CALKAIN
AMERICA'S NET LEASE COMPANY®

TENANT PROFILE

JUNE 2018

Tenant Description

Yum! Brands started as a spin-off from PepsiCo in 1997. Today, they operate and franchise KFC, Pizza Hut, and Taco Bell restaurants.

KFC was found by Colonel Harland Sanders in Corbin, KY. KFC is best known for their fried chicken. Today, there are over 21,000 locations operating across 131 countries and territories.

The Pizza Hut grew rapidly from its founding in 1958 in Wichita, KS, adding its franchise within a year of opening. Today, Pizza Hut is the largest restaurant chain specializing in the sale of ready-to-eat pizza with over 16,000 locations across 106 countries and territories.

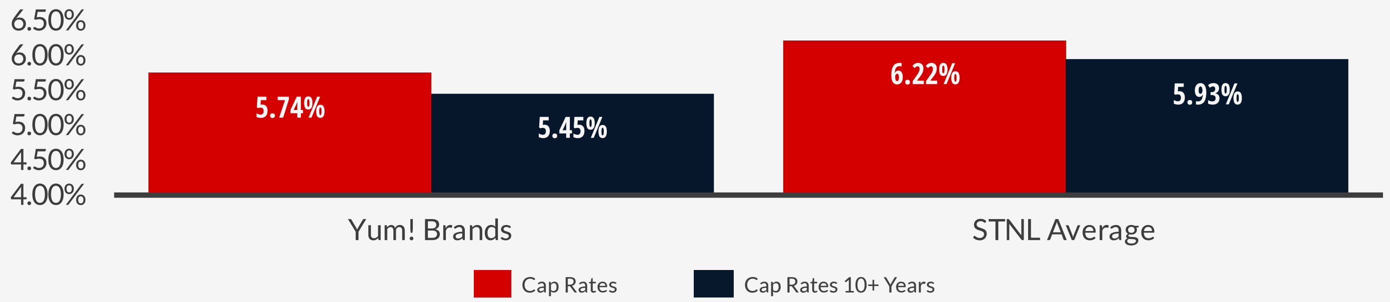
The first Taco Bell restaurant was opened by Glen Bell in 1962. They specialize in Mexican-style food and have over 6,800 locations.

Net Lease Overview

The Yum! Brands tenants provide many advantages for net lease investors. Yum! branded properties tend to be in strong locations, with buildings that are easy to backfill, and sign landlord-friendly leases. Good visibility from roads with high traffic counts helps drive sales in the restaurant and helps the underlying real estate retain its value. The layout of KFC, Pizza Hut, and Taco Bell is another benefit for investors. These tenants have designs common to the QSR industry, making a conversion to another tenant relatively easy should KFC, Pizza Hut, or Taco Bell decide to vacate the property.

Like most QSR tenants, KFC, Pizza Hut, and Taco Bell tend to sign triple net leases, leaving investors with no landlord responsibilities. The leases have a variety of rent escalations, commonly 5-10% every 5 years or 1-2% annually, giving investors a hedge against inflation.

Average Cap Rates Over the Past 12 Months

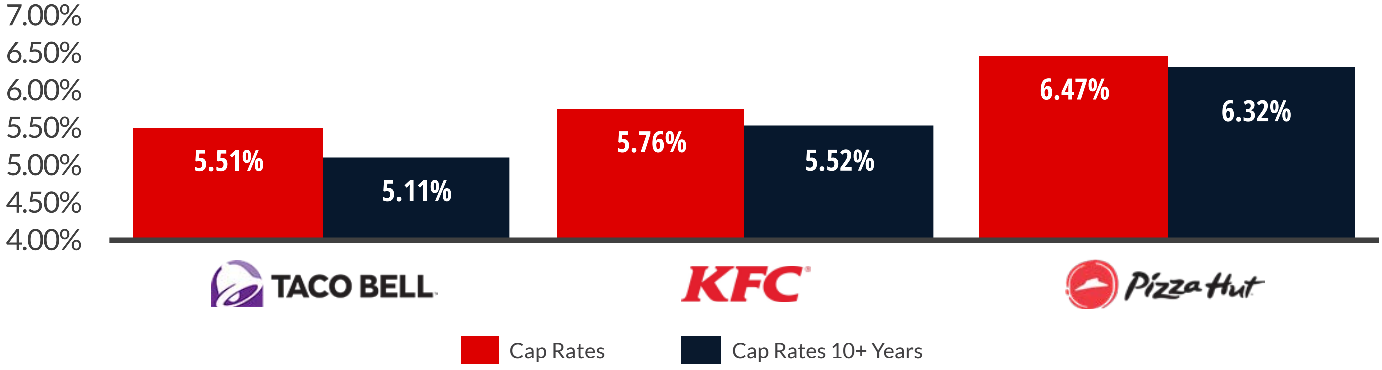


Yum's Strategic Transformation Initiatives

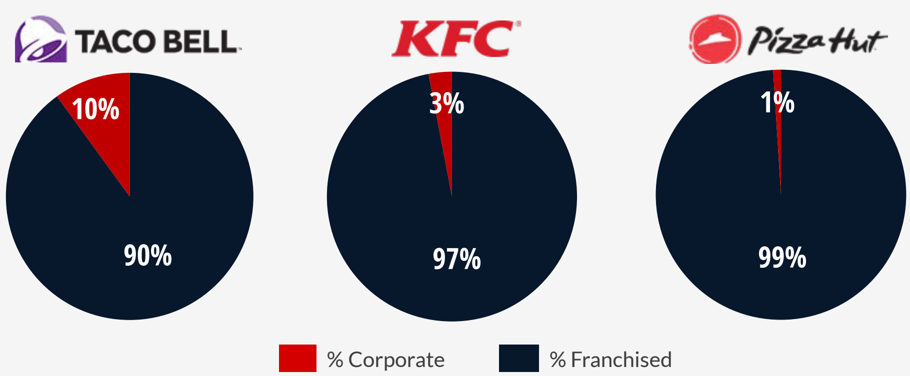
Yum! Brands has outlined plans to transform and grow their brands around the globe. Yum will be more focused by building their brands, developing franchise operating capability, driving restaurant development, and growing culture and talent. Yum will be more franchised, 98% of Yum branded restaurants will be owned by franchisees by the end of 2018. Yum! is revamping its financial profile to be more efficient. They plan on reducing annual capital expenditures, lowering general and administrative expenses, and maintaining a capital structure of 5.0x EBITDA leverage.

- More Focused
  - Building distinctive, relevant, and easy brands
  - Developing unmatched franchise operating capability
  - Drive bold restaurant development
  - Growing unrivaled culture and talent
- More Franchised
  - Franchise restaurant ownership to be at least 98% by the end of 2018
- More Efficient
  - Reducing annual capital expenditures to approximately $100 million
  - Lowering general and administrative expenses to 1.7% of system sales
  - Maintaining an optimized capital structure of 5.0x EBITDA leverage

Average Cap Rates of Yum! Brands Concept Over the Past 12 Months

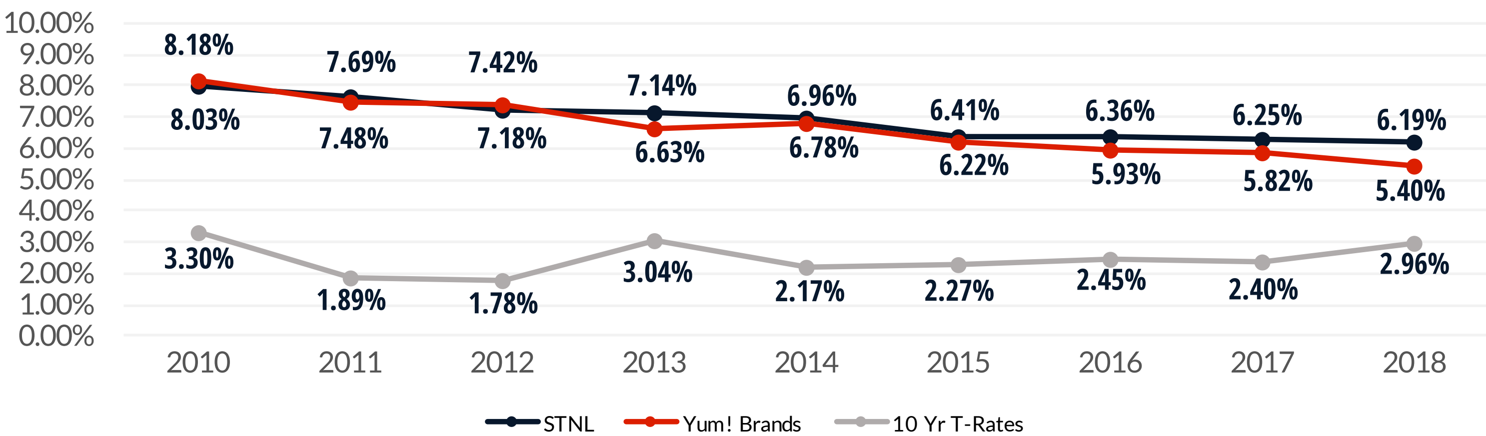


The different concepts under Yum! Brands have traded at varying cap rates over the last 12 months. The spread can be explained by differing levels of demand, locations of sales, and mix of leases. Taco Bell had the highest number of properties sell during the last 12 months of the three Yum! concepts. Taco Bell also had the highest percentage of ground leases and sales in premium markets.



The vast majority of Yum! branded restaurants are operated by franchisees. Currently Yum! is pushing to have over 98% of locations owned by franchisees, so these percentages are likely to rise. This makes it critical to evaluate not only the value of the real estate but also the strength and creditworthiness guarantor.

STNL Cap Rates vs Yum! Brands Cap Rates vs 10 Yr T-Rates



The Yum! Brands concepts have tended to trade slightly below the Single Tenant Net Lease (STNL) average.

CALKAIN | Research
12930 Worldgate Dr | Suite 150
Herndon, VA 20170
703.787.4714