

BK BRASIL OPERAÇÃO E ASSESSORIA A RESTAURANTES S.A.

4Q19 CONFERENCE CALL

Operator: Good morning and thank you for waiting. Welcome to the **BK Brasil** teleconference to discuss the results referring to the fourth quarter of 2019 and the year 2019.

We have present with us Mr. Iuri Miranda, President of BK Brazil; Clayton Malheiros, Financial Director, and the Investor Relations team.

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

In case of any of you need any assistance during the teleconference, please request assistance from an operator typing start 0. This event is also being transmitted simultaneously via Internet through a webcast, which can be accessed through www.burgerking.com.br/ir, where the presentation will be available. The slides will be controlled by you. The replay of this event will be available right after its closing.

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

Before we begin, we would like to clarify that any declarations which may be made during this teleconference related to the business perspectives of BK Brazil, projections and operational targets they are based on beliefs of the company as well as information currently available to BK Brazil. Future considerations are not a guarantee of performance, they involve risks, uncertainties and premises when they refer to future events and, therefore, they depend on circumstances which may or may not happen.

Investors and analysts should understand that general conditions, sector conditions and other operational factors could affect the future results of BK Brazil and may lead to results which differ materially from those expressed in our future considerations.

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

Mr. Iuri, you may begin.

Mr. Iuri Miranda: Thank you for the introduction, operator. Good morning everyone, thank you for the interest in our company and for the participation in this teleconference to present the results of BK Brazil for the fourth quarter of 2019, especially because I know that during this period of the month and the year we

always have lots of companies' presentations, so thank you for being here listening to our presentation.

2019 was another year of strong growth, although we had an economy still in recovery and higher competition in the market of food service. In terms of new store openings, we continue ahead as the biggest developer of fast food in Brazil. We inaugurated 121 new restaurants, being 80 one of them Burger King and an expressive number of 33 Popeye's restaurants.

We follow the strategy of increasing the freestanding restaurants to the Burger King brand opening up 44 restaurants in this format, which represented 50% of the total openings of BK in 2019.

As far as Popeye's, we continue to present a brand development, which is very encouraging, we have 41 restaurants and just a little over a year of operation. In 2019, we optimize Capex, we grew the brand-awareness, we launched new products and new sales channels. All of this helped us to reach positive EBITDA in a brand that is so young in the country.

The results of Popeye's in Brazil is combined with the excellent moment that the brand is going through in the US, especially with the launch of The Sandwich, which was considered one of the biggest releases in the history of American fast food, which keeps us very excited about the potential of the business in the next few years.

We overcame the milestone of R\$3 billion in revenues following 145 million consumers which represent an increase in the net operational revenue of 22%. This growth comes from the opening of new restaurants and dessert centers and the comparable sales of same-store-sales, which in 2019 was 4.9%.

As far as comparable sales growth in the year, we got to the middle of the year with a nominal GDP, but in the fourth quarter below what we expected for a few reasons that we are already addressing, for example: A rebalancing of the premium platform due to the focus that we gave to the launch of the Rebel Whopper; the expansion of the delivery people to reach new markets; a revamp in our King in Double platform increasing the price and bringing back our iconic product, the Whopper; and innovation through new areas like the Super Combo.

As far as financial results, we reached an EBITDA of R\$465 million adjusted. If we exclude the IFRS 16 effects for a better comparison with the performance of last year, our adjusted EBITDA was R\$328 million, which represented a growth of 14%.

Our net profit for the year was 49 million and if we exclude the IFRS 16 it would have been R\$17 million.

With this, I pass the word to my partner and CFO Clayton Medeiros to give you more details about the performance of the company. Clayton, please.

Mr. Clayton Medeiros: Thank you, Iuri. Good morning everyone. Now, going through slide 4 of our presentation, we see that during the fourth quarter of 2019 we opened up 54 Burger King restaurants and 18 Popeye's restaurants, with that, we closed the period with a total of 912 operational restaurants in the country under the Burger King and Popeye's brands, of which 714 are operated by BK Brazil.

That way, we continue leading as the biggest fast food operator in Brazil.

It's worth highlighting that this year we sped up the street store openings with over 50% of store openings having been in the freestanding model located mostly in the Southeast region of Brazil.

Going into the development of dessert center openings, in this quarter we opened up 62 dessert centers and we closed the period with 454 units, which represents a net opening of 98 dessert centers in 2019.

It is important to note that for the second consecutive year we opened up over 90 units in this format. Additionally, we opened up another 18 Popeye's restaurants in the quarter and we reached 49 restaurants at the end of the year spread out in important cities in São Paulo getting to the region of Campinas.

Going to slide 5, the comparable sales and same-store-sales for this quarter were less 2.2%, a result of a more competitive environment compared to the same quarter last year combined with the economy which is still trying to bounce back. We maintained our strategy of delivery with only one aggregator and we had a weaker sales perspective in premium due to the focus on the Rebel Whopper launch.

In the accumulated in the year, same-store-sales was 4.9%. With this, our net operational revenue grew 11.5% compared to the fourth quarter of 2018 and 22.1% when we compare the year of 2019 versus 2018.

Before we go into slide 6, it's important to remind you that we have a new accounting norm (IFRS 16) since the beginning of the year. And just like we did in the last quarters, in the next graphs we will going to show you the numbers in both ways; with and without IFRS.

That way, throughout the presentation we will talk about the adjusted numbers excluding that impact with the objective of improving understanding with the same period of the previous year.

Going into slide 6, we present the development of our costs and expenses. Total expenses reached R\$703 million and as a percentage of net operational revenue they went from 86% to 87.5%, increasing 150 basis points.

The cost of goods sold as a percentage of net operational profit was stable compared to the fourth quarter of 2018 even with a more competitive scenario and it reached 37.9%. The sales expenses excluding depreciation and amortization represented

43.7% of the net operational profit, expanding 50 basis points compared to the fourth quarter of 2018. This increase reflects mainly higher expenses with third parties due to the deliveries sales, the deleveraging of same-store-sales and the inflation of expenses with the occupation and utilities being compensated by the higher efficiency in other expenses with sales.

In the annual comparison, the total restaurant expenses as a percentage of the operational revenue grew 170 basis points reflecting the expansion of 120 basis points in sales expenses, results of higher expenses with third-party expenses with utilities, personnel and preoperational expenses, partially compensated by the reduction of 20 basis points in the cost of goods sold.

Now, the general expenses, administrative expenses, they expended 80 basis points reaching 2.5% in the fourth quarter of 2019. This increase reflects other revenues as well during the year.

In the accumulated in the year, these expenses represented at 3.6% of net operational profit being stable compared to 2018.

On slide 7 we can see the EBITDA growth adjusted of 5.3% reaching R\$172 million in the fourth quarter of 2019, reflecting an increase in our net operational profit. With this, the adjusted EBITDA margin contracted 110 basis points reaching 16.4% in the fourth quarter 2019.

Accrued in the year, the adjusted EBITDA increased 14% and reached R\$328 million, and the adjusted EBITDA reached 11.4%. It's important to remind you that the Popeye's brand is still in its initial stages and, as expected, in our business plan it impacts negatively in the consolidation with the results of the Burger King restaurants.

In the year the impact in the adjusted EBITDA margin due to the development of the Popeye's brand is 30 basis points. However, we reinforce, once again, that we've overcome the breakeven in this new business line anticipating in acute years our expectations for this brand.

Still on this slide, we can see that our net profit was R\$47 million in this quarter and accrued in the year we reached R\$70 million.

Going on to slide 8 we can see Capex, the financial leveraging and operational cash flow. In the fourth quarter of 2019, our Capex totaled R\$146 million with an increase of 10.6% compared to the fourth quarter 2018, reflecting the openings of freestanding restaurants, Popeye's and dessert centers.

Besides the reinvestment and remodeling of stores and the expansion, Capex was a 39.7% and it reached R\$473 million.

The following to financial leveraging, we finished December with a total cash of R\$305 million and basically stable when compared to the same quarter 2018 due to the emission of the 8th debenture in December. Due to this, our net cash position was 0.3 times the adjusted EBITDA.

Lastly, in the year, the operational cash flow totaled R\$370 million, an increase of R\$66 million compared to the same period, reflecting the adoption of IFRS compensated by higher working capital demands.

And now I pass the word to Iuri to conclude our presentation.

Mr. Miranda: Thank you, Clayton. Just to finalize the presentation of results of the company and before we open up for you for the Q&A session that we do, I would like to update you on a few topics and I would also like to talk about a few of the priorities for this year of 2020.

Throughout 2019, we advanced in technology initiatives and in 2020 we will be doing a massive deployment of a few of these tools. Starting with the customer relationship management (the CRM tool), a project which we started at the beginning of 2019 and we are confident that it will change the way with which we'll understand, interact with our consumers.

The pilot in a city has already been achieved and we will continue with the rollout of the initiative to all of our markets still this year.

Our app also reached the milestone of 19 million downloads with almost 4 million monthly active users. Integrated to the CRM, it will also represent a source of data, which will represent important interaction with our consumers.

As I said in the beginning of this presentation, we are expanding delivery to new markets and consumers through the use of other aggregators. For you to get an idea, today we have around one third of our restaurants offering this service, which for us represents still an opportunity for expansion, which is vital for this channel.

In parallel to the delivery extension, we will also speed up the rollout of self-ordering kiosks in order to continue seeking out the best experience for our consumers and also the best way to work.

Still undergoing a process of using technology, we also advanced in the use of AI to optimize back-office processes. Reminding you that today we are the biggest same-store restaurants in Brazil in processes of back-office, very important for our efficiency.

For example, we have solved doubts of our collaborators in processes like admission, holidays, vouchers, payroll through AI. In hiring employees for restaurants, the use of technology allows the candidates to send your resumes through QR codes.

The endgame of this process is to allow efficiency and speed in back-office activities which may support our operation in the end and serve better our clients as well as our employees.

The result of the expansion in the growth of the brand of Burger King as well as Popeye's jointly with a robust pipeline of contracts already signed excites us to follow the strong growth pace and expansion pace this year in 2020.

We've done adequations of different channels. We have new product platforms; we had a strong pipeline of innovations now for 2020 and the fruits that we plan to harvest with investments done in technology build certainly the pillars for our growth.

To conclude, as we communicated prior, we had the changes in the Board of Directors, so I would like to take a vintage of this opportunity to thank Marcelo Pena and Renato Fairbanks for their dedications and their important contributions throughout the last few years to our company.

The entry of another 2 independent board members reinforces the governance of the company. We would like to give a welcome to our board members Henrique Luz, President of the corporate governance Institute, and Anna Chaia, whose experience in marketing and sales was required as the main executive of important companies in Brazil and abroad.

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

Question and Answer Session

Operator: Ladies and gentlemen, we shall now begin our Q&A session. To ask a question, please, type star 1. To remove your question from the queue, type star 2.

Our first question comes from Roberto Browne, from Morgan Stanley.

Mr. Browne: Hello, good morning luri, Clayton, thank you for answering my question. If you could, please, it would be cool to hear a little bit about how seeing the promotional environment in 2020 and what can we expect from you as far as a strategy. Are you going to try to be a bit more aggressive, are you going to offer more coupons to speed up sales?

I know that you have other initiatives as well that you mentioned to help out in competition. And even if speaking a little bit about delivery, if you expect that perhaps you might have delivery aggregators and that could perhaps impact the negotiated take rate and subsequently the expenses.



And finally, I just wanted to understand if you have any feedback to give us as far as how the year started out in terms of sales in that scenario that was a little bit challenging in the fourth quarter.

Mr. Miranda: Well, thank you so much for your questions. Very interesting questions. Let's begin with the issue of the competitive environment, the promotional environment how we are seeing this in 2020.

I'd like to tell you that the trend of our actions taken it's improving compared to the fourth quarter, so January was better than December and February is better than January was, and a few actions taken will have more of an effect we believe in the next few months.

For the competitive environment we don't see any changes in the scenario, but the perspective is that the fast food market was huge, and it's not restricted to only 2 or 5 players. Actually, most of the market in our perspective is still very fragmented, which for us is an opportunity.

Food service continues to grow and with the expectation of growth also of the economy we see that out-of-home food has happened in other moments of a better economy continues to grow.

And as we look at our brands, the BK brand as well as Popeye's, well-positioned with excellent products and a significant preference from our consumers, we believe that will have the scale, the products and the people to continue capturing these opportunities.

We also see that the platforms that we have created are very well recognized by the consumers and sometimes they are even replicated by our competitors. We want to follow in the leadership and the innovation and proposing value to our clients.

We have space for growth of new restaurants of both brands BK focusing on street as well as Popeye's – we are only beginning with Popeye's mind you.

So besides all of this competitive environment, when we take a look at like, I mentioned, to you know, when we look at a few leveraging adjustments that we have made and that we expect to feel the effects of in the next few months – and I'm going to give you a few just so I give you great examples –, we created our platform, we adjusted our existing platforms. For example, a balancing between future consumer trends, which is important for us looking at the innovation that our brand brings, and also to balance this out to with the capture of present demand, and a good example for this is the Rebel, which is a building of a category which we believe will be successful in the future we started investing in this in 2019.

In this environment of slow economy bounce back, we believe that affecting their pocket in their purchasing moments have become fundamental, we have to understand these things. So to be competitive and to address your question as far

as how we are going to do this, we want to be competitive, but at the same time we want to find the opportunity of additional sales of tray items and of margin, and a good example of that is the launch of the Super Combo which we have just released with the objective of increasing the ticket, generate value and to capture margin at the same time, all right?

Well, and as I mentioned a lot the use of technology quite a bit, we see that we can attract new markets. CRM, understanding the consumer behavior, optimizing internal processes and productivity processes – and your last question as far as delivery-, if we expect any impact on the take rate, the point is that we got to over 900 restaurants in our entire operation, actually 917 restaurants in the number that is on the reports.

This allows us to position ourselves as a player in a very important chain even for the delivery aggregators alright, because the clients themselves, like I said, they recognize and we are preferred by our brand, which is ever growing, and we also ask the aggregators That place Burger King as one of their main offers.

So this combination of interest from the consumers wanting Burger King be in more platforms, the interest from the aggregator of having us in their platforms and our interest, like I said, of having one third of our restaurants and to want to expand this to other markets where we still don't offer delivery, this allows us to have interesting negotiations and good negotiations even not having exclusivity of only one aggregator, alright.

As far as how the year started out, you know, I talked about this, we see a January which is better than December, and we already see our February much better than our January till now. And we are confident that all of these initiatives that I have mentioned prior we just worked on the Double King platform, which is an important platform for us, where we did not only bring our iconic product to the platform, which is the Whopper, as well as we did an adjustment of price which addresses the margin balance, I mean, these are things that we believe that the trend of positive improvement is going to continue.

I'm sorry for the long answer, Roberto, but I think that you encompassed various questions in that one question.

Mr. Browne: No, that was great, Iuri. Thank you for being so detailed.

[Translator: Waiting for additional questions]

Operator: Ladies and gentlemen, reminding you that to ask a question all you have to do is type star 1.

Our next question comes from Ian Luketic, from JP Morgan.

Mr. Luketic: Good morning, Iuri, good morning, Clayton. Please allow me too, I have a couple of questions to ask. We may start with same-store-sales, what's the perspective you have for this year. Historically, you had mentioned that the guidance the objective is to grow with the inflation plus GDP, and this is going to kept up in 2020. That's one question.

And the second point, as far as potential cost pressures related to China, have you measured what the impact would be, what could be the increase of price of proteins expected for this year?

And the third point, if you could explain to us what would be the guidance, the perspective of Popeye's openings for this year? If I'm not mistaken, in the last quarter of 2019, you talked about expanding into other cities like Rio. I would like to know if this speeding up of openings will be significant this year or not. Thank you.

Mr. Miranda: Thank you, thank you for the questions. Now, as far as same-store-sales, we won't to give you a guidance, but our expectation, our strategy continues to be to go after a growth above nominal GDP. Of course, trying to grow our revenues, we want to grow revenues above the inflation and with the GDP accounted for, and on the other hand, control the cost at a level below that, which would generate the opportunity of margin gains for us. We haven't changed the strategy despite the more competitive environment and the slow bounce back of the economy.

As far as cost pressure of proteins, until this moment we haven't suffered any cost pressure, any pricing pressure. We together with our suppliers have been able to mitigate these effects and it's a positive cycle of you gaining scale where you grow, and you have a partnership with your suppliers. You know, our suppliers see this, and they understand this for many years and with this understanding we have been able to mitigate these cost impacts.

If you allow me, for how long we'll be able to mitigate these cost increase impacts, well, it really does depend on what's going to happen from here forward what would be the impact in the price of proteins, but our understanding is that if there is a significant impact, which can be mitigated through negotiation, I believe that very few chains have this size and the negotiating power as ours to be able to absorb this impact, and certainly that which we won't be able to absorb in a negotiation with our suppliers, I don't see any other alternative except to pass it on to the consumers.

And I believe that there will be an impact not only for our companies, but certainly if it gets to that point, this will be an impact that will be felt by the market as a whole. But in a practical manner, I think that until now thanks to our negotiating power we haven't seen any significant impact, and this is apparent even in our P&L.

In terms of guidance for Popeye's, as you well said, we don't provide guidance for that, but what I could tell you is that we are very excited with the results of Popeye's in 2019. Actually, we see it as impressive, you know, having a brand in Brazil starting

from scratch with a little over 12 months of operation getting to over 40 restaurants with a significant growth of brand-awareness like Clayton said and a breakeven which for me is also never before seen factor, the acceptance of the products, the assessment of the clients, the positive assessment, you know, this excites us to keep the same pace of openings the same one as we had in 2019.

And as you said, with the possibility of after we have grown 40 restaurants in the city of São Paulo, we can start to assess whether we should grow in other states always in a way where we can build the brand in a very consistent manner, alright?

So that will be the main objective of Burger King, the expansion plan just like we did in São Paulo we will consolidate the brand, we will make it so that the clients understand the main points of the city and with that, with each city that we go into, we consolidate the perception of the consumer.

Mr. Luketic: Okay, your answer is very clear, thank you.

If you allow me one last question here, just wanted to understand, you mentioned that nowadays you have one third of your stores have delivery and the idea is to grow the number of stores that offer delivery as well as other platforms, like in Rappi, you guys are available there as well, I just checked it. And what is your perspective of delivery relevance? How much does it represent of sales and what do you see delivery representing for the next 12 months, until the end of the year, something like that? Do you have any visibility on that?

Mr. Miranda: To be very honest, you know, it's very challenging visibility to have. I mean, we even compare to other countries like China, which is a more mature country in terms of delivery sales percentages, of course, their technology and other payment channels is way more advanced, so it's something that has developed much more, much quicker. If you take the American market the growth wasn't as quick, so it's hard for us to gauge and to benchmark this and to see where delivery can get to, to be very honest with you, sincere with you, but having one third of our restaurants with delivery and seeing how demand has increased, this led us to the decision of expanding this to the other restaurants as well.

So as you said, we have started the business with Rappi and we also started, I think yesterday, we had our first pilot business with iFood, and we are also in Uber Eats. The strategy there is that the main aggregators they have different, you know, areas of business, but where one person can't serve, the other one can serve due to their own logistics chain set up.

So when you expand the base of delivery aggregators to take that delivery offer you will be able to take that delivery offer to areas that consumers have asked us for in areas where we didn't have necessarily delivery services prior.

The other point that we see is very important in the delivery channel and this will learn with benchmarking issues; when you look at China, when you look at the US,

when you take Australia which is a great case for us even in other fast food sectors, a very important component in delivery means speed of service, alright? And this makes a difference in the assessment between the brands which are offering that service.

And so, in this period where we're expanding the base of delivery, this allows us to be able to offer a service, which is quicker at least in the eyes of our consumers, and then you are saying that the service today is as low at Burger King? No, the answer is no. Today we have a service in terms of speed which is among the top, but we see as a pending item this opportunity of becoming differentiated and to seek out perhaps to be the best as delivery service in the market, and I think that that could also be a great differentiator and we could gain with that.

Mr. Luketic: All right, thanks.

Operator: Ladies and gentlemen, reminding you that to ask a question all you have to do is type star 1.

We now close the Q&A session. I would like to pass the word to Iuri for his final comments.

Mr. Miranda: Thank you operator, and I would like to thank you for your time, for your questions, for the interest in our company and since this is the first conference that we have in the year, I would like to wish everyone a great 2020 of business. Thank you.

Operator: The BK Brasil audio conference is closed. Thank you for your participation and have a wonderful afternoon and thank you for using Chorus Call.