

## Investment Stewardship

# Vote Bulletin: YUM! Brands, Inc.

Company	<b>YUM! Brands, Inc. (NYSE: YUM)</b>
Market and Sector	United States, Consumer Discretionary
Meeting Date	18 May 2023
Key Resolutions <sup>1</sup>	<p><b>Item 5:</b> Shareholder Proposal Regarding Issuance of a Report on Efforts to Reduce Plastics Use</p> <p><b>Item 6:</b> Shareholder Proposal Regarding Issuance of Annual Report on Lobbying</p> <p><b>Item 7:</b> Shareholder Proposal Regarding Issuance of Civil Rights and Nondiscrimination Audit Report</p> <p><b>Item 8:</b> Shareholder Proposal Regarding Disclosure of Share Retention Policies for Named Executive Officers Through Normal Retirement Age</p> <p><b>Item 9:</b> Shareholder Proposal Regarding Issuance of Report on Paid Sick Leave</p>
Key Topics	Climate-risk and natural capital, corporate political activities, company impacts on people, incentives aligned with financial value creation
Board Recommendation	The board recommended shareholders vote AGAINST these items
BlackRock Vote <sup>2</sup>	BlackRock voted AGAINST these items

## Overview

YUM! Brands, Inc. (Yum!) is a restaurant company that owns and operates the KFC, Pizza Hut, Taco Bell, and The Habit Burger Grill restaurant franchises. Yum! is headquartered in Louisville, Kentucky, and has over 55,000 restaurants in more than 155 markets globally.<sup>3</sup>

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like

<sup>1</sup> YUM! Brands, Inc., “Notice of Annual Meeting of Shareholders”, April 7, 2023.

<sup>2</sup> BIS conducts proxy voting for those clients who authorize BIS to vote on their behalf. As part of BlackRock’s Voting Choice program, eligible clients can have a say in the proxy voting process by selecting their own proxy voting policy or one of 14 available third-party policies. 47% (\$2.1 trillion of \$4.5 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the \$2.1 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data as of March 31, 2023.

<sup>3</sup> YUM! Brands, Inc., “2022 Annual Report”.

BlackRock's clients. BIS also engages to provide a long-term investor perspective on corporate governance practices.

BIS' engagement history with Yum!'s management has centered on the corporate governance topics that, in our assessment, are important for long-term financial value creation for investors. We have engaged with Yum! to understand their approach to human capital management (HCM) as well as the board's oversight of, and management's approach to, climate-related risks and opportunities in the context of Yum!'s franchised business model and their markets of operation.

The agenda for Yum!'s May 2023 annual general meeting (AGM) included five shareholder proposals. These addressed a range of issues: plans to reduce single-use plastic packaging, political lobbying, civil rights and nondiscrimination policies, share retention by named executive officers, and paid sick leave provisions for franchisee employees. Yum!'s board recommended that shareholders vote against all of these proposals. As we outline in the BIS [Global Principles](#), when assessing shareholder proposals, we evaluate each proposal on its merit, its business and economic relevance, and the materiality and urgency with which we believe an issue should be addressed, if at all. Without exception, we have a singular focus on the implications of the request made in the shareholder proposal for long-term financial value creation for BlackRock's clients.

Ahead of the May 2023 AGM, BIS engaged with members of Yum!'s management team to help inform our voting for the clients who have authorized us to vote on their behalf. In the engagement, we sought to further our understanding of the matters on which shareholders requested additional disclosure, and assess the business relevance and financial implications of each proposal.

## **Rationale for BlackRock's vote**

### **Item 5: Shareholder Proposal Regarding Issuance of a Report on Efforts to Reduce Plastics Use (Against)**

**BIS did not support this proposal, which requested Yum! to issue a report detailing the company's efforts to reduce plastics use. In our analysis, Yum!'s existing disclosures on plastics use – particularly their new packaging policy and reduction goals – are comprehensive and provide sufficient information to allow investors to understand the company's approach to managing the risks of plastics use.**

This shareholder proposal requested that Yum!'s board issue a report "...describing how the Company will reduce its plastics use by shifting away from single-use packaging..."<sup>4</sup> in response to recent regulatory trends in certain jurisdictions which have levied taxes on and/or banned the use of single-use plastic products. The proposal further clarified that such a report should explicitly "evaluate dramatically reducing the amount of plastic" used in the company's packaging.<sup>5</sup>

BIS engages with companies in certain sectors, including the restaurant industry, on their approach to plastic packaging. Given the impact on long-term shareholder value (such as increasing customer demand for recyclable packaging and potential regulatory costs), we appreciate when companies who produce or rely heavily on plastics in their products or operations disclose information on how waste is managed. Where a matter such as plastic usage is material to a company's long-term strategy, [we look to their disclosures](#) to assess risk oversight, and to understand how such impacts and dependencies are managed. Specifically, we find it helpful when companies disclose any targets for managing these factors, how they monitor progress against these stated goals, and how these efforts might contribute to process and resource efficiencies.

In July 2022, Yum! updated their sustainable packaging policy, outlining the actions they have taken and those that they plan to take to address the issue of plastic-based packaging. Among other things, the company set goals to eliminate unnecessary plastics use, reduce virgin plastic content by 10%, and move consumer-facing

---

<sup>4</sup> YUM! Brands, Inc., "[Notice of Annual Meeting of Shareholders](#)", page 30, April 7, 2023.

<sup>5</sup> Ibid, page 31.

plastic packaging to be reusable, recyclable, or compostable by 2025 across all brands.<sup>6</sup> We note that there are areas where, in our assessment, Yum! could improve their disclosure, particularly in setting targets for reusable packaging. However, Yum!'s existing disclosures and commitments are sufficiently comprehensive for investors to understand their approach. The company's packaging policy and reduction goals are appropriately set by the Board and management team in their oversight and management, respectively, of the business. We, therefore, do not consider it is necessary for shareholders to direct management to undertake a review of them less than a year after the release of the new policy and targets. As a result, BIS did not believe it was in the financial interests of our clients to support this shareholder proposal.

#### **Item 6: Shareholder Proposal Regarding Issuance of Annual Report on Lobbying (Against)**

**BIS did not support this shareholder proposal, which requested that the company prepare an annual report on the company's lobbying practices. In our view, Yum!'s existing disclosures already provide sufficient transparency on the company's lobbying practices.**

In the BIS [U.S. proxy voting guidelines](#), we explain that we appreciate when companies who engage in political activities provide accessible and clear disclosures so that investors can easily understand how their political activities support their long-term strategy, including stated public policy priorities.

The shareholder proposal requested that the board prepare and annually issue a report disclosing Yum!'s lobbying efforts, the board's oversight of them, and any connected payments in support of these activities. The request contends that the company "...does not currently report on the full extent of [their] lobbying activities."<sup>7</sup>

Although we note that state level lobbying disclosures are not consolidated on the company's website, Yum! has taken steps towards enhancing their disclosures of political contributions and lobbying. For instance, Yum!'s publicly disclosed policy governing political contributions and lobbying stipulates that all contributions are required to be approved by the company's Vice President of Government Affairs; they are also reported to the nominating and governance committee of the board annually.<sup>8</sup> The company also discloses payments made to individual recipients and political organizations and, for any trade associations and other advocacy organizations that received at least \$50,000 in dues from the company, the portion of the company's payments, if any, used for non-deductible political purposes. As a result, BIS determined that support for this shareholder proposal was not warranted.

#### **Item 7: Shareholder Proposal Regarding Issuance of Civil Rights and Nondiscrimination Audit Report (Against)**

**In considering shareholder proposals requesting an assessment of a company's practices in relation to civil rights and non-discrimination, we take into account the costs of an assessment as well as the benefits of mitigating the economic risk of inadequate policies and practices. In our view, Yum!'s approach to these matters is proportionate to the human capital risks the company has identified. As a result, BIS determined that support for this shareholder proposal was not warranted.**

The shareholder proposal requested that "the Board of Directors commission an audit analyzing the Company's impacts on civil rights and non-discrimination, and the impacts of those issues on the Company's business."<sup>9</sup>

BIS looks to companies to demonstrate a robust approach to human capital management (HCM) and provide shareholders with the necessary information to understand how the approach taken aligns with the company's

---

<sup>6</sup> YUM! Brands, Inc., "[Notice of Annual Meeting of Shareholders](#)", page 30, April 7, 2023.

<sup>7</sup> Ibid, page 33.

<sup>8</sup> YUM! Brands, Inc., "[Political Contributions & U.S. Government Advocacy Policy](#)", August 20, 2012.

<sup>9</sup> YUM! Brands, Inc., "[Notice of Annual Meeting of Shareholders](#)", page 36, April 7, 2023.

stated strategy and business model. BIS does not seek to direct a company's policies or practices; rather, we believe that clear and consistent reporting on HCM matters helps investors understand a company's approach to a potentially material business risk. As explained in the commentary on [BIS' engagement on human capital management](#), we appreciate when companies disclose their approach to the demography of their workforce, including, where appropriate, their responses to the U.S. Equal Employment Opportunity Commission's EEO-1 Survey. We find such information helpful in understanding how a company's business practices foster a diverse, equitable and inclusive workforce culture for all employees, considering the context in which the company operates.

We recognize that Yum! has a moderate level of exposure to these issues due to the nature of their large and disparate workforce, totaling 36,000 employees, 85% of whom work in a restaurant setting.<sup>10</sup> Further, the turnover rate (the company discloses that 50% of workers have been employed by Yum! for less than one year) adds to this risk. However, we note that Yum!'s management acknowledges these issues and has addressed them through enhancing individual employee resources for equity and inclusion, and engagement in the company's employee resource groups. These matters are overseen by Yum!'s global leadership team.

Further, Yum!'s current global code of conduct outlines the company's philosophy on nondiscrimination, stating that Yum! and their subsidiaries are "committed to ensuring our employees are treated with respect and dignity, which includes a workplace that is free from discrimination, harassment, bullying, illegal substances and unsafe conditions."<sup>11</sup> We note that the company has, since 2019, disclosed an annual report detailing their workforce demographics at a corporate level as well as across Yum!'s restaurants in the U.S. Since 2021, Yum! has also disclosed the results of their EEO-1 report.<sup>12</sup>

In our view, these disclosures provide sufficient information regarding the company's diversity, equity, and inclusion policies and practices. As a result, BIS did not believe it was in the financial interests of our clients to support this shareholder proposal.

#### **Item 8: Shareholder Proposal Regarding Disclosure of Share Retention Policies for Named Executive Officers Through Normal Retirement Age (Against)**

**BIS did not support this shareholder proposal because, in our assessment, Yum!'s current stock ownership guidelines for their named executive officers are robust.**

This shareholder proposal requested Yum!'s Compensation Committee to disclose any requirements for "...named executive officers to retain a significant percentage of shares acquired through equity compensation programs until reaching normal retirement age."<sup>13</sup>

As we discuss in our commentary, [our approach to engagement on incentives aligned with financial value creation](#), we believe that a well-structured compensation policy serves to reward executives for accomplishments in the short-term, and to incentivize the delivery of long-term financial performance. We look to companies to establish guidelines to encourage executives to retain some of the shares received through these plans to further align the interests of management and shareholders over the long-term.

We note that Yum!'s stock ownership guidelines require the company's CEO and other named executive officers to own, respectively, at least seven- and three-times their base salary.<sup>14</sup> Further, a requirement to hold shares

---

<sup>10</sup> YUM! Brands, Inc., "2022 Annual Report", page 6.

<sup>11</sup> YUM! Brands, Inc., "Code of Conduct", page 21, 2022.

<sup>12</sup> YUM! Brands, Inc., "2021 U.S. Workforce Diversity Report".

<sup>13</sup> YUM! Brands, Inc., "Notice of Annual Meeting of Shareholders", page 38, April 7, 2023.

<sup>14</sup> Ibid, page 39.

through retirement age is likely to be unenforceable should an individual retire early or leave for a role at another company. In our view, the company's retention requirements allow for sufficient alignment of the interests of executives with those of long-term shareholders, and therefore did not support this shareholder proposal.

#### **Item 9: Shareholder Proposal Regarding Issuance of Report on Paid Sick Leave (Against)**

**BIS did not support this shareholder proposal, which requested that the company issue a report on the feasibility of incentivizing Yum!'s franchisees to provide paid sick leave to employees. In our view, given Yum!'s franchise business model, the proposal is unduly prescriptive as it seeks to direct the independent operations of the company's franchisees.**

The shareholder proposal requested that the company "...issue a report analyzing the provision of paid sick leave among franchise employees and assessing the feasibility of inducing or incentivizing franchisees to provide some amount of paid sick leave to all employees."<sup>15</sup>

[Our commentary on human capital management](#) explains how we look to companies to demonstrate robust approaches to HCM, including taking steps to ensure that they have the workforce necessary for delivering long-term financial performance for shareholders. We do not seek to direct a company's policies and practices, but rather to encourage clear and consistent reporting on HCM matters to help investors understand a company's approach to a potentially material business risk, such as workplace health and safety. These include the workplace wellness programs a company offers to support workers' physical and mental health and safety.

In our view, Yum!'s existing paid sick leave policy for employees is already robust. The company enhanced employee benefits during COVID-19 to include paid sick leave for full- and part-time restaurant employees, irrespective of hours worked.<sup>16</sup> Additionally, given Yum!'s business model – 98% of the company's restaurants are franchised<sup>17</sup> – we believe that it is ultimately the responsibility of individual franchisees to determine employment practices and benefit offerings that position them competitively.

Generally, we are unlikely to support shareholder proposals that, in our assessment, are intended to micromanage companies. This includes those that are unduly prescriptive and constraining on the decision-making of the board or management or call for a change to the company's business model. In our view, this proposal seeks to tell the company, and indirectly the franchisees, which benefits they should offer their employees. In our assessment, Yum!'s approach is appropriate, and we determined it was not in the financial interests of our clients to support this shareholder proposal.

---

<sup>15</sup> YUM! Brands, Inc., "[Notice of Annual Meeting of Shareholders](#)", page 40, April 7, 2023.

<sup>16</sup> Ibid, page 41.

<sup>17</sup> YUM! Brands, Inc., "[2022 Form 10K](#)", page 108.

## About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.<sup>18</sup>

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

**Want to know more?** [blackrock.com/stewardship](https://blackrock.com/stewardship)

[contactstewardship@blackrock.com](mailto:contactstewardship@blackrock.com)

*This Vote Bulletin is provided for information and educational purposes only and does not constitute legal advice, a recommendation or an offer or solicitation to buy or sell the securities of any company. The information here is as of June 14, 2023. BlackRock has no obligation to provide any updates. Investing involves risk, including the loss of principal.*

*Prepared by BlackRock, Inc.*

*©2023 BlackRock, Inc. All rights reserved. BLACKROCK is a trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.*

---

<sup>18</sup> As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.