Pizza Hut performance continues to disappoint

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LOUISVILLE, KY. — Pizza Hut remains the weak spot of Yum! Brands' portfolio, particularly in the United States, where same-store sales fell 4% in the recent quarter while sales at sister brands KFC and Taco Bell rose 4% and 3%, respectively.

"Pizza Hut U.S., which is roughly 10% of total Yum! operating profit, is clearly in turnaround mode," said Greg Creed, chief executive officer of Yum! Brands, during a Feb. 9 earnings call with financial analysts. "The quarter's results are disappointing and are not acceptable. We have undertaken an extensive study of the business utilizing outside experts and found a number of areas where we need to improve in order to take our fair share of growth in this market. These areas include improvements in the digital experience, delivery time, point-of-sale system simplification and asset optimization, among others."

Pizza Hut has been in so-called turnaround mode for several years. In 2014, the company doubled its number of ingredient and flavor options as part of a comprehensive menu overhaul, which included 10 new crust flavors, 6 new sauces and 11 new recipes. At the time, Yum! executives hoped the new flavors would lure lapsed consumers back to the brand. When that new platform failed to deliver expected results, Pizza Hut turned to a simpler approach the following year with the introduction of the Triple Treat Box, featuring two medium one-topping pizzas, an order of breadsticks and a dessert for $19.95. The brand also unveiled its version of a value menu, dubbed the $5 Flavor Menu.

While the efforts produced short-term, modest improvement, the business remains challenged.

"As with all turnarounds, this is a journey we need to undertake hand in hand with our franchise partners and will not be complete in 2017," Mr. Creed said. "We will share specifics of the plan in time as we implement them, but let me be clear, we see the market share opportunity in this category.

"We will execute initiatives across all aspects of the customer experience to capture our fair share and more, and I'm certain we have the ability and the determination to accomplish this. We've confronted challenges in all of our brands in the past and always overcome them."

Previously, Yum! Brands executed a successful turnaround of its KFC business in the United States, where the brand has now achieved 10 consecutive quarters of same-store sales growth. Efforts included a new marketing campaign, refurbished packaging and dining room decor and an expanded menu. Most recently, the chicken chain has innovated against its core offering with such flavor varieties as Nashville Hot and Georgia Gold fried chicken.

"We did not change the form of our product, only the flavor profile," Mr.

Creed said. “And our customers love it.”

Overall, Yum! Brands had net income of $1,619 million, or $2.52 per share, in the year ended Dec. 31, 2016, which was up 25% from net income of $1,293 million, or $2.15 per share, in the prior fiscal year. Total revenues declined 1% to $6,366 million from $6,440 million.

Net income in the fourth quarter was $267 million, or 77c per share, down 3% from $275 million, or 67c per share, in the year-ago period. Revenues totaled $2,024 million, up 2% from $1,976 million.

“Two-thousand-sixteen was truly a landmark year,” Mr. Creed said. “On Oct. 31 we completed the spin-off of the China business. This marked the largest strategic initiative undertaken by Yum! since our spin-off from Pepsi 20 years ago.”

The next step of Yum! Brands’ transformation centers around refranchising. The company is on track to increase its franchise mix to at least 98% by 2018, Mr. Creed said. **FBN**