GEORGIA PEACH RESEARCH

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SOLUTIONS FOR INVESTORS FACING A SLOW-GROWING U.S. ECONOMY

Why Go West Young Man?

This must have been the question every person getting on a wagon train in the 1800's was asked. The answer was the opportunities and incentives were better off in the west than in the east.

For U.S. investors today who are worried about the growth opportunities in our economy, the case for going global is strong. Currencies are rising in value in China and Brazil, whereas our U.S. dollar faces skepticism due to damage done to its reputation. Reserves held by China are some $3.1 trillion. Growth rates are higher in some countries than the U.S. is likely to see for several years.

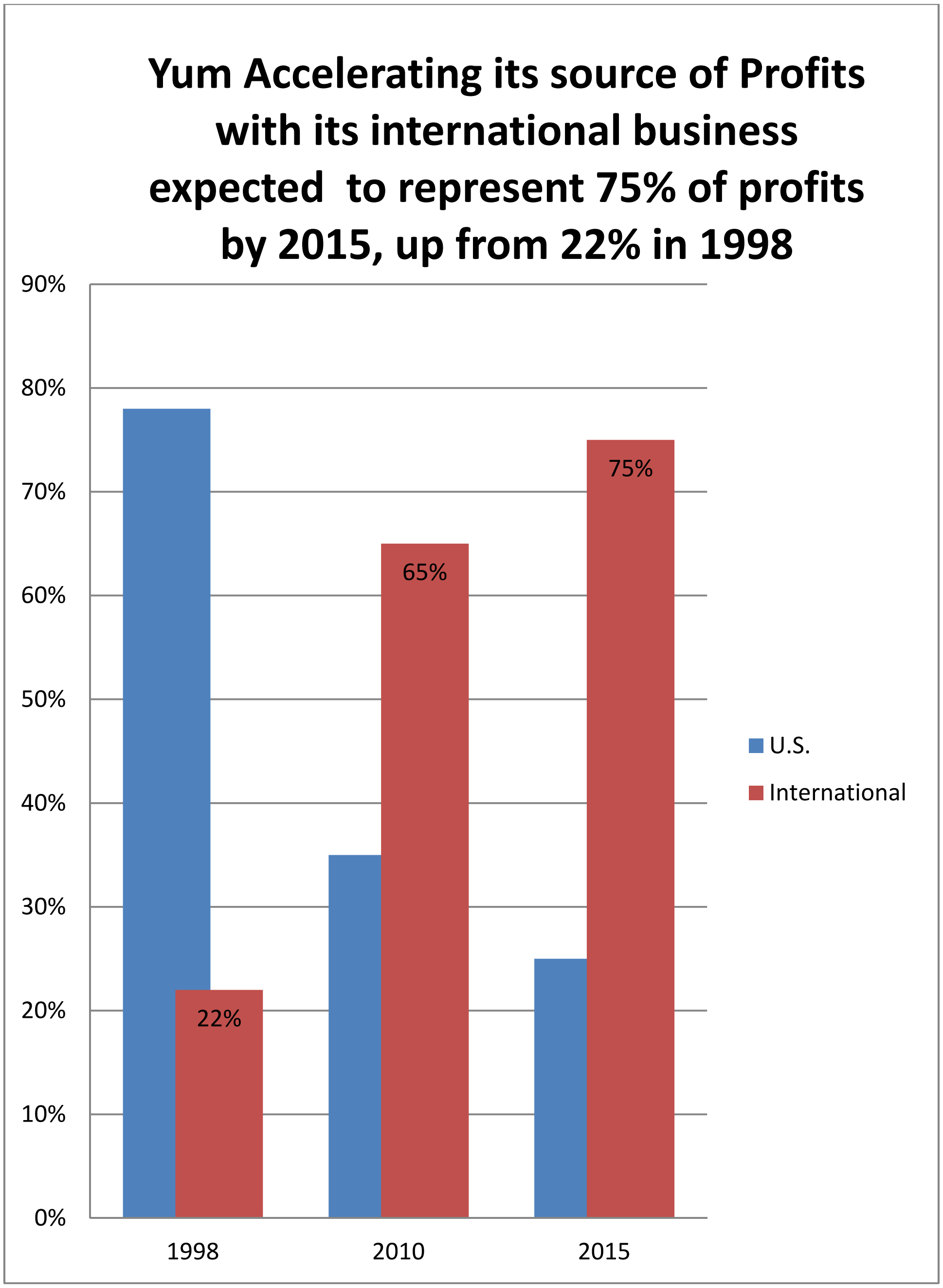
The risks were greater out west than in the east. Today, the risks of foreign investing are hard to quantify because the managers of foreign companies have different standards from our own. We sometimes worry about accounting standards and corporate governance issues for foreign companies.

One way to play the "go global" strategy is to invest in American companies, with American boards of directors and executives, domiciled here but with large overseas infrastructure. Coco Cola is one example. Another is Yum ! Brands Inc (symbol YUM), which trades in New York. Yum management is considering a Chinese stock listing.

This report is based on finding from a trip last week to Plano, Texas for dinner with the CEO of the internal division and a conference the next days with approximately 40 analysts and Chartered Financial Analysts from major financial institutions such as Morgan Stanley, Merrill Lynch and Wells Fargo. This report also relies on other information released in the past eight months by the company about its business.

Yum! Brands has the opposite strategy of McDonald's. The latter is understood to seek more sales over its existing asset base. Yum! Brands wants to reduce capital invested in the U.S. and redeploy capital in fast growing economies.

The company's Chief Financial Officer has described its DNA as: "Go hard after global growth opportunities. Put company resources into high growth, high return, high potential markets."



2010 Sales are broken down as follows:

Asia	**31%**
Australia	**11%**
Middle East & Africa	**14%**
Americas	**18%**
Europe	**26%**
Total	**100%**

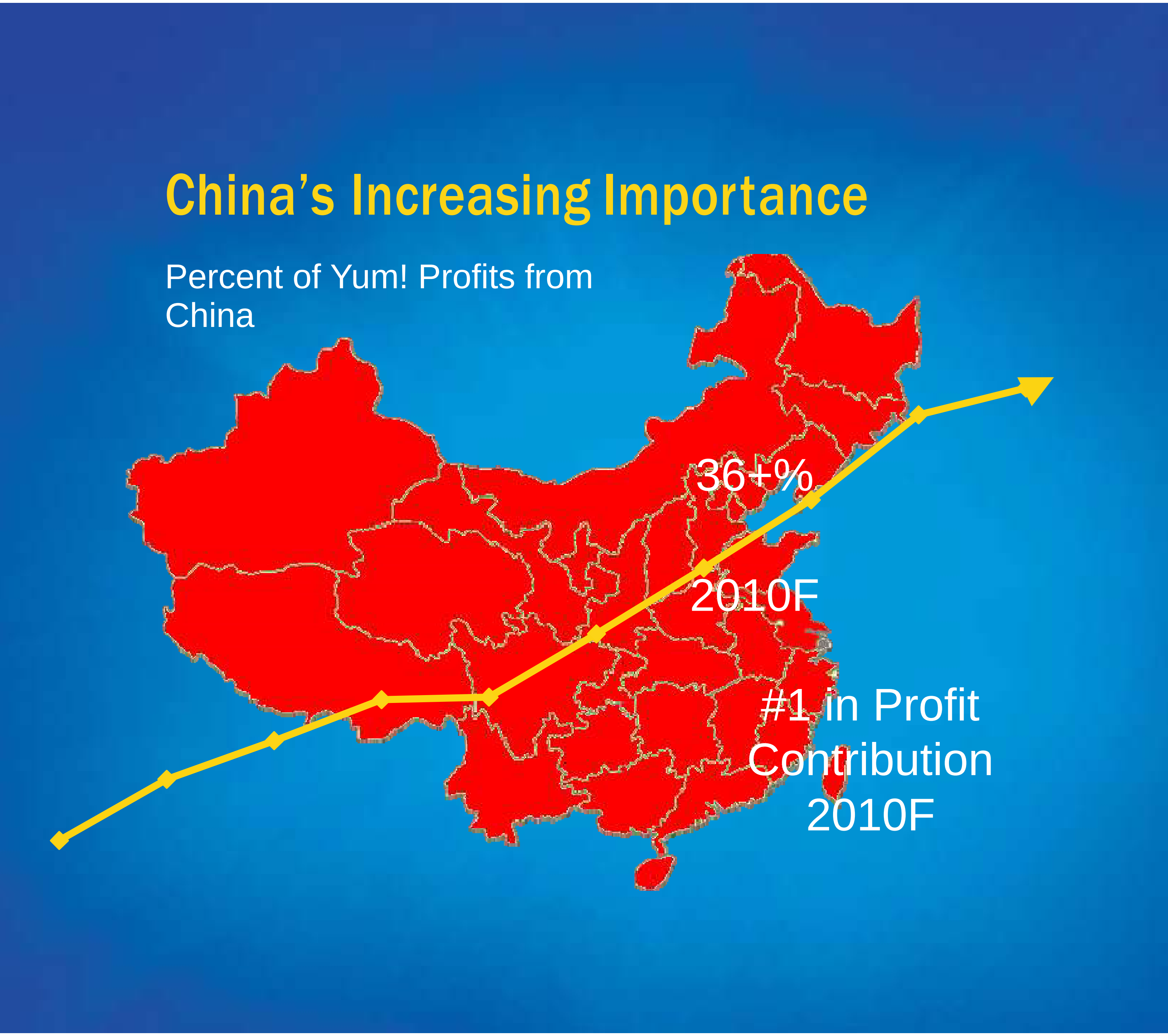
Kentucky Fried Chicken	**60%**
Pizza Hut Dine-In	**17%**
Pizza Hut Delivery only	**19%**
Taco Bell	**4%**
Total	**100%**

The company has 14,524 units around the world.

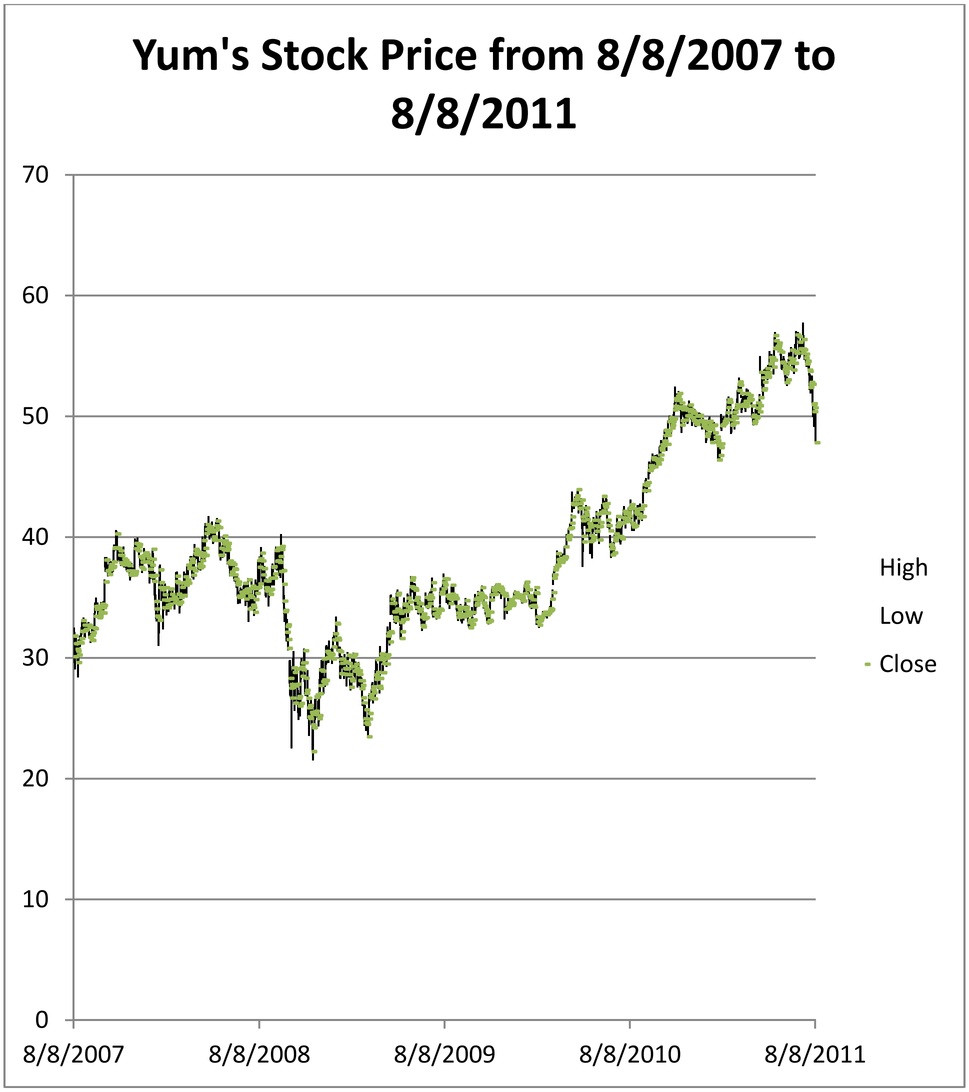
One great benefit to expanding outside the U.S. is that its labor-intensive costs, such as delivery, can be more profitable in low labor cost countries. The challenge is to increase margins in face of lower selling prices in the emerging countries.

The company's drive is based upon the hypothesis that the U.S. is not as beneficial for investment as investment abroad is. It is expanding its operations in India, Russia, Africa and Asia. There is significant marketing depth as seen by different menus for different markets and experimentation with breakfast menus, so as to extend the scope of its business.

China is an example of "going global" with an experienced U.S. company. 36% of its 2010 profits came from China, which was number one in profit contribution compared to other countries. At last official count, Yum Brands had 3,200 Kentucky Fried Chicken stores in both large and small cities at prime locations. In Shanghai, there are 256 locations. The average unit volume per store is $1.1 million and the cash payback is less than 3 years. The company has over 500 people working on developing the business. The company also has 493 Pizza Huts, also having average unit volume of $1.1 million. The company is holding a conference for analysts in China the week of Labor Day, 2011.


China's Increasing Importance
Percent of Yum! Profits from China
36+%
2010F
#1 in Profit Contribution 2010F

The company has a fine track record. For the past nine years, it has produced double-digit Earnings Per Share growth in each year. The switch to foreign markets that are growing faster than the U.S. economy give good support to the expectation that earnings will show good growth in the future.



I think Yum! Brands is a fine internationally driven company, seeking the optimal profit opportunities for its customers. There is one corporate action which does not make sense to me. Last year (2010), Yum had net income of $1.178 billion.

This represented a 90.6% return on stockholder's equity. [1] Let's take this computation as a point of discussion. This means the company began 2010 with stock holder's equity of $1.025 billion and at the end of the year had $1.576 billion. The average of these two figures is $1.300.5 billion. The net profits divided by the average stockholder's equity is 90.6%.

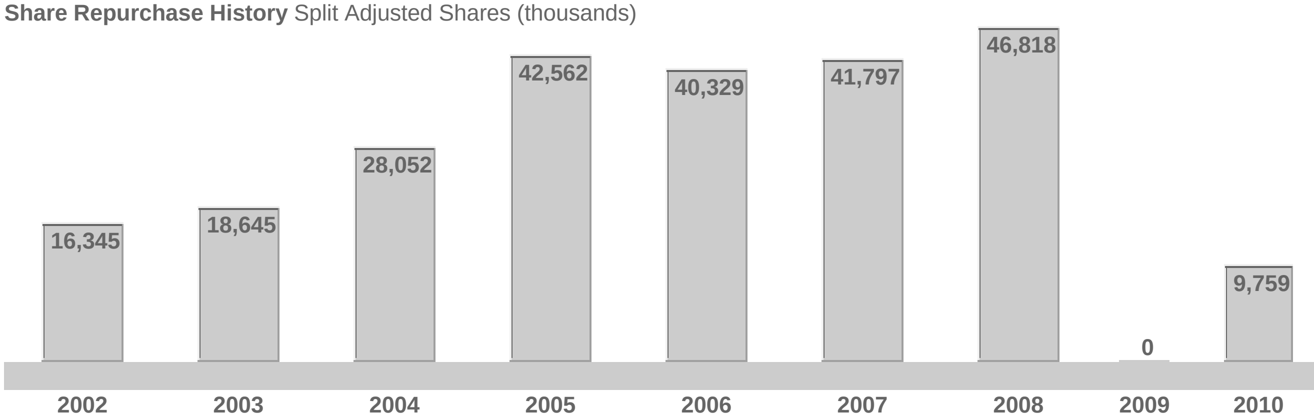
That is an extraordinary record and not to be easily duplicated by investors in the stock market or other corporations.

The board of directors authorized management to buy up to $750 million through July, 2012 of its common stock. This follows earlier stock buy backs:

Yum! Financial Data

Share Buyback/Debt Outstanding

Share Repurchase History Split Adjusted Shares (thousands)



The critical question is can the directors expect to make 90.6% return on its stock purchases. That would mean that the stock would have to rise to approximately $95.3 per share to duplicate percentage wise the profits it could earn in its business, if in 2011 it can do as well percentage wise as it did in 2010.

I brought the question up at the meeting in Plano, Texas. Management's reply was:

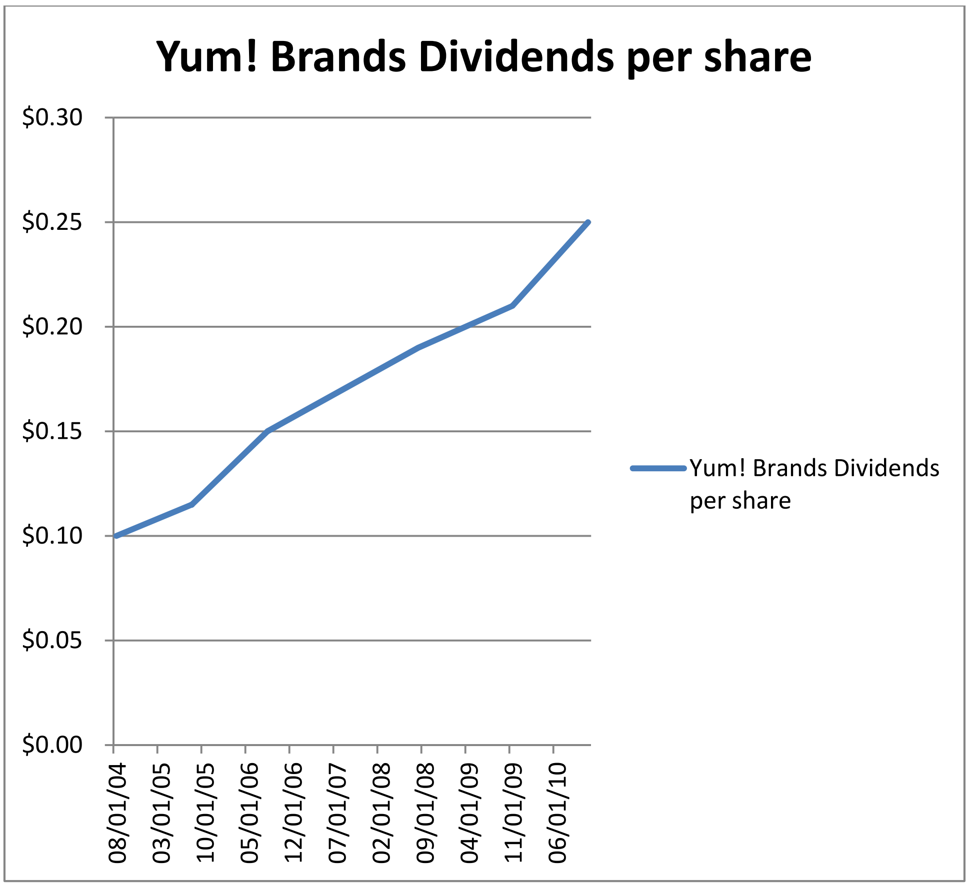
1. When we buy the stock, it reduces the number of shares outstanding and that means that the profit is split up among a smaller number of shareholders and hence helps growth in Earnings Per Share.

[1] I am relying on the statistics from Stand & Poor's in its report on Yum! Brands dated 8/6/2011.

2. **Our plate is full with expansion in India, Africa, Russia, etc. If we applied more capital for expansion we run an "execution risk." In other words, it could be so active that it would overlook details and it would be hiring people so rapidly that they would lack sufficient training. I thought that was a good answer and reduces some of the above concerns.**

My last concern is that the S & P credit rating on the company is BBB-. I have called management and said that I think these credit reports are commissioned by management and if this is so, may I obtain a copy.

On a happy note for those who like cash dividends, the record does show growth:



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