



**International Conference Call  
Burger King Brasil S/A  
Second Quarter 2020 Earnings Results  
August 7<sup>th</sup>, 2020**

**Operator:** Good morning and thank you for waiting. Welcome to the **BK Brasil** teleconference to show you the results for the second semester of 2020.

We have with us Mr. Iuri Miranda, President of BK Brasil; Clayton Malheiros, Vice-President of Finance; Gabriel Guimarães, Director of Finance and Investor Relations; and Investor Relations team.

We inform that this event is being recorded and that all the participants will only be listening to the teleconference during the presentation. Afterwards, we will start a Q&A, when more instructions will be provided.

If you need any type of assistance during the teleconference, please, ask for help dialing start zero (\*0). This event is also being transmitted simultaneously via web through a webcast where you can access it at: [www.burgerking.com.br/ri](http://www.burgerking.com.br/ri), where you will see the presentation. The selection of the slides will be controlled by us. The replay of this event will be available right after its closing.

We would like to inform that this teleconference is being simultaneously translated to English in order to help our foreign investors.

Before we continue, we'd like to clarify that any declarations that might be made during this teleconference related to the business perspectives of BK Brasil, forecasts, operational and financial targets are based on assumptions of the company as well as information currently available to BK Brasil. Future considerations are not guarantee and they involve risks, uncertainties, and assumptions which refer to future events and, therefore, they depend on things which may or may not happen.

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

And now, I'd like to now pass the word to Iuri Miranda, President of BK Brasil, who will start his presentation.

Please, Iuri.

**Mr. Iuri Miranda:** Thank you for the introduction, operator. Good morning everyone. I hope you and all your families are okay in this delicate moment which we are going through.



Thank you for the interest in our company and for your participation in this teleconference for showing you the results of BK Brasil in the second semester of 2020.

I would like to start our call today thanking once again every single person who has worked hard so that our brands might continue to service our clients every day all throughout Brazil. We believe that we have an important role of providing an essential service to the population in this pandemic moment, and without your efforts, employees, suppliers, partners, this would not have been possible.

From the beginning of the pandemic in Brazil, right around March, we defined a few pillars that we judged essential and which would help us to navigate through these uncertain times. These 3 pillars are: Our employees; our clients and society; and our business. Throughout this entire time, these have been our priorities every single day.

For the protection of our employees in the restaurants, as we mentioned in the results call of the previous quarter, besides the reinforcement of our already rigorous hygiene procedures, we created a restrictive protocol in case of infection. In these cases, automatically we will close the restaurant and the entire team is submitted to testing and isolation. The restaurant goes through a decontamination, which after finished then we will put in a new team into that unit. We make alcohol available to our clients and employees and masks for our team in all of our units, as well as thermometers to measure temperatures.

As an adaptation to going back to work, we've installed acrylic sheets in the cashier and that drive thru boots, and we've adopted distancing measures so that we would be able to guarantee the safest experience possible to our clients. This going back has happened in a gradual manner where we follow the recommendations of the states and the cities respecting all the safety measures.

It's important to highlight and reinforce our long-term vision as far as our employees, we measure no efforts so that we could even with over 60% of our businesses closed during the quarter maintain the highest number of jobs possible. With the application of Executive Order 936, we've suspended thousands of work contracts that at the end of June were majoritarily reactivated.

We've also created an initiative which we call "*cheque herói*" in order to thank and acknowledge all of our employees who are on the frontlines who contribute to this important moment to help thousands of clients and consequently to continue fulfilling our social role of serving the community at this time.

In our main office, besides the measures already announced of a reduction of 25 to 50% of salaries in all roles, we follow to the second semester working and



monitoring and supporting our team through remote work so that going back to work could be safe and efficient.

Over 60% of our restaurants have been closed since the beginning of the quarter, and especially in the food courts we've concentrated our efforts to speed up sales, mainly in the channels delivery and drive thru, which started to represent together approximately 80% of all sales.

The reopening of restaurants and the return of sales has happened week after week. The first few weeks of April we got to a sales level of 30% from the period pre-COVID, and we've been evolving to close to 55% at the end of June. This trend of recovery continues speeding up with the loosening of the social isolation and the opening of more restaurants. Today we got to close to 90% of our restaurants reopened, which already takes us to a sale of approximately 70% when compared to the pre-pandemic period.

As I mentioned before, during the pandemic we saw the accelerated growth of 2 sales channels: Drive thru and delivery, and it was important that we had been prepared to capture that change. The growth of about 100% in the drive thru channel coming from a change in consumption and a strategy of growth of average ticket of over 30% with family and evolution offers showed the resilience of this store model, and despite a few restrictions still existing represents an SSS of positive same-store-sales in the month.

This is a clear sign of resilience and even with the development of digital, the free-standing model represents a potential in countries like ours.

In delivery we grew 200% if compared to the pre-pandemic period. Besides the normal trend of growth through social isolation, the development in this channel comes from other factors that we have been working, for example: The addition of new aggregators and the expansion of geographic coverage. And please note that we still have half of our same-store-sales to expand this delivery channel into.

This strong performance helped us to jump from a sale from digital channels of 34 million in the second semester of 2019 to over 107 million in the second quarter of 2020. We have no doubt of the acceleration that these channels, the impact that they had in our business, and we started to see a residual volume even with the recovery of our sales at the balcony as our restaurants are open.

And that's why we decided to speed up strategic items, strategic measures: The first one was to speed up our own delivery, where we want to leverage a base of 25 million clients who downloaded our app; the second initiative, starting now in August, is the business of our first integrated ghost kitchen, optimizing the business of both brands, Burger King and Popeye's.



As far as the business, since the beginning of this pandemic and due to the uncertainties as far as the possible duration of this crisis, we've taken relevant measures for the protection of cash and our liquidity. The excellent cash position with which we went into 2020 with and our history and relationship with financial partners allowed us to have room to quickly announce additional financing of 170 million in the first quarter and right afterwards we financed another R\$ 250 million in the second quarter.

This gave us the ease from the cash perspective so that we could make the best decisions for the business looking not only at the short-term, but mainly looking in how we could leave this situation stronger.

Besides that, we've reviewed our investment strategies and at this time we maintain the focus in the operation of over 900 restaurants of the 2 brands in our portfolio. This discipline made us finished the quarter with over R\$ 580 million in cash, and we have financial obligations of approximately R\$ 100 million for the second semester.

Our cost discipline may it possible that, even during a difficult scenario of stores closing due to restrictions imposed by social isolation, we reduced 40% of our expenses, our fixed, our managerial fixed expenses at the restaurant level when compared to the first quarter of 2020. These reductions came mainly through the important decrease in personnel expenses through the Executive Order 936, and our persistent negotiations with over 1,000 rental contracts and the adjustments made in contracts with service providers and administrative expenses.

We continue strong towards the second half of 2020 aware of the challenge that is still before us, but we have the conviction that the fundamentals of our business and our capacity of adapting facing the hardships and our track record continue firm and promising.

I would like now to tell you about our results for the second quarter of 20. Now, please go to slide number 5.

Our net operational revenue reached R\$ 292.7 million, a drop of 56.7% when compared to the same period of the previous year, or 54.9% if compared to the first quarter of this year. This happened due to the effects of the pandemic which caused the closing of our stores after the second week of March going to around 60% of our base throughout the month of April and May.

Throughout the quarter, as a result of our initiatives in drive thru and delivery as well as in the reopening of restaurants and the strength of our brands, we were able to grow consistently our sales levels versus the pre-pandemic period.

As far as the financial results, the adjusted EBITDA was negative in R\$ 92 million due to the strong impacts on revenues coming from the closings of the



stores due to the pandemic, of the operational deleveraging due to the non-dilution of the fixed costs existing in the closed restaurants and around R\$ 26 million in nonrecurring effects caused by the pandemic.

With this, I will pass the word to my partner and CFO Clayton Malheiros to give us more details about the performance of the business. Clayton, please.

**Mr. Clayton Malheiros:** Thank you, Iuri. Good morning everyone.

Going to slide 6, we see that during the second quarter of 2020 we had a net closing of 4 stores, being 1 free-standing opening and 5 closings. With this, we closed the period with a total of 909 businesses running in the country under the Burger King and Popeye's brands, of which 712 are operated by BK Brasil.

It's important to highlight that due to the impacts of the pandemic and the restrictions into our business, we postponed a few expected openings from the second to the third quarter when we believe that the isolation measures and quarantine measures will be looser.

Still on the same slide, as far as the development of dessert center openings, we finished the quarter with 459 units, which represented a net opening of 89 dessert centers in the last 12 months. Additionally, as far as Popeye's, we maintained the same number of restaurants as the previous quarter.

Going to slide 7, the comparable sales in the same Burger King restaurants were negative 13.5% in this quarter with the strong impact coming from the loss of sales from our restaurants due to the restrictive measures imposed by the pandemic, which were partially compensated by the strong sales growth observed in the delivery channels with an increase of over 200% and drive thru with almost 130% increase compared to the same period last year.

It's important to highlight that the free-standing restaurants already have presented flat sales levels in June and positive in July when compared to the same period of the previous year, confirming the good recovery trajectory in the last 90 days.

Still on slide 7, the net operational revenue reached R\$ 272 million representing a drop of 54.9% when compared to the first quarter of 2020 and 57.7% when compared to the same period of the previous year due to the effects of the pandemic which resulted in the closing of approximately 60% of our stores starting in the second week of March until the middle of June.

Going towards page 8, complementing the previous slide, we would like to give you an update on the status of our business as far as the development of sales in April until the beginning of August. After the hard beginning in the second week of March with drops in 70% in sales versus the pre-pandemic period and approximately 60% of the businesses closed, we saw that our sales have grown



consistently boosted by the speeding up of delivery, drive thru and the gradual reopening of our stores, of our restaurants.

With this, we've reached in the first week of August approximately 70% of sales pre-pandemic with over 90% of restaurants open even though the mall restaurants are still facing restrictions in the food courts and reduced working hours.

Going to slide 9, we can see the strong growth of sales in the digital channels during the second quarter of this year. Technology has had a fundamental role for us to capture opportunities related to the change of habits in consumption with more relevant participation in the digital channels in the sales mix.

Our digital sales represented by delivery, totem and BK Express reached 36.9% of the company revenue against only 5% in the second quarter of 2019, representing a growth of 217% and generating a significant increase in revenue which went from 34 to over R\$ 100 million.

In delivery, the growth of 246% against the same period of the previous year was due to the increase in capillarity brought about by the new aggregators Rappi and iFood and for the increase of geographical coverage. Still so, our sales volume continues more concentrated on Uber Eats, which shows us an important role of growth in iFood and Rappi, as well as the new aggregators, like James Delivery, 99 Foods and our own delivery, which is already present in 20 restaurants.

The self-service totems also have been an important tool to make the interactions more dynamic, and they represented in this quarter 6% of balcony sales. We are sure that this channel will be very important for the digitalization and better experience for our customers.

In BK Express, a pioneer in fast food, which allows the consumer to make the order and to pay through the app go into the restaurant only to take away their meal, besides the small representation in total sales, it starts to gain more relevance boosted by the over 25 million downloads in our app, which already generated us 7 million registrations, allowing us deeper and deeper understanding of the consumer habits so that through the CRM program we may be more assertive in the personalization of our relationship with our clients.

Going towards slide 10, we show the development of our costs and expenses with sales in the restaurants. The cost of goods sold reached 45.5% of the revenues with an increase of 450 basis points versus the previous quarter explained by a set of the effects connected to the pandemic and others coming from the dynamics of the market: The shift in the sales channels which happened in the quarter, which reduced the drinks and desserts in our mix of sales, impacting the gross margin negatively; the dynamic of entry of the new aggregators, which made us have a more price aggressive strategy so that we



might be able to take advantage of strong delivery growth to generate experimentation and later loyalty from the clients in these new platforms; and the impact of over R\$ 6 million due to loss of products and resupply logistics for reopening, still as an effect from the pandemic.

It's important to say that as our business starts to go back and starts to take back normalcy, these effects will stop impacting negatively on the results.

The expenses with sales had a drop of 33% versus the first quarter of 2020 due to the intense negotiations in leasing and third-party services and due to the implementation of the measures connected to the Executive Order for the optimization of our personnel costs. However, the strong drop in over 50% in sales and consequent operational deleveraging led to a growth of this, reaching 75% of net operational revenue.

The measures focus on renegotiation of leases had an important impact on the quarter. These measures allowed us to have savings of R\$ 19 million versus the second quarter of 2019, besides another R\$ 15 million in our financial results. In case of personnel expenses, we had a savings of over R\$ 37 million with the implementation of the Executive Order 936 when compared to the same period of the previous year. The preservation of these jobs was essential so that we didn't lose operational know-how.

In the second quarter, with the deacceleration of sales and with a few commitments made, we had a mismatch between expenses, which generated a negative impact of 8.8 million. This impact will be compensated in the next quarter, bringing this expense back to historical levels.

Additionally, still as an outcome from the pandemic, we had throughout the second quarter extraordinary expenses with sending masks to our employees, thermometer purchases and the installation of acrylic boxes, totaling expenses of R\$ 3.5 million.

Lastly, with the growth of the proportion of delivery in our business throughout the second quarter, we had a significant impact in other sales expenses related to take rate costs of the aggregators.

Going to slide 11, when we compare the fixed expenses versus the first quarter of 2020, we were able to reduce our expenses significantly, especially personnel expenses through the suspension of 9,000 contracts and the reduction of work hours, besides the reduction in leasing through renegotiation of leases, and also through renegotiation of third-party services.

On slide 12, on the left-hand side, the general and administrative expenses had a drop compared to the previous period mainly due to the salary adjustments of the Executive Order, the workforce reduction, suspension of travel and renegotiation of contracts.



On the right-hand side, the adjusted EBITDA was negative R\$ 92 million, a retraction of 197% versus the second quarter of 2019 explained by the strong impact on revenue coming from the closing of the stores due to the pandemic, generating strong operational deleveraging due to non-dilution of fixed existing costs in the closed restaurants.

Going to slide 13, we can see net profit, Capex and financial leveraging. Due to the impact from the pandemic in our business, our operational activity was compromised throughout the second quarter, culminating in a loss. As far as our investments in the second quarter of 2020, our Capex totaled R\$ 38 million, a drop of 65% when compared to the second quarter of 2019 connected to the temporary suspension of the expansion plan of the company due to the liquidity protection measures to protect the business from the uncertainties caused by the pandemic.

We closed the month of June with a cash position of R\$ 580 million benefited by the financing of 250 million done in the quarter, of which R\$ 50 million in April and 200 in June, and the last loan had an average term of 30 months trying to elongate the short-term liability of the company. Our net debt was R\$ 353 million.

Now going into slide 14, in the second quarter of this year, the operational cash consumption was R\$ 37 million, especially due to the decrease in operational result impacted by the strong retraction in sales due to the closing of stores due to COVID-19 with a partial compensation coming from positive impacts from working capital.

With this, we will finalize our presentation and we would like to open up for Q&A. Operator, let's go to Q&A.

### **Question-and-Answer Session**

**Operator:** Ladies and gentlemen, we will now start the Q&A session. To ask a question, please type star 1. To remove your question, please type star 2.

Our first question comes from Robert Ford, Bank of America.

**Mr. Robert Ford:** Good morning. Hello, I hope everybody at BK is safe and well.

luri, is there some kind of BK experience historically or in other markets which could suggest how the demand or mix will develop? And how should we think about going back to work or the need of having to close some businesses? And luri, could you also tell us something about your ghost kitchen so that we can see the magnitude of the opportunity that you're thinking about, and what's the delivery radius of Popeye's and how does that compare to BK's delivery radius?



**Mr. Iuri Miranda:** Hey, Bob, how is everything? I hope your family are okay as well. Thank you for the questions, they are excellent questions.

Alright, let's start here with the issue of demand mix. Yeah, we did take a look at other countries, actually we took a look at many countries which are in later stages. Just to give you an idea, Bob, we are at 20 weeks of a plateau, and it's a plateau that starts to decrease, and the countries that we looked at as references they were in situations which were more advanced situations with their plateau at a much lower level, and we looked at countries in Europe as well as Asia.

Of course, we have very little time to analyze the information, but what we see is that – we are already seeing this in Brazil – in places where the restrictions have been loosened compared to stores which still have restrictions, you know, what we see that you have a residual of that growth, you have a residual from that digital growth.

And you see that the level of delivery that we get to, which is expected through the closing, is very high. There are other measures that we took, drive thru as well. I mean, both together, delivery and drive thru, get us to close to 80% of sales, and what we see in these countries is that with the return of sales to the food court, basically the food court has been coming back gradually coming close to 100%.

I'm not really sure any country that has reached 100% totally, but they are getting close to it. I think China is getting close to 100% openings of malls, and we looked for countries which were similar. But the interesting thing, Bob, is that they can maintain a residual from the digital sales, and that is our assumption here. And we will get a progressive return from food court sales even because we believe that the food courts in Brazil they have a different role than in other countries; it's a leisure to where people go to spend the weekend, the week, they walk around in there, I mean, you know, in terms of safety, that's important.

Many people have tried for the first time a few digital services as well in delivery as well as the drive thru, and they liked it. New consumers actually who weren't our consumers liked it, and this will keep going into the future. So we do believe that there will be a residual with the coming back of the food court. That's what we're seeing in other countries.

As far as closings – that was your second question –, we do have historically – I know you, Bob, you follow us closely – historically, we have done something around 10-15 restaurants per year. That's what we closed. And what we see, we see something around 20 to 25 restaurants to be closed, basically restaurants that we saw that based on the impacts we think it will be really hard to get a bounce back from these restaurants.



And the third point that you raised as far as ghost kitchen, you know, our pilot is going to run at the end of August, it's still being built and the size of the opportunity that we see here, you know, although it's a pilot, we are combining both operations, Burger King as well as Popeye's, at the same address. Logically, with the separation on operational separation, but the delivery area, for example, the delivery is done together, we are optimizing it, so we do see an opportunity there and with a group of motorcycle couriers this could reduce our delivery time. So we really want to have the quickest to delivery and the highest quality delivery in our business, 100% focused on delivery without any interference from other players.

And if you look at other countries and if you look at India, for example, or China even, China has over 7,500 ghost kitchens/dark kitchens, over 7,500. One of the biggest online restaurants in India has 3,000 restaurants online, and they have 350 ghost kitchens/dark kitchens.

It's a business that's been growing and I think it's going to be a very interesting combination in our case of restaurants. You know, having this combination of free-standings in important malls which have an important role in Brazil, and we are still going to have malls with the entire expansion that we have of the free-standing model. If we look at the growth of free-standing and the role that they had now in the crisis, it was very important for us, you know, the drive thru, and the drive thru was another ghost kitchen strategy which could help us penetrate with lower occupation cost – you don't have to be in the main Avenue news, for example – with combined kitchens in a few different areas.

So we are going to run the first pilot, we are going to test it out, we are going to see the operation, we are going to test Capex, cost, returns, and our speed of service and then we can get back to you with more info.

**Mr. Robert Ford:** Thank you, Iuri. And how is the Popeye's delivery radius compared to Burger King? In the short term, does it make sense to convert mall stores into dark stores?

**Mr. Iuri Miranda:** Good question, Bob. Sorry, I didn't answer you in your last question as far as the Popeye's radius. Well, you know chicken well. Chicken has a travel time which is longer than a hamburger travel time. Despite that, what's interesting in delivery is that even though the product can travel more, the expectation of the consumer in an average delivery time of a product (a QSR, let's say) it's the same, even a product being able to travel more than the other.

And with this, perhaps you can have a higher delivery radius like you are saying because if you think about it in terms of a hamburger, we have a radius of 10 min. commute from the restaurants, so 10 min. radius. You know, that's just a safety margin, it could go a little longer than that to guarantee that the product quality is good.



The Popeye's radius is a bit longer than that even because chicken travels longer, but what we have to measure in the end, Bob, is the total time, it's the time where they make the order to get to the restaurant, for the processing time of the order in the restaurant, to the coming of the courier, to the delivery to the consumer time and even the time that the consumer takes to come down from their apartment and to get to the front door to take the order. And all this time is important for us, and whether it's hamburger or chicken, there is a standard that the consumer expects, and our strategy is to have the lowest time and market guaranteeing quality.

**Mr. Robert Ford:** Thank you, Iuri.

**Mr. Iuri Miranda:** You welcome, Bob.

**Operator:** The next question comes from Richard Cathcart, Bradesco.

**Mr. Richard Cathcart:** Good morning everyone. Thanks for the call. I just wanted to continue Bob's question. If you could explain the strategy for the dark kitchens, would it be for areas where you don't have a store currently, or is it now just to relieve a little bit of the pressure from a few restaurants which are overloaded?

And the second question that I wanted to make is as far as iFood and Rappi. If you could give me some info as far as the ramp-up that you are expecting with these 2 throughout the next 6 months. I imagine that you are expecting that iFood will be the biggest, but I just wanted to see your thoughts on it as far as the timeframe that this could happen. Thanks.

**Mr. Iuri Miranda:** Hey, Richard, thank you for your question. I also hope that you are well, your family.

Going back to the dark kitchen strategy, like I talked about with Bob, we now are going to do the first pilot and we really do want to test the second point that you raised, which is how much can we also concentrate in just one point and perhaps take that burger from a few restaurants which might be suffering at peak times with the delivery demand as well.

So when you look at the order curve of delivery and at the task, they are not very different to the pointed that you raised. So we see similar hours and restaurant peak times and delivery peak times in lunch as well as dinner, they are very similar, which without a doubt with the growth of delivery puts more pressure on the restaurant, especially depending on the size of the restaurant, and it puts pressure on the restaurant to service these 2 audiences at the same time.



So what we want to test is if there is a release of burden during peak time and with that you might even attract more clients which, since they are worried about isolation, social distancing, they could get to a restaurant, see a lot of people and get worried, you know.

There are other things that we are doing from the digital perspective, like, for example, the self-service totems that we are speeding up now, and there is a number of self-service totems, and our BK Express app is also something that we are developing to service this demand, supply this demand and to provide the best flow in the peak times within the restaurant.

It is something we are going to test now, and we expect to be able to get back to you very soon.

As far as the ramp-up of the 2 new aggregators, since we started at the beginning of the year, we do see a growth of both, Rappi as well as iFood. The good news is that I saw a residual balance from Uber Eats, which reminds us that each aggregator has, let's say, their own client base.

And, Richard, there is another point in all of this, which is really the balancing of sales and margin. We always used this strategy in the past, and delivery is no different. You start doing a promotion so that people see you and know that you are in that platform, and as time goes by, you balance out these promotions and improve your margin. That's exactly what's happening to us right now.

We started at the beginning of the year with promotions which were a bit more aggressive so that people know that we were in these 2 new platforms, and in the last few months we've been working with offers which are a bit difference, more guided towards family, with higher average tickets, and we have seen in the last few weeks – I would even say in the last month, actually –, July/beginning of August we see a margin gain which is pretty interesting with a balance of units sold versus product margin.

That's the message. And we expect to continue this balancing between margin and sales in the 3 platforms (Uber Eats, iFood and Rappi) until the end of the year, and I continue to believe that they have their own clients.

And I would just like to add one more thing, Richard: I talked about our own delivery service, right? Our own delivery service gives you another aggregator, let's say, which is ourselves, and we have a base of 25 million people who downloaded our app. And so, we really do see in the potential of our own delivery service another growth channel for delivery.

Well, how much of these deliveries are going to be leaving iFood or leaving Uber Eats or leaving Rappi? I mean, we could get a bit of that, but there is also an incremental base which might not be in any of them, which me in ours, and we've already started a few restaurants with our own delivery, we are testing the



integration of the system, the issue of P&L, the issue of logistics, delivery logistics (which is mega important for delivery), there is a combination with the dark kitchen so that we can close this equation and rollout to other restaurants.

Sorry for the long answer, but there are many things we are combining here.

**Mr. Richard Cathcart:** No, thank you for the detailed answer, it was wonderful. Thank you.

**Operator:** The next question comes from Ian Luketic, J.P. Morgan.

**Mr. Ian Luketic:** Good morning, Iuri, Clayton. I hope your families are well.

I have 2 questions. The first is: With the opening of stores and levels at a level of 70% compared to previous year, would it be possible to think that your cash burn has been stopped?

And looking further ahead, when we look at next year, given that people are going to seek out Burger King more when we look at the gross margin in 2021, would it be reasonable a margin aligned with 2019 or are we seeing a drop in margins in 2021?

**Mr. Iuri Miranda:** Ian, thank you for your question. I hope you and your family are well.

As far as cash burn or cash loss, we really do believe that the last 20 weeks were the harshest and they are behind us. When we look at the next 20 weeks ahead, you we see, like you said yourself, we see sales ramp-up, food courts reopening, the market news going along those positive lines that the loosening of the rules is happening, we look at the residual that is coming from delivery and drive thru. All digital investments that we've made our showing now their benefits, and it's great that we started this way back then, and there is more to come very soon, you guys will see that.

What can I tell you? It will depend a lot if that curve, the way that we are seeing it, if the curve, especially in the reopening of the malls and the scale up of food court sales, if there are going to happen and at which speed. Of course, they are going to happen, but at which speed they are going to happen until the end of the year.

And so, I could tell you that we should expect now ahead, especially in the third quarter, I would say that we should expect a result which is substantially better than the result that we had in the second quarter depending now on going back to work in August and September. Let's see if it's possible to do that, to offset the losses and go back to breakeven. We can't affirm anything yet because it depends on going back to work until the end of August or September, and we



expect the fourth quarter, and that would be back, you know, everything would be back to normal then.

Depending on what we see in August/September, I can tell you right now that July much better than June, and August (the first days of August) already starting much better than July. So the trend continues. Let's see if this trend is enough for us to get some kind of offset or to get close to breakeven, all right?

Your second question was as far as margin: How do we see margin for 2021 or if we see a margin going back to the levels of 2019? We see 2 trends nowadays: We see one trend, which is an external inflation of products when you take products like soy, corn. We have a good contract, a good meat contract, but of course, when you look at the meat price, and there is an external pressure on meat prices, so there is an inflation pressure on one hand, and let's see if that continues on to 2021; on the other hand, we start to work, even with the growth of delivery, we start to work over business intelligence – and CRM here has a fundamental role for us in this, and we've developed ourselves a lot in this manner, in this area – and what we did is we started to do a more intelligent management of issues like promotions.

So we really do believe that one of the fruits, the benefits of the CRM is to help us to balance this out better and to put in a more customized promotion for our clients.

The residual growth of drive thru, Ian, well, that's interesting because the drive thru ticket is a higher ticket, which does help us. Now, when we think... I know that you compared it to 2019, but one of the 2020 that we have, one of the 2020 numbers is that the lower sale of desserts and drinks (because these were categories with very high margins), so when we go back to 2021... I'm sorry, when we go back now to reopening the restaurants, they go back to have an important component in the margin these drinks and desserts, and we expect to continue growing these margins in 2021.

So I would expect the 2021 that is more stable and we going back to chase the balance between margin and sales already using CRM.

Something else that we started to use nowadays – this is news for you, guys – we've started to use artificial intelligence as well, and that's why I'm telling you we are working on various elements in the digital channels. We are starting to utilize artificial intelligence at the time of suggesting products, for example, be it at the time when they go to the cashier, and then right there the artificial intelligence links them to their CRM history and they can offer a product based on their history, and we also want to develop other channels, like BK Express and the totem, we would like them to also be able to offer products to the clients trying to capture better margins.



We do see a development avenue for digital or what the digital channel brings us, and this could help us to bring some offsets to this affect that the external inflation, foreign inflation is bringing onto us.

**Mr. Ian Luketic:** Thank you for your answer, Iuri.

**Mr. Iuri Miranda:** I'm giving very long answers these days, but I think it does help you guys to understand how we are confident looking at this scenario ahead.

**Mr. Ian Luketic:** Certainly, certainly.

**Operator:** Next question comes from Marcel Morais, Santander.

**Mr. Morais:** Good morning everyone, thank you for allowing me to ask this question. Before anything, I would like to congratulate you on your exceptional running of the business, the we've been doing it throughout this pandemic, and also would like to thank you for the quality of your answers that you give us in these conferences.

I would like to ask 2 questions, the first one is the following: You have many stores concentrated in São Paulo and Rio, and both regions have been having different paces according to local legislation. São Paulo being a little bit looser now, and this affected you a little bit because there is still a six-hour work hour limit, but looking now at the third and fourth quarter, the mall hours, if the mall hours go back to normal, how much could that improve sales? Your sales are running at 70%, right? But how much more will be increased? What will be the increase? How much will your revenue improve in the third and fourth quarter with this loosening of the rules in São Paulo, which will allow you to do lunch and dinner in São Paulo?

**Mr. Iuri Miranda:** Marcel, thank you for the question, and I also expect that you and your family are well. Thank you also for the acknowledgment, considering that we are a group which has 20,000 employees including our franchisees, to get an acknowledgment from you guys the way that all of you, you know, have been giving me, that's extremely important for everyone, not only for me and Clayton, but I think that the company will be very happy to hear that.

As far as the balancing between how the sales are going to bounce back once the malls are opened, once the restrictions are lifted, what we see today is a daily monitoring of what's happening in each state and the main cities as far as their migration from the red phase to the yellow phase, to the green phase (these are isolation restriction colors).

Our expectations, and based on the follow-up that we've done, actually, yesterday I saw piece of news from the Malls Associations where 93% of malls are in a certain way running in the country, there are only a few which are



actually closed. So all the information leads us to believe that the release into the blue phase, which will be the normal phase or the back-to-normal phase, everything leads us to believe it, and São Paulo has been giving us news and São Paulo has established a protocol for each of these phases and we see that the phases are going towards blue all of the regions.

And having said that, when you compare the 2 markets, São Paulo and Rio, the Rio de Janeiro sales are much better than São Paulo. Why are the Rio de Janeiro better than São Paulo in the food courts? Because in Rio you can run your business in lunch and dinner, and you know, with the previous restriction you could only do lunch. And so, I imagine that our flow is concentrated basically in lunch and you basically are removing 50% of our revenues. Just to do a simple calculation.

So we really do believe that loosening the rules so that you can work lunch and dinner, which is what the trend points towards in the next few weeks until the end of August, let's say, beginning of September perhaps, I think the last one is the beginning to middle of September, I think really will have a gradual going back to work and gradual reopening, full reopening of the malls.

And another thing that I believe will happen, we have seen ABRASEL, ABRASEL released information, it's sad information, but it's real and it says that 20% of restaurants (they are talking about 30 even, 30%, even) 30% of the restaurants would not reopen. And if we think perhaps they don't have the financial capacity and structure to, you know, overcome this crisis, so if we think about that, it's sad information, but the food courts, once the food courts reopen perhaps the vacancies that are there will be higher.

We will be there, and a few people won't, and then perhaps the volume continues there, but with less players. That could also speed up our bounce back. But we do have to wait until we get the full reopening to see what the extra space is we will have in the malls.

**Mr. Morais:** Perfect, thank you. My last question is as far as SG&A. You guys were very detailed as far as the numbers and you were very frank about the savings that you had, so please correct me, when I look at the company SG&A, it had been around 420-430, when we get to the second quarter of this year there is a higher savings than R\$ 100 million and I imagine that as we go into the third quarter a part of these expenses come back. I'm trying to imagine at which speed these expenses come back. I imagine that payroll will come back almost fully and lease perhaps not as much.

But, you know, is there a way that you can help us to understand how this SG&A will happen or will go in the third quarter?

**Mr. Iuri Miranda:** Yes, a few things do come back. Clayton is sending me a message that I don't let him answer any of these questions, all right.



[laughs]

So I guess I'm going to give him an opportunity to speak. Clayton, so you don't complain saying that I didn't let you say anything.

**Mr. Clayton Malheiros:** Thank you, Iuri. If it wasn't for the quality of the answers, I would be here already, I would be more upset, but since you did so well, then it's all right.

Well, Marcel, I think that, you know, we will see more expenses, the labor doesn't come back fully because there is as to the possibility of applying the work reduction, and we hadn't done that before, we had just done the labor suspensions contract, work contract suspensions, and now we are adjusting work reduction, work our reduction. There is a benefit, so they won't come back fully, and there is very intense management in trying to understand the mechanics of that restaurant to establish the hours and to establish the work hours in there.

In a certain way, there is a complexity here because we can't see the moves from the government a bit beforehand, so there is an expectation of development in the levels in certain markets and then sometimes they don't go forward in the safety advances or they go back, they take a couple of steps back. So that's what we've been doing all the time to control that line, which is an important line in our SG&A.

When we go to our occupation, we continue to work, that's been done, we do believe in the partnership relationship that we have with our partnerships, our leasers, the malls to understand that the moment is still very difficult, especially in the malls, and we need their understanding of this time, of this period so that we might be able to navigate together. So there is an expectation of partnership with the malls as well.

As far as the other expenses, you know, we still have restricted travels, restricted trips, our expectation of going back to our main office has been postponed, we should be postponing that, and that also generates a little bit of savings. It's almost a minacious control week by week, day by day, month by month because you can't get the predictability, and what we are trying to do is we are trying to control daily all of these costs to avoid that this doesn't affect the growth of our revenues.

And within our business, what's most important is that this trend that we saw in July and stronger now in August that it continues, and this is what's most relevant, and this has left us happier as far as the third quarter, and especially the fourth quarter due to the seasonality so that we can go back to see a more normal scenario.



**Mr. Morais:** All right, Clayton. Just a follow-up. As far as the second quarter, was there any expense that you have postponed, like royalties or something like that, that wasn't provisioned in the second quarter because it's been negotiated or it will be put on the books later on the payment or not?

**Mr. Clayton Malheiros:** Marcel, nothing relevant that hadn't been disclosed or provisioned. The royalties were accounted normally, like we've always done. To the contrary, we actually have a negative effect coming from the advertising expenses because it ended up being higher in this quarter since we put in our disclosure. It will be compensated in the next quarters.

I would say that we don't have any expenses. We do have some benefits on cash though as far as a few tax collections, and the federal government allowed us to postpone our tax payments, and this helped us tax wise, cash wise in the second quarter, and this will help us in the third and fourth quarter, and this will be paid in the third and fourth quarter the temporary postponement of the taxes.

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

Go ahead, Iuri.

**Mr. Iuri Miranda:** Thank you, operator. Thank you all for your questions and your time dedicated to this call.

We had a second quarter which was affected by the closing of our stores due to the pandemic. I believe that that's been clear for all of us, but even under this scenario, we saw a partial offset of sales due to the growth in digital channels and drive thru channels. This showed us that these trends that we had been strategically preparing for in a business did not change. Actually, they sped up.

The pandemic in our perspective sped up trends, and it left it clearer what the consumers are going to expect from the brands from here forward. And looking forward, we expect that the third quarter follows the recovery trend that Clayton mentioned influenced by the loosening of the restriction measures as well as the reopening of our restaurants.

Also, looking ahead and going back to the point of speeding up trends that I've just talked about, we are confident that we are on the right path. And why are we confident? Because when we compare the current sales in restaurants located in areas which are less restrictive versus the ones that are still under restriction, the difference and the development of sales is positive.

The most current trend of going back to work is being confirmed, like I mentioned. The development in our sales is happening month by month. For example, the month of July grows more than June, where we reached basically 60% in July compared to pre-COVID, and August is beginning better than July.



And even with the progressive return of desks sales, we've seen a residual effect from sales from the delivery and drive thru channel, and they are benefits from the investments in technology and the strength of our brand.

All of this combined gives us the confidence that we have a better scenario ahead. We have adapted constantly to how we relate to our consumers in their consumption of products and services. Why? To be at the same speed as these trends.

We also have the conviction that the pillars of our business based on product quality, convenience, values, focus on client experience, the discipline of execution and the financial management that they will become even more important and evident in a food market which is still very fragmented and which should suffer an important change based on COVID.

Consumer focus will be our biggest objective, it will continue to be that, and for that we are building an ecosystem which can connect 2 things: The online and the off-line. It's not one or the other; it's the connection of both. Physical stores are not going to stop existing. This ecosystem is supported by a digital culture with new ways of working and a very strong and flexible technology, an ecosystem able to be wherever the client is in whatever way they want to relate to us leveraging a direct relationship with us – and I'm talking about the CRM –, especially with the more frequent consumers.

Despite the challenges and uncertainties of short and long-term that the pandemic brings to our country, to our market and probably to all of us, we are very safe and confident that the structural foundations that BK Brasil has built through the Burger King as well as the Popeye's business, which led us to this important position in the market with the acknowledgment of our clients, positions us strategically not only to cross this time, but also to make us even more competitive in a post-COVID scenario.

I would like to wish you all a great day and I hope you all remain safe. Thank you.

**Operator:** The BK Brasil audio conference is now closed. We thank you for your participation, have a great afternoon and thank you for using Chorus Call.