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YUM! Brands, Inc. (YUM) CEO Greg Creed on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.8 misses by $-0.14 | Revenue of $1.34B (-3.74% Y/Y) misses by $-6.69M

Earning Call Audio

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YUM! Brands, Inc. (NYSE:YUM) Q3 2019 Results Earnings Conference Call October 30, 2019 8:15 AM ET

Company Participants

Keith Siegner - VP, IR, M&A and Treasurer

Greg Creed - Chief Executive Officer

Chris Turner - Chief Financial Officer

David Gibbs - SVP, Corporate Controller

Conference Call Participants

John Glass - Morgan Stanley

Dennis Geiger - UBS

John Ivankoe - JPMorgan

David Palmer - Evercore

Sara Senatore - Bernstein

Gregory Francfort - Bank of America

Brian Bittner - Oppenheimer

David Tarantino - Baird

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Yum! Brands, Q3 2019 Earnings Release Call. At this time, all participants are in a listen-only mode. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to our speaker today, Keith Siegner, Vice President, Investor Relations, M&A and Treasurer. Thank you. You may begin.

Keith Siegner

Thanks, operator. Good morning, everyone and thank you for joining us. On our call today are Greg Creed, our CEO; David Gibbs, our President and Chief Operating Officer; Chris Turner, our Chief Financial Operating Officer; and Dave Russell, our Senior Vice President and Corporate Controller. Following remarks from Greg, David and Chris, we'll open the call to questions.

Before we get started, I'd like to remind you that this conference call includes forward-looking statements. These forward-looking statements are subject to future events and uncertainties that could cause our actual results to differ materially from those statements. All forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our filings with the SEC. In addition, please refer to our earnings releases and relevant sections of our filings with the SEC to find disclosures and reconciliations of non-GAAP financial measures that may be used on today's call.

Please note the following regarding our basis of presentation for today's call. First, all system sales results exclude the impact of foreign currency. Second, Pizza Hut Division and Worldwide system sales and net new unit growth include the benefit of the increase in units in the fourth quarter of 2018 related to our strategic alliance with Telepizza. Same-store sales growth reflects the inclusion of Telepizza in the prior year base.

Third, core operating profit growth figures exclude the impact of foreign currency and special items. Fourth, the lease accounting standard was prospectively adopted on January 1st, 2019. As a reminder, this is a GAAP required change, resulting in the recognition of operating lease assets and liabilities on the balance sheet. We do not expect a change in our income statement or cash flows as a result of this accounting change. And last, please note that 2019 results will include a 53rd week.

We're broadcasting this call via our website. This call is also being recorded and will be available for playback. Please be advised that if you ask a question, it will be included in both our live conference and in any future use of the recording.

We'd like to make you aware of the following changes in upcoming Yum! investor events. Disclosures pertaining to outstanding debt in our Restricted Group capital structure will be provided at the time of the Form 10-Q filing. Fourth quarter 2019 earnings will be released on February 6, 2019, with a conference call on the same day.

Now, I'd like to turn the call over to Mr. Greg Creed.

Greg Creed

Thank you, Keith. And good morning, everyone. Following a very strong first half and in line with our expectations, third quarter results were healthy and consistent with our long-term growth model.

Yum! delivered third quarter system sales growth of 8%, including 3% same-store sales growth and 7% net new unit growth. While we're pleased with our results, we know there is always work to be done.

I’d like to begin today's call with a few opening remarks, before I hand it over to Chris, who will go over our third quarter results and Unrivaled Culture & Talent. Then David will discuss our four growth drivers, Relevant Easy and Distinctive Brands as we say RED for short; Bold Restaurant Development; Unmatched Franchise Operating Capability; and then some additional news on culture and talent.

Now to start at the top, I am confident that the Board and I have identified the best and most capable person to lead the next phase of growth for Yum!. We’re delighted that David will officially take over as CEO in January. David has been a fantastic partner to me throughout our transformation these past few years. We’ve always shared an unwavering belief in people, their development and our culture and we’ll continue to invest in making Yum! the best place to work.

I am also immensely proud of the progress we've made by making both the Taco Bell and the KFC brands RED and accelerating the pace of global unit development. But, there is always unfinished business.

And for us that unfinished business includes consistently enhancing the customer experience by ensuring that we have the best people technology and assets. And this unfinished business is probably most pronounced at Pizza Hut U.S.

I am proud of Artie Starrs and his team as they continue to make significant progress on many aspects of the turnaround of this business, such as enhancing product quality, improving the speed of service, introducing a loyalty program and upgrading our technology over the past few years.

And as we announced last quarter, they are leaning in to accelerate the transition of our asset base to one base with modern delivery carryout assets while also moving aggressively to evolve our franchisee base, so that we can deliver a world class experience every time.

We know that some of our franchisees economics are pressured, particularly in higher wage markets. At the same time, others are overleveraged and some simply aren’t the right operating partner for us to grow this brand. We know this transition won't be easy, but we are committed to doing the right thing for this iconic brand over the long-term.

To be clear, we have many existing Pizza Hut U.S. franchisees that have the capital, commitment and capability to bring the brand to life the right way and we will continue to support and partner with them on the brand turnaround.

Of course, this transition will undoubtedly lead to some disruption and choppiness in the short term, and I'm confident that Artie and his team are set to tackle this head on.

Now you want to leave the business better than you found it, but also with the knowledge it'll be better after you're gone, and that's exactly how I feel today. We've accelerated growth while simultaneously executing a major transformation. And now nothing will give me more pleasure than to watch our brands and each of our employee and franchise partners go from strength to strength.

When I got the opportunity to serve as the CEO of Yum! starting in 2015, the goal was to lead our culture to fuel results and continue to build brands that people trust and champion, while driving aggressive unit expansion. This has always been and remains a foundational pillar for me.

We then built on this foundation with the separation of Yum! China in October 2016, which was a starting point of our three-year transformation. We became maniacal about being more focused, more franchised and more efficient to generate more growth and create a world with more Yum!.

We're confident we are well under way to accomplishing our 2016 transformation goals. We completed our refranchising program and are 98% franchised. We have demonstrated financial discipline by meeting our goal of G&A being 1.7% of system sales and by reducing run rate CapEx.

We're on track to return $6.5 billion to $7 billion to shareholders through dividends and share repurchases between 2017 and 2019, and we've generated over 80% total shareholder return since we announced the transformation.

Additionally, we closed creative and transformative deals to drive profitable system sales growth for Yum! and our franchisees for years to come. We've achieved healthy same-store sales and our pace of net new unit growth has nearly doubled since we announced our transformation in 2016.

Our work is not finished, but I am extremely proud and I believe the Yum! family is equally proud of what we have accomplished, and we're even more excited about our future growth potential.

And with that it gives me great pleasure to introduce our new Chief Financial Officer, Chris Turner.

Chris Turner

Thank you, Greg. And good morning, everyone. Today I'll discuss our third quarter results and our remaining transformation initiatives. To begin the results. Core operating profit grew 6% and as Greg mentioned Yum! delivered system sales growth of 8%, same-store sales growth of 3% and net new unit growth of 7%.

A major contributor to this success was KFC, our largest division in units and profit contribution with 3% same-store sales growth and 6% net new unit growth driving 8% system sales growth in the quarter. Similarly, Taco Bell had another great quarter with 7% system sales growth driven by 4% for both same-store sales and net new unit growth.

I'll now update you on our 2019 EPS outlook and the moving pieces that will impact our reported results versus adjusted EPS guidance all of which is outlined in a table within our earnings release.

First, there is no change to our goal to deliver at least $3.75 in 2019 adjusted EPS which we introduced in 2016. Second, as a reminder the $3.75 excludes any benefit from the 53rd week in 2019, the impact of changes in FX rates and any special items or any gains or losses for marking to market our Grubhub investment. We estimate the benefit of the 53rd week to 2019 to be approximately $0.06. Our updated estimate of the impact of FX rate movements is now a $0.12 headwind to the $3.75 figure.

This is because rates have moved against us since we provided the original guidance in October of 2016. This estimated headwind is based on applying current forward rates to local currency forecast which will undoubtedly vary over time.

Year-to-date 2019 special items are a $0.02 tailwind and year-to-date Grubhub mark-to-market adjustments are a $0.14 headwind to the $3.75 figure, respectively. Taking these items into account as outlined in our earnings release, the GAAP equivalent to our adjusted 2019 EPS guidance of at least $3.75 is at least $3.57.

Now turning to our transformation initiatives to be more focused, more franchised and more efficient in order to deliver more growth to our shareholders. With our target franchise mix of at least 98% having been reached in the fourth quarter of 2018 and with focus on our four growth drivers consistently at the heart of everything we do, I'll update you on our plans to be more efficient.

In summary, we remain on track. G&A was 1.6% of system sales in the third quarter. Additionally, our CapEx guidance is unchanged. For reference, details of our guidance are available on our website in the Investors section.

Regarding our capital return plans, our goal to return $6.5 billion to $7 billion of capital to shareholders over the three year period 2017 through 2019 remains firmly on track.

During the third quarter, we repurchased 1.5 million shares for $174 million at an average price per share below $115. When combined with dividends, we've already returned $6 billion toward our target $6.5 billion to $7 billion.

Last but certainly not least, some updates on unrivaled culture and talent. Elevating our customer experience with digital and technology at the forefront is key to growing our brands. To that end, Clay Johnson has joined us as Yum!'s Chief Digital and Technology Officer or CDTO; and Gavin Felder will be promoted to Yum! Chief Strategy Officer, effective December 1st. These newly created leadership positions will report to me and partner with our brands to accelerate global growth through technology and disruptive innovation.

Clay has over 20 years industry experience and comes to us from Walmart, where he served as CIO. In his new role as CDTO, Clay will oversee Yum!'s Global Technology Strategy partnering with our KFC, Pizza Hut and Taco Bell divisions.

He will lead a coordinated cross-brand effort to accelerate Yum!'s digital commerce strategy, data and analytics and emerging technologies to enhance the customer and employee experience.

Additionally he will provide strategic oversight to our global technology risk management and IT shared services teams. These critical connections will ensure that our technology implementations are developed with the security of our data and infrastructure as the top priority.

As Chief Strategy Officer, Gavin will be responsible for developing Yum! Brands' long-term corporate strategies and partnering closely with the global brand divisions to implement initiatives to unlock new sources of growth and disruptive innovation.

He will work closely with Clay to integrate technology-centric solutions across their operations including restaurant technology strategies to elevate the customer and team member experience.

Gavin is a successful digital leader and proven growth strategist. He started nearly 12 years ago in Yum! Restaurants International as a Finance Manager before becoming CFO of KFC Africa and later CFO of KFC Global. In his current role, Gavin has overseen strategy, digital and technology, financial planning, supply chain and IT security of our largest global brand.

With that I'll hand it off to our President and Chief Operating Officer, David Gibbs.

David Gibbs

Thank you Chris. We'll conclude our call today with an update on our on our growth drivers; relevant, easy and distinctive brands; bold restaurant development; unmatched franchise operating capability and unrivaled culture and talent. I'll start with our RED brands. KFC delivered its 17th consecutive quarter of positive same-store sales growth.

This global powerhouse continues to show broad-based strength from standout -- with standout performances across many of our largest markets. This translated into division system sales growth of 8% with same-store sales growth of 3% and net new unit growth of 6%.

International callouts include India, SOPAC, Latin America and our Russia business unit which includes Central and Eastern Europe. India delivered 7% same-store sales growth driven by distinctive marketing, promotion of the Zinger Burger and consistent value with the ultimate savings bucket. Australia continues to impress with 8% same-store sales growth, their best quarter in recent history.

Drivers included the successful Hot Rods promotion and delivery. Russia, Central and Eastern Europe posted a strong 7% same-store sales growth owing to a Bucket for $1 value promotion and the Finger Lickin' Good spin on a Taco -- Locos Tacos.

In the U.S. same-store sales declined 1% in the quarter. We had a temporary loss of momentum with the Chitos Sandwich promotion which led to the quarter's decline. However our value promotion of 2 for $6 Mix 'n' Match provided us with a new channel for à la carte menu items and the quarter brought us many valuable insights to improve future performance.

We made a splash with plant-based fried chicken alternatives with Beyond Nuggets and Beyond Boneless Wings. The results were very positive. We sold out in five hours and generated $2 billion worth of media impressions - two billion media impressions.

Then at the end of the quarter, we launch Mac & Cheese Balls, which builds off of flavors you've already seen, but packaged in the unique KFC style. We're bullish on the future and are excited about our plans for the rest of 2019 and beyond.

In addition, KFC U.S. continues to partner with Grubhub to add locations for delivery and click-and-collect. We officially launched online ordering at KFC.com on October 13 in conjunction with the introduction of Kentucky Fried Wings and our Rudy-inspired advertising.

We now have 2700 KFCs offering delivery in 3700 restaurants available for Click and Collect. We're excited about owning our own digital channel and the operation ease this provides our franchisees, while Grubhub takes care of the delivery.

Moving on to Pizza Hut where division system sales grew 7% with flat same-store sales growth and net new unit growth of 9%. Pizza Hut International system sales grew 14% in the quarter, driven by a nine-point benefit from the addition of the Telepizza units in Q4 of last year. While same-store sales growth was 1%.

Importantly, we reported positive system sales growth across all international business units during the quarter. In addition, we were encouraged by 3% same-store sales growth in the off-premise segment of our businesses this quarter, lapping similar 3% growth last year or 6% on a two-year basis.

The team is focused on the fundamentals of a modern delivery experience is clearly producing results and a good sign for the future of this business, as we migrate more and more to an asset based positioned to win in off-premise.

In addition, the system sales growth gap between the dine-in channel and off-premise sales narrowed from historical levels this quarter to three points, reducing the drag on our performance from dine-in.

In the U.S., system sales declined 2% with same-store sales declining 3% and a 1% net new unit decline. Coming off a solid second quarter, the Pizza Hut U.S. business decelerated in Q3 as changes to our value offerings helped franchisee margins, but had a negative impact on transactions.

In addition, our previously announced plans to accelerate the transition to a modern delivery asset base in the U.S., while restructuring and upgrading our franchisee base also took a toll on performance.

While we strongly believe that these are the right strategies to build the business for the longer term, these moves will introduce some uncertainty in the business performance over the short term, as we expect results to continue to be choppy. We caution, we could see a continuation of soft sales and unit contraction throughout 2020 in the Pizza Hut U.S. business.

Of course, we know that when we have great franchise operators running first-class assets that are well positioned in trade areas to serve customers, we win in the marketplace and the Pizza Hut U.S. team is working hard to accelerate this transition.

We continue to expand our Grubhub partnership test with Pizza Hut, which is now active in over 700 restaurants. Pizza Hut is well positioned to leverage being listed on the Grubhub marketplace, but by fulfilling delivery orders through our own delivery network. This gives us better control of the customer experience.

Last, but not least, Taco Bell where system sales grew 7% with same-store sales growth of 4% and net new unit growth of 4%. In the U.S., innovation and value continue to be cornerstones of our success. Promotions included Stake Reaper Ranch Fries and the return of the Triple Double Crunchwrap, both of which mixed above 9%.

But the triple Double was a sound out of the quarter available in a $5 box and a la carte. Our All Access strategy to create a frictionless customer experience is sharper than ever. Taco Bell now has kiosks in over 6,100 restaurants and we launched localized AI-driven product recommendations to efficiently give our customers what they want.

TS [ph] results are encouraging with consistent check list and utilization. We see particularly consumer appeal in urban markets. In fact, in Manhattan, TS utilization is over 50% of our company cantinas.

Digital menu boards are offered in over 1,000 locations with the new simplified menu. Delivery is now live in 4,800 Taco Bell restaurants in the U.S. Mobile and online ordering continue to be a priority, and we are seeing strong results with over 14 million registered users.

Additionally, click-and-collect functionality is available nationwide on tacobell.com and the Taco Bell app. Internationally, we continue to build a category-of-one brand. We had strong sales momentum around the world driven by focus on iconic core products, value boxes at power price points and product innovation.

We saw widespread strength in the Philippines, Japan, Canada and Europe. We continue to strengthen global brand awareness by successfully incorporate U.S. programs into globally relevant promotions. The UK ran Steal a Base, Steal a Taco promotion tied to the Major League Baseball London series generating strong media buzz and sales momentum.

Next on to Bold Restaurant Development. During the quarter, we opened 389 net new units, bringing total net new units opened over the last four quarters to 1,876. Excluding the Telepizza units added in fourth quarter of last year.

At KFC, development continued to be strong in Q3 with 317 net new units across 52 countries. We continue to see momentum in China, Asia, Russia and Thailand. In the U.S. we've seen more positive momentum and closed our Q3 with over 1,800 American Showman restaurants across the country.

At Pizza Hut, as we transition the U.S. asset base, we expect the pace of new unit development for the division to decelerate as healthy international unit growth will be offset by a short-term decline in the absolute number of U.S. units. All in the division opened 17 net new units during the quarter.

Pizza Hut International opened 76 net new units with noteworthy contributions from Asia, Latin America, and Iberia. Taco Bell delivered 55 net new units during the quarter.

In the U.S. we opened four new urban style Cantina restaurants, hitting the 50 restaurant milestone. Recent urban Cantina openings include Chicago, San Jose, Champaign and Fort Lauderdale.

Internationally, Thailand launched a third store which is the first outside expat [ph] communities in Bangkok and China and Australia each opened their fifth location. We're continuing to build franchise development capability through events such as the Development Convention in Guatemala, a four-day event covering development principles and best practices to foster 3C Partners around the world.

Next Unmatched Franchise Operating Capability. First I'd like to highlight a great executive team and myself had with Joey Wat and the Yum! China team earlier this month.

We were excited to learn about the work they're doing to lead innovation across many aspects of the business and as always we were incredibly impressed with their operational execution and overall focus on putting the customer first across all our brands.

At KFC, we've seen solid improvements across the board sharing improvement ideas and global best practices when it comes to ops-driven sales enablers. This is particularly the case when it comes to speed. Our franchisees in SOPAC created a competitive speed initiative called Best Friday which was then adopted by the U.K. to great success.

At Taco Bell, we're proud to announce this was our fastest Q3 in five years, which wouldn't have been possible without the commitment from over -- from our over 7000 general managers and their teams to deliver unrivaled fast and friendly service. Our summers speed challenge was a huge driver of this success. We were 17 seconds faster and saw three million more cars in our drive-through.

At Pizza Hut, we have successfully improved our system average delivery speed, which allows us to deliver hotter pizzas faster to our customers' door. While technology in data science have unlocked key insights, the credit goes to our restaurant leaders and drivers who have been implementing these at the store level to provide a Hot Fast and Reliable expense for our delivery customers.

Now to Unrivaled Culture and Talent, Yum!'s two biggest assets are our brands and our people. As we build a world's most loved, trusted and fastest-growing restaurant brands, our culture continues to be a strength and is a key enabler of our continued success.

We recently completed our 2019 employee engagement survey of all corporate above restaurant employees globally and we scored number one on employee engagement among an elite benchmark of over 300 global companies. 95% of the corporate employees surveyed are proud to proud at Yum! and 91% believe our company is a great place to work. What’s even more encouraging is that we have accomplished these results during a time of significant business transformation.

I’d like to finish by saying, how excited I am and privileged I am to serve as the next CEO of Yum!. Under Greg's leadership, we have achieved so much already. Of course, there is still more we can achieve in the future. Everywhere we operate, we need to continue elevating and investing in a world-class customer experience with unrivaled talent modern assets and the best operations with disruptive and innovative technology.

This effort will only be realized through a strong partnership with our 2000 franchisees who run our restaurants and over 1.5 million restaurant team members who bring our brands to life around the world every day. When we are our best, we'll continue to deliver long-term value for all our stakeholders.

Before we take your questions, I want to personally Greg for his tremendous leadership. As we all know, Greg's been making meaningful contributions to Yum! for the past 25 years. He's been fully committed to developing our talent, increasing our collaboration, elevating our brands and growing our business. Yet most importantly, Greg's vision to take Yum! 's unique recognition culture and use it to fuel even better results is what we will all remember.

It goes without saying that Greg's big personality and positive energy make him not only a great leader, but also one of the best partners and friends I could have had over the last many years.

There is no question that working with Greg day in and day out has helped prepare me for this next role and also given me a ton of laughs along the way. It's hard to believe that this will be Greg's last earnings call.

On behalf of the entire Yum! system, we want to sincerely thank him for the impact that he has made to our business. And we wish Greg and his wife Carol, the very best as they move into this new exciting chapter.

Now, the team and I are happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of John Glass with Morgan Stanley.

John Glass

Thanks. Good morning and congratulations Greg. And thanks for the funny accent along the way. Can we just talk a little bit about the Pizza Hut business and sort of your outlook?

One you talked about some disruption that maybe possible during this period of time, can you be specific about that? Is that sort of lower engagement and franchisees starting to be closing stores? Or what is the nature of that?

Two, is there an opportunity for the company again to sort of step in either as an intermediary or as provide some temporary support from advertising in some way to smooth this process better, because I think as you look out over 12 months you want to avoid obviously a disruption.

And three, I think there was a callout on the profits of the Pizza Hut business U.S. the drag your detraction from past due receivables, how big is that? And is that something we need to be cognizant of as we think about the next year or so? And does it impact the global core operating profit growth?

Greg Creed

Well, thanks John. And I too appreciate Greg's accent and we'll all miss it. As far as your three different questions, I'll take the first two and we'll let Chris talk a little bit about the receivables. As far as the disruption, as you can imagine when we’re closing a lot of stores and opening new stores that can be an enormous distraction, particularly if we are taking the lead on transitioning franchisees out of the system and their stores into the hand of new players. Some of that will get to the receivables which Chris will talk about.

And also while transactions are taking place, obviously there's a focus issue in terms of where franchisees' focus is. As far as the company stepping in, and playing an active role in some of this, I wouldn't rule that out, but that's certainly not the plan now. The great thing about the Pizza Hut U.S. business is we have plenty of people that want to get into it and are eager to buy stores and invest capital into fixing those stores and relocating them.

So we see our role is more of a facilitator than we do as somebody to be buying stores given our asset-light model. But I do think there could be an opportunity at different points in time for us to take control of some stores as they transition to another party if that's a better way to approach it. So I wouldn't rule that out. And then I'll let Chris just talk a little bit about the receivables.

Chris Turner

Yes. John on the receivables side, clearly as you're being an outstanding franchise operator is one of our top priorities. And our stores do perform the best when we have committed capable and well capitalized franchisees.

As David just mentioned, we are working to evolve that Pizza Hut U.S. franchisee base and you did see noted that the past due receivables balance did have an impact.

But to put it in context, as we transition certain Pizza Hut franchisees, we will see an uptick in that bad debt. But again to put it in context, year-to-date we have reported about $200 million in fee income from our U.S. franchise system and over 95% of that we have either collected or anticipate collecting.

Obviously we'll try to minimize the choppiness as we go through this process, but we do believe that the work that we're doing will ultimately be the right thing to strengthen the brand and the overall system.

Keith Siegner

Next question please.

Operator

Your next question comes from the line of Dennis Geiger with UBS.

Dennis Geiger

Thanks. And Greg congratulations on your many years of success and best of luck. One question about technology. I guess given Yum!'s been at the forefront of investment in technology and analytics to really enhance operations over the last several years.

Just wondering if you could share some thoughts on the latest benefits that you're getting from those investments and partnerships whether it be Grubhub, QuikOrder, Collider and just how those experiences frame how you're thinking about additional investment opportunities or partnerships, particularly now with Clay in place a CDTO. Thanks.

David Gibbs

Well, look I would just highlight from a tech standpoint, we're proud of the work that we've done to-date, but there's a lot more to do. I think like a lot of companies, we have a healthy dissatisfaction in terms of our tech agenda and we're going after it much more aggressively.

And Chris can talk a little bit about that. As far as what we've done to-date, obviously, the QuikOrder transaction has worked out quite well. By bringing them in-house, we've been able to improve their capabilities and provide better services to our franchisees at lower costs.

The deal with Grubhub has given us great commercial terms for our franchisees and that's allowed us to uniformly launch delivery without having to push back that I think others may have seen both in Taco Bell and the KFC system.

But I know, with - one of the reasons, I'm very excited about Chris joining the team and Clay Johnson joining the team is these guys bring a lot to the tech discussion as well as Gavin Felder and I know they've got a lot of plans going forward.

Chris Turner

Yes. David, first, we do have the teams in place now, both strong technology leadership in each of our brands and geographies. And then the new additions that we mentioned earlier at the center and Clay Johnson supported by Gavin Felder.

Obviously, for competitive reasons, we can’t go into a lot of detail on our future strategies. But just to give a little bit of color, I think there are probably three ways that we could advance technology.

One would be evaluating and considering potential acquisitions or investments in Technology Company’s to help leverage our scale, bring those technologies to our stores and our franchisees.

Second could be commercial arrangements that we make with technology providers that give our franchisees advantaged economics and taking advantage of those technologies. And then third, given the strength of her team, we'll be developing internally proprietary technologies. So those will be the three ways that we can leverage scale in this area.

The areas that will be hunting in range across the full technology spectrum, but e-commerce, data and analytics and any innovations that improve the customer experience and the economics in our stores will clearly be at the forefront.

Keith Siegner

Thank you. Next question please?

Operator

Your next question comes from the line of John Ivankoe with JPMorgan.

John Ivankoe

Hi. Thank you. I was hoping we could get maybe an early view on fiscal '20 development, whether we talk in terms of percentage growth by brand or absolute net restaurant growth by brand, I think it's important at this point to kind of think about whether KFC can maintain or even accelerate its pace as the first point.

Secondly, you've obviously made some fairly cautious total unit count comments around Pizza Hut, just want to get a little bit more clarification there. And then on Taco Bell, I think the comments were in the press release 67 gross units in 13 countries.

It’s hard to drive scale at those kind of numbers internationally, but are we at the point now where Taco Bell can materially accelerate into 2020? And I'd like a follow-up as well.

David Gibbs

Yes. I mean as far as our unit count guidance, we don't historically provide guidance by brand. So I'll talk about Yum! in general. We've raised our guidance previously to 4% net unit growth. We still think that's a right number for the long term.

As we've highlighted on the last earnings call with leaning in on Pizza Hut that introduced a little bit more uncertainty into the pace of development. But we still think over the next few years, we will average that 4% unit growth number.

As far as Taco Bell, that's actually one of the areas that I think we're most excited about what's going on in international. We by choice focused on a few countries to try to get the pace of development really going in those countries.

So you highlight that it’s 13 countries, but when you get a franchisees they sign up to build 600 units in India obviously that can make a meaningful step change to the pace of our development at Taco Bell internationally to just take one example.

But we will be expanding to additional countries over time. But I think we're really at the point where Taco Bell International development can start to become a more meaningful contributor to us.

And then, as far as KFC maintaining their lofty pace of development, we see no reason why that can't continue and the strength of that brand is something that I would just highlight for everybody on this earnings call.

It just continues to be widespread strength with clear brand positioning, a team that's really energized about the growth prospects ahead of us and absolutely believe in our ability to continue to grow and develop and accelerate the pace of KFC development.

John Ivankoe

Thank you.

Operator

Your next question comes from the line of David Palmer with Evercore.

David Palmer

Thanks. Good morning. Just a follow-up on the Pizza Hut U.S. Could you speak to that the financial health of the franchisees? There's been reports about NPC being in being in trouble. Their bonds are trading cheap here. Margin pressure seems to be a key seem across the system.

But what are your thoughts about what that specifically means not just to unit growth, but just getting things done to getting the value platform you want to place and just to overall how you're going to move forward in 2020 with that brand?

Greg Creed

Sure. As far as the pizza business, I wanted to make sure we all recognize that the Pizza Hut International business is performing quite well, starting to really deliver on some of the things that we’ve been looking for out of that business in terms of moving to a modern delivery asset base. We talked about in the script the fact that they are plus 6% on the off-premise sales on a two-year basis plus 3% lapping a 3%.

All of that is a really good sign in terms of the strength of the Pizza Hut brand when it's executed by - in the market. The Pizza Hut U.S. business as we've talked about also previously has some unique challenges given the dining state and the conditions of the assets on the locations of those assets. So that's what we're trying to address by moving to a more modern delivery estate and setting the business up for long-term health.

Unfortunately a lot of franchisees or some franchisees have some debt that makes it hard to relocate those assets and that's where we're working through with those parties to get the stores in the hands of the right partners that are well capitalized to grow and build the business. It's not the majority of our franchisees. The majority of our franchisees are good partners and doing a nice job.

But as you know the QSR category is facing a lot of wage pressures right now and that is pressuring unit level economics and franchisees economics. But as we always remind people, building a new Pizza Hut is a good investment. The unit economics stand on themselves.

This is more about working through with select group of franchisees that may have more debt on their business than they should to get those stores capitalize properly and in the right hands of the right partners.

Operator

Your next question comes from the line of Sara Senatore with Bernstein.

Sara Senatore

Hi. Thank you. I wanted to ask about aggregators. You had said that Pizza Hut is well positioned to benefit all of your brands, I think from the Grub partnership. But I guess could you give a little more color on that and in particular, the extent to which some of - sometimes what we're seeing is when restaurant companies have unlocked different ordering channels, there are back of house challenges and just because the production capacities maybe don't quite keep up with how the orders come in. So, that was the first part of the question.

And then the second was just a quick one on KFC and the Beyond Nuggets and the extent to which you view this as sort of sustainable versus a short-term very healthy list, but maybe less of the core part of the menu. Thanks.

David Gibbs

Yes. I guess on the question of aggregators obviously, we value our partnership with Grubhub and one of the key features of that partnership to your point Sara is that we integrated the technologies, so that the orders get past directly into our POS systems.

That wasn't easy. That was part of the reason. There was a delay in launch. But we think, that does give us a true competitive advantage over a lot of other people that are working with aggregators.

So we haven't really had issues that you're alluding to in terms of being able to get the orders to the stores accurately and then back out to the customer. As far as KFC and Beyond Nuggets, obviously we're all intrigued by plant-based meat alternatives and the success that we did with Beyond, the success of that test that we did with Beyond obviously is a good sign.

We've done other test around the world. That's not the only one that we' done is the one that's garner the most press in the U.S. So you can expect more to come on that front. You saw just a couple of weeks ago Pizza Hut launched in the U.S. launched their compostable box and did so with the plant-based alternative meat topping. So, we think there is plenty of application for it, but more to come on that over time.

Operator

Your next question comes from the line of Gregory Francfort with Bank of America.

Gregory Francfort

Hey. Thanks for the question. Greg, congrats on the retirement and David, congratulations on the new role. My question is just on G&A and you're now kind of running at where you kind of expected to get to a few years ago as a percent of system sales on G&A. And how do you expect this evolving over time as some of your bigger peers are making reinvestments in the technology side?

And do you think this is a line that you can continue to leverage? Or do you expect it to kind of flat line or maybe go up over time? I guess any thoughts on that would be helpful. Thank you.

David Gibbs

Thanks Gregory. Good question. As we come to the close on the transformation we've provided the 1.7% guidance for the transformation on G&A. You saw that this quarter we were at 1.6% and so we feel comfortable with how we're closing out the transformation from G&A perspective. There’s been reset to a lower base.

I think going forward you could expect a more normal run rate trajectory on G&A. Given the lower base, there will be some timing differences that could create some lumpiness there and we will be investing in technology and other areas, but we do expect in general to get leverage on our sales growth over time.

Operator

Your next question comes from the line of Brian Bittner with Oppenheimer.

Brian Bittner

Thanks. Good morning. Congratulations Greg and David. David, questions for you. We're completely post transformation now and I know you have strategic growth plans in place over multiple years that you gave say at your Analyst Day last December.

But as you take over as CEO, how do you put your stamp on this company over the next many years. Just anything philosophically on how you think about Yum! Brands under your leadership versus under Greg's.

For instance, are you open to making any changes in the portfolio through acquisitions or divestitures? Anything or any insight you can give us on how you're thinking moving forward? Thanks.

Greg Creed

Yes. Thanks Brian. Look, I think we're really excited that we're coming out of this transformation with a business that is stronger and better positioned to grow. That's to start. And that is very much due to Greg's leadership over the last five years, as I said in my prepared remarks.

Now that we’ve got a better machine, we'd like to drive faster and grow faster. And I'll detail a lot of this as we get into 2020, but just to give you a preview. We've talked about this Recipe for Growth and how it's been fueling our growth over the last couple of years.

I think there is an opportunity to lean in further within the Recipe for Growth on the customer experience. We are not consistently executing the customer experience around the world to the standards that we have. We have pockets of excellence. We can be more consistent on that.

There is obviously an opportunity on technology which Chris talked about. And then there's an opportunity to better leverage our scale. I think now that we are more of a franchisor, less of an equity operator that gives us the ability to turn our focus to leveraging the scale on behalf of the entire system.

We organize in a better way to do that. I think you've seen more collaboration around world, again thanks to again thanks to Greg's leadership in dialing up the collaboration. All of that leads to an opportunity on scale. I do think that potentially could be something that would give us a benefit if we did an acquisition.

So, we don’t need an acquisition to grow. Our brands today are strong generally around the world with plenty of growth opportunities, but we certainly wouldn't rule out an acquisition.

I think the other thing that you'll see us talk about is as we've talked a lot about the Recipe for Growth. At the same time, we've had what we called our Recipe for Good that our businesses are doing all around the world and their communities, around people planet and food. We’ll talk more about that as we get into 2020 and the way we can dial up our communication on that and our efforts in that area.

Keith Siegner

Operator, we have time for one more question please.

Operator

Your final question comes from the line of David Tarantino from Baird.

David Tarantino

Hi. Good morning. My congrats also to Greg for all you've accomplished at Yum! and David on your new role. My question's pretty simple. I guess just as it relates to the 2020 outlook or 2021 outlook, I am just wondering if you're still comfortable with the algorithms that you've laid out for growth in light of all the Pizza Hut challenges you're seeing.

And I guess secondarily, I guess how long do you think this Pizza Hut restructuring or transformations going to take to play out? Is it a one or two year plan? Or do you think it's longer than that? Thanks.

Greg Creed

As far as our guidance for 2020 and 2021, we'll talk a little bit more about that on the Q4 earnings call. But in general, we've put in place a long-term growth algorithm that we think we can achieve over the next several years and that's what our business is built for.

Certainly some challenges in Pizza Hut U.S. We've pressured that model but at the same time upside from Taco Bell, International growth and all of the other success that we're having around the world with KFC gives you confidence that we can overcome pressures to the model.

But again we'll talk more about that in Q4 when we get sort of our updates to the long-term growth model. Our plan is really to just provide you on an annual basis any onetime adjustment for the long-term growth model.

For example, this year we had a 53rd week. Next year, we'll be lapping the 53rd year. We'll provide you the guidance for what that means for 2019 -- for 2020.

David Gibbs

With that I am going to turn it back to Greg for some closing remarks.

Greg Creed

Thank you, David. So in closing, after 25 years with the company, today is my final earnings call. I've been blessed to work with and I've learned such I think much from such amazing individuals including our Board, our team members, our franchisees and our customers.

After five years as CEO, I feel really good about what we accomplished and what's next for Yum!. We've transformed the company and I truly believe that Yum! is stronger for all its stakeholders. And now I'm handing the reins to David. David's been an incredible partner and I'm looking forward to watching him lead.

Now finally, I want to thank you our investors and the analysts. Through the years, you've challenged us, asked the tough questions, gave your opinions and kept us sharp. You've made me a better leader and kept us sharp. You've made me a better leader and Yum! a better company, and for all of that and your kind wishes today, thank you.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference call. You may now disconnect.