

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise noted, the section references to (i) "us", "our", "we", "the Company" and "YUM" refer to YUM! Brands, Inc. and its consolidated subsidiaries, (ii) "the Parent" refers to YUM! Brands, Inc., on a stand-alone basis, (iii) "the Issuers" refers to KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC, which are direct wholly-owned subsidiaries of the Parent and co-issuers of \$750 million of 4.75% Senior Notes due 2027 (the "Subsidiary Senior Unsecured Notes") and co-borrowers under the Credit Agreement, as defined in our annual report on Form 10-K for the year ended December 31, 2023 filed with the SEC (the "2023 10-K") on February 20, 2024; (iv) "the Specified Guarantors" refers to collectively Yum Restaurant Services Group, LLC, Restaurant Concepts LLC and Taco Bell Corp. (including their subsidiaries except for Taco Bell Funding, LLC and its special-purpose, wholly owned subsidiaries), which are directly wholly-owned subsidiaries of the Parent and guarantors of the Subsidiary Senior Unsecured Notes and under the Credit Agreement; (v) "the Companies" refers to collectively the Issuers and the Specified Guarantors, (vi) "the Taco Bell Securitization Entities" refers to collectively Taco Bell Funding, LLC, a Delaware special purpose limited liability company and wholly owned subsidiary of Taco Bell Corp, and its special-purpose, wholly owned subsidiaries and (vii) the "Restricted Group" refers collectively to the Companies and their subsidiaries, other than the Taco Bell Securitization Entities which will not be subject to the covenants under the Indenture governing the Subsidiary Senior Unsecured Notes and the Credit Agreement, and also excludes the Parent and ABR Insurance Company which will not be subject to such covenants as well.

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements ("Financial Statements") and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our quarterly report on Form 10-Q for the quarter ended September 30, 2024 as filed with the SEC on November 7, 2024 (the "Third Quarter 10-Q") and contains additional information related to the pro forma results of operations and financial condition of the Restricted Group. None of the financial information in this discussion has been audited or reviewed by our auditors. This discussion has been prepared and posted to our website in accordance with our reporting obligations under the Indenture governing the Subsidiary Senior Unsecured Notes and the Credit Agreement. You should read the following Restricted Group's pro forma results of operation and financial condition together with the information included in our 2023 10-K, especially the information under the heading "Risk Factors".

Pro Forma Results of Operations for the Restricted Group

The following table sets forth certain unaudited financial and operating data of the Restricted Group as of the dates and for the periods indicated after giving pro forma effect to the exclusion of the Taco Bell Securitization Entities and the exclusion of Parent Entity Expenses from the Restricted Group.

(in millions)	Quarter ended			Year to date		
	2024	2023	% B/(W)	2024	2023	% B/(W)
Company sales	\$ 621	\$ 510	22	\$ 1,667	\$ 1,495	12
Franchise and property revenues	593	601	(1)	1,744	1,785	(2)
Franchise contributions for advertising and other services	401	402	-	1,170	1,194	(2)
Total revenues	<u>\$ 1,615</u>	<u>\$ 1,513</u>	7	<u>\$ 4,581</u>	<u>\$ 4,474</u>	2
G&A expenses	\$ 236	\$ 242	2	\$ 752	\$ 767	2
Operating Profit	\$ 420	\$ 429	(2)	\$ 1,175	\$ 1,175	-

Unit Count	9/30/2024	9/30/2023	% Increase (Decrease)
Franchise	51,790	49,467	5
Company-owned	1,270	1,005	26
Total	<u>53,060</u>	<u>50,472</u>	5

	Quarter ended		Year to date	
	2024	2023	2024	2023
Same-store Sales Growth (Decline) %	(3)	5	(3)	8
System Sales Growth (Decline) %, reported	-	8	-	8
System Sales Growth (Decline) %, excluding FX	-	10	1	12

Parent Entity Expenses:

Amounts transferred to or on behalf of Yum! Brands, Inc. as Parent Entity Expenses (as defined in the Indentures) or operating costs and expenses incurred in the ordinary course of business (as permitted by the Credit Agreement) are excluded from G&A expenses of the Restricted Group. G&A expenses of the Restricted Group were reduced for such costs by \$1 million for each of the quarters ended September 30, 2024 and 2023, and \$6 million for each of the years to date ended September 30, 2024 and 2023.

Pro Forma Results of Operations for the Taco Bell Division of the Restricted Group

The following table sets forth certain unaudited financial and operating data of the Taco Bell Division of the Restricted Group

as of the dates and for the periods indicated after giving pro forma effect to the exclusion of the Taco Bell Securitization Entities from the Restricted Group.

(in millions)	Quarter ended				Year to date			
	2024	2023	% B/(W)		2024	2023	% B/(W)	
			Reported	Ex FX			Reported	Ex FX
System Sales	\$ 522	\$ 497	5	5	\$ 1,501	\$ 1,427	5	5
Same-Store Sales Growth %	3	5	N/A	N/A	1	4	N/A	N/A
Company sales	\$ 267	\$ 256	4	4	\$ 775	\$ 738	5	5
Franchise and property revenues	23	23	3	3	72	71	2	2
Franchise contributions for advertising and other services	165	155	6	6	\$ 477	\$ 447	7	7
Total revenues	\$ 455	\$ 434	5	5	\$ 1,324	\$ 1,256	5	5
G&A expenses	\$ 15	\$ 23	29	30	\$ 65	\$ 74	12	12
Franchise and property expenses	6	7	14	14	22	21	(5)	(5)
Franchise advertising and other services expense	163	153	(6)	(6)	473	439	(8)	(8)
Operating Profit	\$ 51	\$ 41	23	23	\$ 132	\$ 118	12	12

Unit Count	9/30/2024	9/30/2023	% Increase (Decrease)
Franchise	1,118	1,106	1
Company-owned	491	477	3
	1,609	1,583	2

Company Sales. The quarterly and year to date increases in Company sales were driven by Company same-store sales growth of 2% and unit growth.

G&A Expenses. The quarterly decrease in G&A was driven by lower expenses related to our annual incentive compensation programs, lower share-based compensation and higher management fees paid by the Taco Bell Securitization Entities, partially offset by higher digital and technology expenses.

The year to date decrease in G&A was driven by lower share-based compensation, higher management fees paid by the Taco Bell Securitization Entities and lower expenses related to our annual incentive compensation programs, partially offset by higher digital and technology expenses and higher headcount and salaries.

Operating Profit. The quarterly increase in Operating Profit was driven by same-store sales growth and lower G&A, partially offset by higher restaurant operating costs.

The year to date increase in Operating Profit was driven by same-store sales growth, lower G&A and unit growth, partially offset by higher restaurant operating costs and higher Franchise advertising and other service expense primarily related to digital and technology expenses.

Taco Bell Securitization Entities:

The Securitization Transaction and the exclusion of the Taco Bell Securitization Entities from the Restricted Group had the following pro forma impact on the financial and operating data of the Restricted Group and the Taco Bell Division of the Restricted Group in comparison to the corresponding data of YUM and the Taco Bell Division:

Units

- A total of 6,985 and 6,802 U.S. Taco Bell franchise units were excluded from the Restricted Group as of September 30, 2024 and 2023, respectively, as the Restricted Group no longer receives franchise fees from these restaurants.

Franchise and Property Revenues

- Franchise and property revenues of \$211 million and \$195 million were excluded from the Restricted Group for the quarters ended September 30, 2024 and 2023, respectively, due to the exclusion of the franchise fees paid by all U.S. Taco Bell franchise restaurants as a result of the Securitization Transaction.
- Franchise and property revenues of \$606 million and \$566 million were excluded from the Restricted Group for the years to date ended September 30, 2024 and 2023, respectively, due to the exclusion of the franchise fees paid by all U.S. Taco Bell franchise restaurants as a result of the Securitization Transaction.

Company Restaurant Expenses

- The Restricted Group includes \$15 million and \$14 million of additional Company restaurant expenses for the quarters ended September 30, 2024 and 2023, respectively, due to the payment of royalty fees of 5.5% of annual sales to the Taco Bell Securitization Entities by all U.S. Company-owned Taco Bell restaurants (which are part of the Restricted Group).
- The Restricted Group includes \$43 million and \$41 million of additional Company restaurant expenses for the years to date ended September 30, 2024 and 2023, respectively, due to the payment of royalty fees of 5.5% of annual sales to the Taco Bell Securitization Entities by all U.S. Company-owned Taco Bell restaurants (which are part of the Restricted Group).

G&A Expenses

- Management fees of \$26 million and \$24 million for the quarters ended September 30, 2024 and 2023, respectively, were paid by the Taco Bell Securitization Entities to Taco Bell Corp. as manager of the Taco Bell Securitization Entities, and were recorded as a reduction of G&A expenses for the Restricted Group.
- Management fees of \$72 million and \$67 million for the years to date ended September 30, 2024 and 2023, respectively, were paid by the Taco Bell Securitization Entities to Taco Bell Corp. as manager of the Taco Bell Securitization Entities, and were recorded as a reduction of G&A expenses for the Restricted Group.
- These management fees, on an annual basis, are equal to the sum of a base fee of approximately \$30 million (subject to 2% per annum escalation, compounded annually) plus 8.7% of total securitization cash revenue paid to the Taco Bell Securitization Entities by U.S. Company stores and U.S. franchisees for the year.

Consequently, the overall operating margins of the Restricted Group are negatively impacted due to the exclusion of franchise and license fees from U.S. Taco Bell franchised restaurants and the Restricted Group's obligation to pay franchise fees on U.S. Taco Bell Company-owned restaurants to the Taco Bell Securitization Entities, with no corresponding reduction of Restricted Group expenses (other than a partial offset by the management fee paid to the Restricted Group by the Taco Bell Securitization Entities as reimbursement for a portion of G&A expenses).