

# Yum! Brands Inc.

An In-Depth Company Valuation

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## **EXECUTIVE SUMMARY**

While examining an industry that is at a lull in terms of financial standings as well as appeal from consumers, it is interesting to analyze a company that is doing particularly well in the industry. The company Yum! Brands Inc., is made up of three well known fast food restaurant chains, Kentucky Fried Chicken, the world's most popular fast food chicken restaurant. The second chain is Taco Bell, a mexican-style chain and lastly Pizza Hut, a popular pizza restaurant that serves pizza, breadsticks and other italian cuisine. Yum! has been so successful that they have opened restaurants in several other countries, and franchised in China as well as India. The fast food restaurant industry is a large one, and holds many competitors for Yum!, some of which include McDonalds, Jack in the Box, Louisiana Chicken and Dominos Pizza. Although the industry is highly competitive, Yum! seems to consistently stay above average in terms of financial standings, such as profits, return on equity and assets. Although they may lack in other areas, such as liquidity, it is highly apparent that Yum! still holds a strong standing in the industry. Their liquidity suggests that they are reliant on their inventory, which could be concerning for Yum! since it is an industry that is on a slow, downward slope. Their total and fixed assets turnover is improving over the last several years, still lower than the industry average however this still shows that they are becoming more efficient at generating revenues. Their inventory turnover ratio on the other hand is higher than the industry average, however getting lower over the last few years, which implies that they are having a more difficult time replacing their inventory over the years, either due to their sales or the costs of goods sold. This is particularly bad for a company that sells goods that will soon expire, such as a restaurant industry because these materials will soon be discarded with no profits.

Although these financial ratios make it apparent that the industry is not doing as well as it has been over the last ten years, it is on a very slow decline, and Yum! is therefore still a good company to invest in, generating above industry average, high profits in the billions of dollars.

## **COMPANY DESCRIPTION**

### **About Yum! Brands Inc.**

Yum! Brands Inc., a Fortune 500 company based in the United States with restaurants worldwide operates and licenses 3 fast food brands: Taco Bell, KFC and Pizza Hut. These restaurants make up the world's largest fast food restaurant company with more than 38,000 restaurants around the world in over 120 countries. Yum! aims to have a larger global presence by continuing to open divisions in China and India, as well as opening close to five new restaurants each day.

Kentucky Fried Chicken (K.F.C.), one of three of Yum! Brand's restaurant chain's is the world's most popular fast food chicken restaurant. Since founded in 1952, K.F.C has been able to grow serving families and individuals quick meals at affordable prices through 120 countries and territories around the world.

Pizza Hut, Yum!'s pizza restaurant chain opened over fifty years ago starting as a small pizzeria and now operating as one of the top pizza restaurants in the country. Pizza Hut operates almost 7,000 restaurants in 97 countries and territories in the world.

Taco Bell, Yum!'s third brand is the nation's leader in mexican-style quick service restaurant (QSR) chains. Founded in 1962, Taco Bell has since served 35 million consumers per week in over 5,000 restaurants in the United States.

### **Competitors**

Some of Yum! Brand's major competitors include McDonald's, Jack in the Box, and Burger King. McDonald's Corporation is the world's largest chain of hamburger fast food whose revenues come mostly from royalties and franchise fees as well as sales from company-operated restaurants. The company has decided to focus on its core brand, McDonalds, and in the past ten years has sold off three other brands, Chipotle, Donatos Pizza, and Boston Market. For the first time in nine years, monthly sales dropped in October 2012.

Jack in the Box, another major competitor of the Yum! Brand is smaller in market size, however still a major player in the fast food market. The company operates The Jack in a Box as well as Qdoba Mexican grill chain's. More recently the company also launched a higher end fast food restaurant named JBX, serving higher quality food than what is offered at Jack in the Box. Over the past 8 years the company launched multiple marketing campaigns. The company's brands have 2,800 locations that operate in 46 states. The past five years the company's revenues have dropped consistently for Jack in the Box (2008 2.3 billion to 2012 1.5 billion).

Another competitor Burger King, operates 12,700 locations globally and has the majority of its restaurants franchised (approx. 95% of them). The company went public in 2002 when several world renowned investment groups acquired the company. However in 2010 the Brazilian investment company 3G Capital acquired a majority stake in the company (70%). The company immediately initiated restructuring to attempt to bring the company to financial success. However based on its financial releases the company has a 50% decline to date in net income.

## **Industry**

As many of these QSR see a rapid decline in profits, we can see a parallel that the fast food industry has hit a sharp decline in the recent years particularly in the United States. In the past few years, these companies have had to battle issues concerning the recent health trends in the U.S. Many of these brands have attempted to make their food healthier by preparing their items using healthier ingredients or providing new menu items that are healthier alternatives altogether, such as salads and vegetables. In more recent years other causes other than customers' health have been the economic decline and rising food costs. These companies have had to deal with the economic decline by slashing their prices on food and at the same time dealing with rising operational costs. In order to deal with these issues fast food companies have started to increase their product line and provide more appealing offerings such as high end coffee and other items to attempt and obtain a larger higher spending customer base.

### **Key Success Factors**

Some of the reasons that Yum! does well compared to its competitors is that they are a socially responsible company, adhering to the needs of customers through health and sustainability efforts. Some of their efforts are as listed below.

#### *Food Efforts*

Yum! aims to be more nutritious by serving their customers healthier food that adheres to the governmental requirements. The company is active in the health and nutrition global debate, and provides transparency in their ingredient list for consumers to understand their consumption from these restaurants. Yum! also ensures that their foods come from suppliers that will abide by their standards of nutritional food by working closely with their suppliers and providing them with standards to follow.

### *Community Efforts*

Yum! strives to provide the less fortunate with opportunities and hunger relief through the Harvest Program, a global movement that will address hunger and malnutrition across the globe. The Harvest Program later turned into the World Hunger Relief, the world's largest private sector in hunger relief, donating money and materials as well as launching advertising campaigns with public service announcements in order to spread awareness.

In a local sense, Yum! encourages their employees to volunteer in their communities by delivering, serving and donating to shelters, families and organizations in need.

The company also provides donations and financial support through college scholarships, partnerships and cause-related marketing. On a smaller level, many associates and franchisees donate meals, money and personal time to local communities on a daily basis.

### *Environmental Efforts*

Yum! uses intentional efforts to provide sustainable efforts in their business plans in order to reduce their environmental footprint through Green Building Plan, energy efficiency, water reduction, sustainable packaging efforts and many more.

As Yum! follows these efforts, they become less of a fast food restaurant holder and more of a positive contributor in the community and globally. These efforts will not only be good for their image, but also positive for those in need and for the environment, which will allow the restaurants to stand apart from their competitors contributing to the success of their brands.

### *Yum! As a leader in the industry*

Yum! owns three top brands in the restaurant industry, allowing them to be the largest restaurant company in terms of system units serving millions of customers globally through over

39,000 restaurants. Yum! was ranked 213 on the Fortune 500 list and generated over \$13 billion dollars in revenue in 2012. Selling a broad range including chicken, pizza and mexican style fast food, Yum! is able to consistently maintain a top ranking in the fast food industry and continues to grow by their number of restaurants, revenues and customer base.

## **SWOT ANALYSIS**

### **Strengths**

The main strength of Yum! is that their profitability is growing over the years, which means it is successful in the industry. Yum! has an advantage over other companies in the field because they own three of the top profit-making brands in the fast food industry. They own a broad range of food companies, chicken, Mexican and pizza, all of which are highly recognized brands. Yum! is a leader in the perfect competition industry, operating over 39,000 restaurants worldwide selling to a variety of customers. The menu's at these restaurants are extensive, and the pricing is competitive. With seasonal menus and specials, Taco Bell, Pizza Hut and KFC offer foods that almost any consumer could theoretically be interested in. Ranging from salads to tacos to fried foods, the pricing is affordable, where Pizza Hut is their most expensive restaurant, a large pizza costing around \$14. Taco Bell and KFC are both the cheaper restaurants, where one can spend well under \$10 for a full meal (main food item, side order and drink).

In terms of financial well being, Yum!'s overall assets and profit margin are increasing by year, and continue to be higher than the industry average. This could be due to their success of the restaurants as well as the amount of restaurants that Yum! owns giving them an advantage to other companies alike.

### **Weaknesses**

Although successful, Yum! owns three fast food restaurants, which don't value the same standards of restaurants that are made to order, and that purchase food that is supplied from organic, naturally made retailers. Because Yum! restaurants have such low price points, it is not economically feasible for the company to seek these suppliers without raising their menu prices.

Along with the category of fast food, Yum! will struggle to gain more customers as the trend to eat healthier is on the rise. As more people follow the need to eat better foods, whether that be by preparing their own meals at home or by eating at places that offer healthier alternatives, brands in the fast food industries will be slowly left behind as they carry a bad reputation of serving unhealthy foods. As this trend is on the rise, it is important for the three restaurants to provide healthier options, continue to contribute to socially responsible efforts and use less trans-fat and sodium in order to adhere to these health trends.

In terms of financial standings, Yum! is decreasing their liquidity yearly and continues to be lower than the industry average. This means that although their assets continue to improve, turning their assets into usable cash may not be something that is quickly feasible for Yum!, which could be concerning if their company projects a decline in profitability.

### **Opportunities**

Although health trends may pose a threat for Yum! restaurants, it can also provide an opportunity for the company to expand their menu, opening new markets and customers who are looking for inexpensive, healthy food options.

The current economic position of the United States being on the rise coming successfully out of the recession allows consumers to be more apt to eat out often, which will increase the demand for restaurant eating.

Because Yum! is doing relatively well compared to the industry in terms of profitability, they are able to expand where the demand is increasing both internationally as well as in the United States.

### **Threats**

Other big name fast food restaurants, such as McDonalds, Jack in the Box and Dominos will definitely pose a threat to the success of KFC, Taco Bell and Pizza Hut, either through their menu options or store locations. McDonald's currently has over 34,000 restaurants worldwide, Jack in the Box has over 2,000 in the United States and Dominos has over 10,000 restaurants. Although together Yum! has more restaurants open worldwide than most of their competitors, there are still many available alternative fast food restaurants open and available that could pose a convenience threat to the Yum! restaurants.

### **FINANCIAL STATEMENT ANALYSIS**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Industry Average</b>
<b>Liquidity Ratios</b>				
Current Ratio	0.94	0.95	0.87	1.19
Quick Ratio	0.69	0.61	0.56	0.45
<b>Asset Management Ratios</b>				
Inventory Turnover	60.02	46.25	31.4	10.52
Fixed Assets Turnover	2.96	3.12	3.30	3.55
Total Assets Turnover	1.36	1.43	1.52	1.56
<b>Solvency Ratios</b>				
Total Debt Ratio	78.31%	79.93	76.09%	74.10%

Times Interest Earned	10.11	11.00	15.94	11.02
<b>Profitability Ratios</b>				
Profit Margin	10.21%	10.45%	9.19%	5.08%
ROE	73.48%	72.35%	76.06%	17.61%
ROA	13.92%	14.93%	15.60%	7.93%
<b>Market Value Ratios</b>				
Price/Earnings Ratio	22.48	22.86	19.64	13.92
Market/ Book Ratio	15.05	16.54	13.68	2.45

\*Full service restaurants NAICS 722110

### Du Pont Equation

	ROE =	Profit margin	* Asset turnover *	Multiplie r
2012	74.14%	11.71%	1.51	4.18
2011	72.35%	10.45%	1.43	4.85
2010	73.48%	10.21%	1.36	5.28

### TREND/HISTORICAL ANALYSIS

#### Liquidity Ratios

Yum! Brands Inc.'s current ratio stays relatively consistent between 2010 to 2011 only increasing from 0.94 to 0.95. From 2010 to 2011, its current ratio decreased by 0.13 from 0.95 to 0.87. This shows their ability of the current assets to cover current liabilities, both 2010 and 2011 is close to 1 which means their assets are close enough to cover their liabilities. However toward 2012, it got worse and went into a lower ratio. Although the ratio is close to 1, a ratio that is lower than 1 suggests obligations will not be able to be paid off when the amount is due.

Although this is concerning, it does not mean that they will become bankrupt, but rather need to think of areas where they can cut costs since the industry has been plummeting all together.

Yum!'s quick ratio decreased from 2010 to 2011 by 0.08 from 0.69 to 0.61, and then continues to slightly regress from 2011 to 2012 by 0.05 from 0.61 to 0.56. The quick ratio measures the company's ability to cover their short term liabilities. Since the quick ratio continues to decrease during the three years, they are getting worse in terms of covering the liabilities and dependent on their inventories which could affect Yum! negatively because inventories are risky to rely on for liquidity, especially when an industry is not thriving.

These ratios show that although the company is currently profitable, they may not be able to pay off their debt in a healthy way for the company. Relying on selling inventory, Yum! will need customers to continue to eat at their fast food restaurants in order to remain an industry leader.

#### **Assets Management Ratios**

Yum! has a very impressive Inventory turnover, but it decreased by 13.77 from 60.02 to 46.25 during the period 2010 to 2011, and continues to decrease by 14.85 from 46.25 to 31.40 during the period of 2011 to 2012. Yum! still has a very impressive ability in terms of sales over inventory. As related to the quick ratio, Yum! is doing well to sell their inventories in time.

Yum! Brand's fixed assets turnover has increased throughout the three years. From 2011 to 2012 it rose by 0.16 from 2.96 to 3.23, and from 2011 to 2012 it rose 0.18 from 3.12 to 3.30. The fixed assets turnover measures their ability in generating their fixed assets and Yum! has been doing better during the last three years.

The total Assets Turnover has also increased during the three years. From 2010 to 2011 it rose by 0.07 from 1.36 to 1.43 and continued to rise by 0.9 from 1.43 to 1.52. This means that Yum! effectively uses their assets and has done better during the last three years.

### **Solvency Ratios**

Yum!'s total debt ratio increased from 2010 to 2011 by 1.73% from 78.31 % to 79.93%, and then it decreased during the next period from 2011 to 2012 by 3.82% from 79.93% to 76.09%. Total debt ratio is calculated by the total debt over total assets, and Yum! lowered their debt ratio a little bit in the latest year.

Yum! Brand's interest coverage ratio improved from 2010 to 2011 and it rose by 0.09 from 10.11 to 11.00, and from 2010 to 2011 it continued to rise by 4.94 from 11.00 to 15.94. The time interest earned ratio indicates that Yum! can effectively pay their interests, the trend is a positive increasing ratio which means performance in paying interests is getting better. As a solvency ratio of 76% in 2012, Yum! is valued as a healthy company and will be able to pay off their debt.

### **Profitability Ratios**

Yum!'s profit margin improved from 2010 to 2011 and rose by 0.24% from 10.21% to 10.45 % and from 2011 to 2012 it decreased by 1.26% from 10.45% to 9.19%. This shows that Yum! also experienced a high percentage ratio in profitability.

Yum!'s ROA continued to increase during the three years, from 2010 to 2011 it rose by 1.01% from 13.92% to 14.93% and from 2011 to 2012 it rose by 0.67% from 14.93% to 15.60%. Overall, Yum! has a high returns on assets and continues to increase, meaning Yum! generates high returns on their assets.

Yum!'s ROE deteriorated from 2010 to 2011 and it decreased by 1.13% from 73.48% to 72.35%, from 2011 to 2012 it rose by 3.71% from 72.35% to 76.06%. In general Yum! has a high equity, although it decreased in 2011 then increased again in 2012.

### **Market Value Ratios**

Yum! has experienced a decrease in the Market Book ratio, from 2010 to 2011. It went from 22.48 to 22.86 and in the 2011 to 2012 it continued to decrease from 22.86 to 19.64. However, these changes in ratio are not dramatic drops. Similar in the market book ratio, the company has experienced peaks and lows. From 2010 to 2011 it increased from 15.05 to 16.53, however in the next period it decreased slightly from 16.53 to 13.68. These changes are reasonable since the market price can be changed. Overall, the Yum! performance is considered to be profitable and relatively consistent.

## **BENCHMARK ANALYSIS**

### **Liquidity Ratios**

In comparison to the industry, the Yum! Brand's Current ratio is below the industry average throughout the three year history. However, their quick ratio is above the average ratio in the industry throughout the three years. This means that Yum! is not necessarily performing well in terms of the liquidity but compared to the industry, Yum! is less independent on their inventories.

### **Assets Management Ratios**

In regards to the assets management ratios, Yum! has a much higher inventory turnover compared to the rest of the industry. As mentioned before, Yum! can effectively generate their inventories, however, Yum! has a slightly worse performance in fixed assets turnover and total assets turnover. Both these ratios are below the industry average, however only slightly below

the average as in the year of 2012 Yum!'s fixed assets turnover is 3.30 compared to the industry's ratio of 3.55, and the total assets turnover is 1.53 in comparison to industry average ratio of 1.56.

### **Solvency Ratios**

Although Yum! seems to have a very high total debt ratio, compared to the industry, the company is only slightly above average, implying the industry is relatively high in terms of total debt. In the historical perspective, Yum! is doing well in terms of the time interest earned ratio and comparison to the industry, in the year of 2012 Yum! has increased the interest earning ratio and is above the industry average, which means Yum! is effective in paying their interests.

### **Profitability Ratios**

Overall, Yum! is experiencing high profits. Their profit margin financial projections shows that Yum! has a higher profit margin than the industry average throughout the three year period analyzed, and have almost doubled the profit margin that the industry holds. Yum! also has a higher ROA than the industry average for all three years, which means the company is highly profitable through their assets. The most standout is their ROE ratios, where they are way beyond the industry average and suggests that Yum! has a great performance in rate of the returns and shareholder's investment is very high and profitable compared to the rest of the industry.

### **Market Value Ratios**

Since Yum! has experienced high profits and shareholder equity return, it would be acceptable that their price earnings ratio and market book ratio would be higher than the industry average. In fact, these two ratios are much higher than the industry. In 2012, Yum! had a price earnings ratio of 19.64 comparing the industry with a 13.92 and Yum! has a market book ratio of

13.68 compared to the industry which had a market book ratio of 2.45. From an investor's standpoint, Yum! Brands Inc. would be a good company to consider investing in terms of their financial standings.

## **ANALYSIS OF FIRM RISKINESS**

### **Market**

As a parent brand to three well known fast food restaurants, it is important for Yum! to pay attention to the key trends in the market that will affect the successfulness of their firm. A more current trend in the market is the decision for many consumers to choose a healthier diet due to more publications and studies of trans-fat, sodium and sugar in much of the foods being sold at the Yum! Brand's restaurants. Taco Bell, Pizza Hut and KFC are all considered to be fast food companies and as more people try to rid their diet of fatty and fried foods, Yum! Brands will have to adjust their foods to fit the needs of the market and its concerns. This will be difficult to implement because they would most likely have to find new suppliers that have a healthier supply of food, which in turn will be more expensive and would force them to raise their prices. Key benefits of fast food restaurants is that they are relatively cheap compared to higher costs of other restaurants available. Although the economy is not at its all time low, consumers are still concerned with their spending, providing an advantage for Yum! Brands since they have low prices that can accommodate those who would like to pay less.

### **Industry**

In terms of the industry, Yum! Brands competes with many other fast food restaurants including some of the highest competitor sub-brands such as McDonalds, Burger King and Jack in the Box. Fast food restaurants offer a cheap, wide variety of foods that have hundreds of

locations both nationally and internationally. These restaurants are priced similarly and offer similar foods, leaving minimal differentiation between the brands. Because of this, the firm faces strong competition between the other fast food companies to get brand loyalty from the market. Pizza Hut is a strong brand because they offer pizza as well as other foods such as salads, chicken wings, breadsticks and other appetizers. Pizza Hut's largest competition is Dominos, which is doing well in the fast food industry serving similar foods as Pizza Hut. Kentucky Fried Chicken competes with fast food restaurants such as Louisiana Chicken which also has a similar market as KFC due to the product offerings, price and locations.

### **Firm**

Although Yum! Brands is a highly profitable company that is thriving through their sub brands, many people have never heard of Yum! Brands Inc. as a company. This could have disadvantages despite how well they are doing. If the brand was more publicly known then they would open up more opportunities for investors. As mentioned earlier, trends in the market make it difficult for fast food restaurants to keep up with concerns of obesity and animal welfare which may intensify over the years. In order to keep up with these trends, Yum! has provided healthier options, still at a low price. Yum! has added salads and juices to their menus as well as cutting down the sodium and trans-fat to adjust to the demands of consumers. Not only does Yum! need to adjust their menu to benefit the needs of the industry they also need to adjust to what their competitors are doing. McDonalds, the leader in the fast food industry has slowly cut their trans fat and sodium levels in their food, cutting about 10% every year in order to help their consumers slowly adjust to the change of taste. As well as making the food healthier, they have also added healthier dishes such as salads and fruit plates to appeal to more health conscious consumers. If

these restaurants did not adjust, they would in turn lose a lot of consumers to other restaurants that do provide these options.

Although Yum! is a fast food brand, they are still able to play a key part in the restaurant marketplace because they offer cheap food options ranging from \$1.00 to about \$10.00 for a meal.

US decline of sales 1% and profit down 12%

### **Process of Estimating Beta**

We have two different methods to estimate Beta, first method is to compute our own beta from the stock returns, we gathered the historical stock returns for Yum! Brands Inc. and the historical stock market returns from the S&P market portfolio over the last five years. (our start date was May 1, 2008 and the end date was April 1, 2013.) Then we computed the returns from the prices by using the formula  $R = (P_1 - P_0) / P_0$ . Once we followed these steps and got the data for returns, we created a regression function, and the slope of the regression line is the Beta coefficient for the security. Going forward, we found that our beta is 0.837559. Since the beta for Yum! is less than the market average beta of 1, this means that Yum! is less risky than the average firms in the market.

The second method is to get the it from the “Beta Book”, so we found that Yahoo! Finance estimated that the beta for Yum! Brands Inc. is 0.61 ,and the MSN Money estimated the beta is 0.83, and the Google Finance estimated beta as 0.85. Based on these resources we came to an average estimated beta of 0.76. However compared to the beta we had through our calculations, it is reasonable that the beta can be a little off since different resources can use

different ways to estimate beta. The overall estimate of beta is still close to each other, and they all below 1, so with that we can conclude that Yum! is less risky than the average market.

## VALUATION

In order to value the stock of Yum! Brands Inc., we computed the expected rate of return using the CAPM equation. The thirty-year US Treasury bond rate also known as the risk-free rate we used was 2.91. We used 5% for our market-risk premium, and our estimated beta .76 to compute an expected rate of return of 5.96. We also used a beta of .837 found from our regression function and computed an expected rate of return of 7.095. Both  $r_i$  are relatively close so we estimate an expected rate of return between 6% and 7%. Once plugged into the CAPM equation, our  $r_i$  were computed as the following:

$$r_i = 2.91 + (5) .61$$

$$r_i = 5.96\%$$

$$r_i = 2.91 + (5) .837$$

$$r_i = 7.095\%$$

As noted above, these equations gave us expected rates of return of 5.96% and 7.095%.

## Dividend Discount Model

We valued the stock of Yum by using the dividend discount model (DDM) and the equation  $P_0 = D_0(1+g)/(r-g)$ . Our  $D_0$  was the dividend/share of 2012 which was \$0.30. We found the ROE of 73.48% on the YUM! balance sheet. In order to find our growth rate, we used the following equation:

$$g = \text{ROE} \times (1 - (\text{dividend per share}/\text{EPS}))$$

$$g = .7348 \times (1 - (.30/3.25))$$

$$g = .67$$

With this equation, we were given a growth rate of .67. We also computed the growth rate by looking at historical dividends for 2010, 2011 and 2012 to compute retrospective annual growth rates of YUM! Brands Inc. Afterwards, we took the growth rate from 2010 to 2011 (.18) and from 2011 to 2012 (.15) and calculated to find an average growth rate of .17.

We felt it was most appropriate to use the growth rate of .17 since we calculated it for our firm specifically, whereas the .67 growth rate computation using the ROE multiplied by the retention ratio resulted in a much higher number than we are comfortable estimating with. The growth rate of .17 was much more similar to Yahoo!, Value Line, and Morningstar analysts reports.

For the denominator in our DDM equation, we have  $g$  equal to 2.7 which is an international GDP growth estimate for the year 2011. Our calculation from the CAPM model give us a return of 7.09%. Our DDM formula looks like the following:

$$P_0 = D_0 (1+g) / (r-g)$$

$$P_0 = .30 (1 + .17) / (2.709 - 2.7)$$

$$P_0 = 38.15$$

Our computed stock price is \$38.15

### **Valuation Using Multiples**

In order to value YUM! Brands Inc. using multiples, we multiplied YUM! Brands Inc.'s most recent earning per share from Value Line of 3.25 by the industry P/E ratio of 19.54 found in Yahoo! Finance, to arrive at an answer of \$63.51. We then plugged that answer into the

following formula to find an average price of \$50.83, which is our final valuation of the stock price as an average of the stock prices from the both models. The equation looks like:

$$(\$38.15 + \$63.51) / 2 = \$50.83$$

## **CONCLUSION AND RECOMMENDATIONS**

In conclusion, our valuation of the Yum Brand's stock price is \$50.80, that is the average of the prices we get from the two different models DDM and the multiples. Comparing the current Yum stock prices \$66.23 with the stock price we get from our calculation \$50.83, we find that Yum is overvalued, and it is overpriced by \$15.4. Because the different ways in estimating the growth and the risk during the calculations, it is difficult to find the exact intrinsic stock price for a company, so the intrinsic stock value we have is based on the data gather from the cash flows and the valued under risks. Similarly for the market stock price, it is the perceived valuation of a company in the market, it is also determined by how much of the confidence do people have on the company, the stock price can be changing all the time. By comparing the market price and intrinsic price, we believe that the stock price of Yum it is overpriced.

For more explanation of our valuation of the Yum Brand Inc, our calculations of the DDM model shows that the stock prices depends on the growth and riskiness, it give us a stock price of \$38.15, which is much less than the market price. For the multiple model it give us a price of \$63.51, that is more close to the market price. Because Yum has the goodness of the stock has already priced in the market, it is overpriced.

We also need to consider the cash flows, capital management, actual riskiness and for valuing the stock price, Based on our valuation of the Yum Brand on the both models , some of these factors may not be priced in when calculating the stock price. Relative to the restaurants

sub-industry, Yum! Brands is the top companies ranked number six in the industry, following after MTY, McDonald's, Starbucks etc. as a leading company. Yum is very profitability and also has a relatively solid cash flows, it is still a good company to consider for investment. Recently Yum has improved in its cash flow management and it has reduce the growth rate, therefore they would have cash flows generated as to invest for more objectives or return it to the shareholders,

Another important strategy that the investors need to think about is to buy the companies whose products or services has being in demand in the past periods and will be continuing in demand for future periods. Since Yum has three restaurant chain Pizza Hut, Taco Bell, and KFC, it has take a good proportion of the market share and has a large demand for their products and services. However the potentials for growth is not so obvious since Yum it not expanding their business in the new fast food chains or other new markets. Furthermore, it is also important to see if the company is doing well in terms of whether they are taking the social responsibilities, is the management level making the right decisions in term of the capital management and other strategic decisions.

Overall we would recommend the investors to consider Yum! Brands Inc as a short-term investment and pay attention on the company and really get to know the company when decided to invest. But for the current stock price of \$66.23,it is better to sell or on hold rather than buy in.

## REFERENCES

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