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On **September 12, 2018**, KFC Holdings Japan, Ltd. unveiled its “Toward Our 50th Anniversary” medium-term management plan, which calls for FY03/21 revenues of JPY75.0bn, operating profit of JPY2.4bn, OPM of 3.2%, and net income of JPY1.6bn. The plan factors in new M&A activity in Japan and overseas, and targets 2,000 restaurants across the group over the medium to long term. An overview of the plan is shown below.

Medium-term management plan

(JPYmn)		FY03/18	FY03/21	
		Act.	MTP	Change
KFC Holdings	Total revenues	70,800	75,000	+4,200
Japan	Operating profit	480	2,400	+1,920
	OPM	0.6%	3.2%	+2.6pp
	Net income	580	1,600	+1,020
KFC business	System sales	113,200	125,000	+11,800
	System store count	1,153	1,180	+27

Source: Shared Research based on company data

Note: FY03/18 excludes results for the Pizza Hut business (April 1, 2017 to June 11, 2017).

Japan KFC Holdings

Under its corporate philosophy of “creating delicious meals and happiness,” the company will establish a structure focused on the mainstay KFC business, and aims to become a comprehensive food services group by building up its portfolio through new M&A deals. The key themes of the medium-term management plan are the development of a structure to support all businesses and business expansion through M&A activity.

Development of a structure to support all businesses

- ▷ Development of holding company structure: The company will review the structure of its group companies, and develop a structure that facilitates rapid and effective business support.
- ▷ Rationalization of headquarter costs: The company aims to consolidate and enhance efficiency of its operations as a holding company (e.g., improving company-wide productivity and reviewing administration costs, including IT-related costs) to establish a foundation conducive to sustainable growth from 2020 and with an eye toward group-wide business expansion.

Business expansion through M&A activity

- ▷ Increase corporate value of capital and business partners: Invested in Restaurants Development Co., Ltd. (2016), which operates part of the KFC restaurants in Thailand; entered capital and business alliance with BYO Co., Ltd. (2018), which operates several Japanese-food restaurant brands such as washoku sake EN, Obon de Gohan
- ▷ Pursue new M&A deals: 1) strengthen foundation in Japan: invest in food-related businesses in which KFC Holdings Japan can leverage its strengths (expertise in operating restaurant chains, franchise network), attract premium overseas brands to Japan; 2) make inroads in overseas growth markets: invest in brands (businesses) expected to become competitive forces in Asian and other growth markets, develop new businesses, and expand existing brands overseas
- ▷ Target 2,000 restaurants across the group over the medium to long term, factoring in business expansion through M&A activity

KFC business

- ▷ Under the slogan “Nothing like KFC for a special day,” the medium-term plan positions the years through FY03/21, which coincides with the 50th anniversary of KFC, as a period to rebuild the foundations of the KFC business and support sustainable brand growth. Key medium-term themes for the KFC business are 1) getting back to the roots of the business, 2) customer orientation (focus on frontline operations), and 3) the cultivation of human resources.

Customer orientation (focus on frontline operations)

- ▷ The KFC business has identified the following conditions as its present challenges: 1) it is strongly associated with special occasions such as Christmas by many customers, who therefore do not visit KFC restaurants on regular days; and 2) it is perceived as a takeout restaurant, and not as a place where customers can enjoy food or drinks or relax inside a restaurant. To address these challenges, the business will adopt a two-pronged strategy of optimizing operations by targeting customer visits on regular days (generating opportunities for visits on regular days and promoting visits on days other than special occasions) and improving experiential value (focusing on safety and peace of mind, delicious food, and comfort).

- ▷ To optimize operations (targeting customer visits on regular days), KFC Holdings plans to drive a recovery in the comparable-store customer count (secure new customers and increase frequency of customer visits) by 1) increasing convenience via strengthened KFC online orders, 2) promoting restaurant visits on regular days through the introduction of weekly and monthly value menus, and 3) moving into areas with demand through expansion of home delivery services and KFC Stations (takeout stands located inside train stations). Comparable store sales rose a strong 11.4% YoY in August, and this was mainly attributable to a JPY500 lunch offered from July 23 to September 5 to attract visitors on regular days. We will be closely monitoring the effects of these new initiatives.

- ▷ To increase experiential value, KFC Holding intends to foster customer loyalty through various initiatives. It will strengthen its digital strategy by revamping its KFC app (over 9.5mn downloads as of June 2018) and expanding its mileage program. The company continues committing to high-quality “original-recipe chicken” and hospitality. It also plans to provide comfortable spaces (strategic remodeling) for customers by adopting a no-smoking policy for its restaurants (all seats) by March 2019, introducing digital signage, and installing separate counters (for order payment and pickup).

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