-Coffee, and servings grew by more than 30% in the first half of this year compared to pre-pandemic 2019 level. As you know, K-Coffee was only our start in coffee category. K-Coffee is functional and very affordable. To drive expansion further, we enter experiential segment. We fairly believe that we must have a true leading coffee brand to succeed in this segment. Our entries in experiential are COFFii & JOY and Lavazza.

COFFii & JOY is positioned as a specialty coffee evangelist through the younger generation of Chinese, who are either brand-new consumers or are starting to upgrade to more premium artisanal coffee. The sophisticated taste, visual and culture aspect of specialty coffee are appealing to them. So COFFii & JOY is dedicated to help those young Chinese consumers explore the fun and joy and excitement of coffee.

On the other hand, Lavazza is positioned to deliver the holistic Italian coffee experience. Lavazza is about authenticity. Around the world, Lavazza brand means essence of Italian coffee experience, from product quality to the full Italian cafe experience. Lavazza is committed to bringing that to China. Much more than just a cup of espresso, Yum China is committed to develop this brand across the entire nation.

Of course, cafe experience is only our entry point in coffee. We are studying occasions beyond cafe that consumers might have coffee and are developing strategies to fulfill that demand. We currently offer instant and hand-drip coffee products for K-Coffee and COFFii & JOY through our store networks and major e-commerce platforms.

Of course, our JV partner, Lavazza, has strong footholds in supplying coffee beans and ground coffee directly to consumers as well as to offices, hotels and restaurants in China. We are committed to complement those footholds and grow further from where we are today.

Okay. Now let's take a deeper dive into our work in experiential segment. Yum China launched COFFii & JOY back in 2018. Since then, the team has climbed the learning curve. We passed growth over the past year to consolidate our learnings and decide on the viable model for COFFii & JOY.

We believe there are 3 key pillars for success: one, distinctive core products; second, small store format; and third, leveraging Yum China's core digital capability for digital engagement and grow delivery.

Our careful approach of experimenting and learning as we refine the concept has paid off. Compared with the Q2 2019, we have doubled the same-store sales despite the challenge of COVID-19. And we have built a sizable member base for each of our COFFii & JOY store and digital orders are making up approximately 40% of the sales. We strongly believe a set of distinctive products actually makes a huge difference in the marketplace.

As a specialty coffee evangelist, we devote significant amount of resources to promote a single origin coffee to younger generation in China. Earlier this year, COFFii & JOY successfully promoted Yirgacheffe and Antigua beans to Chinese consumers. And we're going to continue to do that in the rest of the year. And furthermore, we are tapping into the latest market trends. We introduced a coffee infusion line of products, mixing coffee, tea and juice into a brand-new type of cocktail drinks intended to attract new consumers.

And leveraging on Yum China's strength in food innovation, we have been continuously developing good tasting food for COFFii & JOY customers to pair with our artisanal coffees. Today, French toast and rolls are popular breakfast choice at COFFii & JOY. It's loved by our customers.

In addition, Yum China is the pioneer in digitization in the restaurant industry, as we know. So it is natural for us to leverage on this capability into growing our coffee business, especially as the COVID-19 is still a big challenge to everybody.

Now COFFii & JOY acquires new customers efficiently from third-party platforms and aggregators, and we encourage them to become loyal customers through our attractive membership program. And our membership program guide register customers to learn more about our coffee, increase their consumption frequency. Our goal is to make our coffee a daily ritual and maybe even more than once a day among our customers. And of course, the team carefully crafts the delivery experience, ensuring the coffee and food are delivered to customers fresh and tasty in the shortest possible time.

Now we have established a model that can work for COFFii & JOY, we aim to restart expansion next year with the small store format. And we will draw on our digital capability, thus enabling us of less central location while broadening the catchment areas for our stores. Furthermore, we are exploring other strategic channels to celebrate -- or to accelerate our expansion, including, but not limited to, office lobbies and college campuses.

Of course, in addition to COFFii & JOY, we are pursuing experiential coffee segment with our joint venture with Lavazza. Lavazza is the #1 coffee brand in Italy with a strong heritage in coffee innovation. We are excited to announce that we are advancing our partnership into the next level. We are accelerating store expansion and expanding our partnership beyond cafes to retail products in China.

And next, I will show you a short video introducing you our growing partnership with Lavazza.

(presentation)

P. Thomas Chen

This partnership is very exciting and is a key strategic move to support our coffee vision. Looking at the progress Lavazza has achieved, we have grown the number of stores by sevenfold in just over a year from 3 stores at the end of August 2020 to now 22 stores. We have built a solid digital membership program that contributes almost half of the sales. All the Lavazza stores are operating at highly visible locations with positive consumer ratings according to dianping. com, and our own media -- social media monitoring is also showing the same consumer approvals. The Lavazza brand has shown its unique characteristics since its debut in Shanghai. Their 126-year heritage in Italy and globally renowned coffee quality give Lavazza instant credibility as the authentic Italian coffee brand in the eyes of Chinese consumers.

On top of that, the menu of Lavazza cafe was carefully crafted. The best care food offerings with authentic Italian special coffee, Lavazza opens its network, giving our joint venture access to star chefs at top restaurants in Italy and recreating the iconic street foods from different regions of Italy. And notably, Lavazza offers unique top Italian chef-inspired recipes, such as Aria di Cappuccino and the coffee caviar. That wowed our customers, of course. And we also work with Italian chefs in Shanghai locally to help us create coffee drinks and food that please local consumers' taste bud. Our goal is to build Lavazza into authentic Italian cafe experience where Italian coffee is lived and shared. Lavazza is more than a cup of espresso, it's a slice of Italian life.

So based upon this initial success of our first 22 stores, Yum China and Lavazza are now collaborating even more closer to speed up expansion in China using multiple store formats. We enter new cities with a flagship store or a large store with -- which sets the high standards for our authentic Italian coffee experience at the high street. And then we further penetrate neighborhoods with appropriate store formats, ranging from normal stores for the shopping malls to small stores for the community shopping centers.

Now let's look at Lavazza at the Crystal Galleria in Shanghai, our first flagship store. The store has been getting a lot of attention on social media. The store has hosted many significant events, including a visit by Italian ambassador and consulate officials. Since July, we have expanded beyond Shanghai, our first Lavazza store in Hangzhou attracted local coffee enthusiasts and KOLs, making it an instant must-visit cafe in Hangzhou. To make it more -- even more interesting, we introduced Osmanthus Long Jing latte exclusively in Hangzhou to celebrate with local consumers.

And in Beijing, similarly, Lavazza's first store opened at the SOLANA plaza. Again, it immediately became a hotspot, attracting coffee lovers in Beijing and our city-exclusive offer Arctic Ocean Soda coffee infusion is also a big hit in Beijing.

And not long ago in mid-August, Lavazza's Guangzhou grand opening took place at the International Commercial Center. Our debut impressed the consumers in our city exclusive offer, Guiling Jelly Latte, was one of the most popular drinks among the -- during the grand opening week.

By the end of this year, we will enter Shenzhen, targeting to open the first store in Wanxiang Qianhai in November. By 2022, Lavazza store will operate in all Tier 1 city and selected Tier 2 cities in the Mainland China.

Of course, building our store rollout, our extended JV partnership enables us to participate in Lavazza's retail business. Lavazza coffee has been sold in China for years. It's ranked third in the beans and ground segment. And the JV partnership intends to expand Lavazza's retail presence further by introducing more exciting products from Lavazza's global portfolio that will enable us together to meet the at-home consumption desires of Chinese coffee lovers.

So to conclude, I want to reiterate our excitement and passion for coffee business. We intend to accelerate expansion of our coffee footprint over the next few years. For Lavazza, we are aiming 1,000 store by 2025, while COFFii & JOY is expected to resume expansion next year. We believe coffee consumption will eventually become an important daily ritual in consumer's life and routine. And also, we are committed to make coffee a very meaningful part of Yum China's business.

So thank you very much for your attention. And with that, I will hand it over to Leila Zhang, our Chief Technology Officer. Thank you.

(presentation)

Leila Zhang *Yum China Holdings, Inc. - CTO*

Good day, everyone. I'm Leila Zhang, Chief Technology Officer of Yum China. Today, I will walk you through how digital and technology will support our business as we accelerate growth over the next few years.

Yum China is a pioneer in digital and creator of innovative ideas. For the last few years, we have been working toward an end-to-end digital ecosystem consisting of membership program, Super APP and other online channels. This enables customer to order, pay and enjoy many benefits at their fingertips.

We are also digitalizing the store experience. For example, we rolled out table-side ordering at Pizza Hut and self-order kiosk at KFC. All these efforts seamlessly combine online and offline assets, enhancing customer experience. Yum China's digital ecosystem has begun to show real power in unlocking sales potential and improving productivity. We continuously improve apps and other digital channels to make them more user-friendly. This has massively upped the digital ordering from around 20% of sales in 2017 to around 85% in first half of 2021. Member sales mix is also over 60%, making us a leader in the industry.

Digitalization in the restaurants also helps to improve productivity. With technology, some of the labor-intensive menu work can be reduced. As a result, we are able to maintain the overall employee scale even as we have added nearly 3,500 new store since 2016. The average employee per store have decreased 30% compared to 5 years ago. Looking forward, to take one step further, our priority for the next few years will be focusing on the core, that is, to further transform stores digitally and enhance operation excellence and to fortify resiliency.

There are 3 Ps that are critical to our success: people, product and place. We designed digital solution to empower each of these categories. For people, we are exploring automation technology to replace manual work so that employees can focus on task that really matter to consumers. For example, this year, Pizza Hut rolled out fried rice machine to most of the stores.

For products, we are leveraging IoT tools to enhance food safety and streamline operational process from inventory management to food preparation.

For place, we are building a comprehensive system of intelligent store to improve efficiency. We are creating a strong digital foundation to support next 10,000 stores.

I will spend the next few minutes to introduce our plan. First, let me show you how we automate the processes. We are building an all-in-one remote system. It is a powerful tool that allows us to remotely and effectively ensure food safety, manage store operation and reduce risks. The AI-powered system helped to check food safety and quality, making sure our commitment to high standard is delivered to customers.

On top of that, we are able to provide a remote store check and employee coaching online with a real-time feedback function. This function is particularly helpful during the pandemics. Moreover, the system is equipped with motion sensor that can detect abnormal activities to improve store security. We have also enhanced the other area of automation, for example, forecasting and labor scheduling with the help of AI.

First, in sales forecasting. Before, we relied only on the experience of RGMs. Now we have integrated their know-how to simulate different sales scenarios, taking into consideration external and internal factors. This improves forecasting accuracy, enabling restaurants to better prepare for peak sales and reduce wastage.

Second is smart replenishment. With the aid of IoT technology, our AI-enabled system detects store-level inventory and gives advice on whether replenishment is needed. And if so, how much. 50% of the store inventory are currently covered. We are aiming for 80% in near future.

Third, labor scheduling used to be a tedious task for RGMs. The smart labor scheduling tool has freed up their time so that they can focus on more value-adding tasks and are happier.

The second area is in IoT. The application of IoT is rolled out to the entire value chain from suppliers to food preparation. We can track over 90% of items real time in our supply chain. Danny will introduce more on how we leverage the digital and technology in this area. By leveraging RFID and other technology, we are able to track inventory more accurately and timely. This help us to monitor stock level at store and in the logistics center, enabling us to reduce stock out and food wastage.

IoT also plays an important role in reducing energy consumptions. The smart energy management system connects all fryers and allows us to reduce utility usage. Looking ahead, we will use IoT in more of operation. For example, stores can be connected to support new business models such as the satellite store.

The third area is intelligent store. For Pizza Hut, pacing food preparation to balance dine-in and off-premise demand is especially important. For instance, order from off-premise need to be ready at the same time. But orders for dine-in customer do not need to be served all at once. Our intelligent kitchen system monitor orders from all channels and leverage AI algorithms to optimize order preparation sequence. As a result, the delivery order preparation time for rider have been reduced by 10% compared to 2019, and the overall customer satisfaction greatly improved.

As an extension to the intelligent store, I would also like to highlight our efforts in upgrading delivery capabilities, which is critical to support the rapid growth in such business. First, smart zoning and rider dispatch. Our smart delivery system is able to optimize rider routes and redesign the delivery area coverage. This helped to increase delivery coverage by 10% and capture more sales. We are also piloting cross-brand rider sharing to drive further efficiency. The pilot test was launched earlier this year and soon will expand to more brands and regions.

Our digitalization, along with automation, IoT and intelligence store, work together to enhance overall store efficiency. But we do not stop there. Now we are working on an end-to-end ecosystem called Super Brain to help RGM drive sales and to operate more effectively. This system combine data from store to perform sales analysis and store benchmarking. The Super Brain processes tons of data, find us optimal solutions and provide operation and business advice to RGMs to make informed decisions. Therefore, we can enhance operational excellence to provide a consistent experience to all consumers across China as we grow. Now let's watch a video on Super Brain.

(presentation)

Leila Zhang ***Yum China Holdings, Inc. - CTO***

In summary, as we aim for the next 10,000 stores, our initiatives are centered around the 3 areas at scale: automation, IoT and intelligent store. We will continue to strengthen capabilities in 3 Is, that is, infrastructure, implementation and innovation.

First, we will invest in IoT, cloud computing and cyber security to strengthen infrastructure and safeguard digital assets, protecting the privacy of consumers. Next, we will leverage both in-house team and external partners to forge digital excellence. We have set up in-house R&D center in Nanjing, Shanghai and Xi'an to focus on AI and data. We also collaborate with industry experts to develop cutting-edge technology in online and off-line stores. With this in place, we are ready to take on new challenges and enhance digital as a core enabler of Yum China's long-term growth.

With that, let me hand over to my fellow team member, Danny Tan, to provide you an update on supply chain.

Danny Tan ***Yum China Holdings, Inc. - Chief Supply Chain Officer***

Thank you, Leila. Good morning, everyone, and thank you for joining us today. I'm Danny Tan, Chief Supply Chain Officer at Yum China. Today, I'll give you an overview of our supply chain, and I hope that at the end of this presentation, you have a better understanding of the supply chain capabilities as one of Yum China's growth enablers.

Over the past 30-plus years, we have built a proprietary and integrated supply chain to manage activities from farm to fork. Most of the functions shown here are self-explanatory except perhaps 2 functions: engineering and supply chain system. Engineering is a function that manages equipment, packaging design and sustainability. Supply chain system includes supply chain finance and control, sourcing planning and project support. Listed also on this page are key stats for our supply chain.

You heard from Joey that our bold goal is to build the next 10,000 stores much faster than in the past. To make sure that the supply chain infrastructure is in place for the accelerated expansion, we have earmarked up to $1 billion for investments in logistics centers, supply chain digitalization, strategic upstream suppliers and sustainability measures over the next several years.

I've prepared a short video of Yum China's supply chain. Please take a look.

(presentation)

Danny Tan ***Yum China Holdings, Inc. - Chief Supply Chain Officer***

Our supply chain strategy consists of 4 key pillars. First, maintaining high standards of food safety and quality. This is mission critical for us and will always be the company's #1 priority. Secondly, it's our innovative and resilient infrastructure. In short, this is about helping our brands win in the marketplace with best-in-class supply chain combining our people resources, suppliers partners and logistic network.

The third pillar is to build a digitalized supply chain. As Yum China adds new brands, channels and products, we are leveraging technology to manage increasing complexity more effectively and efficiently. You'll see later in my presentation that we have already implemented industry-leading digitalization projects in various parts of our supply chain. Our fourth pillar is to build a sustainable supply chain to balance Yum china's growth with a commitment to address environmental challenges and social responsibilities.

In the next 15 minutes, I'll cover the first 2 pillars rather briefly and spend more time discussing the third and the fourth pillar.

First pillar on food safety. Food safety is ingrained into our core value. It is a top priority and a responsibility for everyone at Yum China. We are committed to be the conscience of the industry, stay true to our values and insist on doing the right thing. Towards this end, we have developed a holistic food safety and quality management system that connects our culture, our people, control processes, management support, Board oversight and use of technologies.

To give you 2 examples, we have up to 200 processes to manage supply chain activities from farming practices, production management to truck inspection to food delivery. We are constantly refining or updating our processes to keep pace with our business growth.

Another example is Board oversight. In 2017, the Food Safety Committee was established under the Board of Directors to assist the Board in its oversight of food safety-related practices, programs and initiatives. The committee's responsibilities were expanded to also cover sustainability matters this year. We report to this committee at least twice a year.

On innovation. Supply chain is an essential part of Yum China's innovation journey. For each new product, the supply chain team is responsible for the many activities listed here. Our ability to ensure all necessary deal processes in tight collaboration with our brand teams and suppliers community quickly and effectively is one reason why we were able to bring to market about 500 new products in 2020 to introduce new brands such as Lavazza as well as launching new sales channels such as e-commerce and new retail. You heard from the brand general managers that we expedited new retail products in response to the COVID-19 outbreak. All these were made possible with a resilient and agile supply chain.

Our self-operated logistic function is, without doubt, the last-mile enabler. Our network of 26 logistics centers and 7 consolidation centers manage inventory and deliver to stores across more than 1,500 cities. More importantly, the existing network is ready to support our expansion into 1,200 new cities. We have about 2,200 outsourced multi-temperature trucks with separate ambient, chilled and frozen cabin.

Using IoT technology that I will cover momentarily, we are able to monitor frozen and chilled products' temperature in transit to protect food safety. We plan to operate about 45 to 50 logistics centers and consolidation centers over the next several years to support our expansion and to further increase efficiencies. Up until very recently, our logistics centers were mostly built to specifications facilities leased from facility owners. We have earmarked some of the $1 billion CapEx for land acquisitions and facilities construction so that over time, we will own a meaningful proportion of the logistics centers, giving us greater control of a fundamental supply chain function.

At our scale, a mixed portfolio of self-owned and outsourced logistics centers provides the balance between operation stabilities and flexibility. In addition, in-house facilities help reduce logistic costs in the long run. The Chongzhou logistics center in Sichuan province and the Huai'an logistics centers in Jiangsu province, currently under construction, are 2 examples of our self-owned greenfield logistics centers.

On digitalization, we are actively applying automations and technologies to our daily operations to step-change supply chain transparencies and productivity. Our vision is to collect more real-time data from much more diverse sources and at more detailed level. This not only provides full visibility to business processes but also allows timely intervention, data-driven analytics and intelligent decision support.

I'll now show you 4 digital initiatives that have already been deployed in our supply chain. The first one is the interconnected quality assurance system, or iQA. The traditional approach is using planned and surprise audit to verify suppliers' performance. With iQA, we have built an end-to-end connectivity from the suppliers' plants to our system. As depicted by the chart, the iQA system collects data from 7 production processes, defines key control points for each process, and data for these processes are uploaded to Yum China system during production cycle. In so doing, we are able to obtain instant deviation notifications, trend analysis, risk warnings and take immediate actions to mitigate risk. As of now, we have implemented iQA at 160 suppliers' plants and will be fully rolled out to all of the roughly 320 food and beverages plant by mid of next year.

Intelligent food safety, or iFS, is another innovative system that we successfully implemented this year. It combines multiple technologies such as data mining, artificial intelligence, machine learning, natural language processing and knowledge graph to scan and process up to 3,000 information sources from relevant website and social media every day. This automated web scanning and filtering function gives us advanced notice of potential food safety issues so that actions can be taken accordingly.

The second key functions is risk assessment report for new suppliers and new raw materials with visualized relationship linkages between entities, material and incidents as well as up to 3 level drill-down capabilities. Another key functions is food safety pedia, which is a resource center for all things food safety and quality management for reference by our team members. iFS is indeed a breakthrough technology that fortifies our food safety defense.

With IoT-enabled real-time monitoring, we achieved yet another breakthrough in our supply chain, this time in relation to protecting cold chain integrity. This system tracks temperature of products in transit, that is, on all refrigerated trucks that are delivering to our stores at any given time as well as for all our cold storage facilities. All exceptions detected are transmitted via GPS network to our digital call center, where our team members will contact the relevant driver or operator to rectify the problem.

We are also using technologies to increase operation efficiencies at the logistics centers such as ordering management system, truck docking station management, automated storage and many more. Having built a slew of supply chain management systems shown on the bottom, we also developed the supply chain control tower to link data from the otherwise silo system for integrated management reporting and intelligent decision support. Here are several examples of the dashboard.

The first is for food safety that lists suppliers' performance and food safety sampling test results. The second dashboard is for supply and demand planning that shows demand and inventory forecast accuracy by segment and by brand. The third dashboard is for the logistics centers that shows inventory level by product category. We are also in the process of customizing this report for mobile devices to increase accessibility and connectivity.

I hope the charts above demonstrated the power of our digital supply chain. While we have already built an industry-defining digitalized supply chain, we'll continue to upgrade, enhance and adopt newer technologies to keep pace with our business needs.

Let me now cover the last but equally important pillar of our supply chain, that of sustainable development. As a responsible corporate citizen, we are creating an ecosystem that balances our growth with due attention to environmental, social and governance issue, or in short, ESG. Our vision for ESG is to create a sustainable platform for growth centered around environment, food and people. We are following the United Nations Sustainable Development Goals, or SDGs, where we are focusing on the 10 goals that are most relevant to our activities. We strive to contribute to the planet by building sustainable restaurants, creating a sustainable supply chain with our supplier partners and building a sustainable community with all stakeholders.

We have published annual sustainability report since 2017. The report outlines our efforts and accomplishments in these areas. The latest report for 2020 was published this past June and available on our company's website.

On sustainability, we work diligently to define the governance structure and key strategies, implemented system and processes to achieve our goals and proactively communicate the progresses to relevant stakeholders. I am pleased to share with you that our ESG efforts and performance, as measured by one of the most credible rating agencies, the Dow Jones Sustainability Index, or DJSI, has improved significantly. In November 2020, Yum China was named the Industry Leader for the Restaurant & Leisure Facilities Industry by DJSI and has also been selected as the member of 2020 DJSI World and DJSI Emerging Markets, a significant recognition of our positive impact on ESG.

That said, we are aware that ESG is an ongoing journey, and our shareholders may refer to other rating systems. You see on the right side of this chart that we are participating in rating systems such as International Shareholder Services, or ISS; Sustainalytics; Morgan Stanley Sustainability Index, or MSCI; and Carbon Disclosure Programs, or CDP, to further increase our ESG performance as well as relevance to a wider group of stakeholders. We are committed to a series of public goals listed here. This past May, we have also taken an important step forward by committing to Science-Based Target initiatives, including reaching net zero greenhouse gas emissions by 2050.

While we have made meaningful progress to date, we are aware that much remains to be done going forward. We'll optimize our operations, identify, adopt innovative technologies, working with our suppliers to address upstream emission and will closely follow government's policies to contribute towards the sustainability of our planet. This is a major undertaking because we are tackling highly complex matters, especially when we are growing very rapidly. Also, many of the solutions are either not yet feasible or cost ineffective. However, like Joey has mentioned in his CEO remarks in our latest sustainability report, we must make progress because our responsibilities to future generation demands it.

To conclude my presentation, I believe our supply chain is capable of supporting our growth to 20,000 stores because we have built a supply chain with unrivaled infrastructures and capabilities in digitalization, cost management and innovation and executional excellence with experienced team and comprehensive processes, one that can protect business continuity through tried and tested contingency planning and enable brands growth with customer-oriented, innovative and agile model.

This concludes my presentation on Yum China's supply chain. Now please welcome our CFO, Mr. Andy Yeung, to the stage. Thank you.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thanks, Danny. Hello, everyone. Thank you for joining us today. I'm Andy Yeung, CFO of Yum China. Now that you have heard all the exciting developments at Yum China, let's get down to the numbers and see how we at finance support the company's long-term vision. Earlier, Joey mentioned our RGM framework, which stands for resiliency, growth and moat. So let's first talk a little bit about our resiliency.

We have a very strong track record since the spin-off. Between 2016 and 2019, our store count increased by 1,600, a CAGR of 7%. In the same period, our revenue was up $1.7 billion. Our operating profit increased by $267 million, a CAGR of 7% and 12%, respectively. It's a remarkable growth trajectory. And despite labor inflation and doubling of our delivery sales mix, our bottom line grew faster than our top line.

On the other hand, it has been a very challenging time for everyone since the COVID outbreak in early 2020. Yet our people, our brand and our operations have demonstrated strong resiliency. By focusing on the things that we do best and seizing the growth opportunity in China, we are able to restart growth in the second half of 2020. Our revenue increased by $600 million or 13%, and our operating profit increased by $68 million or 13% compared to the same period before the pandemic.

Now on a 2-year basis, between the first half of 2019 and the first half of 2021, the numbers of store increased by over 1,600 unit, a 19% growth. All these were made possible thanks to the hard work of our staff, our product innovations, productivity gains from our investment in digital technologies and supply chain infrastructure. Also, strong cost management and flexible cost structure across our restaurant operations and G&A helped as well.

Now I don't want to sugarcoat this. The pandemic is not over yet. We are still facing very challenging operating environment. Besides the sporadic cases of local transmissions, we have seen 3 regional outbreaks over the past 18 months. Recently, we have a major outbreak of Delta variant that started in Nanjing in late July. It has subsequently spread to 16 provinces. A large number of areas were identified by the government as medium or high-risk area.

But given the scale and also the contagious nature of this outbreak, authority across China has stepped up preventive health measures, including lockdown of several large cities, restrictions on movements of people and goods, et cetera. These are effective measure to help control the outbreak, but they also led to a sharp decline in mobilities and consumer sentiment.

For example, if you look at nonmanufacturing PMI, which declined sharply to 47 in August, indicating the first contraction since the first quarter 2020. As such, the impact of the regional outbreak on business was much greater than the previous 2 outbreaks. We continue to expect the SSSG recovery to prepandemic levels will take time and that the recovery path will likely be nonlinear and uneven, meaning sometime we may take 3 step forward but 5 step back in case of a major outbreak.

So what can we do to respond to the near-term challenges? We have a number of initiative to drive same-store sales growth. Yum China has been a pioneer in digital innovation in the industry. A vast majority of our customer now place their order digitally. Digital order account for roughly 85% of our sales.

We rolled out the digital membership program in 2016, and we have seen it grown significantly over the years. Sales of our members now account for roughly 60% of total sales. Average revenues per member is twice as much as nonmembers. There remains a significant opportunity for us to grow our membership base to drive frequency and spending of our members.

Now over the past few years, delivery has been a significant growth driver for us. Despite the pandemic, delivery sales grew 64% compared to 2019. And it is not just only delivery, but takeaway is also an important part of our business. In fact, over half of our sales now come from off-premise dining, including delivery and takeaway. So we are redesigning our store network, adding store density, innovating our store format and rolling out delivery 3.0, all to better serve our customer for off-premise dining.

And we also see huge potential for at-home consumption and have introduced a wide range of packaged food products. They are sold through a variety of online channels and through our restaurant network. The new retail business is relatively new but already reached around RMB 200 million in sales in the first half this year. It is a fast-growing addition to our business.

But most important to attract customer to our store is good menu innovation. At KFC, we're expanding our product offering in beef burger category. Beef burger now account for 2% to 3% of our sales mix. We also launched a limited offer -- a limited time offer of juicy whole chicken this quarter. It was an instant hit. Roughly 180,000 juicy whole chicken were sold within a week in some of the markets. So we'll do more with the whole chicken product line.

We are also stepping up our effort in tea. In the first half this year, we sold 50% more cup of tea compared to the first half 2019. We see great potential in this category for the afternoon daypart.

Obviously, Pizza Hut is best known for its pizza. In China, we are also the largest steakhouse. In first half 2021, we sold around 20 million pieces of steaks, representing a 45% increase compared to the same period in 2019. Additionally, one-person meal set also grew substantially after we added more choices and extended it as a full-day offer last year.

China remains an attractive and growing market despite the near-term uncertainty caused by COVID. We must continue to invest and manage our business for the long term and seize the market opportunity.

So for the growth component of our RGM framework, we have 3 key objective: one, to accelerate the growth of KFC and Pizza Hut; two, to scale our coffee business into a meaningful part of our business; and three, to widen our strategic moat by stepping up investment in supply chain, infrastructure, digital and technology and our ecosystem.

As such, our capital allocation plan is designed to support the RGM strategy. This year, we have already increased our CapEx target to $700 million and -- to $800 million. Now from 2016 to 2020, our total CapEx was a little over $2 billion. We plan to increase that to $5 billion to $6.5 billion in the next 5 years to accelerate organic growth.

Capital will be deployed to accelerate store openings at our core brand, KFC and Pizza Hut. We model our stores, scale our emerging brands, enhancing supply chain and digital infrastructure. We plan to dedicate around $2 billion to $2.5 billion to new store openings. A significant portion of that will be allocated to accelerating growth of our core brands.

We have a bit more than 10,000 store at the end of 2020. As Joey mentioned, we target to nearly double our store portfolio and reach the next milestone of 20,000 store. Indeed, it is an ambitious target and will certainly take more than 5 years, but there's a pathway for us to get there. We will, one, penetrate further into lower-tier cities; and two, to increase store network density in the city that we already have store. In 2016, KFC had already a presence in over 1,100 cities. Since then, KFC has entered into 400 additional cities with a presence in over 1,500 cities today.

So you may ask, is there still room for growth? The answer is certainly. We are tracking over 1,200 cities for potential entry, given the new store format and rising disposable income. For existing markets, especially Tier 1 and Tier 2, we're focusing on store network density. For example, satellite store model at Pizza Hut enable us to operate possibly in smaller trade zone, providing faster delivery and better customer experience.

Not only did we open more store, we opened store profitably by employing a consistent and disciplined approach. As such, we are able to maintain cash payback periods for our new store opening over the years, on average, roughly 2 years for KFC and 3 to 4 years for Pizza Hut. Initial investment, sales per store, profit margins are all key determinants of cash payback period for new store.

So we work hard to reduce the cash investment. For example, an average satellite store is less than 100 square meters with CapEx approximately RMB 1 million. Our sales per store is around RMB 4 million to RMB 5 million, which is slightly less than before. But that's understandable, right, because we have small store now. On the other hand, we are able to maintain a cash margin around 22% for KFC and 15% of Pizza Hut despite lower sales per store. So that's how we did it, how we maintained a healthy payback period for new store opening.

Now aside from new store opening, we will also invest more than $1 billion in the next 5 years on store remodeling. From 2016 to 2020, we remodeled around 10% of our store portfolio per year. Now we have been shifting from full-store modeling to a mix of full and partial store remodeling. Right now, the average period since the last remodeling or opening for our store in our portfolio is about 3 years.

Now as our portfolio of store grows, the CapEx for remodeling will also increase. We will strike a balance between managing costs and keeping our stores fresh and relevant to consumers.

Now our emerging brands give us an opportunity to capture a greater share of stomach and build more growth engines for Yum China. Although in today's presentation, we only showcased 2 coffee brand, Lavazza and COFFii & JOY, our emerging brand actually include Taco Bell, Little Sheep, Huang Ji Huang and East Dawning. Now as Thomas mentioned, we have a strategic partnership with Lavazza in China, and we are very excited to expand the scope of this strategic partnership as the joint venture enter into a rapid development phase. Together, we will inject $200 million initially into the joint venture. To fund its future growth, the plan is to greatly accelerate the expansion of Lavazza cafe network to reach 1,000 store by 2025.

Now let's turn to competitive moat. To support the expansion of our store network, we also need to invest in enhancing our infrastructure, particularly supply chain capability and capacity. We have earmarked $1 billion to $1.5 billion in this area, including up to $1 billion for supply chain-related investments and another $500 million for other infrastructure and capital projects. This include building additional logistics centers for more extensive coverage across China. Now Danny mentioned that we plan to reach 45 to 50 logistics and consolidation centers over the next 5 years.

We will also continue to introduce new technologies to digitize and automate our supply chain to make it more agile and efficient. In addition, we are also committed to create a sustainable and responsible ecosystem, including our goal to reach net 0 emission by 2050.

Today, we have heard the important role that digital play in our business. We have earmarked another $1 billion to $1.5 billion investment in digital and technology. We'll invest in enhancing innovations, implementations and infrastructure, from automations and AI all the way to IoT and cloud computing. Investment will drive sales and productivity, improve customer experience while ensuring cyber securities and system stability in the long run.

We have a strong cash flow generating capability to support our business growth and step up investment. Between 2017 and 2020, we generated $4.5 billion of operating cash flow. Free cash flow in 2020 was 62% higher than 2016. We remain committed to returning excessive cash to shareholder on a balanced and sustainable basis, of course. Since the spin-off, we have returned $1.3 billion cash to shareholders.

Now despite the ongoing impact of COVID-19, we have resumed the dividends and share repurchases. We currently pay total dividends of $0.12 per share, equivalent to 20% payout. On share repurchases, we have nearly $700 million authorization remaining. We will exercise that prudently and steadily, depending on market conditions and our cash need. Now putting it all together, on a long-term basis, we see the potential to achieve high single-digit to double-digit system sales growth, operating profit growth and EPS growth.

Yum China has a track record that is supported by our resilient brands, leading capabilities and amazing team. Looking forward, we have ambitious goal and corresponding initiatives to drive long-term, sustainable growth.

We would like to thank you all for your interest and support in Yum China. We will now take a short break before we start the Q&A session. Thank you.

(Break)

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Welcome back, everyone. I hope by now you have a better picture above our strategies and share our confidence and passion. My team and I are now available for questions. Operator, please start the Q&A, please. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Chen Luo from Bank of America.

Chen Luo ***BofA Securities, Research Division - MD***

Can you hear me?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Yes.

Chen Luo ***BofA Securities, Research Division - MD***

Okay. Definitely, the agility and resiliency of our business model has been tested and proven again and again during the pandemic period. And I've got one question on our coffee strategy. So I noticed that we are going to open 1,000 stores for Lavazza. Meanwhile, we also have COFFii & JOY. So what different kind of roles will these 2 brands play in our future coffee strategy? And what kind of store rollout target for COFFii & JOY? Meanwhile, although the coffee market in China is booming, we are also seeing rising competition. And how are we going to differentiate from other existing competitors such as Starbucks, Tim Horton's and other domestic players such as Manner coffee?

And also, as we are going to add 1,000 stores under the Lavazza brand, is there any store economics that we can share with investors such as sales per store, margin profile? And is there going to be any margin dilution impact on the overall business if we start to accelerate the expansion for the coffee business?

And lastly, on the K Coffee part, we have already done a good job for K Coffee. So is there any strategy for us to further grow this business? And also, is there any financial targets or growth target for K Coffee in the long run?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thanks. Luo Chen, thank you. It's a very comprehensive question. There are probably 3 parts, and I'm sure Thomas will cover one by one. Just to summarize so that we're all clear here, it's about the coffee portfolio strategy from K Coffee to C&J and Lavazza and their differentiation and then the store economic and margin dilution. Maybe Thomas can take the brand differentiation. Andy can take the economics. Thank you.

Thomas Chen

Okay. Thank you for the questions. So first of all, let me say, basically, coffee category is a big category. So it comprises several different segments, as we know. For example, like in Yum China standpoint, we see this category as a segment from like daily need to functional need, all the way up to experiential or premium segments.

So having said that, basically, to us, we think the best way to pursue the overall success in this category is actually using a portfolio of brands, as I presented in my presentation. So actually, we have 3 brands -- three-pronged strategy going after this category. We have K Coffee, which has been proven a good success, offering this daily functional need to our customers through our 7,000-plus KFC stores. And also, we believe that we need successful brands in the experiential segments, where we have 2 brands there, which is Lavazza and COFFii & JOY, of course.

So having said that, basically, when we look at this coffee category, we believe positioning is really the important thing to differentiate one brand to the other. For example, our peer brands, some of them position themselves as like social venue, the third place. Or some of the other peer brands, they position themselves like superior American coffee. So they are -- we're all trying to actually differentiate ourselves through positioning.

So looking at COFFii & JOY, which is actually positioned as a specialty coffee evangelist, advocating and promoting coffee culture to younger generation of China. So because we believe younger people, they are actually inspired by the culture, the knowledge and the ritual of coffee, so that's why COFFii & JOY's position is dedicated to actually promoting the excitement of coffee culture to younger generation.

Over the past year, we are pouring a lot of resources to promote a single-origin espresso coffee beans to younger generations such as Yirgacheffe and Antigua, and we're going to continue to do that to reinforce our proposition. And also, for COFFii & JOY, we're also tapping on the latest trend. So we have this coffee infusion line, which is a blend of coffee, tea and juice together, actually to engage new category users or upgrade the current user to a more sophisticated artisanal coffee. So that's the positioning for COFFii & JOY, which is, of course, very different from our competition.

And for Lavazza, right here, I would like to express again my excitement about our extended partnership with Lavazza because it's a very important, strategic partnership with us, especially when we are pursuing the overall success in this category. So Lavazza's positioning is quite straightforward. It's the #1 coffee brand in Italy. So of course, we want to position this brand as the holistic or authentic Italian cafeteria experience in China, which means at Lavazza store, we are offering more than just a cup of wonderful espresso coffee to our customers.

In addition to that, we're going to complement or pair that with the authentic Italian street food that we co-created with a star chef back in Italy. Thanks to the JV, we get this access to this chef resources for Lavazza back in Italy. So we co-create our distinctive menu so as we provide this authentic experience to our customers at our restaurant to pair with our authentic Italian coffee.

So in one word, the positioning for Lavazza is the authenticity. We want to bring this authenticity, the authentic Italian slice of life back in China to share that with our customers. So having said that, you can see, though we have multiple brands, but each brand actually taking a very clear distinctive proposition to go after the multiple segments within the category. So that's the strategy that we have.

In terms of the economics for Lavazza, actually, we have seen quite exciting initial success in the first 22 stores. The stores are progressing toward the plan and the financial targets. So we are very excited about that.

In addition, we see a very positive consumer feedback. I would think that's the most important thing. Consumers love it. We see a very high rating on our restaurants, Lavazza cafeterias on Dianping.com. And also, according to our internal social monitoring system, we see a lot of positive word of mouth on Lavazza. So that gives us tremendous confidence to extend our partnership with Lavazza into the second phase, the extended phase to accelerate the expansion. So that's pretty much the situation.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

The economics?

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

The economics. I will add a little bit about economics. Obviously, as Thomas mentioned, we are very excited about the partnership, and we have seen the early success of the Lavazza store that we have opened. They definitely have, as a whole, met and exceeded our expectation.

And then if we look back in C&J, it's a brand-new brand that we started a few years ago. And over the past few years, we have seen the portfolio of store grow. And sales have continued to increase last year and this year. And then a number of the store that we opened are now breakeven or profitable.

So we learned a lot over the last couple of years with our C&J business model. We are applying those lessons to obviously Lavazza. We have many great ingredients for success for Lavazza. We have a great brand. We have great products. Lavazza is a 130 year old Italian brand. And if you look at our team, we have learned a lot about the coffee business. As Joey has mentioned, in the last couple of years, coffee, we have very healthy respect for coffee, and we have very healthy respect for building a brand. So we will invest long term. We drive values both --in C&J and particularly Lavazza.

So if we look at our portfolio in coffee, we see a model, right, to achieve our profitability over time. But as with any new startup or any new brand, we're going to invest upfront, right, to make sure that consumer know the brand. So we would share our food and drinks with the consumer and build a long-term relationship. So over the next couple of years, we already mentioned in the press release that we and Lavazza together are going to inject about $200 million for expanding our store network to grow our business, including our packaged good products, the retail items.

So we have a plan. We have a strategy. We're confident that with the execution of our team, our great team, we will be able to achieve long-term value.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Andy. Thank you. It's a really important question because coffee is our third growth engine and thus deserves a bit more time. I'll just add one small point. If Yum China, right now, if we look at the coffee business a few years down the road, the way we see is the premium brands such as Lavazza, they're likely to be opening quite a significant number of stores in Tier 1, Tier 2 city, might be Tier 3 city. We're talking probably about 200 cities. But bear in mind, in Yum China, we are tracking 2,700 cities in China.

So what are the options for customers beyond the top 200, 300 cities? COFFii & JOY will be a good example. And we know there's opportunity there because KFC has proven it. KFC already has brought high-quality coffee to 1,500 cities. So I hope that wrap up the important question of the third engine. Thank you, Luo Chen. Next question, please.

Operator

Your next question comes from the line of Lillian Lou from Morgan Stanley.

Lillian Lou ***Morgan Stanley, Research Division - Executive Director***

So I want to take a little bit of a broader view. Given all the detailed strategy being illustrated, i.e., the existing KFC, Pizza Hut and also expanding coffee as well as new retail business, how we look at this growth path in a whole down the road, i.e., if we benchmark previous capital return margin growth level, how do we see it change in the next 3, 5 years, i.e., with all these initiatives, what kind of return or restaurant margin profile could achieve in the next 3, 5 years? Because I think previously, we always like benchmark 15, 16 or 17% restaurant-level margin or certain ROE. So how we actually put everything together to evaluate in the return profile.

And related to that, how can we kind of expect all this new initiative, including the new channel like coffee, retail business or the new food offerings like new SKUs as a contribution to the total revenue or to the margin?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Lillian. I think if we can summarize, the question is about margin and store payback return outlook with the store acceleration and new business. Andy?

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thank you, Lillian, for your questions. I think if you look at our companies, obviously, we have a portfolio of brands. We have obviously 2 very core brands, KFC and Pizza Hut, right? So I think when you look at the margins for those brand, you will notice that overall they have been relatively stable. Obviously, we have some impact from the COVID-19 last year. And then when there's outbreak, there will be some deleveraging of new sales.

But overall, if you look at -- over the years, the team have done a great job in term of managing the margins. Even though our delivery business, for example, have gone from 11% in 2016 all the way to 20%, double, right, to 20% in 2019, our margins, our restaurant margins, especially for KFC, have been very stable. And so if you look at our operating margins, it's also relatively stable because we have tried to cap G&A as a percentage of sales, but it is like lower than the overall revenue growth.

So if you look at our operating margins, relatively stable. We have about 13%, right? So I think for a company like us, I think if you look at the margins, like 2 segments, right, the more mature business, the core brand and then the emerging brand, which we are in the investment phase. And so when you combine them, I think, hopefully, with all the investment that we make in technologies, in infrastructure, we were able to continue to find productivity gains and also operational efficiency to offset potentially some of the higher costs.

One of the costs that we probably face in the long run is labor cost, mainly because as you probably know, China right now, demographic shift is first shifting to a more aging population. Population growth has moderated quite significantly over the last decade or 2. And so we're going to see labor as an important cost component. So investment in technology and infrastructure in the past have helped us to mitigate some of those cost inflation. And then in the future, we will continue to do the same.

Now in the newer business, obviously, different businesses are at different stages of development. So we know that Huang Ji Huang, for example, is a profitable business model. It's a franchise model. Overall Chinese business is a franchise model with some seasoning and packaged food products and overall is profitable for us. But there's a lot of work to do. Obviously, for example, Little Sheep is a turnaround story, and we would continue to work on that and improve that profitability.

Now investment in coffee, for example, we're very excited about this business. We see a lot of opportunity there. We see the team are beginning to execute that very well. But we will continue to invest in it. In the short term, I think, we will try to manage the store economics, and then we'll manage the overall portfolio profitability. And so I think over time, we'll create value there. But for the smaller brand, yes, they will continue to be in the investment phase for the next few years.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Andy. For the store payback, well, KFC is still amazing 2 years and then Pizza Hut 3 to 4 years. And one thing important to note is sometimes, pandemic, a challenge like this really push our thinking about agility. So even during the sort of super regional outbreak like what just happened July and August, our payback -- store payback period slightly was lengthened a little bit. But overall, it's still within the range. And particularly for Pizza Hut satellite store, the payback is 2 to 3 years, which is fantastic. So we will continue to work on it.

And one hidden question here will be are we going to keep up to our 1,300-store opening this year. The answer is yes. We are still sticking to that commitment, and we are also sticking to the discipline of opening a profitable store for one very, very, very down to earth reason. The team sitting here and our operations team, their incentive is tied to opening profitable stores, not just opening the stores. We have certain requirement of the quality of the store, if that's the hidden question from our analysts and our shareholders. Thank you. Next question, Michelle.

Operator

Your next question comes from the line of Michelle Cheng from Goldman Sachs.

Michelle Cheng ***Goldman Sachs Group, Inc., Research Division - Executive Director***

Yes. My question is about the new retail business since you mentioned that post COVID, we see different opportunities in the home consumption. So can you share with us, we have been seeing many new product introduction, and what categories or format we want to explore? And also to expand this business, what is our channel strategy? Since so far, we see these products probably can be available in our stores or selective e-commerce channel, are we going to be more aggressive on the channel side to promote this new retail business?

And on top of that, can you share whether the supply chain is enough to support these new products? And also, any color about the profitability of this business at this moment?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Michelle. I'll take the overall question, and then Danny can comment on the supply chain side. We actually started to incubate this brand called SoulFun a few years ago. Of course, we start to see the trend of the new retail coming, but the pandemic since last year definitely accelerated the trend of new retail.

So with the SoulFun brand and then KFC and Pizza Hut, we accelerated the new retail development since last year. So you can see a lot of exciting products. Where we are right now, in terms of sales, in terms of mix, overall, it's about 1%. It's very small. However, that related to -- later on, Dennis can comment. It takes time to build up the scale because 1% of our business is not so small, because of our scale.

And the exciting bit we see is in some regional market, because when we took time to build the scale, in some regional markets such as northern part of China, in both KFC and Pizza Hut, the percentage of the new retail can be 2% to 3%. And the growth is still fantastic. So that's where we are.

And in terms of product categories to explore, that is something that you guys know about us already. We, on average, innovate from the food R&D center, our team came up with about 5,000 products. And because of the menu complexity, the operation complexity, last year, we only launched 500 products in KFC and Pizza Hut.

What happened to the rest of 4,500 products? Well, these products, if we select, they could be fantastic product for new retail. So you see why we go into new retail business. One, we believe that we have good potential. We have the products, and we can test them in our stores. We have our online/offline channel. We have a delivery rider team, which we can deliver directly to our customers together with our KFC or Pizza Hut.

So in terms of our retail product, they're already in Tmall, Hema, JD. So all these online channels, we are already there. Now we are expanding to offline channels. Offline channel, guess what. We have 11,000 stores. What a wonderful place to start. So you see our development, where it's coming up. But in terms of channel strategy, online, offline, of course.

Supply chain support, we have a very strong supply chain infrastructure, so I'll let Danny comment on that.

Danny Tan ***Yum China Holdings, Inc. - Chief Supply Chain Officer***

Thank you, Joey. Yes, supply chain, as I shared in my presentation, really, I -- we have a huge pool of suppliers, right? I mean we have about 300 food and beverages suppliers. So really, like Joey has mentioned, I mean, in 2019, starting in 2019 and last year, we launched a lot of new retail products. Really, to a certain extent, we have already kind of proven our ability to tap into our suppliers' resources to support our new strategies.

That being said, we know that it is something that is new, and we are learning. So for example, we'll start small, and if a certain product has proven to be a hit with our customers, we work with our suppliers with capacity investment so that we can roll it out China-wide.

So really, it's a multipronged strategy. It's first tapping into our suppliers' community, start small and scale up for capacity if the product is proven popular as well as really going out and source for new suppliers to support our new strategies. We are constantly looking at the marketplace and really working and recruiting and qualifying new suppliers ready to support our existing organic new retail strategies. Thank you.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Danny. Just to wrap up, in terms of a question of economic profitability, we can say that we are not losing money. And that's very important to start a new business like this. Because of our strength in operation and delivery in our own channel, we are making incremental margin to our overall Yum China business. But we are just at the beginning. And we -- our philosophy is always sales versus profit later. But in this case, I think we are looking forward to see the improvement of the margin over time when we build up the scale because the scale is still not at the sort of Yum China view of the scale yet, and we know that we can do a lot more. Thank you very much. Next question.

Operator

Your next question comes from the line of Walter Woo from CMB International.

Wing Hong Woo ***CMB International Securities Limited, Research Division - Research Analyst***

Can you hear me?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Yes, please.

Wing Hong Woo ***CMB International Securities Limited, Research Division - Research Analyst***

So my question is about our satellite stores. I remember that you guys mentioned one way to expand your restaurant network is to open more satellite stores. And so do you mind giving us an idea of how many satellite stores we will have out of your long-term target of 20,000 stores? Or in other words, like how many satellite stores will be opened in the next 3 to 5 years?

And also, can you give us more details about the store economics of these stores? For example, for KFC and Pizza Hut, what's the restaurant-level margins or average store size or employees numbers for these satellite stores on average comparing to the parent stores? And also from the digitalization perspective, like are there any synergies between these stores? And if so, do you mind sharing more details with us?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Okay. I think the question is about our satellite store, but let me just give the framework. When we talk about 20,000 stores, the bulk of the new store will, of course, be driven by KFC. And the satellite store is a type of store, smaller store, for Pizza Hut. So maybe Jeff can talk about the economic of the Pizza Hut, the payback, et cetera.

And let me just quickly address the question on digitization synergy. The answer is yes. Leila has done a great job in her presentation talking about how do we use technology to improve the operation of all of our store. And satellite store, of course, will benefit a lot. And for us, once we build the infrastructure and -- in terms of store, the more the merrier.

So Jeff, maybe you talk about the satellite store.

Jeff Kuai ***Yum China Holdings, Inc. - General Manager of Pizza Hut***

Sure. In the past few years, we have experimented different store format. So we have -- first, we have a regular store. Regular store relatively have a large dining area. Usually, the upfront investment of the regular store is RMB 2 million to RMB 2.5 million, and the payback period is usually 3 to 4 years.

In terms of the satellite store, we actually developed this new model a couple of years ago. Satellite store have proven to be a very successful model to help us to further deepen the penetration. So usually, the satellite store have a lower CapEx and a lower running cost. That leads to better margin and also shorter new store payback period compared to the regular store. So the payback period for satellite store is usually around 2 to 3 years.

So we actually -- this year, we have accelerated our new store opening in the first half of this year. So we expect to increase our total unit by at least 6% by the end of this year. So out of this new store we will build in this year, more than half of these store will be satellite store or small format store. So that's basically the economics for the satellite stores.

So our new store opening strategy is really a combination of large store and small store. So we are building large store, regular store to strengthen the brand image and to serve dining purpose, while we are using small format store or satellite store to deepen penetration, increase our density and also to improve our digital capability.

So there is 1,000 city that have KFC but have no Pizza Hut. So as our sales and margin improve, we are very excited about the possibility of leveraging our multiple store format to opening more store in those greenfields.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Jeff. Next question.

Operator

Your next question comes from the line of Xiaopo Wei from Citigroup.

Xiaopo Wei ***Citigroup Inc., Research Division - Director & Head of Asia-Pacific Consumer Research***

We are impressed by the way that you're further monetizing your supply chain and the brands by launching the packaged food and also the other initiatives. My follow-up question on the packaged food is that if you guys want to further monetizing the packaged food business as a new growth engine, will you consider more aggressively getting toward wholesale business, getting involved into other distributors and third party?

Also, another question quickly on other brands. We know that the industry landscape is totally different as of today versus 3.5 years ago. Recent -- within 5 years, you're going to spend more [than 4 years] ago. But how about those kind of small business, which came from the legacy of spin-off, i.e., DongFangJiBai (East Dawning), Little Sheep? Will you consider any disposal of the small business?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Xiaopo. I'll take the new retail question, and then CFO will take the second one. We don't rule out any possibility of the future development of the new retail business, but we have to do it step by step. The step one is really to find the right product. So now you can see KFC, Pizza Hut, we are selling products that there are proven success in terms of concept in store, and then we sell it in new retail. And that seems to work like the fried rice or the steak. And then at the same time, we are pursuing the new retail, which is regional delicacy. I'm sure Xiaopo is aware of the Hulatang (Hot Pepper Soup , the delicacy from Hunan. And [Christine] is probably aware of the

ReGanMian (Hot and Spicy Noodles)from Wuhan.

So that is the direction we are going. So still early stage, and we are open for future development of the business development, including distribution and wholesale. But we are not there yet. We need to do it step by step.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Thank you. So I will talk a little bit about the smaller brand or overall brand portfolio management, right? At Yum China, we had the Western cousin business, which include KFC, Pizza Hut, Taco Bell. We also have the Chinese cuisine business, right, which is including East Dawning, Little Sheep and Huang Ji Huang. And then we also have the third growth engine, coffee, which is -- obviously, K Coffee is part of the KFC, but also 2 independent brand, C&J and Lavazza.

And so as a company, we always look at the brands as a portfolio as a whole, where we try to find opportunity to grow. The reason why we did that is we have 330 million members, right? And then how can we better serve our customer? How can we capture a greater share of the stomach? And so the portfolio of our brand really help us do that and provide the opportunity for us to grow our business for the long term.

Now for each individual brand for investment, as Joey mentioned before, we have a very disciplined, very systematic approach, consistent approach to our investment, be it on the brand level or be it at the store level. And so we'll continue to evaluate our portfolio. But the most important part, I think, for the emerging brand at this point is really focusing on operations, right? Building the brand, building the product portfolio, like the product that they have and attract consumer to the store, drive sales and, over time, make money, right? That's the important part of that.

And so we do have business plan for each brand. And it's really important for them to focus on the operation and execution of that. We are pretty confident with our team. We have very strong performance track record that we can execute on those financial plan. Now obviously, some of the brand that you mentioned, East Dawning, Little Sheep and -- they are undergoing some turnaround. And with turnaround, we keep an open mind. But I think at this point, the most important thing for them is executions and executing the plan as well. So that's how we look at the brand portfolio.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you. As Andy has mentioned, we do have a pretty strong track record on revitalizing the brand because that's pretty much what we did in the last 7 or 8 years with KFC and Pizza Hut. And I think we have, hopefully, earned some credibility in the operation bit. So next question, please.

Operator

Your next question comes from the line of Sijie Lin from CICC.

Sijie Lin ***China International Capital Corporation Limited, Research Division - Analyst***

So I have one question on the competitive landscape for all brands, especially KFC. So Chinese cuisine, especially Chinese fast food, is becoming more and more standardized. More and more Chinese fast food brands with 100 or 1,000 stores appear. So how do we think about and respond to this?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

So Johnson, the competitor landscape for KFC?

Johnson Huang

Thank you, Sijie, for the question. Indeed, I think that in China, right, there are many more restaurant business coming in the past few years. But as KFC, right, we are strongly focused on great food with reasonable price and have fun in our restaurant. So we continue to innovate great food.

Last year, we launched more than 100 new product and upgrade product, which resonate with consumers' feedback. And also, we have a strong digital engagement with our customers. So that enable us for expand our communication message, our reach to our customer and enable them to feedback to us. And by leveraging our delivery arms that we can also enlarge our bandwidth to serve our customer at home or at office perspective.

So in that respect, KFC continue to seek for attention on our store network by providing good food with good products and a reasonable price at a good location for our customer. So that overall, I think that is our formula to provide our success in the future with the competitive landscape.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Johnson. So Sijie, just to add some color to the question, we always have been in this competitive landscape in the last 34 years. It's not something new to us, particularly the competition from Chinese dining because we are in China, right? So -- and what we have learned in the last 34 years, if we continue -- as Johnson mentioned, continue to focus on a few things, it actually give us the right formula to survive and excel in this market. And if I try to make it in a sort of the simple way, which my store manager (foreign language) good food, good fun, internal beauty, external beauty. So great food, Johnson mentioned. Fun is the value, fantastic value, really good fun marketing experience. (inaudible) internal beauty is the inner strength.

In KFC's case, convenience. How to improve the convenience as much as possible? It takes a lot of the internal capabilities, such as technology, operation, and that's not easy to deliver. And for Pizza Hut, the internal beauty is actually the service, not easier, at scale, at scale. Last, the external beauty, the store, the store manager. So fundamentally, we are really quite focused on the fundamentals and how to do it well and how to do it consistently well across 1,500 cities. Thank you, Sijie.

I think we might have time for 1 or 2 more questions. Yes. Two more questions. Thank you.

Operator

Your next question comes from the line of Lina Yan from HSBC.

Hau-Yee Yan ***HSBC, Research Division - Hong Kong and China Consumer Analyst***

Okay. I have a question regarding how you use technology to drive your productivity gain. You mentioned, one of very impressive numbers is your per-store labor was down by 30% versus 2016. But I want to have a further inquiry on that. So if you consider your increase in riders from your contractor for riders, what is the changes, like, in the proportion of in-store labor and your use of riders on a per-store basis? So -- and also going forward, where do you see the room for further improved labor productivity?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you, Lina. Really good question. I just want to just dissect the number a little bit more. When we talk about 30%, it's just the delta. We have not even incorporated the number of the hours that we reduced, but then we reinvest into the cost of labor to provide better service. We have not incorporated that. So if we take out that element, the improvement is even more.

To answer your question about the rider, even if we put the rider mix back to our total number of the staff/labor, it does not change the delta that much compared to a few years ago. It's just slightly more. But in terms of how to do it in the future to further work on the cost of labor, that's on the store side. Leila could help us with this question.

Leila Zhang ***Yum China Holdings, Inc. - CTO***

Yes. Thank you, Joey. And as you know, in the past, we only relied on the experience of RGM. And today, we collect the data from the very beginning just like logistical and in the store, manufacturing and, therefore, the sales. Thus, we can build end-to-end digitalization system. We call it Super Brain in store. Only -- it's not only support to reduce the wastage of the food, it's also improve the productivity in the store.

I just want to say for the -- before, we relied on the experience we called it -- the experience is very important to RGM. But today, when we will open more and more stores, including satellite stores, small stores, how to handle these kind of restaurants? So the Super Brain will empower the operations maybe either with more, yes, experience, from the experience of RGMs to -- yes, to have a strong support to the productivity here.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

So basically, use technology to help RGM job, make it a bit easier and happier. If you notice, Leila's one page is really cool. The result of the labor scheduling after the automation is a happy face. There's no number in it. It shows that our IT team really understands the operation because the labor scheduling is the most -- one of the most challenging jobs for the store manager because it's about managing people's schedule. So for that, it's not only just about percentage, it's about people happier, and that's really, really cool, okay?

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

A little bit there. Like, obviously, we have $1 billion earmarked for IT infrastructure. We have investment for supply chain, $1 billion to $1.5 billion. And so a lot of the focus that we have is on applying technologies to really help us to improve efficiencies and labor productivities. Our goal as a company has always been to pay our staff more but try to keep a reasonable profitability. And so technologies, automations, right, all the wonderful investment that IT and supply chain are investing right now should help us in the long term to drive that.

We have seen that in the past, right? If you look at the delivery mix, as I mentioned, in 2016, it was about 11% of our sales. And then today -- in 2019, it was about -- 2019 was about 20%, doubling of that. And if you look at the margin, it was very stable. Now cost of labor has increased a little bit, but you see significant decline on O&O, right?

So we're always trying to do this, right? We may have some -- a lot of people have a question about why the cost and how is that going to impact our business. Whenever we have cost increases, we're trying to find a way to save, right, and then trying to see if there's a way for us to improve productivities. And we have done that before. We're looking forward in the future to do that. And the investment and, obviously, the hard work of Danny and Leila are going to help us to get there.

Operator

Your next question comes from the line of Kevin Yin from JPMorgan.

He Yin ***JPMorgan Chase & Co, Research Division - Head of Greater China Consumer Research***

Thank you, Joey and team, for unfolding a very clear long-term road map for us. Please forgive me if I can check on some near-term dynamics. The August was a bit behind expectation on COVID and weakening demand. So do you have any kind of rising concerns on the macro issues such as, like, employment and whether -- if September is worse or better?

I think this question is also associated with your 20,000 store expansion plan. We understand that this is a multiyear plan. But for the next 12 months, what will be the top 3 underlying determining factors that will make you speed up or slow down the expansion?

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you. I'll take the macro one, and then Andy can take the second part. The recent trend from COVID, the macro issue, obviously, September, particularly, August was very challenging because of the super regional outbreak. And from consumer sentiment point of view, we see consumers have become more conservative with their spending. And of course, the frequency has reduced.

And in terms of September, what has changed -- well, September, first of all, very specific information, Nanjing or Yangzhou, which is a big, big part of our business in Eastern part of China, can start to do dine-in business. So the dine-in business was not -- was closed during the entire August. So September, it came back. Obviously, it helped.

But then in terms of the traveling, it's still depressed because the traveling between province and province is still a challenge. So I'll pause here and then let Andy talk about the second half of the question.

Ka Wai Yeung ***Yum China Holdings, Inc. - CFO***

Yes, Kevin, thank you for your questions. And obviously, COVID-19 is going to be important factors in the near-term outlook. It creates some uncertainty for our outlook. We -- as Joey mentioned, July and August were really tough months for us, obviously, because it's a peak season for us everybody geared for the peak trading months for our business. And then also the COVID outbreak in late July, which spread into 16 provinces, were much bigger impact than the previous 2 regional outbreak.

And so in the short term, obviously, for us, we need to manage our business by trying to stay agile and respond quickly. And we have done that. I think over the past year, year and a half, our team has responded very quickly, agilely to maintain their sales momentum and also profitability. And we restarted growth in the second half last year and continued that in the first half this year. And so I think in the near term, it's very important for us to stay agile, obviously, manage our costs diligently.

In terms of our growth plan, I think, obviously, we apply a very disciplined financial methodologies to evaluate our investment, be it new store growth, store network expansions or new brand, new investment. So we look at it in a bigger sense, portfolio, brand and then on to the store level. So obviously, if the situation changes dramatically, we'll adjust our plan for sure. We have done that well, and we'll do it continuously.

And so -- but I think it's really important for us to think about the COVID situation in a sort of like a longer-term view because COVID has a big impact in the short term, but it will pass. I'm sure, like, for government and enterprise like us and individual consumer, they will adjust to the changing situations and, likely, we'll return to normal eventually. And so when we look at the Chinese market, it's a wonderful growing market, one of the few with that scale and growth that we have in China. We have a strong brand here. We see a lot of opportunities, as we have mentioned on the presentations. We're looking at another 1,200 cities, that KFC can potentially penetrate. Not to mention, Pizza Hut, right, which is even more because it only has presence in about 500 cities.

And so -- and then for coffee, it's starting off a new growth phase right now, and we're very excited we are able to have partnership with Lavazza and invest for that long-term growth.

So it's really important for us to keep in mind both the short-term but also the long-term opportunity, position ourselves, right, as Joey mentioned, future-back planning is very important. So when things pick up again, we can run faster than the market, right? That's always our goal, right, which is outperform the overall market.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

Thank you. I think we have one final question from Justin. Justin?

Operator

Sorry, I think Justin has dropped his line.

Joey Wat ***Yum China Holdings, Inc. - CEO & Director***

All right. I think that concludes our Q&A session. Thank you, everyone. On behalf of Yum China and our leadership team, I want to really say our appreciation for joining us today and see you on our Q3 earnings release call. Thank you very much. Have a good day.

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