



## BK Brasil Operação e Assessoria a Restaurantes S.A.

### 2Q18 Conference Call Results

**Operator:** Ladies and gentlemen, good morning and thank you for waiting. Welcome to the **Burger King Brasil** teleconference to discuss results for the second quarter of 2018. With us here today we have Mr. **Iuri Miranda – President of BK Brazil; Clayton Malheiros – Financial Director; and Marcelo Cintra – Investor Relations.**

We inform that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After, there will be a Question and Answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press star 0 to reach the operator.

This event is also being broadcast live via webcast and may be accessed through: [www.burgerking.com.br/ri](http://www.burgerking.com.br/ri). Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on the website.

Before we begin, let me mention that forward statements are based on the beliefs and assumptions of Burger King Brazil. Financial goals and operational goals depend on circumstances that may or may not occur.

Investors and analysts should understand that macroeconomic conditions, industry conditions and other factors could also cause results to differ materially from those expressed in such forward-looking statements. Investors and analysts should understand that these macroeconomic conditions could affect the results, the future results of BK Brazil, and may lead to results which differ from those expressed in the statements.

Now, I'll turn the conference over to Mr. **Iuri Miranda**. **Iuri**, President of BK Brazil, who will start the presentation.

Please, Iuri, you may begin.

**Mr. Iuri Miranda:** Thank you for the introduction operator. Good morning everyone or good afternoon for those who are participating from Europe. Thank you for the interest in our company and for the participation in this teleconference to present the results of the second quarter of 2018 for BK Brazil.

Starting with **slide 3** of our results presentation, we would like to highlight some points in this second quarter and also the first semester of 2018. Keeping up the strong growth pace in the second quarter of 2017, we opened a total of 12 restaurants of the Burger King brand and we got a total of 717 restaurants in the



country. This represents an increase of 103 restaurants in the last 12 months and keeps us as the biggest developer of fast food restaurants in the country.

According to industry data, and for you to have a reference, the second biggest developer had less than half of our pace. Beyond that, as planned, we ended the acquisition of the Mid-South franchisee, increasing our base of self-owned restaurants into 51 units besides 20 dessert centers. With this, we ended the quarter with a total of 583 restaurants with our own operations, positioning ourselves as the biggest self-owned restaurants operator in the country after only 7 years of our own operation.

Going into the operational results, we were able to keep up a strong growth pace when we exclude the nonrecurring events, which impacted the industry at that time. As we highlight in our results release, the second quarter was impacted by the truckers' strike, which impacted approximately 2 weeks of the quarter, and by the World Cup, which impacted the second week of June.

In total, our comparable sales in the same restaurants were stable in the quarter, which represents another sequential gain market share. According with the Food-Service Brazil Institute (IFB), the comparable industry sales in food-service decreased in 2.5% in the 2Q of 18. Besides that, if we exclude the effects of the truckers' strike as well as the World Cup, we estimate that our growth in the quarter would have been 6.2%, which represent solid growth when compared to a strong base of 14.6% in the second quarter of 2017.

Our net operational revenues grew in the quarter 25.3% vis-à-vis the previous year. Our marketing strategy, the operational evolution and the sustainable growth of the perception of our brands have taken us to this constant growth, even in a challenging economic environment. I would like to highlight the progress of our technology initiatives with the new cell phone application with over 3 million downloads in a few months, the advance of the delivery platform and client interaction systems like self-service kiosks, we also should talk about the good impact of the kids platform with an Emoji campaign besides the constant strategy of trying to capture gross profit through the management of promotion, the seeking out of better profit and a well-balanced mix of products.

Going into the profitability of our operation, our operational margins were impacted by or the nonrecurring events already aforementioned once the relevant part of our expenses are fixed. With this, our adjusted EBITDA in this period was of R\$49 million with a margin of 9.2%.

And last, it's important to highlight that we continue generating net profit, and in this quarter we generated R\$9 million. In the semester, our net profit grew to R\$17 million against a net debt or a net expense of R\$13 million in the first quarter of 2017, which gives us a positive variation of R\$30 million, semester vis-à-vis semester.



And to give you more details about the company's performance, I'm going to pass the word to our CFO, Clayton. Clayton, please.

**Mr. Clayton Malheiros:** Thank you luri, good morning everyone. Going to **slide 4**, and as I said previously, we opened 12 new restaurants in the first quarter of 2018, of which 8 are self-owned and 4 are franchise restaurants, with this we total 25 openings in the first quarter of 2018. Our focus continues to be the opening of free-standing and dessert centers restaurant.

As you can see, in the 2Q of 2018 we added 14 new dessert centers, reaching a total of 223 units in operation, which represents a net opening of 54 new POSs in the last 12 months. Our annual pace of opening of dessert centers continues to speed up consecutively since the growth of 54 new dessert centers in this quarter compares to 44 in the 1Q of 18, an increase in the pace of openings of 23%.

It is important to highlight that these formats are the ones that have the biggest potential for expansion in the next few years, giving us higher than average profitability.

As far as the freestanding restaurants, our expectation of speed is concentrated in the second semester due to a higher time for development necessary for this format of restaurant. Our trust in this type of format is due to the number of location contracts signed and the works ongoing.

Now going to **slide 5**, this comparable sales in the same restaurants were stable in the quarter heavily impacted by truck strike and World Cup, which led to a decrease in traffic. In the semester comparison, the growth in sales in same restaurants, was 4.8% impacted by the same effects nonrecurring already mentioned.

Our net operational revenue showed growth of 25.3% compared to the second semester of 2018 with the same semester of 2017. This growth was the result of the maturing of 53 self-owned restaurants opened in the last 12 months and the acquisition of 51 restaurants of the franchisees, which added approximately R\$70 million to the revenue in the quarter. In the semester, the revenue growth was 24.6%, showing a growth in sales comparable of 0,8% and the acquisition of the restaurants in the second quarter of 2018.

It's important to highlight that according to our internal analysis, we estimate that excluding the truck strike effects and the World Cup effects, our same-store sales would have been 6.2% in the quarter and 8.1% in the semester, and the net operational revenue would have reached approximately 571 million and 1.053 billion respectively.

In **slide 6** we have a summary of the evolution of our costs. As an important part of our expenses, we present an increase in the expenses as a percentage of the revenue that we explained that was impacted by nonrecurring events. With this, the total restaurant expenses, including cogs and sales expenses, totaled 498 million



and represented 92.7% of our net operational revenue, an increase of 230 bps in the comparison with the second quarter 2017.

As far as cogs as a percentage of the net operational revenue, there was a slight increase of 30 basis points comparing to the second quarter of 2017. When we compare with the fourth quarter of 2017, we kept a consistent speed in improving with our marketing strategies. In the second quarter of 2018, we highlight changes done in the campaign 2 for R\$15 and higher profit and average ticket in the coupon platform.

Going to the sales expenses in the restaurants excluding depreciation and amortization, these expenses represent 48.6% of the net operational revenue, an increase of 170 bps versus 2Q17 mainly due to the nonrecurring effects in the net operational revenue, which we already mentioned, which led to a lower dilution of fixed expenses, such as expenses with personnel and maintenance.

Even with the nonrecurring effects, which impacted sales in the first quarter, the total expenses of restaurants as a percentage of net operational revenue maintained themselves stable compared to the first quarter of 2017, reflecting our efficient management in the restaurants.

As far as general and administrative expenses, they represented 4.1% of the net operational revenue in the second quarter of 18, a growth of 80 bps in comparison to 2Q17, which led to a lower dilution of fixed expenses beyond the expenses related to services to manage the acquired franchisee, higher provisions for court demands, legal expenses and the structural expenses due to the opening capital.

In the semester, the general and administrative expenses represented 4.5% of net revenue, an increase of 70 bps due to the events already mentioned.

On **slide 7** you can see that the adjusted EBITDA reduced 5% going from R\$52 million in the second quarter to R\$49 million, this result was mainly due to the non-recurring effects already mentioned, which impacted the sales in the restaurants and consequently reduced the dilutions of the fixed costs, corporate as well as to restaurant costs. With this, the EBITDA margin adjusted was at 9.2% in the second quarter of 2018.

In the semester comparison, the EBITDA increased 11.8% reflecting the growth of the net operational revenue coming from the opening of new restaurants, acquisition of franchisees and the growth of same-store sales, even though we had a strong increase from the strike and the World Cup. Finally, the adjusted EBITDA margin was 8.4%.

As already mentioned, the company showed a net profit of 90 million in the second quarter of 2018, a growth of 24.3% when compared to the same period of the previous year due to the better financial results. In the first semester of 18, the



company presented net profit of R\$17 million, which represents a strong growth when compared to the net loss of R\$13 million in the first semester of 17.

Going into **slide 8**, we highlight the Capex and the finance leveraging and the generation of operational cash flow. In the second quarter of 2018, we had a total Capex of R\$462 million. Of this amount, 404 went to acquire the franchisees. Excluding the value for the acquisition, the organic growth of Capex was 24.4% compared to the 2Q17 due to the opening of new stores and dessert centers, besides investments in technology and restaurants.

To the semester, Capex excluding the investment in acquisition grew 37% when compared to the first quarter of 2017 due to the opening of new restaurants, dessert centers in the period, beyond investments in technology and equipment for the restaurant. The entry of resources coming from the IPO done in December of 2017 combined to the decrease in gross debt continues to benefit the cash position of the company, which ended in June with the net cash of R\$223 and the operational cash consumption in the first semester of 2018 totaled R\$6 million, which represented an improvement of R\$3 million when compared to a cash consumption of R\$9 million in the first semester of 2017.

And now I pass the word to Luri once again.

**Mr. Miranda:** Thank you Clayton. Well, to conclude our results presentation and start the Q&A session, I would like to take this opportunity and update you as far as some topics.

Going into our projects, our store opening pace is very aligned with our expectation for the year and the performance of the new vintages, of the new restaurants continues very healthy, thus we continue in our efforts and with our strategy of developing restaurants.

As we said during the presentation, our pace of store opening continues above 100 stores in 12 months, focusing on the expansion of restaurants, street restaurants, and dessert centers. As far as technology, we are happy with the evolution of our projects, for example, delivery continues to evolve consistently. During the second quarter, we ended tests with our new logistic and platforms, we included Uber Eats and Glovo and the results were very encouraging, thus we are confident in the development of this project and we hope to close the year with approximately 15% of our same store restaurants with delivery services, delivering consistent services and a product quality that the client expects from Burger King, but at the convenience of their own home.

I think it's important to highlight also the rollout of our mobile app, which allows our client to place orders and to pay directly in the app, we call it BK Express. We have over 3 million downloads of the new app in Brazil and we are gradually increasing the number of restaurants which accept the BK Express app. This initiative together



with delivery should continue to support our sales growth. We see incremental sales channels besides an opportunity of elevating the average ticket.

Last and not least important, I would like to update you all as far as the developments of the Popeye's brand. The progress done in very few months and mainly the interaction in concept tests with clients leave us even more excited with the potential of this business. As far as store openings, we have a strong pace and we already got great POSs in some of the main malls in the city of São Paulo. For this year, we expect to open something between 5 to 10 restaurants since the first inauguration should happen at the beginning of the fourth quarter of 2018.

Besides that, we advance in the development of products and in the menu including with client tests. The results were extremely positive, and we are very excited about the quality, flavor and differentiation of our product and our new brand. We are bringing the soul of the Louisiana kitchen to the Brazilian taste.

Now to close, we would like to reinforce that even with the truckers' strike, which was unexpected by the industry and by the impact of the World Cup, the strength of our brand and the moment of the company continue to leverage our results.

In the last quarter we mentioned that we were very happy and honored with the announcement of the magazine *Veja Rio* where the Burger King brand was elected the preferred brand by the Rio de Janeiro residents, and in this quarter Burger King was elected the dearest fast food brand by the consumers according to the Premium Brands Estadão 2018 by the consumers in the state of São Paulo.

With all of this, we reinforce our trust in our development plans and the improvement of the profitability throughout the second semester of 2018.

With this, I open space for Q&A. Operator, let us go to the Q&A please.

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

**Operator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star 1. To remove your question, please press star 2.

The first question comes from Ian Luketic, from JP Morgan.

**Mr. Luketic:** Good morning Iuri, Clayton. I have a few questions. First, I would like to know how is your sales performance in the 3Q, if you are seeing an improvement in sales even with the World Cup messing up with the results in July. The second one would be along the World Cup lines, which part of the EBITDA margin suffered due to the lower volume of sales? If you tell us what was the margin and so how much we should have as far as margin in the 3Q.



And recently, one of the main shareholders of Burger King launched the acquisition of Dominos, I don't know if you wanted to be the master franchisee of the brand, and so what are the news with the Dominos brand?

**Mr. Miranda:** Hey Ian, thank you, thank you for your questions. Well, let's start with the sales performance of the first quarter. We had in the first 15 days of July the World Cup effect as you mentioned and we see also that the market is volatile and it's also sensitive to the elections, the consumers still continuous sensitive to price, we see the question of unemployment and the economy has now bounced back to where we expected.

But even with all this, after the World Cup, I think that is your question, we already see a sales recovery and we follow believing in the growth of same-store sales above nominal GDP, which for me shows the strength of the brand and the capacity of operation of the company. If we look at the second quarter and if we think about the months in the period before the truckers' strike started and before the World Cup, the company maintained the same pace that we saw before-hand, and so as far as the World Cup effect it is a challenging environment, we have price-sensitive consumers, yes, but I think that the strength of the brand is our strategy. What we can see is after the World Cup it shows that we are on the right path.

As far as EBITDA margin in the 3Q, well, we still have not calculated what would be the impact. As far as the World Cup, as I said, it impacted the first 15 days of July, but afterwards, after these 15 days we came back to sales levels that we were expecting, and so for now we haven't seen... we don't have a way to calculate that effect that you request.

Now as far as the last question, as far as Dominos, I believe that I said last time when I announced the Popeye's deal I announced that for some years we did an analysis of some business opportunities in Brazil, which would be a good fit with the operational model, which is BK Brazil. So now that we have the control of the development, you know we need to have the control of the supply chain, the quality of the products that we see through the store expansion, we see higher expansion of growth, you know, it's the business model that we are used to with Burger King.

Now, of all the opportunities that we have analyzed, the opportunity which seemed most adequate to this business model as far as the negotiations we were able to get, the best deal was Popeye's. Now I can't talk about the negotiation of another company about Dominos, but I can say that at that time we analyzed Popeye's with the best opportunity that we had.

**Mr. Luketic:** Thank you Iuri.

**Operator:** Next question Richard Cathcart, Bradesco.

**Mr. Cathcart:** Good morning everyone. Two questions. First, I wanted to ask about the inflation in food since we were seeing commodity prices starting to come back,



so I wanted to understand what you are seeing as far as the second semester in terms of inflation in COGS.

Now the second question is about the acquisition of the franchisee that you closed at the beginning of the second quarter. I just wanted to know if the integration and the performance of this franchisee is aligned with the expectations of BK.

**Mr. Miranda:** Hey, thank you so much Richard for the question. Well, I'm going to let Clayton talk about this, he's responsible for supply and he will give you more details as far as the food inflation.

But there are some factors that we continue to see, by our growth we still continue to gain body and muscle in our negotiations with suppliers and vendors based on our quote pace and so when we take a look in the last few years and this year I've seen things very similar, the internal inflation end up been less than the market inflation as a whole due to negotiation initiatives and scale, economy of scales. This is one comment.

The other thing that I the help says us is that around 90% of our products today are rented, so they don't suffer forex variation, we have about 10% of our product costs in terms of forex impact, which for us is very good and it helps us with the market volatility in the deviation of the balance.

Now this 10%, there is already a plan to hedge a part of this 10%, even to have less impact as far as internal inflation.

**Mr. Malheiros:** Well, Richard, really, we do see the beginning of a move pressing some of the commodities, but like Iuri said, it helps, the growth that we have had has helped us with our business partners. At that time not only Burger King, but when we talk about Popeye's it helps us to be able to try to neutralize and make it so the supply chain as a whole not be affected. And so, we do have a closeness with our vendors and suppliers, we are talking about business partners in most cases and we have used our volume growth online with the entry of a new brand to help us in our negotiations.

On one hand, we really do see this effect in some of the commodities, especially corn and a little bit of soy, but on the other hand when we look at [0:27:42 unintelligible] it has had a negative performance, so it does neutralize the effects a little bit so that we can have a performance that is below the inflation that we have here.

**Mr. Miranda:** And Richard, as far as your second question, of the franchisee performance in our integration plan, starting with integration, our plan was to do the complete integration in up to 12 months from the integration start, the acquisition start, we are absolutely aligned with the monthly plan, one of the main pieces of this integration plan has to do with your first question, which is performance, and so the biggest worry of ours has always been how to do the integration of a franchisee that



performs well, that has good average sale, with good restaurants, and I would say that some benchmark things... that we are learning some benchmarking thanks, we were incorporating things into the operation, so we did not want to impact the result of these restaurants, we wanted to improve the indicators as soon as we do the acquisition, and that's exactly what we are seeing.

The restaurants have not dropped in performance, they continue to perform well, the integration plan involves the entire field team integrated to our culture, the processes which are benchmarks for us already placed there and we already present some processes, new processes and we learned some processes to bring to our restaurants.

So, it's been a very well-structured process and it's running according to schedule.

**Mr. Cathcart:** Okay, thank you so much.

**Mr. Miranda:** Thank you for your question Richard.

**Operator:** Ladies and gentlemen, if you would like to ask a question just press star 1.

The next question comes from JP Morgan.

**Mr. Luketic:** Thank you luri. Just a follow-up to Richard's question. If you could tell me what was the same store sales performance in these acquired stores? I believe that the performance is a little bit higher than the existing stores, so I just wanted to have an idea of the benchmark against the acquired stores.

**Mr. Miranda:** Ian, when we look at the performance of 2 years ago, we like to compare this performance that we had 2 years ago to see if we had any specific impacts from a franchisee, so when we compare the two-year performance with same stores and the franchises we don't see a lot of differences, actually, we are running something around 20% in 2 years same-store sale, I mean, it's a very significant number, same thing for franchisee, same thing for cell phones stores.

When I talk about this quarter I am referring to those 14% that we reached last year, I think it was 14%, but considering that our average, our goal for performance would have been 6.8 if we exclude the World Cup and the strike effect, the franchisees go through the same thing, what it shows is consistency, brand consistency, okay? And, you know, we've been able to pass best practices to the franchisees as well, which has helped.

**Mr. Luketic:** Thank you luri.

**Operator:** Excuse me ladies and gentlemen, that does conclude the Burger King audio conference for today. I'd like to pass the word to luri.



**Mr. Miranda:** Thank you operator. First, I'd like to thank you all for your time, for the participation, the interest in our company, for your questions, and I would like to make our IR team available to you for any questions that you may have, additional questions. And with this, I wish you all a great day and afternoon and thank you.

**Operator:** The BK Brazil conference is closed. We thank you for your participation, have a great day and thank you for calling.