International Conference Call
Burger King Brazil S/A (BKBR3)
2Q22 Earnings Results
August 12th, 2022

Operator: […] [*translator: sorry, we're just having a few technical issues, they have already been resolved. We're just going through the disclaimer*]

[…] any future considerations will now be guarantees of performance, they involve risk uncertainties and premises because they deal with future events and therefore depend on circumstances which may or may not happen.

Investors and analysts must understand that general conditions, sector conditions, and other operating factors might affect the future results and might lead to results which differ materially from those expressed herein.

I now would like to pass the word to Mr. Iuri Miranda. Please, Iuri, you may begin.

Iuri Miranda: Thank you for the introduction, operator. Good morning, everyone, I hope that you and your family members are all doing fine. Thank you for the interest in our company and for your participation this results call for the second quarter of 2022 from Zamp Company.

Today with me in this presentation I will have my partners, Gabriel Guimarães, CFO, and Arial Grunkaut, the current vice-president of marketing, sales, and technology, who will succeed me after 2023.

It's with great happiness and lots of excitement that I would like to share with you another strong quarter result a landscape of our business and I would also like to talk about the last events at our company. after a long period of pandemic, this was the first quarter where we had an environment which was the closest to normalcy pre-pandemic. I'm referring to not having any more operating hour restrictions and with that we see a gradual return of foot traffic. This scenario was closest to normalcy and allied to important advances made throughout this entire time this all helped us to boost our sales in an important manner, especially on the weekends, taking the company to a sales growth and also profitability above expectations, or pre-pandemic levels.

In the last two years we mentioned quite a few times that we saw a consolidation in the segment of fast food in the Brazilian market. Market data in this quarter show that our perspective seems to be right, with the macro scenario still adverse, the fast-food chain, the ones that are best structured that have scale, who have a strong financial position operating strong brands and having a good added value proposition to the customers, have added market shares we will be able to see further ahead.

Back to normalcy with more traffic available allowed us to go back to the launches of new campaigns and new products, which are two of our great differentiators: the Stranger Things campaign, the launch of the Milanesa and CBF sandwiches (onion, bacon, and chicken sandwiches) from the Popeyes brands are a few good examples of how this quarter was different.

Well, let's talk about the differentiations of the Burger King brand. We got for the first consecutive time the award for most creative award, or most creative company, and it was a Cannes Award, one of the most important, and BK Brazil was awarded eight times. Facts like these show the strength and creativity of our brand our team showing that we are on the right path to have one of the favorite brands inside our segment.

let's talk about Popeyes now. The brand continues to fully advance and has reached in this quarter a traffic which is significantly superior to 2019 in the same stores. We really do believe in the potential of the QSR chicken market, and we are well-positioned to speed up the scalability of that brand. So, this year we will be going into new markets besides the markets we operate in São Paulo and Rio. As we saw in our previous numbers and this one now in the second quarter was no different, we have been able to maintain an excellent balance between sales recovery along with a growth of same store sales of 33% for Burger King and 58 for our chicken brand and gains in gross margin, where in this semester we went over 63%.

Our strong sourcing work, revenue management, and data use have consistently shown their significance in our business throughout the last 12 months. The result of this quarter shows the resilience, the consistence, and the development of our operation which sums up 4 consecutive quarters of full recovery. We have reached an adjusted EBITDA of R$127 million, an increase of R$116 million versus the second quarter of 2021, and an adjusted EBITDA margin of 14.3% versus a margin of 1.9% in the second quarter of 2021.

The second quarter margin for 22 is the biggest in our historical series for second quarters. Afterwards, Ariel is going to give us a little bit more information on the digital transformation efforts and how they have helped us in our revenues, but as a summary, the digital transformation continues being implemented and the digital channels are ever more showing incrementality in helping in our operating efficiency. Our digital sales have overcome 32% of total company sales, a growth of over 50% versus the second quarter of 21.

Still in this quarter of 2022, we approved in the assembly the change in the company name to Zamp; that was a decision that we made in 2019 to absorb our two brands besides bringing a more technological language and to be ever more present in our consumers' minds. Additionally, we have announced in this semester the start of the transition process for my partner Ariel who will take over the position of CEO starting in January of 23. This plan transition and structured transition, which will happen until the end of the year, is another demonstration of our development, our leader development culture, our meritocracy culture. I'll be heading the company until the end of the year; Ariel will be by my side until the end of the year and I'm very confident that under his leadership our team will take Zamp to be the best restaurant operator in the world.

So, I won't say goodbye just yet, but I do have my goodbye presentation ready for you since 2018. And as recently announced in the market, we received a voluntary public offer for the acquisition of control of the company made by Mubadala. Our Board will issue a report on the offer which will be published until the 17th of August. The report will be duly disclosed on our communication channels.

Now I would like to pass the word to my partner Ariel to provide you more details on our sales and technology advances, and afterwards my partner Gabriel will give you more details about the financial standing of the company.

Ariel Grunkaut: This is Ariel, thank you everyone. I'm very happy to be participating in this call for the first time and I will share with you important data from our company.

If you look at slide four, you'll see a development in the number of stores, and this quarter we had been at openings of three stores, three same stores, freestanding stores, one open franchise and the closing of one same store in a food court. We continue our expansion plans which this year will be concentrated on the second semester. That way, we closed the quarter with 897 BK stores and 53 Popeyes, totaling 950 restaurants in Brazil.

Slide five will show you the advance of the net operating revenue, a growth of 55% versus the second quarter of 21, overcoming the pre-pandemic numbers. In terms of same store sales, we had 33.3% increase in Burger King and Popeyes. In the last 12 months, the company reached a historical sales record reaching R$3.3 billion, 15% above the 2019 revenues. The growth of revenue is related to the taking back of traffic with the softening of the restrictions, the revenue management strategy which allowed us to make important price movements with market share gains, and the investment we've made in our digital channels which have shown a continuous performance growth even with the return of on-premise consumption.

On the next slide, we can see a few of the campaigns we launched which were sales successes. The partnership with Netflix, the launch of our Stranger Things combo, and the personalized sandwich launches using influencers. These campaigns helped us to leverage our sales, and along with that reach same store sales significantly above pre-pandemic levels. Also in this quarter, as Iuri said, we achieved for the third consecutive time the most creative company award in the Cannes Festival; the main creativity event in the world, something that no other brand has achieved.

Burger King Brazil ended up being a highlight as the most awarded region among all the Burger King operations in the world. We continue to believe in the strength of our brand and our ability to innovate, we're still in our beginning stages.

Going into slide seven, we can see data from a trend that we have been seeing for quite some time in Brazil and abroad in terms of food service. The pandemic effect with all its offsets caused an acceleration of the consolidation of the market with growth in share in fast food chains. As you can see on the slide, the big chains gained in the last two years approximately 100 bps in participation in a market of over R$400 billion. If on one side we see the fast-food chains increasing their stake inside all the away-from-home eating, we've seen a second movement and within the fast-food chains we have seen the big brands gaining share from the small brands. This effect summed up with the recovery of the mall activities and the strength of our brand contributed so that in this semester we had our best historical market share for a second quarter in the year.

This important growth of market share shows itself even more encouraging when we are able to join the sales performance with an even higher quality in the experience of our consumers. According to the NPS Awards, an annual survey me about the main fast-food brands, Burger King stood out as the best operation in all of the segments. We continue aligning technology, quality, and efficiency to deliver the best experiences to our customers every day.

Going into the next slide, we can see the strong trajectory of the Popeyes brand. The chicken market in Brazil represents a great growth opportunity for us and although we're still in the baby steps of this construction, we see encouraging performances in terms of a national scale. After three years of which two of them were in the middle of a pandemic, our annual revenue per store in this quarter is close to R$3 million. That result coming from our product differentiation, brand acceptance, and digital experience continues aligned with the plan we have so that gradually we can approximate our Popeyes sales to our Burger King sales.

Going into the next slide, we see the consistent growth over digital channels represented by delivery, self-service kiosks, and apps. In this quarter, the revenue from digital channels went from 187 million in 21 to 285 million [I believe he said], which represented a growth of over 50%.

On slide ten, we see our digital ecosystem. Today we count on over 13 million users recorded in our CRM and 33% of sales already identified. The number tripled in the last two years. Through our CRM, we're able to understand more and more our customers, in that way provide them more personalized and efficient offers. Our rap continues to evolve and with new features, relevance, and recurrency, we've reached the best rating in all of the restaurant industry in the country in the two app stores. During the quarter, we reached over 56% of our operations with self-service kiosks and we hope to expand to another 80 stores until the end of the year. that is an important avenue of growth since it contributes to a better customer experience and diluting fixed expenses.

We count on a few stores which are 100% self-service, pilots which are being tested in São Paulo and we hope to share the results soon. Delivery once again has shown its resilience and incrementality even with the return of on-premise consumption. We reached 68% of our operations already set up for delivery or marketplace, this move continues to help us reduce the take rate and improve our profitability. Our loyalty program, our BK Club, considered the biggest loyalty program in Latin America for restaurants, has reached 7 million registered users, a growth of 45% when compared to the previous quarter. This program continues as an important avenue of growth once it allows us to offer product services and benefits to our heavy-user customers increasing their frequency and spend.

With this, I would like to pass the word to my partner and CFO Gabriel Guimarães, so that he can cover the other important aspects of the company performance.

Gabriel Guimarães: Thank you, Ariel, and welcome. Going into slide 11, we see our SG&A. At the end of the quarter, the cost of goods sold reached 33.4% of revenue, a drop of 340 basis points compared to the second quarter of 21, which led us to our best historical gross margin performance in comparable quarters. This result was based on three important pillars: our revenue management strategy; our sourcing and procurement projects; and our data acquisition. With that, we've been able to balance efficiently the sales recovery with gross margin recoveries.

The sales expenses in the restaurants are seen on the slide, we show the strong operating leverage of our business through this slide. This advance happened especially due to the virtue of sales growth connected to our digitalization strategy which helps to maintain our expenses under control, our personnel expenses under control even with important salary increases in the semester. The continuous lease contract renegotiations along with utility negotiations and so on did not bring about any extraordinary expenses like, for example, testing our personnel constantly. Excluding the effects of IFRS 16, we had in this quarter an increment of 100 basis points in the BK margin if we compared to the same quarter of 2019. In terms of Popeyes, this evolution comes from deleveraging and that was 13 basis points.

In terms of SG&A, they had a slight increase and they reached 6.5% of revenue, that growth happened due to important changes done in our compensation structure trying to find a better balance between fixed and variable expenses preserving our meritocracy culture. This effect retroactive to the beginning of the year and that's why it had a nonrecurring impact on the quarter. Besides that, we continue preparing our business for a growth cycle in order to leverage our operation.

On slide 12, our adjusted EBITDA. We saw an increase of 116 million when compared to the second quarter of 2021. The last 12 months the adjusted EBITDA reached 490 million, a historical record. This result, as we mentioned, comes from the consistent sales recovery with the coming back of traffic, the evolution of the gross margin, digital transformation and our discipline in costs and expenses.

Going into the main part of the slide, we see that the loss of the company had an improvement of R$65 million coming from the operating efficiencies partially mitigated by the financial results. On the right of the slide, you can see that the total gross debt of the company was R$1.055 billion, allied to an available cash of R$564 million led us to a net debt of 491 million. During the quarter we had the issuance of 350 million in the debentures which will be used for investments in Capex, working capital, and to extend our debts. As our operating cash strengthen, our leveraging level reduced considerably bringing the company to an adequate capital structures to speed up growth.

Going into slide 13, our Capex reached 75 million in this quarter, our investments were very focused in stand the participation of restaurants, technology, and maintenance of our assets. We continue to find excellent capital allocation opportunities not only in new restaurants, but also with great returns in renovations and specially in the digital initiatives. Our operating cash flow coming specially from our operating activity improvements contributed so that we had a cash generation of 63 million; 65 million better than the same period last year even in a complex environment. Our cash generation represented 80% of the company EBITDA.

With that, we close our presentation and open up for Q&A. operator, please, let's go to questions.

<u>Question and Answer Session</u>

Operator: Ladies and gentlemen, we now start our Q&A. To I ask a question, please, type star one. To remove your question, please, type star two.

Our first question comes from Tiago Bortolucci, from Goldman Sachs.

Tiago Bortolucci: Hey, guys, what's going on? Iuri and Gabriel, congrats on the numbers. Arial, good luck with your new challenge in the transition.

I have three questions; these are follow-ups from comments that you've already made. The first one going back to that market share slide, I wanted to explore the trend inside a cut where you had a strong competitive advantage which was the people from 18 to 24 years of age. How's your market share? How has your market share developed among that age group? That's the first question.

The second question in the mix, the digital mix you talked about, obviously there is an accommodation with the return of the on-premise consumption, but if I were to calculate the delivery revenue, I see that in the last two quarters you had a slight nominal drop year over year in revenue, while your competitor is talking about growing their delivery revenue in the high two digits. So, I wanted to understand what you're reading in this performance gap and if you continue understanding that this delivery sale is majorly incremental to what you had on on-premise pre-pandemic.

And third, could you let us know your discount strategy, what's your average rate of customers, your discounting, what's the average discount that you're applying to that base versus what we had prior to the digital channels? Those are my three questions, thank you.

Iuri Miranda: Hey, Tiago, good morning, thank you, thank you for your questions. I'm sorry, we're hearing a little feedback, so we're just getting that fixed. OK, let's go.

First point, in terms of market share gains, the 18 to 24 year range what we have seen is that the market share gain has been seen in all categories not just the 18 to 24 age group, and that's been confirmed by our perspective that in the post-pandemic strong structured brands with good product launches would consolidate that demand as a whole, and since fast food is very eclectic, you know, I mean, you have children from the elderly eating our products and we're seeing a market share gain in all the age ranges and not only in our target age range, which is 18 to 24. So, that would be the answer to your first question.

In terms of delivery growth, what we also have been working on for the past couple of years is having a good balance between delivery sales and profitability, which was an issue during the pandemic where we were questioned, people asked if delivery would be something beyond the incremental sales and if after COVID we would also have a healthy margin in delivery, and during the two years what we did was try to seek out a solution that we have called "hybrid delivery" where most of the volume that we could we would migrate to one marketplace only finding a last mile solution where we would be able to absorb the cost, where the cost would be absorbed by the consumer within the final transaction.

In that way we've been able to move 1/3 of all of our volume to the hybrid delivery, which brings us a margin of about 1/3 better when you compare a full-service delivery model. That's a very important structural change for us, we've been able to see that a delivery volume post-pandemic would be somewhere around 13 and 17%, so I believe that there might be an accommodation of volume, a little bit higher delivery volume, we were looking at more mature markets like China prior to the pandemic close to 20%, however, we have started to see that the coming back of foot traffic and more on-premise restaurants could happen in our market and then the stability of delivery could be somewhere around 13 to 17%.

I'm going to ask that Ariel, who deals with sales, and he was responsible for developing this entire program, this marketplace program, and he's helped us a lot in the numbers, he'll give you more information. Ariel.

Ariel Grunkaut: Thank you, Iuri, and Tiago thank you for your question. Just to add to what Iuri said, we have over 650 stores which have delivery services and 50% of those businesses are already covered by our hybrid delivery. That way, that's an important profitability lever which will allow us to show delivery's being very resilient, we continue to see sales stable even during the recovery of the on-premise consumption, on-premise purchases.

And in terms of discounts, this entire technology strategy has made it so that we would be able to migrate from a strategy of delivering generalized discounts to the consumer and now we do it in a personalized manner. Not only have we seen a more rational market in terms of price, but we have been very efficient in delivering discounts only to those people who we understand to be people who will provide us a counterpart, who will buy our products with that discount. So, we've been a lot more assertive and that's been one of the great levers in generating profit and gross margin for us.

Tiago Bortolucci: Great, thank you, guys.

Operator: Our next question comes from Marcela Recchia, Credit Suisse.

Marcela Recchia: Hey, guys, Iuri, Gabriel! Thanks for taking our questions and congrats on the numbers. I have two questions, the first one, well, it was really nice that you started to show the unit economics for BK and Popeyes, and my question the first one is what is the potential you see for the brands in terms of sales per store in EBITDA margin? Not giving us a guidance, but, you know, how much more potential do you imagine? Of course, Popeyes should reach breakeven, and we still have an avenue growth for that.

My second question is about gross margin. We have seen for a few quarters a consistency in the cost controls, which is really impressive, I think there are many initiatives which would justify what you have talked about, including the discounts, the more personalized discounts, but my question has more to do with sustainability. How can we see the advance of that gross margin? Is there any more room for gains, or is that a level that we can imagine as just sustainable?

Iuri Miranda: Thank you, Marcela, for your question and the compliments on the numbers, we're very happy and excited with them. Let's start by the unit economics, how do we see our sales potential for BK and Popeyes. Of course, we're still in a moment of recovery after the pandemic where traffic is still not coming back to the pre-pandemic levels. We like to see the cup as half full because today we still need something in high teens in terms of traffic with time and those high teens coming back to the stores, we'll see sales acceleration which will be very interesting.

If we can deliver numbers with a traffic with a high teens gap in terms of foot traffic, we are extremely excited with what we'll be able to deliver and generate in terms of operating leverage with the stronger foot traffic return.

When we think about brand maturity, Popeyes will go through more maturity than Burger King, I mean, Burger King's got three years of which two happened during the pandemic, so we're very happy to see the company Popeyes get to breakeven and you follow us and the mall stores surprised us more than the Burger King mall stores, but with store sales close to 60% already getting to breakeven, with an acceleration curve which is superior, removing the COVID effect, above what we had expected at this time, therefore, it continues to close its gap compared to the Burger King brand.

How do we see the 4-Wall EBITDA for both brands? We see a convergence in the future where there will be the maturing of the Popeyes restaurants and Burger King will be in a steady state, we're always seeking same store sale increases, that's what we are always looking for. So, once Popeyes mature, BK should start growing.

What is the margin we're talking about? As you said, we don't provide guidance, but in our mind and our plan, in an environment which is 100% normal, we would be going after a margin of 4-Wall and the high teens. That's what we have in our mind, I believe that's possible, and based on everything that happened pre-COVID, we think it's possible.

In terms of gross margin, we're very excited with everything that we've implemented, especially in an environment as you saw where the inflation was very detrimental. Congratulations and the procurement team, the sales team, and the marketing team, and the technology team as well I would say, who during these two years were able to create a database, like Ariel said, which will allow us to be, I like to say, to be a sniper at a moment that we are providing discounts and to do revenue management, and that's been fundamental to our business.

Retail will always need a value proposition, I can't see repay without a value proposition, but the question is how can you place that value proposition? Where will it make the difference where it needs to be placed and not to just throw away your margins? So, I think in those terms we're extremely well-prepared.

Now in terms of where we can get do with this, I'm going to give you an honest answer: at this time, I really don't know the potential size, the dimension of the opportunity because, like Ariel said, we have 7 million registered users in a loyalty program which is only one-year old, probably one of the… I would say the only loyalty program in the entire QSR industry, one of the few and the world, 7 million registered users and we're still in the early stages of everything we can do with them.

CRM, we started to do the updates, to segment by type of customer, and I would tell you that the sky is the limit in terms of what we can do, how we can optimize our margins. Once again, we are going back to our launches of premium products with things that we were extremely well-known for prior to the pandemic which we had to hold back due to a question of putting right off for low demand. Therefore, there still is room and I believe that the main answer for up to where we'll be able to get to will come from the surprises that the technology can bring to our business.

Operator: Our next question comes from Rodrigo Almeida, Santander Bank.

Rodrigo Almeida: Iuri, Gabriel, congrats on the numbers, thanks for your presentation, it was very useful. I wanted to talk about the store opening pipeline, I mean, if you could give us a little bit more detail, if we could get on a breakdown between Burger King and Popeyes stores, and I think that would be great, you know, especially like your Popeyes mall opening schedule, I don't know what you have in mind, but I wanted to know about the potential of your store openings in malls.

I wanted to understand the traffic for each one of the brands and the objective is to understand the Popeyes' traffic to compare it to the pre-pandemic levels. These were the main questions I had, thank you.

Iuri Miranda: Thank you, Rodrigo. Let's go. First, in terms of store opening timing, our opening strategy… let me take a step back, in 2021 we opened around 40 stores, we continue planning a number above that, a number above 2021 opening, I say well above, I say something like one 1/2 to 2 times more what we opened in 2021. We don't provide guidance to the number of openings, but that continues to be the plan we have in our minds. And like we said in the last call, our store openings this year will be concentrated mostly on the last quarter of the year. That is a consequence of the management done during the pandemic where we reduced the growth pace and we started to take back these processes, and the consequence of that is that we have a higher concentration in the end of the quarter, in the last quarter. But the openings will happen.

Now in terms of the second question, the breakdown Burger King/Popeyes, we should see something close to 50%, half-half with a slight difference between one brand or another based on the opening time, licenses and so on, but we should see close something to a breakdown of 50% per brand.

And your last question, if I understood it correctly, is what we're seeing in terms of Popeyes' traffic effect, is that above Burger King? Was that your question?

Rodrigo Almeida: Yeah, I just wanted to understand your numbers in the malls, your Popeyes' mall numbers.

Iuri Miranda: Well, a big effect of Popeyes… first, it's a new brand, of course, which has been growing, we have a very interesting piece of data on hand that in December in one of the first time that we launched a TV campaign for Popeyes, here in São Paulo, Rodrigo, we got to be the third fast food, the third preferred fast food brand among all of them, and for a brand that's three years old of which two were going through the pandemic, that's an amazing story, right? And what are the fast-food brands that you know in the country or abroad that in three years became the preferred brand, or the top three brands of fast food in the biggest city of Latin America? I mean, that's a very expressive number and that will explain by itself a part of the growth we saw in traffic.

The second piece is that in 2019 was basically the first year of operation of Popeyes, we were still leveraging Popeyes into things like delivery and therefore delivering was something that helped when we compare with 2009,

Rodrigo Almeida: OK, it's very clear. Could I ask an additional question? I wanted to talk about profitability, but you've answered that part already, I just wanted to know about your strategic sourcing and lease negotiations. Who are you going into those negotiations? Are you talking about leases rents, or contractors? Just so I have an understanding and to understand more granularly.

Iuri Miranda: OK, well…

Rodrigo Almeida: Who's the renegotiation being done with, please? Let us know.

Iuri Miranda: Sure, I'm going to give this to Gabriel, and he heads that issue, he heads strategic sourcing and he'll be able to explain strategic sourcing versus the renegotiation of some contracts.

Gabriel Magalhães: Hello, Rodrigo. Dude, look, here we are specifically talking about direct contractors. How did these procurement programs help the profitability of the company? well, there's a series of initiatives, dude, not only with our long-term partners, the great suppliers who supply our companies, but we also have a few solutions trying to seek out new suppliers, developing a few global leads who provide us benefits of analyzing terms of other contracts, we are very focused on our direct contractors I'd say and key suppliers.

And going down the PNL, there are other renegotiations in place, but with other objectives which are not directly related to raw materials. And then Iuri talked about this in the beginning, technology will play an important role in the sustainability of the company, but like every commodity cycle, we'll start to see a much more favorable environment still with a certain global pressure, everything that you guys know about, but the environment certainly is much better than the beginning of the pandemic.

Rodrigo Almeida: Thank you, guys.

Operator: The next question comes from Vinícius Preto, Bank of America.

Vinícius Preto: Good morning, everyone. Congrats on the numbers and thanks for taking our question. First question is if you could give us a bit more detail about the 100% self-service operation and how you're thinking about replicating this model in existing stores and future stores? And the second question is in terms of the loyalty program. We saw a strong growth margin and I wanted to understand more, if you could give us some more. How does this loyalty program customer compared to an average customer and how do you see opportunities in terms of that loyalty program?

Iuri Miranda: Hey, Vinícius, thank you for your two questions. send Bob a hug for me, please. Well, the 100% digital stores, we have a few stores in São Paulo and the first results have been very exciting in terms of NPS. The NPS is superior to staffed stores, this generates a characteristic, I mean, we had been trying the self-service totems or kiosks and for that to happen it's not enough that you just placed a self-service kiosk because they think "oh, if I put in a self-service kiosk all my NPSs will grow in all my stores", that's not how it happens. The IT people have spectacular work in our 4th or 5th version of UX in order to make it more fun for customers always learning how to bring and how to remove the friction in their interaction and how to make their self-service journey the simplest and smoothest possible. That's been the objective that we've been working on.

Actually, this has helped us to leverage the number, for example, of the BK Club numbers, and by consequence allowed us to fuel or to feed our CRM numbers and data. Profitability comes from an increase in customer satisfaction, you get higher returns, more loyalty and that fits into the last question, which is related to how we see the more loyalty customer transactions versus non-loyalty customers, and I'm going to pass the word to Ariel who will give you more details.

Ariel.

Ariel Grunkaut: Vinícius, just to answer the first question about self-service stores, well, when you remove the responsibility from the operations team from customer service you can guide the team to deliver a better experience in terms of the food production, the quality of the lunch, temperature, and so on. So, we've seen a win-win this migration, and like Iuri said, our NPS has been superior to our traditional balcony NPS. That's one of the first insights, there's lots to learn still and we hope to bring you some insights, some updates, but we should continue to increase the number of stores pilot, full self-service pilots for us to have more granularity from the data, we're going to test those in different formats and in both brands, Burger King and Popeyes stores.

In terms of the loyalty program, we continue to see a significant increase in frequency and average ticket of consumers who are loyal compared to the non-loyal. So, we see a bit better average ticket, we see an average ticket which is a bit better, but the main benefit that we have seen from the loyalty program is the increase in frequency at a time where the consumer understands that if they consume more, they get more benefits, the points expire every six months therefore we have been benefiting and we have been able to communicate this more assertively. Therefore, the BK Loyalty Club is not only a loyalty program, but it's also perhaps what unites our entire CRM strategy because I'm able to connect to that consumer still in a very individualized manner.

Vinícius Preto: Wonderful, thank you, guys.

Operator: Ladies and gentlemen, in order to ask a question, type star one. Please wait while we accept more questions.

Our next question comes from João Paulo Andrade, Bradesco Investments.

João Paulo Andrade: Good morning, Ariel, Iuri, congrats on the numbers and Congrats Ariel on your new cycle and your new challenge. Thinking about the expansion with the more sustainable return of malls and an increase in delivery, would it make sense to expand BK more in malls or you're going to continue focused on free standings?

And in terms of the traffic question, I imagine that part of the delivery increase comes from a channel shift. What do you think the potential is for the channels? Could you give us a cap perhaps on this normal traffic return? But we see a new level, or a new number in normalized traffic different than the pre-pandemic levels?

Iuri Miranda: Two great questions. first, in terms of BKs in malls, BK and malls is an exception, we are already present in basically all the big malls in Brazil, our presence is very massive, there might be opportunities, there are a few malls where we can have a second store, third store, or there has been the opportunity of putting the store in a better position in the food court, but it'll continue to be more free standing, more street stores.

In terms of cap – I'm talking about free standings – in terms of cap, the cap of traffic, think about the following, I mentioned to you that there is still a high teens gap in terms of traffic, it's been improving gradually, it did see an improvement from the first to the second quarter, July and August shows us numbers closer to the second quarter numbers, but we cannot give you an answer whether that traffic, the high teens traffic which is lacking if it will return to 0% or if it will steady at 5%, if it'll be single digits or low teens. It's hard for you to estimate that.

But on the other hand, what we do imagine is we do not believe that traffic will continue in that gap of the high teens, we don't believe that that gap will continue, and if we are able to deliver the numbers with all the technology we're implementing, each percentage point that returns in terms of traffic will bring an improvement to our results.

So, I can't really pinpoint a number if it's going to be like it was prior to COVID, but we continue to believe that this traffic improvement is gradual, traffic improvement will continue to happen. Let me give you an example to make it clearer: corporate traffic, corporate office traffic, especially in the main capitals, in the southeast regions mainly, Rio de Janeiro and São Paulo, is still well below its pre-pandemic numbers. We're not talking about high teens there, we're talking about bigger numbers.

We've seen information from other countries, other cities like Manhattan, NY, we know this doesn't only happen in Brazil and the traffic has returned gradually. Well, it's everybody going back to the office in the future. I still haven't seen an answer that will show us that, that leads to that, but certainly companies that were operating two days in the office and three days remotely we believe that those companies will accommodate, and they will require more office days and less remote days. That's just an example and we can see that also in the sales behavior during the week and during the weekend. During the weekend we see a sales behavior closer to the pre-pandemic.

And another factor where we see a rewarming up to our QSR business are movies, cinemas; they've always been an important traffic generator for the food courts and they are heading back up, you know, Hollywood, the blockbusters are starting to be launched, but definitely they're not in the full force that they were prior to the pandemic. We see one or another movie being launched and when the movie is great you see a huge traffic increase. So, that's a traffic generator that we see returning in the future helping us out.

Ariel Grunkaut: João, if I may help as well, I think that the rationale is along those lines, the delivery in this quarter represents close to 13% of the company revenues and today it continues with an average ticket of 60 to 70% above the desk average tickets. So, if you do that conversion to traffic, you should have an implicit traffic increase around 7 to 8% of the total company traffic.

Iuri said prior that we continue lack mid-teens in terms of traffic, so even if we had the assumption that the delivery traffic is 100% cannibalization effect, which is not an assumption so we think is reasonable, there would still be room to close a good piece of the gap traffic that the company has.

João Paulo Andrade: Great explanation, thanks, guys.

Operator: We now close the Q&A session. I'd like to pass the word to Iuri for his final comments.

Iuri Miranda: Thank you, thank you, operator. First, thank you so much everyone, we know that during this season of earnings report you have lots of work to do, you have various calls and congresses and conferences and so on, I know you guys have little time and I would like to thank you for your participation.

I'd like to share our three priorities for this semester: the first one is organic growth of our two brands. We continue confident in the consolidation of the market and the gradual traffic return along with an innovative product calendar increasing the customer experience using technology to improve profitability. These are all going to be levers which will be significant to capture the demand that is returning to our market. Besides the baseline growth, like I mentioned, we'll have a reheating in the pace of store openings for Burger King and Popeyes; the second priority is to continue advancing in our digital transformation efforts. Technology has been fundamental, an important alley in our digital transformation, we've been able to provide better experiences for our consumers, the NPS is showing that, and we offer products, services and benefits which are much more personalized, which differentiates us from the other market players. The investment we've made in technology in the last three years, like we've been saying, it's showing its dividends and certainly it'll continue to show. So, avenues which will continue to be our priorities until the end of the year, like the BK Club, the CRM, the supply chain which we talked about at length; and third, but not least important, the operating efficiency issue. Today we're the biggest same store restaurant operators in Brazil and without a doubt we have a strong franchise chain network, and this gives us a great data base and the pandemic has brought new challenges to our market, including in terms of the actual operation of the restaurants. So, we continue to seek out new efficiencies through the analysis of our procedures.

Gabriel talked about only one of the procedures, like the supply chain, and what we want to do is use technology with tools, having the customer at the center of the discussion generating value as the customer expects.

With that, we'd like to close our call today and I would like to once again thank you for your participation and questions, and we are at your disposal in case you have any future questions. Thanks, may you all have a wonderful day.

Operator: The Zamp teleconference is done. Thank you for your participation, have a wonderful day, thank you for using Chorus Call.