



NEW BEST IDEA LONG

YUM: VULNERABLE TO ACTIVISM

DECEMBER 2, 2014

DISCLAIMER

DISCLAIMER

Hedgeye Risk Management is a registered investment advisor, registered with the State of Connecticut. Hedgeye Risk Management is not a broker dealer and does not provide investment advice for individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security. This research is presented without regard to individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice. This presentation is based on information from sources believed to be reliable. Hedgeye Risk Management is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of Hedgeye Risk Management, and are intended solely for the use of Hedgeye Risk Management's clients and subscribers. In reaching these opinions and conclusions, Hedgeye Risk Management and its employees have relied upon research conducted by Hedgeye Risk Management's employees, which is based upon sources considered credible and reliable within the industry. Hedgeye Risk Management is not responsible for the validity or authenticity of the information upon which it has relied.

TERMS OF USE

This report is intended solely for the use of its recipient. Re-distribution or republication of this report and its contents are prohibited. For more details please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Use at www.hedgeye.com

PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

KEY POINTS

1

VULNERABLE TO ACTIVISM

There has been a number of events over the past two years that suggest the timing is optimal for YUM to simplify its corporate structure. While there are several different avenues of value creation, one thing is clear: YUM's new corporate structure, multiple brands and underleveraged balance sheet almost ensure that the company is vulnerable to change. What remains to be seen, however, is if the new CEO will be proactive and effect change or be reactive to the changing marketplace.

2

TRANSFORMATIONAL TRANSACTION

For the better part of the past two years, management has been asked about a potential spinoff of the China business. In our view, this move would be the first step in a series of potential transactions that would simplify the structure and improve the operating performance of the company. We find it likely that a group of influential shareholders begin to push the board in this direction. It also makes sense to consider spinning off the dilutive Pizza Hut (co-owned stores) business, which would trade at a substantially higher multiple as a standalone entity.

3

MULTIPLE WAYS TO WIN

The new global reporting structure of the company allows for a clean split of YUM's business units into multiple asset-light business models. We also believe there is an opportunity to increase leverage (to repurchase stock or pay a special dividend), cut excess SG&A, refranchise additional restaurants and command a premium valuation.



EXECUTIVE SUMMARY

COMPANY OVERVIEW

- 40,000+ restaurants in 125+ countries and territories across the globe
 - 20% operated by the company; 80% operated by franchisees, licensees or unconsolidated affiliates
- Company develops, operates, franchises and licenses a global system of restaurants primarily through the KFC, Pizza Hut, and Taco Bell concepts
- Generates \$13+ billion in revenue, \$2.9+ billion in EBITDA system-wide
- Consists of five reporting segments:
 - YUM China, YUM India, The KFC Division, The Pizza Hut Division and The Taco Bell Division
- The company is focused on key growth strategies, including:
 - Building powerful brands, superior marketing, innovation, compelling value, winning food, world class operations
 - Aggressive unit expansion (particularly in emerging markets, China, India)
 - Industry leading returns, franchise model, disciplined capital allocation, maximizing long-term shareholder value
- Strong, respected management team

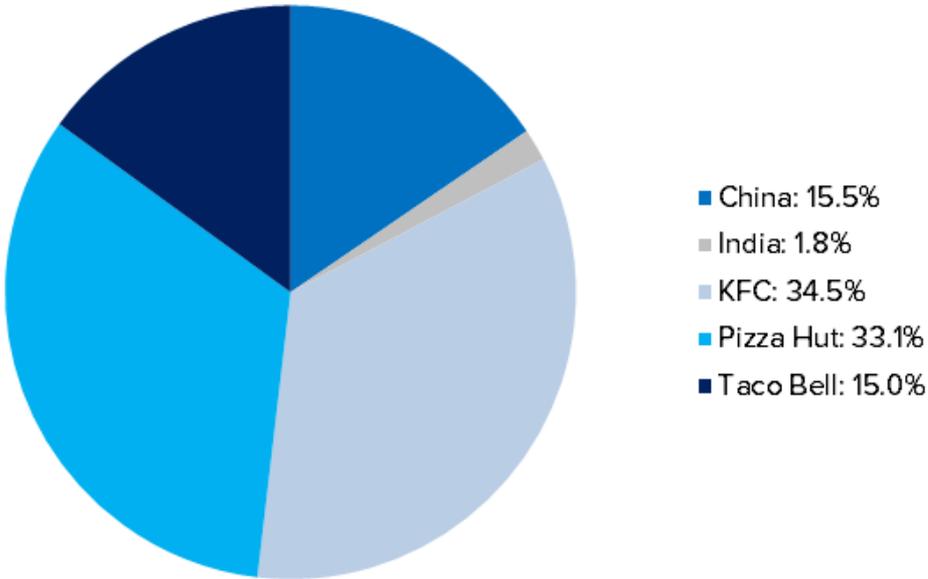
FINANCIAL SUMMARY

Yum! Brands (YUM) TTM Financials

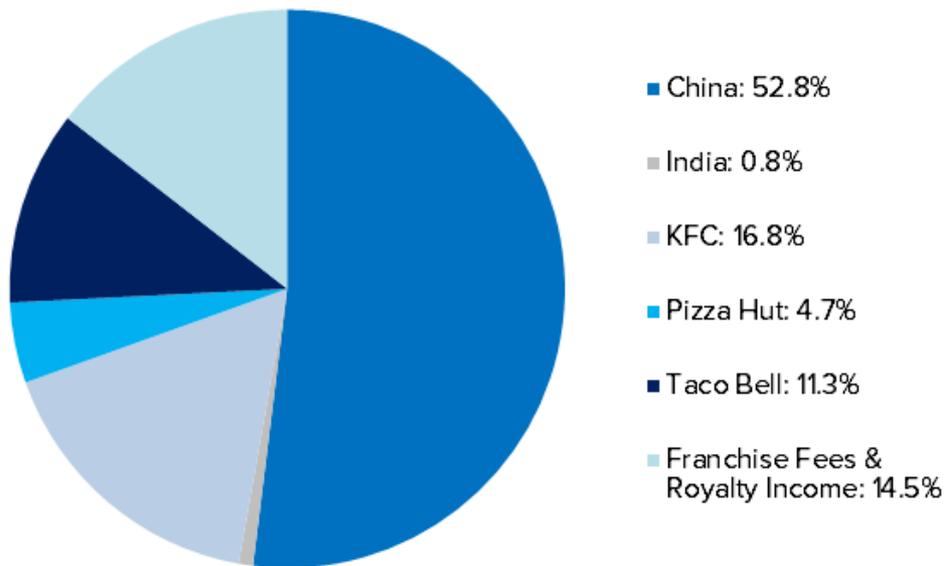
Last Price	\$77.38
Shares Outstanding	437.0
Market Capitalization	\$33,815.1
Revenue	\$13,461.0
EBITDA	\$2,920.0
EBITDA Margin	21.69%
Net Income	\$1,458.0
EPS	\$3.46
Price/TTM EPS	22.39x
Total Assets	\$9,177.0
Total Liabilities	\$6,573.0
Total Equity	\$2,604.0
Book Value per Share	5.73x
Price/Book Value per Share	13.50x
Net Tangible Assets per Share	2.3x
Cash From Operations	\$2,198.0
Cash Flow per Share	4.9x
Free Cash Flow	\$1,193.0
Net Changes in Cash	\$247.0

All figures in mm, except per share data and multiples

OPERATING SEGMENTS (% OF UNITS)

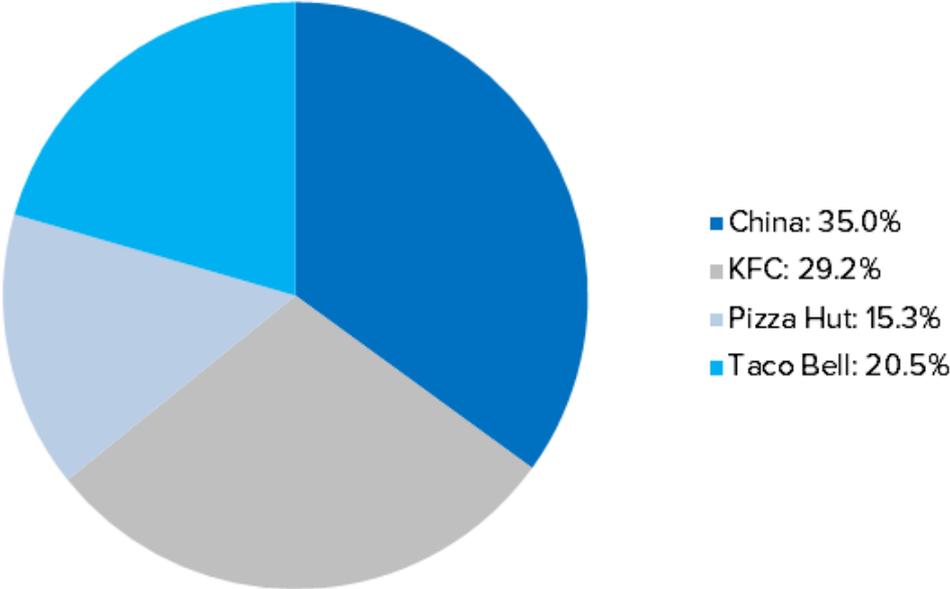


OPERATING SEGMENTS (% OF REVS)

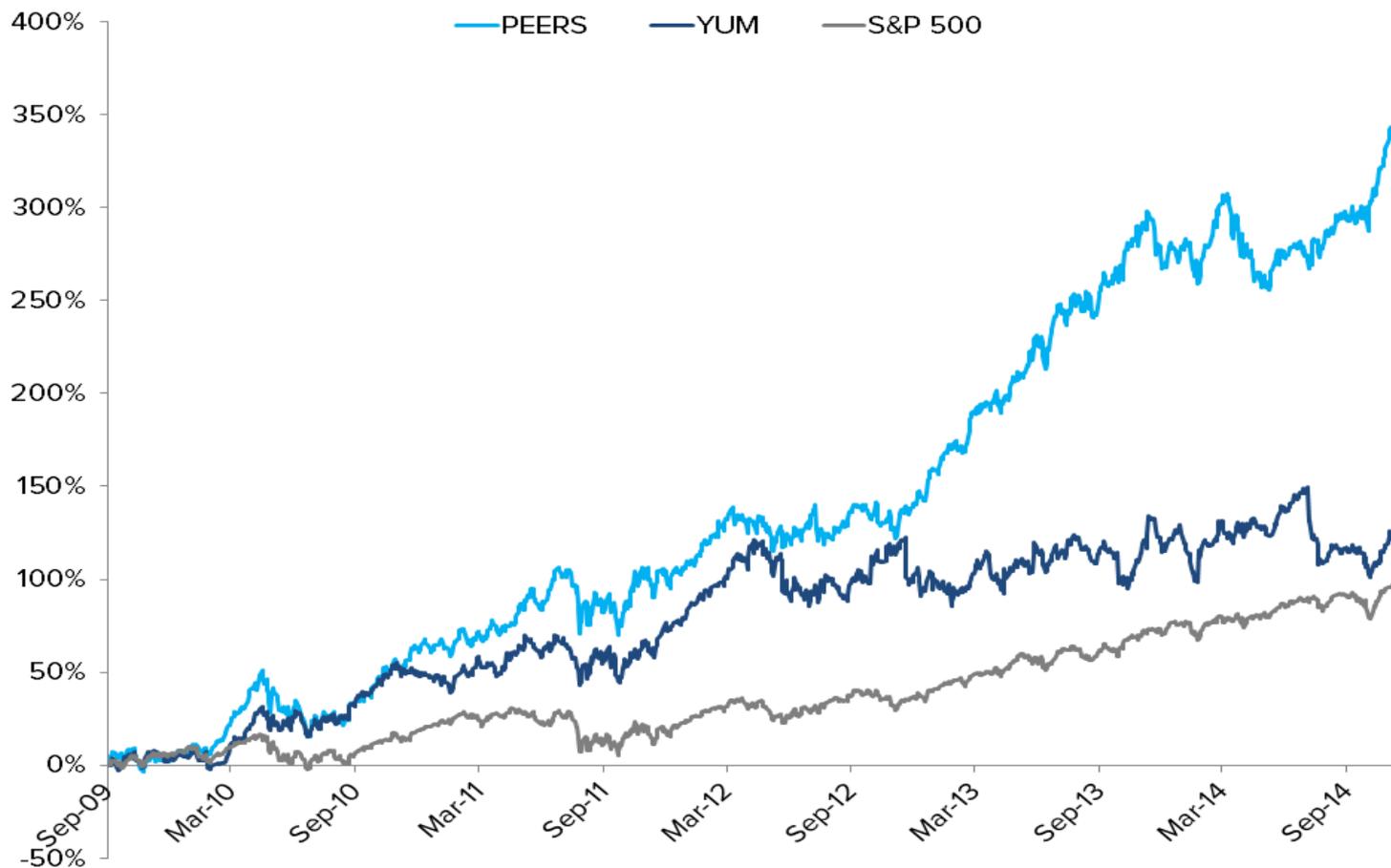


*company-owned revenue as a percentage of total revenue

OPERATING SEGMENTS (% OF PROFITS)



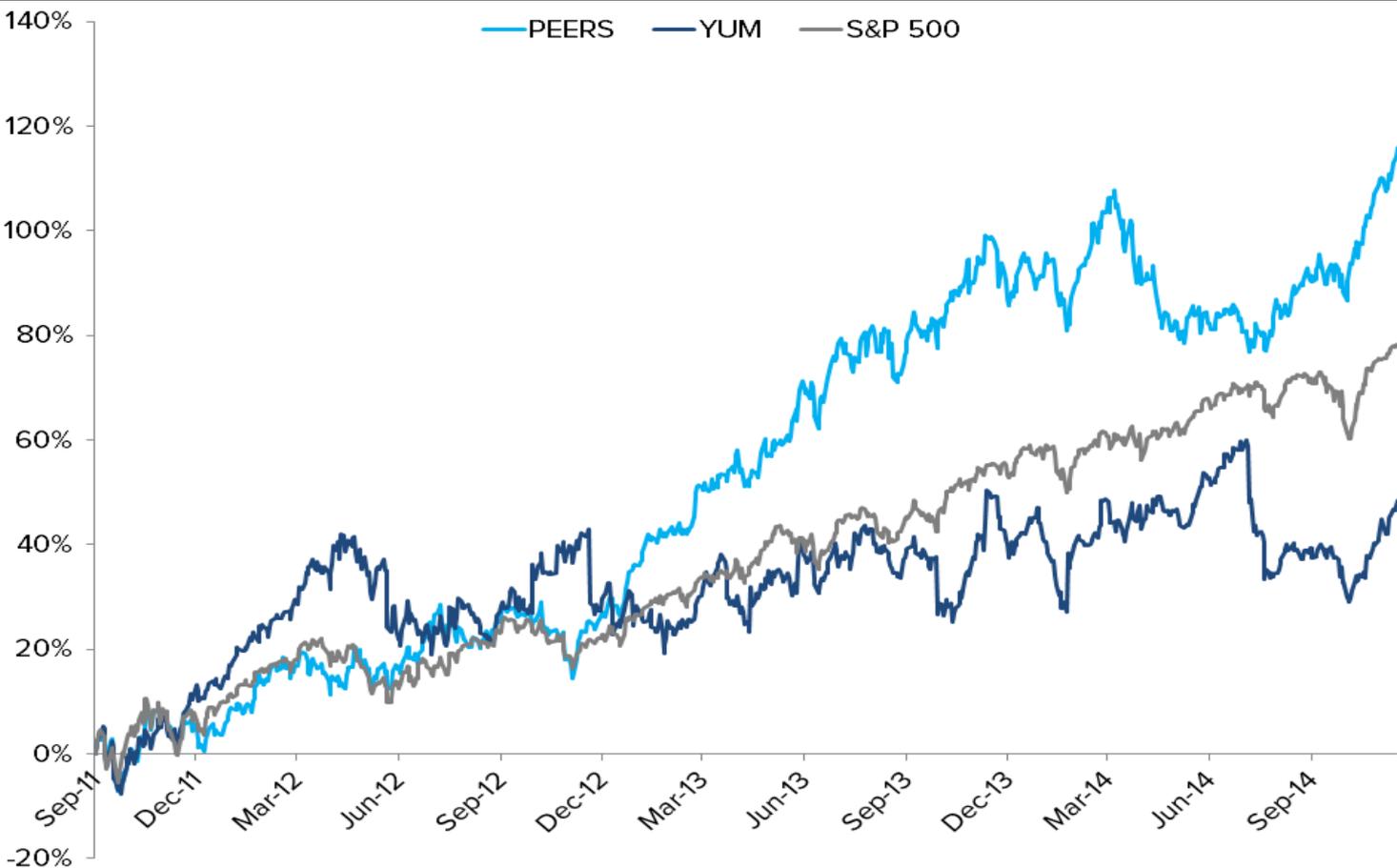
5-YEAR PRICE PERFORMANCE



Over the past five years, YUM has underperformed its Peers by ~221% and outperformed the SPX by ~33%.

Peers: CMG, DPZ, JMBA, KKD, MCD, PLKI, PNRA, PZZA, SBUX, SONC, THI, WEN.

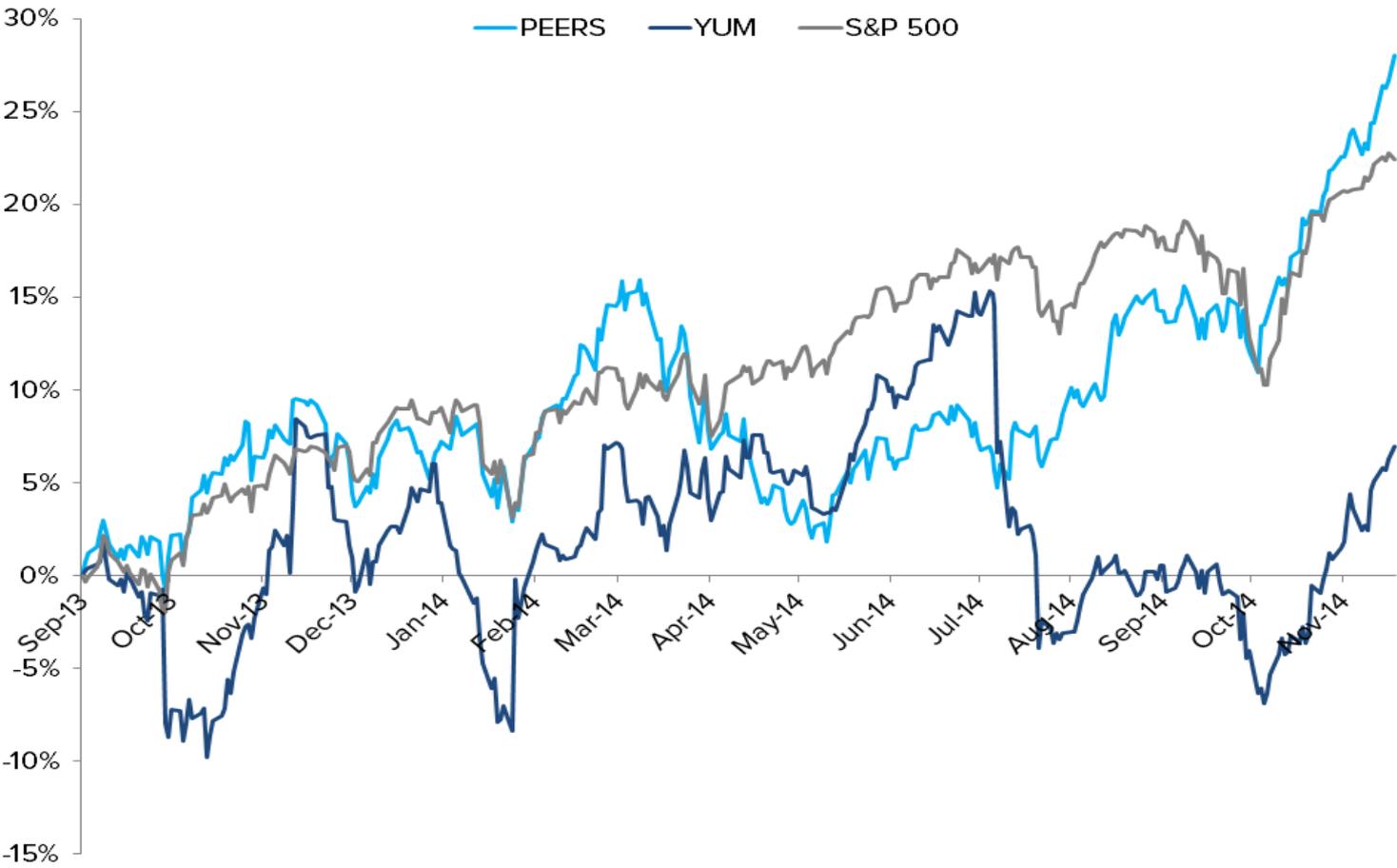
3-YEAR PRICE PERFORMANCE



Over the past three years, YUM has underperformed its Peers and the SPX by ~67% and ~30%, respectively.

Peers: CMG, DNKN, DPZ, JMBA, KKD, MCD, PLKI, PNRA, PZZA, SBUX, SONC, THI, WEN.

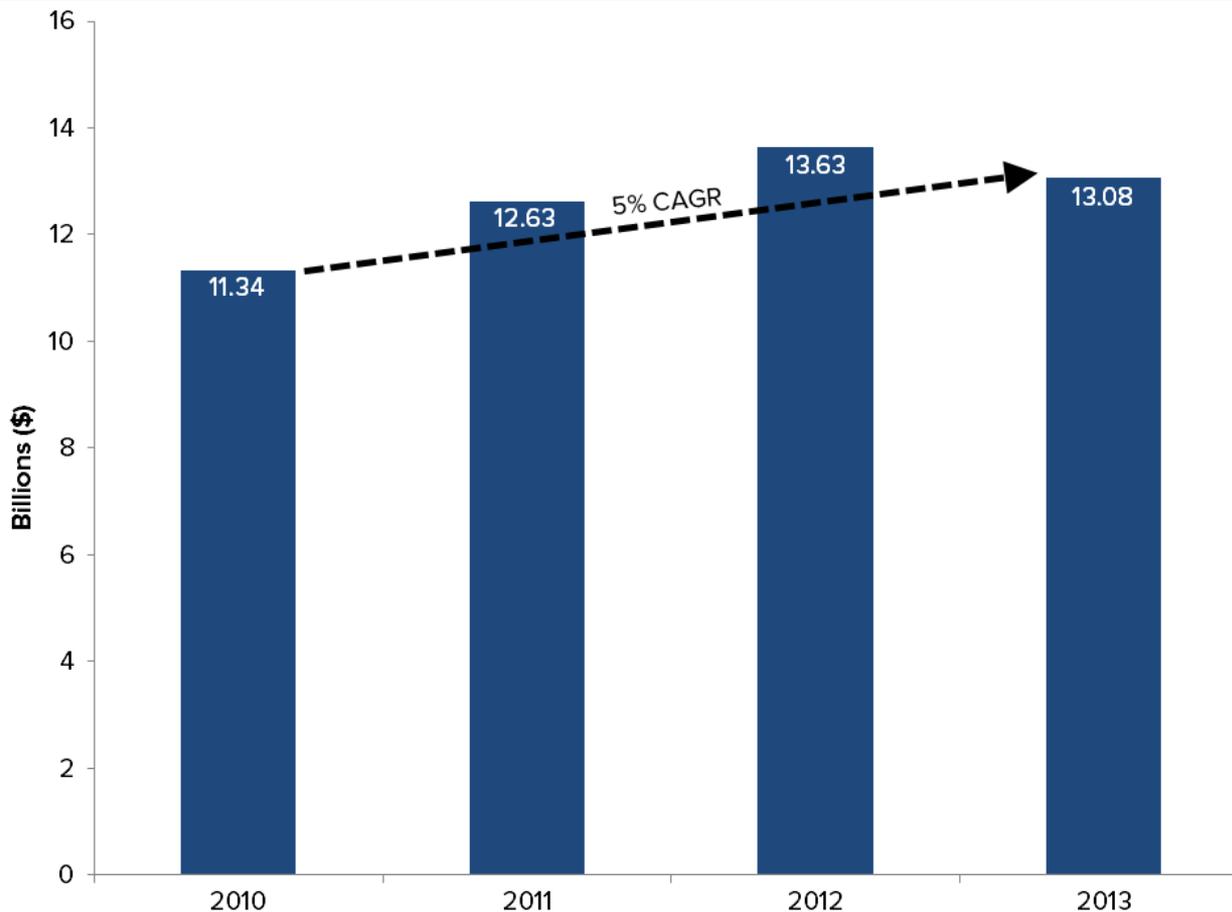
1-YEAR PRICE PERFORMANCE



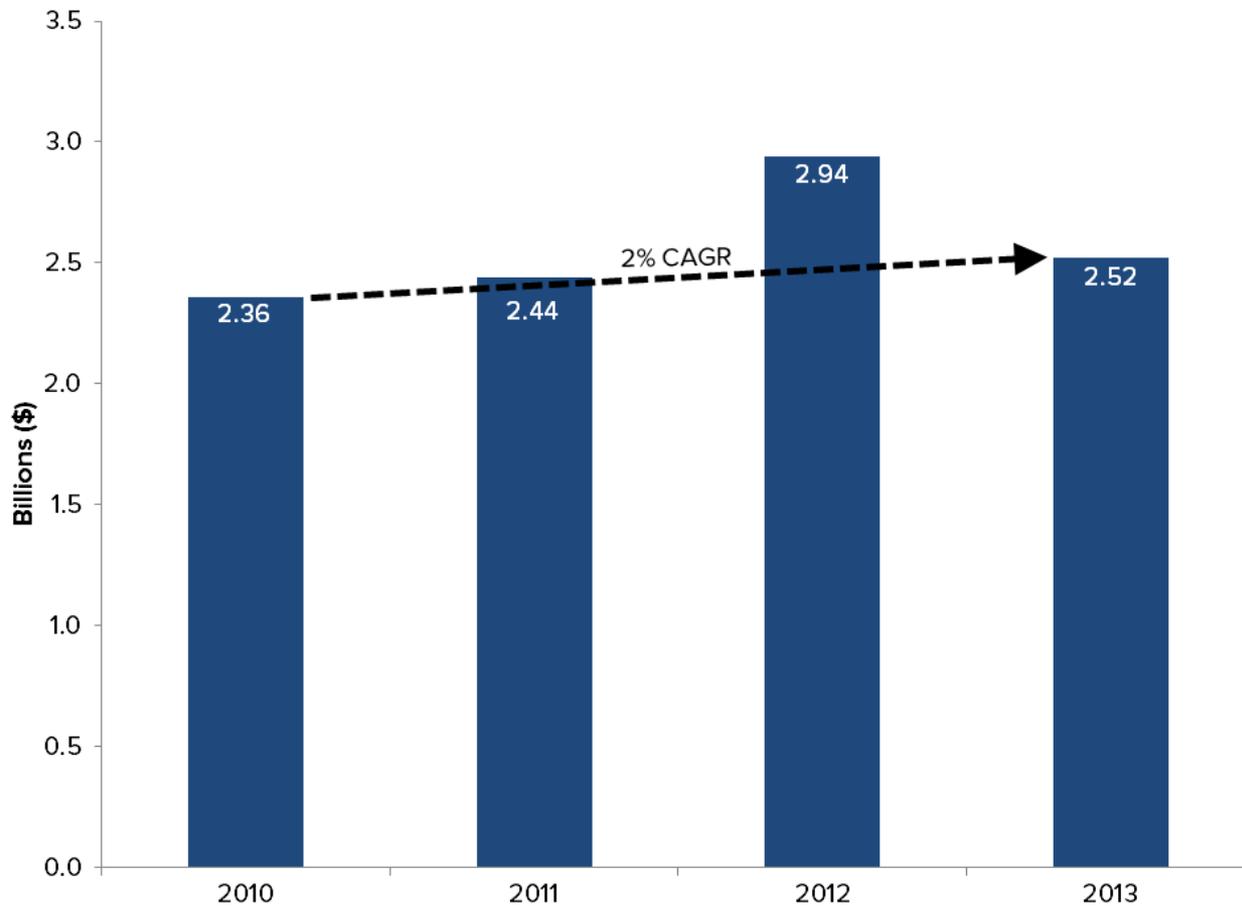
Over the past year, YUM has underperformed its Peers and the SPX by ~21% and ~15%, respectively.

Peers: BKW, CMG, DNKN, DPZ, JMBA, KKD, MCD, PLKI, PNRA, PZZA, SBUX, SONC, THI, WEN.

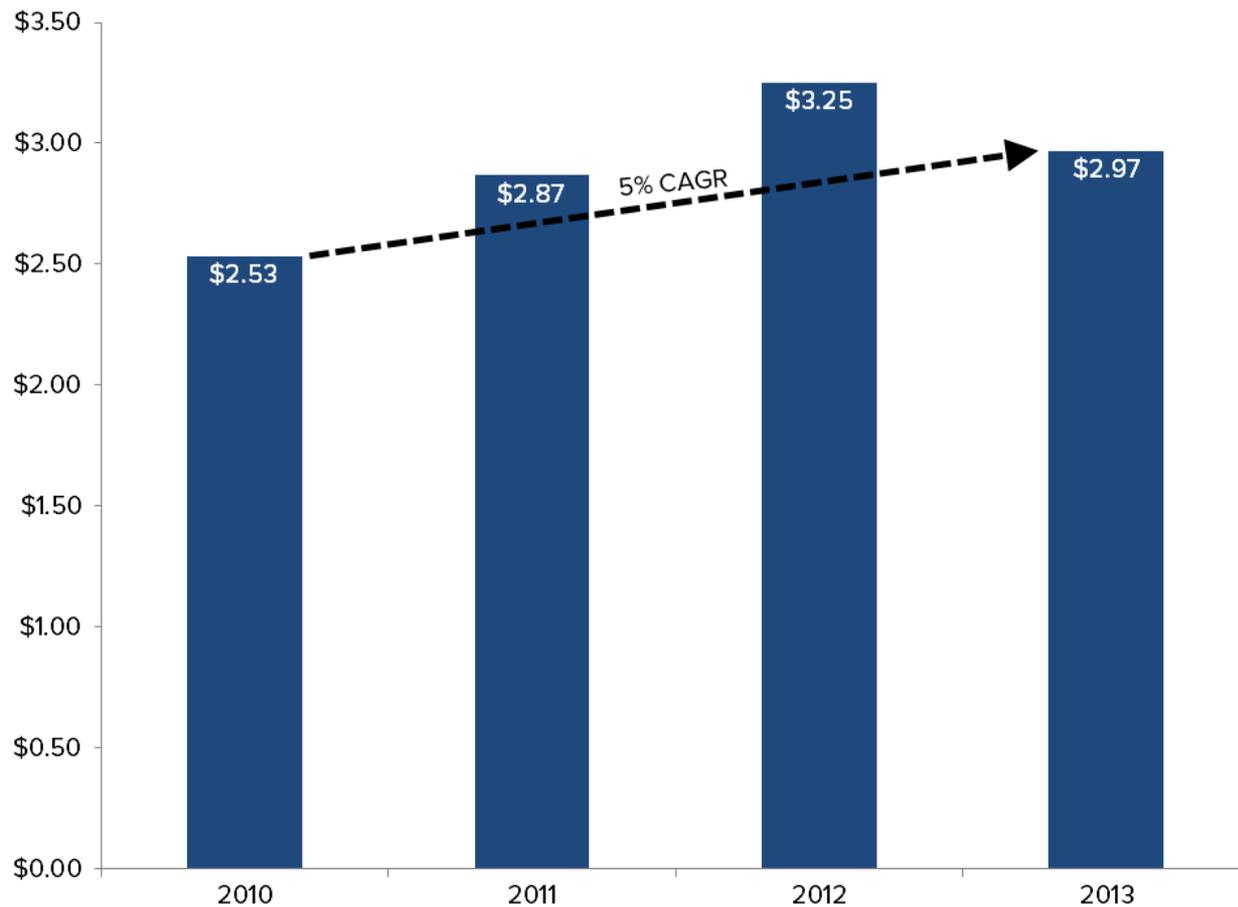
HISTORICAL SALES PERFORMANCE



HISTORICAL EBITDA PERFORMANCE



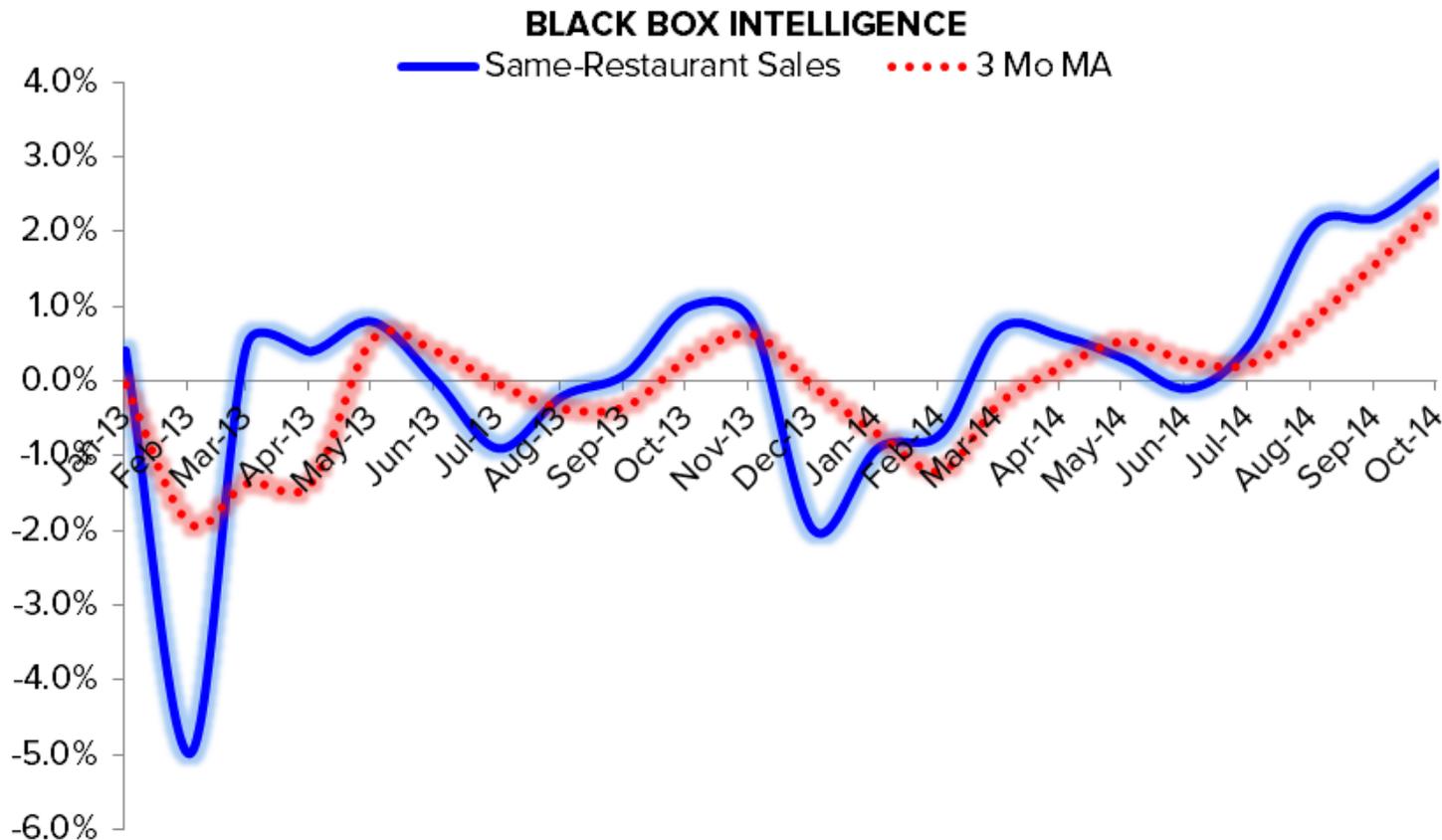
HISTORICAL EPS PERFORMANCE





THE MACRO ENVIRONMENT

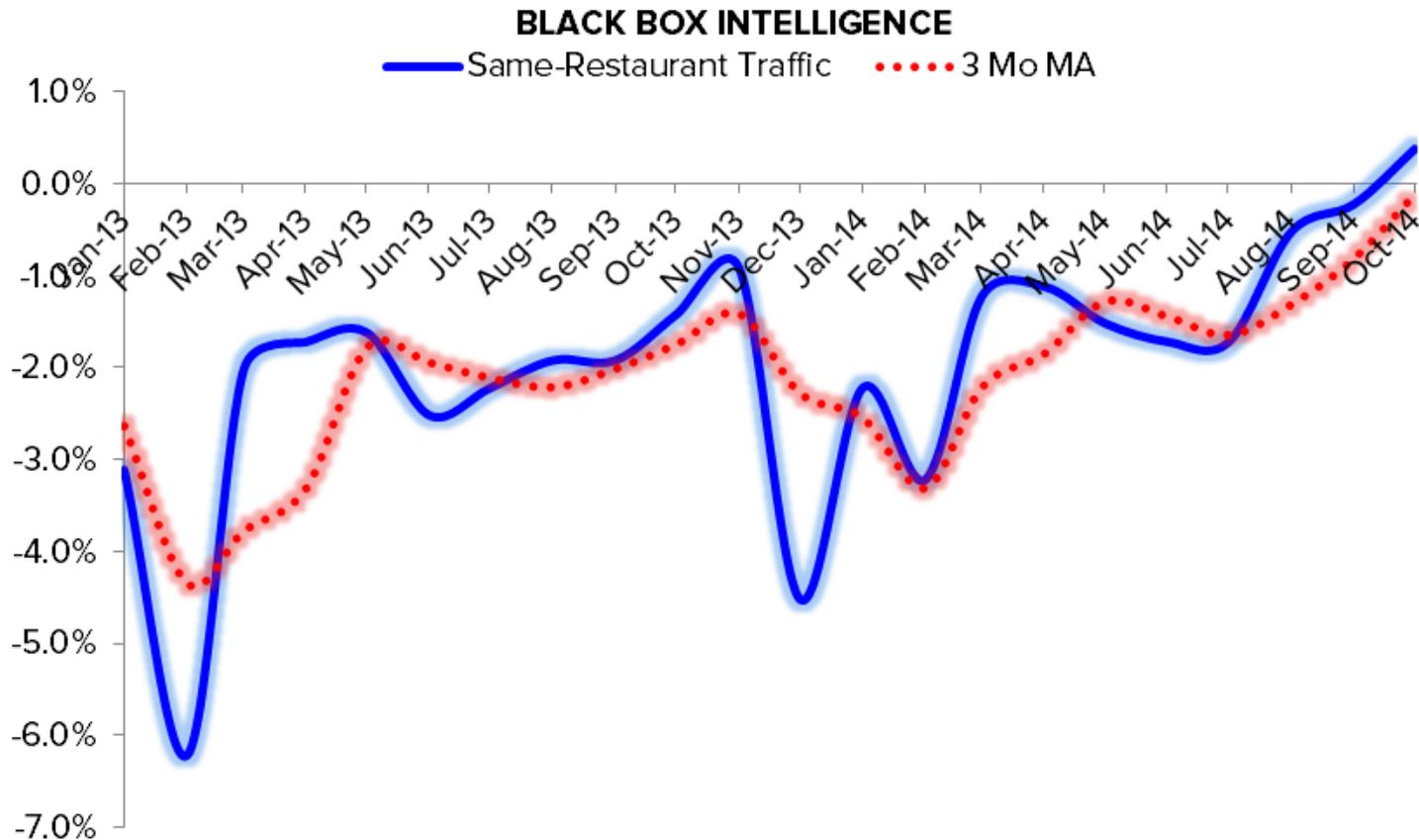
SAME-RESTAURANT SALES



Source: BB INTEL

HEDGEYE

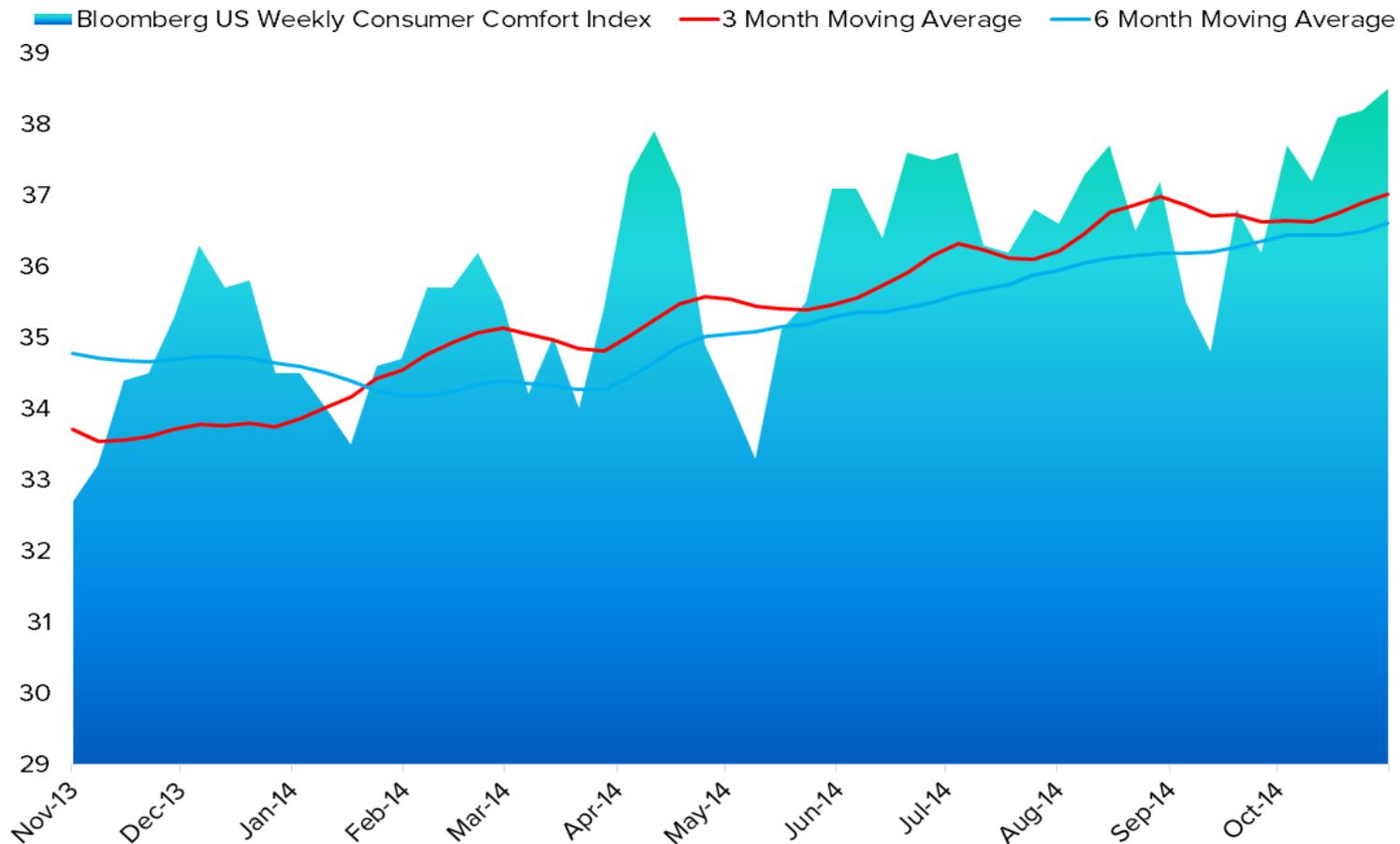
SAME-RESTAURANT TRAFFIC



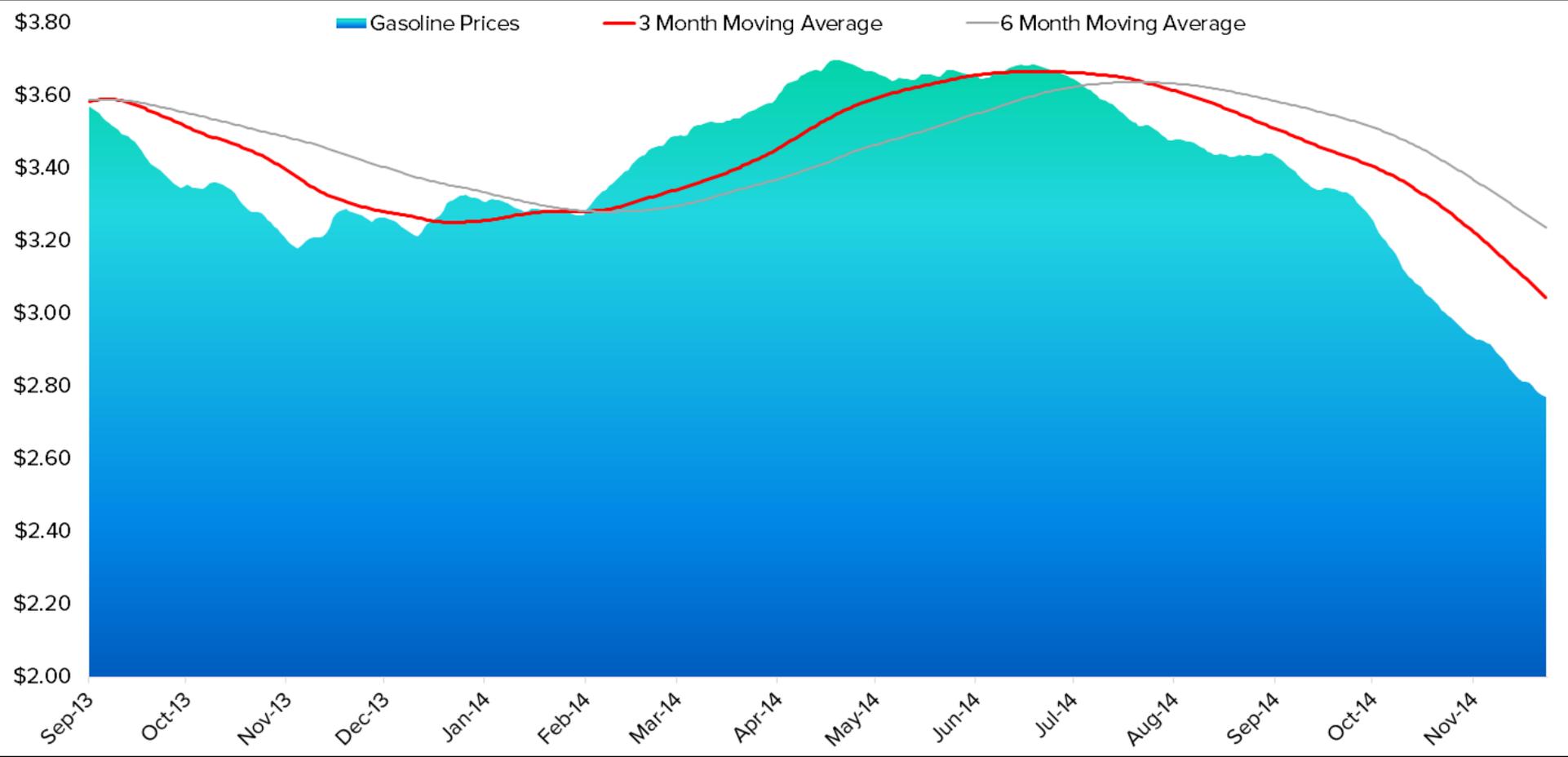
Source: BB INTEL

HEDGEYE

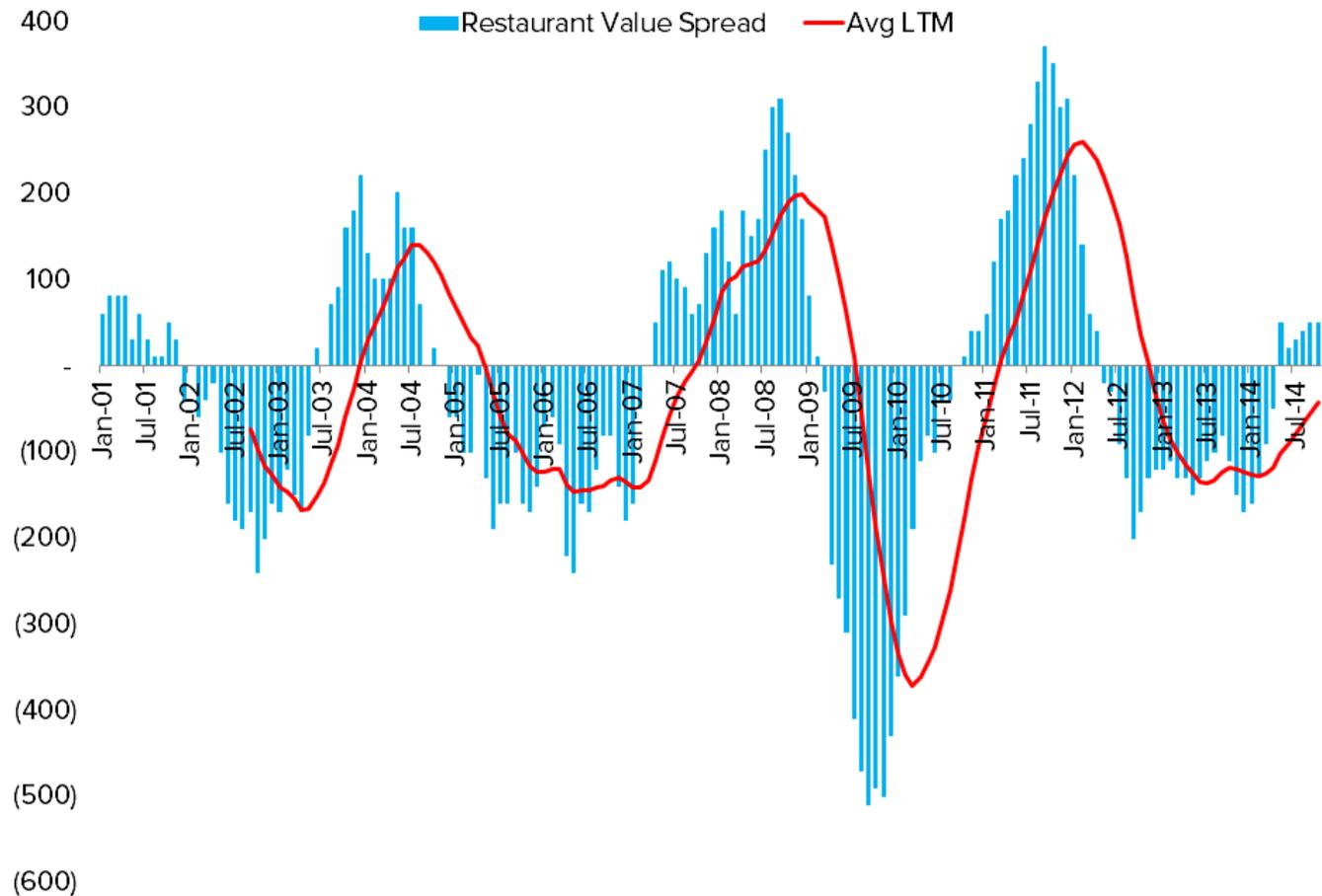
BLOOMBERG CONSUMER CONFIDENCE



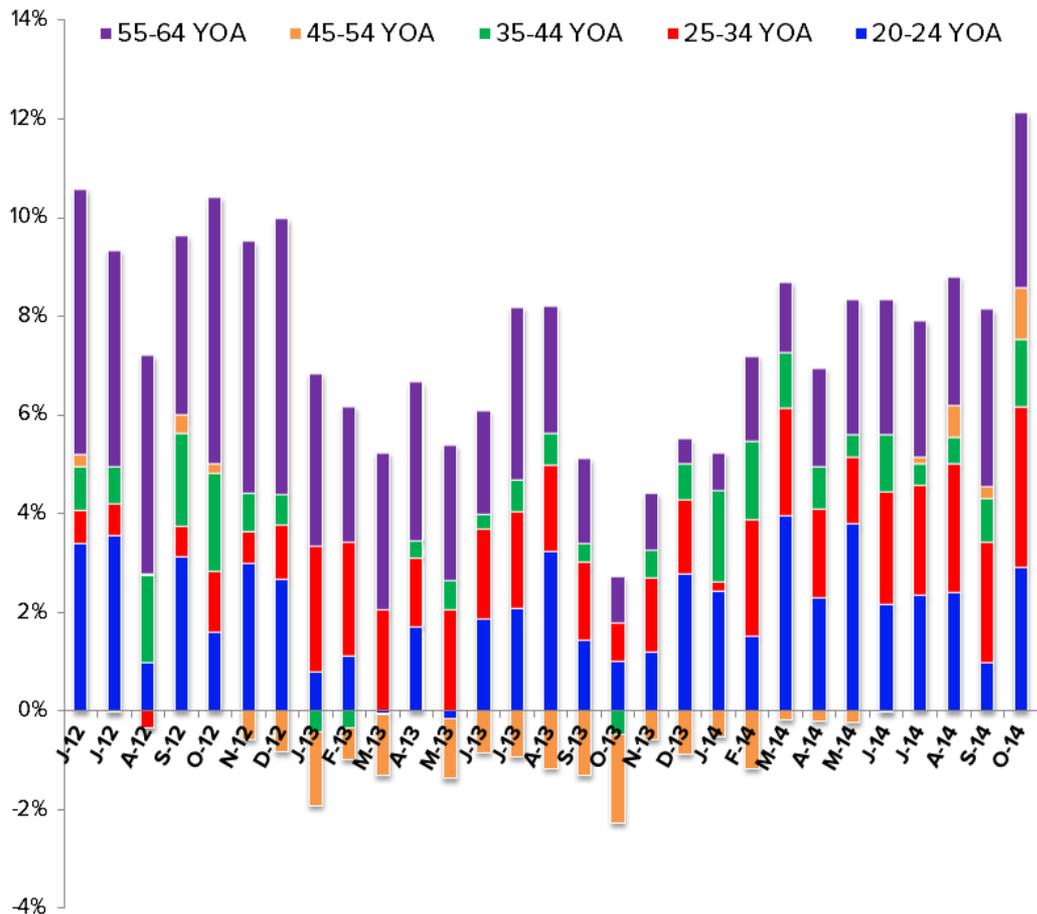
NATIONAL DAILY AVG. GASOLINE PRICES



RESTAURANT VALUE SPREAD

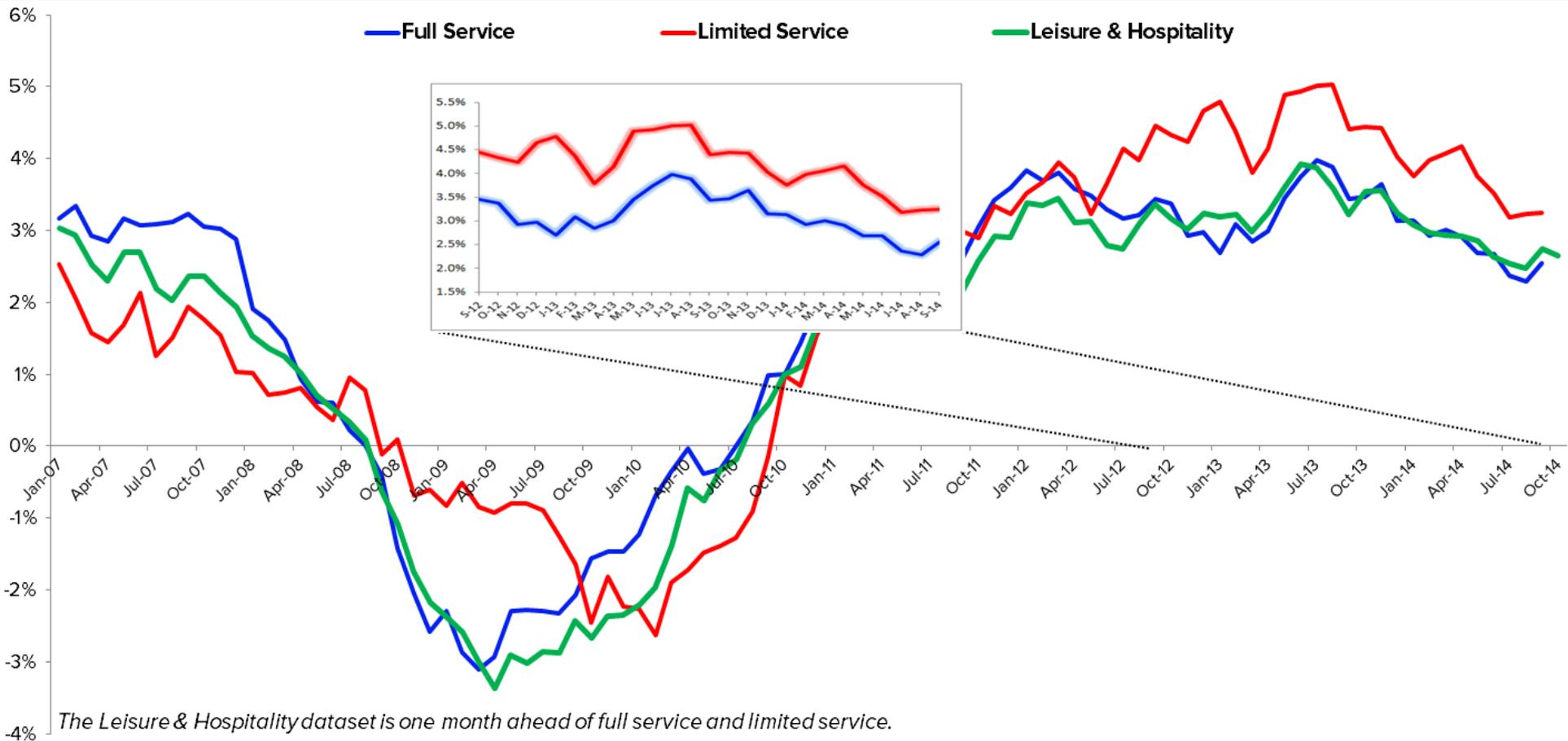


EMPLOYMENT GROWTH BY AGE



	20-24 YOA	25-34 YOA	35-44 YOA	45-54 YOA	55-64 YOA
Oct-14	2.91%	3.24%	1.37%	1.05%	3.54%
Sep-14	0.96%	2.46%	0.88%	0.23%	3.59%
Aug-14	2.40%	2.61%	0.54%	0.63%	2.61%
Jul-14	2.34%	2.25%	0.42%	0.15%	2.74%
Jun-14	2.16%	2.27%	1.16%	-0.02%	2.74%
May-14	3.79%	1.34%	0.48%	-0.24%	2.72%
Apr-14	2.30%	1.80%	0.86%	-0.21%	1.98%
Mar-14	3.96%	2.16%	1.13%	-0.18%	1.43%
Feb-14	1.51%	2.37%	1.56%	-1.16%	1.74%
Jan-14	2.42%	0.19%	1.84%	-0.52%	0.76%
Dec-13	2.77%	1.49%	0.73%	-0.87%	0.52%
Nov-13	1.19%	1.51%	0.56%	-0.57%	1.15%
Oct-13	1.00%	0.78%	-0.48%	-1.79%	0.95%
Sep-13	1.45%	1.58%	0.37%	-1.31%	1.72%
Aug-13	3.22%	1.76%	0.64%	-1.16%	2.57%
Jul-13	2.09%	1.95%	0.65%	-0.92%	3.48%
Jun-13	1.87%	1.80%	0.30%	-0.84%	2.10%
May-13	-0.16%	2.06%	0.57%	-1.21%	2.76%
Apr-13	1.71%	1.40%	0.34%	0.00%	3.20%
Mar-13	-0.05%	2.04%	-0.02%	-1.24%	3.19%
Feb-13	1.12%	2.30%	-0.33%	-0.65%	2.74%
Jan-13	0.80%	2.55%	-0.42%	-1.48%	3.49%
Dec-12	2.68%	1.10%	0.60%	-0.83%	5.58%
Nov-12	2.99%	0.64%	0.78%	-0.57%	6.09%
Oct-12	1.60%	1.22%	2.00%	0.18%	5.40%

INDUSTRY EMPLOYMENT





THE ACTIVIST PLAYBOOK

"That's been one of my mantras - focus and simplicity. Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains."

-Steve Jobs

THE RESTAURANT ACTIVIST PLAYBOOK

THE ACTIVIST PLAYBOOK CALLS FOR STREAMLINING OPERATIONS:

Over the past 10 years, YUM has been immune from major changes to its corporate structure due to the success of the China business. We believe the success of this business masked the inefficiencies of the other brands in the US. However, with China having underperformed for the past three years, the game has changed, leaving YUM vulnerable to activism.

The activist playbook in the restaurant space is generally confined to a couple of key moves, which involves any of the following:

- Sell real-estate
- Streamline SG&A
- Sell company-owned stores to become an asset-light model
- Sell-off non-core assets to simplify operations and improve ROIIC
- Increase leverage and return cash to shareholders through dividends and share repurchases

History has proven that the most successful restaurant companies over the long-term are single-branded, with credible and focused management teams.

There has been no better time in the past 10 years for YUM to simplify and streamline its operations.

THE ACTIVIST PLAYBOOK

YUM HAS IT ALL

- YUM can sell some real-estate
- YUM can be more efficient and cut SG&A
- YUM can sell some of its 8,600+ company-owned stores around the world; 62% of which are in China
- YUM can sell non-core assets such as Pizza Hut, which could add approximately \$5-10 to the stock price
- YUM can increase leverage from 1.2x DEBT/EBITDA to 5.0x and repurchase \$6.5 billion in stock (19% of equity value)
- YUM can IPO 49% of YUM China and raise \$10 billion (29% of equity value)
- YUM has the debt capacity to pay a \$15-\$17 special dividend



WHY NOW?

THE SETUP FOR AN ACTIVIST IS IDEAL

INTERNAL CHANGES ARE A CATALYST FOR CHANGE

- New CEO beginning in 2015
- We believe the current CFO is likely more open to changes than the previous CFO
- In 1Q15, YUM changed its reporting structure to align global operations outside of China and India by brand
- This change in reporting structure allows for a clean sale or spinoff of brands
- The new reporting structure also suggests little internal friction to a potential spinoff or sale of brands
- YUM has been paying down debt and is now underleveraged relative to peers

DEBT/EBITDA

YUM IS SIGNIFICANTLY UNDERLEVERAGED

Company	Ticker	Debt/ EBITDA	Corporate Headquarters	Sector
BURGER KING WORLDWIDE INC	BKW	6.17x	Florida, US	Quick Service
DUNKIN' BRANDS GROUP INC	DNKN	4.87x	Massachusetts, US	Quick Service
DOMINO'S PIZZA INC	DPZ	4.14x	Michigan, US	Quick Service
WENDY'S CO/THE	WEN	3.54x	Ohio, US	Quick Service
SONIC CORP	SONC	3.29x	Oklahoma, US	Quick Service
MCDONALD'S CORP	MCD	1.51x	Illinois, US	Quick Service
YUM! BRANDS INC	YUM	1.16x	Kentucky, US	Quick Service

THE SETUP FOR AN ACTIVIST IS IDEAL

EXTERNAL ENVIRONMENT CREATES POSSIBILITIES

- Restaurant multiples are at all-time highs
- Restaurant IPOs are being very well-received by investors
- Global asset-light business models are trading at a premium to the group
- Significant liquidity in the fixed income markets
- Significant liquidity in the franchisee finance market
- It is a great time to be a seller of restaurant assets, especially of strong brands like YUM's
- The board needs to address the issue of increased volatility in the Chinese business
- Gaming companies have successfully issued tracking on their Chinese assets
- YUM China could be the largest consumer company in China and investor interest would be strong

GLOBAL RESTAURANT INDUSTRY VALUATION

Company	Ticker	TTM P/S	Corporate Headquarters	Sector
BURGER KING WORLDWIDE INC	BKW	12.23x	Florida, US	Quick Service
DUNKIN' BRANDS GROUP INC	DNKN	6.96x	Massachusetts, US	Quick Service
WESTLIFE DEVELOPMENT LTD	WLDL IN	6.63x	Mumbai, IND	Quick Service
POPEYES LOUISIANA KITCHEN IN	PLKI	5.69x	Georgia, US	Quick Service
JUBILANT FOODWORKS LTD	JUBI IN	5.40x	Noida, IND	Quick Service
DOMINO'S PIZZA ENTERPRISES L	DMP AU	4.06x	Queensland, AU	Quick Service
DOMINO'S PIZZA GROUP PLC	DOM LN	4.03x	Milton Keynes, UK	Quick Service
STARBUCKS CORP	SBUX	3.73x	Washington, US	Quick Service
MCDONALD'S CORP	MCD	3.42x	Illinois, US	Quick Service
KRISPY KREME DOUGHNUTS INC	KKD	2.90x	North Carolina, US	Quick Service
DINEEQUITY INC	DIN	2.87x	California, US	Casual Dining
DOMINO'S PIZZA INC	DPZ	2.72x	Michigan, US	Quick Service
YUM! BRANDS INC	YUM	2.56x	Kentucky, US	Quick Service
JOLLIBEE FOODS CORP	JFC PM	2.46x	Pasig City, PH	Quick Service
CAFE DE CORAL HOLDINGS LTD	341 HK	2.10x	Sha Tin, HK	Fully-Integrated
AJISEN CHINA HOLDINGS LTD	538 HK	1.89x	Kowloon, HK	Casual Dining
FAIRWOOD HOLDINGS LTD	52 HK	1.09x	North Point, HK	Quick Service

BKW/THI MERGER

DEAL HIGHLIGHTS YUM'S UNDERLEVERAGED BALANCE SHEET

- BKW bought THI for \$12B or 14x NTM EBITDA
- 3G Capital (BKW) borrowed \$9 billion to purchase THI
- Plus \$3.0 billion of 9% Pfd equity from BRK
- Pro-Forma Debt/EBITDA of 6.0x to 8.0x depending on Pfd
- The deal created \$4 billion in equity value
- Market will let you lever up to 5x “for free”
- BKW went to 6-8x DEBT/EBITDA; YUM can easily go to 5x

WHY THIS MATTERS

- YUM can increase leverage from 1.2x DEBT/EBITDA to 5.0x and repurchase \$6.5 billion in stock (19% of equity value)
- YUM has the debt capacity to pay a \$15-\$17 special dividend
- Asset-light models trade at a substantial premium

Sources of Funds

USD billions unless otherwise noted

	Amount
Cash	\$0.6
Debt	9.0
Preferred Investment	3.0
New Common Equity	2.9
Total Sources	\$15.5

Uses of Funds

	Amount
Value per Share (CAD)	\$89.32
Value per Share (USD)	\$81.57
Tim Hortons Equity Value	\$10.9
Tim Hortons Net Debt	1.0
Tim Hortons TEV	\$11.9
Burger King Debt Repayment & Fees	3.6
Total Uses	\$15.5

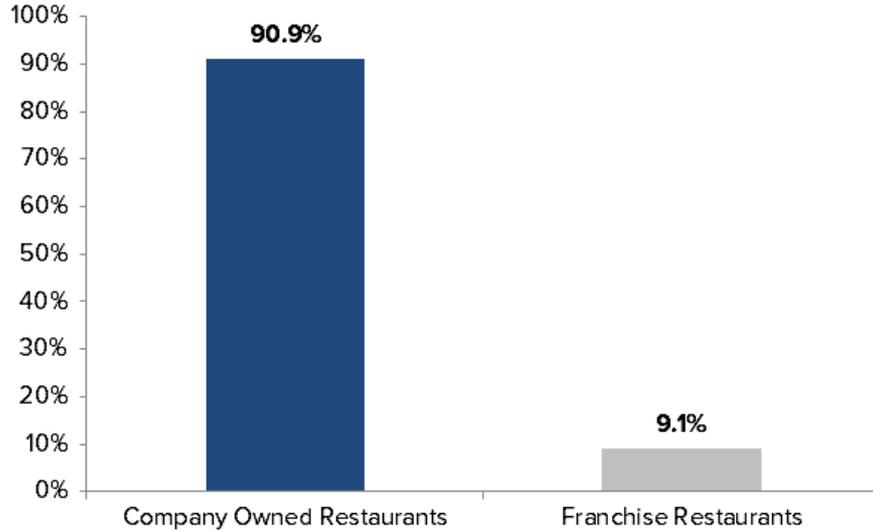




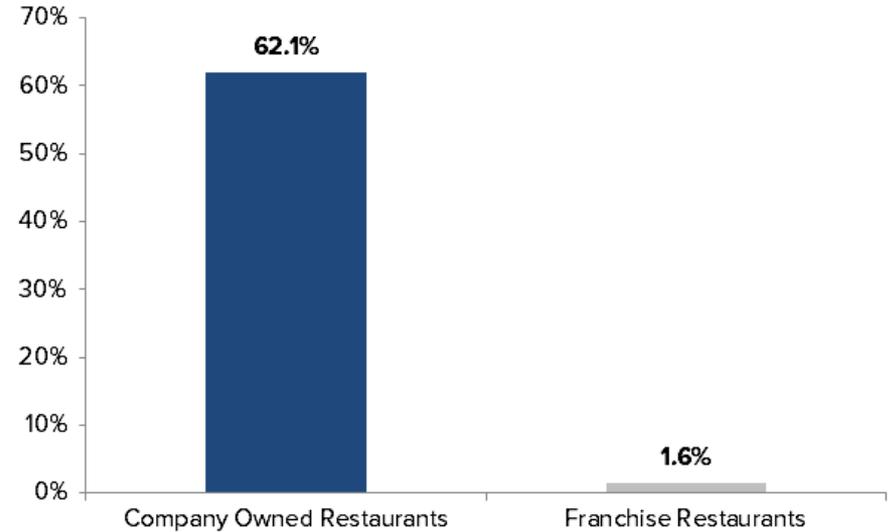
CHINA DIVISION

CHINA DIVISION

CHINA SYSTEM



CHINA AS A % OF YUM SYSTEM



CHINA DIVISION QUICK FACTS

- 6,419 units predominantly KFC and Pizza Hut Casual Dining
- These two are the leading quick service and casual dining restaurant brands in mainland China
- The company operates the majority of its distribution system for its restaurants in China
- Rapidly adding KFC and Pizza Hut Casual Dining Restaurants
- Accelerating the development of Pizza Hut Home Service
- Integrating the Little Sheep brand (hot pot) acquired in 2012
- Testing East Dawning (Chinese food)
- Plan to have over 20,000 restaurants across all concepts in China

- **Earnings growth model includes:**
 - ✓ Low-double digit percentage unit growth
 - ✓ Mid-single digit same-store sales growth
 - ✓ Moderate margin improvement
 - ✓ Annual operating profit of 15% or greater



CHINA UPDATE

- On July 20, 2014, an undercover report was televised in China depicting improper food handling involving supplier Shanghai Husi, a division of OSI. The company immediately terminated its relationship with OSI globally, but severe damage had already been done.

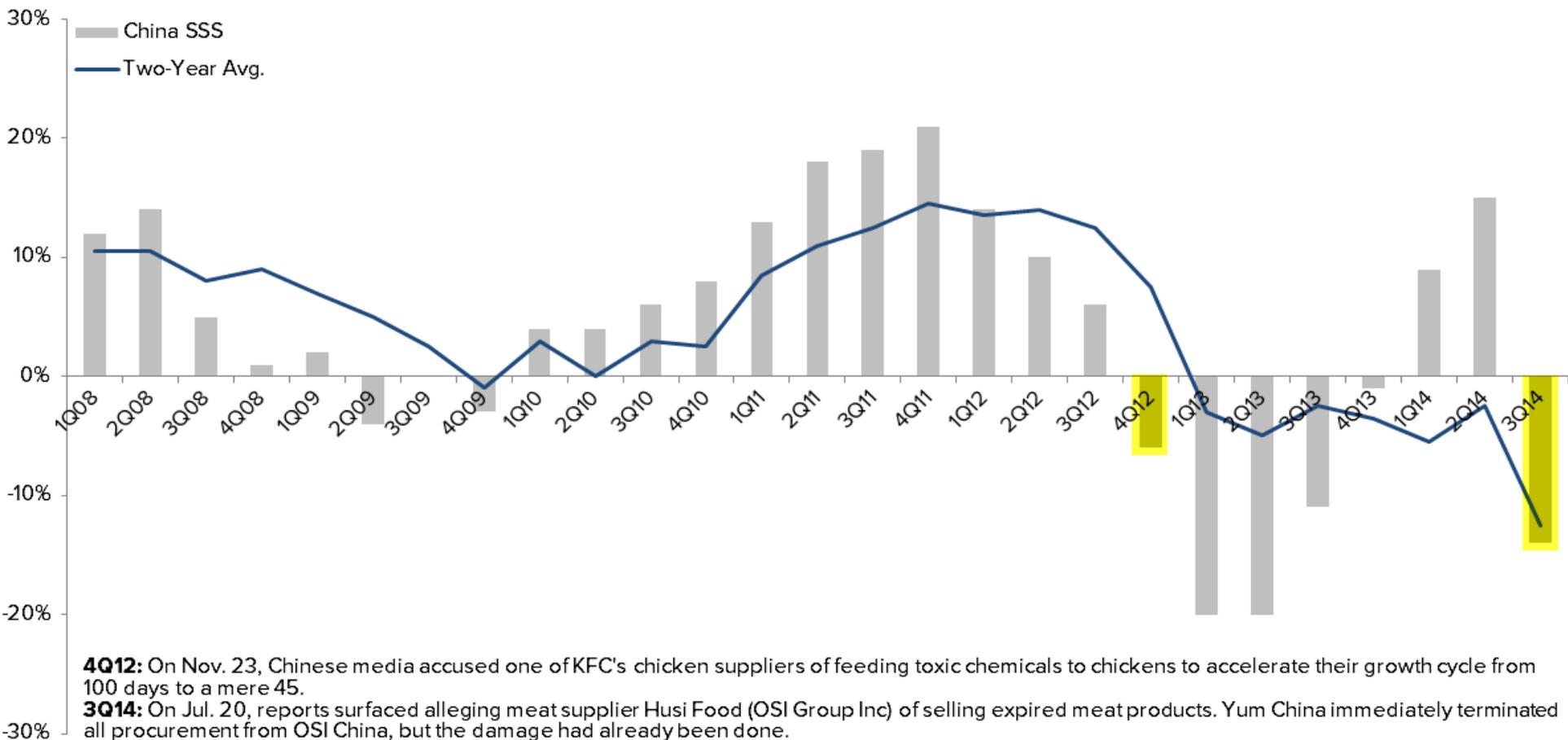
According to the company:

- "While OSI was not a major supplier to Yum! Brands, these events triggered extensive news coverage in China that has shaken consumer confidence, impacted brand usage, and disparaged the hard work of our over 400,000 Chinese employees."
- "The result has been a significant, negative impact to same-store sales at both KFC and Pizza Hut in China over the past 10 days."
- "At this point, it is too early to know how quickly sales will rebound in China and the corresponding full-year financial impact to Yum! Brands."
- "However, if the significant sales impact is sustained, it will have a material effect on full-year earnings per share."

Hedgeye:

- This is the second major setback in as many years in China, which has been a major drag on the overall business during this time. As a result, YUM has largely underperformed its peers across many durations. The YUM China story is far from over, but we believe buying into this controversy is a positive rather than a negative.

CHINA'S STRUGGLES



KFC CHINA

- Over 4,600 restaurants in nearly 100 cities (2x its nearest competitor)
- Rolling out new restaurant design and introducing new digital initiatives to enhance guest experience
- Substantial learnings from recent KFC Menu Revamp (launching a new group of products in 1H15)
- Strong, underlying economics call for aggressive unit growth
- **New unit development program:**
 - ✓ Shifting new unit development program toward higher return investments
 - ✓ 2012 – 53% of KFC China development was in Tier 3 through Tier 6 cities
 - ✓ 2014 – 67% of KFC China development was in Tier 3 through Tier 6 cities
 - ✓ Restaurants in higher tier cities tend to have lower margins; expect franchise mix of these to increase over time
- **Long-term growth opportunity intact:**
 - ✓ Consuming class doubling from 300 million in 2012 to 600 million in 2020
 - ✓ Rapid urbanization
 - ✓ Massive government infrastructure investments expected to continue
 - ✓ Stronger unit economics in lower tiers
 - ✓ YUM currently has 5 restaurants per million people in China (US has 60)



PIZZA HUT CHINA

- Nearly 1,200 restaurants in over 300 cities
- #1 Western casual dining restaurant
- Strong unit economics (\$1.7 AUV; 20% restaurant level margins)
- Plan to grow to 3,800 restaurants in 2020 (would equal 6 restaurants per million people)
- 2013 – AUVs above \$1.6 million and restaurant level margins over 20%
- 2014 – AUVs below \$1.6 million and restaurant level margins of ~19%

- **Menu innovation, value is key:**
 - ✓ Menu revamp twice a year (20% of menu; 25 new items)
 - ✓ Rolling out breakfast, testing late-night
 - ✓ Continue to lead with menu innovation in everyday affordable value
 - ✓ Want to create a mid-scale casual dining breakfast occasion similar to what exists in the US today

- **Long-term growth opportunity intact:**
 - ✓ Consuming class doubling from 300 million in 2012 to 600 million in 2020
 - ✓ Rapid urbanization
 - ✓ Massive government infrastructure investments expected to continue
 - ✓ Stronger unit economics in lower tiers
 - ✓ YUM currently has 5 restaurants per million people in China (US has 60)



CHINA DIVISION SUMMARY

- Yum China is worth approximately \$49 per share to YUM
- Yum China represents a nasty mix for YUM – the business is under pressure and it makes up a significant part of YUM's financial performance
- The board must do something to evolve the business model and reduce its exposure to China in a meaningful way
- The board can de-risk the business by selling off company-owned stores
- The board should focus on selling assets in Shanghai and Beijing; operating stores in these regions is equivalent to operating stores in Manhattan (who would want to do that?)
- It has recently been rumored that YUM is looking to sell its company-operated KFC business in India in order to avoid real estate costs that are corroding its profitability (why not in China?)
- The board should create a Yum China tracking stock; we suspect there would be significant demand for the largest consumer company in China
- Allowing the Chinese to own a part of KFC could help consumer perception of the brand and, ultimately, benefit same-store sales
- The Chinese government may put less pressure on the company if Chinese nationals own it (it certainly wouldn't make the situation any worse)

CHINA ENTERPRISE VALUE

China Division	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Company Owned Restaurant Revenue	1442	1858	2197	2534	8,031
Franchise Fees & Royalty Income	21	23	36	24	104
Total Revenue	1,463	1,881	2,233	2,558	\$ 8,135
Cost of Sales	450	590	713	841	2,594
Labor Expense	264	380	416	533	1,593
Other Restaurant Expenses	410	588	655	813	2,467
Total Company Restaurant Expenses	1124	1558	1785	2187	\$ 6,654
Restaurant Level Profit	318	301	411	347	\$ 1,377
<i>Restaurant Margin %</i>	22.0%	16.2%	18.7%	13.7%	17.1%
Franchised/Licensed Restaurant Expense	3	3	4	4	14
G&A Expenses	68	111	108	145	432
Other Charges	(1)	(1)	1	1	0
Total Operating Expenses	1194	1671	1898	2338	\$ 7,100
Operating Profit	269	211	334	220	\$ 1,034
DA	105	105	105	105	420
EBITDA	374	316	439	325	\$ 1,454

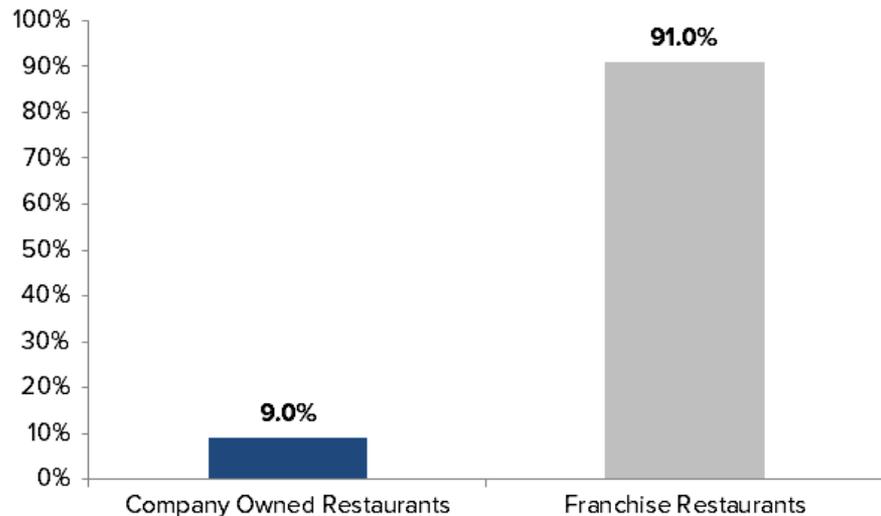
China Enterprise Value	FY15E
Company-Operated Stores	5986
Franchise-Operated Stores	559
Average Unit Volume (mm)	1408
Restaurant Operating Margin	17.1%
Corporate G&A	434
Adjusted Cash Flow	1008
Franchise Royalties, Net	104
Enterprise EBIT	1,034
D&A	420
Enterprise EBITDA	1,454
Hedgeye Multiple	15.0x
Enterprise Value	21,810
Estimated Value Per Share	\$48.67



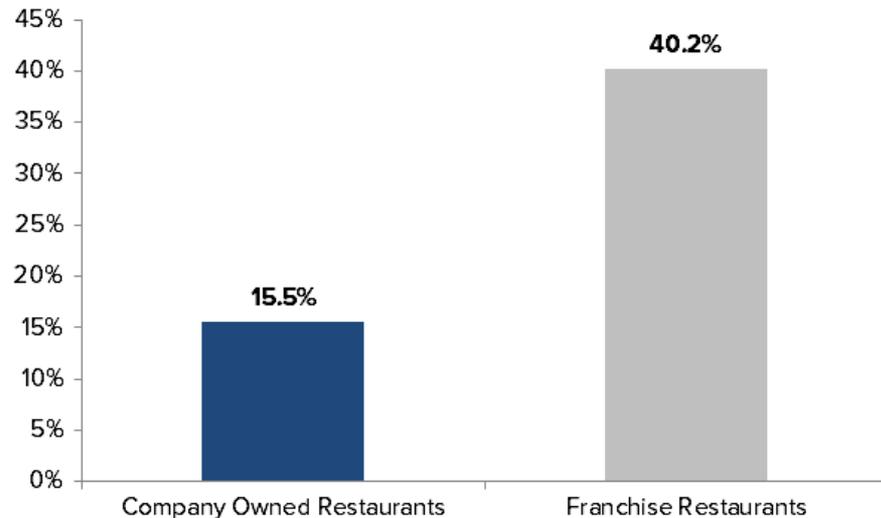
KFC DIVISION

KFC DIVISION

KFC SYSTEM



KFC AS A % OF YUM SYSTEM



KFC DIVISION QUICK FACTS

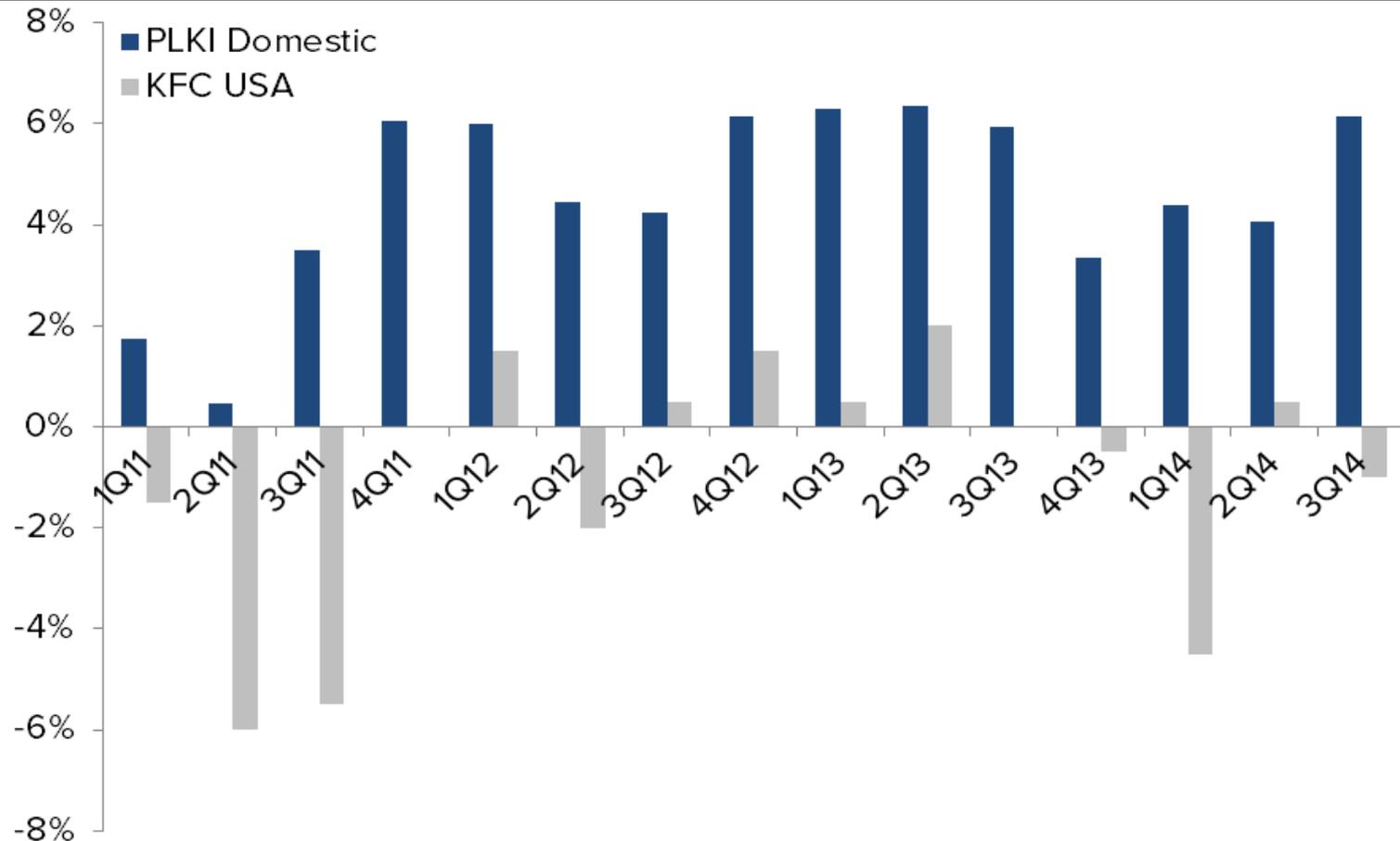
- 13,961 units, approximately 70% of which are located outside the US (~120 countries total)
- Significant unit growth in emerging markets, which comprised ~35% and ~50% of the Division's units and profits, respectively, at the end of 2013
- 91% of KFC Division units are operated by franchisees and licensees

- **Strategy for global growth:**
 - ✓ Leverage franchise-led model
 - ✓ Win in emerging markets
 - ❖ Emerging market powerhouses include Indonesia, Pakistan, Nigeria, Vietnam, Egypt, Thailand, South Africa, etc.
 - Growth through equity in Russia, South Africa, Turkey
 - ✓ Revitalize developed markets
 - ❖ Big opportunity in France and Germany
 - ❖ Strength in Australia and the UK
 - ❖ Turnarounds in US, Japan and Canada

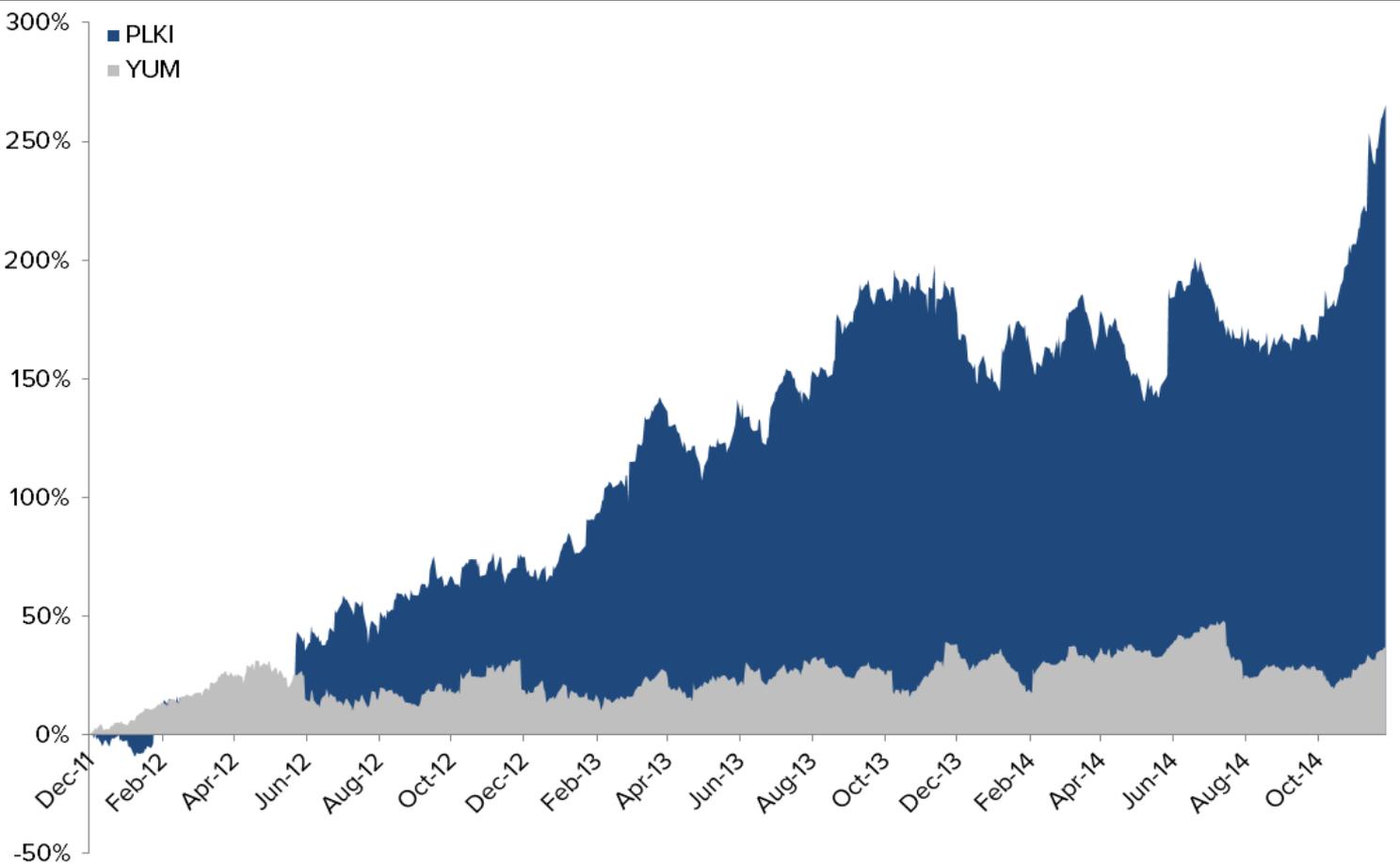
- **Earnings growth model includes:**
 - ✓ Mid single-digit percentage net unit and same-store sales growth for emerging markets
 - ✓ Flat new unit growth and low single-digit same-store sales growth for developed markets
 - ✓ Unit growth, in addition to restaurant margin improvement and G&A leverage should drive annual operating profit growth of 10% or more



KFC VS POPEYES SSS



YUM VS PLKI STOCK PRICE PERFORMANCE



Over the past three years, YUM has underperformed PLKI by ~ 228%.

KFC ENTERPRISE VALUE

KFC Division	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Company Owned Restaurant Revenue	501	592	598	793	2,484
Franchise Fees & Royalty Income	202	204	215	287	908
Total Revenue	703	796	813	1,080	\$ 3,392
Cost of Sales	175	206	208	279	868
Labor Expense	121	141	141	184	588
Other Restaurant Expenses	139	165	166	224	695
Total Company Restaurant Expenses	435	513	516	687	\$ 2,151
Restaurant Level Profit	66	80	82	106	\$ 333
<i>Restaurant Margin %</i>	13.1%	13.4%	13.7%	13.3%	13.4%
Franchised/Licensed Restaurant Expense	17	18	21	27	83
G&A Expenses	79	96	94	134	404
Other Charges	0	0	0	3	3
Total Operating Expenses	532	627	631	851	\$ 2,640
Operating Profit	172	170	182	229	\$ 752
DA	31	31	31	31	125
EBITDA	203	201	213	260	\$ 877

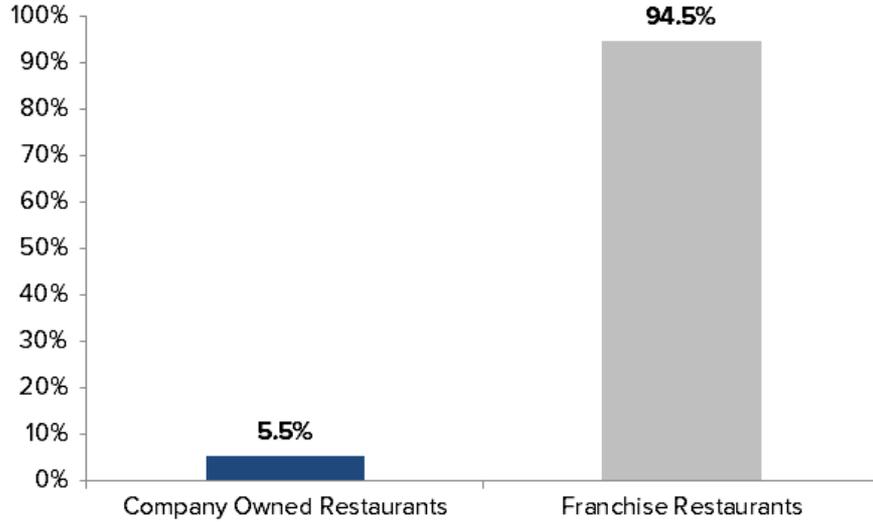
KFC Enterprise Value	FY15E
Company-Operated Stores	1357
Franchise-Operated Stores	13,159
Average Unit Volume (mm)	1.861
Restaurant Operating Margin	13.4%
Corporate G&A	404
Adjusted Cash Flow	(65)
Franchise Royalties, Net	908
Enterprise EBIT	752
D&A	125
Enterprise EBITDA	877
Hedgeye Multiple	13.0x
Enterprise Value	11,401
Estimated Value Per Share	\$25.44



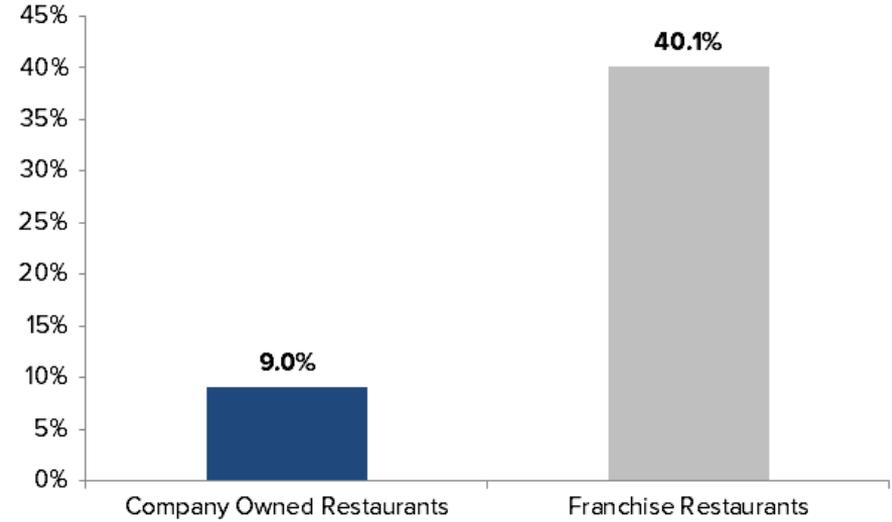
PIZZA HUT DIVISION

PIZZA HUT DIVISION

PIZZA HUT SYSTEM



PIZZA HUT AS A % OF YUM SYSTEM



PIZZA HUT DIVISION QUICK FACTS

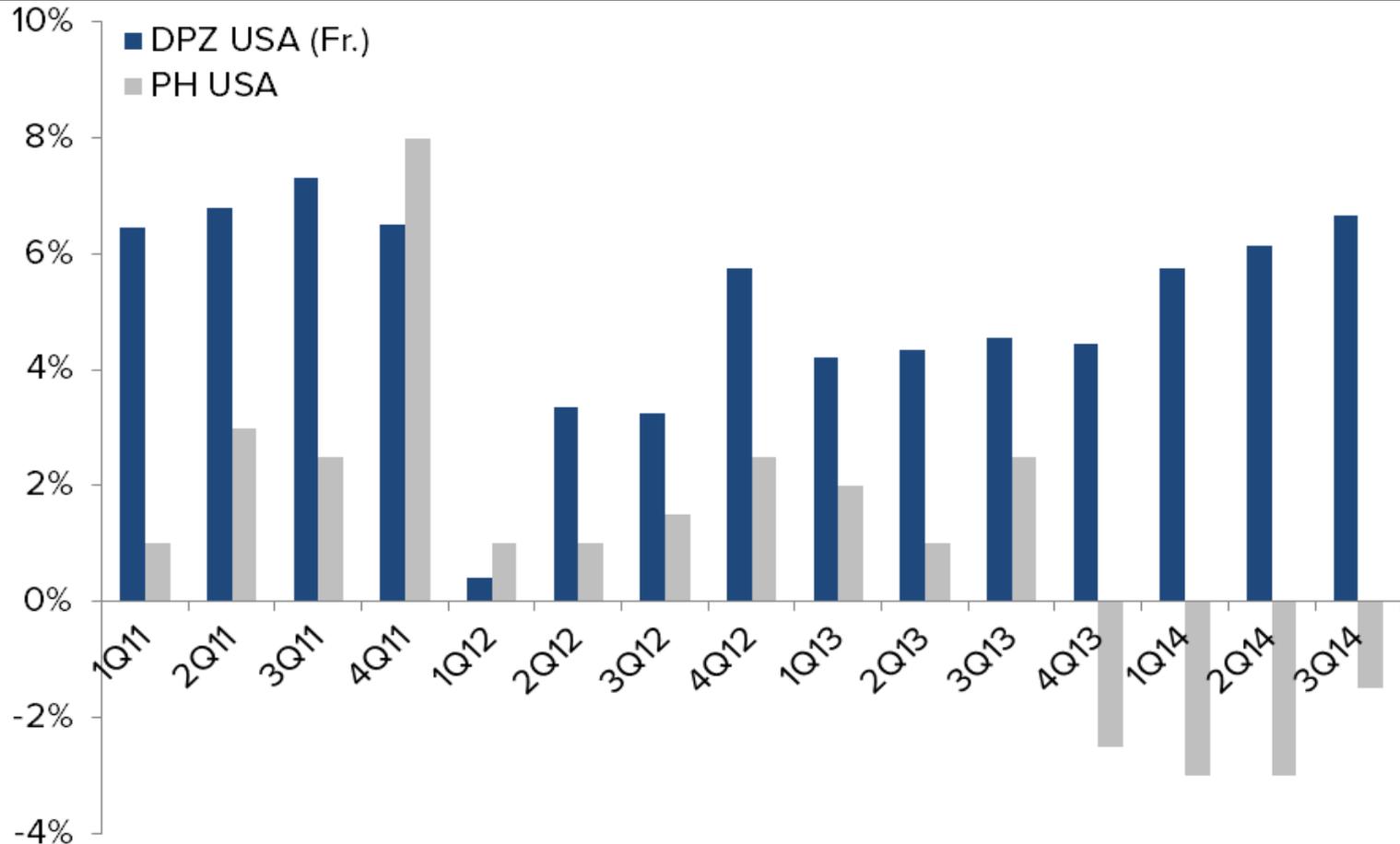
- 13,393 units in ~86 countries, approximately 60% of which are located outside the US
- One brand, but uses multiple distributions channels (delivery, dine-in, express)
- Emerging markets comprised ~20% of both units and profits for the Division
- 94% of Pizza Hut Division units are operated by franchisees and licensees

- **The Pizza Hut approach:**
 - ✓ Sharpened focus on value in the US
 - ✓ Leverage more competitive offers and drive digital activations
 - ✓ Grow digital mix on delivery and carryout business above current 40%
 - ✓ Launch new advertising positioning designed to better connect with Millennials
 - ✓ Share best practices globally in order to drive sales growth

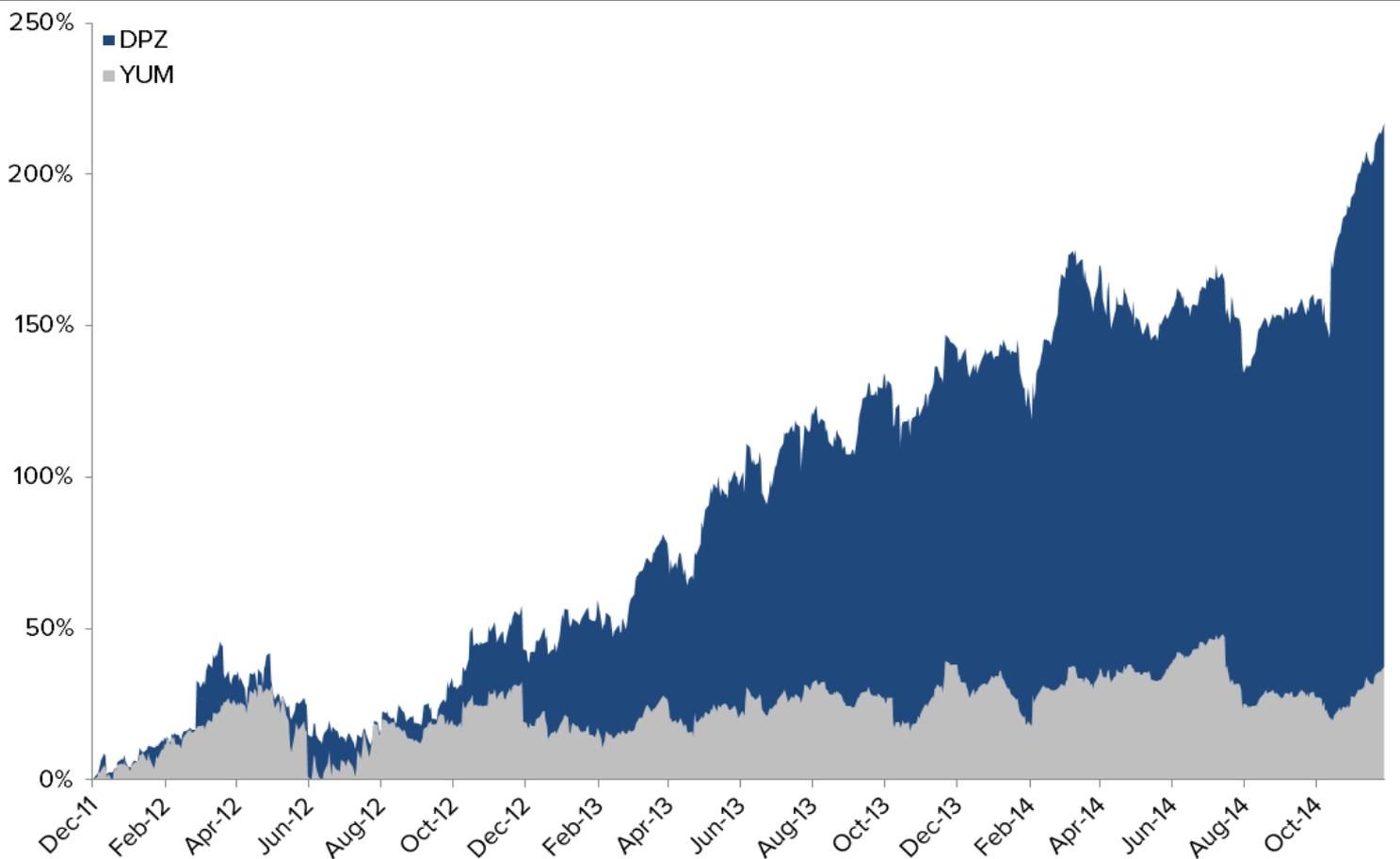
- **Earnings growth model includes:**
 - ✓ Mid single-digit percentage net unit and same-store sales growth for emerging markets
 - ✓ Low single-digit percentage net unit and same-store sales growth for developed markets
 - ✓ Unit growth combined with restaurant level margin expansion and G&A leverage should drive operating profit growth of 8%



PIZZA HUT VS DOMINO'S SSS



YUM VS DPZ STOCK PRICE PERFORMANCE



Over the past three years, YUM has underperformed DPZ by ~142%.

PIZZA HUT ENTERPRISE VALUE

Pizza Hut Division	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Company Owned Restaurant Revenue	149	151	148	205	653
Franchise Fees & Royalty Income	126	123	126	165	540
Total Revenue	275	274	274	370	\$ 1,193
Cost of Sales	44	45	43	60	192
Labor Expense	45	47	44	61	197
Other Restaurant Expenses	42	46	47	66	202
Total Company Restaurant Expenses	132	138	135	187	\$ 592
Restaurant Level Profit	17	13	13	17	\$ 62
<i>Restaurant Margin %</i>	11.7%	8.8%	9.0%	8.5%	9.4%
Franchised/Licensed Restaurant Expense	9	10	13	15	47
G&A Expenses	51	58	58	80	247
Other Charges	0	1	1	0	2
Total Operating Expenses	191	207	207	282	\$ 887
Operating Profit	84	67	67	88	\$ 306
DA	20	20	20	20	81
EBITDA	104	88	87	108	\$ 387

Pizza Hut Enterprise Value	FY15E
Company-Operated Stores	811
Franchise-Operated Stores	13,127
Average Unit Volume (mm)	0.821
Restaurant Operating Margin	9.4%
Corporate G&A	247
Adjusted Cash Flow	(184)
Franchise Royalties, Net	540
Enterprise EBIT	306
D&A	81
Enterprise EBITDA	387
Hedgeye Multiple	7.5x
Enterprise Value	2,903
Estimated Value Per Share	\$6.48

PIZZA HUT SOTP ARBITRAGE

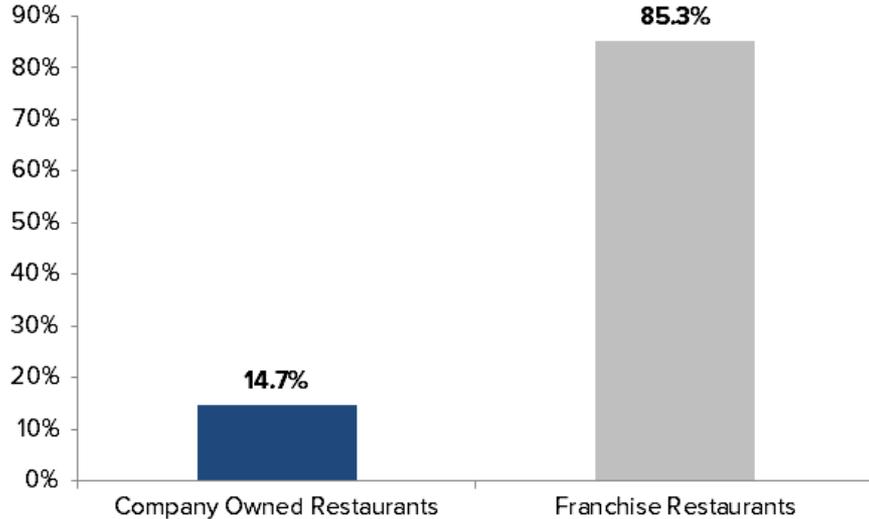
Pizza Hut - Sum of the Parts Arbitrage - FY15E			
Pizza Hut Asset Sale EV		Pizza Hut Public Market EV	
Company-Operated Stores	811	Company-Operated Stores	811
Franchise-Operated Stores	13,127	Franchise-Operated Stores	13,127
Average Unit Volume (mm)	0.821	Average Unit Volume (mm)	0.821
Company Restaurant Operating Margin	9.4%	Company Restaurant Operating Margin	9.4%
Corporate G&A	247	Corporate G&A	247
Adjusted Cash Flow	(184)	Adjusted Cash Flow	(184)
Franchise Royalties, Net	540	Franchise Royalties, Net	540
Enterprise EBIT	306	Enterprise EBIT	306
D&A	81	D&A	81
Enterprise EBITDA	387	Enterprise EBITDA	387
Hedgeye Multiple	7.5x	Hedgeye Multiple	12.0x
Enterprise Value	2,903	Enterprise Value	4,644
Estimated Value Per Share	\$6.48		
YUM EPS Benefit from Sale	(\$0.41)	Estimated Gain	1,742
YUM EPS Benefit from Share Repurchase	Minimal	% Return for Pizza Hut Buyer	60%



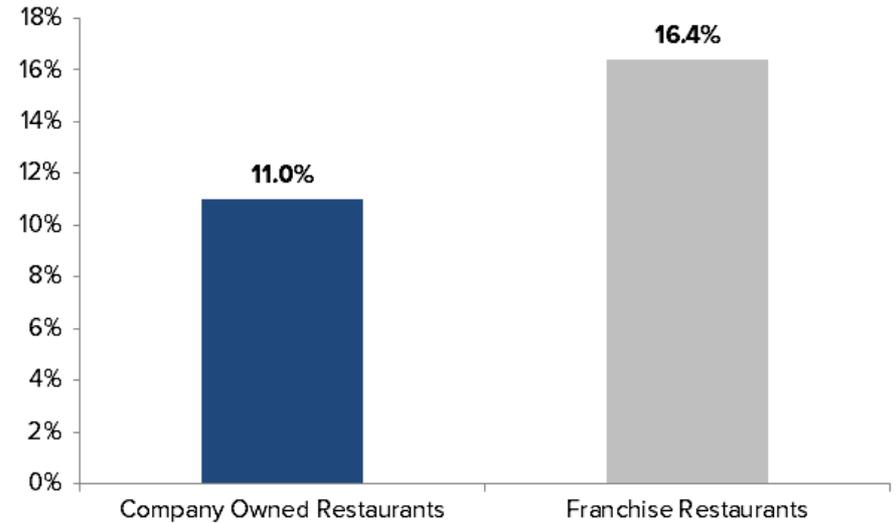
TACO BELL DIVISION

TACO BELL DIVISION

TACO BELL SYSTEM



TACO BELL AS A % OF YUM SYSTEM



TACO BELL QUICK FACTS

- 6,109 units, the vast majority of which are located in the US (ultimate goal of 8,000 in US)
- Company owns 16% of Taco Bell restaurants in the US
- Recently launched breakfast daypart accounts for 6% of sales (25% mix at McDonald's)
- Breakfast sales largely incremental and are driving restaurant level margins of ~21% in some restaurants
- Plan to reach \$14 billion in system-wide sales by 2022

- **The Taco Bell strategy:**
 - ✓ Win in all dayparts (breakfast presents best growth opportunity)
 - ✓ Value and trust in every transaction
 - ✓ Maniacal focus on operations (food, team, loyalty)
 - ✓ Vibrant brand, vibrant expansion (high launch level media weights)
 - ✓ Introducing mobile ordering and payments in 4Q14
 - ✓ Industry-leading margins

- **Earnings growth model includes:**
 - ✓ Low single-digit percentage net new unit growth
 - ✓ Mid single-digit same-store sales growth
 - ✓ Unit growth combined with G&A leverage should drive annual operating profit growth of 6%



LIVE MÁS™

TACO BELL ENTERPRISE VALUE

Taco Bell Division	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Company Owned Restaurant Revenue	325	359	359	459	1,503
Franchise Fees & Royalty Income	89	101	103	132	425
Total Revenue	414	460	462	591	\$ 1,928
Cost of Sales	97	108	106	133	443
Labor Expense	97	104	100	126	426
Other Restaurant Expenses	77	81	81	104	343
Total Company Restaurant Expenses	270	292	287	363	\$ 1,212
Restaurant Level Profit	54	67	73	96	\$ 290
<i>Restaurant Margin %</i>	16.8%	18.7%	20.2%	21.0%	19.3%
Franchised/Licensed Restaurant Expense	4	5	5	5	20
G&A Expenses	46	45	42	67	201
Other Charges	1	2	2	2	7
Total Operating Expenses	322	345	336	438	\$ 1,440
Operating Profit	92	116	126	154	\$ 487
DA	23	23	23	23	91
EBITDA	115	138	149	176	\$ 578

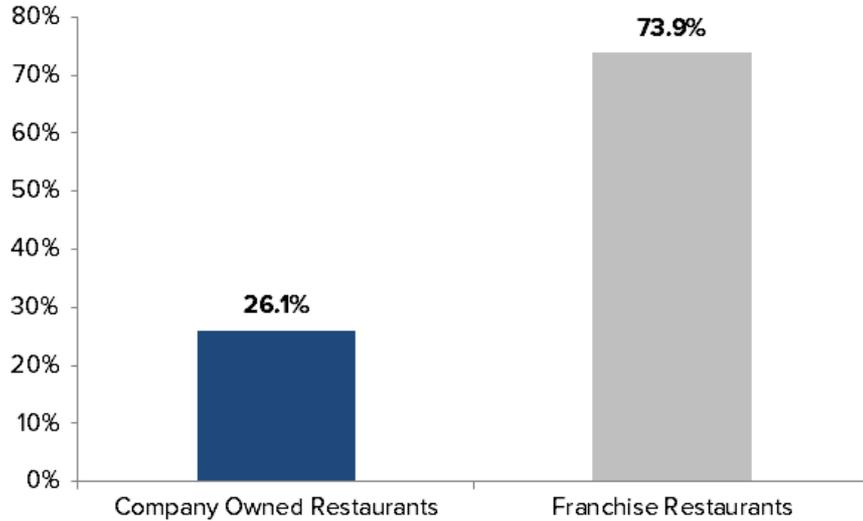
Taco Bell Enterprise Value	FY15E
Company-Operated Stores	920
Franchise-Operated Stores	5,372
Average Unit Volume (mm)	1,643
Restaurant Operating Margin	19.3%
Corporate G&A	201
Adjusted Cash Flow	91
Franchise Royalties, Net	425
Enterprise EBIT	487
D&A	91
Enterprise EBITDA	578
Hedgeye Multiple	12.5x
Enterprise Value	7,225
Estimated Value Per Share	\$16.12



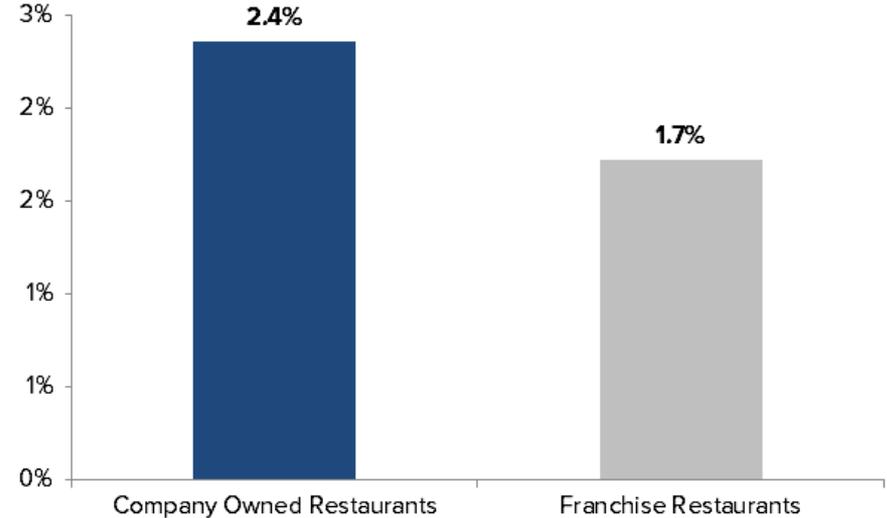
INDIA DIVISION

INDIA DIVISION

INDIA SYSTEM

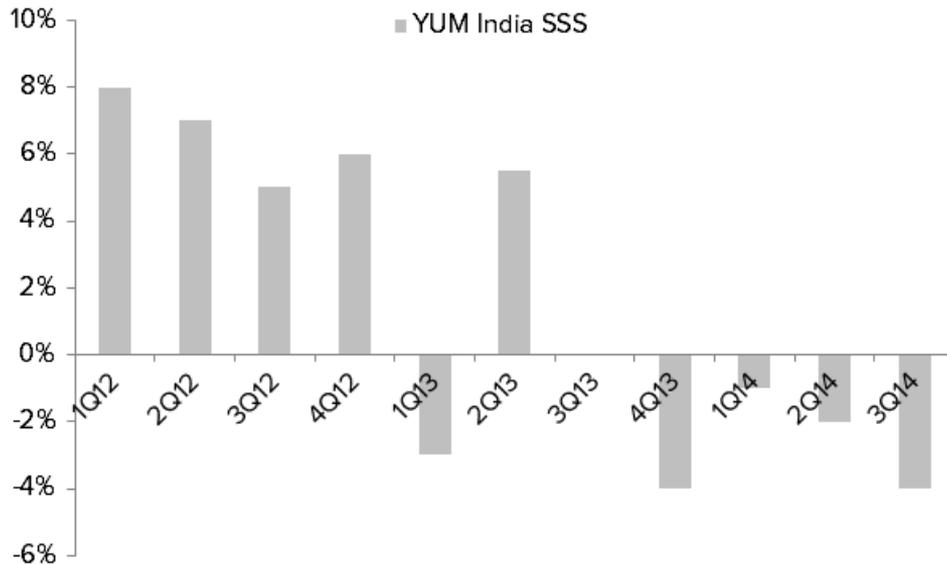


INDIA AS A % OF YUM SYSTEM



INDIA QUICK FACTS

- 736 units, predominantly KFC and Pizza Hut restaurants
- Management believes India is a significant long-term growth driver, but currently does not assume any earnings impact from India growth
- Plan to have 2,000 restaurants in India by 2020
- Expect to grow all three brands there



INDIA ENTERPRISE VALUE

India Division	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Company Owned Restaurant Revenue	24	43	49	73	189
Franchise Fees & Royalty Income	3	5	5	12	25
Total Revenue	27	48	54	85	\$ 214
Cost of Sales	10	17	20	28	75
Labor Expense	3	5	6	10	24
Other Restaurant Expenses	10	17	20	33	80
Total Company Restaurant Expenses	23	39	46	71	\$ 179
Restaurant Level Profit	1	4	3	2	\$ 10
<i>Restaurant Margin %</i>	4.2%	9.3%	6.1%	2.7%	5.3%
Franchised/Licensed Restaurant Expense	1	1	1	1	4
G&A Expenses	6	11	12	13	42
Other Charges	0	0	0	0	0
Total Operating Expenses	30	51	59	85	\$ 225
Operating Profit	(3)	(3)	(5)	0	\$ (11)
DA	5	5	5	5	18
EBITDA	2	2	(1)	5	\$ 7

India Enterprise Value	FY15E
Company-Operated Stores	277
Franchise-Operated Stores	732
Average Unit Volume (mm)	0.775
Restaurant Operating Margin	5.3%
Corporate G&A	42
Adjusted Cash Flow	(31)
Franchise Royalties, Net	25
Enterprise EBIT	(11)
D&A	18
Enterprise EBITDA	7
Hedgeye Multiple	15.0x
Enterprise Value	105
Estimated Value Per Share	\$0.23



SUMMARY

SUMMARY & CONCLUSION

- YUM is drastically undervalued
- YUM is a strong company with great brands
- The external environment makes for a perfect time to affect change at YUM:
 - Sales trends are positive
 - Multiples are at peak levels
 - Strong demand for restaurant assets
 - Strong demand for global brands (YUM has two of the largest)
- Internal changes over the past three years clears the path for change:
 - Management changes
 - Structural changes
 - Underleveraged balance sheet
- There is significant global unit growth potential across all brands
- The asset-light business generates high margins, significant FCF and very high returns
- YUM has a number of levers it can pull to enhance shareholder value
- The board must consider de-risking the enterprise from its significant exposure to China
- Reshaping operations in China would be a transformational transaction

GLOBAL RESTAURANT INDUSTRY VALUATION

Company	Ticker	TTM P/S	Corporate Headquarters	Sector
BURGER KING WORLDWIDE INC	BKW	12.23x	Florida, US	Quick Service
DUNKIN' BRANDS GROUP INC	DNKN	6.96x	Massachusetts, US	Quick Service
WESTLIFE DEVELOPMENT LTD	WLDL IN	6.63x	Mumbai, IND	Quick Service
POPEYES LOUISIANA KITCHEN IN	PLKI	5.69x	Georgia, US	Quick Service
JUBILANT FOODWORKS LTD	JUBI IN	5.40x	Noida, IND	Quick Service
DOMINO'S PIZZA ENTERPRISES L	DMP AU	4.06x	Queensland, AU	Quick Service
DOMINO'S PIZZA GROUP PLC	DOM LN	4.03x	Milton Keynes, UK	Quick Service
STARBUCKS CORP	SBUX	3.73x	Washington, US	Quick Service
MCDONALD'S CORP	MCD	3.42x	Illinois, US	Quick Service
KRISPY KREME DOUGHNUTS INC	KKD	2.90x	North Carolina, US	Quick Service
DINEEQUITY INC	DIN	2.87x	California, US	Casual Dining
DOMINO'S PIZZA INC	DPZ	2.72x	Michigan, US	Quick Service
YUM! BRANDS INC	YUM	2.56x	Kentucky, US	Quick Service
JOLLIBEE FOODS CORP	JFC PM	2.46x	Pasig City, PH	Quick Service
CAFE DE CORAL HOLDINGS LTD	341 HK	2.10x	Sha Tin, HK	Fully-Integrated
AJISEN CHINA HOLDINGS LTD	538 HK	1.89x	Kowloon, HK	Casual Dining
FAIRWOOD HOLDINGS LTD	52 HK	1.09x	North Point, HK	Quick Service

SUM OF THE PARTS ANALYSIS

EV/EBITDA DRIVEN

Valuation	EBITDA	Multiple	FY15 P/S	Value
China	1,454	15.0x	2.7x	21,810
KFC	877	13.0x	3.2x	11,401
Taco Bell	578	13.0x	3.8x	7,514
Pizza Hut	387	7.5x	2.4x	2,903
India	7	15.0x	2.1x	105
Enterprise Value	3,303	13.2x		43,733
Cash				1,600
Debt				(2,700)
Equity Value				42,633
FD O/S				448.15
\$/share				\$95.13

PRICE-TO-SALES DRIVEN

Segment	Revenues	Shares	Revenue/Share	Price	P/S
China	\$8,135	448.15	18.15	\$55.00	3.03x
KFC	\$3,392	448.15	7.57	\$22.00	2.91x
Taco Bell	\$1,928	448.15	4.30	\$12.00	2.79x
Pizza Hut	\$1,193	448.15	2.66	\$6.48	2.43x
India	\$214	448.15	0.48	\$0.23	0.48x
\$/share	\$14,862	448.15	33.16	\$95.71	2.89x



WHO WILL UNLOCK VALUE?

FOR MORE INFORMATION, CONTACT US AT:

SALES@HEDGEYE.COM

(203) 562-6500