

Edgar Filing: YUM BRANDS INC - Form 10-K

YUM BRANDS INC

Form 10-K

February 21, 2019

false--12-31FY20182018-12-3110-K0001041061306414175YesfalseLarge Accelerated Filer24700000000YUM BRANDS

INCfalsefalseNoYes007500000007500000003320000003060000002016-05-112016-06-162016-06-162010-08-312011-08-29  
P4Y0M8DP5Y6M0D0.018500000002243222111P5YP1Y07M0DP6Y6M0DP5Y0M0D20000002065 0001041061  
2018-01-01 2018-12-31 0001041061 us-gaap:SegmentDiscontinuedOperationsMember 2018-01-01 2018-12-31  
0001041061 2018-06-30 0001041061 2019-02-13 0001041061 us-gaap:SegmentContinuingOperationsMember  
2018-01-01 2018-12-31 0001041061 2017-01-01 2017-12-31 0001041061 2016-01-01 2016-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember 2016-01-01 2016-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061  
yum:FranchiseandpropertyrevenueMember 2018-01-01 2018-12-31 0001041061  
us-gaap:SegmentDiscontinuedOperationsMember 2016-01-01 2016-12-31 0001041061 us-gaap:ProductMember  
2018-01-01 2018-12-31 0001041061 us-gaap:AdvertisingMember 2017-01-01 2017-12-31 0001041061  
us-gaap:AdvertisingMember 2016-01-01 2016-12-31 0001041061 yum:FranchiseandpropertyrevenueMember  
2017-01-01 2017-12-31 0001041061 us-gaap:AdvertisingMember 2018-01-01 2018-12-31 0001041061  
us-gaap:ProductMember 2017-01-01 2017-12-31 0001041061 us-gaap:ProductMember 2016-01-01 2016-12-31  
0001041061 yum:FranchiseandpropertyrevenueMember 2016-01-01 2016-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061  
us-gaap:SegmentDiscontinuedOperationsMember 2017-01-01 2017-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember 2016-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember 2015-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember 2018-01-01 0001041061  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 2017-12-31 0001041061 2018-12-31  
0001041061 us-gaap:CommonStockMember 2018-01-01 2018-12-31 0001041061  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001041061  
yum:RedeemableNoncontrollingInterestMember 2015-12-31 0001041061  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0001041061  
yum:IncludingNoncontrollingInterestMember 2017-01-01 2017-12-31 0001041061  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0001041061  
yum:IncludingNoncontrollingInterestMember 2018-01-01 2018-12-31 0001041061  
us-gaap:NoncontrollingInterestMember us-gaap:SegmentDiscontinuedOperationsMember 2016-01-01 2016-12-31  
0001041061 us-gaap:CommonStockMember 2017-01-01 2017-12-31 0001041061 us-gaap:RetainedEarningsMember  
2017-01-01 2017-12-31 0001041061 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01  
2017-12-31 0001041061 yum:IncludingNoncontrollingInterestMember 2016-01-01 2016-12-31 0001041061  
us-gaap:CommonStockMember 2017-12-31 0001041061 us-gaap:ShareholdersEquityMember  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 0001041061  
yum:RedeemableNoncontrollingInterestMember 2016-12-31 0001041061  
yum:RedeemableNoncontrollingInterestMember 2016-01-01 2016-12-31 0001041061  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2015-12-31 0001041061  
us-gaap:RetainedEarningsMember 2018-01-01 2018-12-31 0001041061 us-gaap:NoncontrollingInterestMember  
2018-12-31 0001041061 us-gaap:RetainedEarningsMember 2016-12-31 0001041061  
us-gaap:RetainedEarningsMember 2015-12-31 0001041061 us-gaap:NoncontrollingInterestMember 2016-12-31  
0001041061 yum:IncludingNoncontrollingInterestMember 2017-12-31 0001041061 us-gaap:CommonStockMember  
2016-01-01 2016-12-31 0001041061 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-01-01  
2016-12-31 0001041061 us-gaap:AccumulatedOtherComprehensiveIncomeMember  
us-gaap:SegmentDiscontinuedOperationsMember 2016-01-01 2016-12-31 0001041061  
us-gaap:CommonStockMember 2016-12-31 0001041061 us-gaap:NoncontrollingInterestMember 2016-01-01  
2016-12-31 0001041061 us-gaap:CommonStockMember 2015-12-31 0001041061  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-12-31 0001041061

Edgar Filing: YUM BRANDS INC - Form 10-K

us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-12-31 0001041061  
us-gaap:RetainedEarningsMember us-gaap:SegmentDiscontinuedOperationsMember 2016-01-01 2016-12-31  
0001041061 us-gaap:NoncontrollingInterestMember 2017-12-31 0001041061  
yum:IncludingNoncontrollingInterestMember 2018-12-31 0001041061 yum:IncludingNoncontrollingInterestMember  
2016-12-31 0001041061 yum:RedeemableNoncontrollingInterestMember 2017-12-31 0001041061  
us-gaap:NoncontrollingInterestMember 2015-12-31 0001041061 us-gaap:RetainedEarningsMember 2016-01-01  
2016-12-31 0001041061 us-gaap:RetainedEarningsMember 2018-12-31 0001041061  
yum:IncludingNoncontrollingInterestMember 2015-12-31 0001041061 us-gaap:CommonStockMember 2018-12-31  
0001041061 yum:RedeemableNoncontrollingInterestMember 2018-12-31 0001041061  
us-gaap:RetainedEarningsMember 2017-12-31 0001041061 yum:IncludingNoncontrollingInterestMember  
us-gaap:SegmentDiscontinuedOperationsMember 2016-01-01 2016-12-31 0001041061 srt:MaximumMember  
us-gaap:SoftwareAndSoftwareDevelopmentCostsMember 2018-01-01 2018-12-31 0001041061 2018-10-01  
2018-12-31 0001041061 yum:FranchiseandpropertyexpensesMember 2018-01-01 2018-12-31 0001041061  
yum:AccountingStandardsUpdate201802Member 2018-01-01 0001041061 2018-01-01 2018-09-30 0001041061  
yum:FranchiseandpropertyexpensesMember 2016-01-01 2016-12-31 0001041061  
us-gaap:AccountingStandardsUpdate201602Member us-gaap:AssetsTotalMember yum:A2019Member 2018-01-01  
2018-12-31 0001041061 yum:A53rdWeekImpactMember 2016-01-01 2016-12-31 0001041061 srt:MaximumMember  
2018-01-01 2018-12-31 0001041061 srt:MaximumMember us-gaap:BuildingAndBuildingImprovementsMember  
2018-01-01 2018-12-31 0001041061 srt:MinimumMember us-gaap:SoftwareAndSoftwareDevelopmentCostsMember  
2018-01-01 2018-12-31 0001041061 us-gaap:AccountingStandardsUpdate201616Member  
us-gaap:OtherAssetsMember 2018-01-01 0001041061 srt:MinimumMember  
us-gaap:MachineryAndEquipmentMember 2018-01-01 2018-12-31 0001041061 srt:MinimumMember  
us-gaap:BuildingAndBuildingImprovementsMember 2018-01-01 2018-12-31 0001041061  
yum:KFCGlobalDivisionMember yum:IncrementalAdvertisingMember 2017-01-01 2017-12-31 0001041061  
yum:KFCGlobalDivisionMember yum:IncrementalAdvertisingMember 2016-01-01 2016-12-31 0001041061  
srt:MinimumMember 2018-01-01 2018-12-31 0001041061 us-gaap:AccountingStandardsUpdate201602Member  
us-gaap:LiabilitiesTotalMember yum:A2019Member 2018-01-01 2018-12-31 0001041061  
yum:AdvertisingCooperativesDomain us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31  
0001041061 yum:FranchiseandpropertyexpensesMember yum:PizzaHutGlobalDivisionMember  
yum:IncrementalAdvertisingMember 2017-01-01 2017-12-31 0001041061 srt:MaximumMember  
us-gaap:MachineryAndEquipmentMember 2018-01-01 2018-12-31 0001041061  
yum:FranchiseandpropertyexpensesMember yum:PizzaHutGlobalDivisionMember  
yum:IncrementalAdvertisingMember 2018-01-01 2018-12-31 0001041061 yum:KFCGlobalDivisionMember  
yum:IncrementalAdvertisingMember 2018-01-01 2018-12-31 0001041061  
yum:FranchiseandpropertyexpensesMember 2017-01-01 2017-12-31 0001041061 yum:Thereafter5yearsMember  
2018-12-31 0001041061 yum:A3yearsMember 2018-12-31 0001041061 yum:A4yearsMember 2018-12-31  
0001041061 yum:A1yearMember 2018-12-31 0001041061 yum:A2yearsMember 2018-12-31 0001041061  
yum:A5yearsMember 2018-12-31 0001041061 us-gaap:FranchiseMember  
yum:OtherOutsidetheU.S.andChinaMember 2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember  
country:US 2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember country:CN  
yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31 0001041061  
yum:OtherOutsidetheU.S.andChinaMember 2018-01-01 2018-12-31 0001041061  
yum:OtherOutsidetheU.S.andChinaMember yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31 0001041061  
us-gaap:AdvertisingMember country:US 2018-01-01 2018-12-31 0001041061 us-gaap:ProductMember  
yum:OtherOutsidetheU.S.andChinaMember yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 us-gaap:ProductMember country:US yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:AdvertisingMember  
country:US yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember  
yum:OtherOutsidetheU.S.andChinaMember yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 country:US yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31 0001041061  
yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 yum:TacoBellGlobalDivisionMember

Edgar Filing: YUM BRANDS INC - Form 10-K

2018-01-01 2018-12-31 0001041061 country:US 2018-01-01 2018-12-31 0001041061 country:US  
yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:ProductMember country:US  
2018-01-01 2018-12-31 0001041061 yum:OtherOutsidetheU.S.andChinaMember  
yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember country:US  
yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember  
yum:OtherOutsidetheU.S.andChinaMember yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31 0001041061  
us-gaap:FranchiseMember country:CN yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31 0001041061  
us-gaap:AdvertisingMember country:US yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31 0001041061  
us-gaap:ProductMember yum:OtherOutsidetheU.S.andChinaMember yum:KFCGlobalDivisionMember 2018-01-01  
2018-12-31 0001041061 yum:OtherOutsidetheU.S.andChinaMember yum:PizzaHutGlobalDivisionMember  
2018-01-01 2018-12-31 0001041061 country:US yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 us-gaap:AdvertisingMember yum:OtherOutsidetheU.S.andChinaMember  
yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember country:CN  
2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember country:CN yum:KFCGlobalDivisionMember  
2018-01-01 2018-12-31 0001041061 us-gaap:AdvertisingMember yum:OtherOutsidetheU.S.andChinaMember  
2018-01-01 2018-12-31 0001041061 us-gaap:ProductMember country:US yum:TacoBellGlobalDivisionMember  
2018-01-01 2018-12-31 0001041061 us-gaap:ProductMember yum:OtherOutsidetheU.S.andChinaMember  
yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:FranchiseMember  
yum:OtherOutsidetheU.S.andChinaMember yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 us-gaap:FranchiseMember country:US yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 us-gaap:FranchiseMember country:US yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 us-gaap:AdvertisingMember country:US yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31  
0001041061 us-gaap:AdvertisingMember yum:OtherOutsidetheU.S.andChinaMember  
yum:TacoBellGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:ProductMember  
yum:OtherOutsidetheU.S.andChinaMember 2018-01-01 2018-12-31 0001041061 us-gaap:ProductMember  
country:US yum:PizzaHutGlobalDivisionMember 2018-01-01 2018-12-31 0001041061 us-gaap:AdvertisingMember  
yum:OtherOutsidetheU.S.andChinaMember yum:KFCGlobalDivisionMember 2018-01-01 2018-12-31 0001041061  
2018-01-01 0001041061 yum:ForeignCurrencyGainLossandRefanchisingGainLossMember 2018-01-01 2018-12-31  
0001041061 us-gaap:AccountingStandardsUpdate201409Member yum:A2018Member 2018-01-01 2018-12-31  
0001041061 us-gaap:ProductMember us-gaap:SegmentDiscontinuedOperationsMember 2016-01-01 2016-12-31  
0001041061 yum:FranchiseandpropertyrevenueMember us-gaap:SegmentDiscontinuedOperationsMember  
2016-01-01 2016-12-31 0001041061 yum:LittleSheepMember us-gaap:SegmentDiscontinuedOperationsMember  
2016-01-01 2016-12-31 0001041061 country:CN us-gaap:SegmentContinuingOperationsMember 2017-01-01  
2017-12-31 0001041061 country:CN us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31  
0001041061 country:CN us-gaap:SegmentContinuingOperationsMember 2016-01-01 2016-12-31 0001041061  
us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-12-31 0001041061  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-12-31  
0001041061 us-gaap:ProductMember  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-12-31  
0001041061 us-gaap:ProductMember us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member  
2018-01-01 2018-12-31 0001041061 us-gaap:AdvertisingMember  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-12-31  
0001041061 us-gaap:AdvertisingMember  
us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-12-31 0001041061  
yum:FranchiseandpropertyrevenueMember  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-12-31  
0001041061 yum:FranchiseandpropertyrevenueMember  
us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-12-31 0001041061  
yum:PizzaHutGlobalDivisionMember 2016-01-01 2016-12-31 0001041061 yum:TacoBellGlobalDivisionMember  
2017-01-01 2017-12-31 0001041061 yum:KFCGlobalDivisionMember 2017-01-01 2017-12-31 0001041061  
yum:TacoBellGlobalDivisionMember 2016-01-01 2016-12-31 0001041061 yum:KFCGlobalDivisionMember

Edgar Filing: YUM BRANDS INC - Form 10-K

2016-01-01 2016-12-31 0001041061 yum:PizzaHutGlobalDivisionMember 2017-01-01 2017-12-31 0001041061  
us-gaap:SegmentDiscontinuedOperationsMember srt:RestatementAdjustmentMember 2016-01-01 2016-12-31  
0001041061 srt:ScenarioPreviouslyReportedMember 2016-01-01 2016-12-31 0001041061  
srt:RestatementAdjustmentMember 2016-01-01 2016-12-31 0001041061  
us-gaap:SegmentDiscontinuedOperationsMember srt:ScenarioPreviouslyReportedMember 2016-01-01 2016-12-31  
0001041061 yum:ExcludingtheimpactofretrospectivelyadoptingnewaccountingguidanceMember 2016-01-01  
2016-12-31 0001041061 us-gaap:SegmentContinuingOperationsMember srt:ScenarioPreviouslyReportedMember  
2016-01-01 2016-12-31 0001041061 us-gaap:SegmentContinuingOperationsMember  
srt:RestatementAdjustmentMember 2016-01-01 2016-12-31 0001041061  
us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-12-31 0001041061  
srt:ScenarioPreviouslyReportedMember 2017-12-31 0001041061 yum:BalanceswithAdoptionofTopic606Member  
2018-01-01 0001041061 yum:RefranchisinggainlossMember 2018-01-01 2018-12-31 0001041061  
us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31 0001041061  
us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 0001041061  
yum:GainlossondispositionofassetsMember 2018-01-01 2018-12-31 0001041061  
yum:GainlossondispositionofassetsMember 2017-01-01 2017-12-31 0001041061  
yum:UnallocatedandGeneralandadministrativeexpensesDomain 2017-01-01 2017-12-31 0001041061  
yum:PizzaHutGlobalDivisionMember yum:Secondhalfof2017to2018Member yum:IncrementalAdvertisingMember  
2017-07-01 2017-12-31 0001041061 yum:PizzaHutGlobalDivisionMember yum:Secondhalfof2017to2018Member  
yum:IncrementalAdvertisingMember 2018-01-01 2018-12-31 0001041061 yum:DeferredVestedProjectMember  
us-gaap:DomesticPlanMember 2016-01-01 2016-12-31 0001041061 yum:KFCGlobalDivisionMember  
yum:IncrementalAdvertisingMember 2015-01-01 2015-12-31 0001041061  
yum:FranchiseandpropertyexpensesMember yum:UnallocatedandGeneralandadministrativeexpensesDomain  
srt:ScenarioPreviouslyReportedMember us-gaap:EquipmentMember 2016-01-01 2016-12-31 0001041061  
us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 2018-12-31 0001041061  
us-gaap:AccountingStandardsUpdate201409Member yum:FranchiseIncentiveMember 2018-01-01 0001041061  
yum:MarktoMarketofYUMChinaFundsMember yum:ExecutiveIncomeDeferralPlanMember 2017-01-01 2017-12-31  
0001041061 yum:GrubHubInc.Member 2018-06-30 0001041061  
us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 0001041061  
yum:FranchiseandpropertyexpensesMember yum:UnallocatedandGeneralandadministrativeexpensesDomain  
yum:A2017to2019Member 2018-01-01 2018-12-31 0001041061 yum:FranchiseandpropertyexpensesMember  
yum:UnallocatedandGeneralandadministrativeexpensesDomain 2017-01-01 2017-12-31 0001041061  
us-gaap:GeneralAndAdministrativeExpenseMember us-gaap:CorporateAndOtherMember 2018-01-01 2018-12-31  
0001041061 yum:PizzaHutGlobalDivisionMember yum:IncrementalAdvertisingMember 2018-01-01 2018-12-31  
0001041061 yum:GrubHubInc.Member yum:TerminationofMasterServicesAgreementMember 2018-12-31  
0001041061 us-gaap:AccountingStandardsUpdate201409Member us-gaap:OtherAssetsMember  
yum:KFCGlobalDivisionMember yum:FranchiseIncentiveMember 2015-01-01 2017-12-31 0001041061  
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember us-gaap:CorporateAndOtherMember  
2018-01-01 2018-12-31 0001041061 yum:MarktoMarketofYUMChinaFundsMember  
yum:ExecutiveIncomeDeferralPlanMember 2018-01-01 2018-12-31 0001041061  
yum:FranchiseandpropertyexpensesMember yum:UnallocatedandGeneralandadministrativeexpensesDomain  
us-gaap:EquipmentMember 2015-01-01 2017-12-31 0001041061  
us-gaap:AccountingStandardsUpdate201409Member us-gaap:OtherAssetsMember yum:KFCGlobalDivisionMember  
yum:FranchiseIncentiveAmortizationMemberMember 2015-01-01 2017-12-31 0001041061  
srt:ScenarioPreviouslyReportedMember yum:FranchiseandpropertyexpensesMember  
yum:UnallocatedandGeneralandadministrativeexpensesDomain yum:FranchiseIncentiveMember 2017-01-01  
2017-12-31 0001041061 yum:CapitalInvestmentsMember 2018-01-01 2018-12-31 0001041061  
us-gaap:AccountingStandardsUpdate201409Member us-gaap:UpFrontPaymentArrangementMember 2018-01-01  
0001041061 us-gaap:PropertyPlantAndEquipmentMember 2017-01-01 2017-12-31 0001041061  
yum:KFCGlobalDivisionMember yum:A2015to2018Member yum:IncrementalAdvertisingMember 2018-01-01  
2018-12-31 0001041061 yum:OtherpensionincomeexpenseMember us-gaap:DomesticPlanMember 2017-01-01

Edgar Filing: YUM BRANDS INC - Form 10-K

2017-12-31 0001041061 yum:GainlossondispositionofassetsMember 2016-01-01 2016-12-31 0001041061  
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember us-gaap:CorporateAndOtherMember  
2017-01-01 2017-12-31 0001041061 yum:FranchiseandpropertyexpensesMember yum:A2015to2019Member  
us-gaap:EquipmentMember 2018-01-01 2018-12-31 0001041061 yum:FranchiseandpropertyexpensesMember  
yum:UnallocatedandGeneralandadministrativeexpensesDomain srt:ScenarioPreviouslyReportedMember  
us-gaap:EquipmentMember 2017-01-01 2017-12-31 0001041061  
us-gaap:GeneralAndAdministrativeExpenseMember us-gaap:CorporateAndOtherMember 2017-01-01 2017-12-31  
0001041061 yum:AdvertisingCooperativesDomain 2018-01-01 0001041061  
us-gaap:GeneralAndAdministrativeExpenseMember us-gaap:CorporateAndOtherMember 2016-01-01 2016-12-31  
0001041061 yum:MarktoMarketofYUMChinaFundsMember yum:ExecutiveIncomeDeferralPlanMember 2016-01-01  
2016-12-31 0001041061 yum:GrubHubInc.Domain yum:InvestmentclosingdateMember 2018-12-31 0001041061  
us-gaap:OtherAssetsMember us-gaap:SegmentContinuingOperationsMember 2016-12-31 0001041061  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:SegmentContinuingOperationsMember  
2017-12-31 0001041061 us-gaap:OtherAssetsMember us-gaap:SegmentContinuingOperationsMember 2018-12-31  
0001041061 us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 us-gaap:OtherAssetsMember  
us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:SegmentContinuingOperationsMember  
2016-12-31 0001041061 yum:GrubHubInc.Domain us-gaap:OtherAssetsMember  
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 yum:FranchiseIncentiveMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 yum:FranchiseIncentiveMember  
us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061 yum:GrubHubInc.Member  
us-gaap:OtherAssetsMember us-gaap:FairValueInputsLevel1Member  
us-gaap:FairValueMeasurementsRecurringMember us-gaap:SegmentContinuingOperationsMember 2017-12-31  
0001041061 us-gaap:LandMember us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061  
us-gaap:BuildingAndBuildingImprovementsMember us-gaap:SegmentContinuingOperationsMember 2017-12-31  
0001041061 us-gaap:BuildingAndBuildingImprovementsMember us-gaap:SegmentContinuingOperationsMember  
2018-12-31 0001041061 us-gaap:MachineryAndEquipmentMember us-gaap:SegmentContinuingOperationsMember  
2018-12-31 0001041061 us-gaap:AssetsHeldUnderCapitalLeasesMember  
us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061 us-gaap:MachineryAndEquipmentMember  
us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061  
us-gaap:AssetsHeldUnderCapitalLeasesMember us-gaap:SegmentContinuingOperationsMember 2018-12-31  
0001041061 us-gaap:LandMember us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061  
yum:PhMember us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061  
yum:OtherDefiniteLivedIntangibleAssetsMember us-gaap:SegmentContinuingOperationsMember 2017-12-31  
0001041061 us-gaap:FranchiseRightsMember us-gaap:SegmentContinuingOperationsMember 2017-12-31  
0001041061 us-gaap:LeasesAcquiredInPlaceMember us-gaap:SegmentContinuingOperationsMember 2017-12-31  
0001041061 yum:ReacquiredFranchiseRightsMember us-gaap:SegmentContinuingOperationsMember 2017-12-31  
0001041061 us-gaap:SoftwareAndSoftwareDevelopmentCostsMember  
us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061 us-gaap:TrademarksMember  
yum:KfcMember us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061  
us-gaap:FranchiseRightsMember us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061  
us-gaap:LeasesAcquiredInPlaceMember us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061  
us-gaap:SoftwareAndSoftwareDevelopmentCostsMember us-gaap:SegmentContinuingOperationsMember  
2018-12-31 0001041061 yum:ReacquiredFranchiseRightsMember us-gaap:SegmentContinuingOperationsMember  
2018-12-31 0001041061 yum:OtherDefiniteLivedIntangibleAssetsMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 us-gaap:TrademarksMember  
yum:KfcMember us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 yum:KfcMember  
us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061 yum:TacoBellMember  
us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061 yum:PhMember

Edgar Filing: YUM BRANDS INC - Form 10-K

us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061 yum:TacoBellMember  
us-gaap:SegmentContinuingOperationsMember 2016-12-31 0001041061 us-gaap:GoodwillMember yum:KfcMember  
2018-12-31 0001041061 yum:PhMember us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31  
0001041061 yum:TacoBellMember us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061  
yum:PhMember us-gaap:SegmentContinuingOperationsMember 2016-12-31 0001041061 us-gaap:GoodwillMember  
yum:TacoBellMember 2018-12-31 0001041061 yum:KfcMember us-gaap:SegmentContinuingOperationsMember  
2017-12-31 0001041061 yum:KfcMember us-gaap:SegmentContinuingOperationsMember 2016-12-31 0001041061  
yum:KfcMember us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061  
yum:TacoBellMember us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061  
yum:PhMember us-gaap:SegmentContinuingOperationsMember 2017-12-31 0001041061 yum:KfcMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 yum:TacoBellMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 us-gaap:GoodwillMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 us-gaap:GoodwillMember yum:PhMember  
2018-12-31 0001041061 yum:SeniorUnsecuredNotesDueNovember2043Member 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueNovember2021Member 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueNovember2037Member 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueSeptember2019Member 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueNovember2023Member 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueNovember2020Member 2018-12-31 0001041061 yum:TermLoanBFacilityMember  
us-gaap:SecuredDebtMember 2017-12-31 0001041061 yum:SecuritizationNotesMember  
us-gaap:SecuredDebtMember 2017-12-31 0001041061 yum:TermLoanAFacilityMember  
us-gaap:SecuredDebtMember 2018-12-31 0001041061 yum:YUMSeniorUnsecuredNotesMemberDomain  
us-gaap:UnsecuredDebtMember 2018-12-31 0001041061 yum:SecuritizationNotesMember  
us-gaap:SecuredDebtMember 2018-12-31 0001041061 yum:TermLoanAFacilityMember  
us-gaap:SecuredDebtMember 2017-12-31 0001041061 yum:SubsidiarySeniorUnsecuredNotesMember  
us-gaap:UnsecuredDebtMember 2018-12-31 0001041061 yum:SubsidiarySeniorUnsecuredNotesMember  
us-gaap:UnsecuredDebtMember 2017-12-31 0001041061 yum:YUMSeniorUnsecuredNotesMemberDomain  
us-gaap:UnsecuredDebtMember 2017-12-31 0001041061 yum:TermLoanBFacilityMember  
us-gaap:SecuredDebtMember 2018-12-31 0001041061 yum:TermLoanAFacilityMember  
us-gaap:SecuredDebtMember 2018-01-01 2018-12-31 0001041061 yum:ClassA2INotesMember  
us-gaap:SecuredDebtMember yum:A2018Member 2018-12-31 0001041061 yum:TermLoanBFacilityMember  
us-gaap:SecuredDebtMember 2018-01-01 2018-12-31 0001041061 yum:TermLoanBFacilityMember  
us-gaap:SecuredDebtMember us-gaap:BaseRateMember 2018-01-01 2018-12-31 0001041061  
yum:TermLoanAFacilityMember us-gaap:SecuredDebtMember 2017-04-01 2017-06-30 0001041061  
srt:MinimumMember yum:TermLoanAFacilityandRevolvingFacilityMember us-gaap:SecuredDebtMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001041061  
yum:TermLoanAandBFacilitiesandRevolvingFacilityDomain us-gaap:SecuredDebtMember 2017-01-01 2017-12-31  
0001041061 yum:ClassA2IIINotesMember us-gaap:SecuredDebtMember yum:A2016Member 2018-12-31  
0001041061 yum:YUMSeniorUnsecuredNotesMemberDomain us-gaap:UnsecuredDebtMember 2018-01-01  
2018-12-31 0001041061 yum:TermLoanBFacilityMember us-gaap:SecuredDebtMember yum:A2018Member  
us-gaap:BaseRateMember 2018-01-01 2018-12-31 0001041061 yum:ClassA2IIINotesMember  
us-gaap:SecuredDebtMember yum:A2016Member 2018-01-01 2018-12-31 0001041061 srt:MaximumMember  
yum:YUMSeniorUnsecuredNotesMemberDomain us-gaap:UnsecuredDebtMember 2018-12-31 0001041061  
yum:ClassA2NotesMember us-gaap:SecuredDebtMember 2018-01-01 2018-12-31 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2027Domain us-gaap:UnsecuredDebtMember 2018-12-31 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2026Member us-gaap:UnsecuredDebtMember 2016-04-01 2016-06-30  
0001041061 us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember yum:SecuritizationNotesMember  
us-gaap:SegmentContinuingOperationsMember 2018-12-31 0001041061 yum:TermLoanBFacilityMember  
us-gaap:SecuredDebtMember 2018-04-03 0001041061 yum:ClassA2IIINotesMember us-gaap:SecuredDebtMember  
yum:A2016Member 2017-04-01 2017-06-30 0001041061 yum:ClassA2IINotesMember us-gaap:SecuredDebtMember  
yum:A2016Member 2017-04-01 2017-06-30 0001041061 yum:TermLoanBFacilityMember

Edgar Filing: YUM BRANDS INC - Form 10-K

us-gaap:SecuredDebtMember 2017-04-01 2017-06-30 0001041061 yum:ClassA2INotesMember  
us-gaap:SecuredDebtMember yum:A2016Member 2017-04-01 2017-06-30 0001041061 srt:MinimumMember  
yum:TermLoanAFacilityandRevolvingFacilityMember us-gaap:SecuredDebtMember us-gaap:BaseRateMember  
2018-01-01 2018-12-31 0001041061 yum:RevolvingFacilityMember us-gaap:LetterOfCreditMember 2018-12-31  
0001041061 yum:ClassA2IINotesMember us-gaap:SecuredDebtMember yum:A2018Member 2018-10-01 2018-12-31  
0001041061 yum:TermLoanBFacilityMember us-gaap:SecuredDebtMember 2017-01-01 2017-12-31 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2024Member us-gaap:UnsecuredDebtMember 2016-04-01 2016-06-30  
0001041061 yum:TermLoanBFacilityMember us-gaap:SecuredDebtMember  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001041061 srt:MinimumMember  
yum:YUMSeniorUnsecuredNotesMemberDomain us-gaap:UnsecuredDebtMember 2018-12-31 0001041061  
srt:MaximumMember yum:TermLoanAFacilityandRevolvingFacilityMember us-gaap:SecuredDebtMember  
us-gaap:BaseRateMember 2018-01-01 2018-12-31 0001041061  
yum:TheCreditAgreementandSubsidiarySeniorUnsecuredNotesMemberMember us-gaap:SecuredDebtMember  
2016-01-01 2016-12-31 0001041061 yum:ClassA2IINotesMember us-gaap:SecuredDebtMember yum:A2018Member  
2018-01-01 2018-12-31 0001041061 srt:MaximumMember yum:TermLoanAFacilityandRevolvingFacilityMember  
us-gaap:SecuredDebtMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31  
0001041061 yum:RevolvingFacilityMember us-gaap:SecuredDebtMember 2018-12-31 0001041061  
us-gaap:RevolvingCreditFacilityMember us-gaap:SecuredDebtMember 2018-12-31 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2024Member us-gaap:UnsecuredDebtMember 2018-12-31 0001041061  
yum:TermLoanBFacilityMember us-gaap:SecuredDebtMember yum:A2018Member  
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001041061  
yum:TermLoanAFacilityMember us-gaap:SecuredDebtMember 2017-06-07 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2027Domain us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31  
0001041061 yum:ClassA2IINotesMember us-gaap:SecuredDebtMember yum:A2016Member 2018-12-31  
0001041061 yum:ClassA2IINotesMember us-gaap:SecuredDebtMember yum:A2018Member 2018-12-31  
0001041061 yum:TheCreditAgreementMember us-gaap:SecuredDebtMember  
yum:FixedChargeCoverageRatioMember 2018-01-01 2018-12-31 0001041061 yum:TermLoanBFacilityMember  
us-gaap:SecuredDebtMember 2017-03-21 0001041061 yum:SecuritizationNotesMember  
us-gaap:SecuredDebtMember 2018-01-01 2018-12-31 0001041061 yum:SecuritizationNotesMember  
us-gaap:SecuredDebtMember yum:DebtServiceCoverageRatioCashTrapReserveAccountMember 2018-01-01  
2018-12-31 0001041061 yum:RevolvingFacilityMember us-gaap:SecuredDebtMember 2018-01-01 2018-12-31  
0001041061 yum:ClassA2INotesMember us-gaap:SecuredDebtMember yum:A2018Member 2018-10-01 2018-12-31  
0001041061 yum:VariableFundingNotesMember us-gaap:LetterOfCreditMember 2017-06-30 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2026Member us-gaap:UnsecuredDebtMember 2018-12-31 0001041061  
yum:TheCreditAgreementMember us-gaap:SecuredDebtMember 2018-01-01 2018-12-31 0001041061  
yum:TermLoanAFacilityandRevolvingFacilityMember us-gaap:SecuredDebtMember 2018-01-01 2018-12-31  
0001041061 yum:ClassA2IINotesMember us-gaap:SecuredDebtMember yum:A2016Member 2018-01-01 2018-12-31  
0001041061 yum:TheCreditAgreementMember us-gaap:SecuredDebtMember yum:TotalLeverageRatioMember  
2018-01-01 2018-12-31 0001041061 yum:VariableFundingNotesMember us-gaap:LineOfCreditMember 2017-06-30  
0001041061 yum:ClassA2INotesMember us-gaap:SecuredDebtMember yum:A2018Member 2018-01-01 2018-12-31  
0001041061 yum:TermLoanBFacilityMember us-gaap:SecuredDebtMember yum:A2018Member 2018-01-01  
2018-12-31 0001041061 yum:SubsidiarySeniorUnsecuredNotesMember us-gaap:UnsecuredDebtMember 2018-01-01  
2018-12-31 0001041061 yum:SecuritizationNotesMember us-gaap:SecuredDebtMember  
yum:DebtServiceCoverageRatioRapidAmortizationEventsMember 2018-01-01 2018-12-31 0001041061  
yum:ClassA2INotesMember yum:A2016Member 2018-01-01 2018-12-31 0001041061 yum:ClassA2INotesMember  
us-gaap:SecuredDebtMember yum:A2016Member 2018-12-31 0001041061 yum:VariableFundingNotesMember  
2017-01-01 2017-12-31 0001041061 yum:SecuritizationNotesMember us-gaap:SecuredDebtMember 2016-01-01  
2016-12-31 0001041061 yum:ClassA2NotesMember us-gaap:SecuredDebtMember 2016-04-01 2016-06-30  
0001041061 yum:SeniorUnsecuredNotesDueNovember2021Member 2018-01-01 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueSeptember2019Member 2018-01-01 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueNovember2023Member 2018-01-01 2018-12-31 0001041061

Edgar Filing: YUM BRANDS INC - Form 10-K

yum:SubsidiarySeniorUnsecuredNotesdue2024Member us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31  
0001041061 yum:ClassA2NotesMember us-gaap:SecuredDebtMember yum:A2018Member 2018-01-01 2018-12-31  
0001041061 yum:SeniorUnsecuredNotesDueNovember2037Member 2018-01-01 2018-12-31 0001041061  
yum:SeniorUnsecuredNotesDueNovember2020Member 2018-01-01 2018-12-31 0001041061  
yum:TheCreditAgreementMember us-gaap:SecuredDebtMember 2018-07-01 2018-09-30 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2027Member us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31  
0001041061 yum:SeniorUnsecuredNotesDueNovember2043Member 2018-01-01 2018-12-31 0001041061  
yum:SubsidiarySeniorUnsecuredNotesMember us-gaap:UnsecuredDebtMember 2018-07-01 2018-09-30 0001041061  
yum:SubsidiarySeniorUnsecuredNotesdue2026Member us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31  
0001041061 us-gaap:AccountingStandardsUpdate201602Member yum:LiabilitiesLeaseRenewalsMember  
yum:A2019Member 2018-01-01 2018-12-31 0001041061 us-gaap:CashFlowHedgingMember 2018-01-01  
2018-12-31 0001041061 us-gaap:ForeignExchangeContractMember us-gaap:CashFlowHedgingMember 2017-12-31  
0001041061 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember 2018-12-31 0001041061  
yum:ForwardstartinginterestrateswapMember us-gaap:CashFlowHedgingMember 2018-12-31 0001041061  
us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember us-gaap:FixedIncomeInterestRateMember  
yum:July2021throughMarch2025Member 2018-12-31 0001041061 us-gaap:ForeignExchangeContractMember  
us-gaap:CashFlowHedgingMember 2018-12-31 0001041061 us-gaap:ForeignExchangeContractMember  
us-gaap:CashFlowHedgingMember 2018-01-01 2018-12-31 0001041061 us-gaap:CashFlowHedgingMember  
2017-01-01 2017-12-31 0001041061 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember  
2018-01-01 2018-12-31 0001041061 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember  
2017-01-01 2017-12-31 0001041061 us-gaap:ForeignExchangeContractMember us-gaap:CashFlowHedgingMember  
2017-01-01 2017-12-31 0001041061 srt:MinimumMember us-gaap:ForeignExchangeContractMember  
us-gaap:CashFlowHedgingMember 2018-01-01 2018-12-31 0001041061  
yum:ForwardstartinginterestrateswapMember us-gaap:CashFlowHedgingMember 2018-01-01 2018-12-31  
0001041061 srt:MaximumMember us-gaap:ForeignExchangeContractMember us-gaap:CashFlowHedgingMember  
2018-01-01 2018-12-31 0001041061 us-gaap:OtherNoncurrentLiabilitiesMember  
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001041061 yum:GrubHubInc.Member  
us-gaap:OtherAssetsMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001041061 us-gaap:OtherAssetsMember  
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001041061  
us-gaap:AccountsPayableAndAccruedLiabilitiesMember us-gaap:InterestRateSwapMember  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001041061  
us-gaap:AccountsPayableAndAccruedLiabilitiesMember us-gaap:InterestRateSwapMember  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001041061  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001041061  
us-gaap:OtherAssetsMember us-gaap:InterestRateSwapMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001041061  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeForwardMember  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001041061  
us-gaap:OtherAssetsMember us-gaap:InterestRateSwapMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001041061  
us-gaap:OtherNoncurrentLiabilitiesMember us-gaap:ForeignExchangeForwardMember  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001041061  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:InterestRateSwapMember  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001041061  
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:InterestRateSwapMember  
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001041061  
us-gaap:OtherAssetsMember us-gaap:FairValueInputsLevel1Member  
us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001041061 yum:GrubHubInc.Member



Edgar Filing: YUM BRANDS INC - Form 10-K

us-gaap:OtherAssetsMember us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001041061 us-gaap:FairValueInputsLevel3Member  
us-gaap:FairValueMeasurementsNonrecurringMember yum:ClosuresandimpairmentincomeexpensesMember  
2017-01-01 2017-12-31 0001041061 us-gaap:FairValueInputsLevel3Member  
us-gaap:FairValueMeasurementsNonrecurringMember yum:ClosuresandimpairmentincomeexpensesMember  
2018-01-01 2018-12-31 0001041061 yum:YUMSeniorUnsecuredNotesMemberDomain  
us-gaap:FairValueInputsLevel2Member us-gaap:UnsecuredDebtMember 2017-12-31 0001041061  
yum:TermLoanBFacilityMember us-gaap:FairValueInputsLevel2Member us-gaap:SecuredDebtMember 2017-12-31  
0001041061 yum:YUMSeniorUnsecuredNotesMemberDomain us-gaap:FairValueInputsLevel2Member  
us-gaap:UnsecuredDebtMember 2018-12-31 0001041061 yum:TermLoanAFacilityMember  
us-gaap:FairValueInputsLevel2Member us-gaap:SecuredDebtMember 2017-12-31 0001041061  
yum:TermLoanBFacilityMember us-gaap:FairValueInputsLevel2Member us-gaap:SecuredDebtMember 2018-12-31  
0001041061 yum:TermLoanAFacilityMember us-gaap:FairValueInputsLevel2Member us-gaap:SecuredDebtMember  
2018-12-31 0001041061 yum:SecuritizationNotesMember us-gaap:FairValueInputsLevel2Member  
us-gaap:SecuredDebtMember 2017-12-31 0001041061 yum:SubsidiarySeniorUnsecuredNotesMember  
us-gaap:FairValueInputsLevel2Member us-gaap:UnsecuredDebtMember 2017-12-31 0001041061  
yum:SecuritizationNotesMember us-gaap:FairValueInputsLevel2Member us-gaap:SecuredDebtMember 2018-12-31  
0001041061 yum:SubsidiarySeniorUnsecuredNotesMember us-gaap:FairValueInputsLevel2Member  
us-gaap:UnsecuredDebtMember 2018-12-31 0001041061 us-gaap:DomesticPlanMember 2018-12-31 0001041061  
us-gaap:DomesticPlanMember 2017-12-31 0001041061 us-gaap:DomesticPlanMember 2018-01-01 2018-12-31  
0001041061 us-gaap:DomesticPlanMember 2017-01-01 2017-12-31 0001041061 us-gaap:DomesticPlanMember  
2016-12-31 0001041061 us-gaap:DomesticCorporateDebtSecuritiesMember us-gaap:FairValueInputsLevel1Member  
us-gaap:DomesticPlanMember 2018-12-31 0001041061 us-gaap:USTreasuryAndGovernmentMember  
us-gaap:FairValueInputsLevel2Member us-gaap:DomesticPlanMember 2018-12-31 0001041061  
yum:FairValueOfPlanAssetsAmountSettledPriorToYearEndMember us-gaap:DomesticPlanMember 2017-12-31  
0001041061 us-gaap:CashMember us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember  
2018-12-31 0001041061 us-gaap:DomesticCorporateDebtSecuritiesMember us-gaap:FairValueInputsLevel2Member  
us-gaap:DomesticPlanMember 2017-12-31 0001041061 yum:EquitySecuritiesNonUsMember  
us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember 2017-12-31 0001041061  
yum:FairValueOfPlanAssetsAmountSettledPriorToYearEndMember us-gaap:DomesticPlanMember 2018-12-31  
0001041061 yum:EquitySecuritiesNonUsMember us-gaap:FairValueInputsLevel1Member  
us-gaap:DomesticPlanMember 2018-12-31 0001041061 us-gaap:DomesticCorporateDebtSecuritiesMember  
us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember 2017-12-31 0001041061  
us-gaap:CashEquivalentMember us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember 2017-12-31  
0001041061 yum:EquitySecuritiesUsLargeCapMember us-gaap:FairValueInputsLevel1Member  
us-gaap:DomesticPlanMember 2018-12-31 0001041061 us-gaap:DomesticCorporateDebtSecuritiesMember  
us-gaap:FairValueInputsLevel2Member us-gaap:DomesticPlanMember 2018-12-31 0001041061  
us-gaap:CashMember us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember 2017-12-31  
0001041061 yum:EquitySecuritiesUsSmallCapMember us-gaap:FairValueInputsLevel1Member  
us-gaap:DomesticPlanMember 2018-12-31 0001041061 us-gaap:CashEquivalentMember  
us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember 2018-12-31 0001041061  
yum:EquitySecuritiesUsLargeCapMember us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember  
2017-12-31 0001041061 yum:EquitySecuritiesUsMidCapMember us-gaap:FairValueInputsLevel1Member  
us-gaap:DomesticPlanMember 2017-12-31 0001041061 yum:EquitySecuritiesUsMidCapMember  
us-gaap:FairValueInputsLevel1Member us-gaap:DomesticPlanMember 2018-12-31 0001041061  
us-gaap:FixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel2Member us-gaap:DomesticPlanMember  
2018-12-31 0001041061 yum:EquitySecuritiesUsSmallCapMember us-gaap:FairValueInputsLevel1Member  
us-gaap:DomesticPlanMember 2017-12-31 0001041061 us-gaap:USTreasuryAndGovernmentMember  
us-gaap:FairValueInputsLevel2Member us-gaap:DomesticPlanMember 2017-12-31 0001041061  
us-gaap:FixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel2Member us-gaap:DomesticPlanMember  
2017-12-31 0001041061 us-gaap:DomesticPlanMember 2016-01-01 2016-12-31 0001041061

Edgar Filing: YUM BRANDS INC - Form 10-K

yum:OtherpensionincomeexpenseMember us-gaap:DomesticPlanMember 2018-01-01 2018-12-31 0001041061  
yum:OtherpensionincomeexpenseMember us-gaap:DomesticPlanMember 2016-01-01 2016-12-31 0001041061  
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2018-12-31 0001041061  
us-gaap:ForeignPlanMember 2018-12-31 0001041061  
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2018-01-01 2018-12-31 0001041061  
us-gaap:EquitySecuritiesMember us-gaap:DomesticPlanMember 2018-12-31 0001041061  
us-gaap:FixedIncomeFundsMember us-gaap:DomesticPlanMember 2018-12-31 0001041061  
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2017-12-31 0001041061  
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2017-01-01 2017-12-31 0001041061  
us-gaap:OtherPostretirementBenefitPlansDefinedBenefitMember 2016-01-01 2016-12-31 0001041061  
us-gaap:ForeignPlanMember 2017-12-31 0001041061 yum:RestrictedStockUnitsAndPerformanceShareUnitsMember  
2016-01-01 2016-12-31 0001041061 yum:RestrictedStockUnitsAndPerformanceShareUnitsMember 2017-01-01  
2017-12-31 0001041061 yum:StockOptionsAndStockAppreciationRightsMember  
us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061  
yum:LongTermIncentivePlansMember 2018-01-01 2018-12-31 0001041061  
yum:StockOptionsAndStockAppreciationRightsMember 2017-01-01 2017-12-31 0001041061  
yum:StockOptionsAndStockAppreciationRightsMember us-gaap:SegmentContinuingOperationsMember 2016-01-01  
2016-12-31 0001041061 yum:StockOptionsAndStockAppreciationRightsMember 2018-12-31 0001041061  
yum:StockOptionsAndStockAppreciationRightsMember 2016-01-01 2016-12-31 0001041061  
yum:ExecutiveIncomeDeferralPlanMember 2018-01-01 2018-12-31 0001041061  
yum:RestrictedStockUnitsAndPerformanceShareUnitsMember 2018-01-01 2018-12-31 0001041061  
yum:LongTermIncentivePlansMember yum:ExecutivesDomain 2018-01-01 2018-12-31 0001041061  
yum:LongTermIncentivePlansMember 2018-12-31 0001041061  
yum:StockOptionsAndStockAppreciationRightsMember 2018-01-01 2018-12-31 0001041061  
yum:RestrictedStockUnitsAndPerformanceShareUnitsMember 2018-12-31 0001041061  
yum:StockOptionsAndStockAppreciationRightsMember us-gaap:SegmentContinuingOperationsMember 2018-01-01  
2018-12-31 0001041061 yum:StockOptionsAndStockAppreciationRightsMember 2017-12-31 0001041061  
us-gaap:RestrictedStockUnitsRSUMember us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31  
0001041061 us-gaap:RestrictedStockUnitsRSUMember us-gaap:SegmentContinuingOperationsMember 2016-01-01  
2016-12-31 0001041061 us-gaap:PerformanceSharesMember us-gaap:SegmentContinuingOperationsMember  
2016-01-01 2016-12-31 0001041061 us-gaap:PerformanceSharesMember  
us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061  
us-gaap:RestrictedStockUnitsRSUMember us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31  
0001041061 us-gaap:PerformanceSharesMember us-gaap:SegmentContinuingOperationsMember 2017-01-01  
2017-12-31 0001041061 us-gaap:RestrictedStockUnitsRSUMember yum:ExecutiveIncomeDeferralPlanMember  
2018-01-01 2018-12-31 0001041061 yum:LongTermIncentivePlansMember yum:RestaurantlevelEmployeesDomain  
2018-01-01 2018-12-31 0001041061 yum:March2016Member 2018-01-01 2018-12-31 0001041061  
yum:May2016Member 2017-01-01 2017-12-31 0001041061 yum:November2017Domain 2016-01-01 2016-12-31  
0001041061 yum:August2018Member 2017-01-01 2017-12-31 0001041061 yum:November2016Member 2016-01-01  
2016-12-31 0001041061 yum:November2016Member 2018-01-01 2018-12-31 0001041061  
yum:December2015Member 2017-01-01 2017-12-31 0001041061 yum:March2016Member 2017-01-01 2017-12-31  
0001041061 yum:August2018Domain 2018-01-01 2018-12-31 0001041061 yum:November2017Domain 2018-01-01  
2018-12-31 0001041061 yum:August2018Member 2016-01-01 2016-12-31 0001041061 yum:December2015Member  
2016-01-01 2016-12-31 0001041061 yum:March2016Member 2016-01-01 2016-12-31 0001041061  
yum:November2017Domain 2017-01-01 2017-12-31 0001041061 yum:November2016Member 2017-01-01  
2017-12-31 0001041061 yum:May2016Member 2018-01-01 2018-12-31 0001041061 yum:December2015Member  
2018-01-01 2018-12-31 0001041061 yum:August2018Member 2018-01-01 2018-12-31 0001041061  
yum:May2016Member 2016-01-01 2016-12-31 0001041061 yum:August2018Member 2018-12-31 0001041061  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-12-31 0001041061  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-01-01 2018-12-31 0001041061  
us-gaap:AccumulatedTranslationAdjustmentMember 2017-01-01 2017-12-31 0001041061

Edgar Filing: YUM BRANDS INC - Form 10-K

us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-01-01 2018-12-31 0001041061 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-12-31 0001041061 us-gaap:AccumulatedTranslationAdjustmentMember 2016-12-31 0001041061  
us-gaap:AccumulatedTranslationAdjustmentMember 2017-12-31 0001041061  
us-gaap:AccumulatedTranslationAdjustmentMember 2018-01-01 2018-12-31 0001041061  
yum:ExcludingNoncontrollingInterestMember 2017-01-01 2017-12-31 0001041061  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-12-31 0001041061  
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-01-01 2017-12-31 0001041061 yum:ExcludingNoncontrollingInterestMember 2017-12-31 0001041061  
yum:ExcludingNoncontrollingInterestMember 2018-01-01 2018-12-31 0001041061  
us-gaap:AccumulatedTranslationAdjustmentMember 2018-12-31 0001041061  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-12-31 0001041061  
yum:ExcludingNoncontrollingInterestMember 2016-12-31 0001041061  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-12-31 0001041061  
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-12-31 0001041061 yum:ExcludingNoncontrollingInterestMember 2018-12-31 0001041061  
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2016-12-31 0001041061 us-gaap:ForeignCountryMember 2018-12-31 0001041061 us-gaap:StateAndLocalJurisdictionMember 2018-12-31 0001041061 us-gaap:InternalRevenueServiceIRSMember 2018-12-31 0001041061  
yum:DeferredTaxAssetsCurrentYearOperationsMember 2018-01-01 2018-12-31 0001041061  
yum:TaxYear2018Domain 2017-01-01 2017-12-31 0001041061 yum:TaxYear2018Domain 2018-01-01 2018-12-31 0001041061 us-gaap:SegmentContinuingOperationsMember us-gaap:TaxYear2018Member 2018-01-01 2018-12-31 0001041061 yum:RemeasurementofDeferredsDomain 2018-01-01 2018-12-31 0001041061  
yum:DeferredTaxAssetsChangesInJudgementMember 2016-01-01 2016-12-31 0001041061  
yum:ForeignTaxCreditDomain 2018-12-31 0001041061 yum:DeferredTaxAssetsCurrentYearOperationsMember 2016-01-01 2016-12-31 0001041061 yum:PriorYearDivestitureMember  
us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember yum:TimingofAnticipatedImpactDomain 2018-12-31 0001041061  
us-gaap:TaxYear2017Member 2017-01-01 2017-12-31 0001041061 yum:RepatriationTaxLiabilityMember 2018-01-01 2018-12-31 0001041061 yum:PizzaHutGlobalDivisionMember 2017-12-31 0001041061  
yum:TacoBellGlobalDivisionMember 2017-12-31 0001041061 yum:PizzaHutGlobalDivisionMember 2018-12-31 0001041061 yum:KFCGlobalDivisionMember 2018-12-31 0001041061 yum:UnallocatedamountstosegmentMember 2017-12-31 0001041061 yum:TacoBellGlobalDivisionMember 2018-12-31 0001041061  
yum:UnallocatedamountstosegmentMember 2018-12-31 0001041061 yum:KFCGlobalDivisionMember 2017-12-31 0001041061 yum:TacoBellGlobalDivisionMember us-gaap:SegmentContinuingOperationsMember 2016-01-01 2016-12-31 0001041061 yum:PizzaHutGlobalDivisionMember us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061 yum:KFCGlobalDivisionMember  
us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061  
us-gaap:CorporateAndOtherMember us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061 yum:PizzaHutGlobalDivisionMember us-gaap:SegmentContinuingOperationsMember 2016-01-01 2016-12-31 0001041061 yum:TacoBellGlobalDivisionMember us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061 yum:KFCGlobalDivisionMember  
us-gaap:SegmentContinuingOperationsMember 2016-01-01 2016-12-31 0001041061  
us-gaap:CorporateAndOtherMember us-gaap:SegmentContinuingOperationsMember 2016-01-01 2016-12-31 0001041061 yum:KFCGlobalDivisionMember us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-12-31 0001041061 yum:PizzaHutGlobalDivisionMember us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061 yum:TacoBellGlobalDivisionMember  
us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061  
us-gaap:CorporateAndOtherMember us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-12-31 0001041061 yum:UnallocatedamountstosegmentMember 2018-01-01 2018-12-31 0001041061  
yum:UnallocatedamountstosegmentMember 2017-01-01 2017-12-31 0001041061

Edgar Filing: YUM BRANDS INC - Form 10-K

yum:UnallocatedamountstosegmentMember 2016-01-01 2016-12-31 0001041061 yum:UsMember 2018-12-31 0001041061 us-gaap:GeneralAndAdministrativeExpenseMember yum:UnallocatedamountstosegmentMember 2018-01-01 2018-12-31 0001041061 us-gaap:GeneralAndAdministrativeExpenseMember  
yum:UnallocatedamountstosegmentMember 2017-01-01 2017-12-31 0001041061  
yum:MarktoMarketofYUMChinaFundsMember yum:ExecutiveIncomeDeferralPlanMember  
yum:UnallocatedamountstosegmentMember 2018-01-01 2018-12-31 0001041061 yum:UsMember 2016-01-01 2016-12-31 0001041061 yum:UsMember 2017-12-31 0001041061 yum:UsMember 2017-01-01 2017-12-31 0001041061 us-gaap:OtherNonoperatingIncomeExpenseMember 2017-01-01 2017-12-31 0001041061  
yum:MarktoMarketofYUMChinaFundsMember yum:ExecutiveIncomeDeferralPlanMember  
yum:UnallocatedamountstosegmentMember 2017-01-01 2017-12-31 0001041061 yum:UsMember 2018-01-01 2018-12-31 0001041061 yum:SelfInsuredPropertyAndCasualtyReservesMember 2018-12-31 0001041061  
yum:SelfInsuredPropertyAndCasualtyReservesMember 2017-01-01 2017-12-31 0001041061  
yum:SelfInsuredPropertyAndCasualtyReservesMember 2018-01-01 2018-12-31 0001041061  
yum:SelfInsuredPropertyAndCasualtyReservesMember 2017-12-31 0001041061  
yum:SelfInsuredPropertyAndCasualtyReservesMember 2016-12-31 0001041061  
us-gaap:GuaranteeOfIndebtednessOfOthersMember 2018-12-31 0001041061  
us-gaap:PropertyLeaseGuaranteeMember 2018-12-31 0001041061 us-gaap:PerformanceGuaranteeMember 2018-12-31 0001041061 us-gaap:GuaranteeOfIndebtednessOfOthersMember  
yum:FranchiseLoanPoolGuaranteesMember 2018-12-31 0001041061 us-gaap:PropertyLeaseGuaranteeMember 2018-01-01 2018-12-31 0001041061 us-gaap:SegmentContinuingOperationsMember 2017-04-01 2017-06-30 0001041061 2017-01-01 2017-03-31 0001041061 us-gaap:SegmentContinuingOperationsMember 2017-01-01 2017-03-31 0001041061 2017-04-01 2017-06-30 0001041061 us-gaap:ProductMember 2017-10-01 2017-12-31 0001041061 us-gaap:SegmentContinuingOperationsMember 2017-07-01 2017-09-30 0001041061  
us-gaap:ProductMember 2017-07-01 2017-09-30 0001041061 us-gaap:SegmentContinuingOperationsMember 2017-10-01 2017-12-31 0001041061 yum:FranchiseandpropertyrevenueMember 2017-01-01 2017-03-31 0001041061 2017-07-01 2017-09-30 0001041061 yum:FranchiseandpropertyrevenueMember 2017-04-01 2017-06-30 0001041061 2017-10-01 2017-12-31 0001041061 us-gaap:ProductMember 2017-04-01 2017-06-30 0001041061  
us-gaap:ProductMember 2017-01-01 2017-03-31 0001041061 yum:FranchiseandpropertyrevenueMember 2017-10-01 2017-12-31 0001041061 yum:FranchiseandpropertyrevenueMember 2017-07-01 2017-09-30 0001041061 2018-01-01 2018-03-31 0001041061 2018-07-01 2018-09-30 0001041061 2018-04-01 2018-06-30 0001041061  
us-gaap:SegmentContinuingOperationsMember 2018-10-01 2018-12-31 0001041061  
us-gaap:SegmentContinuingOperationsMember 2018-07-01 2018-09-30 0001041061  
us-gaap:SegmentContinuingOperationsMember 2018-04-01 2018-06-30 0001041061  
us-gaap:SegmentContinuingOperationsMember 2018-01-01 2018-03-31 0001041061  
yum:FranchiseandpropertyrevenueMember 2018-04-01 2018-06-30 0001041061 us-gaap:ProductMember 2018-07-01 2018-09-30 0001041061 us-gaap:AdvertisingMember 2018-07-01 2018-09-30 0001041061  
us-gaap:AdvertisingMember 2018-04-01 2018-06-30 0001041061 us-gaap:AdvertisingMember 2018-01-01 2018-03-31 0001041061 us-gaap:AdvertisingMember 2018-10-01 2018-12-31 0001041061  
yum:FranchiseandpropertyrevenueMember 2018-01-01 2018-03-31 0001041061  
yum:FranchiseandpropertyrevenueMember 2018-07-01 2018-09-30 0001041061 us-gaap:ProductMember 2018-01-01 2018-03-31 0001041061 yum:FranchiseandpropertyrevenueMember 2018-10-01 2018-12-31 0001041061  
us-gaap:ProductMember 2018-04-01 2018-06-30 0001041061 us-gaap:ProductMember 2018-10-01 2018-12-31  
yum:Months yum:weeks xbrli:shares xbrli:pure yum:operating\_segments yum:Years yum:restaurants  
yum:countries\_and\_territories iso4217:USD iso4217:USD xbrli:shares utreg:Rate yum:days yum:groups

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-K**

**[ ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**

**EXCHANGE ACT OF 1934** for the fiscal year ended December 31, 2018

OR

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-13163**

**YUM! BRANDS, INC.**

(Exact name of registrant as specified in its charter)

<u>North Carolina</u>	<u>13-3951308</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1441 Gardiner Lane, Louisville, Kentucky	40213
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check

Edgar Filing: YUM BRANDS INC - Form 10-K

one): Large accelerated filer:  Accelerated filer:  Non-accelerated filer:  Smaller reporting company:   
Emerging growth company:

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

---

The aggregate market value of the voting stock (which consists solely of shares of Common Stock) held by non-affiliates of the registrant as of June 30, 2018 computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange Composite Tape on such date was approximately \$24.7 billion. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant. The number of shares outstanding of the registrant's Common Stock as of February 13, 2019 was 306,414,175 shares.

**Documents Incorporated by Reference**

Portions of the definitive proxy statement furnished to shareholders of the registrant in connection with the annual meeting of shareholders to be held on May 16, 2019 are incorporated by reference into Part III.

---

## Forward-Looking Statements

In this Form 10-K, as well as in other written reports and oral statements, we present “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with those safe harbor provisions.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and by the use of forward-looking words such as “expect,” “expectation,” “believe,” “anticipate,” “may,” “could,” “intend,” “b,” “plan,” “estimate,” “target,” “predict,” “likely,” “seek,” “project,” “model,” “ongoing,” “will,” “should,” “forecast,” “outlook” terminology. Forward-looking statements are based on our current expectations, estimates, assumptions and/or projections, our perception of historical trends and current conditions, as well as other factors that we believe are appropriate and reasonable under the circumstances. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results to differ materially from those indicated by those statements. There can be no assurance that our expectations, estimates, assumptions and/or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include (i) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of this Form 10-K and (ii) the factors described in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Form 10-K. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. The forward-looking statements included in this Form 10-K are only made as of the date of this Form 10-K and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances.



**PART I****Item 1. Business.**

YUM! Brands, Inc. (referred to herein as “YUM”, the “Registrant” or the “Company”), was incorporated under the laws of the state of North Carolina in 1997. The principal executive offices of YUM are located at 1441 Gardiner Lane, Louisville, Kentucky 40213, and the telephone number at that location is (502) 874-8300. Our website address is <http://www.yum.com>.

YUM, together with its subsidiaries, is referred to in this Form 10-K annual report (“Form 10-K”) as the Company. The terms “we,” “us” and “our” are also used in the Form 10-K to refer to the Company. Throughout this Form 10-K, the terms “restaurants,” “stores” and “units” are used interchangeably. While YUM does not directly own or operate any restaurants, throughout this document we may refer to restaurants that are owned or operated by our subsidiaries as being Company-owned.

**Overview of Business**

YUM has over 48,000 restaurants in more than 140 countries and territories primarily operating under the three concepts of KFC, Pizza Hut and Taco Bell (the “Concepts”). These three concepts are global leaders of the chicken, pizza and Mexican-style food categories, respectively. At December 31, 2018, 98% of our units are operated by independent franchisees or licensees under the terms of franchise or license agreements. The terms “franchise” or “franchisee” within this Form 10-K are meant to describe third parties that operate units under either franchise or license agreements.

Following is a summary of our Concepts' operations and a brief description of each Concept as of and for the year ended December 31, 2018:

	Number of Units	% of Units International	Number of Countries and Territories	% Franchised	System Sales (in Millions)
KFC Division	22,621	82 %	136	99%	\$ 26,239
Pizza Hut Division*	18,431	59 %	111	99%	12,212
Taco Bell Division	7,072	7 %	27	93%	10,786
YUM*	48,124	62 %	145	98%	\$ 49,237

\*Unit information includes 1,282 units operating under the Telepizza brand as of December 31, 2018. See Part II, Item 7 for a description of the Telepizza strategic alliance.

**KFC**

KFC was founded in Corbin, Kentucky by Colonel Harland D. Sanders, an early developer of the quick service food business and a pioneer of the restaurant franchise concept. The Colonel perfected his secret blend of 11 herbs and spices for Kentucky Fried Chicken in 1939 and signed up his first franchisee in 1952. KFC restaurants across the world offer fried and non-fried chicken products such as sandwiches, chicken strips, chicken-on-the-bone and other chicken products marketed under a variety of names.

**Pizza Hut**

The first Pizza Hut restaurant was opened in 1958 in Wichita, Kansas, and within a year, the first franchise unit was opened. Today, Pizza Hut is the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza

products. Pizza Hut operates in the delivery, carryout and casual dining segments around the world.

3

---

### Taco Bell

The first Taco Bell restaurant was opened in 1962 by Glen Bell in Downey, California, and in 1964, the first Taco Bell franchise was sold. Taco Bell specializes in Mexican-style food products, including various types of tacos, burritos, quesadillas, salads, nachos and other related items.

### **Business Strategy**

Four growth drivers form the basis of YUM's strategic plans and repeatable business model to accelerate same-store sales growth and net new restaurant development at KFC, Pizza Hut and Taco Bell around the world over the long term. The Company is focused on becoming best-in-class in:

- Building Relevant, Easy and Distinctive Brands
- Developing Unmatched Franchise Operating Capability
- Driving Bold Restaurant Development
- Growing Unrivaled Culture and Talent

### **Information about Operating Segments**

As of December 31, 2018, YUM consists of three operating segments:

- The KFC Division which includes the worldwide operations of the KFC concept
- The Pizza Hut Division which includes the worldwide operations of the Pizza Hut concept
- The Taco Bell Division which includes the worldwide operations of the Taco Bell concept

### **Franchise Agreements**

The franchise programs of the Company are designed to promote consistency and quality, and the Company is selective in granting franchises. The Company is focused on partnering with franchisees who have the commitment, capability and capitalization to grow our Concepts. Franchisees can range in size from individuals owning just one restaurant to large publicly-traded companies.

The Company utilizes both store-level franchise and master franchise programs to grow its businesses. Of our over 47,000 franchised units at December 31, 2018, approximately 30% operate under our master franchise programs, primarily units in China and those operating under the Telepizza strategic alliance (see Part II, Item 7 for a description of the Telepizza strategic alliance). The remainder of our franchise units operate under store-level franchise agreements. Under both types of franchise programs, franchisees supply capital by purchasing or leasing the land, building, equipment, signs, seating, inventories and supplies and, over the longer term, by reinvesting in the business. In certain historical refranchising transactions the Company may have retained ownership of land and building and continues to lease them to the franchisee. Store-level franchise agreements typically require payment to the Company of certain upfront fees such as initial fees paid upon opening of a store, fees paid to renew the term of the franchise agreement and fees paid in the event the franchise agreement is transferred to another franchisee. Franchisees also pay monthly continuing fees based on a percentage of their restaurants' sales (typically 4% - 6%) and are required to spend a certain amount to advertise and promote the brand. Under master franchise arrangements, the Company enters into agreements that allow master franchisees to operate restaurants as well as sub-franchise restaurants within certain geographic territories. Master franchisees are typically responsible for overseeing development within their territories and performing certain other administrative duties with regard to the oversight of sub-franchisees. In exchange, master franchisees retain a certain percentage of fees payable by the sub-franchisees under their franchise agreements and typically pay lower fees for the restaurants they operate. Our largest master

franchisee, Yum China, pays the Company a continuing fee of 3% on system sales of our Concepts in mainland China.

The Company believes that it is important to maintain strong and open relationships with its franchisees and their representatives. To this end, the Company invests a significant amount of time working with the franchisee community and their representative organizations on key aspects of the business, including products, equipment, operational improvements and standards and management techniques.

### **Restaurant Operations**

Through its Concepts, YUM develops, operates and franchises a worldwide system of both traditional and non-traditional Quick Service Restaurants ("QSR"). Traditional units can feature dine-in, carryout, drive-thru and delivery services. Non-traditional

units include express units and kiosks that have a more limited menu, usually generate lower sales volumes and operate in non-traditional locations like malls, airports, gasoline service stations, train stations, subways, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient.

Most restaurants in each Concept offer consumers the ability to dine in and/or carryout food. In addition, Taco Bell and KFC offer a drive-thru option in many stores. Pizza Hut offers a drive-thru option on a much more limited basis. Pizza Hut typically offers delivery service, while, on a more limited but expanding basis, KFC and Taco Bell allow for consumers to have the Concepts' food delivered either through store-level or third-party delivery services. On February 7, 2018, certain of our subsidiaries entered into a master services agreement with an affiliate of Grubhub, Inc. ("Grubhub"), an online and mobile takeout food-ordering company in the U.S., which is intended to provide dedicated support for the KFC and Taco Bell branded online delivery channels in the U.S. through Grubhub's online ordering platform, logistics and last-mile support for delivery orders, as well as point-of-sale integration to streamline operations.

Restaurant management structure varies by Concept and unit size. Generally, each restaurant is led by a restaurant general manager ("RGM"), together with one or more assistant managers, depending on the operating complexity and sales volume of the restaurant. Each Concept issues detailed manuals, which may then be customized to meet local regulations and customs. These manuals set forth standards and requirements for all aspects of restaurant operations, including food safety and quality, food handling and product preparation procedures, equipment maintenance, facility standards and accounting control procedures. The restaurant management teams are responsible for the day-to-day operation of each unit and for ensuring compliance with operating standards. CHAMPS – which stands for Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality and Speed of Service – is our proprietary systemwide program for training, measuring and rewarding employee performance against key customer measures. CHAMPS is intended to align the operating processes of our entire system around one core set of standards. RGMs' efforts, including CHAMPS performance measures, are monitored by Area Coaches, where sufficient scale allows. Area Coaches typically work with approximately six to twelve restaurants.

## **Supply and Distribution**

The Company and franchisees of the Concepts are substantial purchasers of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include chicken, cheese, beef and pork products, paper and packaging materials. Prices paid for these supplies fluctuate. When prices increase, the Concepts may attempt to pass on such increases to their customers, although there is no assurance that this can be done practically. The Company does not typically experience significant continuous shortages of supplies, and alternative sources for most of these products are generally available.

In the U.S., the Company, along with the representatives of the Company's KFC, Pizza Hut and Taco Bell franchisee groups, are members of Restaurant Supply Chain Solutions, LLC ("RSCS"), which is responsible for purchasing certain restaurant products and equipment. The core mission of RSCS is to provide the lowest possible sustainable store-delivered prices for restaurant products and equipment. This arrangement combines the purchasing power of the Company-owned and franchisee restaurants, which the Company believes leverages the system's scale to drive cost savings and effectiveness in the purchasing function. The Company also believes that RSCS fosters closer alignment of interests and a stronger relationship with its franchisee community.

Most food products, paper and packaging supplies, and equipment used in restaurant operations are distributed to individual restaurant units by third-party distribution companies. In the U.S., McLane Foodservice, Inc. is the exclusive distributor for the majority of items used in Company-owned restaurants and for a substantial number of franchisee stores.

Outside the U.S., we and our Concepts' franchisees primarily use decentralized sourcing and distribution systems involving many different global, regional and local suppliers and distributors. We and our franchisees have approximately 6,300 food and paper suppliers, including U.S.-based suppliers that export to many countries.

**Advertising and Promotional Programs**

Company-owned and franchise restaurants are required to spend a percentage of their respective restaurants' sales on advertising programs with the goal of increasing sales and enhancing the reputation of the Concepts. Advertising may be conducted nationally, regionally and locally. When multiple franchisees operate in the same country or region the national and regional advertising spending is typically conducted by a cooperative to which the franchisees and Company-owned stores, if any, contribute funds as a percentage of restaurants' sales. The contributions are primarily used to pay for expenses relating to purchasing media for advertising, market research, commercial production, talent payments and other support functions for the respective Concepts. We control the advertising activities of certain advertising cooperatives through our majority voting rights.

## **Trademarks and Patents**

The Company and its Concepts own numerous registered trademarks and service marks. The Company believes that many of these marks, including its Kentucky Fried Chicken®, KFC®, Pizza Hut® and Taco Bell® marks, have significant value and are materially important to its business. The Company's policy is to pursue registration of its important marks whenever feasible and to oppose vigorously any infringement of its marks.

The use of certain of these marks by franchisees has been authorized in our franchise agreements. Under current law and with proper use, the Company's rights in its marks can generally last indefinitely. The Company also has certain patents on restaurant equipment which, while valuable, are not material to its business.

## **Working Capital**

Information about the Company's working capital is included in MD&A in Part II, Item 7 and the Consolidated Statements of Cash Flows in Part II, Item 8.

## **Seasonal Operations**

The Company does not consider its operations to be seasonal to any material degree.

## **Competition**

The retail food industry, in which our Concepts compete, is made up of supermarkets, supercenters, warehouse stores, convenience stores, coffee shops, snack bars, delicatessens and restaurants (including those in the QSR segment), and is intensely competitive with respect to price and quality of food products, new product development, digital engagement, advertising levels and promotional initiatives, customer service reputation, restaurant location and attractiveness and maintenance of properties. Competition from delivery aggregators and other food delivery services has also increased in recent years, particularly in urbanized areas. The retail food industry is often affected by changes in consumer tastes; national, regional or local economic conditions; currency fluctuations; demographic trends; traffic patterns; the type, number and location of competing food retailers and products; and disposable purchasing power. Each of our Concepts competes with international, national and regional restaurant chains as well as locally-owned restaurants, not only for customers, but also for management and hourly personnel, suitable real estate sites and qualified franchisees. Given the various types and vast number of competitors, our Concepts do not constitute a significant portion of the retail food industry in terms of number of system units or system sales, either on a worldwide or individual country basis.

## **Environmental Matters**

The Company is not aware of any federal, state or local environmental laws or regulations that will materially affect its earnings or competitive position, or result in material capital expenditures. However, the Company cannot predict the effect on its operations of possible future environmental legislation or regulations. During 2018, there were no material capital expenditures for environmental control facilities and no such material expenditures are anticipated.

## **Government Regulation**

U.S. Operations. The Company and its U.S. operations, as well as our franchisees, are subject to various federal, state and local laws affecting its business, including laws and regulations concerning information security, labor and employment, health, marketing, food labeling, sanitation and safety. Each of our and our Concepts' franchisees' restaurants in the U.S. must comply with licensing requirements and regulations promulgated by a number of

governmental authorities, which include health, sanitation, safety, fire and zoning agencies in the state and/or municipality in which the restaurant is located. In addition, each Concept must comply with various state and federal laws that regulate the franchisor/franchisee relationship. To date, the Company has not been materially adversely affected by such licensing requirements and regulations or by any difficulty, delay or failure to obtain required licenses or approvals.

*International Operations.* Our and our Concepts' franchisees' restaurants outside the U.S. are subject to national and local laws and regulations which are similar to those affecting U.S. restaurants. The restaurants outside the U.S. are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment, as well as anti-bribery and anti-corruption laws.

See Item 1A "Risk Factors" for a discussion of risks relating to federal, state, local and international regulation of our business.



## Employees

As of year end 2018, the Company and its subsidiaries employed approximately 34,000 persons. The Company believes that it provides working conditions and compensation that compare favorably with those of its principal competitors. The majority of employees are paid on an hourly basis. Some employees are subject to labor council relationships that vary due to the diverse countries in which the Company operates. The Company and its Concepts consider employee relations to be good.

## Available Information

The Company makes available, through the Investor Relations section of its internet website at <http://www.yum.com>, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission ("SEC") at <http://www.sec.gov>.

Our Corporate Governance Principles and our Code of Conduct are also located within the Investor Relations section of the Company's website. The reference to the Company's website address does not constitute incorporation by reference of the information contained on the website and should not be considered part of this document. These documents, as well as our SEC filings, are available in print free of charge to any shareholder who requests a copy from our Investor Relations Department.

## Item 1A. Risk Factors.

You should carefully review the risks described below as they identify important factors that could cause our actual results to differ materially from our forward-looking statements and historical trends.

*Food safety and food-borne illness concerns may have an adverse effect on our business.*

Food-borne illnesses, such as E. coli, Listeria, Salmonella and Trichinosis, occur or may occur within our system from time to time. In addition, food safety issues such as food tampering, contamination and adulteration occur or may occur within our system from time to time. Any report or publicity linking us or one of our Concepts' restaurants, including restaurants operated by us or our Concepts' franchisees, or linking our competitors or the retail food industry generally, to instances of food-borne illness or food safety issues could adversely affect our Concepts' brands and reputations as well as our revenues and profits, and possibly lead to product liability claims, litigation and damages. If a customer of one of our Concepts becomes ill from food borne illnesses or as a result of food safety issues, restaurants in our system may be temporarily closed, which could disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. In addition, instances or allegations of food-borne illness or food safety issues, real or perceived, involving our restaurants, restaurants of competitors, or suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), or otherwise involving the types of food served at our restaurants, could result in negative publicity that could adversely affect our sales or the sales of our Concepts' franchisees. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and/or lower margins for us and our Concepts' franchisees.

*Health concerns arising from outbreaks of viruses or other diseases may have an adverse effect on our business.*

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, including various strains of avian flu or swine flu, such as H1N1. The occurrence of such an outbreak of an epidemic, illness or

other adverse public health developments could materially disrupt our business and operations. Such events could also significantly impact our industry and cause a temporary closure of restaurants, which could severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

Our operations could be disrupted if any of our employees or employees of our business partners were suspected of having the avian flu or swine flu, or other illnesses such as hepatitis A or norovirus, since this could require us or our business partners to quarantine some or all of such employees or disinfect our restaurant facilities. Outbreaks of avian flu occur from time to time around the world, and such outbreaks have resulted in confirmed human cases. It is possible that outbreaks could reach pandemic levels. Public concern over avian flu generally may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. Because poultry is a menu offering for our Concepts, this would likely result in lower revenues and profits for us and our Concepts' franchisees. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact profit margins and revenues for us and our Concepts' franchisees.

Furthermore, other viruses may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect restaurant guest traffic or the ability to adequately staff restaurants. We could also be adversely affected if government authorities impose mandatory closures, seek voluntary closures, impose restrictions on operations of restaurants, or restrict the import or export of products, or if suppliers issue mass recalls of products. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may affect our business.

*Our operating results and growth strategies are closely and increasingly tied to the success of our Concepts' franchisees.*

A significant and growing portion of our restaurants are operated by our Concepts' franchisees. At the end of 2018, over 98% of our stores are operated by franchisees. Our refranchising efforts have increased our dependence on the financial success and cooperation of our Concepts' franchisees. In addition, our long-term system sales growth targets depend on an acceleration of our historical net system unit growth rate. Nearly all of this unit growth is expected to result from new unit openings by our Concepts' franchisees. If our Concepts' franchisees do not meet our expectations for new unit development, we may fall short of our system sales targets.

We have limited control over how our Concepts' franchisees' businesses are run, and their inability to operate successfully could adversely affect our operating results through decreased royalty payments. If our Concepts' franchisees fail to adequately capitalize their businesses or incur too much debt, if their operating expenses or commodity prices increase or if economic or sales trends deteriorate such that they are unable to operate profitably or repay existing debt, it could result in their financial distress, including insolvency or bankruptcy. If a significant franchisee of one of our Concepts becomes, or a significant number of our Concepts' franchisees in the aggregate become, financially distressed, our operating results could be impacted through reduced or delayed royalty payments and reduced new unit development. In addition, we are secondarily liable on certain of our Concepts' franchisees' lease agreements, including lease agreements that we have guaranteed or assigned to franchisees in connection with the refranchising of certain Company-owned restaurants. Our operating results could be impacted by any increased rent obligations for such leased properties to the extent our Concepts' franchisees default on such lease agreements.

Our success also depends on the willingness and ability of our Concepts' franchisees to implement major initiatives such as restaurant remodels or equipment or technology upgrades, which may require financial investment. Our Concepts may be unable to successfully implement strategies that we believe are necessary for further growth if their franchisees do not participate, which in turn may harm the growth prospects and financial condition of the Company. Additionally, the failure of our Concepts' franchisees to focus on the fundamentals of restaurant operations, such as quality, service and cleanliness (even if such failures do not rise to the level of breaching the related franchise documents), could have a negative impact on our business.

*We may not achieve our target development goals, aggressive development could cannibalize existing sales and new restaurants may not be profitable.*

Our growth strategy depends on our and our Concepts' franchisees' ability to increase net restaurant count in markets around the world. The successful development of new units depends in large part on the ability of our Concepts' franchisees to open new restaurants and to operate these restaurants profitably. We cannot guarantee that we, or our Concepts' franchisees, including Yum China, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results similar to those of our existing restaurants. Other risks that could impact our ability to increase the number of our restaurants include prevailing economic conditions and trade or economic sanctions and our, or our Concepts' franchisees', ability to obtain suitable restaurant locations, negotiate acceptable lease or purchase terms for the locations, obtain required

permits and approvals in a timely manner, hire and train qualified management teams and restaurant crews, and meet construction schedules.

Expansion into target markets could also be affected by our Concepts' franchisees' willingness to invest capital or ability to obtain financing to construct and open new restaurants. If it becomes more difficult or more expensive for our Concepts' franchisees to obtain financing to develop new restaurants, or if the perceived return on invested capital is not sufficiently attractive, the expected growth of our system could slow and our future revenues and operating cash flows could be adversely impacted.

In addition, the development of new restaurants could impact the sales of our Concepts' existing restaurants nearby. There can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets.

*We may not successfully implement our transformation initiatives or fully realize the anticipated benefits from the transformation.*

We are in the process of implementing our previously announced strategic transformation plans to drive global expansion of our KFC, Pizza Hut and Taco Bell brands. Following our becoming 98% franchised as of the end of 2018, the remaining components of this transformation include, among other things, a plan to significantly reduce annual capital expenditures and our general and administrative costs by the end of 2019. We cannot assure you that we will be able to successfully implement our transformation initiatives. Further, our ability to achieve the anticipated benefits of this transformation, including the anticipated levels of cost savings and efficiency, within expected timeframes is subject to many estimates and assumptions, which are, in turn, subject to significant economic, competitive and other uncertainties, some of which are beyond our control. There is no assurance that we will successfully implement, or fully realize the anticipated positive impact of, our transformation initiatives, or execute successfully on our transformation strategy, in the expected timeframes or at all. In addition, there can be no assurance that our efforts, if properly executed, will result in our desired outcome of improved financial performance.

*We have significant exposure to the Chinese market through our largest franchisee, Yum China, which subjects us to risks that could negatively affect our business.*

In connection with the spin-off of our China business in 2016, we entered into a Master License Agreement with Yum China pursuant to which Yum China is the exclusive licensee of the KFC, Pizza Hut and Taco Bell Concepts and their related marks and other intellectual property rights for restaurant services in China. Following the Separation, Yum China became, and continues to be, our largest franchisee. As a result, our overall financial results are significantly affected by Yum China's results. Yum China's business is exposed to risks in China, which include, among others, changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), consumer preferences, the regulatory environment, and tax laws and regulations including the tax treatment of the royalty paid to YUM, as well as increased media scrutiny of our Concepts and industry, fluctuations in foreign exchange rates, increased restrictions or tariffs on imported supplies as a result of trade disputes and increased competition. Further, any significant or prolonged deterioration in U.S.-China relations could adversely affect our Concepts in China if Chinese consumers reduce the frequency of their visits to Yum China's restaurants. Chinese law regulates Yum China's business conducted within China. Our royalty income from the Yum China business is therefore subject to numerous uncertainties based on the policies of the Chinese government, as they may change from time to time. If Yum China's business is harmed or development of our Concepts' restaurants is slowed in China due to any of these factors, it could negatively impact the royalty paid by Yum China to us, which would negatively impact our financial results or our growth prospects.

Our relationship with Yum China is governed primarily by a Master License Agreement, which may be terminated upon the occurrence of certain events, such as the insolvency or bankruptcy of Yum China. In addition, if we are unable to enforce our intellectual property or contract rights in China, if Yum China is unable or unwilling to satisfy its obligations under the Master License Agreement, or if the Master License Agreement is otherwise terminated, it could result in an interruption in the operation of our brands that have been exclusively licensed to Yum China for use in China. Such interruption could cause a delay in, or loss of, royalty income to us, which would negatively impact our financial results.

*Our international operations subject us to risks that could negatively affect our business.*

A significant portion of our Concepts' restaurants are operated in countries and territories outside of the U.S., including in emerging markets, and we intend to continue expansion of our international operations. As a result, our business and the businesses of our Concepts' franchisees are increasingly exposed to risks inherent in international operations. These risks, which can vary substantially by country, include political instability, corruption,

anti-American sentiment and social and ethnic unrest, as well as changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), the regulatory environment, income and non-income based tax rates and laws, sanctions, foreign exchange control regimes including restrictions on currency conversion, consumer preferences and the laws and policies that govern foreign investment in countries where our Concepts' restaurants are operated. In addition, we and our franchisees do business in jurisdictions that may be subject to trade or economic sanction regimes and such sanctions could be expanded. Any failure to comply with such sanction regimes or other similar laws or regulations could result in the assessment of damages, the imposition of penalties, suspension of business licenses, or a cessation of operations at our or our franchisees' businesses, as well as damage to our and our Concepts' brands' images and reputations, all of which could harm our profitability.

*Foreign currency risks and foreign exchange controls could adversely affect our financial results.*

Our results of operations and the value of our foreign assets are affected by fluctuations in currency exchange rates, which may adversely affect reported earnings. More specifically, an increase in the value of the U.S. dollar relative to other currencies, such as the Chinese Renminbi ("RMB"), Australian Dollar, the British Pound and the Euro, as well as currencies in certain other markets, such as the Malaysian Ringgit and Russian Ruble, could have an adverse effect on our reported earnings. There can be no assurance

as to the future effect of any such changes on our results of operations, financial condition or cash flows. In addition, the governments in certain countries where we operate, including China, restrict the conversion of local currency into foreign currencies and, in certain cases, the remittance of currency out of the country. Yum China's income is almost exclusively derived from the earnings of its Chinese subsidiaries, with substantially all revenues of its Chinese subsidiaries denominated in RMB. Any significant fluctuation in the value of the RMB could materially impact the U.S. dollar value of royalty payments made to us by Yum China, which could result in lower revenues. In addition, restrictions on the conversion of RMB to U.S. dollars or further restrictions on the remittance of currency out of China could result in delays in the remittance of Yum China's license fee, which could impact our liquidity.

*Failure to protect the integrity and security of personal information of our customers and employees could result in substantial costs, expose us to litigation and damage our reputation.*

We receive and maintain certain personal, financial and other information about our customers, employees and franchisees. In addition, our vendors and/or franchisees receive and maintain certain personal, financial and other information about our employees and customers. The use and handling of this information is regulated by evolving and increasingly demanding laws and regulations in various jurisdictions, as well as by certain third-party contracts. If our security and information systems are compromised as a result of data corruption or loss, cyber-attack or a network security incident or if our employees, franchisees or vendors fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could result in liabilities and penalties and could damage our reputation, cause us to incur substantial costs and result in a loss of customer confidence, which could adversely affect our results of operations and financial condition. Additionally, we could be subject to litigation and government enforcement actions as a result of any such failure.

Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries where we, our Concepts and our Concepts' franchisees do business. For example, the European Union adopted a new regulation that became effective in May 2018, The General Data Protection Regulation ("GDPR"), which requires companies to meet new requirements regarding the handling of personal data. In addition, in June 2018 the State of California enacted the California Consumer Privacy Act (the "CCPA"), which will become effective in 2020, requiring companies that process information on California residents to, among other things, make new disclosures to consumers about data collection, use and sharing practices. Our failure to adhere to or successfully implement appropriate processes to adhere to the requirements of GDPR, CCPA and other evolving laws and regulations in this area could result in financial penalties, legal liability and could damage our and our Concepts' brands' reputations.

*Unreliable or inefficient restaurant or consumer interfacing technology or the failure to successfully implement technology initiatives in the future could adversely impact operating results.*

We and our Concepts' franchisees' rely heavily on information technology systems in the conduct of our business, some of which are managed, hosted, provided and/or used by third parties, including, for example, point-of-sale processing in our restaurants, management of our supply chain and various other processes and procedures. These systems are subject to damage, interruption or failure due to theft, fire, power outages, telecommunications failure, computer viruses, security breaches, malicious cyber-attacks or other catastrophic events. Certain technology systems may also be unreliable or inefficient, and technology vendors may limit or terminate product support and maintenance, which could impact the reliability of critical systems operations. If our or our Concepts' franchisees' information technology systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to manage inventories or process transactions, which could result in lost sales, customer or employee dissatisfaction, or negative publicity that could negatively impact our reputation, results of operations and financial condition.

We and our Concepts' franchisees rely on technology not only to efficiently operate our restaurants but also to drive the customer experience, sales growth and margin improvement. Execution of our growth strategy will be dependent on our initiatives to implement technology solutions and gather and leverage data to enhance restaurant operations and improve the customer experience. Our strategic technology initiatives may not be timely implemented or may not achieve the desired results. Even if we effectively implement and manage our technology initiatives, they may not result in sales growth or margin improvement. Additionally, implementing the evolving technology demands of the consumer may place a significant financial burden on us and our Concepts' franchisees.



*There are risks associated with our increasing dependence on digital commerce platforms to maintain and grow sales. Such platforms may experience disruptions, which could harm our ability to compete and conduct our business.*

Customers are increasingly using e-commerce websites and apps, both domestically and internationally, like pizzahut.com, Pizza Hut, KFC and Taco Bell apps, as well as apps owned by third-party delivery aggregators such as Grubhub and third-party mobile payment processors, to order and pay for our Concepts' products. As a result, our Concepts and our Concepts' franchisees are increasingly reliant on digital ordering and payment as a sales channel. These digital ordering and payment platforms could be damaged or interrupted by power loss, technological failures, user errors, cyber-attacks, other forms of sabotage or acts of God. In particular, Pizza Hut relies on digital orders for a significant portion of its sales and could experience interruptions of its digital ordering platforms, which could limit or delay customers' ability to order through such platforms. Any such limitation or delay would negatively impact Pizza Hut's sales and customer experience and perception. In addition, if Pizza Hut's digital ordering platforms do not meet customers' expectations in terms of security, speed, attractiveness, or ease of use, customers may be less inclined to return to such digital ordering platforms, which could negatively impact our sales, results of operations and financial condition.

Yum China, our largest franchisee, utilizes third-party mobile payment apps such as Alipay and WeChat as a means through which to generate sales and process payments. Should customers become unable to access mobile payment apps in China, or should the relationship between Yum China and one or more third-party mobile payment processors become interrupted, our results of operations could be negatively impacted.

*Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could adversely impact our business.*

In recent years, there has been a marked increase in the use of social media platforms, including blogs, chat platforms, social media websites, and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of information online could harm our business, reputation, financial condition, and results of operations, regardless of the information's accuracy. The damage may be immediate without affording us an opportunity for redress or correction.

In addition, social media is frequently used by our Concepts to communicate with their respective customers and the public in general. Failure by our Concepts to use social media effectively or appropriately, particularly as compared to our Concepts' respective competitors, could lead to a decline in brand value, customer visits and revenue. Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our Concepts' brands, exposure of personally identifiable information, fraud, hoaxes or malicious dissemination of false information. The inappropriate use of social media by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and adversely affect our results of operations.

*Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.*

The products sold by our Concepts and their franchisees are sourced from a wide variety of domestic and international suppliers. We, along with our Concepts' franchisees, are also dependent upon third parties to make frequent deliveries of food products and supplies that meet our specifications at competitive prices. Shortages or interruptions in the

supply of food items and other supplies to our Concepts' restaurants could adversely affect the availability, quality and cost of items we use and the operations of our restaurants. In February 2018, we and our franchisees transitioned to a new distributor for the products supplied to our approximately 900 KFCs in the United Kingdom and Ireland. In connection with this transition, certain of the restaurants experienced supply availability issues which resulted in store closures or stores operating under a limited menu for a period of time. Future, similar shortages or disruptions could be caused by inclement weather, natural disasters, inaccurate forecasting of customer demand, problems in production or distribution, restrictions on imports or exports including due to trade disputes, the inability of vendors to obtain credit, political instability in the countries in which the suppliers and distributors are located, the financial instability of suppliers and distributors, suppliers' or distributors' failure to meet our standards or requirements, product quality issues, inflation, other factors relating to the suppliers and distributors and the countries in which they are located, food safety warnings or advisories or the prospect of such pronouncements, product recalls, the cancellation of supply or distribution agreements or an inability to renew such arrangements or to find replacements on commercially reasonable terms, or other conditions beyond our control or the control of our Concepts' franchisees. The pending withdrawal of the United Kingdom from the European Union, particularly if such withdrawal occurs without a transition agreement in effect, may result in the reimposition of customs and border controls, which in turn may result in shortages or interruptions in supply to our Concepts in the United Kingdom with

consequences similar to those described above. In the U.S., the Company, along with representatives of the Company's KFC, Pizza Hut and Taco Bell franchisee groups, are members of Restaurant Supply Chain Solutions, LLC ("RSCS"), which is responsible for purchasing certain restaurant products and equipment. Any failure or inability of RSCS to perform its purchasing obligations could result in shortages or interruptions in the availability of food and other supplies.

A shortage or interruption in the availability of certain food products or supplies could increase costs and limit the availability of products critical to restaurant operations, which in turn could lead to restaurant closures and/or a decrease in sales. In addition, failure by a key supplier or distributor for our Concepts and/or our Concepts' franchisees to meet its service requirements could lead to a disruption of service or supply until a new supplier or distributor is engaged, and any disruption could have an adverse effect on our business.

*Labor shortages or difficulty finding qualified employees could slow our growth, harm our business and reduce our profitability.*

Restaurant operations are highly service-oriented and our success depends in part upon our and our Concepts' franchisees' ability to attract, retain and motivate a sufficient number of qualified employees, including franchisee management, restaurant managers and other crew members. The market for qualified employees in the retail food industry is very competitive. Any future inability to recruit and retain qualified individuals may delay the planned openings of new restaurants by us and our Concepts' franchisees and could adversely impact operation of our Concepts' existing restaurants. Any such delays, material increases in employee turnover rate in franchisee management or existing restaurants or widespread employee dissatisfaction could have a material adverse effect on our and our Concepts' franchisees' business and results of operations.

In addition, strikes, work slowdowns or other job actions may become more common. In the event of a strike, work slowdown or other labor unrest, the ability to adequately staff our Concepts' restaurants could be impaired, which could result in reduced revenue and customer claims, and may distract our management from focusing on our business and strategic priorities.

*Changes in labor and other operating costs could adversely affect our results of operations.*

An increase in the costs of employee wages, benefits and insurance (including workers' compensation, general liability, property and health) as well as other operating costs such as rent and energy costs could adversely affect our operating results. Such increases could result from government imposition of higher minimum wages or from general economic or competitive conditions. Any increase in such operating expenses could adversely affect our and our Concepts' franchisees' profit margins. In addition, competition for qualified employees could also compel us or our Concepts' franchisees to pay higher wages to attract or retain key crew members, which could result in higher labor costs and decreased profitability.

*A broader standard for determining joint employer status may adversely affect our business operations and increase our liabilities.*

The National Labor Relations Board (the "NLRB") in 2014 adopted a new and broader standard for determining when two or more otherwise unrelated employers may be found to be a joint employer of the same employees under the National Labor Relations Act. If this joint employer liability standard is upheld or adopted by other government agencies and/or applied generally to franchise relationships under other laws like the U.S. Fair Labor Standards Act, it could cause us or our Concepts to be liable or held responsible for unfair labor practices and other violations and could subject our Concepts to other liabilities, and/or require our Concepts to conduct collective bargaining negotiations, regarding employees of totally separate, independent employers, most notably our Concepts' franchisees.

In such event, our operating expenses may increase as a result of required modifications to our business practices, increased litigation, governmental investigations or proceedings, administrative enforcement actions, fines and civil liability.

*An increase in food prices may have an adverse impact on our and our Concepts' franchisees' profit margins.*

Our and our Concepts' franchisees' businesses depend on reliable sources of large quantities of raw materials such as proteins (including poultry, pork, beef and seafood), cheese, oil, flour and vegetables (including potatoes and lettuce). Raw materials purchased for use in our Concepts' restaurants are subject to price volatility caused by any fluctuation in aggregate supply and demand, or other external conditions, such as weather conditions or natural events or disasters that affect expected harvests of such raw materials, or taxes and tariffs including as a result of trade disputes. As a result, the historical prices of raw materials used in the operation of our Concepts' restaurants have fluctuated. We cannot assure you that we or our Concepts' franchisees will continue to be able to purchase raw materials at reasonable prices, or that the cost of raw materials will remain stable in the future. In addition, a significant increase in gasoline prices could result in the imposition of fuel surcharges by our distributors.

Because we and our Concepts' franchisees provide competitively priced food, we may not have the ability to pass through to our customers the full amount of any commodity price increases. If we and our Concepts' franchisees are unable to manage the cost

of raw materials or to increase the prices of products proportionately, our and our franchisees' profit margins may be adversely impacted.

*Our Concepts' brands may be harmed or diluted through franchisee and third-party activity.*

Although we monitor and regulate franchisee activities through our Concepts' franchise agreements, franchisees or other third parties may refer to or make statements about our Concepts' brands that do not make proper use of our trademarks or required designations, that improperly alter trademarks or branding, or that are critical of our Concepts' brands or place our Concepts' brands in a context that may tarnish their reputation. This may result in dilution of, or harm to, our intellectual property or the value of our Concepts' brands.

Franchisee noncompliance with the terms and conditions of our franchise agreements may reduce the overall goodwill of our Concepts' brands, whether through the failure to meet health and safety standards, engage in quality control or maintain product consistency, or through the participation in improper or objectionable business practices. Moreover, unauthorized third parties, including our Concepts' current and former franchisees, may use our intellectual property to trade on the goodwill of our Concepts' brands, resulting in consumer confusion or brand dilution. Any reduction of our Concepts' brands' goodwill, consumer confusion, or brand dilution is likely to impact sales, and could materially and adversely impact our business and results of operations.

*Our success depends substantially on our corporate reputation and on the value and perception of our brands.*

Our success depends in large part upon our ability and our Concepts' franchisees' ability to maintain and enhance the value of our brands and our customers' loyalty to our brands. Brand value is based in part on consumer perceptions on a variety of subjective qualities. Business incidents, whether isolated or recurring, and whether originating from us, franchisees, competitors, governments, suppliers or distributors, can significantly reduce brand value and consumer trust, particularly if the incidents receive considerable publicity or result in litigation. For example, our Concepts' brands could be damaged by claims or perceptions about the quality or safety of our products or the quality or reputation of our suppliers, distributors or franchisees, regardless of whether such claims or perceptions are true. Similarly, entities in our supply chain may engage in conduct, including alleged human rights abuses or environmental wrongdoing, and any such conduct could damage our or our Concepts' brands' reputations. Any such incidents (even if resulting from actions of a competitor or franchisee) could cause a decline directly or indirectly in consumer confidence in, or the perception of, our Concepts' brands and/or our products and reduce consumer demand for our products, which would likely result in lower revenues and profits. Additionally, our corporate reputation could suffer from a real or perceived failure of corporate governance or misconduct by a Company officer, or an employee or representative of us or a franchisee.

*We could be party to litigation that could adversely affect us by increasing our expenses, diverting management attention or subjecting us to significant monetary damages and other remedies.*

We are regularly involved in legal proceedings, which include consumer, employment, real estate related, tort, intellectual property, breach of contract, securities, derivative and other litigation. See the discussion of legal proceedings in Note 19 to the Consolidated Financial Statements included in Item 8 of this Form 10-K. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any such claims have merit, or whether we are ultimately held liable or settle, such litigation may be expensive to defend and may divert resources and management attention away from our operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also adversely affect our Concepts' reputations, which in turn could adversely affect our results of operations.

In addition, the restaurant industry around the world has been subject to claims that relate to the nutritional content of food products, as well as claims that the menus and practices of restaurant chains have led to customer health issues, including weight gain and other adverse effects. These concerns could lead to an increase in the regulation of the content or marketing of our products. We may also be subject to such claims in the future and, even if we are not, publicity about these matters (particularly directed at the quick service and fast-casual segments of the retail food industry) may harm our Concepts' reputations and adversely affect our business, financial condition and results of operations.

*Changes in, or noncompliance with, governmental regulations may adversely affect our business operations, growth prospects or financial condition.*

Our Concepts and their franchisees are subject to numerous laws and regulations around the world. These laws change regularly and are increasingly complex. For example, we are subject to:

• The Americans with Disabilities Act in the U.S. and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.

• The U.S. Fair Labor Standards Act, which governs matters such as minimum wages, overtime and other working conditions, as well as family leave mandates and a variety of similar state laws that govern these and other employment law matters.

• Laws and regulations in government-mandated health care benefits such as the Patient Protection and Affordable Care Act in the U.S.

• Laws and regulations relating to nutritional content, nutritional labeling, product safety, product marketing and menu labeling.

• Laws relating to state and local licensing.

• Laws relating to the relationship between franchisors and franchisees.

• Laws and regulations relating to health, sanitation, food, workplace safety, child labor, including laws regulating the use of certain “hazardous equipment”, and fire safety and prevention.

• Laws and regulations relating to union organizing rights and activities.

• Laws relating to information security, privacy (including the European Union's GDPR), cashless payments, and consumer protection.

• Laws relating to currency conversion or exchange.

• Laws relating to international trade and sanctions.

• Tax laws and regulations.

• Anti-bribery and anti-corruption laws.

• Environmental laws and regulations.

• Federal and state immigration laws and regulations in the U.S.

Compliance with new or existing laws and regulations could impact our or our Concepts' franchisees' operations. The compliance costs associated with these laws and regulations could be substantial. Any failure or alleged failure to comply with these laws or regulations could adversely affect our reputation, international expansion efforts, growth prospects and financial results or result in, among other things, litigation, revocation of required licenses, internal investigations, governmental investigations or proceedings, administrative enforcement actions, fines and civil and criminal liability. Publicity relating to any such noncompliance could also harm our Concepts' reputations and adversely affect our revenues.

*Failure to comply with anti-bribery or anti-corruption laws could adversely affect our business operations.*

The U.S. Foreign Corrupt Practices Act, the UK Bribery Act and other similar applicable laws prohibiting bribery of government officials and other corrupt practices are the subject of increasing emphasis and enforcement around the world. There can be no assurance that our employees, contractors, agents or other third parties will not take actions in violation of our policies or applicable law, particularly as we expand our operations in emerging markets and elsewhere. Any such violations or suspected violations could subject us to civil or criminal penalties, including substantial fines and significant investigation costs, and could also materially damage our reputation, brands, international expansion efforts and growth prospects, business and operating results. Publicity relating to any noncompliance or alleged noncompliance could also harm our Concepts' reputations and adversely affect our revenues and results of operations.

*Tax matters, including changes in tax rates or laws, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.*

We are subject to income taxes as well as non-income based taxes, such as payroll, sales, use, value-added, net worth, property, withholding and franchise taxes in both the U.S. and various foreign jurisdictions. We are also subject to ongoing and/or regular reviews, examinations and audits by the U.S. Internal Revenue Service (“IRS”) and other taxing authorities with respect to such income and non-income based taxes inside and outside of the U.S. Our accruals for tax liabilities are based on past experience, interpretations of applicable law, and judgments about potential actions by tax authorities, but such accruals require significant judgment which may be incorrect and may result in payments greater than the amounts accrued. If the IRS or another taxing authority disagrees with our tax positions, we could face additional tax liabilities, including interest and penalties. Payment of additional amounts upon final settlement or adjudication of any disputes could have a material impact on our results of operations and financial position.



In addition, we are directly and indirectly affected by new tax laws and regulation and the interpretation of tax laws and regulations worldwide. Changes in laws, regulation or interpretation of existing laws and regulations in the U.S. and other jurisdictions where we are subject to taxation could increase our taxes and have an adverse effect on our results of operations and financial condition. Changes in tax laws may arise as a result of guidance issued by the Organisation for Economic Co-operation and Development (“OECD”), a coalition of member nations including the United States. The OECD guidance, referred to as the Base Erosion and Profit Shifting (“BEPS”) Action Plan, does not have the force of law, but certain countries may enact tax legislation, modify tax treaties, and/or increase audit scrutiny based on the BEPS guidance. To the extent BEPS principles are adopted by major jurisdictions in which we operate, it could increase our taxes and have a material adverse impact on our results of operations and financial position. In addition, public perception that we are not paying a sufficient amount of taxes could damage our Concepts’ reputations, which could harm our profitability.

*The Yum China spin-off and certain related transactions could result in substantial U.S. tax liability.*

We received opinions of outside counsel substantially to the effect that, for U.S. federal income tax purposes, the Yum China spin-off and certain related transactions qualified as generally tax-free under Sections 355 and 361 of the U.S. Internal Revenue Code. The opinions relied on various facts and assumptions, as well as certain representations as to factual matters and undertakings (including with respect to future conduct) made by Yum China and us. If any of these facts, assumptions, representations or undertakings are incorrect or not satisfied, we may not be able to rely on these opinions of outside counsel. Accordingly, notwithstanding receipt of the opinions of outside counsel, the conclusions reached in the tax opinions may be challenged by the IRS. Because the opinions are not binding on the IRS or the courts, there can be no assurance that the IRS or the courts will not prevail in any such challenge.

If, notwithstanding receipt of any opinion, the IRS were to conclude that the Yum China spin-off was taxable, in general, we would recognize taxable gain as if we had sold the Yum China common stock in a taxable sale for its fair market value. In addition, each U.S. holder of our Common Stock who received shares of Yum China common stock in connection with the spin-off transaction would generally be treated as having received a taxable distribution of property in an amount equal to the fair market value of the shares of Yum China common stock received. That distribution would be taxable to each such U.S. stockholder as a dividend to the extent of our current and accumulated earnings and profits. For each such U.S. stockholder, any amount that exceeded our earnings and profits would be treated first as a non-taxable return of capital to the extent of such stockholder’s tax basis in our shares of Common Stock with any remaining amount being taxed as a capital gain.

*The Yum China spin-off may be subject to China indirect transfer tax.*

In February 2015, the Chinese State Administration of Taxation (“SAT”) issued the Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-resident Enterprises (“Bulletin 7”). Pursuant to Bulletin 7, an “indirect transfer” of Chinese taxable assets, including equity interests in a China resident enterprise (“Chinese interests”), by a non-resident enterprise, may be recharacterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor has avoided payment of Chinese enterprise income tax. Using general anti-tax avoidance provisions, the SAT may treat an indirect transfer as a direct transfer of Chinese interests if the transfer has avoided Chinese tax by way of an arrangement without reasonable commercial purpose. As a result, gains derived from such indirect transfer may be subject to Chinese enterprise income tax, and the transferee or other person who is obligated to pay for the transfer would be obligated to withhold the applicable taxes, currently at a rate of up to 10% of the capital gain in the case of an indirect transfer of equity interests in a China resident enterprise.

We evaluated the potential applicability of Bulletin 7 in connection with the Separation in the form of a tax free restructuring and believe it is more likely than not that Bulletin 7 does not apply. We believe that the restructuring has reasonable commercial purpose.

However, there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the safe harbor provisions for group restructurings are to be interpreted and how the Chinese tax authorities will ultimately view the spin-off. As a result, our position could be challenged by the Chinese tax authorities resulting in a tax at a rate of 10% assessed on the difference between the fair market value and the tax basis of Yum China. As our tax basis in Yum China was minimal, the amount of such a tax could be significant and have a material adverse effect on our results of operations and our financial condition.

*Failure to protect our service marks or other intellectual property could harm our business.*

We regard our Yum®, KFC®, Pizza Hut® and Taco Bell® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and being important to our marketing efforts. We rely on a combination of

protections provided by contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws, to protect our restaurants and services from infringement. We have registered certain trademarks and service marks in the U.S. and foreign jurisdictions. However, from time to time we become aware of names and marks identical or confusingly similar to our service marks being used by other persons. Although our policy is to oppose any such infringement, further or unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and adversely affect our business. In addition, effective intellectual property protection may not be available in every country in which our Concepts have, or may in the future open or franchise, a restaurant. There can be no assurance that these protections will be adequate, and defending or enforcing our service marks and other intellectual property could result in the expenditure of significant resources. We may also face claims of infringement that could interfere with the use of the proprietary know-how, concepts, recipes, or trade secrets used in our business. Defending against such claims may be costly, and we may be prohibited from using such proprietary information in the future or forced to pay damages, royalties, or other fees for using such proprietary information, any of which could negatively affect our business, reputation, financial condition, and results of operations.

*Our business may be adversely impacted by changes in consumer discretionary spending and general economic conditions.*

Purchases at our Concepts' restaurants are discretionary for consumers and, therefore, our results of operations are susceptible to economic slowdowns and recessions. Our and our franchisees' results of operations are dependent upon discretionary spending by consumers, which may be affected by general economic conditions globally or in one or more of the markets we serve. Some of the factors that impact discretionary consumer spending include unemployment rates, fluctuations in the level of disposable income, the price of gasoline, stock market performance and changes in the level of consumer confidence. These and other macroeconomic factors could have an adverse effect on our sales, profitability or development plans, which could harm our financial condition and operating results.

*The retail food industry in which we operate is highly competitive.*

The retail food industry in which our Concepts operate is highly competitive with respect to price and quality of food products, new product development, digital engagement, advertising levels and promotional initiatives, customer service, reputation, restaurant location, and attractiveness and maintenance of properties. If consumer or dietary preferences change, if our marketing efforts are unsuccessful, or if our Concepts' restaurants are unable to compete successfully with other retail food outlets in new and existing markets, our and our franchisees' businesses could be adversely affected. We also face growing competition as a result of convergence in grocery, convenience, deli and restaurant services, including the offering by the grocery industry of convenient meals, including pizzas and entrees with side dishes. Competition from delivery aggregators and other food delivery services has also increased in recent years, particularly in urbanized areas, and is expected to continue to increase. Increased competition could have an adverse effect on sales, profitability or development plans, which could harm our or our franchisees' financial condition and operating results.

*Our substantial indebtedness makes us more sensitive to adverse economic conditions, may limit our ability to plan for or respond to significant changes in our business, and requires a significant amount of cash to service our debt payment obligations that we may be unable to generate or obtain.*

As of December 31, 2018, our total outstanding short-term borrowings and long-term debt was approximately \$10 billion. Subject to the limits contained in the agreements governing our outstanding indebtedness, we may incur additional debt from time to time, which would increase the risks related to our high level of indebtedness.

Specifically, our high level of indebtedness could have important potential consequences, including, but not limited to:

• increasing our vulnerability to, and reducing our flexibility to plan for and respond to, adverse economic and industry conditions and changes in our business and the competitive environment;

• requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, dividends, share repurchases or other corporate purposes;

• increasing our vulnerability to a downgrade of our credit rating, which could adversely affect our cost of funds, liquidity and access to capital markets;

• restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

• placing us at a disadvantage compared to other less leveraged competitors or competitors with comparable debt at more favorable interest rates;

• increasing our exposure to the risk of increased interest rates insofar as current and future borrowings are subject to variable rates of interest;

- increasing our exposure to the risk of discontinuance or modification of certain reference rates including LIBOR, which are used to calculate applicable interest rates of our indebtedness and certain derivative instruments that hedge interest rate risk;
- making it more difficult for us to repay, refinance or satisfy our obligations with respect to our debt;
- limiting our ability to borrow additional funds in the future and increasing the cost of any such borrowing;
  - imposing restrictive covenants on our operations, which, if not complied with, could result in an event of default, which in turn, if not cured or waived, could result in the acceleration of the applicable debt, and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies;
  - and
- increasing our exposure to risks related to fluctuations in foreign currency as we earn profits in a variety of currencies around the world and our debt is primarily denominated in U.S. dollars.

There is no assurance that we will generate cash flow from operations or that future debt or equity financings will be available to us to enable us to pay our indebtedness or to fund other liquidity needs. If our business does not generate sufficient cash flow from operations in the amounts projected or at all, or if future borrowings are not available to us in amounts sufficient to pay our indebtedness or to fund other liquidity needs, our financial condition and results of operations may be adversely affected. As a result, we may need to refinance all or a portion of our indebtedness on or before maturity. There is no assurance that we will be able to refinance any of our indebtedness on favorable terms, or at all. Any inability to generate sufficient cash flow or refinance our indebtedness on favorable terms could have a material adverse effect on our business and financial condition.

#### **Item 1B. Unresolved Staff Comments.**

The Company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2018 fiscal year and that remain unresolved.

#### **Item 2. Properties.**

As of year end 2018, the Company's Concepts owned land, building or both for 339 units worldwide in connection with the operation of our 856 Company-owned restaurants. These units are further detailed as follows:

- The KFC Division owned land, building or both for 72 units.
- The Pizza Hut Division owned land, building or both for 4 units.
- The Taco Bell Division owned land, building or both for 263 units.

The Company currently owns or leases land, building or both related to approximately 1,000 units, not included in the property counts above, that it leases or subleases to franchisees, principally in the U.S., United Kingdom, Australia, Germany and France.

Company-owned restaurants in the U.S. with leases are generally leased for initial terms of 15 or 20 years and generally have renewal options; however, Pizza Hut delivery/carryout units in the U.S. generally are leased for significantly shorter initial terms with shorter renewal options. Company-owned restaurants outside the U.S. with leases have initial lease terms and renewal options that vary by country.

The KFC Division and Pizza Hut Division corporate headquarters and a KFC and Pizza Hut research facility in Plano, Texas are owned by Pizza Hut. Taco Bell leases its corporate headquarters and research facility in Irvine, California. The YUM corporate headquarters and a KFC research facility in Louisville, Kentucky are owned by KFC. Additional information about the Company's properties is included in the Consolidated Financial Statements in Part II, Item 8.

The Company believes that its properties are generally in good operating condition and are suitable for the purposes for which they are being used.

**Item 3. Legal Proceedings.**

The Company is subject to various lawsuits covering a variety of allegations. The Company believes that the ultimate liability, if any, in excess of amounts already provided for these matters in the Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's annual results of operations, financial condition or cash flows. Matters faced by the Company include, but are not limited to, claims from franchisees, suppliers, employees, customers and others related to operational, contractual or employment issues as well as claims that the Company has infringed on third-party intellectual property rights. In addition, the Company brings claims from time-to-time relating to infringement of, or challenges to, our intellectual property, including registered marks. Finally, as a publicly-traded company, disputes arise from time-to-time with our shareholders, including

allegations that the Company breached federal securities laws or that officers and/or directors breached fiduciary duties. Descriptions of significant current specific claims and contingencies, if any, appear in Note 19, Contingencies, to the Consolidated Financial Statements included in Part II, Item 8, which is incorporated by reference into this item.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Executive Officers of the Registrant.**

The executive officers of the Company as of February 20, 2019, and their ages and current positions as of that date are as follows:

**Greg Creed**, 61, is Chief Executive Officer of YUM. He has served in this position since January 2015. He served as Chief Executive Officer of Taco Bell Division from January 2014 to December 2014 and as Chief Executive Officer of Taco Bell U.S. from 2011 to December 2013. Prior to this position, Mr. Creed served as President and Chief Concept Officer of Taco Bell U.S., a position he held beginning in December 2006.

**David Gibbs**, 55, is President, Chief Operating Officer and Chief Financial Officer of YUM. He has served as President and Chief Financial Officer since May 2016 and as Chief Operating Officer since January 2019. Prior to these positions, he served as Chief Executive Officer of Pizza Hut Division from January 2015 to April 2016. From January 2014 to December 2014, Mr. Gibbs served as President of Pizza Hut U.S. Prior to this position, Mr. Gibbs served as President and Chief Financial Officer of Yum! Restaurants International, Inc. ("YRI") from May 2012 through December 2013. Mr. Gibbs served as Chief Financial Officer of YRI from January 2011 to April 2012. He was Chief Financial Officer of Pizza Hut U.S. from September 2005 to December 2010.

**Scott Catlett**, 42, is General Counsel and Corporate Secretary of YUM. He has served in this position since July 2018. Prior to serving as General Counsel he served as Vice President and Deputy General Counsel of YUM from November 2015 to June 2018. From September 2007 to October 2015 Mr. Catlett held various Yum positions including Vice President & Associate General Counsel.

**Tony Lowings**, 60, is Chief Executive Officer of KFC Division, a position he has held since January 2019. Prior to that, he served as President and Chief Operations Officer of KFC Division from August 2018 to December 2018. From November 2016 to July 2018 he served as Managing Director of Asia-Pacific and from February 2013 to October 2016 as Managing Director of KFC SOPAC (Australia and New Zealand). Mr. Lowings served in various positions including Chief Operations Officer of YRI and Managing Director of Latin America and the Caribbean for KFC, Pizza Hut and Taco Bell and General Manager of KFC and Pizza Hut in Australia and New Zealand from January 2010 to January 2013.

**David Russell**, 49, is Senior Vice President, Finance and Corporate Controller of YUM. He has served as YUM's Corporate Controller since February 2011 and as Senior Vice President, Finance since February 2017. Prior to serving as Corporate Controller, Mr. Russell served in various positions at the Vice President-level in the Yum Finance Department, including Controller-Designate from November 2010 to February 2011 and Vice President, Assistant Controller from January 2008 to December 2010.

**Tracy Skeans**, 46, is Chief Transformation and People Officer of YUM. She has served as Chief People Officer since January 2016 and Chief Transformation Officer since November 2016. From January 2015 to December 2015, she was President of Pizza Hut International. Prior to this position, Ms. Skeans served as Chief People Officer of Pizza Hut Division from December 2013 to December 2014 and Chief People Officer of Pizza Hut U.S. from October 2011 to November 2013. From July 2009 to September 2011, she served as Director of Human Resources for Pizza Hut U.S.

and was on the Pizza Hut U.S. Finance team from September 2000 to June 2009.

Executive officers are elected by and serve at the discretion of the Board of Directors.



**PART II****Item 5. Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

The Company's Common Stock trades under the symbol YUM and is listed on the New York Stock Exchange ("NYSE"). The following sets forth the dividends per common share declared by quarter for the Company's Common Stock.

Quarter	2018	2017
First	\$0.36	\$0.30
Second	0.36	0.30
Third	0.36	—
Fourth	0.36	0.30

In 2018, the Company paid four cash dividends of \$0.36 per share. In 2017, the Company paid four cash dividends of \$0.30 per share. This included a dividend distributed February 3, 2017, that had been declared on December 21, 2016. Over the long term, the Company targets an annual dividend payout ratio of 45% to 50% of Net Income, before Special Items.

As of February 13, 2019, there were 43,458 registered holders of record of the Company's Common Stock.

**Issuer Purchases of Equity Securities**

The following table provides information as of December 31, 2018, with respect to shares of Common Stock repurchased by the Company during the quarter then ended.

Fiscal Periods	Total number of shares purchased (thousands)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (thousands)	Approximate dollar value of shares that may yet be purchased under the plans or programs (millions)
10/1/18 - 10/31/18	1,249	\$ 89.12	1,249	\$ 1,691
11/1/18- 11/30/18	1,478	\$ 89.44	1,478	\$ 1,559
12/1/18 - 12/31/18	5,032	\$ 90.01	5,032	\$ 1,106
Total	7,759		7,759	\$ 1,106

On August 10, 2018, our Board of Directors authorized share repurchases through December 2019 of up to \$2 billion (excluding applicable transaction fees) of our outstanding Common Stock. As of December 31, 2018, we have remaining capacity to repurchase up to \$1.1 billion of Common Stock under this authorization.

**Stock Performance Graph**

This graph compares the cumulative total return of our Common Stock to the cumulative total return of the S&P 500 Index and the S&P 500 Consumer Discretionary Sector Index, a peer group that includes YUM, for the period from December 31, 2013 to December 31, 2018. The graph assumes that the value of the investment in our Common Stock and each index was \$100 at December 31, 2013 and that all cash dividends were reinvested.

	12/31/2013	12/31/2014	12/31/2015	12/30/2016	12/29/2017	12/31/2018
YUM	\$ 100	\$ 98	\$ 101	\$ 124	\$ 163	\$ 187
S&P 500	\$ 100	\$ 114	\$ 115	\$ 129	\$ 157	\$ 150
S&P Consumer Discretionary	\$ 100	\$ 110	\$ 121	\$ 128	\$ 157	\$ 159

Source of total return data: Bloomberg

**Item 6. Selected Financial Data.**

**Selected Financial Data**

**YUM! Brands, Inc. and Subsidiaries**

**(in millions, except per share and unit amounts)**

21

---

Edgar Filing: YUM BRANDS INC - Form 10-K

	2018	2017	2016	2015	2014
<b>Income Statement Data</b>					
Revenues					
Company sales	\$2,000	\$3,572	\$4,189	\$4,336	\$4,503
Franchise and property revenues	2,482	2,306	2,167	2,082	2,084
Franchise contributions for advertising and other services	1,206	—	—	—	—
Total	5,688	5,878	6,356	6,418	6,587
Refranchising (gain) loss	(540 )	(1,083 )	(163 )	23	(16 )
Operating Profit	2,296	2,761	1,682	1,434	1,517
Other pension (income) expense	14	47	32	40	N/A
Interest expense, net	452	445	307	141	146
Income from continuing operations before income taxes	1,839	2,274	1,345	1,253	1,374
Income from continuing operations	1,542	1,340	1,018	926	1,006
Income from discontinued operations, net of tax	N/A	N/A	625	357	45
Net Income	1,542	1,340	1,643	1,283	1,051
Basic earnings per share from continuing operations	4.80	3.86	2.58	2.13	2.27
Basic earnings per share from discontinued operations	N/A	N/A	1.59	0.82	0.10
Basic earnings per share	4.80	3.86	4.17	2.95	2.37
Diluted earnings per share from continuing operations	4.69	3.77	2.54	2.09	2.22
Diluted earnings per share from discontinued operations	N/A	N/A	1.56	0.81	0.10
Diluted earnings per share	4.69	3.77	4.10	2.90	2.32
Diluted earnings per share from continuing operations excluding Special Items	3.17	2.96	2.46	2.31	2.20
<b>Cash Flow Data</b>					
Provided by operating activities	\$1,176	\$1,030	\$1,248	\$1,260	\$1,217
Capital spending	234	318	427	442	508
Proceeds from refranchising of restaurants	825	1,773	370	213	83
Repurchase shares of Common Stock	2,390	1,960	5,403	1,200	820
Dividends paid on Common Stock	462	416	744	730	669
<b>Balance Sheet Data</b>					
Total assets	\$4,130	\$5,311	\$5,453	\$4,939	\$5,073
Long-term debt	9,751	9,429	9,059	2,988	3,003
Total debt	10,072	9,804	9,125	3,908	3,268
<b>Other Data</b>					
Number of units at year end					
Franchise	47,268	43,603	40,834	39,320	37,959
Company	856	1,481	2,841	3,163	3,279
System	48,124	45,084	43,675	42,483	41,238
System net new unit growth	7	% 3	% 3	% 3	% 3
System and same-store sales					
<b>KFC Division</b> System sales	\$26,239	\$24,515	\$23,242	\$22,628	\$23,458
System sales growth	7	% 5	% 3	(3 )	% 1
System sales growth, ex FX	6	% 6	% 7	% 5	% 4
Same-store sales growth	2	% 3	% 2	% 1	% 1
<b>Pizza Hut Division</b> System sales	\$12,212	\$12,034	\$12,019	\$11,999	\$12,106
System sales growth (decline)	1	% —	% —	(1 )	% 1
System sales growth, ex FX	1	% 1	% 2	% 3	% 2
Same-store sales growth (decline)	—	% —	(2 )	% —	(2 )
<b>Taco Bell Division</b> System sales	\$10,786	\$10,145	\$9,660	\$9,102	\$8,459

Edgar Filing: YUM BRANDS INC - Form 10-K

System sales growth	6	% 5	% 6	% 8	% 4	%
System sales growth, ex FX	6	% 5	% 6	% 8	% 4	%
Same-store sales growth	4	% 4	% 2	% 5	% 3	%
Shares outstanding at year end	306	332	355	420	434	
Cash dividends declared per common share	\$1.44	\$0.90	\$1.73	\$1.74	\$1.56	
Market price per share at year end	\$91.92	\$81.61	\$63.33	\$73.05	\$73.14	

The table above reflects the impact of the adoption of new revenue recognition accounting standards in fiscal year 2018. Refer to Note 2 in our Consolidated Financial Statements for information regarding our adoption of the new revenue recognition standards.

System unit growth in 2018 includes addition of 1,282 Telepizza units. See Management's Discussion and Analysis ("MD&A") Part II, Item 7 for a description of the Telepizza strategic alliance.

Fiscal years for our U.S. and certain international subsidiaries that operate on a weekly periodic calendar include 52 weeks in 2018, 2017, 2015 and 2014 and 53 weeks in 2016. Refer to Note 2 in our Consolidated Financial Statements for additional details related to our fiscal calendar.

Discontinued operations in 2016, 2015 and 2014 reflects the spin-off of our China business into an independent, publicly traded company (the "Separation"). See Note 1 in our Consolidated Financial Statements.

Historical stock prices prior to November 1, 2016, do not reflect any adjustment for the impact of the Separation.

The non-GAAP measures of System sales, System sales excluding the impacts of foreign currency translation ("FX") and Diluted earnings per share from continuing operations excluding Special Items are discussed in further detail in our MD&A within Part II, Item 7.

See discussion of our 2018, 2017 and 2016 Special Items in our MD&A. Special Items in 2015 negatively impacted Operating Profit by \$91 million and negatively impacted Net Income by \$95 million, due to costs associated with the KFC Acceleration Agreement and Refranchising losses. Special Items in 2014 positively impacted Operating Profit by \$16 million and positively impacted Net Income by \$12 million, primarily due to Refranchising gains.

Selected financial data for years 2016 and 2015 has been recast from that originally presented to present the change in our reporting calendar and retroactively adopting a new accounting standard related to the presentation of net periodic pension cost and net periodic postretirement benefit cost. 2014 reflects our Balance Sheet and store count data that were recast for purposes of presenting 2015 Consolidated Statement of Cash Flows and unit growth. No other data presented in 2014 has been recast. Refer to Note 5 in our Consolidated Financial Statements for additional details related to our change in reporting calendar.

The selected financial data should be read in conjunction with the Consolidated Financial Statements.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Introduction and Overview

The following Management's Discussion and Analysis ("MD&A"), should be read in conjunction with the Consolidated Financial Statements ("Financial Statements") in Item 8 and the Forward-Looking Statements and the Risk Factors set forth in Item 1A. All Note references herein refer to the Notes to the Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Unless otherwise stated, financial results herein reflect continuing operations of the Company. Percentages may not recompute due to rounding.

YUM! Brands, Inc. ("YUM" or the "Company") franchises or operates a worldwide system of over 48,000 restaurants in more than 140 countries and territories, primarily under the concepts of KFC, Pizza Hut and Taco Bell (collectively, the "Concepts"). These three Concepts are global leaders of the chicken, pizza and Mexican-style food categories, respectively. Of the over 48,000 restaurants, 98% are operated by franchisees.

As of December 31, 2018, YUM consists of three operating segments:

- The KFC Division which includes our worldwide operations of the KFC concept
- The Pizza Hut Division which includes our worldwide operations of the Pizza Hut concept
- The Taco Bell Division which includes our worldwide operations of the Taco Bell concept

On October 31, 2016, (the "Distribution Date"), we completed the spin-off of our China business (the "Separation") into an independent, publicly-traded company under the name of Yum China Holdings, Inc. ("Yum China"). On the Distribution Date, we distributed to each of our shareholders of record as of the close of business on October 19, 2016 (the "Record Date") one share of Yum China common stock for each share of YUM common stock ("Common Stock") held as of the Record Date. The distribution was structured to be a tax free distribution to our U.S. shareholders for federal income tax purposes in the United States. Concurrent with the Separation, a subsidiary of the Company entered into a Master License Agreement with a subsidiary of Yum China for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its affiliates for the development and operation of KFC, Pizza Hut and Taco Bell restaurants in mainland China. Prior to the Separation, our operations in mainland China were reported in our former China Division segment results. As a result of the Separation, the results of operations and cash flows of the separated business are presented as discontinued operations in our Consolidated Statements of Income and Consolidated Statements of Cash Flows for periods prior to the Separation. See additional information related to the impact of the Separation in Note 4.

On October 11, 2016, we announced our strategic transformation plans to drive global expansion of our KFC, Pizza Hut and Taco Bell brands ("YUM's Strategic Transformation Initiatives") following the Separation. Major features of the Company's transformation and growth strategy involve being more focused, franchised and efficient. YUM's Strategic Transformation Initiatives below represent the continuation of YUM's transformation of its operating model and capital structure.

More Focused. Four growth drivers form the basis of YUM's strategic plans and repeatable business model to accelerate same-store sales growth and net-new restaurant development at KFC, Pizza Hut and Taco Bell around the world over the long term. The Company is focused on becoming best-in-class in:

- Building Relevant, Easy and Distinctive Brands
- Developing Unmatched Franchise Operating Capability
- Driving Bold Restaurant Development
- Growing Unrivaled Culture and Talent

• **More Franchised.** YUM successfully increased franchise restaurant ownership to 98% as of December 31, 2018.

• **More Efficient.** The Company is revamping its financial profile, improving the efficiency of its organization and cost structure globally, by:

• Reducing annual capital expenditures to approximately \$100 million in 2019;

• Lowering General and administrative expenses ("G&A") to 1.7% of system sales in 2019; and

• Maintaining an optimized capital structure of ~5.0x Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") leverage.

From 2017 through 2019, we intend to return an additional \$6.5 - \$7.0 billion to shareholders through share repurchases and cash dividends. We intend to fund these shareholder returns through a combination of refranchising proceeds, free cash flow generation



and maintenance of our five times EBITDA leverage. We generated pre-tax proceeds of \$2.8 billion through our refranchising initiatives to achieve targeted franchise ownership of 98%, which were completed in December 2018. Refer to the Liquidity and Capital Resources section of this MD&A for additional details.

Beginning in 2017, we changed our fiscal year from a year ending on the last Saturday of December to a year beginning on January 1 and ending on December 31 of each year. Concurrently, we removed the reporting lags from the fiscal calendars of our international subsidiaries. Our MD&A has been recast to reflect the change in our reporting calendar. See Notes 2 and 5 for additional details related to our fiscal calendar.

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

Same-store sales growth is the estimated percentage change in sales of all restaurants that have been open and in the YUM system for one year or more.

Net new units represents new unit openings, offset by store closures.

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

In addition to the results provided in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP"), the Company provides the following non-GAAP measurements.

System sales, System sales excluding the impacts of foreign currency translation ("FX"), and System sales excluding FX and the impact of the 53rd week in 2016. System sales include the results of all restaurants regardless of ownership, including Company-owned and franchise restaurants that operate our Concepts. Sales of franchise restaurants typically generate ongoing franchise and license fees for the Company at a rate of 3% to 6% of sales. Franchise restaurant sales are not included in Company sales on the Consolidated Statements of Income; however, the franchise and license fees are included in the Company's revenues. We believe System sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

Diluted Earnings Per Share from Continuing Operations excluding Special Items (as defined below);

Effective Tax Rate excluding Special Items;

Core Operating Profit and Core Operating Profit excluding the impact of the 53rd week in 2016. Core Operating Profit excludes Special Items and FX and we use Core Operating Profit for the purposes of evaluating performance internally.

These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of these non-GAAP measurements provide additional information to investors to facilitate the comparison of past and present operations.

Special Items are not included in any of our Division segment results as the Company does not believe they are indicative of our ongoing operations due to their size and/or nature. Our chief operating decision maker does not consider the impact of Special Items when assessing segment performance.

Certain non-GAAP measurements are presented excluding the impact of FX. These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the FX impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

For 2016 we provided Core Operating Profit excluding 53rd week and System sales excluding 53rd week to further enhance the comparability with the lapping of the 53rd week that was part of our fiscal calendar in 2016.

## Results of Operations

### Summary

All comparisons within this summary are versus the same period a year ago.

For 2018, GAAP diluted EPS from continuing operations increased 24% to \$4.69 per share, and diluted EPS from continuing operations excluding Special Items, increased 7% to \$3.17 per share.

2018 financial highlights:

	% Change				
	System Sales, Ex	Same-Store	Net New	GAAP Operating	Core Operating
	FX	Sales	Units	Profit	Profit
KFC Division	+6	+2	+5	(2)	(2)
Pizza Hut Division	+1	Even	+10	+2	+2
Taco Bell Division	+6	+4	+3	+2	+2
Worldwide	+5	+2	+7	(17)	Even

Additionally:

During the year, we opened 1,757 net new units and added 1,282 Telepizza units for 7% net new unit growth.

During the year, we refranchised 660 restaurants, including 364 KFC, 97 Pizza Hut and 199 Taco Bell units, for pre-tax proceeds of \$825 million. We recorded net refranchising gains of \$540 million in Special Items.

During the year, we repurchased 28.2 million shares totaling \$2.4 billion at an average share price of \$85.

For 2017, GAAP diluted EPS from continuing operations increased 48% to \$3.77 per share, and diluted EPS from continuing operations excluding Special Items, increased 20% to \$2.96 per share.

2017 financial highlights:

	% Change				
	System Sales, Ex	Same-Store	Net New	GAAP Operating	Core Operating
	FX	Sales	Units	Profit	Profit
KFC Division	+6	+3	+4	+13	+12
Pizza Hut Division	+1	Even	+2	(7)	(6)
Taco Bell Division	+5	+4	+4	+4	+4
Worldwide	+4	+2	+3	+64	+7

Results Excluding 53<sup>rd</sup> Week in 2016

(% Change)

	System Sales, Ex FX	Core Operating Profit
KFC Division	+6	+14
Pizza Hut Division	+2	(5)
Taco Bell Division	+7	+6
Worldwide	+5	+9

Additionally:

During the year, we opened 1,407 net new units for 3% net new unit growth.

During the year, we refranchised 1,470 restaurants, including 828 KFC, 389 Pizza Hut and 253 Taco Bell units, for pre-tax proceeds of \$1.8 billion. We recorded net refranchising gains of \$1.1 billion in Special Items.

During the year, we repurchased 26.6 million shares totaling \$1.9 billion at an average share price of \$72.

**Worldwide****GAAP Results**

	Amount			% B/(W)	
	2018	2017	2016	2018	2017
Company sales	\$2,000	\$3,572	\$4,189	(44 )	(15 )
Franchise and property revenues	2,482	2,306	2,167	8	6
Franchise contributions for advertising and other services	1,206	—	—	N/A	N/A
Total revenues	\$5,688	\$5,878	\$6,356	(3 )	(8 )
Restaurant profit	\$366	\$618	\$700	(41 )	(12 )
Restaurant margin %	18.3	% 17.3	% 16.7	% 1.0	ppts. 0.6 ppts.
G&A expenses	\$895	\$999	\$1,129	10	12
Franchise and property expenses	188	237	201	21	(18 )
Franchise advertising and other services expense	1,208	—	—	N/A	N/A
Refranchising (gain) loss	(540 )	(1,083 )	(163 )	(50 )	NM
Other (income) expense	7	10	18	NM	NM
Operating Profit	\$2,296	\$2,761	\$1,682	(17 )	64
Investment (income) expense, net	(9 )	(5 )	(2 )	88	NM
Other pension (income) expense	14	47	32	70	(45 )
Interest expense, net	452	445	307	(1 )	(45 )
Income tax provision	297	934	327	68	NM
Income from continuing operations	1,542	1,340	1,018	15	32
Income from discontinued operations, net of tax	N/A	N/A	625	NM	NM
Net Income	\$1,542	\$1,340	\$1,643	15	(18 )
Diluted EPS from continuing operations <sup>(a)</sup>	\$4.69	\$3.77	\$2.54	24	48
Diluted EPS from discontinued operations <sup>(a)</sup>	N/A	N/A	\$1.56	NM	NM
Diluted EPS <sup>(a)</sup>	\$4.69	\$3.77	\$4.10	24	(8 )
Effective tax rate - continuing operations	16.2%	41.1%	24.3%	24.9	ppts. (16.8) ppts.

(a) See Note 3 for the number of shares used in these calculations.

**Performance Metrics**

Unit Count	% Increase (Decrease)			
	2018	2017	2016	2018 2017
Franchise <sup>(a)</sup>	47,268	43,603	40,834	8 7
Company-owned	856	1,481	2,841	(42 ) (48 )
	48,124	45,084	43,675	7 3

(a) Includes 1,282 Telepizza units as of December 31, 2018. See description of the Telepizza strategic alliance within this MD&A.

	2018	2017	2016
Same-Store Sales Growth	2	2	1



Non-GAAP Items

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

	2018	2017	2016
System Sales Growth, reported	5	4	3
System Sales Growth, excluding FX	5	4	5
System Sales Growth, excluding FX and 53 <sup>rd</sup> week	N/A	5	4
Core Operating Profit Growth	Even	7	11
Core Operating Profit Growth, excluding 53 <sup>rd</sup> week	N/A	9	9
Diluted EPS from Continuing Operations Growth, excluding Special Items	7	20	7
Effective Tax Rate excluding Special Items	20.4 %	18.8 %	26.3 %

	Year		
	2018	2017	2016
<b>Detail of Special Items</b>			
Refranchising gain (loss) (See Note 5)	\$540	\$1,083	\$163
YUM's Strategic Transformation Initiatives (See Note 5)	(8 )	(23 )	(67 )
Costs associated with Pizza Hut U.S. Transformation Agreement (See Note 5)	(6 )	(31 )	—
Costs associated with KFC U.S. Acceleration Agreement (See Note 5)	(2 )	(17 )	(26 )
Non-cash credits (charges) associated with share-based compensation (See Note 5)	3	(18 )	(30 )
Other Special Items Income (Expense)	3	7	(5 )
Special Items Income - Operating Profit	530	1,001	35
Special Items - Other Pension Income (Expense) (See Note 5)	—	(23 )	(26 )
Special Items Income from Continuing Operations before Income Taxes	530	978	9
Tax Benefit (Expense) on Special Items <sup>(a)</sup>	(96 )	(256 )	24
Tax Benefit (Expense) - U.S. Tax Act <sup>(b)</sup>	66	(434 )	—
Special Items Income, net of tax	\$500	\$288	\$33
Average diluted shares outstanding	329	355	400
Special Items diluted EPS	\$1.52	\$0.81	\$0.08

**Reconciliation of GAAP Operating Profit to Core Operating Profit and Core Operating Profit, excluding 53<sup>rd</sup> Week**

Consolidated

GAAP Operating Profit	\$2,296	\$2,761	\$1,682
Special Items Income - Operating Profit	530	1,001	35
Foreign Currency Impact on Divisional Operating Profit <sup>(c)</sup>	1	—	N/A
Core Operating Profit	1,765	1,760	1,647
Impact of 53 <sup>rd</sup> Week	N/A	N/A	28
Core Operating Profit, excluding 53 <sup>rd</sup> Week	\$1,765	\$1,760	\$1,619

KFC Division

GAAP Operating Profit	\$959	\$981	\$871
Foreign Currency Impact on Divisional Operating Profit <sup>(c)</sup>	—	4	N/A
Core Operating Profit	959	977	871
Impact of 53 <sup>rd</sup> Week	N/A	N/A	11
Core Operating Profit, excluding 53 <sup>rd</sup> Week	\$959	\$977	\$860





Pizza Hut Division

GAAP Operating Profit	\$348	\$341	\$367
Foreign Currency Impact on Divisional Operating Profit <sup>(c)</sup>	1	(4 )	N/A
Core Operating Profit	347	345	367
Impact of 53 <sup>rd</sup> Week	N/A	N/A	5
Core Operating Profit, excluding 53 <sup>rd</sup> Week	\$347	\$345	\$362

Taco Bell Division

GAAP Operating Profit	\$633	\$619	\$595
Foreign Currency Impact on Divisional Operating Profit <sup>(c)</sup>	—	—	N/A
Core Operating Profit	633	619	595
Impact of 53 <sup>rd</sup> Week	N/A	N/A	12
Core Operating Profit, excluding 53 <sup>rd</sup> Week	\$633	\$619	\$583

**Reconciliation of Diluted EPS from Continuing Operations to Diluted EPS from Continuing Operations, excluding Special Items**

Diluted EPS from Continuing Operations	\$4.69	\$3.77	\$2.54
Special Items Diluted EPS	1.52	0.81	0.08
Diluted EPS from Continuing Operations excluding Special Items	\$3.17	\$2.96	\$2.46

**Reconciliation of GAAP Effective Tax Rate to Effective Tax Rate, excluding Special Items**

GAAP Effective Tax Rate	16.2	%	41.1	%	24.3	%
Impact on Tax Rate as a result of Special Items <sup>(a)</sup>	(4.2	)%	22.3	%	(2.0	)%
Effective Tax Rate excluding Special Items <sup>(b)</sup>	20.4	%	18.8	%	26.3	%

**Reconciliation of GAAP Company sales to System sales**Consolidated

GAAP Company sales <sup>(d)</sup>	\$2,000	\$3,572	\$4,189
Franchise sales	47,237	43,122	40,732
System sales	49,237	46,694	44,921
Foreign Currency Impact on System sales <sup>(e)</sup>	186	(90 )	N/A
System sales, excluding FX	49,051	46,784	44,921
Impact of 53 <sup>rd</sup> week	N/A	N/A	434
System sales, excluding FX and 53 <sup>rd</sup> Week	\$49,051	\$46,784	\$44,487

KFC Division

GAAP Company sales <sup>(d)</sup>	\$894	\$1,928	\$2,156
Franchise sales	25,345	22,587	21,086
System sales	26,239	24,515	23,242
Foreign Currency Impact on System sales <sup>(e)</sup>	142	(28 )	N/A
System sales, excluding FX	26,097	24,543	23,242
Impact of 53 <sup>rd</sup> week	N/A	N/A	165
System sales, excluding FX and 53 <sup>rd</sup> Week	\$26,097	\$24,543	\$23,077



Pizza Hut Division

GAAP Company sales <sup>(d)</sup>	\$69	\$285	\$493
Franchise sales	12,143	11,749	11,526
System sales	12,212	12,034	12,019
Foreign Currency Impact on System sales <sup>(e)</sup>	47	(66	) N/A
System sales, excluding FX	12,165	12,100	12,019
Impact of 53 <sup>rd</sup> week	N/A	N/A	113
System sales, excluding FX and 53 <sup>rd</sup> Week	\$12,165	\$12,100	\$11,906

Taco Bell Division

GAAP Company sales <sup>(d)</sup>	\$1,037	\$1,359	\$1,540
Franchise sales	9,749	8,786	8,120
System sales	10,786	10,145	9,660
Foreign Currency Impact on System sales <sup>(e)</sup>	(3	) 4	N/A
System sales, excluding FX	10,789	10,141	9,660
Impact of 53 <sup>rd</sup> week	N/A	N/A	156
System sales, excluding FX and 53 <sup>rd</sup> Week	\$10,789	\$10,141	\$9,504

Tax Benefit (Expense) on Special Items was determined based upon the impact of the nature, as well as the jurisdiction of the respective individual components within Special Items. In 2018, we also recorded a \$19 million (a)increase to our Income tax provision for the correction of an error associated with the tax recorded on a prior year divestiture, the effects of which were previously recorded as a Special Item. In 2016, our tax rate on Special Items was favorably impacted by the recognition of capital loss carryforwards in anticipation of U.S. refranchising gains.

During the year ended December 31, 2018, we recorded a \$35 million decrease related to our provisional tax expense recorded in the fourth quarter of 2017 associated with the Tax Cuts and Jobs Act of 2017 ("Tax Act") that was reported as a Special Item. We also recorded a Special Items tax benefit of \$31 million in the year ended (b)December 31, 2018 related to current year U.S. foreign tax credits that became realizable directly as a result of the impact of deemed repatriation tax expense associated with the Tax Act. We recognized \$434 million in our 2017 Income tax provision that was reported as a Special Item as a result of the December 22, 2017 enactment of the Tax Act.

The foreign currency impact on reported Operating Profit is presented in relation only to the immediately preceding year presented. When determining applicable Core Operating Profit Growth percentages, the Core Operating Profit (c)for the current year should be compared to the prior year Operating Profit, prior to adjustment for the prior year FX impact.

Company sales represents sales from our Company-operated stores as presented on our Consolidated Statements of (d)Income.

The foreign currency impact on System sales is presented in relation only to the immediately preceding year (e)presented. When determining applicable System sales growth percentages, the System sales excluding FX for the current year should be compared to the prior year System sales prior to adjustment for the prior year FX impact.

**Items Impacting Reported Results and/or Expected to Impact Future Results**Strategic Transformation Initiatives Impact

We have refranchised a significant number of Company-owned restaurants since the announcement of YUM's Strategic Transformation Initiatives in October 2016. The impact on Operating Profit due to refranchising includes the loss of Restaurant profit, which reflects the decrease in Company sales, and the increase in Franchise and property revenues from restaurants that have been refranchised. We have made G&A reductions, including reductions directly attributable to refranchising, such that beginning in 2019, on an annual basis, the impact of lost Operating Profit from our refranchising initiatives will be largely offset by G&A reductions we have made. Operating Profit was negatively impacted throughout 2018 as certain G&A reductions lagged the loss of Operating Profit due to refranchising. The impact of refranchising, net of G&A reductions, negatively impacted Core Operating Profit growth for 2018 by 4 percentage points.

### KFC United Kingdom ("UK") Supply Availability Issues

On February 14, 2018, we and our franchisees transitioned to a new distributor for the products supplied to our approximately 900 KFCs in the United Kingdom and Ireland (those restaurants accounted for approximately 3% of YUM's global system sales in the year ended December 31, 2018). In connection with this transition, certain of the restaurants experienced supply availability issues which resulted in store closures or stores operating under a limited menu. Beginning mid-May 2018, all restaurants opened for business, offering their full menus, with advertising beginning at the end of May. On a full-year basis, Core Operating Profit growth was negatively impacted by approximately 2 percentage points for KFC Division and approximately 1 percentage point for YUM as a result of these first-half supply availability issues. The negative impact to full-year same-store sales growth for 2018 was approximately 50 basis points for our KFC Division and approximately 25 basis points for YUM.

### Investment in Grubhub

For the year ended December 31, 2018 we recognized pre-tax income of \$14 million related to our investment in Grubhub. See Note 5 for further discussion of our investment in Grubhub.

### Telepizza Strategic Alliance

On December 30, 2018, the Company consummated a strategic alliance with Telepizza Group S.A. ("Telepizza"), the largest non U.S.-based pizza delivery company in the world, to be the master franchisee of Pizza Hut in Latin America and portions of Europe. The key terms of the alliance are set forth below:

- In Spain and Portugal Telepizza will continue operating the Telepizza brand and will oversee franchisees operating Pizza Hut branded restaurants
- In Latin America (excluding Brazil), the Caribbean and Switzerland, Telepizza will progressively convert its existing restaurants to the Pizza Hut brand and oversee franchisees operating Pizza Hut branded restaurants
- Telepizza will manage supply chain logistics for the entire master franchise territory and will become an authorized supplier of Pizza Hut branded restaurants
- Across the regions covered by the master franchise agreement, Telepizza will target opening at least 1,300 new units over the next ten years and 2,550 units in total over 20 years

As a result of the alliance we added 1,282 Telepizza units to our Pizza Hut Division unit count at December 31, 2018. In total approximately 2,300 Pizza Hut and Telepizza units are subject to the master franchise agreement as of December 31, 2018. Of these 2,300 units, we anticipate between 100 and 150 may close due to overlap in a particular trade area.

Based upon our ongoing and active maintenance of the Pizza Hut intellectual property as well as Telepizza's active involvement in supply chain management and their role as a master franchisee, both parties are exposed to significant risks and rewards depending on the commercial success of the alliance. As a result, the alliance has been identified as a collaborative arrangement and upon consummation of the alliance no amounts were recorded in our Consolidated Financial Statements (other than insignificant success fees that were paid to third-party advisors). Subsequent to consummation of the deal, for all Pizza Hut restaurants that are part of the alliance, we will receive a continuing fee of 3.5% of restaurant sales. Likewise, for most Telepizza restaurants that are part of the alliance we will receive an alliance fee of 3.5% of restaurant sales. These fees will be recorded as Franchise and property revenues within our Consolidated Statement of Income when the related sales occur, consistent with our recognition of continuing fees for all other restaurants subject to our franchise agreements. These fees will be reduced by a sales-based credit that decreases over time and, potentially, certain incentive payments if development or conversion targets are met.

Previously, the existing Pizza Hut restaurants that are now subject to the master franchise agreement with Telepizza generally paid a continuing fee of 6% of restaurant sales consistent with our standard International franchise agreement terms.

Adoption of Topic 606, "Revenue from Contracts with Customers"

The Financial Accounting Standards Board ("FASB") has issued standards to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries ("Topic 606"). As a result, the Company has changed its accounting policy for revenue recognition as detailed in Note 2. We adopted Topic 606 on January 1, 2018, using the modified retrospective method. Therefore, the comparative information for fiscal 2017 and 2016 has not been adjusted and continues to be reported under our accounting policies related to revenue recognition prior to the adoption of Topic 606 ("Legacy GAAP"). GAAP Operating Profit for the year ended December 31, 2018 was \$14 million lower and Core Operating Profit was \$41 million lower (2 percentage points) than what would have been recognized under Legacy GAAP.

Increase (Decrease) vs. Legacy GAAP	2018				Total
	KFC Division	Pizza Hut Division	Taco Bell Division	Unallocated <sup>(a)</sup>	
Amortization of upfront fees	\$40	\$ 16	\$ 10	\$ —	\$66
Amortization of franchise incentive payments	(14 )	(5 )	(1 )	—	(20 )
Upfront fee cash received	(64 )	(15 )	(13 )	—	(92 )
Incentive payments made	1	2	1	18	22
Franchise and property revenues	(37 )	(2 )	(3 )	18	(24 )
Franchise and property expenses	1	—	—	5	6
Refranchising gain	—	—	—	4	4
Operating Profit	\$(36)	\$ (2 )	\$ (3 )	\$ 27	\$(14)

Reflects incentive payments made to or on behalf of franchisees during 2018 that under Legacy GAAP would have been recognized as expense in full in 2018. Due to the size and nature of such payments, we historically would have included such amounts as Special Items and thus in the table above have not allocated their impact to our Divisional results. Such amounts are now being capitalized with related amortization recognized as a reduction of Franchise and property revenues over the period of expected cash flows from the franchise agreements to which the payments relate. Also reflects the recognition as Refranchising gain of deferred franchise fees upon the modification of existing franchise agreements when entering into master franchise agreements.

Topic 606 also impacted transactions that were not historically included in our revenues and expenses such as franchisee contributions to, and subsequent expenditures from, advertising cooperatives that we are required to consolidate, as well as receipts and expenditures for other services we provide to our franchisees. Based on Legacy GAAP, these transactions were reported on a net basis in our Consolidated Statements of Income. This change did not have a significant impact on Operating Profit, as the contributions that are now recorded in Franchise contributions for advertising and other services are largely offset by the expenditures recorded in Franchise advertising and other services expense. Refer to Notes 2 and 5 for further details of the significant changes and quantitative impact of Topic 606.

#### Income Tax Matters

The Tax Cuts and Jobs Act of 2017 ("Tax Act") was enacted on December 22, 2017 (See Note 17 for discussion of the charge recorded as a result of the enactment). The Tax Act significantly modified the U.S. corporate income tax system by, among other things, reducing the federal income tax rate from 35% to 21% beginning in 2018, limiting certain deductions, including limiting the deductibility of interest expense to 30% of U.S. Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), imposing a mandatory one-time deemed repatriation tax on accumulated foreign earnings and creating a territorial tax system that changes the manner in which foreign earnings are now subject to U.S. tax.

After considering the impacts of the Tax Act, we anticipate a 2019 and ongoing effective tax rate of 20% to 22%, compared to our pre-2018 annual guidance of 26% to 27%, as we expect to benefit from the lower U.S. tax rate and the territorial tax system due to a majority of our earnings being generated outside the U.S. We anticipate this benefit will be partially offset by taxes incurred under the Global Intangible Low-Taxed Income ("GILTI") provisions of the Tax Act. We originally anticipated that our 2018 effective tax would be slightly below the ongoing anticipated range of 20% to 22%, primarily due to a delay in the applicability of the GILTI provisions of the Tax Act. Our actual 2018 Effective Tax Rate, excluding Special Items of 20.4% was higher than we originally expected. This was due to the negative impact of a reserve of approximately \$20 million we recorded related to a dispute concerning the income tax rate to be applied to our 2018 income in a foreign market.

Extra Week in 2016 (As Restated for Change in Reporting Calendar)

Fiscal 2016 included a 53<sup>rd</sup> week for all of our U.S. businesses and certain of our non-U.S. businesses that report 13 four-week periods versus 12 months. See Notes 2 and 5 for additional details related to our fiscal calendar. The following table summarizes the estimated impact of the 53<sup>rd</sup> week on Revenues and Operating Profit for the year ended December 31, 2016:



Edgar Filing: YUM BRANDS INC - Form 10-K

	KFC Division	Pizza Hut Division	Taco Bell Division	Total
Revenues				
Company sales	\$ 26	\$ 5	\$ 24	\$55
Franchise and property revenues	8	6	7	21
Total revenues	\$ 34	\$ 11	\$ 31	\$76
Operating Profit				
Franchise and property expenses	\$ 8	\$ 6	\$ 7	\$21
Restaurant profit	6	1	7	14
G&A expenses	(3 )	(2 )	(2 )	(7 )
Operating Profit	\$ 11	\$ 5	\$ 12	\$28

***KFC Division***

The KFC Division has 22,621 units, 82% of which are located outside the U.S. Additionally, 99% of the KFC Division units were operated by franchisees as of the end of 2018.

				% B/(W) 2018		% B/(W) 2017		Ex FX and 53 <sup>rd</sup> Week in 2016
	2018	2017	2016	Reported	Ex FX	Reported	Ex FX	
System Sales	\$26,239	\$24,515	\$23,242	7	6	5	6	6
Same-Store Sales Growth (Decline)				2	N/A	3	N/A	N/A
Company sales	\$894	\$1,928	\$2,156	(54 )	(53 )	(11)	(12 )	(11)
Franchise and property revenues	1,294	1,182	1,069	10	9	11	10	11
Franchise contributions for advertising and other services	456	—	—	N/A	N/A	N/A	N/A	N/A
Total revenues	\$2,644	\$3,110	\$3,225	(15 )	(15 )	(4 )	(4 )	(3 )
Restaurant profit	\$119	\$289	\$317	(59 )	(58 )	(9 )	(10 )	(8 )
Restaurant margin %	13.3 %	15.0 %	14.7 %	(1.7) ppts.	(1.5) ppts.	0.3 ppts.	0.3 ppts.	0.4 ppts.
G&A expenses	\$350	\$370	\$396	5	5	7	7	7
Franchise and property expenses	107	117	108	8	9	(8 )	(7 )	(8 )
Franchise advertising and other services expense	452	—	—	N/A	N/A	N/A	N/A	N/A
Operating Profit	\$959	\$981	\$871	(2 )	(2 )	13	12	14
	% Increase (Decrease)							
<u>Unit Count</u>	2018	2017	2016	2018	2017			
Franchise	22,297	20,819	19,236	7	8			
Company-owned	324	668	1,407	(51)	(53 )			
Total	22,621	21,487	20,643	5	4			

	2017	New Builds	Closures	Refranchised	2018
Franchise	20,819	1,576	(462 )	364	22,297
Company-owned	668	28	(8 )	(364 )	324
Total	21,487	1,604	(470 )	—	22,621

	2016	New Builds	Closures	Refranchised	2017
Franchise	19,236	1,169	(414 )	828	20,819
Company-owned	1,407	102	(13 )	(828 )	668
Total	20,643	1,271	(427 )	—	21,487

### Company Sales and Restaurant Profit

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

	2018 vs. 2017				
	2017	Store Portfolio Actions	Other	FX	2018
Income / (Expense)					
Company sales	\$1,928	\$(1,036 )	\$17	\$(15)	\$894
Cost of sales	(664 )	351	(17 )	6	(324 )
Cost of labor	(451 )	244	(5 )	2	(210 )
Occupancy and other	(524 )	283	(4 )	4	(241 )
Company restaurant expenses	\$(1,639)	\$878	\$(26)	\$12	\$(775)
Restaurant profit	\$289	\$(158 )	\$(9 )	\$(3 )	\$119

	2017 vs. 2016					
	2016	Store Portfolio Actions	Other	FX	53 <sup>rd</sup> Week	2017
Income / (Expense)						
Company sales	\$2,156	\$(286 )	\$61	\$23	\$(26 )	\$1,928
Cost of sales	(733 )	93	(22 )	(11 )	9	(664 )
Cost of labor	(507 )	69	(16 )	(3 )	6	(451 )
Occupancy and other	(599 )	82	(7 )	(5 )	5	(524 )
Company restaurant expenses	\$(1,839)	\$244	\$(45)	\$(19)	\$20	\$(1,639)
Restaurant profit	\$317	\$(42 )	\$16	\$4	\$(6 )	\$289

In 2018, the decreases in Company sales and Restaurant profit associated with store portfolio actions were driven by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 2%, including the impact of the supply interruptions in our KFC UK business.

In 2017, the decreases in Company sales and Restaurant profit associated with store portfolio actions were driven by refranchising, partially offset by international net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 4%, partially offset by higher commodity and labor costs.

### Franchise and property revenues

In 2018, the increase in Franchise and property revenues, excluding the impacts of foreign currency translation and the adoption of Topic 606, was driven by refranchising, international net new unit growth, and franchise same-store sales growth of 2%, including the impact of the supply interruptions in our KFC UK business, partially offset by lapping higher than normal renewal and transfer fees that were recognized upfront in the prior year.

In 2017, the increase in Franchise and property revenues, excluding the impacts of foreign currency translation and lapping the 53<sup>rd</sup> week in 2016, was driven by international net new unit growth, franchise same-store sales growth of 3%, refranchising and higher renewal and transfer fees.

#### G&A

In 2018, the decrease in G&A expenses, excluding the impacts of foreign currency translation, was driven by the positive impact of YUM's Transformation initiatives, including reductions in G&A directly attributable to refranchising.

In 2017, the decrease in G&A, excluding the impacts of foreign currency translation and lapping the 53<sup>rd</sup> week in 2016, was driven by the positive impact of YUM's Strategic Transformation Initiatives, including reductions in G&A directly attributable to refranchising, partially offset by higher incentive compensation.

#### Operating Profit

In 2018, the increase in Operating Profit, excluding the impacts of foreign currency translation and the adoption of Topic 606, was driven by net new unit growth, same-store sales growth, lower G&A and lower advertising costs associated with the KFC U.S. Acceleration Agreement recorded in Franchise and property expenses, partially offset by refranchising, the supply interruptions in our KFC UK business and lapping higher than normal renewal and transfer fees that were recognized upfront in the prior year.

In 2017, the increase in Operating Profit, excluding the impacts of foreign currency translation and lapping the 53<sup>rd</sup> week in 2016, was driven by same-store sales growth, international net new unit growth, lower G&A and higher renewal and transfer fees, partially offset by higher restaurant operating costs and refranchising.

#### ***Pizza Hut Division***

The Pizza Hut Division has 18,431 units, 59% of which are located outside the U.S. The Pizza Hut Division operates as one brand that uses multiple distribution channels including delivery, dine-in and express (e.g. airports). Additionally, over 99% of the Pizza Hut Division units were operated by franchisees as of the end of 2018.

Edgar Filing: YUM BRANDS INC - Form 10-K

	2018	2017	2016	% B/(W) 2018		% B/(W) 2017		Ex FX and 53 <sup>rd</sup> Week in 2016
				Reported	Ex FX	Reported	Ex FX	
System Sales	\$12,212	\$12,034	\$12,019	1	1	—	1	2
Same-Store Sales Growth (Decline)				Even	N/A	Even	N/A	N/A
Company sales	\$69	\$285	\$493	(76 )	(76 )	(42 )	(42 )	(41 )
Franchise and property revenues	598	608	615	(2 )	(2 )	(1 )	(1 )	—
Franchise contributions for advertising and other services	321	—	—	N/A	N/A	N/A	N/A	N/A
Total revenues	\$988	\$893	\$1,108	11	10	(19 )	(19 )	(18 )
Restaurant profit	\$—	\$14	\$41	NM	NM	(63 )	(63 )	(62 )
Restaurant margin %	(0.1 )%	5.3 %	8.3 %	(5.4 )ppts.	(5.3 )ppts.	(3.0 )ppts.	(3.0 )ppts.	(2.9 )ppts.
G&A expenses	\$197	\$211	\$242	7	7	13	13	12
Franchise and property expenses	45	68	48	35	36	(42 )	(41 )	(41 )
Franchise advertising and other services expense	328	—	—	N/A	N/A	N/A	N/A	N/A
Operating Profit	\$348	\$341	\$367	2	2	(7 )	(6 )	(5 )

<u>Unit Count</u>	2018	2017	2016	% Increase (Decrease)		2018	2017
				2018	2017		
Franchise	18,369	16,588	15,871	11	5		
Company-owned	62	160	549	(61)	(71 )		
Total	18,431	16,748	16,420	10	2		
	2017	New Builds	Closures	Refranchised	Other <sup>(a)</sup>	2018	
Franchise	16,588	1,106	(705 )	97	1,283	18,369	
Company-owned	160	2	(3 )	(97 )	—	62	
Total	16,748	1,108	(708 )	—	1,283	18,431	
	2016	New Builds	Closures	Refranchised	Other	2017	
Franchise	15,871	1,035	(708 )	389	1	16,588	
Company-owned	549	12	(12 )	(389 )	—	160	
Total	16,420	1,047	(720 )	—	1	16,748	

(a) Includes 1,282 Telepizza restaurants.

Company Sales and Restaurant Profit

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

	2018 vs. 2017				
	Store				
Income / (Expense)	2017	Portfolio	Other	FX	2018
	Actions				
Company sales	\$285	\$ (218 )	\$ 1	\$ 1	\$ 69
Cost of sales	(83 )	64	—	—	(19 )
Cost of labor	(94 )	70	(2 )	—	(26 )
Occupancy and other	(94 )	69	2	(1 )	(24 )
Company restaurant expenses	\$(271)	\$ 203	\$ —	\$(1)	\$(69)
Restaurant profit	\$ 14	\$ (15 )	\$ 1	\$ —	\$ —

	2017 vs. 2016					
	Store					
Income / (Expense)	2016	Portfolio	Other	FX	53 <sup>rd</sup> Week	2017
	Actions					
Company sales	\$493	\$ (193 )	\$(9 )	\$(1)	\$ (5 )	\$ 285
Cost of sales	(137 )	56	(4 )	—	2	(83 )
Cost of labor	(156 )	61	(1 )	1	1	(94 )
Occupancy and other	(159 )	61	3	—	1	(94 )
Company restaurant expenses	\$(452)	\$ 178	\$(2 )	\$ 1	\$ 4	\$(271)
Restaurant profit	\$ 41	\$ (15 )	\$(11)	\$ —	\$ (1 )	\$ 14

In 2018, the decreases in Company sales and Restaurant profit associated with store portfolio actions were driven by refranchising. Company same-store sales growth was 1%.

In 2017, the decreases in Company sales and Restaurant profit associated with store portfolio actions were driven by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales declines of 3% and higher commodity and labor costs, partially offset by lower property and casualty losses.

Franchise and property revenues

In 2018, the increase in Franchise and property revenues, excluding the impacts of foreign currency translation and the adoption of Topic 606, was driven by net new unit growth and refranchising. Franchise same-store sales were even.

In 2017, Franchise and property revenues, excluding the impact of foreign currency translation and lapping the 53<sup>rd</sup> week in 2016, was even with prior year as the favorable impacts of refranchising and net new unit growth were offset by lower fees from expiring development agreements. Franchise same-store sales were even.

G&A

In 2018, the decrease in G&A, excluding the impacts of foreign currency translation, was driven by Yum's Strategic Transformation Initiatives, including reductions in G&A directly attributable to refranchising, and lapping higher litigation costs.

In 2017, the decrease in G&A, excluding the impact of foreign currency translation and lapping the 53<sup>rd</sup> week in 2016, was driven by the positive impact of YUM's Strategic Transformation Initiatives, including reductions in G&A directly attributable to refranchising, partially offset by increased litigation costs.

Operating Profit

In 2018, the increase in Operating Profit, excluding the impact of foreign currency translation and the adoption of Topic 606, was driven by lower G&A, lower advertising costs associated with the Pizza Hut Transformation Agreement recorded in Franchise and property expenses, net new unit growth and refranchising.

In 2017, the decrease in Operating Profit, excluding the impact of foreign currency translation and lapping the 53<sup>rd</sup> week in 2016, was driven by increased advertising costs associated with the Pizza Hut U.S. Transformation Agreement recorded in Franchise and property expenses, partially offset by lower G&A.

***Taco Bell Division***

The Taco Bell Division has 7,072 units, 93% of which are in the U.S. The Company-owned 7% of the Taco Bell units in the U.S. as of the end of 2018.

	2018	2017	2016	% B/(W) 2018		% B/(W) 2017		Ex FX and 53 <sup>rd</sup> Week in 2016
				Reported	Ex FX	Reported	Ex FX	
System Sales	\$10,786	\$10,145	\$9,660	6	6	5	5	7
Same-Store Sales Growth				4	N/A	4	N/A	N/A
Company sales	\$1,037	\$1,359	\$1,540	(24)	(24 )	(12)	(12 )	(10)
Franchise and property revenues	590	521	485	13	13	7	7	9
Franchise contributions for advertising and other services	429	—	—	N/A	N/A	N/A	N/A	N/A
Total revenues	\$2,056	\$1,880	\$2,025	9	9	(7 )	(7 )	(6 )
Restaurant profit	\$244	\$305	\$342	(20)	(20 )	(11)	(11 )	(9 )
Restaurant margin %	23.5	% 22.4	% 22.2	% 1.1	ppts. 1.1	ppts. 0.2	ppts. 0.2	ppts. 0.3
G&A expenses	\$177	\$188	\$211	6	6	11	11	10
Franchise and property expenses	28	22	21	(31)	(31 )	(6 )	(5 )	(6 )
Franchise advertising and other services expense	428	—	—	N/A	N/A	N/A	N/A	N/A
Operating Profit	\$633	\$619	\$595	2	2	4	4	6

<u>Unit Count</u>	2018	2017	2016	% Increase (Decrease)	
				2018	2017
Franchise	6,602	6,196	5,727	7	8
Company-owned	470	653	885	(28)	(26 )
Total	7,072	6,849	6,612	3	4

	2017	New Builds	Closures	Refranchised	Other	2018
Franchise	6,196	293	(86 )	199	—	6,602
Company-owned	653	16	—	(199 )	—	470
Total	6,849	309	(86 )	—	—	7,072





	2016	New Builds	Closures	Refranchised	Other	2017
Franchise	5,727	293	(78 )	253	1	6,196
Company-owned	885	21	—	(253 )	—	653
Total	6,612	314	(78 )	—	1	6,849

### Company Sales and Restaurant Profit

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

	2018 vs. 2017				
	Store				
Income / (Expense)	2017	Portfolio	Other	2018	
	Actions				
Company sales	\$1,359	\$ (363 )	\$41	\$1,037	
Cost of sales	(356 )	96	(1 )	(261 )	
Cost of labor	(394 )	103	(8 )	(299 )	
Occupancy and other	(304 )	74	(3 )	(233 )	
Company restaurant expense	\$(1,054)	\$ 273	\$(12)	\$(793 )	
Restaurant profit	\$305	\$ (90 )	\$29	\$244	

  

	2017 vs. 2016				
	Store				
Income / (Expense)	2016	Portfolio	Other	53 <sup>rd</sup> Week	2017
	Actions				
Company sales	\$1,540	\$ (195 )	\$38	\$ (24 )	\$1,359
Cost of sales	(397 )	50	(15 )	6	(356 )
Cost of labor	(443 )	55	(13 )	7	(394 )
Occupancy and other	(358 )	44	6	4	(304 )
Company restaurant expense	\$(1,198)	\$ 149	\$(22)	\$ 17	\$(1,054)
Restaurant profit	\$342	\$ (46 )	\$16	\$ (7 )	\$305

In 2018, the decreases in Company sales and Restaurant profit associated with store portfolio actions were driven by refranchising, partially offset by net unit growth. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 4%, partially offset by higher labor costs.

In 2017, the decreases in Company sales and Restaurant profit associated with store portfolio actions were driven by refranchising, partially offset by net unit growth. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 3%, partially offset by higher labor costs, commodity cost inflation, and increased cost of sales associated with value offerings.

### Franchise and property revenues

In 2018, the increase in Franchise and property revenues, excluding the adoption of Topic 606, was driven by refranchising, franchise same-store sales growth of 4% and net new unit growth.

In 2017, the increase in Franchise and property revenues, excluding the impact of lapping the 53<sup>rd</sup> week in 2016, was driven by refranchising, franchise same-store sales growth of 4% and net new unit growth.

### G&A

In 2018, the decrease in G&A was driven by the positive impact of YUM's Strategic Transformation initiatives, including reductions in G&A directly attributable to refranchising, and the favorable impact of forfeitures related to share based compensation awards, partially offset by lapping lower litigation costs.

40

---

In 2017, the decrease in G&A, excluding the impact of lapping the 53rd week in 2016, was driven by the positive impact of YUM's Strategic Transformation Initiatives, including reductions in G&A directly attributable to refranchising, and lower litigation costs.

### Operating Profit

In 2018, the increase in Operating Profit, excluding the impacts of the adoption of Topic 606, was driven by same-store sales growth and net new unit growth, partially offset by refranchising and higher restaurant operating costs.

In 2017, the increase in Operating Profit, excluding the impact of lapping the 53<sup>rd</sup> week in 2016, was driven by same-store sales growth, lower G&A and net new unit growth, partially offset by refranchising and higher restaurant operating costs.

### *Corporate & Unallocated*

(Expense)/Income	2018	2017	2016	% B/(W)	
				2018	2017
Corporate and unallocated G&A	\$(171)	\$(230)	\$(280)	26	18
Unallocated restaurant costs	3	10	—	(69 )	NM
Unallocated Franchise and property revenues	—	(5 )	(2 )	NM	NM
Unallocated Franchise and property expenses	(8 )	(30 )	(24 )	73	(26 )
Refranchising gain (loss) (See Note 5)	540	1,083	163	(50 )	NM
Unallocated Other income (expense)	(8 )	(8 )	(8 )	NM	NM
Investment income (expense), net (See Note 5)	9	5	2	88	NM
Other pension income (expense) (See Note 14)	(14 )	(47 )	(32 )	70	(45 )
Interest expense, net	(452 )	(445 )	(307 )	(1 )	(44 )
Income tax provision (See Note 17)	(297 )	(934 )	(327 )	68	NM
Effective tax rate (See Note 17)	16.2 %	41.1 %	24.3 %	24.9 ppts.	(16.8)ppts.

### Corporate and unallocated G&A

In 2018, the decrease in Corporate G&A expenses was driven by non-cash credits in the current year associated with the modification of Executive Income Deferral ("EID") share-based compensation awards when compared with charges in the prior year (See Note 5), current year G&A reductions due to the impact of YUM's Strategic Transformation Initiatives, lapping higher costs associated with YUM's Strategic Transformation Initiatives (See Note 5), and lapping charges related to the Pizza Hut U.S. Transformation Agreement (See Note 5).

In 2017, the decrease in Corporate and unallocated G&A was driven by lower year-over-year costs associated with YUM's Strategic Transformation Initiatives (See Note 5), current year G&A reductions due to the impact of YUM's Strategic Transformation Initiatives and lower non-cash charges associated with the modification of EID share-based compensation awards when compared to the prior year (See Note 5), partially offset by charges related to the Pizza Hut U.S. Transformation Agreement (See Note 5).

### Unallocated restaurant costs

In 2018 and 2017, Unallocated restaurant costs represents the cessation of depreciation on held-for-sale assets that were not allocated to the Division segments.



Unallocated Franchise and property revenues

In 2017, Unallocated Franchise and property revenues primarily reflects charges related to the Pizza Hut U.S. Transformation Agreement. See Note 5.

Unallocated Franchise and property expenses

Unallocated Franchise and property expenses reflect charges related to the Pizza Hut U.S. Transformation Agreement and/or the KFC U.S. Acceleration Agreement. See Note 5.

Unallocated Other income (expense)

In 2018 and 2017, Unallocated Other income (expense) primarily includes foreign exchange gains (losses). See Note 7.

In 2016, Unallocated Other income (expense) primarily includes write-downs related to our decision to dispose of our corporate aircraft and foreign exchange gains (losses). See Note 7.

Other Pension (Income) Expense

In 2017, Other Pension (Income) Expense includes an adjustment related to our deferred vested pension obligation and settlement charges in our U.S. plans. See Note 5.

Interest expense, net

The increases in Interest expense, net for 2018 and 2017 were driven by increased outstanding borrowings. See Note 10.

***Income from Discontinued Operations, Net of Tax***

The following table is a summary of the operating results of the China business which have been reflected in discontinued operations. See Note 4 for additional information.

	2016 <sup>(a)</sup>
Total revenues	\$5,776
Total income from discontinued operations before income taxes <sup>(b)</sup>	571
Income tax (benefit) provision <sup>(c)</sup>	(65 )
Income from discontinued operations, net of tax	625

(a) Includes Yum China financial results from January 1, 2016 to October 31, 2016.

(b) Includes costs incurred to execute the Separation of \$68 million for 2016. Such costs primarily related to transaction advisors, legal and other consulting fees.

(c) During 2016, we recorded a tax benefit of \$233 million related to previously recorded losses associated with our Little Sheep business. The tax benefit associated with these losses was able to be recognized as a result of legal entity restructuring completed in anticipation of the China spin-off.



## Consolidated Cash Flows

**Net cash provided by operating activities from continuing operations** was \$1,176 million in 2018 compared to \$1,030 million in 2017. The increase was primarily driven by lower retirement and deferred compensation payouts to retirees and a decrease in income tax payments.

In 2017, net cash provided by operating activities from continuing operations was \$1,030 million compared to \$1,248 million in 2016. The decrease was primarily driven by an increase in interest payments and retirement and deferred compensation payouts to retirees, partially offset by an increase in Operating profit before Special Items

**Net cash provided by investing activities from continuing operations** was \$313 million in 2018 compared to \$1,472 million in 2017. The decrease was primarily driven by lower franchising proceeds and our \$200 million investment in Grubhub common stock in 2018.

In 2017, net cash provided by investing activities from continuing operations was \$1,472 million compared to net cash used in investing activities of \$4 million in 2016. The increase was primarily driven by higher proceeds from franchising of restaurants and lower capital spending

**Net cash used in financing activities from continuing operations** was \$2,620 million in 2018 compared to \$1,795 million in 2017. The increase was primarily driven by lower net borrowings and higher share repurchases.

In 2017, net cash used in financing activities from continuing operations was \$1,795 million compared to \$744 million in 2016. The increase was primarily driven by lower net borrowings, partially offset by lower share repurchases.

## Consolidated Financial Condition

Our Consolidated Balance Sheet was impacted by the adoption of Topic 606 (See Note 2). Other assets also increased due to the inclusion of our investment in Grubhub common stock (See Note 5).

The franchising of Company-operated stores drove decreases in restaurant-level assets and liabilities on our Consolidated Balance Sheet, including within Property, plant and equipment ("PP&E").

## Liquidity and Capital Resources

In October 2016, we announced YUM's Strategic Transformation Initiatives to drive global expansion of the KFC, Pizza Hut and Taco Bell brands following the Separation on October 31, 2016. As part of this transformation we announced our intention to own less than 1,000 stores by the end of 2018. As of December 31, 2018 we owned 856 stores. Additionally, we announced our intention to, by 2019, reduce annual recurring capital expenditures to approximately \$100 million, improve our efficiency by lowering G&A to 1.7% of system sales and increase free cash flow conversion to 100%.

In 2018 and 2017, we returned a cumulative \$5.2 billion to shareholders through share repurchases and cash dividends towards our commitment to return between \$6.5 and \$7.0 billion from 2017 to 2019. We are funding these shareholder returns through a combination of franchising proceeds, free cash flow generation and maintenance of our five times EBITDA leverage. We generated total gross franchising proceeds of \$2.8 billion in connection with our initiative to increase franchise ownership to 98%, which we achieved in December 2018.

Our primary sources of liquidity are cash on hand, cash generated by operations and our revolving facilities. As of December 31, 2018, we had Cash and cash equivalents of \$292 million. Cash and cash equivalents decreased from



\$1,522 million at December 31, 2017 due to share repurchases, dividend payments, the repayment of \$325 million in YUM Senior Unsecured Notes that matured in March 2018 and our investment in Grubhub. We have historically generated substantial cash flows from the operations of our Company-owned stores and from our extensive franchise operations, which require a limited YUM investment. Our annual operating cash flows from continuing operations have historically been in excess of \$1 billion. Decreases in operating cash flows from the operation of fewer Company-owned stores due to refranchising have been offset, and are expected to continue to be offset, with savings generated from decreased capital investment and G&A required to support company operations. To the extent operating cash flows plus other sources of cash such as refranchising proceeds do not cover our anticipated cash needs, we maintain a revolving credit facility with total capacity of \$1 billion that was undrawn as of year end 2018.

Our balance sheet often reflects a working capital deficit, which is not uncommon in our industry and is also historically common for YUM. Our royalty receivables from franchisees are generally due within 30 days of the period in which the related sales occur

and Company sales are paid in cash or by credit card (which is quickly converted into cash). Substantial amounts of cash received have historically been either returned to shareholders or invested in new restaurant assets which are non-current in nature. As part of our working capital strategy, we negotiate favorable credit terms with vendors and, as a result, our on-hand inventory turns faster than the related short-term liabilities. Accordingly, it is not unusual for current liabilities to exceed current assets. We believe such a deficit has no significant impact on our liquidity or operations.

### Debt Instruments

As of December 31, 2018, approximately 91%, including the impact of interest rate swaps, of our \$10.1 billion of total debt outstanding is fixed with an effective overall interest rate of approximately 4.7%. We are managing a capital structure which is levered in-line with our target of approximately five times EBITDA, and which we believe provides an attractive balance between optimized interest rates, duration and flexibility with diversified sources of liquidity and maturities spread over multiple years. We have credit ratings of BB (Standard & Poor's)/Ba3 (Moody's) with a balance sheet consistent with highly-levered peer restaurant franchise companies.

*Securitization Notes.* In May 2016, Taco Bell Funding, LLC, a newly formed special purpose subsidiary of the Company, issued an aggregate of \$2.3 billion of fixed rate senior secured notes (the "2016 Class A-2 Notes"). On November 14, 2018, Taco Bell Funding, LLC, completed a refinancing agreement and issued two fixed rate senior secured notes in the aggregate amount of \$1.45 billion (the "2018 Class A-2 Notes", and, together with the 2016 Class A-2 Notes, the "Securitization Notes"). Proceeds from the 2018 issuance were used to repay \$788 million of existing Securitization Notes issued in 2016 and to repay the then outstanding balance on the Revolving Facility (see below). The Securitization Notes contain cross-default provisions whereby the failure to pay principal on any outstanding Securitization Notes will constitute an event of default under any other Securitization Notes.

*Credit Agreement.* On June 16, 2016, three wholly-owned subsidiaries of the Company, KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC, as co-borrowers (the "Borrowers") entered into a new credit agreement (the "Credit Agreement") providing for the following (each of which may be increased subject to certain conditions): (i) a \$500 million Term Loan A facility (the "Term Loan A Facility"), (ii) a \$2 billion Term Loan B facility (the "Term Loan B Facility") and (iii) a \$1 billion revolving facility (the "Revolving Facility") which has no outstanding borrowings and has \$7 million in letters of credit outstanding as of December 31, 2018, each of which may be increased subject to certain conditions. Our Term Loan A Facility and Term Loan B Facility contain cross-default provisions whereby the failure to pay principal of or otherwise perform any agreement or condition under indebtedness of certain subsidiaries with a principal amount in excess of \$100 million will constitute an event of default under the Credit Agreement.

On April 3, 2018, the Borrowers completed the repricing of the then existing \$1.97 billion under the Term Loan B Facility pursuant to an amendment to the Credit Agreement. The amendment reduces the interest rate applicable to the Term Loan B Facility by 25 basis points to adjusted LIBOR plus 1.75% or Base Rate plus 0.75%, at the Borrowers' election, and extends the maturity date for the Term Loan B Facility by 2 years to April 3, 2025. All other material provisions under the Credit Agreement remained unchanged as a result of this amendment.

*Subsidiary Senior Unsecured Notes.* On June 16, 2016, the Borrowers issued an aggregate of \$1.05 billion Senior Unsecured Notes due 2024 and an aggregate of \$1.05 billion Senior Unsecured Notes due 2026. On June 15, 2017, the Borrowers issued an aggregate of \$750 million Senior Unsecured Notes due June 1, 2027 (together with the June 16, 2016 issuances, the "Subsidiary Senior Unsecured Notes"). Our Subsidiary Senior Unsecured Notes contain cross-default provisions whereby the acceleration of the maturity of the indebtedness of certain subsidiaries with a principal amount in excess of \$100 million or the failure to pay principal of such indebtedness will constitute an event of default under the Subsidiary Senior Unsecured Notes.

The majority of our remaining long-term debt primarily comprises senior, unsecured obligations ("YUM Senior Unsecured Notes") which ranks equally in right of payment with all of our existing and future unsecured unsubordinated indebtedness. Amounts outstanding under YUM Senior Unsecured Notes were \$1.9 billion at December 31, 2018. Our YUM Senior Unsecured Notes contain cross-default provisions whereby the acceleration of the maturity of any of our indebtedness in a principal amount in excess of \$50 million will constitute a default under the YUM Senior Unsecured Notes unless such indebtedness is discharged, or the acceleration of the maturity of that indebtedness is annulled, within 30 days after notice.

The following table summarizes the future maturities of our outstanding long-term debt, excluding capital leases, as of December 31, 2018.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2037	2043	Total
Securitization Notes	\$29	\$29	\$29	\$29	\$1,281	\$16	\$16	\$921	\$6	\$572			\$2,928
Credit Agreement	45	51	76	395	20	20	1,836						2,443
Subsidiary Senior Unsecured Notes						1,050		1,050	750				2,850
YUM Senior Unsecured Notes	250	350	350		325						325	275	1,875
Total	\$324	\$430	\$455	\$424	\$1,626	\$1,086	\$1,852	\$1,971	\$756	\$572	\$325	\$275	\$10,096

See Note 10 for details on the the Securitization Notes, Subsidiary Senior Unsecured Notes, the Credit Agreement and YUM Senior Unsecured Notes.

### Contractual Obligations

Our significant contractual obligations and payments as of December 31, 2018 included:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations <sup>(a)</sup>	\$13,477	\$773	\$1,756	\$2,861	\$8,087
Capital leases <sup>(b)</sup>	103	10	19	16	58
Operating leases <sup>(b)</sup>	786	103	167	132	384
Purchase obligations <sup>(c)</sup>	301	139	149	11	2
Benefit plans and other <sup>(d)</sup>	220	73	37	34	76
Total contractual obligations	\$14,887	\$1,098	\$2,128	\$3,054	\$8,607

Amounts include maturities of debt outstanding as of December 31, 2018 and expected interest payments on those (a) outstanding amounts on a nominal basis. The estimated interest payments related to the variable rate portion of our debt is based on current LIBOR interest rates. See Note 10.

(b) These obligations, which are shown on a nominal basis and represent the non cancellable term of the lease, relate primarily to approximately 500 Company-owned restaurants. See Note 11.

Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum (c) or variable price provisions; and the approximate timing of the transaction. We have excluded agreements that are cancellable without penalty. Purchase obligations relate primarily to marketing, information technology and supply agreements.

Includes actuarially-determined timing of payments from our most significant unfunded pension plan as well as scheduled payments from our deferred compensation plan and other unfunded benefit plans where payment dates are determinable. This table excludes \$43 million of future benefit payments for deferred compensation and other (d) unfunded benefit plans to be paid upon separation of employee's service or retirement from the company, as we cannot reasonably estimate the dates of these future cash payments. Other amounts include a cash tax obligation related to the mandatory deemed repatriation tax provisions of the Tax Act (See Note 17) and anticipated investments related to the KFC U.S. Acceleration Agreement and the Pizza Hut U.S. Transformation Agreement (See Note 5).

We sponsor noncontributory defined benefit pension plans covering certain salaried and hourly employees, the most significant of which are in the U.S. and UK. The most significant of the U.S. plans, the YUM Retirement Plan (the “Plan”), is funded while benefits from our other significant U.S. plan are paid by the Company as incurred (see footnote (d) above). Our funding policy for the Plan is to contribute annually amounts that will at least equal the minimum amounts required to comply with the Pension Protection Act of 2006. However, additional voluntary contributions are made from time-to-time to improve the Plan’s funded status. At December 31, 2018 the Plan was in a net underfunded position of \$42 million. The UK pension plans were in a net overfunded position of \$86 million at our 2018 measurement date.

We do not anticipate making any significant contributions to the Plan in 2019. Investment performance and corporate bond rates have a significant effect on our net funding position as they drive our asset balances and discount rate assumptions. Future changes in investment performance and corporate bond rates could impact our funded status and the timing and amounts of required contributions in 2019 and beyond.

Our post-retirement health care plan in the U.S. is not required to be funded in advance, but is pay as you go. We made post-retirement benefit payments of \$6 million in 2018 and no future funding amounts are included in the contractual obligations table. See Note 14.

We have excluded from the contractual obligations table payments we may make for exposures for which we are self-insured, including workers' compensation, employment practices liability, general liability, automobile liability, product liability and property losses (collectively "property and casualty losses") and employee healthcare and long-term disability claims. The majority of our recorded liability for self-insured property and casualty losses and employee healthcare and long-term disability claims represents estimated reserves for incurred claims that have yet to be filed or settled.

We have not included in the contractual obligations table \$117 million of liabilities for unrecognized tax benefits relating to various tax positions we have taken. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities.

#### **Off-Balance Sheet Arrangements**

See the Lease Guarantees and Franchise Loan Pool and Equipment Guarantees sections of Note 19 for discussion of our off-balance sheet arrangements.

#### **New Accounting Pronouncements Not Yet Adopted**

The Financial Accounting Standards Board ("FASB") has issued standards on the recognition and measurement of leases that are intended to increase transparency and comparability among organizations by requiring that substantially all lease assets and liabilities be recognized on the balance sheet and by requiring the disclosure of key information about leasing arrangements. We will adopt these standards using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the first quarter of 2019 and will not recast the comparative periods presented in the Financial Statements upon adoption. See "Recent Accounting Pronouncements" in Note 2 for additional information regarding our adoption of the new lease accounting standards.

In June 2016, the FASB issued a standard that requires measurement and recognition of expected versus incurred credit losses for financial assets held. The standard is effective for the Company in our first quarter of fiscal 2020 with early adoption permitted beginning in the first quarter of fiscal 2019. We are currently evaluating the impact the adoption of this standard will have on our Financial Statements.

#### **Critical Accounting Policies and Estimates**

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations and financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies follows.

Impairment or Disposal of Long-Lived Assets

We review long-lived assets of restaurants (primarily PP&E and allocated intangible assets subject to amortization) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows, which incorporate our best estimate of sales growth and margin improvement based upon our plans for the unit and actual results at comparable restaurants. For restaurant assets that are deemed to not be recoverable, we write-down the impaired restaurant to its estimated fair value. Key assumptions in the determination of fair value are the future after-tax cash flows of the restaurant, which are reduced by future royalties a franchisee would pay, and a discount rate. The after-tax cash flows incorporate reasonable sales growth and margin improvement assumptions that would be used by a franchisee in the determination of a purchase price for the restaurant. Estimates of future cash flows are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions.

We perform an impairment evaluation at a restaurant group level if it is more likely than not that we will rebrand restaurants as a group. Expected net sales proceeds are generally based on actual bids from the buyer, if available, or anticipated bids given the discounted projected after-tax cash flows for the group of restaurants. Historically, these anticipated bids have been reasonably accurate estimations of the proceeds ultimately received. The after-tax cash flows used in determining the anticipated bids incorporate reasonable assumptions we believe a franchisee would make such as sales growth and margin improvement as well as expectations as to the useful lives of the restaurant assets. These after-tax cash flows also include a deduction for the anticipated, future royalties we would receive under a franchise agreement with terms substantially at market entered into simultaneously with the rebranding transaction.

The discount rate used in the fair value calculations is our estimate of the required rate of return that a franchisee would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical rebranding market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

#### Impairment of Goodwill

We evaluate goodwill for impairment on an annual basis as of the beginning of our fourth quarter or more often if an event occurs or circumstances change that indicates impairment might exist. Goodwill is evaluated for impairment by determining whether the fair value of our reporting units exceed their carrying values. Our reporting units are our business units (which are aligned based on geography) in our KFC, Pizza Hut and Taco Bell Divisions. Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using discounted expected future after-tax cash flows from franchise royalties and Company-owned restaurant operations, if any.

Future cash flow estimates and the discount rate are the key assumptions when estimating the fair value of a reporting unit. Future cash flows are based on growth expectations relative to recent historical performance and incorporate sales growth (from net new restaurants or same-sales growth) and margin improvement (for those reporting units which include Company-owned restaurant operations) assumptions that we believe a third-party buyer would assume when determining a purchase price for the reporting unit. Any margin improvement assumptions that factor into the discounted cash flows are highly correlated with sales growth as cash flow growth can be achieved through various interrelated strategies such as product pricing and restaurant productivity initiatives. The discount rate is our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

The fair values of all our reporting units with goodwill balances were substantially in excess of their respective carrying values as of the 2018 goodwill testing date.

When we rebrand restaurants, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the rebranding versus the portion of the reporting unit that will be retained. The fair value of the portion of the reporting unit disposed of in a rebranding is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which include a deduction for the anticipated, future royalties the franchisee will pay us associated with the franchise agreement entered into simultaneously with the rebranding transaction. Appropriate adjustments are made to the fair value determinations if such franchise agreement is determined to not be at prevailing market rates. When determining whether such franchise agreement is at prevailing market rates our primary consideration is consistency with the terms of our current franchise agreements both within the country that the restaurants are being rebranded in and around the world. The Company believes consistency in royalty rates as a



percentage of sales is appropriate as the Company and franchisee share in the impact of near-term fluctuations in sales results with the acknowledgment that over the long-term the royalty rate represents an appropriate rate for both parties.

The discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee is reduced by future royalties the franchisee will pay the Company. The Company thus considers the fair value of future royalties to be received under the franchise agreement as fair value retained in its determination of the goodwill to be written off when refranchising. Others may consider the fair value of these future royalties as fair value disposed of and thus would conclude that a larger percentage of a reporting unit's fair value is disposed of in a refranchising transaction.

During 2018, refranchising activity completed by the Company resulted in the write-off of \$12 million in Goodwill within Refranchising (gain) loss, representing 2% of beginning-of-year Company goodwill. Of the \$12 million, the most significant write-offs were recognized within our KFC UK, Taco Bell U.S. and KFC Russia reporting units. Within KFC UK, 91 restaurants were refranchised (representing 65% of beginning-of-year company units) and \$5 million in goodwill was written off (representing

13% of beginning-of-year goodwill). Within Taco Bell U.S., 199 restaurants were refranchised (representing 31% of beginning-of-year company units) and \$4 million in goodwill was written off (representing 4% of beginning-of-year goodwill). Within KFC Russia, 194 restaurants were refranchised (representing 91% of beginning-of-year company units) and \$2 million in goodwill was written off (representing 11% of beginning-of-year goodwill).

See Note 2 for a further discussion of our policies regarding goodwill.

### Pension Plans

Certain of our employees are covered under defined benefit pension plans. Our two most significant plans are in the U.S. and combined had a projected benefit obligation ("PBO") of \$873 million and a fair value of plan assets of \$755 million at December 31, 2018.

The PBO reflects the actuarial present value of all benefits earned to date by employees and incorporates assumptions as to future compensation levels. Due to the relatively long time frame over which benefits earned to date are expected to be paid, our PBOs are highly sensitive to changes in discount rates. For our U.S. plans, we measured our PBOs using a discount rate of 4.6% at December 31, 2018. This discount rate was determined with the assistance of our independent actuary. The primary basis for this discount rate determination is a model that consists of a hypothetical portfolio of ten or more corporate debt instruments rated Aa or higher by Moody's or Standard & Poor's ("S&P") with cash flows that mirror our expected benefit payment cash flows under the plans. We exclude from the model those corporate debt instruments flagged by Moody's or S&P for a potential downgrade (if the potential downgrade would result in a rating below Aa by both Moody's and S&P) and bonds with yields that were two standard deviations or more above the mean. In considering possible bond portfolios, the model allows the bond cash flows for a particular year to exceed the expected benefit payment cash flows for that year. Such excesses are assumed to be reinvested at appropriate one-year forward rates and used to meet the benefit payment cash flows in a future year. The weighted-average yield of this hypothetical portfolio was used to arrive at an appropriate discount rate. We also ensure that changes in the discount rate as compared to the prior year are consistent with the overall change in prevailing market rates and make adjustments as necessary. A 50 basis-point increase in this discount rate would have decreased these U.S. plans' PBOs by approximately \$50 million at our measurement date. Conversely, a 50 basis-point decrease in this discount rate would have increased our U.S. plans' PBOs by approximately \$60 million at our measurement date.

The net periodic benefit cost we will record in 2019 is also impacted by the discount rate, as well as the long-term rates of return on plan assets and mortality assumptions we selected at our measurement date. We expect net periodic benefit cost plus expected pension settlement charges for our U.S. plans to decrease approximately \$13 million in 2019. A 50 basis-point decrease or increase in our discount rate assumption at our 2018 measurement date would not significantly impact our 2019 U.S. net periodic benefit cost. The impacts of changes in net periodic benefit costs are reflected primarily in Other pension (income) expense.

Our estimated long-term rate of return on U.S. plan assets is based upon the weighted-average of historical and expected future returns for each asset category. Our expected long-term rate of return on U.S. plan assets, for purposes of determining 2019 pension expense, at December 31, 2018 was 5.75%, net of administrative and investment fees paid from plan assets. We believe this rate is appropriate given the composition of our plan assets and historical market returns thereon. A 100 basis point change in our expected long-term rate of return on plan assets assumption would impact our 2019 U.S. net periodic benefit cost by approximately \$8 million. Additionally, every 100 basis point variation in actual return on plan assets versus our expected return of 5.75% will impact our unrecognized pre-tax actuarial net loss by approximately \$8 million.

A decrease in discount rates over time has largely contributed to an unrecognized pre-tax actuarial net loss of \$101 million included in AOCI for these U.S. plans at December 31, 2018. We will recognize approximately \$1 million of such loss in net periodic benefit cost in 2019 versus \$16 million recognized in 2018. See Note 14.

#### Income Taxes

At December 31, 2018, we had valuation allowances of approximately \$454 million to reduce our \$748 million of deferred tax assets to amounts that are more likely than not to be realized. The net deferred tax assets primarily relate to temporary differences in profitable U.S. federal, state and foreign jurisdictions and net operating losses in certain foreign jurisdictions, the majority of which do not expire. In evaluating our ability to recover our deferred tax assets, we consider future taxable income in the various jurisdictions as well as carryforward periods and restrictions on usage. The estimation of future taxable income in these jurisdictions and our resulting ability to utilize deferred tax assets can significantly change based on future events, including our determinations as to feasibility of certain tax planning strategies and refranchising plans. Thus, recorded valuation allowances may be subject to material future changes.

As a matter of course, we are regularly audited by federal, state and foreign tax authorities. We recognize the benefit of positions taken or expected to be taken in our tax returns in our Income tax provision when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. At December 31, 2018, we had \$113 million of unrecognized tax benefits, \$10 million of which are temporary in nature and, if recognized, would not impact the effective tax rate. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

The 2017 Tax Cuts and Jobs Act included a mandatory deemed repatriation tax on accumulated earnings of foreign subsidiaries, and as a result, previously unremitted earnings for which no U.S. deferred tax liability had been provided have now been subject to U.S. tax. Our cash currently held overseas is primarily limited to that necessary to fund working capital requirements. Thus, we have not provided taxes on our foreign unremitted earnings, including U.S. state income and foreign withholding taxes, as we believe they are indefinitely reinvested. See Note 17 for a further discussion of our Income taxes.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is exposed to financial market risks associated with interest rates, foreign currency exchange rates, commodity prices and the value of our equity investment in Grubhub. In the normal course of business and in accordance with our policies, we manage these risks through a variety of strategies, which may include the use of financial and commodity derivative instruments to hedge our underlying exposures. Our policies prohibit the use of derivative instruments for trading purposes, and we have processes in place to monitor and control their use.

##### Interest Rate Risk

We have a market risk exposure to changes in interest rates, principally in the U.S. Our outstanding total debt of \$10.1 billion includes 76% fixed-rate debt and 24% variable-rate debt. We have attempted to minimize the interest rate risk from variable-rate debt through the use of interest rate swaps that, as of December 31, 2018, result in a fixed interest rate on \$1.55 billion of our variable rate debt. As a result, approximately 91% of our \$10.1 billion of outstanding debt at December 31, 2018 is effectively fixed-rate debt. See Note 10 for details on these issuances and repayments and Note 12 for details related to interest rate swaps.

As of both December 31, 2018 and December 31, 2017 a hypothetical 100 basis-point increase in short-term interest rates would result, over the following twelve-month period after consideration of the aforementioned interest rate swaps, in an increase of approximately \$9 million in Interest expense, net within our Consolidated Statements of Income. These estimated amounts are based upon the current level of variable-rate debt that has not been swapped to fixed and assume no changes in the volume or composition of that debt and exclude any impact from interest income related to cash and cash equivalents.

The fair value of our cumulative fixed-rate debt of \$7.7 billion as of December 31, 2018, would decrease approximately \$400 million as a result of the same hypothetical 100 basis-point increase. At December 31, 2018, a hypothetical 100 basis-point decrease in short-term interest rates would decrease the fair value of our interest rate swaps approximately \$100 million. Fair value was determined based on the present value of expected future cash flows considering the risks involved and using discount rates appropriate for the durations.

### Foreign Currency Exchange Rate Risk

Changes in foreign currency exchange rates impact the translation of our reported foreign currency denominated earnings, cash flows and net investments in foreign operations and the fair value of our foreign currency denominated financial instruments. Historically, we have chosen not to hedge foreign currency risks related to our foreign currency denominated earnings and cash flows through the use of financial instruments. In addition, we attempt to minimize the exposure related to foreign currency denominated financial instruments by purchasing goods and services from third parties in local currencies when practical. Consequently, foreign currency denominated financial instruments consist primarily of intercompany receivables and payables. At times, we utilize forward contracts and cross-currency swaps to reduce our exposure related to these intercompany receivables and payables. The notional amount and maturity dates of these contracts match those of the underlying receivables or payables such that our foreign currency exchange risk related to these instruments is minimized.

The Company's foreign currency net asset exposure (defined as foreign currency assets less foreign currency liabilities) totaled approximately \$1.6 billion as of December 31, 2018. Operating in international markets exposes the Company to movements in foreign currency exchange rates. The Company's primary exposures result from our operations in Asia-Pacific, Europe and the Americas. For the fiscal year ended December 31, 2018 Operating Profit would have decreased approximately \$135 million if all foreign currencies had uniformly weakened 10% relative to the U.S. dollar. This estimated reduction assumes no changes in sales volumes, local currency sales or input prices.

### Commodity Price Risk

We are subject to volatility in food costs as a result of market risk associated with commodity prices. Our ability to recover increased costs through higher pricing is, at times, limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through pricing agreements with our vendors.

### Equity Investment Risk

YUM holds 2,820,464 shares of Grubhub common stock (See Note 5). As of December 31, 2018, the NYSE composite closing sales price of Grubhub was \$76.81. A hypothetical 10% decline in the price of these shares would result in a \$21 million decrease in the fair value of these investments, which would be reflected as a charge in Investment (income) expense, net within our Consolidated Statements of Income. The effects of changes in market prices for equity securities are unpredictable, which could cause significant fluctuations in our quarterly and annual results.

**Item 8. Financial Statements and Supplementary Data.**

**INDEX TO FINANCIAL INFORMATION**

	Page Reference
<b>Consolidated Financial Statements</b>	
Report of Independent Registered Public Accounting Firm	<u>52</u>
Consolidated Statements of Income	<u>54</u>
Consolidated Statements of Comprehensive Income	<u>55</u>
Consolidated Statements of Cash Flows	<u>56</u>
Consolidated Balance Sheets	<u>57</u>
Consolidated Statements of Shareholders' Equity (Deficit)	<u>58</u>
Notes to Consolidated Financial Statements	<u>59</u>

**Financial Statement Schedules**

No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the above-listed financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
YUM! Brands, Inc.:

*Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated balance sheets of YUM! Brands, Inc. and Subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and shareholders' equity (deficit) for each of the fiscal years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

*Change in Accounting Principle*

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company has changed its method of accounting for revenue from contracts with customers in fiscal year 2018 due to the adoption of Topic 606: *Revenue from Contracts with Customers*.

*Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting in the accompanying Item 9A. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated

financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets



of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 1997.

Louisville, Kentucky  
February 20, 2019

**Consolidated Statements of Income**

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 31, 2018, 2017 and 2016

(in millions, except per share data)

	2018	2017	2016 (As Restated)
<b>Revenues</b>			
Company sales	\$2,000	\$3,572	\$4,189
Franchise and property revenues	2,482	2,306	2,167
Franchise contributions for advertising and other services	1,206	—	—
Total revenues	5,688	5,878	6,356
<b>Costs and Expenses, Net</b>			
Company restaurant expenses	1,634	2,954	3,489
General and administrative expenses	895	999	1,129
Franchise and property expenses	188	237	201
Franchise advertising and other services expense	1,208	—	—
Refranchising (gain) loss	(540)	(1,083)	(163)
Other (income) expense	7	10	18
Total costs and expenses, net	3,392	3,117	4,674
<b>Operating Profit</b>	2,296	2,761	1,682
Investment (income) expense, net	(9)	(5)	(2)
Other pension (income) expense	14	47	32
Interest expense, net	452	445	307
Income from continuing operations before income taxes	1,839	2,274	1,345
Income tax provision	297	934	327
Income from continuing operations	1,542	1,340	1,018
Income from discontinued operations, net of tax	N/A	N/A	625
<b>Net Income</b>	\$1,542	\$1,340	\$1,643
Basic Earnings per Common Share from continuing operations	\$4.80	\$3.86	\$2.58
Basic Earnings per Common Share from discontinued operations	N/A	N/A	\$1.59
<b>Basic Earnings Per Common Share</b>	\$4.80	\$3.86	\$4.17
Diluted Earnings per Common Share from continuing operations	\$4.69	\$3.77	\$2.54
Diluted Earnings per Common Share from discontinued operations	N/A	N/A	\$1.56
<b>Diluted Earnings Per Common Share</b>	\$4.69	\$3.77	\$4.10
<b>Dividends Declared Per Common Share</b>	\$1.44	\$0.90	\$1.73

See accompanying Notes to Consolidated Financial Statements.

**Consolidated Statements of Comprehensive Income**

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 31, 2018, 2017 and 2016

(in millions)

	2018	2017	2016 (As Restated)
Net Income	\$1,542	\$1,340	\$1,643
Other comprehensive income (loss), net of tax:			
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature			
Adjustments and gains (losses) arising during the year	(94 )	115	(174 )
Reclassifications of adjustments and (gains) losses into Net Income	(4 )	55	(11 )
	(98 )	170	(185 )
Tax (expense) benefit	6	(8 )	21
	(92 )	162	(164 )
Changes in pension and post-retirement benefits			
Unrealized gains (losses) arising during the year	32	(17 )	(62 )
Reclassification of (gains) losses into Net Income	22	52	44
	54	35	(18 )
Tax (expense) benefit	(13 )	(14 )	4
	41	21	(14 )
Changes in derivative instruments			
Unrealized gains (losses) arising during the year	19	(52 )	57
Reclassification of (gains) losses into Net Income	(39 )	58	(22 )
	(20 )	6	35
Tax (expense) benefit	6	(2 )	(16 )
	(14 )	4	19
Other comprehensive income (loss), net of tax	(65 )	187	(159 )
<b>Comprehensive Income</b>	<b>\$1,477</b>	<b>\$1,527</b>	<b>\$1,484</b>

See accompanying Notes to Consolidated Financial Statements.

Edgar Filing: YUM BRANDS INC - Form 10-K

**Consolidated Statements of Cash Flows**

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 31, 2018, 2017 and 2016

(in millions)

	2018	2017	2016 (As Restated)
<b>Cash Flows – Operating Activities from Continuing Operations</b>			
Net Income	\$ 1,542	\$ 1,340	\$ 1,643
Income from discontinued operations, net of tax	—	—	(625 )
Depreciation and amortization	137	253	310
Refranchising (gain) loss	(540 )	(1,083 )	(163 )
Investment (income) expense, net	(9 )	(5 )	(2 )
Contributions to defined benefit pension plans	(16 )	(55 )	(41 )
Deferred income taxes	(11 )	634	28
Share-based compensation expense	50	65	80
Changes in accounts and notes receivable	(66 )	(19 )	(23 )
Changes in prepaid expenses and other current assets	—	(10 )	—
Changes in accounts payable and other current liabilities	(68 )	(173 )	(40 )
Changes in income taxes payable	65	(55 )	20
Other, net	92	138	61
<b>Net Cash Provided by Operating Activities from Continuing Operations</b>	<b>1,176</b>	<b>1,030</b>	<b>1,248</b>
<b>Cash Flows – Investing Activities from Continuing Operations</b>			
Capital spending	(234 )	(318 )	(427 )
QuikOrder acquisition, net of cash acquired	(66 )	—	—
Investment in Grubhub Inc. common stock	(200 )	—	—
Proceeds from refranchising of restaurants	825	1,773	370
Other, net	(12 )	17	53
<b>Net Cash Provided by (Used in) Investing Activities from Continuing Operations</b>	<b>313</b>	<b>1,472</b>	<b>(4 )</b>
<b>Cash Flows – Financing Activities from Continuing Operations</b>			
Proceeds from long-term debt	1,556	1,088	6,900
Repayments of long-term debt	(1,264 )	(385 )	(323 )
Revolving credit facilities, three months or less, net	—	—	(685 )
Short-term borrowings, by original maturity			
More than three months – proceeds	59	—	1,400
More than three months – payments	(59 )	—	(2,000 )
Three months or less, net	—	—	—
Repurchase shares of Common Stock	(2,390 )	(1,960 )	(5,403 )
Dividends paid on Common Stock	(462 )	(416 )	(744 )
Debt issuance costs	(13 )	(32 )	(86 )
Net transfers from discontinued operations	—	—	289
Other, net	(47 )	(90 )	(92 )
<b>Net Cash Used in Financing Activities from Continuing Operations</b>	<b>(2,620 )</b>	<b>(1,795 )</b>	<b>(744 )</b>
<b>Effect of Exchange Rate on Cash and Cash Equivalents</b>	<b>(63 )</b>	<b>61</b>	<b>(34 )</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents - Continuing Operations</b>	<b>(1,194 )</b>	<b>768</b>	<b>466</b>
<b>Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents – Beginning of Year</b>	<b>1,668</b>	<b>831</b>	<b>365</b>
<b>Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents – End of Year</b>	<b>\$ 474</b>	<b>\$ 1,599</b>	<b>\$ 831</b>
Cash Provided by Operating Activities from Discontinued Operations	\$ —	\$ —	\$ 829
Cash Used in Investing Activities from Discontinued Operations	—	—	(287 )

Edgar Filing: YUM BRANDS INC - Form 10-K

Cash Used in Financing Activities from Discontinued Operations

— — (292 )

See accompanying Notes to Consolidated Financial Statements.

56

---

**Consolidated Balance Sheets**

YUM! Brands, Inc. and Subsidiaries

December 31, 2018 and 2017

(in millions)

	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$292	\$1,522
Accounts and notes receivable, net	561	400
Prepaid expenses and other current assets	354	384
Advertising cooperative assets, restricted	—	201
<b>Total Current Assets</b>	<b>1,207</b>	<b>2,507</b>
Property, plant and equipment, net	1,237	1,594
Goodwill	525	512
Intangible assets, net	242	214
Other assets	724	345
Deferred income taxes	195	139
<b>Total Assets</b>	<b>\$4,130</b>	<b>\$5,311</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities	\$911	\$813
Income taxes payable	69	123
Short-term borrowings	321	375
Advertising cooperative liabilities	—	201
<b>Total Current Liabilities</b>	<b>1,301</b>	<b>1,512</b>
Long-term debt	9,751	9,429
Other liabilities and deferred credits	1,004	704
<b>Total Liabilities</b>	<b>12,056</b>	<b>11,645</b>
<b>Shareholders' Deficit</b>		
Common Stock, no par value, 750 shares authorized; 306 shares and 332 shares issued in 2018 and 2017, respectively	—	—
Accumulated deficit	(7,592 )	(6,063 )
Accumulated other comprehensive loss	(334 )	(271 )
<b>Total Shareholders' Deficit</b>	<b>(7,926 )</b>	<b>(6,334 )</b>
<b>Total Liabilities and Shareholders' Deficit</b>	<b>\$4,130</b>	<b>\$5,311</b>

See accompanying Notes to Consolidated Financial Statements.

Edgar Filing: YUM BRANDS INC - Form 10-K

**Consolidated Statements of Shareholders' Equity (Deficit)**

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 31, 2018, 2017 and 2016

(in millions)

	Yum! Brands, Inc.						
	Issued Common Stock Shares	Retained Earnings (Accumulated Deficit)	Other Comprehensive Income(Loss)	Noncontrolling Interests	Total Shareholders' Equity (Deficit)	Redeemable Noncontrolling Interest	
<b>Balance at December 31, 2015 (As Restated)</b>	420	\$ —	\$ 1,187	\$ (252 )	\$ 58	\$ 993	\$ 6
Net Income (loss)		1,643		18		1,661	(7 )
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature (net of tax impact of \$21 million)			(153 )	(3 )		(156 )	1
Reclassification of translation adjustments into income			(11 )			(11 )	
Pension and post-retirement benefit plans (net of tax impact of \$4 million)			(14 )			(14 )	
Net gain on derivative instruments (net of tax impact of \$16 million)			19			19	
Comprehensive Income (loss)						1,499	(6 )
Dividends declared		(661 )		(6 )		(667 )	
Separation of China business		(1,927 )	(47 )	(67 )		(2,041 )	
Repurchase of shares of Common Stock	(68 )	(49 )	(5,399 )			(5,448 )	
Employee share-based award exercises (includes tax impact of \$85 million)	3	(4 )				(4 )	
Share-based compensation events		53				53	
<b>Balance at December 31, 2016 (As Restated)</b>	355	\$ —	\$ (5,157 )	\$ (458 )	\$ —	\$ (5,615 )	\$ —
Net Income		1,340				1,340	
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature (net of tax impact of \$8 million)			107			107	
Reclassification of translation adjustments into income			55			55	
Pension and post-retirement benefit plans (net of tax impact of \$14 million)			21			21	
Net gain on derivative instruments (net of tax impact of \$2 million)			4			4	
Comprehensive Income						1,527	
Dividends declared		(311 )				(311 )	
Repurchase of shares of Common Stock	(27 )	—	(1,915 )			(1,915 )	
Employee share-based award exercises	4	(58 )	(20 )			(78 )	
Share-based compensation events	—	58	—			58	
<b>Balance at December 31, 2017</b>	332	\$ —	\$ (6,063 )	\$ (271 )	\$ —	\$ (6,334 )	\$ —
Net Income		1,542				1,542	
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature (net of tax impact of \$6 million)			(88 )			(88 )	
Reclassification of translation adjustments into income			(4 )			(4 )	
Pension and post-retirement benefit plans (net of tax impact of \$13 million)			41			41	
Net loss on derivative instruments (net of tax impact of \$6 million)			(14 )			(14 )	
Comprehensive Income						1,477	
Dividends declared		(464 )				(464 )	
Repurchase of shares of Common Stock	(28 )	(38 )	(2,356 )			(2,394 )	
Employee share-based award exercises	2	(41 )				(41 )	
Share-based compensation events		79				79	
Adoption of accounting standards		(251 )	2			(249 )	
<b>Balance at December 31, 2018</b>	306	\$ —	\$ (7,592 )	\$ (334 )	\$ —	\$ (7,926 )	\$ —

See accompanying Notes to Consolidated Financial Statements.

58

---



## Notes to Consolidated Financial Statements

(Tabular amounts in millions, except share data)

### Note 1 – Description of Business

YUM! Brands, Inc. and its Subsidiaries (collectively referred to herein as the “Company,” “YUM,” “we,” “us” or “our”) franchises or operates a system of over 48,000 quick service restaurants in more than 140 countries and territories. At December 31, 2018, 98% of these restaurants were owned and operated by franchisees. The company’s KFC, Pizza Hut and Taco Bell brands (collectively the “Concepts”) are global leaders of the chicken, pizza and Mexican-style food categories.

Through our widely-recognized Concepts, we develop, operate or franchise a system of both traditional and non-traditional quick service restaurants. The terms "franchise" or "franchisee" within these Consolidated Financial Statements are meant to describe third parties that operate units under either franchise or license agreements. Our traditional restaurants feature dine-in, carryout and, in some instances, drive-thru or delivery service. Non-traditional units include express units and kiosks which have a more limited menu and operate in non-traditional locations like malls, airports, gasoline service stations, train stations, subways, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient. We also operate or franchise multibrand units, where two or more of our Concepts are operated in a single unit.

As of December 31, 2018, YUM consisted of three operating segments:

- ☐ The KFC Division which includes our worldwide operations of the KFC concept
- ☐ The Pizza Hut Division which includes our worldwide operations of the Pizza Hut concept
- ☐ The Taco Bell Division which includes our worldwide operations of the Taco Bell concept

On October 31, 2016 (the “Distribution Date”), we completed the spin-off of our China business (the "Separation") into an independent, publicly-traded company under the name of Yum China Holdings, Inc. (“Yum China”). On the Distribution Date, we distributed to each of our shareholders of record as of the close of business on October 19, 2016 (the “Record Date”) one share of Yum China common stock for each share of our Common Stock held as of the Record Date. The distribution was structured to be a tax free distribution to our U.S. shareholders for federal income tax purposes in the U.S. Yum China’s common stock trades on the New York Stock Exchange under the symbol “YUMC.” After the distribution, we do not beneficially own any shares of Yum China common stock.

Concurrent with the Separation, a subsidiary of the Company entered into a Master License Agreement with a subsidiary of Yum China for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its affiliates for the development and operation of KFC, Pizza Hut and Taco Bell restaurants in China. Prior to the Separation, our operations in mainland China were reported in our former China Division segment results. As a result of the Separation, the results of operations and cash flows of the separated business are presented as discontinued operations in our Consolidated Statements of Income and Consolidated Statements of Cash Flows for all periods presented. See additional information related to the impact of the Separation in Note 4.

### Note 2 – Summary of Significant Accounting Policies

Our preparation of the accompanying Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Principles of Consolidation and Basis of Preparation.** Intercompany accounts and transactions have been eliminated in consolidation. We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. We also consider for consolidation an entity, in which we have certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity (“VIE”), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it.

Our most significant variable interests are in entities that operate restaurants under our Concepts’ franchise and license arrangements. We do not have an equity interest in any of our franchisee businesses. Additionally, we do not typically provide significant financial support such as loans or guarantees to our franchisees. However, we do have variable interests in certain franchisees through real estate lease arrangements to which we are a party. At the end of 2018, YUM has future lease payments

due from franchisees, on a nominal basis, of approximately \$1.1 billion, and we are secondarily liable on certain other lease agreements that have been assigned to franchisees. See the Lease Guarantees and Franchise Loan Pool and Equipment Guarantees sections in Note 19. As our franchise and license arrangements provide our franchisee entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might otherwise be considered a VIE.

See Note 19 for additional information on our entity that operates a franchise lending program that is a VIE in which we have a variable interest but for which we are not the primary beneficiary and thus do not consolidate.

We participate in various advertising cooperatives with our franchisees, typically within a country where we have both Company-owned restaurants and franchise restaurants, established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Company and its franchise owners. Contributions to the advertising cooperatives are required for both Company-owned and franchise restaurants and are generally based on a percentage of restaurant sales. We maintain certain variable interests in these cooperatives. As the cooperatives are required to spend all funds collected on advertising and promotional programs, total equity at risk is not sufficient to permit the cooperatives to finance their activities without additional subordinated financial support. Therefore, these cooperatives are VIEs. As a result of our voting rights, we consolidate certain of these cooperatives for which we are the primary beneficiary.

**Fiscal Year.** Our fiscal years have historically ended on the last Saturday in December and, as a result, a 53<sup>rd</sup> week was added every five or six years. The first three quarters of each fiscal year consisted of 12 weeks and the fourth quarter consisted of 16 weeks in fiscal years with 52 weeks and 17 weeks in fiscal years with 53 weeks. Our U.S. subsidiaries and certain international subsidiaries operated on similar fiscal calendars. Our remaining international subsidiaries operated on a monthly calendar, and thus never had a 53<sup>rd</sup> week, with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter. Certain international subsidiaries within our KFC, Pizza Hut and Taco Bell divisions have historically closed approximately one month or one period earlier to facilitate consolidated reporting.

Fiscal year 2016 included 53 weeks for our U.S. businesses and for our international subsidiaries that reported on a period calendar. The 53<sup>rd</sup> week added \$76 million to Total revenues and \$28 million to Operating Profit in our 2016 Consolidated Statement of Income.

On January 27, 2017, YUM's Board of Directors approved a change in the Company's fiscal year from a year ending on the last Saturday of December to a year beginning on January 1 and ending December 31 of each year, commencing with the year ending December 31, 2017. In connection with this change, the Company moved from a 52-week periodic fiscal calendar with three 12-week interim quarters and a 16-week fourth quarter to a monthly reporting calendar with each quarter comprised of three months. Our U.S. subsidiaries continue to report on a period calendar as described above.

Concurrent with the change in the Company's fiscal year, we also eliminated the one month or one period reporting lags of our international subsidiaries. As a result of removing these reporting lags, each international subsidiary operates either on a monthly calendar consistent with the Company's new calendar or on a periodic calendar consistent with our U.S. subsidiaries. We believe this change in our international subsidiary reporting calendars and the resulting elimination of reporting lags is preferable because a more current reporting calendar allows the Consolidated Financial Statements to more consistently and more timely reflect the impact of current events, economic conditions and global trends.

The change to the Company's fiscal year and removal of the international reporting lags became effective beginning in 2017. We applied this change in accounting principle retrospectively to financial periods presented prior to 2017 and

the impact of this change is summarized in Note 5. The impact of the change in accounting principle on the current period Consolidated Financial Statements is similar to the impact on the prior period results discussed in Note 5.

Our next fiscal year scheduled to include a 53rd week is 2019.

**Foreign Currency.** The functional currency of our foreign entities is the currency of the primary economic environment in which the entity operates. Functional currency determinations are made based upon a number of economic factors, including but not limited to cash flows and financing transactions. The operations, assets and liabilities of our entities outside the U.S. are initially measured using the functional currency of that entity. Income and expense accounts for our operations of these foreign entities are then translated into U.S. dollars at the average exchange rates prevailing during the period. Assets and liabilities of these foreign entities are then translated into U.S. dollars at exchange rates in effect at the balance sheet date. As of December 31, 2018, net cumulative translation adjustment losses of \$245 million are recorded in Accumulated other comprehensive loss ("AOCI") in the Consolidated Balance Sheet.

The majority of our foreign currency net asset exposure is in countries where we have Company-owned restaurants. As we manage and share resources at the individual brand level within a country, cumulative translation adjustments are recorded and tracked at the foreign-entity level that represents the operations of our individual brands within that country. Translation adjustments recorded in AOCI are subsequently recognized as income or expense generally only upon sale of the related investment in a foreign entity, or upon a sale of assets and liabilities within a foreign entity that represents a complete or substantially complete liquidation of that foreign entity. For purposes of determining whether a sale or complete or substantially complete liquidation of an investment in a foreign entity has occurred, we consider those same foreign entities for which we record and track cumulative translation adjustments.

Gains and losses arising from the impact of foreign currency exchange rate fluctuations on transactions in foreign currency are included in Other (income) expense in our Consolidated Statements of Income.

**Reclassifications.** We have reclassified certain items in the Consolidated Financial Statements for prior periods to be comparable with the classification for the fiscal year ended December 31, 2018. These reclassifications had no effect on previously reported Net Income.

**Revenue Recognition.** From 2014 through 2017, the Financial Accounting Standards Board ("FASB") issued standards to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries ("Topic 606"). We adopted Topic 606 at the beginning of the year ended December 31, 2018. Below is a discussion of how our revenues are earned, our accounting policies pertaining to revenue recognition prior to the adoption of Topic 606 ("Legacy GAAP"), our accounting policies pertaining to revenue recognition subsequent to the adoption of Topic 606 and other required disclosures. Refer to Note 5 for information regarding the cumulative effect adjustment recorded to Accumulated deficit as of the beginning of the year ended December 31, 2018 to reflect the adoption of Topic 606. Also included in Note 5 is disclosure of the amount by which each balance sheet and income statement line item was impacted in the current reporting period as compared to Legacy GAAP.

#### Company Sales

Revenues from the sale of food items by Company-owned restaurants are recognized as Company sales when a customer purchases the food, which is when our obligation to perform is satisfied. The timing and amount of revenue recognized related to Company sales was not impacted by the adoption of Topic 606.

#### Franchise and Property Revenues

##### *Franchise Revenues*

Our most significant source of revenues arises from the operation of our Concepts' stores by our franchisees. Franchise rights may be granted through a store-level franchise agreement or through a master franchise agreement that set out the terms of our arrangement with the franchisee. Our franchise agreements require that the franchisee remit continuing fees to us as a percentage of the applicable restaurant's sales in exchange for the license of the intellectual property associated with our Concepts' brands (the "franchise right"). Our franchise agreements also typically require certain, less significant, upfront franchise fees such as initial fees paid upon opening of a store, fees paid to renew the term of the franchise right and fees paid in the event the franchise agreement is transferred to another franchisee.

Continuing fees represent the substantial majority of the consideration we receive under our franchise agreements. Continuing fees are typically billed and paid monthly and are usually 4%-6% for store-level franchise agreements. Master franchise agreements allow master franchisees to operate restaurants as well as sub-franchise restaurants

within certain geographic territories. The percentage of sales that we receive for restaurants owned or operated by our master franchisees as a continuing fee is typically less than the percentage we receive for restaurants operating under a store-level franchise agreement. Upfront franchise fees are typically billed and paid when a new franchise or sub-franchise agreement becomes effective or when an existing agreement is transferred to another franchisee or sub-franchisee.

Under Legacy GAAP, continuing fees were recognized as the related restaurant sales occurred. The timing and amount of revenue recognized related to continuing fees was not impacted by the adoption of Topic 606 based on the application of the sales-based royalty exception within Topic 606. Under Legacy GAAP, revenue related to initial fees was recognized upon store opening and renewal and transfer fees were recognized when the related agreement became effective. Upon the adoption of Topic 606, we have determined that the services we provide in exchange for these upfront franchise fees, which primarily relate to pre-opening support, are highly interrelated with the franchise right and are not individually distinct from the ongoing services we provide to our franchisees. As a result, upon the adoption of Topic 606, upfront franchise fees are recognized as revenue over the term of each

respective franchise or sub-franchise agreement. Revenues for these upfront franchise fees are recognized on a straight-line basis, which is consistent with the franchisee's or sub-franchisee's right to use and benefit from the intellectual property. Revenues from continuing fees and upfront franchise fees are presented within Franchise and property revenues in our Consolidated Statements of Income.

Additionally, from time-to-time we provide non-refundable consideration to franchisees in the form of cash or other incentives (e.g. cash payments to incent new unit openings, free or subsidized equipment, etc.). The Company's intent in providing such consideration is to drive new unit development or same-store sales growth that will result in higher future revenues for the Company. Under Legacy GAAP, this consideration was recognized when we were obligated to provide the incentive and was presented as either a reduction to Franchise and property revenues, if cash was provided directly to the franchisee, or as Franchise and property expenses, if cash was not provided directly to the franchisee. Due to the adoption of Topic 606, such payments are capitalized and presented within Prepaid expense and other current assets or Other assets. These capitalized balances are being amortized as a reduction in Franchise and property revenues over the period of expected cash flows from the franchise agreements to which the payment relates.

#### *Property Revenues*

From time to time, we enter into rental agreements with franchisees for the lease or sublease of restaurant locations. These rental agreements typically originate from refranchising transactions and revenues related to the agreements are recognized as they are earned. Amounts owed under the rental agreements are typically billed and paid on a monthly basis. Revenues from rental agreements with franchisees are presented within Franchise and property revenues within our Consolidated Statements of Income. Related expenses are presented as Franchise and property expenses within our Consolidated Statements of Income and primarily include depreciation or, in the case of a sublease, rental expense. The timing and amount of revenue and expenses recognized related to the rental of restaurants we lease or sublease was not impacted by the adoption of Topic 606.

#### Franchise Contributions for Advertising and Other Services

##### *Advertising Cooperatives*

Under Legacy GAAP, receipts and expenditures related to advertising cooperatives we were required to consolidate were presented on a net basis in our Consolidated Statements of Income and Consolidated Statements of Cash Flow. Additionally, assets and liabilities of the advertising cooperatives we were required to consolidate were presented within Advertising cooperative assets, restricted and Advertising cooperative liabilities, respectively, within our Consolidated Balance Sheets. In accordance with the provisions of Topic 606, we have determined we act as a principal in the transactions entered into by the advertising cooperatives we are required to consolidate based on our responsibility to define the nature of the goods or services provided and/or our responsibility to define which franchisees receive the benefit of the goods or services. Additionally, we have determined the advertising services provided to franchisees are highly interrelated with the franchise right and therefore not distinct. Franchisees remit to us a percentage of restaurant sales as consideration for providing the advertising services. As a result, revenues for advertising services are recognized when the related restaurant sales occur based on the application of the sales-based royalty exception within Topic 606. Revenues for these services are typically billed and paid on a monthly basis. These revenues are presented as Franchise contributions for advertising and other services. Expenses incurred to provide these services are presented as Franchise advertising and other services expense. When revenues of an advertising cooperative exceed the related advertising expenses, advertising costs are accrued up to the amount of revenues on an annual basis. Lastly, upon adoption of Topic 606 we have reclassified assets and liabilities of advertising cooperatives we are required to consolidate to the respective balance sheet caption to which the assets and liabilities relate.

*Other Services*

On a much more limited basis, we provide goods or services to certain franchisees that are individually distinct from the franchise right because they do not require integration with other goods or services we provide. Such arrangements typically relate to supply chain, quality assurance and information technology services. In instances where we rely on third parties to provide goods or services to franchisees at our direction, we have determined we act as a principal in these transactions. The extent to which we provide such goods or services varies by brand, geographic region and, in some instances, franchisee. Similar to advertising services, receipts and expenditures related to these other services were presented on a net basis under Legacy GAAP. Upon adoption of Topic 606, revenues from the goods or services described above are presented as Franchise contributions for advertising and other services within our Consolidated Statements of Income. Expenses related to the provisioning of these goods and services are recorded in Franchise advertising and other services expense. These revenues are recognized as the goods or services are transferred to the franchisee and related expenses are recognized as incurred.



*Franchise Support Costs*

The internal costs we incur to provide support services to our franchisees for which we do not receive a direct reimbursement are charged to General and administrative expenses (“G&A”) as incurred. Certain direct costs of our franchise operations are charged to Franchise and property expenses. These costs include provisions for estimated uncollectible fees, rent or depreciation expense associated with restaurants we lease or sublease to franchisees, franchise marketing funding, amortization expense for franchise-related intangible assets, value added taxes on royalties and certain other direct incremental franchise support costs.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue transaction and collected from a customer are excluded from revenue under both Legacy GAAP and Topic 606.

Disaggregation of Total Revenues

The following table disaggregates revenue by Concept, for our two most significant markets based on Operating Profit and for all other markets. We believe this disaggregation best reflects the extent to which the nature, amount, timing and uncertainty of our revenues and cash flows are impacted by economic factors.

	2018			
	KFC Division	Pizza Hut Division	Taco Bell Division	Total
U.S.				
Company sales	\$ 72	\$ 37	\$ 1,034	\$ 1,143
Franchise revenues	171	284	539	994
Property revenues	23	4	27	54
Franchise contributions for advertising and other services	9	269	428	706
China				
Franchise revenues	201	59	—	260
Other				
Company sales	822	32	3	857
Franchise revenues	825	248	24	1,097
Property revenues	74	3	—	77
Franchise contributions for advertising and other services	447	52	1	500
	\$ 2,644	\$ 988	\$ 2,056	\$ 5,688

Contract Liabilities

Our contract liabilities are comprised of unamortized upfront fees received from franchisees. A summary of significant changes to the contract liability balance during 2018 is presented below.

Balance at January 1, 2018	Deferred Franchise Fees \$ 392 (66 )
----------------------------	--

Edgar Filing: YUM BRANDS INC - Form 10-K

Revenue recognized that was included in unamortized upfront fees received from franchisees at the beginning of the period	
Increase for upfront fees associated with contracts that became effective during the period, net of amounts recognized as revenue during the period	102
Other <sup>(a)</sup>	(14 )
Balance at December 31, 2018	\$ 414

Includes impact of foreign currency translation as well as the recognition of deferred franchise fees into (a) Refranchising (gain) loss upon the modification of existing franchise agreements when entering into master franchise agreements.

We expect to recognize contract liabilities as revenue over the remaining term of the associated franchise agreement as follows:

Less than 1 year	\$60
1 - 2 years	55
2 - 3 years	51
3 - 4 years	47
4 - 5 years	42
Thereafter	159
Total	\$414

We have applied the optional exemption, as provided for under Topic 606, which allows us to not disclose the transaction price allocated to unsatisfied performance obligations when the transaction price is a sales-based royalty.

**Direct Marketing Costs.** To the extent we participate in advertising cooperatives, we expense our contributions as incurred, which are based on a percentage of sales of our Company restaurants. We charge direct marketing costs incurred outside of a cooperative to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year the advertisement is first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs that will generally be used for the first time in the next fiscal year and have historically not been significant. We report the majority of our direct marketing costs in Company restaurant expenses. Advertising incurred on behalf of franchised restaurants by the Company is recorded within Franchise and property expenses, including \$12.5 million and \$25 million related to the Pizza Hut U.S. Transformation Agreement in 2018 and 2017, respectively, and \$10 million, \$20 million and \$20 million related to the KFC U.S. Acceleration Agreement in 2018, 2017 and 2016, respectively. See Note 5 for further discussion of these agreements. Advertising expenses incurred by our Company-owned restaurants and those incurred on behalf of franchised restaurants by the Company totaled \$131 million, \$245 million and \$260 million in 2018, 2017 and 2016, respectively. In 2018 we incurred an additional \$1,035 million in spending attributable to franchise contributions to advertising cooperatives that we consolidate and are now reporting on a gross basis within our Consolidated Statements of Income subsequent to the adoption Topic 606.

**Share-Based Employee Compensation.** We recognize ongoing share-based payments to employees, including grants of employee stock options and stock appreciation rights (“SARs”), in the Consolidated Financial Statements as compensation cost over the service period based on their fair value on the date of grant. This compensation cost is recognized over the service period on a straight-line basis, net of an assumed forfeiture rate, for awards that actually vest. Forfeiture rates are estimated at grant date based on historical experience and compensation cost is adjusted in subsequent periods for differences in actual forfeitures from the previous estimates. We present this compensation cost consistent with the other compensation costs for the employee recipient in either Company restaurant expenses or G&A. See Note 15 for further discussion of our share-based compensation plans.

**Legal Costs.** Settlement costs are accrued when they are deemed probable and reasonably estimable. Anticipated legal fees related to self-insured workers' compensation, employment practices liability, general liability, automobile liability, product liability and property losses (collectively, "property and casualty losses") are accrued when deemed probable and reasonably estimable. Legal fees not related to self-insured property and casualty losses are recognized as incurred. See Note 19 for further discussion of our legal proceedings.

**Impairment or Disposal of Property, Plant and Equipment.** Property, plant and equipment (“PP&E”) is tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The assets are not recoverable if their carrying value is less than the undiscounted cash flows we expect

to generate from such assets. If the assets are not deemed to be recoverable, impairment is measured based on the excess of their carrying value over their fair value.

For purposes of impairment testing for our restaurants, we have concluded that an individual restaurant is the lowest level of independent cash flows unless it is more likely than not that we will rebrand restaurants as a group. We review our long-lived assets of such individual restaurants (primarily PP&E and allocated intangible assets subject to amortization) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We use two consecutive years of operating losses as our primary indicator of potential impairment for our semi-annual impairment testing of these restaurant assets. We evaluate the recoverability of these restaurant assets by comparing the estimated undiscounted future cash flows, which are based on our entity-specific assumptions, to the carrying value of such assets. For restaurant assets that are not deemed to be recoverable, we write-down an impaired restaurant to its estimated fair value, which becomes its new cost basis. Fair value is an estimate of the price a franchisee would pay for the restaurant and its related assets and is determined by discounting the estimated future after-tax cash flows of the restaurant, which include a deduction

for royalties we would receive under a franchise agreement with terms substantially at market. The after-tax cash flows incorporate reasonable assumptions we believe a franchisee would make such as sales growth and margin improvement. The discount rate used in the fair value calculation is our estimate of the required rate of return that a franchisee would expect to receive when purchasing a similar restaurant and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows. Individual restaurant-level impairment is recorded within Other (income) expense.

In executing our refranchising initiatives, we most often offer groups of restaurants for sale. When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. We evaluate the recoverability of these restaurant assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the restaurant or group of restaurants. For restaurant assets that are not deemed to be recoverable, we recognize impairment for any excess of carrying value over the fair value of the restaurants, which is based on the expected net sales proceeds. To the extent ongoing agreements to be entered into with the franchisee simultaneous with the refranchising are expected to contain terms, such as royalty rates, not at prevailing market rates, we consider the off-market terms in our impairment evaluation. We recognize any such impairment charges in Refranchising (gain) loss. Refranchising (gain) loss includes the gains or losses from the sales of our restaurants to new and existing franchisees, including any impairment charges discussed above, and associated termination, relocation or retention costs associated with store-level employees of refranchised stores or employees of restaurant-support centers which we have closed due to refranchising. We recognize gains on restaurant refranchisings when the sale transaction closes and control of the restaurant operations have transferred to the franchisee.

When we decide to close a restaurant, it is reviewed for impairment and depreciable lives are adjusted based on the expected disposal date. Other costs incurred when closing a restaurant such as costs of disposing of the assets as well as other facility-related expenses from previously closed stores are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income, if any. Any costs recorded upon store closure as well as any subsequent adjustments to liabilities for remaining lease obligations as a result of lease termination or changes in estimates of sublease income are recorded in Other (income) expense. To the extent we sell assets, primarily land, associated with a closed store, any gain or loss upon that sale is also recorded in Other (income) expense.

Considerable management judgment is necessary to estimate future cash flows, including cash flows from continuing use, terminal value, sublease income and refranchising proceeds. Accordingly, actual results could vary significantly from our estimates.

**Guarantees.** We recognize, at inception of a guarantee, a liability for the fair value of certain obligations undertaken. The majority of our guarantees are issued as a result of assigning our interest in obligations under operating leases as a condition to the refranchising of certain Company restaurants. We recognize a liability for the fair value of such lease guarantees upon refranchising and upon subsequent renewals of such leases when we remain secondarily liable. The related expense and any subsequent changes are included in Refranchising (gain) loss. Any expense and subsequent changes in the guarantees for other franchise support guarantees not associated with a refranchising transaction are included in Franchise and property expenses.

**Income Taxes.** We record deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences or carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in

tax rates is recognized in our Income tax provision in the period that includes the enactment date. Additionally, in determining the need for recording a valuation allowance against the carrying amount of deferred tax assets, we consider the amount of taxable income and periods over which it must be earned, actual levels of past taxable income and known trends and events or transactions that are expected to affect future levels of taxable income. Where we determine that it is more likely than not that all or a portion of an asset will not be realized, we record a valuation allowance.

We recognize the benefit of positions taken or expected to be taken in our tax returns in our income tax provision when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. We evaluate these amounts on a quarterly basis to ensure that they have been appropriately adjusted for audit settlements and other events we believe may impact the outcome. Changes in judgment that result in subsequent recognition, derecognition or a change in measurement of a tax position taken in a prior annual period (including any related interest and penalties) are recognized as a discrete item in the interim period in which the change occurs. We recognize accrued interest and penalties related to unrecognized tax benefits as components of our income tax provision.

We do not record a deferred tax liability for unremitted earnings of our foreign subsidiaries to the extent that the earnings meet the indefinite reversal criteria. This criteria is met if the foreign subsidiary has invested, or will invest, the earnings indefinitely. The decision as to the amount of unremitted earnings that we intend to maintain in non-U.S. subsidiaries considers items including, but not limited to, forecasts and budgets of financial needs of cash for working capital, liquidity plans and expected cash requirements in the U.S.

See Note 17 for a further discussion of our income taxes.

**Fair Value Measurements.** Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities we record or disclose at fair value, we determine fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, we determine fair value based upon the quoted market price of similar assets or the present value of expected future cash flows considering the risks involved, including counterparty performance risk if appropriate, and using discount rates appropriate for the duration. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

Level 1 Inputs based upon quoted prices in active markets for identical assets.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 Inputs that are unobservable for the asset.

**Cash and Cash Equivalents.** Cash equivalents represent funds we have temporarily invested (with original maturities not exceeding three months), including short-term, highly liquid debt securities. Cash and overdraft balances that meet the criteria for right of setoff are presented net on our Consolidated Balance Sheet.

**Receivables.** The Company's receivables are primarily generated from ongoing business relationships with our franchisees as a result of franchise and lease agreements. Trade receivables consisting of royalties from franchisees, including Yum China, are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts and notes receivable, net on our Consolidated Balance Sheet. Upon adoption of Topic 606, Accounts and notes receivable, net also includes receivables generated from advertising cooperatives that we consolidate that, under Legacy GAAP, were previously recorded in Advertising cooperative assets, restricted. Our provision for uncollectible franchisee receivable balances is based upon pre-defined aging criteria or upon the occurrence of other events that indicate that we may not collect the balance due. Additionally, we monitor the financial condition of our franchisees and record provisions for estimated losses on receivables when we believe it probable that our franchisees will be unable to make their required payments. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. We recorded \$11 million, \$5 million and less than \$1 million in net provisions within Franchise and property expenses in 2018, 2017 and 2016, respectively, related to uncollectible franchise and license receivables. Receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts.

	2018	2017
Accounts and notes receivable	\$592	\$419
Allowance for doubtful accounts	(31 )	(19 )
Accounts and notes receivable, net	\$561	\$400

Our financing receivables primarily consist of notes receivables and direct financing leases with franchisees which we enter into from time-to-time. As these receivables primarily relate to our ongoing business agreements with franchisees, we consider such receivables to have similar risk characteristics and evaluate them as one collective portfolio segment and class for determining the allowance for doubtful accounts. We monitor the financial condition of our franchisees and record provisions for estimated losses on receivables when we believe it is probable that our franchisees will be unable to make their required payments. Balances of notes receivable and direct financing leases due within one year are included in Accounts and notes receivable, net while amounts due beyond one year are included in Other assets. Amounts included in Other assets totaled \$62 million (net of an allowance of \$1 million) and \$38 million at December 31, 2018 and December 31, 2017, respectively. Financing receivables that are ultimately



deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. Interest income recorded on financing receivables has historically been insignificant.

**Property, Plant and Equipment.** We state PP&E at cost less accumulated depreciation and amortization. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 5 to 25 years for buildings and leasehold improvements and 3 to 20 years for machinery and equipment. We suspend depreciation and amortization on assets that are held for sale.

**Leases and Leasehold Improvements.** The Company leases land, buildings or both for certain of its restaurants and restaurant support centers worldwide. The length of our lease terms, which vary by country and often include renewal options, are an important factor in determining the appropriate accounting for leases including the initial classification of the lease as capital or operating and the timing of recognition of rent expense over the duration of the lease. We include renewal option periods in determining the term of our leases when failure to renew the lease would impose a penalty on the Company in such an amount that a renewal appears to be reasonably assured at the inception of the lease. The primary penalty to which we are subject is the economic detriment associated with the existence of leasehold improvements which might be impaired if we choose not to continue the use of the leased property. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term. We generally do not receive leasehold improvement incentives upon opening a store that is subject to a lease.

We expense rent associated with leased land or buildings while a restaurant is being constructed whether rent is paid or we are subject to a rent holiday. Additionally, certain of the Company's operating leases contain predetermined fixed escalations of the minimum rent during the lease term. For leases with fixed escalating payments and/or rent holidays, we record rent expense on a straight-line basis over the lease term, including any option periods considered in the determination of that lease term. Contingent rentals are based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense when attainment of the contingency is considered probable (e.g. when Company sales occur).

**Goodwill and Intangible Assets.** From time-to-time, the Company acquires restaurants from one of our Concept's franchisees or acquires another business. Goodwill from these acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. Goodwill is not amortized and has been assigned to reporting units for purposes of impairment testing. Our reporting units are our business units (which are aligned based on geography) in our KFC, Pizza Hut and Taco Bell Divisions.

We evaluate goodwill for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairment might exist. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. We may elect to perform a qualitative assessment for our reporting units to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit's fair value is compared to its carrying value. Fair value is the price a willing buyer would pay for a reporting unit, and is generally estimated using discounted expected future after-tax cash flows from Company-owned restaurant operations and franchise royalties. The discount rate is our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the

restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained. The fair value of the portion of the reporting unit disposed of in a refranchising is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which includes a deduction for the anticipated, future royalties the franchisee will pay us associated with the franchise agreement entered into simultaneously with the refranchising transition. The fair value of the reporting unit retained is based on the price a willing buyer would pay for the reporting unit and includes the value of franchise agreements. Appropriate adjustments are made if a franchise agreement includes terms that are determined to not be at prevailing market rates. As such, the fair value of the reporting unit retained can include expected cash flows from future royalties from those restaurants currently being refranchised, future royalties from existing franchise businesses and company restaurant operations. As a result, the percentage of a reporting unit's goodwill that will be written off in a refranchising transaction will be less than the percentage of the reporting unit's Company-owned restaurants that are refranchised in that transaction and goodwill can be allocated to a reporting unit with only franchise restaurants.

Our definite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable on an undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the definite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

**Capitalized Software.** We state capitalized software at cost less accumulated amortization within Intangible assets, net on our Consolidated Balance Sheets. We calculate amortization on a straight line basis over the estimated useful life of the software which ranges from 3 to 7 years.

**Derivative Financial Instruments.** We use derivative instruments primarily to hedge interest rate and foreign currency risks. These derivative contracts are entered into with financial institutions. We do not use derivative instruments for trading purposes and we have procedures in place to monitor and control their use.

We record all derivative instruments on our Consolidated Balance Sheet at fair value. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instrument for a cash flow hedge is recorded in the results of operations immediately. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the results of operations immediately.

As a result of the use of derivative instruments, the Company is exposed to risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. At December 31, 2018 and December 31, 2017, all of the counterparties to our interest rate swaps, foreign currency swaps and foreign currency forwards had investment grade ratings according to the three major ratings agencies. To date, all counterparties have performed in accordance with their contractual obligations.

**Common Stock Share Repurchases.** From time-to-time, we repurchase shares of our Common Stock under share repurchase programs authorized by our Board of Directors. Shares repurchased constitute authorized, but unissued shares under the North Carolina laws under which we are incorporated. Additionally, our Common Stock has no par or stated value. Accordingly, we record the full value of share repurchases, or other deductions to Common Stock such as shares cancelled upon employee share-based award exercises, upon the trade date, against Common Stock on our Consolidated Balance Sheet except when to do so would result in a negative balance in such Common Stock account. In such instances, on a period basis, we record the cost of any further share repurchases, or other deductions to Common Stock as an addition to Accumulated deficit. Due to the large number of share repurchases of our stock over the past several years, our Common Stock balance is frequently zero at the end of any period. Accordingly, \$2,356 million, \$1,915 million and \$5,399 million in share repurchases in 2018, 2017 and 2016, respectively, and \$20 million related to shares cancelled upon employee share-based award exercises in 2017 were recorded as an addition to Accumulated deficit. See Note 16 for additional information on our share repurchases.

**Pension and Post-retirement Medical Benefits.** We measure and recognize the overfunded or underfunded status of our pension and post-retirement plans as an asset or liability in our Consolidated Balance Sheet as of our fiscal year end. The funded status represents the difference between the projected benefit obligations and the fair value of plan assets, which is calculated on a plan-by-plan basis. The projected benefit obligation and related funded status are determined using assumptions as of the end of each year. The projected benefit obligation is the present value of

benefits earned to date by plan participants, including the effect of future salary increases, as applicable. The difference between the projected benefit obligations and the fair value of plan assets that has not previously been recognized in our Consolidated Statement of Income is recorded as a component of AOCI.

The net periodic benefit costs associated with the Company's defined benefit pension and post-retirement medical plans are determined using assumptions regarding the projected benefit obligation and, for funded plans, the market-related value of plan assets as of the beginning of each year, or remeasurement period, if applicable. We record the service cost component of net periodic benefit costs in G&A. Non-service cost components are recorded in Other pension (income) expense. We have elected to use a market-related value of plan assets to calculate the expected return on assets, net of administrative and investment fees paid from plan assets, in net periodic benefit costs. We recognize differences in the fair value versus the market-related value of plan assets evenly over five years. For each individual plan we amortize into pension expense the net amounts in AOCI, as adjusted for the difference between the fair value and market-related value of plan assets, to the extent that such amounts exceed 10% of the greater of a plan's projected benefit obligation or market-related value of assets, over the remaining service period of active participants in the plan or, for plans with no active participants, over the expected average life expectancy of the inactive participants

in the plan. We record a curtailment when an event occurs that significantly reduces the expected years of future service or eliminates the accrual of defined benefits for the future services of a significant number of employees. We record a curtailment gain when the employees who are entitled to the benefits terminate their employment; we record a curtailment loss when it becomes probable a loss will occur.

We recognize settlement gains or losses only when we have determined that the cost of all settlements in a year will exceed the sum of the service and interest costs within an individual plan.

**Recent Accounting Pronouncements.** Starting in February 2016 and continuing into 2018, the FASB issued standards on the recognition and measurement of leases that are intended to increase transparency and comparability among organizations by requiring that substantially all lease assets and liabilities be recognized on the balance sheet and by requiring the disclosure of key information about leasing arrangements. We will adopt these standards using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the first quarter of 2019 and will not recast the comparative periods presented in the Consolidated Financial Statements upon adoption.

The standards provide a number of optional practical expedients and policy elections in transition. We currently expect to elect the 'package of practical expedients' under which we will not reassess under the standards our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. We currently expect to elect the short-term lease recognition exemption for all leases that qualify, meaning we would not recognize right-of-use assets or lease liabilities for those leases. We do not currently expect to elect the practical expedient to not separate lease and non-lease components for leases with franchisees, which is our most significant leasing activity with both lease and non-lease components.

We have made significant progress in assessing the impact of the standards and planning for their adoption and implementation. We have completed a scoping analysis and worldwide data gathering process of our current lease portfolio. We are substantially complete with reviewing the information for completeness of the lease portfolio, analyzing the financial statement impact of adopting the standards, and evaluating the impact of adoption on our existing accounting policies and disclosures.

Based on our current volume of store leases we expect this adoption will result in a material increase in the Total Assets and Total Liabilities on our Consolidated Balance Sheet. We do not anticipate adoption will have a significant impact on our Consolidated Statements of Income or Cash Flows. Upon adoption, we currently expect to recognize additional lease liabilities of \$750 million and corresponding right-of-use assets of \$675 million.

In January 2016, the FASB issued a standard that updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. We adopted this standard beginning with the quarter ended March 31, 2018. While the adoption of this standard did not have a material impact on our Financial Statements the standard requires our investment in Grubhub common stock, which was consummated in April 2018 (See Note 5), to be remeasured to fair value in each future reporting period with corresponding changes recorded in our Consolidated Statement of Income.

In October 2016, the FASB issued a standard that requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. As required, we adopted this standard in the quarter ended March 31, 2018 and have recorded a cumulative adjustment to beginning retained earnings to write-off the unamortized tax consequences of certain historical intra-entity transfers of assets. As a result, we recognized a reduction in Other assets of \$30 million with an offsetting increase to our Accumulated deficit.

In August 2017, the FASB issued a standard that refines and expands existing hedge accounting guidance. We adopted this standard beginning with the quarter ended March 31, 2018. The adoption of this standard did not have a material impact on the Financial Statements.

In February 2018, the FASB issued a standard that allows a reclassification to retained earnings for tax effects that were stranded within AOCI subsequent to the accounting in the fourth quarter of 2017 necessary as a result of the enactment of the Tax Cuts and Jobs Act of 2017. We adopted this standard during the quarter ended March 31, 2018 and reclassified stranded tax effects of \$19 million from AOCI with a corresponding decrease to Accumulated deficit at the beginning of our first quarter 2018. These stranded tax effects primarily related to the remeasurement of deferred tax assets associated with pension losses within AOCI. The Company's policy is to follow the specific identification approach for releasing stranded tax effects from AOCI.

**Note 3 - Earnings Per Common Share (“EPS”)**

	2018	2017	2016
Income from continuing operations	\$1,542	\$1,340	\$1,018
Income from discontinued operations	N/A	N/A	625
Net Income	\$1,542	\$1,340	\$1,643
Weighted-average common shares outstanding (for basic calculation)	322	347	394
Effect of dilutive share-based employee compensation	7	8	6
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	329	355	400
Basic EPS from continuing operations	\$4.80	\$3.86	\$2.58
Basic EPS from discontinued operations	N/A	N/A	1.59
Basic EPS	\$4.80	\$3.86	\$4.17
Diluted EPS from continuing operations	\$4.69	\$3.77	\$2.54
Diluted EPS from discontinued operations	N/A	N/A	\$1.56
Diluted EPS	\$4.69	\$3.77	\$4.10
Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS computation <sup>(a)</sup>	2.0	2.3	5.0

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

**Note 4 - Discontinued Operations**

As discussed in Note 1, on October 31, 2016, the Company completed the Separation of our China business.

In connection with the Separation, the Company and Yum China entered into a Separation and Distribution Agreement as well as various other agreements that provide a framework for the relationships between the parties, including among others a Tax Matters Agreement, an Employee Matters Agreement, a Transition Services Agreement and a Master License Agreement. These agreements provided for the allocation between the Company and Yum China of assets, employees, liabilities and obligations (including investments, property, employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after the Separation and govern certain relationships between the Company and Yum China after the Separation.

For all the periods prior to the Separation, the financial results of Yum China are presented as Income from discontinued operations, net of tax in the Consolidated Statements of Income and Cash flows from discontinued operations in our Consolidated Statements of Cash Flows.

The financial results of Yum China presented in discontinued operations reflect the results of the former China Division, an operating segment of the Company until the Separation, adjusted for the inclusion of certain G&A, non-cash impairment charges, refranchising gains, interest and income taxes that were previously not allocated to but were related to the former China Division's historical results of operations.

Additionally, these financial results reflect a deduction for royalties on sales of KFC and Pizza Hut Company-owned stores in China that prior to the Separation were paid, pursuant to an intercompany franchise agreement, by an entity of Yum China to a Company entity. This royalty expense was not reflected in our China Division results that were presented prior to the Separation, as it was then an intercompany transaction that was eliminated in consolidation, but has been reflected in our Company's discontinued operations as such royalty arrangement continued pursuant to the Master License Agreement. Additionally, our China Division results that were presented prior to the Separation have

been adjusted to exclude the portion of the royalties paid by third-party franchisees in China that have historically and continue to be remitted to a Company entity. These adjustments to our previously presented China Division results in determining Income from discontinued operations, net of tax were offset by adjustments to our KFC and Pizza Hut Divisions' results such that there was no impact on total reported Net Income.



The following table presents the financial results of the Company's discontinued operations:

	2016 <sup>(a)</sup>
Company sales	\$5,667
Franchise and property revenues	109
Company restaurant expenses	(4,766 )
G&A expenses <sup>(b)</sup>	(406 )
Franchise and property expenses	(45 )
Other income (expense) <sup>(c)</sup>	(8 )
Refranchising gain	12
Interest income, net	8
Income from discontinued operations before income taxes	571
Income tax benefit <sup>(d)</sup>	65
Income from discontinued operations - including noncontrolling interests	636
Income from discontinued operations - noncontrolling interests	(11 )
Income from discontinued operations, net of tax	\$625

(a) Includes Yum China financial results from January 1, 2016 to October 31, 2016.

(b) Includes costs incurred to execute the Separation of \$68 million for 2016. Such costs primarily relate to transaction advisors, legal and other consulting fees.

(c) Includes store closure and impairment expenses and equity income from KFC franchisees in which Yum China owns a minority interest.

(d) During 2016, we recorded a tax benefit of \$233 million related to previously recorded losses associated with our Little Sheep business. The tax benefit associated with these losses was able to be recognized as a result of legal entity restructuring completed in anticipation of the Separation.

Cash inflows from Yum China to the Company in 2018, 2017 and 2016, subsequent to the Separation, related to the Master License Agreement was \$233 million, \$217 million and \$16 million, respectively, net of taxes paid and primarily related to royalty revenues.

## Note 5 -Items Affecting Comparability of Net Income and Cash Flows

### QuikOrder Acquisition

On December 21, 2018, we completed the acquisition of QuikOrder, LLC, an online ordering software and service provider for the restaurant industry ("QuikOrder"), who has been a provider of services to Company and franchise restaurants of our Pizza Hut U.S. business for nearly two decades. The purchase price to be allocated for accounting purposes of \$77 million consisted of cash, net of cash acquired, in the amount of \$66 million, settlement of a prepaid asset of \$6 million related to our preexisting contractual relationship with QuikOrder and contingent consideration of \$5 million. The acquisition is part of our strategy to deliver an easy and personalized online ordering experience and accelerate digital innovation. The financial results of QuikOrder have been included in our Consolidated Financial Statements since the date of the acquisition but did not significantly impact our results for the year ended December 31, 2018. Subsequent to the acquisition, fees paid by franchisees for use of the QuikOrder software are being presented within Franchise contributions for advertising and other services. Associated costs we incur are being primarily presented within Franchise advertising and other services expense.

The primary assets recorded as a result of the preliminary purchase price allocation were goodwill of \$39 million and amortizable intangible assets (primarily software) of \$33 million. The goodwill recorded resulted from increased synergies expected to be achieved through leveraging our scale and resources to enhance the services previously offered by QuikOrder. The goodwill amortization is deductible for tax purposes and has been allocated to the Pizza Hut U.S. reporting unit..

The pro forma impact on our results of operations if the acquisition had been completed as of the beginning of 2017 would not have been significant. The direct transaction costs associated with the acquisition were also not material and were expensed as incurred.

Tax Cuts and Jobs Act of 2017 ("Tax Act")

We recognized \$434 million in our Income tax provision for the year ended December 31, 2017 as a result of the December 22, 2017 enactment of the Tax Act. During the year ended December 31, 2018, we recorded a \$35 million decrease related to our provisional tax expense recorded in the fourth quarter of 2017 associated with the Tax Act. See Note 17.

Refranchising (Gain) Loss

The Refranchising (gain) loss by reportable segment is presented below. Given the size and volatility of recent refranchising initiatives, our chief operating decision maker ("CODM") does not consider the impact of Refranchising (gain) loss when assessing segment performance. As such, we do not allocate such gains and losses to our segments for performance reporting purposes.

During the years ended December 31, 2018, 2017 and 2016, we refranchised 660, 1,470 and 432 restaurants, respectively. We received \$825 million, \$1,773 million and \$370 million in pre-tax proceeds in 2018, 2017 and 2016, respectively, related to these transactions.

A summary of Refranchising (gain) loss is as follows:

	Refranchising (gain) loss		
	2018	2017	2016
KFC Division	\$(240)	\$(581)	\$(44)
Pizza Hut Division	13	(16)	(48)
Taco Bell Division	(313)	(486)	(71)
Worldwide	\$(540)	\$(1,083)	\$(163)

As a result of classifying restaurant and related assets as held-for-sale and ceasing depreciation expense as well as recording any related write-downs to fair value, depreciation expense was reduced versus what would have otherwise been recorded by \$3 million and \$10 million during the years ended December 31, 2018 and 2017, respectively. Our CODM does not consider the impact of these depreciation reductions, which were recorded within Company restaurant expenses when assessing segment performance. These depreciation reductions were not allocated to the Division segments resulting in depreciation expense continuing to be recorded within our Divisional results at the rate at which it was prior to the held-for-sale classification.

YUM's Strategic Transformation Initiatives

In October 2016, we announced our strategic transformation plans to drive global expansion of the KFC, Pizza Hut and Taco Bell brands ("YUM's Strategic Transformation Initiatives") following the then anticipated separation of our China business on October 31, 2016. Major features of the Company's strategic transformation plans involve being more focused on the development of our three brands, increasing our franchise ownership and creating a leaner, more efficient cost structure. We incurred pre-tax costs of \$8 million, \$23 million and \$67 million related to our Strategic Transformation Initiatives in 2018, 2017 and 2016, respectively, primarily recorded in G&A. In 2018 and 2017, these costs included contract termination costs and relocation and severance costs for restaurant-support center employees. In 2016, these costs included restaurant-support center employee severance costs, charges associated with a voluntary retirement program offered to certain U.S. restaurant-support center employees, consulting costs incurred to facilitate YUM's Strategic Transformation Initiatives and losses associated with our sale of Corporate aircraft upon our decision to no longer own aircraft. Due to the scope of the initiatives as well as their significance, our CODM does not consider

the associated cost when assessing segment performance. As such, these costs are not being allocated to any of our segment operating results for performance reporting purposes.

Modifications of Share-based Compensation Awards

In connection with the Separation, we modified certain share-based compensation awards held as part of our Executive Income Deferral ("EID") Plan in phantom shares of YUM Common Stock to provide one phantom Yum China share-based award for each outstanding phantom YUM share-based award. Through October 31, 2018, these Yum China awards could be settled in cash, as opposed to stock, which requires recognition of the fair value of these awards within G&A in our Consolidated Income Statement. During 2018, 2017 and 2016, we recorded pre-tax credits of \$3 million, charges of \$18 million and charges of \$30 million, respectively, related to these awards due to changes in the market price of Yum China's common stock. Given these adjustments

were a direct result of the Separation, our CODM did not consider their impact when assessing segment performance. As such, these amounts were not being allocated to any of our segment operating results.

As of October 31, 2018, deferrals in phantom shares of Yum China common stock are no longer an investment option within our EID Plan and any balances relating to these shares were moved to another available EID Plan investment option as selected by the participants. Amounts directed into cash or phantom shares of a Stock Index Fund or a Bond Index Fund remained classified as a liability and any appreciation or depreciation in these investments from the transfer date forward will be recognized as compensation expense and included in our segment operating results consistent with existing investments in these funds. Any balances directed into phantom shares of YUM Common Stock were reclassified to Common Stock on our Consolidated Balance Sheet. We do not recognize compensation expense for the appreciation or depreciation, if any, of investments in phantom shares of our Common Stock. See Note 15 for further description of our EID Plan.

#### Pizza Hut U.S. Transformation Agreement

In May 2017, we reached an agreement with Pizza Hut U.S. franchisees that will improve brand marketing alignment, accelerate enhancements in operations and technology and that includes a permanent franchisee commitment to incremental advertising as well as digital and technology contributions (the “Transformation Agreement”). In connection with the Transformation Agreement we anticipate investing approximately \$90 million from 2017 to 2019 to upgrade restaurant equipment to improve operations, fund improvements in restaurant technology and enhance digital and e-commerce capabilities.

We invested \$39 million related to the Transformation Agreement in 2017, which included \$8 million of investments that we capitalized and \$31 million that was expensed primarily as Franchise and property expenses or G&A. The \$31 million expense amount included \$5 million of franchisee incentive payments that under Legacy GAAP were expensed as incurred, but that upon adoption of Topic 606 in 2018 were capitalized. In 2018, both amounts capitalized upon adoption of Topic 606 and franchisee incentive payments capitalized thereafter are being amortized as a reduction to Franchise and property revenues over the period of expected cash flows from the franchise agreements to which the payments relate.

We invested \$25 million in the year ended December 31, 2018 related to the Transformation Agreement, primarily consisting of capital investments and franchisee incentive payments that were capitalized.

Due to their unique and long-term brand-building nature as well as their non-recurring impact on Pizza Hut’s Division results, the financial impact of operating investments that are part of the Transformation Agreement are not being considered by our CODM when assessing segment performance in 2017 or 2018. For the same reasons, franchisee incentive payments in 2017 that were expensed as incurred under Legacy GAAP were not considered in assessing segment performance in 2017. As such, these amounts were not allocated to the Pizza Hut Division operating segment results for performance reporting purposes. Depreciation on capital investments made as part of the Transformation Agreement is being allocated to Pizza Hut segment results as the expense is recurring and is not expected to significantly impact the comparability of results in any given period. For the same reasons, the amortization related to franchisee incentive payments that were capitalized upon the adoption of Topic 606 and amortization related to franchisee incentive payments that are being capitalized going forward are being allocated to Pizza Hut Division operating segment results starting in 2018.

In addition to the investments above, we agreed to fund \$37.5 million of incremental system advertising dollars from the second half of 2017 through 2018. During the year ended December 31, 2018, we incurred \$12.5 million in related incremental system advertising expense, fulfilling our advertising spend obligation. We funded approximately \$25 million of such advertising during 2017, which was expensed in the third and fourth quarters of 2017. These

advertising amounts were recorded primarily in Franchise and property expenses and are included in Pizza Hut's segment operating results.

KFC U.S. Acceleration Agreement

During 2015, we reached an agreement with our KFC U.S. franchisees that gave us brand marketing control as well as an accelerated path to expanded menu offerings, improved assets and enhanced customer experience. In connection with this agreement we are investing approximately \$130 million from 2015 through 2019 primarily to fund new back-of-house equipment for franchisees and to provide incentives to accelerate franchisee store remodels. Under Legacy GAAP these amounts were expensed as incurred including \$17 million and \$26 million during the years ended December 31, 2017 and 2016, respectively. We recorded total pre-tax charges for such amounts of \$115 million, primarily as Franchise and property expenses, during the three year period ended December 31, 2017. Due to their size and unique and long-term brand building nature, as well as their non-recurring impact on KFC Division's results when expensed upfront, our CODM did not consider the impact of these investments when assessing

segment performance from 2015 through 2017. As such, prior to 2018 the investments were not allocated to the KFC Division segment operating results for performance reporting purposes.

Upon adoption of Topic 606 in 2018, approximately \$100 million of these incentives paid to franchisees from 2015 through 2017 were capitalized, which was net of amortization of \$19 million. These capitalized amounts are now being amortized as a reduction to Franchise and property revenues over the period of expected cash flows from the franchise agreements to which the payment relates. Amortization related to both franchise incentive payments that were capitalized upon the adoption of Topic 606 and franchise incentive payments that will be capitalized going forward will be allocated to KFC segment operating results as the expense is recurring and is not expected to significantly impact the comparability of results in any given period.

In addition to the investments above, we agreed to fund \$60 million of incremental system advertising from 2015 through 2018. During the years ended December 31, 2018, 2017 and 2016, we incurred \$10 million, \$20 million and \$20 million, respectively, in incremental system advertising expense. As \$10 million in incremental system advertising expense was incurred in 2015, we have now fulfilled our advertising spend obligation. These advertising amounts were recorded primarily in Franchise and property expenses and were included in the KFC Division segment operating results.

#### Impact of Adopting New Revenue Recognition Standards

As discussed in Note 2, we adopted Topic 606 at the beginning of the year ended December 31, 2018, using the modified retrospective method. Topic 606 was applied to all contracts with customers as of January 1, 2018 and the cumulative effective of this transition was recorded as an adjustment to Accumulated deficit as of this date. As a result, the following adjustments were made to the Consolidated Balance Sheet as of January 1, 2018:

## CONSOLIDATED BALANCE SHEET

	As Reported 12/31/2017	Adjustments	Balances with Adoption of Topic 606 1/1/2018
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 1,522	\$ 11	\$ 1,533
Accounts and notes receivable, net	400	112	512
Prepaid expenses and other current assets	384	76	(a) 460
Advertising cooperative assets, restricted	201	(201 )	—
Total Current Assets	2,507	(2 )	2,505
Property, plant and equipment, net	1,594	2	1,596
Goodwill	512	—	512
Intangible assets, net	214	9	223
Other assets	345	118	463
Deferred income taxes	139	26	165
Total Assets	\$ 5,311	\$ 153	\$ 5,464
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
Current Liabilities			
Accounts payable and other current liabilities	\$ 813	\$ 220	\$ 1,033
Income taxes payable	123	—	123
Short-term borrowings	375	—	375
Advertising cooperative liabilities	201	(201 )	—
Total Current Liabilities	1,512	19	1,531
Long-term debt	9,429	—	9,429
Other liabilities and deferred credits	704	353	1,057
Total Liabilities	11,645	372	12,017
Shareholders' Deficit			
Accumulated deficit	(6,063 )	(240 )	(6,303 )
Accumulated other comprehensive loss	(271 )	21	(250 )
Total Shareholders' Deficit	(6,334 )	(219 )	(6,553 )
Total Liabilities and Shareholders' Deficit	\$ 5,311	\$ 153	\$ 5,464

(a) Includes \$58 million of restricted cash related to advertising cooperatives. These balances can only be used to settle obligations of the respective cooperatives.

We recorded an increase in Accounts payable and other current liabilities and Other liabilities and deferred credits of \$57 million and \$335 million, respectively, as part of our cumulative adjustment related to unamortized upfront franchise fees, with a corresponding \$392 million increase in Accumulated deficit. We recorded increases in Prepaid expenses and other current assets and Other assets of \$18 million and \$118 million, respectively, as part of our cumulative adjustment related to unamortized franchise incentives, with a corresponding \$136 million decrease in Accumulated deficit.



Deferred income taxes increased \$26 million as a result of recording the tax effects of the two adjustments noted above, with a corresponding decrease to Accumulated deficit. Accumulated other comprehensive loss decreased \$21 million as a result of recognizing the impact of foreign currency translation related to the three adjustments noted above, with a corresponding increase in Accumulated deficit.

The remaining adjustments to our December 31, 2017 Consolidated Balance Sheet are primarily a result of reclassifying the assets and liabilities of our consolidated advertising cooperates from Advertising cooperative assets, restricted and Advertising cooperative liabilities to the respective balance sheet caption to which the assets and liabilities relate.

The following tables reflect the impact of the adoption of Topic 606 on our Consolidated Statement of Income for the year ended December 31, 2018 and our Consolidated Balance Sheet as of December 31, 2018.

## CONSOLIDATED STATEMENT OF INCOME

	Year ended 12/31/2018		
	As Reported	Impact	Balances under Legacy GAAP
Revenues			
Company sales	\$2,000	\$—	\$2,000
Franchise and property revenues	2,482	43	2,525
Franchise contributions for advertising and other services	1,206	(1,206)	—
Total revenues	5,688	(1,163)	4,525
Costs and Expenses, Net			
Company restaurant expenses	1,634	—	1,634
General and administrative expenses	895	—	895
Franchise and property expenses	188	27	215
Franchise advertising and other services expense	1,208	(1,208)	—
Refranchising (gain) loss	(540 )	4	(536 )
Other (income) expense	7	—	7
Total costs and expenses, net	3,392	(1,177)	2,215
Operating Profit	2,296	14	(a) 2,310
Investment (income) expense, net	(9 )	—	(9 )
Other pension (income) expense	14	—	14
Interest expense, net	452	—	452
Income from continuing operations before income taxes	1,839	14	1,853
Income tax provision (benefit)	297	3	300
Net Income	\$1,542	\$11	\$1,553
Basic Earnings Per Common Share	\$4.80	\$0.03	\$4.83
Diluted Earnings Per Common Share	\$4.69	\$0.03	\$4.72

(a) Includes \$23 million of franchise incentive payments made to or on behalf of franchisees during 2018 that under Legacy GAAP would have been recognized as expense in full in 2018. Due to the size and nature of such payments, we historically would not have allocated their impact to our Divisional results. Upon the adoption of Topic 606, these payments have been capitalized as assets.

Upon the adoption of Topic 606, the timing and amount of revenue recognized for upfront franchise fees and franchise incentives changed from upfront recognition under Legacy GAAP to recognition over the term of the franchise agreement to which the fees and incentives relate. Also, under Legacy GAAP, amounts reported as Franchise contributions for advertising and other services and Franchise advertising and other services expense were presented on a net basis. Upon the adoption of Topic 606, these amounts require gross presentation in our Consolidated

Statements of Income. Lastly, Legacy GAAP required that certain value-added taxes withheld and remitted on our behalf by our franchisees be reported as revenue and corresponding expense in our Consolidated Statements of Income. Upon adoption of Topic 606, these taxes are reported on a net basis as a reduction in Franchise and property revenues.

## CONSOLIDATED BALANCE SHEET

	As Reported 12/31/2018	Impact	Balances under Legacy GAAP 12/31/2018
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 292	\$(13 )	\$ 279
Accounts and notes receivable, net	561	(120 )	441
Prepaid expenses and other current assets	354	(107 )	247
Advertising cooperative assets, restricted	—	241	241
Total Current Assets	1,207	1	1,208
Property, plant and equipment, net	1,237	(2 )	1,235
Goodwill	525	—	525
Intangible assets, net	242	(16 )	226
Other assets	724	(127 )	597
Deferred income taxes	195	(25 )	170
Total Assets	\$ 4,130	\$(169 )	\$ 3,961
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
Current Liabilities			
Accounts payable and other current liabilities	\$ 911	\$(287 )	\$ 624
Income taxes payable	69	—	69
Short-term borrowings	321	—	321
Advertising cooperative liabilities	—	241	241
Total Current Liabilities	1,301	(46 )	1,255
Long-term debt	9,751	—	9,751
Other liabilities and deferred credits	1,004	(354 )	650
Total Liabilities	12,056	(400 )	11,656
Shareholders' Deficit			
Accumulated deficit	(7,592 )	251	(7,341 )
Accumulated other comprehensive loss	(334 )	(20 )	(354 )
Total Shareholders' Deficit	(7,926 )	231	(7,695 )
Total Liabilities and Shareholders' Deficit	\$ 4,130	\$(169 )	\$ 3,961

The significant impacts resulting from the adoption of Topic 606 on our Consolidated Balance Sheet as of December 31, 2018, are consistent with those recorded as of January 1, 2018 as described previously.

Under Legacy GAAP, Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents pertaining to advertising cooperatives that we were required to consolidate were classified within Advertising cooperative assets, restricted. Upon adoption of Topic 606, these amounts are reflected on our Consolidated Balance Sheet and changes in these balances are reported within our Consolidated Statement of Cash Flows.

Investment in Grubhub

On February 7, 2018, certain of our subsidiaries entered into a master services agreement with a subsidiary of Grubhub, the leading online and mobile takeout food-ordering company in the U.S., which is intended to provide dedicated support for the KFC and Taco Bell branded online delivery channels in the U.S. through Grubhub's online ordering platform, logistics and last-mile support for delivery orders, as well as point-of-sale integration to streamline operations. Concurrently with the master services agreement, one of our subsidiaries entered into an investment agreement with Grubhub to invest \$200 million in exchange for approximately 2.8 million shares of Grubhub common stock. In April 2018, all necessary regulatory approvals were obtained and the purchase

77

---

of Grubhub shares was consummated. Shares acquired as part of this purchase are restricted from being transferred until the earlier of the two-year anniversary of closing the investment agreement or 30 days following the termination of our master services agreement with Grubhub. In the year ended December 31, 2018 we recognized pre-tax income of \$14 million, which includes the appreciation in the market price of Grubhub common stock less valuation adjustments related to the transfer restrictions. Changes in the fair value of our investment in Grubhub common stock are presented as Investment (income) expense, net within our Consolidated Statements of Income.

#### Items Impacting Other Pension (Income) Expense

During the first quarter of 2017, as a result of the completion of a pension data review and reconciliation, we recorded a non-cash, out-of-year charge of \$22 million to Other pension (income) expense to adjust our historical U.S. pension liability related to our deferred vested participants. Our CODM does not consider the impact of this charge when assessing segment performance given the number of years over which it accumulated. As such, this cost is not being allocated to any of our segment operating results for performance reporting purposes. See Note 14 for further discussion of our pension plans.

During the fourth quarter of 2016, the Company allowed certain former employees with deferred vested balances in the YUM Retirement Plan ("the Plan") an opportunity to voluntarily elect an early payout of their pension benefits. As a result of settlement payments made of approximately \$205 million related to this program, all of which were funded from existing Plan assets, we recorded a settlement charge of \$24 million to Other pension (income) expense. Due to the size and non-recurring nature of the program, our CODM does not consider the impact of these charges when assessing performance so they were not allocated to any of our segment operating results for performance reporting purposes.

#### Impact of Change in Reporting Calendar

As discussed in Note 2, we have changed our fiscal year from a year ending on the last Saturday of December to a year beginning on January 1 and ending on December 31 of each year commencing with the year ending December 31, 2017. We also removed the monthly or period reporting lags certain of our international subsidiaries historically used to report results. The impacts on our Consolidated Financial Statements of retrospectively applying these changes are included below:

	2016		
	As Previously Reported	Adjustments	After Change in Reporting Calendar
Total revenues	\$6,366	\$ (10 )	\$6,356
Operating Profit	1,625	25	(a) 1,650 (b)
Income from continuing operations	994	24	1,018
Income from discontinued operations, net of tax	625	—	625
Net Income	\$1,619	\$ 24	\$1,643
Diluted EPS from continuing operations	\$2.48	\$ 0.06	\$2.54
Diluted EPS from discontinued operations	1.56	—	1.56
Diluted EPS	\$4.04	\$ 0.06	\$4.10

(a) Primarily represents gains of \$24 million related to the refranchising of certain international restaurants which occurred in December 2016.

(b) Amount does not reconcile to our Consolidated Statements of Income for the year ended December 31, 2016 due to the impact of retrospectively adopting a new accounting standard on Benefit Costs of \$32 million.

In 2016, the impact on our Consolidated Statement of Cash Flows was a decrease in cash provided by operating activities of \$39 million, a decrease in cash used in investing activities of \$20 million and a decrease in cash used in financing activities of \$16 million.

**Note 6 – Supplemental Cash Flow Data**

	2018	2017	2016
Cash Paid For:			
Interest	\$455	\$442	\$297
Income taxes	279	346	314
Significant Non-Cash Investing and Financing Activities:			
Capital lease obligations incurred	\$4	\$8	\$10
Capital lease and other debt obligations transferred through franchising	(24 )	(35 )	(1 )
Reconciliation of Cash and cash equivalents to Consolidated Statements of Cash Flows:			
Cash and cash equivalents as presented in Consolidated Balance Sheets	\$292	\$1,522	\$725
Restricted cash included in Prepaid expenses and other current assets <sup>(a)</sup>	151	60	55
Restricted cash and restricted cash equivalents included in Other assets <sup>(b)</sup>	31	17	51
Cash, Cash Equivalents and Restricted Cash as presented in Consolidated Statements of Cash Flows <sup>(c)</sup>	\$474	\$1,599	\$831

Restricted cash within Prepaid expenses and other current assets reflects the cash related to advertising (a) cooperatives that we consolidate that can only be used to settle obligations of the respective cooperatives and Taco Bell Securitization interest reserves. See Note 10.

Primarily trust accounts related to our self-insurance program. 2016 also includes cash balances required, to the (b) extent necessary, to meet statutory minimum net worth requirements for legal entities which enter into U.S. franchise agreements.

Upon adoption of Topic 606 we reclassified cash of \$11 million and restricted cash of \$58 million, respectively, from Advertising cooperative assets, restricted to Cash and cash equivalents and Prepaid expenses and other (c) current assets. These amounts are included in the Beginning of Period balance of Cash, Cash Equivalents, Restricted Cash and Restricted Cash equivalents in our Consolidated Statement of Cash Flows for the year ended December 31, 2018.

**Note 7 – Other (Income) Expense**

	2018	2017	2016
Foreign exchange net (gain) loss and other	\$ 1	\$ 5	\$(6 )
Loss associated with corporate aircraft <sup>(a)</sup>	—	2	9
Closure and impairment expense	6	3	15
Other (income) expense	\$ 7	\$ 10	\$18

During 2016, we made the decision to no longer operate a corporate aircraft fleet and offered our owned (a) aircraft for sale, one of which was sold during 2016 and one that was sold in 2017. The losses associated with these sales reflect the shortfall of the proceeds, including estimated proceeds in held-for-sale impairment evaluations, less any selling costs, over the carrying value of the aircraft.



**Note 8 – Supplemental Balance Sheet Information**

<u>Prepaid Expenses and Other Current Assets</u>	2018	2017
Income tax receivable	\$36	\$175
Restricted cash <sup>(a)</sup>	151	60
Assets held for sale <sup>(b)</sup>	24	37
Other prepaid expenses and current assets	143	112
Prepaid expenses and other current assets	\$354	\$384

<u>Property, Plant and Equipment</u>	2018	2017
Land	\$422	\$452
Buildings and improvements	1,349	1,661
Capital leases, primarily buildings	59	123
Machinery and equipment	523	700
Property, plant and equipment, gross	2,353	2,936
Accumulated depreciation and amortization	(1,116 )	(1,342 )
Property, plant and equipment, net	\$1,237	\$1,594

Depreciation and amortization expense related to PP&E was \$146 million, \$215 million and \$276 million in 2018, 2017 and 2016, respectively.

<u>Other Assets</u>	2018	2017
Investment in Grubhub common stock <sup>(c)</sup>	\$214	\$—
Franchise incentives <sup>(a)</sup>	141	—
Other	369	345
Other assets	\$724	\$345

<u>Accounts Payable and Other Current Liabilities</u>	2018	2017
Accounts payable <sup>(a)</sup>	\$202	\$119
Accrued compensation and benefits	206	252
Accrued advertising <sup>(a)</sup>	108	9
Accrued taxes, other than income taxes	48	90
Other current liabilities	347	343
Accounts payable and other current liabilities	\$911	\$813

(a) Increase from 2017 primarily due to the adoption of Topic 606 beginning with the year ended December 31, 2018. See Note 2.

(b) Reflects the carrying value of restaurants we have offered for sale to franchisees and excess properties that we do not intend to use for restaurant operations in the future.

(c) Refer to Note 5 for additional discussion regarding our investment in Grubhub.



**Note 9 – Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill are as follows:

	KFC	Pizza Hut	Taco Bell	Worldwide
Goodwill, net as of December 31, 2016 <sup>(a)</sup>	\$ 268	\$ 157	\$ 111	\$ 536
Disposals and other, net <sup>(b)</sup>	(21 )	5	(8 )	(24 )
Goodwill, net as of December 31, 2017 <sup>(a)</sup>	247	162	103	512
Disposal and other, net <sup>(b)</sup>	(17 )	(5 )	(4 )	(26 )
QuikOrder acquisition (See Note 5)	—	39	—	39
Goodwill, net as of December 31, 2018 <sup>(a)</sup>	\$ 230	\$ 196	\$ 99	\$ 525

(a) Goodwill, net includes \$17 million of accumulated impairment losses for each year presented related to our Pizza Hut segment.

(b) Disposals and other, net includes the impact of foreign currency translation on existing balances and goodwill write-offs associated with refranchising.

Intangible assets, net for the years ended 2018 and 2017 are as follows:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Definite-lived intangible assets</b>				
Capitalized software costs	\$ 319	\$ (156 )	\$ 243	\$ (139 )
Reacquired franchise rights	37	(30 )	60	(42 )
Franchise contract rights	99	(79 )	100	(77 )
Lease tenancy rights	11	(1 )	32	(6 )
Other	38	(27 )	37	(25 )
	\$ 504	\$ (293 )	\$ 472	\$ (289 )
<b>Indefinite-lived intangible assets</b>				
KFC trademark	\$ 31		\$ 31	

Amortization expense for all definite-lived intangible assets was \$37 million in 2018, \$33 million in 2017 and \$31 million in 2016. Amortization expense for definite-lived intangible assets is expected to approximate \$47 million in 2019, \$44 million in 2020, \$34 million in 2021, \$19 million in 2022 and \$16 million in 2023.

**Note 10 – Short-term Borrowings and Long-term Debt**

	2018	2017
<b>Short-term Borrowings</b>		
Current maturities of long-term debt	\$331	\$386
Less current portion of debt issuance costs and discounts	(10 )	(11 )
Short-term borrowings	\$321	\$375
<b>Long-term Debt</b>		
Securitization Notes	\$2,928	\$2,271
Subsidiary Senior Unsecured Notes	2,850	2,850
Term Loan A Facility	488	500
Term Loan B Facility	1,955	1,975
YUM Senior Unsecured Notes	1,875	2,200
Capital lease obligations (See Note 11)	71	105
	\$10,167	\$9,901
Less debt issuance costs and discounts	(85 )	(86 )
Less current maturities of long-term debt	(331 )	(386 )
Long-term debt	\$9,751	\$9,429

Securitization Notes

On May 11, 2016, Taco Bell Funding, LLC (the “Issuer”), a newly formed, special purpose limited liability company and a direct, wholly-owned subsidiary of Taco Bell Corp. (“TBC”) completed a securitization transaction and issued \$800 million of its Series 2016-1 3.832% Fixed Rate Senior Secured Notes, Class A-2-I (the “2016 Class A-2-I Notes”), \$500 million of its Series 2016-1 4.377% Fixed Rate Senior Secured Notes, Class A-2-II (the “2016 Class A-2-II Notes”) and \$1.0 billion of its Series 2016-1 4.970% Fixed Rate Senior Secured Notes, Class A-2-III (the “2016 Class A-2-III Notes” and, together with the 2016 Class A-2-I Notes and the 2016 Class A-2-II Notes, the “2016 Class A-2 Notes”). In connection with the issuance of the 2016 Class A-2 Notes, the Issuer also entered into a revolving financing facility of Series 2016-1 Senior Notes, Class A-1 (the “Variable Funding Notes”), which allowed for the borrowing of up to \$100 million and the issuance of up to \$50 million in letters of credit. The 2016 Class A-2 Notes were issued under a Base Indenture, dated as of May 11, 2016 (the “Base Indenture”), and the related Series 2016-1 Supplement thereto, dated as of May 11, 2016 (the “Series 2016-1 Supplement”). The Base Indenture and the Series 2016-1 Supplement (collectively, the “Indenture”) allow the Issuer to issue additional series of notes. On October 16, 2017, the Issuer terminated the Variable Funding Notes.

On November 28, 2018, the Issuer completed a refinancing transaction and issued \$825 million of its Series 2018-1 4.318% Fixed Rate Senior Secured Notes, Class A-2-I (the “2018 Class A-2-I Notes”) and \$625 million of its Series 2018-1 4.940% Fixed Rate Senior Secured Notes, Class A-2-II (the “2018 Class A-2-II Notes” and, together with the Series 2018-1 Class A-2-I Notes, the “2018 Class A-2 Notes”). The net proceeds from the issuance of the 2018 Class A-2 Notes were used to repay in full the 2016 Class A-2-I Notes, to repay \$273 million of borrowings that were outstanding under the Revolving Facility (see below) and for general corporate purposes, including capital return to shareholders. The 2016 Class A-2 Notes and the 2018 Class A-2 Notes are referred to collectively as the “Securitization Notes”.

The Securitization Notes were issued in a transaction pursuant to which certain of TBC’s domestic assets, consisting principally of franchise-related agreements and domestic intellectual property, were contributed to the Issuer and the Issuer’s special purpose, wholly-owned subsidiaries (the “Guarantors”, and collectively with the Issuer, the

"Securitization Entities") to secure the Securitization Notes. The Securitization Notes are secured by substantially all of the assets of the Securitization Entities, and include a lien on all existing and future U.S. Taco Bell franchise and license agreements and the royalties payable thereunder, existing and future U.S. Taco Bell intellectual property, certain transaction accounts and a pledge of the equity interests in asset-owning Securitization Entities. The remaining U.S. Taco Bell assets that were excluded from the transfers to the Securitization Entities continue to be held by Taco Bell of America, LLC, a limited liability company ("TBA") and TBC. The Securitization Notes are not guaranteed by the remaining U.S. Taco Bell assets, the Company, or any other subsidiary of the Company.

Payments of interest and principal on the Securitization Notes are made from the royalty fees paid pursuant to the franchise and license agreements with all U.S. Taco Bell restaurants, including both company and franchise operated restaurants. Interest on

and principal payments of the Securitization Notes are due on a quarterly basis. In general, no amortization of principal of the Securitization Notes is required prior to their anticipated repayment dates unless as of any quarterly measurement date the consolidated leverage ratio (the ratio of total debt to Net Cash Flow (as defined in the Indenture)) for the preceding four fiscal quarters of either the Company and its subsidiaries or the Issuer and its subsidiaries exceeds 5.0:1, in which case amortization payments of 1% per year of the outstanding principal as of the closing of the Securitization Notes is required. As of the most recent quarterly measurement date the consolidated leverage ratio exceeded 5.0:1 and, as a result, amortization payments are required. The legal final maturity dates of the 2016 Class A-2 Notes and the 2018 Class A-2 Notes are May 2046 and November 2048, respectively. However, the anticipated repayment dates of the the 2016 Class A-2-II Notes, the 2016 Class A-2-III Notes, the 2018 Class A-2-I Notes and the 2018 Class A-2-II Notes are 7, 10, 5 and 10 years (the “Anticipated Repayment Dates”), respectively, from the date of issuance. If the Issuer has not repaid or refinanced a series of Securitization Notes prior to its respective Anticipated Repayment Dates, rapid amortization of principal on all Securitization Notes will occur and additional interest will accrue on the Securitization Notes, as stated in the Indenture.

The Company paid debt issuance costs of \$13 million and \$31 million in connection with the 2018 and 2016 issuances of the Securitization Notes, respectively. The debt issuance costs are being amortized to Interest expense, net through the Anticipated Repayment Dates of the Securitization Notes utilizing the effective interest rate method. As of December 31, 2018, the effective interest rates, including the amortization of debt issuance costs, were 4.59%, 5.14%, 4.53% and 5.06% for the 2016 Class A-2-II Notes, 2016 Class A-2-III Notes, 2018 Class A-2-I Notes and 2018 Class A-2-II Notes, respectively. During 2018 and 2017, \$4 million and \$2 million, respectively, of unamortized debt issuance costs were recognized within Interest expense, net due to the extinguishment of the 2016 Class A-2-I Notes and the termination of the Variable Funding Notes.

The Securitization Notes are subject to a series of covenants and restrictions customary for transactions of this type, including (i) that the Issuer maintains specified reserve accounts to be available to make required interest payments in respect of the Securitization Notes, (ii) provisions relating to optional and mandatory prepayments and the related payment of specified amounts, including specified make-whole payments in the case of the Securitization Notes under certain circumstances, (iii) certain indemnification payments relating to taxes, enforcement costs and other customary items and (iv) covenants relating to recordkeeping, access to information and similar matters. The Securitization Notes are also subject to rapid amortization events provided for in the Indenture, including events tied to failure to maintain a stated debt service coverage ratio (as defined in the Indenture) of at least 1.1:1, gross domestic sales for branded restaurants being below certain levels on certain measurement dates, a manager termination event, an event of default and the failure to repay or refinance the Securitization Notes on the Anticipated Repayment Date (subject to limited cure rights). The Securitization Notes are also subject to certain customary events of default, including events relating to non-payment of required interest or principal due on the Securitization Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective, certain judgments and failure of the Securitization Entities to maintain a stated debt service coverage ratio. As of December 31, 2018, we were in compliance with all of our debt covenant requirements and were not subject to any rapid amortization events.

In accordance with the Indenture, certain cash accounts have been established with the Indenture trustee for the benefit of the note holders, and are restricted in their use. The Indenture requires a certain amount of securitization cash flow collections to be allocated on a weekly basis and maintained in a cash reserve account. As of December 31, 2018, the Company had restricted cash of \$82 million primarily related to required interest reserves included in Prepaid expenses and other current assets on the Consolidated Balance Sheets. Once the required obligations are satisfied, there are no further restrictions, including payment of dividends, on the cash flows of the Securitization Entities.

Additional cash reserves are required if any of the rapid amortization events occur, as noted above, or in the event that as of any quarterly measurement date the Securitization Entities fail to maintain a debt service coverage ratio (or the

ratio of Net Cash Flow to all debt service payments for the preceding four fiscal quarters) of at least 1.75:1. The amount of weekly securitization cash flow collections that exceed the required weekly allocations is generally remitted to the Company. During the quarter ended December 31, 2018, the Securitization Entities maintained a debt service coverage ratio significantly in excess of the 1.75:1 requirement.

*Credit Facilities and Subsidiary Senior Unsecured Notes*

On June 16, 2016, KFC Holding Co., Pizza Hut Holdings, LLC, a limited liability company, and TBA, each of which is a wholly-owned subsidiary of the Company, as co-borrowers (the "Borrowers"), entered into a credit agreement providing for senior secured credit facilities consisting of a \$500 million Term Loan A facility (the "Term Loan A Facility"), a \$2.0 billion Term Loan B facility (the "Term Loan B Facility") and a \$1.0 billion revolving facility (the "Revolving Facility"), each of which may be increased subject to certain conditions. The Term Loan A Facility, the Term Loan B Facility, and the Revolving Facility are collectively

referred to as the "Credit Agreement". There are no outstanding borrowings under the Revolving Facility and \$7 million of letters of credit outstanding as of December 31, 2018.

The Term Loan A Facility was originally subject to quarterly amortization payments beginning one full fiscal quarter after the first anniversary of the closing date, in an amount equal to 1.25% of the initial principal amount of the facility, in each of the second and third years of the facility; in an amount equal to 1.875% of the initial principal amount of the facility, in the fourth year of the facility; and in an amount equal to 3.75% of the initial principal amount of the facility, in the fifth year of the facility, with the balance payable at maturity on the fifth anniversary of the closing date. Subsequently, this amortization schedule was delayed by approximately one year and the maturity date was extended to June 7, 2022 as a result of the Term Loan A repricing in 2017 (see below). The Term Loan B Facility is subject to quarterly amortization payments in an amount equal to 0.25% of the initial principal amount of the facility, with the balance payable at maturity on the seventh anniversary of the closing date.

On March 21, 2017, the Borrowers completed the repricing of the then existing \$1.99 billion under the Term Loan B Facility pursuant to an amendment to the Credit Agreement. The amendment reduces the interest rate applicable to the Term Loan B Facility by 75 basis points to LIBOR plus 2.00% or Base Rate plus 1.00%, at the Borrower's election, with an additional rate stepdown to LIBOR plus 1.75% or Base Rate plus 0.75% in the event the secured net leverage ratio (as defined in the Credit Agreement) is less than 1 to 1. As a result of repricing the Term Loan B Facility, \$192 million in principal was assigned to new lenders or existing lenders electing to increase their holdings in the loan. The maturity date and all other material provisions under the Credit Agreement remained unchanged as a result of this amendment.

On June 7, 2017, the Borrowers completed the repricing of the existing \$500 million under the Term Loan A Facility and \$1 billion under the Revolving Facility pursuant to an amendment to the Credit Agreement. The amendment reduced the interest rate applicable to the Term Loan A Facility and for borrowings under the Revolving Facility by 75 basis points. Subsequent to the repricing the interest rate ranges from 1.25% to 1.75% plus LIBOR or from 0.25% to 0.75% plus the Base Rate, at the Borrower's election, based upon the total net leverage ratio of the Borrowers and the Specified Guarantors (as defined in the Credit Agreement). As a result of repricing the Term Loan A Facility, \$146 million in principal was assigned to new lenders or existing lenders electing to increase their holdings in the loan. There was no change in lender participation in the Revolving Facility. The maturity date for the Term Loan A Facility and the Revolving Facility has been extended to June 7, 2022. Amortization payments on the Term Loan A Facility will begin one full fiscal quarter after the first anniversary of the amendment effective date, which delays the original amortization schedule by approximately one year. All other material provisions under the Credit Agreement remained unchanged.

On April 3, 2018, the Borrowers completed the repricing of the then existing \$1.97 billion under the Term Loan B Facility pursuant to an amendment to the Credit Agreement. The amendment reduces the interest rate applicable to the Term Loan B Facility by 25 basis points to adjusted LIBOR plus 1.75% or Base Rate plus 0.75%, at the Borrowers' election, and extends the maturity date for the Term Loan B Facility by 2 years to April 3, 2025. All other material provisions under the Credit Agreement remained unchanged as a result of this amendment.

The Credit Agreement is unconditionally guaranteed by the Company and certain of the Borrowers' principal domestic subsidiaries and excludes Taco Bell Funding LLC and its special purpose, wholly-owned subsidiaries (see above). The Credit Agreement is also secured by first priority liens on substantially all assets of the Borrowers and each subsidiary guarantor, excluding the stock of certain subsidiaries and certain real property, and subject to other customary exceptions.

The Credit Agreement is subject to certain mandatory prepayments, including an amount equal to 50% of excess cash flow (as defined in the Credit Agreement) on an annual basis and the proceeds of certain asset sales, casualty events



and issuances of indebtedness, subject to customary exceptions and reinvestment rights.

The Credit Agreement includes two financial maintenance covenants which require the Borrowers to maintain a total leverage ratio (defined as the ratio of Consolidated Total Debt to Consolidated EBITDA (as these terms are defined in the Credit Agreement)) of 5.0:1 or less and a fixed charge coverage ratio (defined as the ratio of EBITDA minus capital expenditures to fixed charges (inclusive of rental expense and scheduled amortization)) of at least 1.5:1, each as of the last day of each fiscal quarter. The Credit Agreement includes other affirmative and negative covenants and events of default that are customary for facilities of this type. The Credit Agreement contains, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. We were in compliance with all debt covenants as of December 31, 2018.

On June 16, 2016, the Borrowers issued \$1.05 billion aggregate principal amount of 5.00% Senior Unsecured Notes due 2024 and \$1.05 billion aggregate principal amount of 5.25% Senior Unsecured Notes due 2026 and on June 15, 2017, the Borrowers issued \$750 million aggregate principal amount of 4.75% Senior Notes due June 1, 2027 (the “2027 Notes” and collectively the “Subsidiary Senior Unsecured Notes”). Interest on the Subsidiary Senior Unsecured Notes is payable semi-annually in arrears on June 1 and December 1 of each year. The Subsidiary Senior Unsecured Notes are guaranteed on a senior unsecured basis by

(i) the Company, (ii) the Specified Guarantors and (iii) by each of the Borrower's and the Specified Guarantors' domestic subsidiaries that guarantees the Borrower's obligations under the Credit Agreement, except for any of the Company's foreign subsidiaries. The indenture governing the Subsidiary Senior Unsecured Notes contains covenants and events of default that are customary for debt securities of this type. We were in compliance with all debt covenants as of December 31, 2018.

During 2016, the Company paid debt issuance costs of \$56 million in connection with the issuance of the Credit Agreement and the Subsidiary Senior Unsecured Notes. During 2017, \$32 million of fees related to the repricing of the Term Loan A, Term Loan B and Revolving Facilities and the issuance of the 2027 Notes were capitalized as debt issuance costs. The debt issuance costs are being amortized to Interest expense, net through the contractual maturity of the agreements utilizing the effective interest rate method. We classify these deferred costs on our Consolidated Balance Sheet as a reduction in the related debt when borrowings are outstanding or within Other assets if borrowings are not outstanding. Additionally, \$5 million and \$8 million of fees and unamortized debt issuance costs were recognized within Interest expense, net due to the repricings in the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the effective interest rates, including the amortization of debt issuance costs and the impact of the interest rate swaps on Term Loan B Facility (See Note 12), were 5.16%, 5.39%, 4.90%, 3.43%, and 3.74% for the Subsidiary Senior Unsecured Notes due 2024, the Subsidiary Senior Unsecured Notes due 2026, the Subsidiary Senior Unsecured Notes due 2027, the Term Loan A Facility, and the Term Loan B Facility, respectively.

#### YUM Senior Unsecured Notes

The majority of our remaining long-term debt primarily comprises YUM Senior Unsecured Notes with varying maturity dates from 2020 through 2043 and stated interest rates ranging from 3.75% to 6.88%. The YUM Senior Unsecured Notes represent senior, unsecured obligations and rank equally in right of payment with all of our existing and future unsecured unsubordinated indebtedness. Our YUM Senior Unsecured Notes contain cross-default provisions whereby the acceleration of the maturity of any of our indebtedness in a principal amount in excess of \$50 million will constitute a default under the YUM Senior Unsecured Notes unless such indebtedness is discharged, or the acceleration of the maturity of that indebtedness is annulled, within 30 days after notice.

The following table summarizes all YUM Senior Unsecured Notes issued that remain outstanding at December 31, 2018:

Issuance Date <sup>(a)</sup>	Maturity Date	Principal Amount (in millions)	Interest Rate		
			Stated	Effective <sup>(b)</sup>	
October 2007	November 2037	325	6.88 %	7.45 %	
August 2009	September 2019	250	5.30 %	5.59 %	
August 2010	November 2020	350	3.88 %	4.01 %	
August 2011	November 2021	350	3.75 %	3.88 %	
October 2013	November 2023	325	3.88 %	4.01 %	
October 2013	November 2043	275	5.35 %	5.42 %	

<sup>(a)</sup> Interest payments commenced approximately six months after issuance date and are payable semi-annually thereafter.

<sup>(b)</sup> Includes the effects of the amortization of any (1) premium or discount; (2) debt issuance costs; and (3) gain or loss upon settlement of related treasury locks and forward starting interest rate swaps utilized to hedge the interest rate risk prior to debt issuance.

The annual maturities of short-term borrowings and long-term debt as of December 31, 2018, excluding capital lease obligations of \$71 million are as follows:

Year ended:

2019	\$ 324
2020	430
2021	455
2022	424
2023	1,626
Thereafter	6,837
Total	\$ 10,096

Interest expense on short-term borrowings and long-term debt was \$496 million, \$473 million and \$331 million in 2018, 2017 and 2016, respectively.

### Note 11 – Leases

At December 31, 2018, we operated 856 restaurants, leasing the underlying land and/or building in 517 of those restaurants with the vast majority of our commitments expiring within 20 years from the inception of the lease. In addition, the Company leases or subleases 1,020 units to franchisees, principally in the U.S., United Kingdom, Australia, Germany and France.

We also lease office space for headquarters and support functions, as well as certain office and restaurant equipment. We do not consider any of these individual leases material to our operations. Most leases require us to pay related executory costs, which include property taxes, maintenance and insurance.

Future minimum commitments and amounts to be received as lessor or sublessor under non cancellable leases are set forth below:

	Commitments		Lease Receivables	
	Capital	Operating	Direct Financing	Operating
2019	\$ 10	\$ 103	\$ 6	\$ 89
2020	10	89	5	79
2021	9	78	4	74
2022	8	71	4	69
2023	8	61	3	67
Thereafter	58	384	30	638
	\$ 103	\$ 786	\$ 52	\$ 1,016

At December 31, 2018 and December 31, 2017, the present value of minimum payments under capital leases was \$71 million and \$105 million, respectively. At December 31, 2018, unearned income associated with direct financing lease receivables was \$19 million.

Upon adoption of the new lease accounting standards at the beginning of the first quarter of 2019 we currently expect to recognize additional lease liabilities of approximately \$750 million, with corresponding right-of-use assets of approximately \$675 million based on the present value of the remaining operating lease payments that include scheduled rent increases. These remaining lease payments include both future minimum commitments under non cancellable leases as set forth above as well as approximately \$50 million of nominal operating lease payments pertaining to renewal options that, at lease inception, we determined were reasonably assured of being exercised.

The details of rental expense and income are set forth below:

	2018	2017	2016
Rental expense			
Minimum	\$ 142	\$ 193	\$ 208
Contingent	9	21	26
	\$ 151	\$ 214	\$ 234
Rental income	\$ 131	\$ 86	\$ 73

**Note 12 - Derivative Instruments**

We use derivative instruments to manage certain of our market risks related to fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Swaps

We enter into interest rate swaps with the objective of reducing our exposure to interest rate risk for a portion of our variable-rate debt interest payments. On July 25, 2016, we agreed with multiple counterparties to swap the variable LIBOR-based component of the interest payments related to \$1.55 billion of borrowings under our Term Loan B Facility resulting in a fixed rate of 3.92%

on the swapped portion of the Term Loan B Facility. These interest rate swaps will expire in July 2021. Further, on May 14, 2018 we entered into forward-starting interest rate swaps to fix the interest rate on \$1.5 billion of borrowings under our Term Loan B Facility from the date the July 2016 swaps expire through March 2025. The interest rate swaps executed in May 2018 will result in a fixed rate of 4.81% on the swapped portion of the Term Loan B Facility from July 2021 through March 2025. These interest rate swaps are designated cash flow hedges as the changes in the future cash flows of the swaps and are expected to offset changes in expected future interest payments on the related variable-rate debt. There were no other interest rate swaps outstanding as of December 31, 2018.

Gains or losses on the interest rate swaps are reported as a component of AOCI and reclassified into Interest expense, net in our Consolidated Statements of Income in the same period or periods during which the related hedged interest payments affect earnings. Through December 31, 2018, the swaps were highly effective cash flow hedges.

### Foreign Currency Contracts

We have entered into foreign currency forward and swap contracts with the objective of reducing our exposure to earnings volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany receivables and payables. The notional amount, maturity date, and currency of these contracts match those of the underlying intercompany receivables or payables. Our foreign currency contracts are designated cash flow hedges as the future cash flows of the contracts are expected to offset changes in intercompany receivables and payables due to foreign currency exchange rate fluctuations.

Gains or losses on the foreign currency contracts are reported as a component of AOCI. Amounts are reclassified from AOCI each quarter to offset foreign currency transaction gains or losses recorded within Other (income) expense when the related intercompany receivables and payables affect earnings due to their functional currency remeasurements. Through December 31, 2018, all foreign currency forward and swap contracts related to intercompany receivables and payables were highly effective cash flow hedges.

As of December 31, 2018 and December 31, 2017, foreign currency forward and swap contracts outstanding related to intercompany receivables and payables had total notional amounts of \$459 million and \$456 million, respectively. As of December 31, 2018, we have foreign currency forward and swap contracts with durations expiring as early as February 2019 and as late as June 2020.

As a result of the use of interest rate swaps and foreign currency contracts, the Company is exposed to risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we only enter into contracts with major financial institutions carefully selected based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. At December 31, 2018, all of the counterparties to our interest rate swaps and foreign currency contracts had investment grade ratings according to the three major ratings agencies. To date, all counterparties have performed in accordance with their contractual obligations.

Gains and losses on derivative instruments designated as cash flow hedges recognized in OCI and reclassifications from AOCI into Net Income:

	(Gains)/Losses			
	Gains/(Losses) Recognized in OCI		Reclassified from AOCI into Net Income	
	2018	2017	2018	2017
Interest rate swaps	\$ (3 )	\$ 4	\$ (19 )	\$ 2

Foreign currency contracts	22	(56 )	(20 )	56
Income tax benefit/(expense)	1	1	5	(3 )

As of December 31, 2018, the estimated net gain included in AOCI related to our cash flow hedges that will be reclassified into earnings in the next 12 months is \$26 million, based on current LIBOR interest rates.

See Note 13 for the fair value of our derivative assets and liabilities.

**Note 13 – Fair Value Disclosures**

As of December 31, 2018 the carrying values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, short-term borrowings and accounts payable approximated their fair values because of the short-term nature of these instruments. The fair value of notes receivable net of allowances and lease guarantees less subsequent amortization approximates

their carrying value. The following table presents the carrying value and estimated fair value of the Company's debt obligations:

	12/31/2018		12/31/2017	
	Fair		Fair	
	Carrying	Value	Carrying	Value
	Value	(Level	Value	(Level
		2)		2)
Securitization Notes <sup>(a)</sup>	\$2,928	\$2,967	\$2,271	\$2,367
Subsidiary Senior Unsecured Notes <sup>(b)</sup>	2,850	2,733	2,850	2,983
Term Loan A Facility <sup>(b)</sup>	488	479	500	503
Term Loan B Facility <sup>(b)</sup>	1,955	1,915	1,975	1,990
YUM Senior Unsecured Notes <sup>(b)</sup>	1,875	1,798	2,200	2,277

We estimated the fair value of the Securitization Notes by obtaining broker quotes from two separate brokerage (a) firms that are knowledgeable about the Company's Securitization Notes and, at times, trade these notes. The markets in which the Securitization Notes trade are not considered active markets.

(b) We estimated the fair value of the YUM and Subsidiary Senior Unsecured Notes, Term Loan A Facility, and Term Loan B Facility using market quotes and calculations based on market rates.

#### Recurring Fair Value Measurements

The Company has interest rate swaps, foreign currency contracts, an investment in Grubhub common stock and other investments, all of which are required to be measured at fair value on a recurring basis (See Note 12 for discussion regarding derivative instruments and Note 5 for discussion regarding our investment in Grubhub common stock). The following table presents fair values for those assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall.

	Level	Fair Value		Consolidated Balance Sheet
		2018	2017	
Interest Rate Swaps - Asset	2	\$21	\$ 9	Prepaid expenses and other current assets
Interest Rate Swaps - Asset	2	29	40	Other assets
Interest Rate Swaps - Liability	2	23	—	Accounts payable and other current liabilities
Foreign Currency Contracts - Asset	2	5	5	Prepaid expenses and other current assets
Foreign Currency Contracts - Liability	2	24	46	Other Liabilities and deferred credits
Investment in Grubhub Common Stock	1	214	—	Other assets
Other Investments	1	27	29	Other assets

The fair value of the Company's foreign currency contracts and interest rate swaps were determined based on the present value of expected future cash flows considering the risks involved, including nonperformance risk, and using discount rates appropriate for the duration based on observable inputs. The fair value of the investment in Grubhub common stock was determined primarily based on closing market prices for the shares. The other investments include investments in mutual funds, which are used to offset fluctuations for a portion of our deferred compensation liabilities. The other investments' fair value is determined based on the closing market prices of the respective mutual funds as of December 31, 2018 and December 31, 2017.

#### Non-Recurring Fair Value Measurements



During the years ended December 31, 2018 and December 31, 2017, we recognized non-recurring fair value measurements of \$1 million and \$2 million, respectively, related to restaurant-level impairment. Restaurant-level impairment charges are recorded in Other (income) expense and resulted primarily from our semi-annual impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for franchising. The fair value measurements used in these impairment evaluations were based on discounted cash flow estimates using unobservable inputs (Level 3). These amounts exclude fair value measurements made for assets that were subsequently disposed of prior to those respective year end dates. The remaining net book value of restaurant assets measured at fair value during the years ended December 31, 2018 and December 31, 2017 is insignificant.

**Note 14 – Pension, Retiree Medical and Retiree Savings Plans****U.S. Pension Plans**

We sponsor qualified and supplemental (non-qualified) noncontributory defined benefit plans covering certain full-time salaried and hourly U.S. employees. The qualified plan meets the requirements of certain sections of the Internal Revenue Code and provides benefits to a broad group of employees with restrictions on discriminating in favor of highly compensated employees with regard to coverage, benefits and contributions. The supplemental plans provide additional benefits to certain employees. We fund our supplemental plans as benefits are paid.

The most significant of our U.S. plans is the YUM Retirement Plan (the “Plan”), which is a qualified plan. Our funding policy with respect to the Plan is to contribute amounts necessary to satisfy minimum pension funding requirements, including requirements of the Pension Protection Act of 2006, plus additional amounts from time-to-time as are determined to be necessary to improve the Plan’s funded status. We do not expect to make any significant contributions to the Plan in 2019. Our two significant U.S. plans were previously amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in those plans.

During the fourth quarter of 2016, the Company allowed certain former employees with deferred vested balances in the Plan an opportunity to voluntarily elect an early payout of their benefits. See Note 5 for details.

We do not anticipate any plan assets being returned to the Company during 2019 for any U.S. plans.

**Obligation and Funded Status at Measurement Date:**

The following chart summarizes the balance sheet impact, as well as benefit obligations, assets, and funded status associated with our two significant U.S. pension plans. The actuarial valuations for all plans reflect measurement dates coinciding with our fiscal year end.

	2018	2017
<i>Change in benefit obligation:</i>		
Benefit obligation at beginning of year	\$1,007	\$993
Service cost	8	10
Interest cost	38	41
Plan amendments	1	2
Curtailments	—	(2 )
Special termination benefits	1	2
Benefits paid	(73 )	(76 )
Settlement payments	—	(73 )
Actuarial (gain) loss	(109 )	115
Administrative expense	—	(5 )
Benefit obligation at end of year	\$873	\$1,007

A significant component of the overall decrease in the Company's benefit obligation for the year ended December 31, 2018 was due to the change in discount rates used to measure our benefit obligation, which increased from 3.90% at December 31, 2017 to 4.60% at December 31, 2018. A significant component of the overall increase in the Company's benefit obligation for the year ended December 31, 2017 was also due to the change in discount rates used to measure our benefit obligation, which decreased from 4.60% at December 31, 2016 to 3.90% at December 31, 2017.



*Change in plan assets:*

Fair value of plan assets at beginning of year	\$864	\$837
Actual return on plan assets	(49 )	129
Employer contributions	13	52
Settlement payments	—	(73 )
Benefits paid	(73 )	(76 )
Administrative expenses	—	(5 )
Fair value of plan assets at end of year	\$755	\$864
Funded status at end of year	\$(118)	\$(143)

*Amounts recognized in the Consolidated Balance**Sheet:*

	2018	2017
Accrued benefit liability - current	\$(5 )	\$(8 )
Accrued benefit liability - non-current	(113 )	(135 )
	\$(118)	\$(143)

The accumulated benefit obligation was \$849 million and \$976 million at December 31, 2018 and December 31, 2017, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2018	2017
Projected benefit obligation	\$873	\$1,007
Accumulated benefit obligation	849	976
Fair value of plan assets	755	864

Information for pension plans with a projected benefit obligation in excess of plan assets:

	2018	2017
Projected benefit obligation	\$873	\$1,007
Accumulated benefit obligation	849	976
Fair value of plan assets	755	864

*Components of net periodic benefit cost:*

	2018	2017	2016
Service cost	\$8	\$10	\$17
Interest cost	38	41	54
Amortization of prior service cost <sup>(a)</sup>	5	6	6
Expected return on plan assets	(44 )	(45 )	(65 )
Amortization of net loss	16	5	6
Net periodic benefit cost	\$23	\$17	\$18
	\$—	\$19	\$32

*Additional (gain) loss recognized due to:*

Settlement charges <sup>(b)</sup>			
Special termination benefits	\$ 1	\$ 2	\$ 3
Pension data adjustment <sup>(c)</sup>	\$—	\$ 22	\$—

(a) Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

(b) Settlement losses result when benefit payments exceed the sum of the service cost and interest cost within a plan during the year. These losses were recorded in Other pension (income) expense.

(c) Reflects a non-cash, out-of-year charge related to the adjustment of certain historical deferred vested liability balances in the Plan during the first quarter of 2017 recorded in Other pension (income) expense. See Note 5.

*Pension gains (losses) in AOCI:*

	2018	2017
Beginning of year	\$(160)	\$(180)
Net actuarial gain (loss)	17	(10)
Curtailments	—	2
Amortization of net loss	16	5
Amortization of prior service cost	5	6
Prior service cost	(1)	(2)
Settlement charges	—	19
End of year	\$(123)	\$(160)

*Accumulated pre-tax losses  
recognized within AOCI:*

	2018	2017
Actuarial net loss	\$(101)	\$(134)
Prior service cost	(22)	(26)
	\$(123)	\$(160)

Weighted-average assumptions used to determine benefit obligations at the measurement dates:

	2018	2017
Discount rate	4.60%	3.90%
Rate of compensation increase	3.00%	3.75%

Weighted-average assumptions used to determine the net periodic benefit cost for fiscal years:

	2018	2017 <sup>(a)</sup>	2016
Discount rate	3.90%	4.53%	4.90%
Long-term rate of return on plan assets	5.65%	6.06%	6.75%
Rate of compensation increase	3.75%	3.75%	3.75%

(a) Reflects a weighted average due to interim re-measurements in 2017.

Our estimated long-term rate of return on plan assets represents the weighted-average of expected future returns on the asset categories included in our target investment allocation based primarily on the historical returns for each asset category and future growth expectations.

**Plan Assets**

The fair values of our pension plan assets at December 31, 2018 and December 31, 2017 by asset category and level within the fair value hierarchy are as follows:

91

---

	2018	2017
Level 1:		
Cash	\$3	\$3
Cash Equivalents <sup>(a)</sup>	10	12
Fixed Income Securities - U.S. Corporate <sup>(b)</sup>	140	177
Equity Securities – U.S. Large cap <sup>(b)</sup>	215	257
Equity Securities – U.S. Mid cap <sup>(b)</sup>	35	43
Equity Securities – U.S. Small cap <sup>(b)</sup>	34	43
Equity Securities – Non-U.S. <sup>(b)</sup>	74	87
Level 2:		
Fixed Income Securities – U.S. Corporate <sup>(c)</sup>	106	86
Fixed Income Securities – U.S. Government and Government Agencies <sup>(d)</sup>	161	177
Fixed Income Securities – Other <sup>(d)</sup>	18	35
Total fair value of plan assets <sup>(e)</sup>	\$796	\$920

(a) Short-term investments in money market funds.

(b) Securities held in common trusts.

(c) Investments held directly by the Plan.

(d) Includes securities held in common trusts and investments held directly by the Plan.

(e) 2018 and 2017 exclude net unsettled trade payables of \$41 million and \$56 million, respectively.

Our primary objectives regarding the investment strategy for the Plan's assets are to reduce interest rate and market risk and to provide adequate liquidity to meet immediate and future payment requirements. To achieve these objectives, we are using a combination of active and passive investment strategies. The Plan's equity securities, currently targeted to be 50% of our investment mix, consist primarily of low-cost index funds focused on achieving long-term capital appreciation. The Plan diversifies its equity risk by investing in several different U.S. and foreign market index funds. Investing in these index funds provides the Plan with the adequate liquidity required to fund benefit payments and plan expenses. The fixed income asset allocation, currently targeted to be 50% of our mix, is actively managed and consists of long-duration fixed income securities that help to reduce exposure to interest rate variation and to better correlate asset maturities with obligations. The fair values of all pension plan assets are determined based on closing market prices or net asset values.

A mutual fund held as an investment by the Plan includes shares of Common Stock valued at \$0.3 million at both December 31, 2018 and December 31, 2017 (less than 1% of total plan assets in each instance).

### Benefit Payments

The benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are set forth below:

Year ended:	
2019	\$39
2020	40
2021	43



2022	45
2023	48
2024 - 2028	269

Expected benefit payments are estimated based on the same assumptions used to measure our benefit obligation on the measurement date and include benefits attributable to estimated future employee service.

### **International Pension Plans**

We also sponsor various defined benefit plans covering certain of our non-U.S. employees, the most significant of which are in the UK. Both of our UK plans have previously been frozen such that they are closed to new participants and existing participants can no longer earn future service credits.

At the end of 2018 and 2017, the projected benefit obligations of these UK plans totaled \$233 million and \$287 million, respectively and plan assets totaled \$319 million and \$358 million, respectively. These plans were both in a net overfunded position at the end of 2018 and 2017 and related expense amounts recorded in each of 2018, 2017 and 2016 were not significant.

The funding rules for our pension plans outside of the U.S. vary from country to country and depend on many factors including discount rates, performance of plan assets, local laws and regulations. We do not plan to make significant contributions to either of our UK plans in 2019.

### **Retiree Medical Benefits**

Our post-retirement plan provides health care benefits, principally to U.S. salaried retirees and their dependents, and includes retiree cost-sharing provisions. This plan was previously amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in this plan. Employees hired prior to September 30, 2001 are eligible for benefits if they meet age and service requirements and qualify for retirement benefits. We fund our post-retirement plan as benefits are paid.

At the end of 2018 and 2017, the accumulated post-retirement benefit obligation was \$45 million and \$55 million, respectively. Actuarial pre-tax gains of \$13 million and \$8 million were recognized in AOCI at the end of 2018 and 2017, respectively. The net periodic benefit cost recorded was \$2 million in 2018, \$2 million in 2017 and \$3 million in 2016, the majority of which is interest cost on the accumulated post-retirement benefit obligation. The weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the post-retirement medical plan are identical to those as shown for the U.S. pension plans.

There is a cap on our medical liability for all retirees at the end of 2018 and certain retirees at the end of 2017. The benefits expected to be paid in each of the next five years are approximately \$4 million and in aggregate for the five years thereafter are \$16 million.

## **Retiree Savings Plan**

We sponsor a contributory plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the “401(k) Plan”) for eligible U.S. salaried and hourly employees. Participants are able to elect to contribute up to 75% of eligible compensation on a pre-tax basis. Participants may allocate their contributions to one or any combination of multiple investment options or a self-managed account within the 401(k) Plan. We match 100% of the participant’s contribution to the 401(k) Plan up to 6% of eligible compensation. We recognized as compensation expense our total matching contribution of \$12 million in 2018, \$13 million in 2017 and \$14 million in 2016.

## **Note 15 – Share-based and Deferred Compensation Plans**

### **Overview**

At year end 2018, we had one stock award plan in effect: the YUM! Brands, Inc. Long-Term Incentive Plan (the “LTIP”). Under the LTIP, the exercise price of stock options and SARs granted must be equal to or greater than the average market price or the ending market price of the Company’s stock on the date of grant.

Potential awards to employees and non-employee directors under the LTIP include stock options, incentive stock options, SARs, restricted stock, restricted stock units (“RSUs”), performance restricted stock units, performance share units (“PSUs”) and performance units. We have issued only stock options, SARs, RSUs and PSUs under the LTIP. While awards under the LTIP can have varying vesting provisions and exercise periods, outstanding awards under the LTIP vest in periods ranging from immediate to five years. Stock options and SARs generally expire ten years after grant.

At year end 2018, approximately 28 million shares were available for future share-based compensation grants under the LTIP.

Our EID Plan allows participants to defer receipt of a portion of their annual salary and all or a portion of their incentive compensation. As defined by the EID Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. These investment options are limited to cash, phantom shares of our Common Stock, phantom shares of a Stock Index Fund and phantom shares of a Bond Index Fund. Investments in cash and phantom shares of both index funds will be distributed in cash at a date as elected by the employee and therefore are classified as a liability on our Consolidated Balance Sheets. We recognize compensation expense for the appreciation or the depreciation, if any, of investments in cash and both of the index funds. Deferrals into the phantom shares of our Common Stock will be distributed in shares of our Common Stock, under the LTIP, at a date as elected by the employee and therefore are classified in Common Stock on our Consolidated Balance Sheets. We do not recognize compensation expense for the appreciation or the depreciation, if any, of investments in phantom shares of our Common Stock. Our EID plan also allows certain participants to defer incentive compensation to purchase phantom shares of our Common Stock and receive a 33% Company match on the amount deferred. Deferrals receiving a match are similar to a RSU award in that participants will generally forfeit both the match and incentive compensation amounts deferred if they voluntarily separate from employment during a vesting period that is two years from the date of deferral. We expense the intrinsic value of the match and the incentive compensation amount over the requisite service period which includes the vesting period.

Historically, the Company has repurchased shares on the open market in excess of the amount necessary to satisfy award exercises and expects to continue to do so in 2019.

In connection with the Separation of our China business in the prior year, under the provisions of our LTIP, employee stock options, SARs, RSUs and PSUs were adjusted to maintain the pre-spin intrinsic value of the awards. Depending on the tax laws of the country of employment, awards were modified using either the shareholder method or the employer method. The modifications to the outstanding equity awards resulted in an insignificant amount of additional compensation expense in the year ended December 31, 2016. Share-based compensation as recorded in Income from continuing operations is based on the amortization of the fair value for both YUM and Yum China awards held by YUM employees. Share issuances for Yum China awards held by YUM employees will be satisfied by Yum China. Share issuances for YUM awards held by Yum China employees are being satisfied by YUM.

Under the shareholder method, investments in phantom shares of our Common Stock held within our EID Plan were partially converted into phantom investments in Yum China. Through October 31, 2018, distributions of investments in phantom shares of Yum China could be settled in cash, as opposed to stock, at a date as elected by the employee and, therefore, were classified as a liability and remeasured to fair value at each reporting period in our Consolidated Balance Sheet. During 2018, 2017 and 2016, we recorded a \$3 million credit, a \$18 million charge and a \$30 million charge, respectively, within G&A related to these awards (See Note 5).

As of October 31, 2018, deferrals in phantom shares of Yum China common stock are no longer an investment option within our EID Plan and any balances relating to these shares were moved to another available EID Plan investment option as selected by the participants. Amounts directed into cash or phantom shares of a Stock Index Fund or a Bond Index Fund remained classified as a liability and any appreciation or depreciation in these investments from the transfer date forward will be recognized as compensation expense. Any amounts directed into phantom shares of YUM Common Stock were reclassified to Common Stock on our Consolidated Balance Sheet. We do not recognize compensation expense for the appreciation or depreciation, if any, of investments in phantom shares of our Common Stock.

### Award Valuation

We estimated the fair value of each stock option and SAR award as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2018	2017	2016	
Risk-free interest rate	2.5	% 1.9	% 1.4	%
Expected term (years)	6.5 years	6.4 years	6.4 years	
Expected volatility	22.0	% 22.9	% 27.0	%
Expected dividend yield	1.8	% 1.8	% 2.6	%

We believe it is appropriate to group our stock option and SAR awards into two homogeneous groups when estimating expected term. These groups consist of grants made primarily to restaurant-level employees, which cliff-vest after 4 years and expire 10 years after grant, and grants made to executives, which typically have a graded vesting schedule of 25% per year over 4 years and expire 10 years after grant. We use a single weighted-average term for our awards that have a graded vesting schedule. Based on analysis of our historical exercise and post-vesting termination behavior, we have determined that our restaurant-level employees and our executives exercised the awards on average after 5 years and 6.5 years, respectively.

When determining expected volatility, we consider both historical volatility of our stock as well as implied volatility associated with our publicly traded options. The expected dividend yield is based on the annual dividend yield at the time of grant.

The fair values of RSU and PSU awards are based on the closing price of our Common Stock on the date of grant.

### Award Activity

#### *Stock Options and SARs*

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of the year	18,285	\$ 44.85		
Granted	2,580	78.35		
Exercised	(3,832 )	34.05		
Forfeited or expired	(842 )	71.72		

Edgar Filing: YUM BRANDS INC - Form 10-K

Outstanding at the end of the year	16,191 <sup>(a)</sup>	51.84	5.50	\$ 626
Exercisable at the end of the year	10,297	\$ 43.23	4.02	\$ 501

Outstanding awards include 753 options and 15,438 SARs with weighted average exercise prices of \$42.40 and (a) \$52.30, respectively. Outstanding awards represent YUM awards held by employees of both YUM and Yum China.

The weighted-average grant-date fair value of stock options and SARs granted during 2018, 2017 and 2016 was \$16.45, \$14.08 and \$14.40, respectively. The total intrinsic value of stock options and SARs exercised during the years ended December 31, 2018, December 31, 2017 and December 31, 2016, was \$195 million, \$154 million and \$263 million, respectively.

As of December 31, 2018, \$48 million of unrecognized compensation cost related to unvested stock options and SARs, which will be reduced by any forfeitures that occur, is expected to be recognized over a remaining weighted-average period of approximately 1.6 years. This reflects unrecognized cost for both YUM and Yum China awards held by YUM employees. The

total fair value at grant date of awards for both YUM and Yum China awards held by YUM employees that vested during 2018, 2017 and 2016 was \$28 million, \$33 million and \$41 million, respectively.

*RSUs and PSUs*

As of December 31, 2018, there was \$21 million of unrecognized compensation cost related to 1.0 million unvested RSUs and PSUs, none of which related to Yum China common stock. The total fair value at grant date of awards that vested during 2018, 2017 and 2016 was \$16 million, \$10 million and \$7 million, respectively.

Impact on Net Income

The components of share-based compensation expense and the related income tax benefits are shown in the following table:

	2018	2017	2016
Options and SARs	\$37	\$ 30	\$ 38
Restricted Stock Units	6	26	38
Performance Share Units	7	9	4
Total Share-based Compensation Expense	\$50 <sup>(a)</sup>	\$ 65 <sup>(a)</sup>	\$ 80 <sup>(b)</sup>
Deferred Tax Benefit recognized	\$9	\$ 22 <sup>(c)</sup>	\$ 26 <sup>(c)</sup>
EID compensation expense not share-based	\$(2 )	\$ 12	\$ 5

(a) Includes \$3 million of appreciation and \$18 million of depreciation in the market price of Yum China's stock in 2018 and 2017, respectively. See Note 5.

(b) Includes \$30 million due to modifications of awards in connection with the Separation that was not allocated to any of our operating segments for performance purposes. See Note 5.

(c) Deferred tax benefit recognized does not reflect the impact of the Tax Act. See Note 17.

Cash received from stock option exercises for 2018, 2017 and 2016, was \$5.5 million, \$12 million and \$5 million, respectively. Tax benefits realized on our tax returns from tax deductions associated with share-based compensation for 2018, 2017 and 2016 totaled \$60 million, \$153 million and \$109 million, respectively.

**Note 16 – Shareholders’ Deficit**

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during 2018, 2017 and 2016. All amounts exclude applicable transaction fees.

Authorization Date	Shares Repurchased (thousands)			Dollar Value of Shares Repurchased		
	2018	2017	2016	2018	2017	2016
August 2018	10,003	—	—	\$894	\$—	\$—
November 2017	18,240	—	—	1,500	—	—
November 2016	—	26,561	1,337	—	1,915	85
May 2016	—	—	50,435	—	—	4,200
March 2016	—	—	2,823	—	—	229
December 2015	—	—	13,368	—	—	933
Total	28,243 <sup>(a)</sup>	26,561 <sup>(b)</sup>	67,963 <sup>(b)</sup>	\$2,394 <sup>(a)</sup>	\$1,915 <sup>(b)</sup>	\$5,447 <sup>(b)</sup>

<sup>(a)</sup> Includes the effect of \$5 million in share repurchases (0.1 million shares) with trade dates on, or prior to, December 31, 2018 but settlement dates subsequent to December 31, 2018.

<sup>(b)</sup> 2017 amount excludes and 2016 amount includes the effect of \$45 million in share repurchases (0.7 million shares) with trade dates prior to December 31, 2016 but settlement dates subsequent to December 31, 2016.

On August 10, 2018, our Board of Directors authorized share repurchases through December 2019 of up to \$2 billion (excluding applicable transaction fees) of our outstanding Common Stock. As of December 31, 2018, we have remaining capacity to repurchase up to \$1.1 billion of Common Stock under this authorization.



Changes in AOCI are presented below.

	Translation Adjustments and Gains (Losses) From Intra-Entity Transactions of a Long-Term Nature <sup>(a)</sup>	Pension and Post-Retirement Benefits <sup>(b)</sup>	Derivative Instruments <sup>(c)</sup>	Total
Balance at December 31, 2016, net of tax	\$ (336 )	\$ (127 )	\$ 5	\$(458)
OCI, net of tax				
Gains (losses) arising during the year classified into AOCI, net of tax	107	(13 )	(51 )	43
(Gains) losses reclassified from AOCI, net of tax	55	34	55	144
	162	21	4	187
Balance at December 31, 2017, net of tax	\$ (174 )	\$ (106 )	\$ 9	\$(271)
Adoption of accounting standards	21	<sup>(d)</sup> (17 )	<sup>(e)</sup> (2 )	<sup>(e)</sup> 2
OCI, net of tax				
Gains (losses) arising during the year classified into AOCI, net of tax	(88 )	24	20	(44 )
(Gains) losses reclassified from AOCI, net of tax	(4 )	17	(34 )	(21 )
	(92 )	41	(14 )	(65 )
Balance at December 31, 2018, net of tax	\$ (245 )	\$ (82 )	\$ (7 )	\$(334)

Amounts reclassified from AOCI are due to substantially complete liquidations of foreign entities related to the (a) KFC and Pizza Hut Brazil refranchising transactions during 2018 and KFC Turkey, Pizza Hut Turkey, Pizza Hut Thailand and Pizza Hut Korea refranchising transactions during 2017.

Amounts reclassified from AOCI for pension and post-retirement benefit plan losses during 2018 include amortization of net losses of \$17 million, amortization of prior service cost of \$5 million and related income tax benefit of \$5 million. Amounts reclassified from AOCI for pension and post-retirement benefit plan losses during (b) 2017 include amortization of net losses of \$5 million, historical pension data adjustment of \$22 million, settlement charges of \$20 million, amortization of prior service cost of \$5 million and related income tax benefit of \$18 million. See Note 14.

(c) See Note 12 for details on amounts reclassified from AOCI.

(d) Represents the impact of foreign currency translation from the adoption of Topic 606. See Notes 2 and 5.

(e) During the quarter ended March 31, 2018, we adopted a standard that allows for the reclassification from AOCI to Accumulated deficit for stranded tax effects resulting from the Tax Act. See Note 2.

98

---

**Note 17 – Income Taxes**

U.S. and foreign income before taxes are set forth below:

	2018	2017	2016
U.S.	\$726	\$662	\$366
Foreign	1,113	1,612	979
	\$1,839	\$2,274	\$1,345

The details of our income tax provision (benefit) are set forth below:

		2018	2017	2016
Current:	Federal	\$102	\$(2 )	\$126
	Foreign	181	290	160
	State	25	12	13
		\$308	\$300	\$299
Deferred:	Federal	\$(24 )	\$603	\$19
	Foreign	5	19	3
	State	8	12	6
		\$(11 )	\$634	\$28
		\$297	\$934	\$327

The reconciliation of income taxes calculated at the U.S. federal statutory rate to our effective tax rate is set forth below:

	2018	2017	2016
U.S. federal statutory rate	21.0 %	35.0 %	35.0 %
State income tax, net of federal tax	1.0	0.5	1.1
Statutory rate differential attributable to foreign operations	(12.3)	(9.3)	(10.5)
Adjustments to reserves and prior years	2.8	0.5	(0.8 )
Share-based compensation	(2.5 )	(5.1)	—
Change in valuation allowances	8.5	1.5	(0.2 )
Other, net	(0.4 )	(1.1)	(0.3 )
Tax Act Enactment	(1.9 )	19.1	—
Effective income tax rate	16.2 %	41.1 %	24.3 %

*Statutory rate differential attributable to foreign operations.* This item includes local taxes, withholding taxes, and shareholder-level taxes, net of foreign tax credits. In 2018, this benefit was positively impacted by approximately 8 percentage points due to a transaction resulting in the recognition of excess foreign tax credits that were fully offset by expense included in change in valuation allowances. 2016 and 2017 is favorably impacted by a majority of our income being earned outside of the U.S. where tax rates were generally lower than the U.S. rate.

*Adjustments to reserves and prior years.* This item includes: (1) changes in tax reserves, including interest thereon, established for potential exposure we may incur if a taxing authority takes a position on a matter contrary to our position; and (2) the effects of reconciling income tax amounts recorded in our Consolidated Statements of Income to

amounts reflected on our tax returns, including any adjustments to the Consolidated Balance Sheets. The impact of certain effects or changes may offset items reflected in the '*Statutory rate differential attributable to foreign operations*' line. In 2018, this item was unfavorably impacted by a \$20 million reserve related to a current year uncertain tax position related to a dispute concerning the income tax rate to be applied to our 2018 income in a foreign market and a \$19 million charge for the correction of an error associated with the tax recorded on a prior year divestiture. In 2016, this item was favorably impacted by the resolution of uncertain tax positions in the U.S.

*Share-based compensation.* 2018 and 2017 includes \$47 million and \$117 million, respectively, of excess tax benefit related to share-based compensation. The 2017 excess tax benefits were largely associated with deferred compensation payouts to recently retired employees.

*Change in valuation allowances.* This item relates to changes for deferred tax assets generated or utilized during the current year and changes in our judgment regarding the likelihood of using deferred tax assets that existed at the beginning of the year. The impact of certain changes may offset items reflected in the *'Statutory rate differential attributable to foreign operations'* line. In 2018, \$156 million of net tax expense was driven by valuation allowances recorded against deferred tax assets generated in the current year. This amount excludes a valuation allowance release of \$78 million, which is included in the "Tax Act Enactment" line. In 2017, \$34 million of net tax expense was driven by valuation allowances recorded against deferred tax assets generated in the current year. This amount excludes a valuation allowance of \$189 million, which is included in the "Tax Act Enactment" line. In 2016, \$3 million of net tax benefit was driven by \$14 million in net tax expense for valuation allowances recorded against deferred tax assets generated in the current year and \$17 million in net tax benefit for valuation allowances resulting from a change in judgment regarding the future use of certain deferred tax assets that existed at the beginning of the year.

*Other.* This item primarily includes the net impact of permanent differences related to current year earnings as well as U.S. tax credits and deductions. In 2018 and 2017, this item was primarily driven by the favorable impact of certain international franchising gains.

*Tax Act Enactment.* On December 22, 2017, the U.S. government enacted comprehensive Federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The Tax Act significantly modifies the U.S. corporate income tax system by, among other things, reducing the federal income tax rate from 35% to 21%, limiting certain deductions, including limiting the deductibility of interest expense to 30% of U.S. Earnings Before Interest, Taxes, Depreciation and Amortization, imposing a mandatory one-time deemed repatriation tax on accumulated foreign earnings and creating a territorial tax system that changes the manner in which foreign earnings are subject to U.S. tax.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin 118 which allowed us to record provisional amounts related to the impacts of the Tax Act during a measurement period not to extend beyond one year of the enactment date. As a result, we recorded a \$434 million provisional estimate of the effect of the Tax Act in 2017. This expense was comprised of an estimate of our deemed repatriation tax, the remeasurement of net deferred tax assets resulting from the permanent reduction in the U.S. tax rate to 21%, and establishment of a valuation allowance on foreign tax credit carryforwards which are unlikely to be realized under the U.S. territorial tax system.

In 2018, we completed the accounting for the tax effects of the enactment of the Tax Act. As a result of the Tax Act, we recorded cumulative net tax expense of \$399 million (\$35 million benefit in 2018 and \$434 million expense in 2017). This net expense was comprised of \$241 million for our deemed repatriation tax liability, \$47 million related to the remeasurement of our net deferred tax assets to the 21% U.S. tax rate and \$111 million to establish a valuation allowance on foreign tax credits that are unlikely to be realized under the U.S. territorial tax system.

Companies subject to the Global Intangible Low-Taxed Income provision (GILTI) have the option to account for the GILTI tax as a period cost if and when incurred, or to recognize deferred taxes for outside basis temporary differences expected to reverse as GILTI. The Company has elected to account for GILTI as a period cost.

The details of 2018 and 2017 deferred tax assets (liabilities) are set forth below:

	2018	2017
Operating losses	\$180	\$216
Capital losses	3	4
Tax credit carryforwards	266	311
Employee benefits	72	94
Share-based compensation	62	58
Self-insured casualty claims	7	7
Lease-related liabilities	43	51
Various liabilities	43	51
Property, plant and equipment	19	24
Deferred income and other	53	31
Gross deferred tax assets	748	847
Deferred tax asset valuation allowances	(454 )	(421 )
Net deferred tax assets	\$294	\$426
Intangible assets, including goodwill	\$(42 )	\$(69 )
Property, plant and equipment	(33 )	(18 )
Deemed repatriation tax	—	(170 )
Other	(31 )	(36 )
Gross deferred tax liabilities	\$(106)	\$(293)
Net deferred tax assets (liabilities)	\$188	\$133

Reported in Consolidated Balance Sheets as:

Deferred income taxes	\$195	\$139
Other liabilities and deferred credits	(7 )	(6 )
	\$188	\$133

As of December 31, 2018, we had approximately \$3.6 billion of unremitted foreign retained earnings. The Tax Act imposed U.S. federal tax on all post-1986 foreign Earnings and Profits accumulated through December 31, 2017. Repatriation of earnings generated after December 31, 2017, will generally be eligible for the 100% dividends received deduction and, therefore, exempt from U.S. tax. All undistributed earnings may still be subject to certain taxes upon repatriation, primarily where foreign withholding taxes apply. Our intent is to indefinitely reinvest our unremitted earnings outside the U.S. and our current plans do not demonstrate a need to repatriate these amounts to fund our U.S. operations. Thus, we have not provided taxes, including U.S. state income, foreign income, or foreign withholding taxes, for the unremitted earnings that we believe are permanently invested. However, if these funds were repatriated in taxable transactions, we would be required to accrue and pay applicable income taxes (if any) and foreign withholding taxes. A determination of the deferred tax liability on this amount is not practicable due to the complexities, variables and assumptions inherent in the hypothetical calculations.

At December 31, 2018, the Company has foreign operating and capital loss carryforwards of \$0.4 billion, U.S. state operating loss and tax credit carryforwards of \$1.0 billion, and U.S. federal tax credit carryforwards of \$0.3 billion. The tax losses are being carried forward in jurisdictions where we are permitted to use losses from prior periods to reduce future taxable income. The losses and tax credits will expire as follows:

	Year of Expiration				Total
	2019	2020-2023	2024-2037	Indefinitely	
Foreign	\$2	\$22	\$46	\$346	\$416
U.S. state	—	78	941	—	1,019
U.S. federal	—	49	207	—	256

\$2 \$ 149 \$ 1,194 \$ 346 \$1,691

Valuation allowances of \$0.1 billion, \$0.1 billion and \$0.3 billion have been recorded against the foreign operating loss and capital loss carryforwards, the U.S. state operating loss and tax credit carryforwards, and the U.S. federal tax credit carryforwards, respectively, that are not likely to be realized.

We recognize the benefit of positions taken or expected to be taken in tax returns in the Consolidated Financial Statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement.

The Company had \$113 million and \$100 million of unrecognized tax benefits at December 31, 2018 and December 31, 2017, respectively, \$10 million of which, for both years, are temporary in nature and if recognized, would not impact the effective income tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

	2018	2017
Beginning of Year	\$100	\$91
Additions on tax positions - current year	19	3
Additions for tax positions - prior years	—	8
Reductions for tax positions - prior years	(5 )	—
Reductions for settlements	—	(1 )
Reductions due to statute expiration	(1 )	(1 )
Foreign currency translation adjustment	—	—
End of Year	\$113	\$100

The Company believes it is reasonably possible that its unrecognized tax benefits as of December 31, 2018 may decrease by approximately \$22 million in the next 12 months due to settlements or statute of limitations expirations.

The Company's income tax returns are subject to examination in the U.S. federal jurisdiction and numerous U.S. state and foreign jurisdictions.

The Company has settled audits with the IRS through fiscal year 2010 and is currently under IRS examination for 2011-2015. Our operations in certain foreign jurisdictions remain subject to examination for tax years as far back as 2006, some of which years are currently under audit by local tax authorities.

The accrued interest and penalties related to income taxes at December 31, 2018 and December 31, 2017 were \$12 million and \$14 million, respectively.

During 2018, 2017 and 2016, a net benefit of \$2 million, a net expense of \$5 million and a net benefit of \$4 million, respectively, for interest and penalties was recognized in our Consolidated Statements of Income as components of its Income tax provision.



**Note 18 – Reportable Operating Segments**

See Note 1 for a description of our operating segments.

	Revenues		
	2018	2017	2016
KFC Division <sup>(a)</sup>	\$2,644	\$3,110	\$3,225
Pizza Hut Division <sup>(a)</sup>	988	893	1,108
Taco Bell Division <sup>(a)</sup>	2,056	1,880	2,025
Unallocated <sup>(b)(f)</sup>	—	(5 )	(2 )
	\$5,688	\$5,878	\$6,356

	Operating Profit; Interest Expense, Net; and Income Before Income Taxes		
	2018	2017	2016
KFC Division	\$959	\$981	\$871
Pizza Hut Division	348	341	367
Taco Bell Division	633	619	595
Corporate and unallocated G&A expenses <sup>(b)(g)</sup>	(171 )	(230 )	(280 )
Unallocated restaurant costs <sup>(b)(i)</sup>	3	10	—
Unallocated Franchise and property revenues <sup>(b)(f)</sup>	—	(5 )	(2 )
Unallocated Franchise and property expenses <sup>(b)(f)</sup>	(8 )	(30 )	(24 )
Unallocated Refranchising gain (loss) <sup>(b)</sup>	540	1,083	163
Unallocated Other income (expense) <sup>(b)(h)</sup>	(8 )	(8 )	(8 )
Operating Profit	2,296	2,761	1,682
Investment income (expense), net <sup>(b)</sup>	9	5	2
Other pension income (expense) <sup>(b)(j)</sup>	(14 )	(47 )	(32 )
Interest expense, net <sup>(b)</sup>	(452 )	(445 )	(307 )
Income from continuing operations before income taxes	\$1,839	\$2,274	\$1,345

	Depreciation and Amortization		
	2018	2017	2016
KFC Division	\$58	\$138	\$172
Pizza Hut Division	10	26	36
Taco Bell Division	61	82	90
Corporate	8	7	12
	\$137	\$253	\$310

	Capital Spending		
	2018	2017	2016
KFC Division	\$105	\$176	\$216
Pizza Hut Division	38	42	69
Taco Bell Division	85	95	132
Corporate	6	5	10
	\$234	\$318	\$427



	Identifiable Assets <sup>(e)</sup>	
	2018	2017
KFC Division	\$1,481	\$1,791
Pizza Hut Division	701	628
Taco Bell Division	1,074	1,086
Corporate <sup>(c)</sup>	874	1,806
	\$4,130	\$5,311

	Long-Lived Assets <sup>(d)</sup>	
	2018	2017
KFC Division	\$868	\$1,200
Pizza Hut Division	384	311
Taco Bell Division	720	778
Corporate	32	31
	\$2,004	\$2,320

- (a) U.S. revenues included in the combined KFC, Pizza Hut and Taco Bell Divisions totaled \$2.9 billion in 2018, \$2.8 billion in 2017 and \$3.1 billion in 2016.
- (b) Amounts have not been allocated to any segment for performance reporting purposes.
- (c) Primarily includes cash, our Grubhub investment and deferred tax assets.
- (d) Includes PP&E, goodwill, and intangible assets, net.
- (e) U.S. identifiable assets included in the combined Corporate and KFC, Pizza Hut and Taco Bell Divisions totaled \$2.0 billion and \$3.0 billion in 2018 and 2017, respectively.
- (f) Represents costs associated with the KFC U.S. Acceleration Agreement and Pizza Hut U.S. Transformation Agreement. See Note 5.

Amounts in 2018 include costs related to YUM's Strategic Transformation Initiatives of \$8 million, partially offset by non-cash credits associated with modifications of share-based compensation awards of \$3 million. Amounts in (g) 2017 include costs related to YUM's Strategic Transformation Initiatives of \$21 million, non-cash charges associated with modifications of share-based compensation awards of \$18 million and costs associated with the Pizza Hut U.S. Transformation Agreement of \$13 million. See Note 5.

- (h) Amounts include losses associated with the sale of corporate aircraft related to YUM's Strategic Transformation Initiatives of \$2 million in 2017. See Note 7.
- (i) Represents depreciation reductions arising primarily from KFC restaurants that were held-for-sale. See Note 5.
- (j) Amounts in 2017 include a non-cash charge of \$22 million related to the adjustment of certain historical deferred vested liability balances in our qualified U.S. plan. See Note 5.

## Note 19 – Contingencies

### Lease Guarantees

As a result of having assigned our interest in obligations under real estate leases as a condition to the refranchising of certain Company-owned restaurants, and guaranteeing certain other leases, we are frequently secondarily liable on lease agreements. These leases have varying terms, the latest of which expires in 2065. As of December 31, 2018, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessee was approximately \$525 million. The present value of these potential payments discounted at our pre-tax cost of debt at December 31, 2018 was approximately \$425 million. Our franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of non-

payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our probable exposure under such leases at December 31, 2018 and December 31, 2017 was not material.

#### Franchise Loan Pool and Equipment Guarantees

We have agreed to provide financial support, if required, to a variable interest entity that operates a franchisee lending program used primarily to assist franchisees in the development of new restaurants or the upgrade of existing restaurants and, to a lesser extent, in connection with the Company's refranchising programs in the U.S. We have determined that we are not required to consolidate this entity as we share the power to direct this entity's lending activity with other parties. We have provided guarantees of 20% of the outstanding loans of the franchisee loan program. As such, at December 31, 2018 our guarantee exposure under this program is \$2 million based on total loans outstanding of \$9 million.

In addition to the guarantees described above, YUM has agreed to provide guarantees of up to \$26 million on behalf of franchisees for several financing programs related to equipment purchases and refranchising. At December 31, 2018, our guarantee exposure under these financing programs is \$10 million based on total loans outstanding of \$50 million.

#### Insurance Programs

We are self-insured for a substantial portion of our current and prior years' coverage including property and casualty losses. To mitigate the cost of our exposures for certain property and casualty losses, we self-insure the risks of loss up to defined maximum per occurrence retentions on a line-by-line basis. The Company then purchases insurance coverage, up to a certain limit, for losses that exceed the self-insurance per occurrence retention. The insurers' maximum aggregate loss limits are significantly above our actuarially determined probable losses; therefore, we believe the likelihood of losses exceeding the insurers' maximum aggregate loss limits is remote.

The following table summarizes the 2018 and 2017 activity related to our net self-insured property and casualty reserves as of December 31, 2018.

	Beginning Balance	Expense	Payments	Ending Balance
2018 Activity	\$ 84	11	(29 )	\$ 66
2017 Activity	\$ 98	27	(41 )	\$ 84

Due to the inherent volatility of actuarially determined property and casualty loss estimates, it is reasonably possible that we could experience changes in estimated losses which could be material to our growth in quarterly and annual Net Income. We believe that we have recorded reserves for property and casualty losses at a level which has substantially mitigated the potential negative impact of adverse developments and/or volatility.

In the U.S. and in certain other countries, we are also self-insured for healthcare claims and long-term disability for eligible participating employees subject to certain deductibles and limitations. We have accounted for our retained liabilities for property and casualty losses, healthcare and long-term disability claims, including reported and incurred but not reported claims, based on information provided by independent actuaries.

#### Legal Proceedings

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

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

**Note 20 – Selected Quarterly Financial Data (Unaudited)**

	2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	\$512	\$ 512	\$ 499	\$ 477	\$2,000
Franchise and property revenues	584	584	605	709	2,482
Franchise contributions for advertising and other services	275	272	287	372	1,206
Total revenues	1,371	1,368	1,391	1,558	5,688
Restaurant profit	74	91	100	101	366
Operating Profit <sup>(a)</sup>	553	449	553	741	2,296
Net Income	433	321	454	334	1,542
Basic earnings per common share from continuing operations	1.30	0.99	1.43	1.07	4.80
Diluted earnings per common share from continuing operations	1.27	0.97	1.40	1.04	4.69
Dividends declared per common share	0.36	0.36	0.36	0.36	1.44
	2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	\$902	\$ 909	\$ 871	\$ 890	\$3,572
Franchise and property revenues	515	539	565	687	2,306
Total revenues	1,417	1,448	1,436	1,577	5,878
Restaurant profit	144	161	154	159	618
Operating Profit <sup>(b)</sup>	484	419	643	1,215	2,761
Net Income	280	206	418	436	1,340
Basic earnings per common share from continuing operations	0.78	0.59	1.21	1.29	3.86
Diluted earnings per common share from continuing operations	0.77	0.58	1.18	1.26	3.77
Dividends declared per common share	0.30	0.30	—	0.30	0.90

(a) Includes net gains from refranchising initiatives of \$156 million, \$29 million, \$100 million and \$255 million in the first, second, third and fourth quarters, respectively.

(b) Includes net gains from refranchising initiatives of \$111 million, \$19 million, \$201 million and \$752 million in the first, second, third and fourth quarters, respectively.

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

## **Item 9A. Controls and Procedures.**

### Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework* (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

KPMG LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and the effectiveness of our internal control over financial reporting and has issued their report, included herein.

### Changes in Internal Control

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended December 31, 2018.

## **Item 9B. Other Information.**

None.

107

---



## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

Information regarding Section 16(a) compliance, the Audit Committee and the Audit Committee financial expert, the Company's code of ethics and background of the directors appearing under the captions "Stock Ownership Information," "Governance of the Company," "Executive Compensation" and "Item 1: Election of Directors and Director biographies" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

Information regarding executive officers of the Company is included in Part I.

### **Item 11. Executive Compensation.**

Information regarding executive and director compensation and the Compensation Committee appearing under the captions "Governance of the Company" and "Executive Compensation" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information regarding equity compensation plans and security ownership of certain beneficial owners and management appearing under the captions "Executive Compensation" and "Stock Ownership Information" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information regarding certain relationships and related transactions and information regarding director independence appearing under the caption "Governance of the Company" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

### **Item 14. Principal Accountant Fees and Services.**

Information regarding principal accountant fees and services and audit committee pre-approval policies and procedures appearing under the caption "Item 2: Ratification of Independent Auditors" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

(a)(1) Financial Statements: Consolidated Financial Statements filed as part of this report are listed under Part II, Item 8 of this Form 10-K.

(2) Financial Statement Schedules: No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements thereto filed as a part of this Form 10-K.

(3) Exhibits: The exhibits listed in the accompanying Exhibit Index are filed as part of this Form 10-K. The Index to Exhibits specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 20, 2019

YUM! BRANDS, INC.

By: /s/ Greg Creed

110

---

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b><u>Signature</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
/s/ Greg Creed Greg Creed	Chief Executive Officer (principal executive officer)	February 20, 2019
/s/ David W. Gibbs David W. Gibbs	President, Chief Operating Officer and Chief Financial Officer (principal financial officer)	February 20, 2019
/s/ David E. Russell David E. Russell	Senior Vice President, Finance and Corporate Controller (principal accounting officer)	February 20, 2019
/s/ Paget L. Alves Paget L. Alves	Director	February 20, 2019
/s/ Michael J. Cavanagh Michael J. Cavanagh	Director	February 20, 2019
/s/ Christopher M. Connor Christopher M. Connor	Director	February 20, 2019
/s/ Brian C. Cornell Brian C. Cornell	Director	February 20, 2019
/s/ Tanya L. Domier Tanya L. Domier	Director	February 20, 2019
/s/ Mirian M. Graddick-Weir Mirian M. Graddick-Weir	Director	February 20, 2019
/s/ Thomas C. Nelson Thomas C. Nelson	Director	February 20, 2019
/s/ P. Justin Skala P. Justin Skala	Director	February 20, 2019
/s/ Elane B. Stock Elane B. Stock	Director	February 20, 2019
/s/ Robert D. Walter Robert D. Walter	Director	February 20, 2019

**YUM! Brands, Inc.**  
**Exhibit Index**  
**(Item 15)**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
2.1	<u>Separation and Distribution Agreement, dated as of October 31, 2016, by and among YUM, Yum Restaurants Consulting (Shanghai) Company Limited and Yum China Holdings, Inc., which is incorporated herein by reference from Exhibit 2.1 to YUM's Report on Form 8-K filed on November 3, 2016.</u>
3.1	<u>Restated Articles of Incorporation of YUM, effective May 26, 2011, which is incorporated herein by reference from Exhibit 3.1 to YUM's Report on Form 8-K filed on May 31, 2011.</u>
3.2	<u>Amended and restated Bylaws of YUM, effective July 15, 2016, which are incorporated herein by reference from Exhibit 3.1 to YUM's Report on Form 8-K filed on July 19, 2016.</u>
4.1	<u>Indenture, dated as of May 1, 1998, between YUM and The Bank of New York Mellon Trust Company, N.A., successor in interest to The First National Bank of Chicago, which is incorporated herein by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed on May 13, 1998.</u>
	<ul style="list-style-type: none"> <li data-bbox="271 987 1498 1102">(i) <u>6.875% Senior Notes due November 15, 2037 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.3 (included in Exhibit 4.1) to YUM's Report on Form 8-K filed on October 22, 2007.</u></li> <li data-bbox="271 1134 1498 1239">(ii) <u>5.30% Senior Notes due September 15, 2019 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.3 (included in Exhibit 4.1) to YUM's Report on Form 8-K filed on August 25, 2009.</u></li> <li data-bbox="271 1270 1498 1375">(iii) <u>3.875% Senior Notes due November 1, 2020 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 (included in Exhibit 4.1) to YUM's Report on Form 8-K filed on August 31, 2010.</u></li> <li data-bbox="271 1407 1498 1512">(iv) <u>3.750% Senior Notes due November 1, 2021 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 (included in Exhibit 4.1) to YUM's Report on Form 8-K filed August 29, 2011.</u></li> <li data-bbox="271 1543 1498 1648">(v) <u>3.875% Senior Notes due November 1, 2023 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 (included in Exhibit 4.1) to YUM's Report on Form 8-K filed October 31, 2013.</u></li> <li data-bbox="271 1680 1498 1795">(vi) <u>5.350% Senior Notes due November 1, 2043 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.3 (included in Exhibit 4.1) to YUM's Report on Form 8-K filed October 31, 2013.</u></li> </ul>
10.1	<u>Credit Agreement, dated as of June 16, 2016, by and among Pizza Hut Holdings, LLC, KFC Holding Co., and Taco Bell of America, LLC, as the borrowers, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, JPMorgan Chase Bank, N.A., Goldman</u>

Sachs Bank USA, Wells Fargo Securities, LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc., Fifth Third Bank and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Joint Lead Arrangers and Joint Bookrunners, Barclays Bank PLC, The Bank of Nova Scotia, Cooperatieve Rabobank U.A., New York Branch, and Industrial and Commercial Bank of China Limited, New York Branch, as Co-Documentation Agents and Co-Managers, which is incorporated herein by reference from Exhibit 4.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 11, 2016.

**Exhibit Description of  
Number Exhibits**

- 10.1. Refinancing  
Amendment,  
dated as of  
March 21, 2017,  
to Credit  
Agreement  
dated as of June  
16, 2016 among  
Pizza Hut  
Holdings, LLC,  
KFC Holding  
Co. and Taco  
Bell of America,  
LLC, as  
borrowers, the  
Lenders from  
time to time  
party thereto  
and JPMorgan  
Chase Bank,  
N.A., as  
Collateral  
Agent, Swing  
Line Lender, an  
L/C Issuer and  
Administrative  
Agent for the  
Lenders, which  
is incorporated  
herein by  
reference from  
Exhibit 10.1 to  
YUM's Report  
on Form 8-K as  
filed on March  
23, 2017.
- 10.1. Refinancing  
Amendment No.  
2, dated as of  
June 7, 2017, to  
Credit  
Agreement  
dated as of June

16, 2016, as amended, among Pizza Hut Holdings, LLC, KFC Holding Co. and Taco Bell of America, LLC, as borrowers, the Lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as Collateral Agent, Swing Line Lender, an L/C Issuer and Administrative Agent for the Lenders, which is incorporated herein by reference from Exhibit 10.1 to YUM's Report on Form 8-K as filed on June 8, 2017.

10.1. Refinancing Amendment, dated as of April 3, 2018, to Credit Agreement dated as of June 16, 2016 among Pizza Hut Holdings, LLC, KFC Holding Co. and Taco Bell of America, LLC, as borrowers, the Lenders from time to time party thereto and



JPMorgan Chase Bank, N.A., as Collateral Agent, Swing Line Lender, an L/C Issuer and Administrative Agent for the Lenders, which is incorporated herein by reference from Exhibit 10.1 to YUM's Report on Form 8-K as filed on April 9, 2018.

10.2† YUM Director Deferred Compensation Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.7 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.

10.2. YUM Director Deferred Compensation Plan, Plan Document for the 409A Program, as effective January 1, 2005, and as Amended through November 14, 2008, which is

incorporated by reference from Exhibit 10.7.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 13, 2009.

YUM Executive Incentive Compensation Plan, as effective May 20, 2004, and as Amended through the Second Amendment, as effective May 21, 2009, which

10.3†is incorporated herein by reference from Exhibit A of YUM's Definitive Proxy Statement on Form DEF 14A for the Annual Meeting of Shareholders held on May 21, 2009.

10.4†YUM Executive Income Deferral Program, as effective October 7, 1997, and as amended through May 16, 2002, which is incorporated herein by reference from Exhibit 10.10 to YUM's Annual Report on Form 10-K for the

fiscal year  
ended  
December 31,  
2005.

YUM! Brands  
Executive  
Income Deferral  
Program, Plan  
Document for  
the 409A  
Program, as  
effective  
January 1, 2005,  
and as Amended  
10.4. through June 30,  
2009, which is  
incorporated by  
reference from  
Exhibit 10.10.1  
to YUM's  
Quarterly  
Report on Form  
10-Q for the  
quarter ended  
June 13, 2009.

YUM! Brands  
Pension  
Equalization  
Plan, Plan  
Document for  
the Pre-409A  
Program, as  
effective  
January 1, 2005,  
and as Amended  
10.5. through  
December 31,  
2010, which is  
incorporated by  
reference from  
Exhibit 10.7 to  
Yum's Quarterly  
Report on Form  
10-Q for the  
quarter ended  
March 19, 2011.

10.5. The Yum!  
Brands, Inc.

Pension  
Equalization  
Plan, Restated  
Plan Document  
for the 409A  
Program  
effective  
January 1, 2005,  
as amended  
through January  
1, 2017 as filed  
herewith.

10.6† Form of  
Directors'  
Indemnification  
Agreement,  
which is  
incorporated  
herein by  
reference from  
Exhibit 10.17 to  
YUM's Annual  
Report on Form  
10-K for the  
fiscal year  
ended  
December 27,  
1997.

10.7† Form of YUM!  
Brands, Inc.  
Change in  
Control  
Severance  
Agreement,  
which is  
incorporated  
herein by  
reference from  
Exhibit 10.1 to  
Yum's Report on  
Form 8-K filed  
on March 21,  
2013.

10.8† YUM! Long  
Term Incentive  
Plan, as  
Amended and  
Restated

effective as of  
May 20, 2016 as  
incorporated by  
reference from  
Form DEF 14A  
filed on April 8,  
2016.

**Exhibit Description of  
Number Exhibits**

- YUM  
SharePower  
Plan, as  
effective  
October 7,  
1997, and as  
amended  
through June  
23, 2003,  
which is  
10.9†incorporated  
herein by  
reference from  
Exhibit 10.23  
to YUM's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
December 31,  
2005.
- Form of YUM  
Director Stock  
Option Award  
Agreement,  
which is  
incorporated  
herein by  
reference from  
10.10Exhibit 10.25  
to YUM's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended  
September 4,  
2004.
- 10.11Form of YUM  
1999 Long  
Term  
Incentive Plan  
Award  
Agreement,  
which is

incorporated  
herein by  
reference from  
Exhibit 10.26  
to YUM's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended  
September 4,  
2004.

Form of YUM  
1999 Long  
Term  
Incentive Plan  
Award  
Agreement  
(2013) (Stock  
Options),  
which is  
incorporated

10.11 herein by  
reference from  
Exhibit  
10.15.1 to  
YUM's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended March  
23, 2013.

10.11 Form of YUM  
1999 Long  
Term  
Incentive Plan  
Award  
Agreement  
(2015) (Stock  
Options),  
which is  
incorporated  
herein by  
reference from  
Exhibit  
10.15.2 to  
YUM's Annual  
Report on

Form 10-K for  
the fiscal year  
ended  
December 27,  
2014.

YUM! Brands,  
Inc.  
International  
Retirement  
Plan, as in  
effect January  
1, 2005, which  
is incorporated  
herein by  
reference from  
Exhibit 10.27  
to YUM's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
December 25,  
2004.

Form of 1999  
Long Term  
Incentive Plan  
Award  
Agreement  
(Stock  
Appreciation  
Rights) which  
is incorporated  
by reference  
from Exhibit  
99.1 to YUM's  
Report on  
Form 8-K as  
filed on  
January 30,  
2006.

Form of YUM  
1999 Long  
Term  
Incentive Plan  
Award  
Agreement  
(2013) (Stock  
Appreciation



Rights), which is incorporated by reference from Exhibit 10.18.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended March 23, 2013.

Form of YUM 1999 Long Term Incentive Plan Award Agreement (2015) (Stock Appreciation Rights), which is incorporated

10.13 herein by reference from Exhibit 10.18.2 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.

10.14 YUM! Brands Leadership Retirement Plan, as in effect January 1, 2005, which is incorporated herein by reference from Exhibit 10.32 to YUM's Quarterly Report on Form 10-Q for the quarter ended March

24, 2007.

YUM! Brands  
Leadership  
Retirement  
Plan, Plan  
Document for  
the 409A  
Program, as  
effective  
January 1,  
2005, and as  
Amended  
through

10.14 December,  
2009, which is  
incorporated  
by reference  
from Exhibit  
10.21.1 to  
YUM's Annual  
Report on  
Form 10-K for  
the fiscal year  
ended  
December 26,  
2009.

YUM!  
Performance  
Share Plan, as  
amended and  
restated  
January 1,  
2013, which is  
incorporated

10.15 by reference  
from Exhibit  
10.1 to YUM's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended June 13,  
2015.

10.16 YUM! Brands  
Third Country  
National  
Retirement  
Plan, as

effective  
January 1,  
2009, which is  
incorporated  
by reference  
from Exhibit  
10.25 to  
YUM's Annual  
Report on  
Form 10-K for  
the fiscal year  
ended  
December 26,  
2009.

2010 YUM!  
Brands  
Supplemental  
Long Term  
Disability  
Coverage  
Summary, as  
effective

January 1,  
2010, which is  
10.17 incorporated  
by reference  
from Exhibit  
10.26 to  
YUM's Annual  
Report on  
Form 10-K for  
the fiscal year  
ended  
December 26,  
2009.

10.18 1999 Long  
Term  
Incentive Plan  
Award (Stock  
Appreciation  
Rights) by and  
between the  
Company and  
David C.  
Novak, dated  
as of February  
6, 2015, which  
is incorporated  
herein by

reference from  
Exhibit 10.27  
to YUM's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
December 27,  
2014.

YUM! Brands,  
Inc.  
Compensation  
Recovery  
Policy,  
Amended and  
Restated  
January 1,  
2015, which is

10.19<sup>1</sup> incorporated  
herein by  
reference from  
Exhibit 10.28  
to YUM's  
Annual Report  
on Form 10-K  
for the fiscal  
year ended  
December 27,  
2014.

**Exhibit Description**

**Number of Exhibits**

- 10.20 Indenture, dated as of June 16, 2016, by and among KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC, as issuers, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, which is incorporated herein by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed on June 21, 2016.
- 10.21 Indenture, dated as of June 15, 2017, by and among KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC, as issuers, the Guarantors named therein and The Bank

of New York Mellon Trust Company, N.A., as trustee, which is incorporated herein by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed on June 16, 2017.

10.22 Base Indenture, dated as of May 11, 2016, between Taco Bell Funding, LLC, as issuer and Citibank, N.A., as trustee and securities intermediary, which is incorporated herein by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed on May 16, 2016.

10.22.1 Series 2016-1 Supplement to Base Indenture dated as of May 11, 2016, by and between Taco Bell Funding, LLC, as

issuer and Citibank, N.A. as Trustee and Series 2016-1 securities intermediary, which is incorporated herein by reference from Exhibit 4.2 to YUM's Report on Form 8-K filed on May 16, 2016.

Series 2018-1 Supplement to Base Indenture, dated as of November 28, 2018, by and between the Issuer and Citibank,

10.22.2 N.A. as Trustee and Series 2018-1 securities intermediary, which is incorporated herein by reference from Exhibit 10.1 to YUM's Report on Form 8-K filed on December 3, 2018.

10.22.3 Amendment No. 1 to Base Indenture, dated as of August 23, 2016, by and

between the Issuer and Citibank, N.A. as Trustee and Series 2016-1 securities intermediary as filed herein.

10.22.4 Amendment No. 2 to Base Indenture, dated as of November 28, 2018, by and between the Issuer and Citibank, N.A. as Trustee and the Series 2018-1 securities intermediary, which is incorporated herein by reference from Exhibit 10.2 to YUM's Report on Form 8-K filed on December 3, 2018.

10.24 Guarantee and Collateral Agreement, dated as of May 11, 2016, by Taco Bell Franchise Holder 1, LLC, Taco Bell Franchisor, LLC, Taco



Bell IP  
Holder, LLC  
and Taco Bell  
Franchisor  
Holdings,  
LLC in favor  
of Citibank,  
N.A., which  
is  
incorporated  
herein by  
reference  
from Exhibit  
10.2 to  
YUM's Report  
on Form 8-K  
filed on May  
16, 2016.

10.25 Management  
Agreement,  
dated as of  
May 11,  
2016, among  
Taco Bell  
Funding,  
LLC, as  
issuer, Taco  
Bell  
Franchise  
Holder 1,  
LLC, Taco  
Bell  
Franchisor,  
LLC, Taco  
Bell IP  
Holder, LLC,  
Taco Bell  
Franchisor  
Holdings,  
LLC,  
Citibank,  
N.A. and  
Taco Bell  
Corp., as  
manager,  
which is  
incorporated  
herein by  
reference  
from Exhibit

10.3 to  
YUM's Report  
on Form 8-K  
filed on May  
16, 2016.

10.25.1 Amendment  
No.1 to  
Management  
Agreement,  
dated as of  
August 24,  
2016, among  
Taco Bell  
Funding,  
LLC, as  
issuer, Taco  
Bell  
Franchise  
Holder 1,  
LLC, Taco  
Bell  
Franchisor,  
LLC, Taco  
Bell IP  
Holder, LLC,  
Taco Bell  
Franchisor  
Holdings,  
LLC and  
Taco Bell  
Corp., as  
manager as  
filed herein.

10.25.2 Amendment  
No. 2 to  
Management  
Agreement,  
dated as of  
November  
28, 2018,  
among Taco  
Bell Funding,  
LLC, as  
issuer, Taco  
Bell  
Franchise  
Holder 1,  
LLC, Taco  
Bell

Franchisor,  
LLC, Taco  
Bell IP  
Holder, LLC,  
Taco Bell  
Franchisor  
Holdings,  
LLC,  
Citibank,  
N.A. and  
Taco Bell  
Corp., as  
manager as  
filed herein.

10.26 Master  
License  
Agreement,  
dated as of  
October 31,  
2016, by and  
between  
Yum!  
Restaurants  
Asia Pte. Ltd.  
and Yum  
Restaurants  
Consulting  
(Shanghai)  
Company  
Limited,  
which is  
incorporated  
herein by  
reference  
from Exhibit  
10.1 to  
YUM's  
Report on  
Form 8-K  
filed on  
November 3,  
2016.

10.27 Tax Matters  
Agreement,  
dated as of  
October 31,  
2016, by and  
among YUM,  
Yum China

Holdings, Inc.  
and Yum  
Restaurants  
Consulting  
(Shanghai)  
Company  
Limited,  
which is  
incorporated  
herein by  
reference  
from Exhibit  
10.2 to  
YUM's  
Report on  
Form 8-K  
filed on  
November 3,  
2016.

21.1 Active  
Subsidiaries  
of YUM.

115

---

**Exhibit Description of  
Number Exhibits**

- 23.1 Consent of  
KPMG LLP.
- Certification of  
the Chief  
Executive  
Officer pursuant  
to Rule  
13a-14(a) of  
Securities
- 31.1 Exchange Act of  
1934, as  
adopted  
pursuant to  
Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.
- Certification of  
the Chief  
Financial  
Officer pursuant  
to Rule  
13a-14(a) of  
Securities
- 31.2 Exchange Act of  
1934, as  
adopted  
pursuant to  
Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.
- Certification of  
the Chief  
Executive  
Officer pursuant  
to 18 U.S.C.  
Section 1350, as  
adopted  
pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002.
- 32.1

32.2 Certification of  
the Chief  
Financial  
Officer pursuant  
to 18 U.S.C.  
Section 1350, as  
adopted  
pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002.

101.INS Instance  
Document - the  
instance  
document does  
not appear in the  
Interactive Data  
File because its  
XBRL tags are  
embedded  
within the Inline  
XBRL  
document

101.SCHE XBRL  
Taxonomy  
Extension  
Schema  
Document

101.CAL XBRL  
Taxonomy  
Extension  
Calculation  
Linkbase  
Document

101.LABEL XBRL  
Taxonomy  
Extension Label  
Linkbase  
Document

101.PRE XBRL  
Taxonomy  
Extension  
Presentation  
Linkbase  
Document

101.DEF XBRL  
Taxonomy  
Extension  
Definition  
Linkbase  
Document

† Indicates a  
management contract  
or compensatory  
plan.

116