



BK Brasil Operação e Assessoria a Restaurantes S.A.

4Q18 and 2018 Conference Call Results

Operator: Good morning and thank you for waiting. Welcome to the **BK Brasil** teleconference to disclose earnings results in 2018.

Present with us are Mr. Iuri Miranda, President of BK Brasil, Clayton Malheiros, Financial Director, and Marcelo Cintra, Investor Relations.

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

In case you need any help during the teleconference, please request help from an operator with star zero. This event is also being transmitted simultaneously through the web, through a webcast, you can access it through the address: www.burgerking.com.br/RI, where you'll be able to find the downloads. 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 service our foreign investors.

Before we begin, we would like to clarify that any declarations that might be made during this teleconference related to the business perspectives of BK Brasil, projections, operational goals, they are based on future looking statements, as well as information currently allowed to BK Brasil.

Future considerations are not guarantees of performance and they involve risks, uncertainties and premises and they refer to future events, therefore, they depend on circumstances 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 and they might lead to results which differ materially from those expressed in our future considerations.

I would like now to pass the word to Iuri Miranda, President of BK Brasil, who will start the presentation. Please, Iuri, begin.

Mr. Iuri Miranda: Thank you so much for the introduction, operator. Good morning everyone, 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 earning of BK Brasil for the fourth quarter and the year of 2018.

Actually, 2018 was one of the most important years for BK Brazil where the discipline of execution of all the projects planned for the year brought us significant results in growth and profitability.



In March of 2018 we went through the signature of the contract of master franchisee for the Popeyes brand in Brazil and we plan to open the first units still within the year of 2018, and in only 9 months leveraging the operational know-how that we have acquired during these years with the Burger King brand, we have been able to structure the entire development and processes of this new brand and we opened up our first new restaurants.

In the second quarter we concluded the acquisition of 51 franchise restaurants of the Burger King brand and following our schedule we finalized the operational incorporation of all of these restaurants at the end of December. When we look at our operations, we have delivered once again consistent results and solid results with strong revenue growth, margin gains, efficiencies in cost and the growth of net profit.

And for the first time in our history actually, if you will please observe slide number 3 of our presentation, we would like to note the main deliveries of this year. In 2018 we maintained our first wrong restaurant expansion pace with a total net opening of 104 restaurants, being 97 restaurants are owned and 8 are Popeyes; what makes us the biggest developer of fast food restaurants in the country in 2018.

We had planned and prioritized the expansion of new restaurants in the freestanding format for the Burger King brand and we also had planned the speeding up of new dessert kiosks, and that's exactly what we have done. Our freestanding store openings opened 80% versus the previous year and we doubled the opening of dessert centers are getting to 98 new dessert centers in the year.

Although the challenges we confronted in 2018, especially the second quarter with the truckers' strike, we had a strong delivery of operational results as well as financial results. Our net operational revenue grew 31.6% and reached 2.3 billion through the opening of new stores, through the acquisition of franchise restaurants and through the growth of 6.5% of comparable sales in the same restaurants.

As far as sales growth in the same restaurants, we continue to grow above nominal GDP for the year and above the industry. According to the released data by the Fast Food Institute Brazil, the sector grew only 0.6% in the year of 2018 and 2.6% in the fourth quarter. Our marketing strategy is very effective, we have acted new advertising adds in our menu, like *doce de leite* ice cream and the Mega Stacker Catupiry cream cheese, as well is setting up unique campaigns which position us in a differentiated matter. A good example of one of these campaigns is the "Whopper em Branco", which was done during the presidential elections.

Our profitability also grows expressively with an adjusted EBITDA growing at 36.7% in the year reaching R\$288 million. When we look at the adjusted EBITDA the margin, it also grows and it grows 50 basis points, getting to 12.3%.



Finally, the net profit also grew expressively in 2018 reaching R\$128 million, and with this we are going to distribute interest on capital in R\$30 million.

Now I'd like to ask my partner and CFO Clayton Malheiros to give you more details about the company's performance. Clayton, please.

Mr. Clayton Malheiros: Thank you Iuri. Good morning everyone. Going to slide 4, during the fourth quarter of 2018 we opened 65 new restaurants, of which 38 are self-owned restaurants of the Burger King brand, 8 self-owned restaurants of the Popeyes brand and 19 Burger King restaurants, which are franchised. In the year of 2018 would total 104 net openings and we closed the year with a total of 800 new restaurants in the country under the Burger King and Popeyes brands.

As mentioned by Iuri, throughout the year we inaugurated 29 of our self-owned restaurants in the freestanding model, that is basically we doubled the number of openings of this model when we compare to the openings in 2017. It's worth noting that although they are new units, these restaurants are already performing better than our average, being that 100% of them were developed in the South and Southeast regions of the country, places where the brand has higher awareness.

Beyond that, you can see on the left-hand corner that we also sped up the number of dessert centers openings in the fourth quarter, we inaugurated 51 units. With that we close the year with 356 points of sales of dessert, which represented in a net opening of 98 new points in 2018, showing a significant growth when compared to the net opening of 46 units in 2017.

Going to slide 5, our comparable sales growth in the same restaurants were 7.1% under a good base of comparison in 2017, when delivered a growth of 16.2%, reflecting the continuous evolution of the brand in the country, the performance of our innovation and marketing campaigns, as well as development of new sales channels like delivery and mobile order and pay.

In the year of 2018 the comparable sales growth was 6.5%, even with the impact of the truckers' strike and the World Cup in the second quarter. This growth makes it more significant when we take into account our comparison base for the previous year. Our net operational revenue increased 37.4% compared to the same quarter of 2017 and 31.6% when compared annually due to the comparable sales growth, opening of new stores and the consolidation of the acquired restaurants in the second quarter.

Going to slide 6 we present the development of our costs and expenses. With our efficient cost control made our expenses with restaurants, which includes cost of goods sold, expenses with sales and depreciation grew less than the net operational revenue. The total expenses reached R\$617 million in the fourth quarter of 2018 and as a percentage of the net operational revenue they reduced from 87.3 to 83%, showing an improvement of 130 basis points when compared to the same period last year.

The cost of goods sold as a percentage of net operational revenue improved 140 basis points in the fourth quarter of 2018. We went from 39.3 to 37.9%. This improvement shows more favorable products and the development of new sales channels like delivery and the efficient control of food inflation.

Now, the expenses with sales and restaurants excluding depreciation and amortization represented 43.2% of the net operational revenue, expanding 130 basis points versus the fourth quarter of 2017. This increase comes from the strong basis of comparison from the previous year when our marketing expenses were positively impacted by the tax credits, beyond higher expenses with third-party and preoperational expenses due to the higher number of freestanding restaurants and the opening of the first Popeyes restaurant.

If we exclude the marketing and preoperational expenses, the expenses with sales and restaurants has improved the 20 basis points in the fourth quarter 2018. In annual comparison, the total restaurant expenses as a percentage of the net operational revenue improved 110 basis points and reached 89.9% due to lower representativity of the expenses with depreciation and amortization and an improvement of 60 basis points in cost of goods sold, compensated by the increase of 40 basis points in expenses with restaurants. We also have a repair of maintenance and operational expenses due to the higher number of openings and more freestanding restaurants.

As far as general and administrative expenses, we had an improvement net of 190 basis, they represented 2.4% of the net operational revenue in the fourth quarter of 2018. We have lower bonds, corp bonds for legal demands and due to the higher concentration of revenues in the fourth quarter. This year these expenses represented 3.6% of the net revenue, improving 10 basis points compared to 2017.

Going to slide 7 we can see the solid growth of our adjusted EBITDA, which increased 50.6% and totaled R\$125 million in the fourth quarter of 18, result of strong growth in the net operational results, control of the growth margin. With that, the adjusted EBITDA margin increased 170 basis points and reached 17.5%.

In the year, the adjusted EBITDA led to 218 million, which represents 36.7% vis-à-vis 2017 and the adjusted EBITDA margin of 2.3% showing a growth of 50 basis points.

Still on this slide, we can see that the company presented a net profit of R\$84 million in the fourth quarter of 2018, an increase of R\$62 million when compared to the fourth quarter of 2017, reflecting strong growth of the operational revenue, an increase in gross margin, operational leveraging and the nonrecurring effect of a tax credit in the amount of R\$30 million.

In the year, as said by Iuri, the net profit increased to R\$128 million due to better operational results and nonrecurring effects, which has been added.



In slide 8 we present the Capex, the financial leveraging, operational cash flow of the company. In the fourth quarter 2018 we had a Capex of R\$146 million, an increase of 111% when compared to the fourth quarter of 2017. The investments were guided mainly to the development of freestanding restaurants, the speeding up of dessert centers, renovations of restaurants, besides the structuring and the opening of Popeyes restaurants.

In the year the total investment was R\$139 million excluding what was done in the second semester of 2018. As far as financial leveraging, we closed the year with a net cash of 124 million, position previous to the fourth quarter of 2017 mainly due to the use of part of the IPO funds to do the opening of restaurants.

At the end of 2018 our cash flow was positive and represented 305 million, which represented an improvement of 83%, R\$423 million when compared to the cash generation of R\$167 million in 2017. This shows us better financial results with better leveraging as well as the active management of the working capital.

With this I pass the word to Iuri to conclude our earnings presentation.

Mr. Miranda: Thank you Clayton. Well, to finalize our presentation, I would like to go to slide 9, please, and I would like to note some important projects that we have prioritized in that year of 2018.

The first one was the acquisition and also the incorporation of 51 good franchise restaurants from our own base of operations. We have opened a new front of growth for the company with the Popeyes brand and we are very excited with the initial results and we already have seen the evolution and the acknowledgment of the Popeyes brand in the city of São Paulo, where our first restaurants were located. We follow our strategy of focusing in the São Paulo region and in restaurants in the big malls. We continue to develop new sales and service channels for our clients, and we already have the delivery service going in over 100 restaurants, besides having implemented, as Clayton said, the mobile order and pay app in most of our restaurants.

We will continue to invest in technology, and we will continue to improve the experience of our consumers. We are improving our CRM (our customer relationship manager) and advancing even more in our strategy of digital marketing. We expect considerable differentiation compared to our competitors.

And, lastly, the organic growth of the company continues at a strong pace, we have maintained the strong expansion actions in Burger King, and as was planned we have accelerated relevantly the opening of freestanding restaurants, of which, like Clayton said, have a performance above our expectation.

And finally, as far as our same-store sales of 6.5% in the year, we have been able to maintain growth above nominal GDP, although our second quarter was very challenging.

With this, I would like to open up this call for Q&A. Operator, please, let's go to Q&A.

Question-and-Answer Session

Operator: Ladies and gentlemen, we are now going to start the Q&A session. To ask a question please press star 1. To remove your question, please press star 2.

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

Mr. Ford: Good morning. Congratulations for your great results. Iuri, could you talk a little bit about the trends so far this year as well as competitive environment so that I can understand some of the discounts? You know, you have a new expansion of new competitors as well, how do you see that?

I know it's still early, but can you tell us about the last openings, like Popeyes, especially in places where you have challenges? And your expense is very impressive, you talked about lower contingencies, but how sustainable is your current expense rate and how do you see this development from here forward, please?

Mr. Miranda: Hey Bob, good morning. Thank you for your questions. I'm going to start with Popeyes, you asked how we are seeing Popeyes. Well, the first restaurant has been opened on October 10th, and like I said, we closed the year with 8 restaurants. What we can say is that our expectations have been overcome and we are very excited with this beginning.

Sales have gone above our initial expectations and this is something that is very important for us. As you know, we do like researching quite a bit, we like to check with consumers, check consumer surveys as far as what we are doing and the feedback that we got from the clients has been very encouraging.

We have also begun to research, and we see our brand recognition, which is growing even with a few months of operation, and as I said, besides the perception of quality, we have a perception of quality which is above the market average.

You asked how we see the issue of Popeyes openings ahead, like I said, we opened up 8 restaurants in malls, in São Paulo malls, in the greater São Paulo region malls and in 2019 we intend to speed up gradually the opening pace and we do believe that we will have something around the double the openings that we had in 2018.

We are working to choose, to select different kinds of malls in a way that we may understand how the brand and how the product performs in different markets.

As far as competition, we really have seen the market as more competitive at this beginning of the year, we intend to continue our strategy of maximizing sales and margins combined with the strength of the brand, which has been growing year after year, and consumer preference has also grown, and we understand, and we believe in the superior quality of our products.

As far as the level of expenses, we have been leveraging the growth of the company, so when you look at the earnings growth in our business this brings you leverage, you know, in expenses leveraging, so we see that as a natural move, but I'm going to ask a Clayton to give you a little bit more detail to you as far as what we see forward.

Mr. Malheiros: Good morning Bob, this is Clayton. If we look at it annually, we will see an improvement of 10 basis points compared to the previous year, so yes, there are opportunities of continuing evolving, but we also understand that the company has made some moves to prepare itself for what's to come ahead, especially as far as digital and new sales channels, therefore, this makes us look for this improvement, but capturing eventual opportunities, which are additions to our G&A, additions to or corporate DNA, which will help us to capture more sales at a restaurant level.

So, we've been trying to find the best balance between operational leveraging with savings and cost reduction, while still capturing the opportunities.

Mr. Ford: The McDonald's discount, what kind of impact has it had on you?

Mr. Miranda: Well, like we said, we do see the market as more competitive nowadays, but we still continue to believe in our strategy, our strategy of combining sales growth with margins, not only related to this competitor that you just have mentioned, but also, you know, the market as a whole. I think it is part of the retail market and we maintain our strategy.

Mr. Ford: Thank you. Congrats once again.

Mr. Miranda: Thanks Bob.

Operator: Our next question comes from Pedro Fagundes, from Bradesco BBI.

Mr. Fagundes: Good morning. Thank you, guys, for taking my questions and congratulations for your earnings. I just wanted to go into details as far as expenses. I had seen that, you know, taking a look at your expenses breakdown I see that the "others" line, which was about 17 million in the full year of 2018, was very concentrated in the fourth quarter, and last year it was a little bit more spread out. Can you let us know why this happened and what we should be expecting just so we can adjust this line for the next few years?

And the next question that I have is just if you could perhaps go into detail regarding technology, I mean mainly the development of the digital coupons, but also Iuri talked about investments in technology, so I would like to know what you guys are planning for 2018 as far as the app, if you're going to set up or if you're going to choose to do some kind of different move this year.

And the last question, a more qualitative question, I wanted to know how you think about leveraging the data that you are capturing through your CRM, mainly in the app. Thanks.

Mr. Miranda: Pedro, thank you for your questions. As far as the first piece of your question, the expenses, like you said, it is important that you take a look at that throughout the year. So, when we look at it throughout the year, we do see a balance when we compare to 2017.

The reason why it is all accounted for in one quarter or in one semester, you know, it's basically the accounting of some commercial agreements, you know, due to a question of timing with some suppliers, it is related to the signature of some agreements and I think that question of timing just basically balances itself out during the year.

As far as technology, I'm going to join both the answers to your third question, and I'm going to answer both questions, I'm going to answer your question about CRM. We see technology as an additional channel of sales, of services, like I said, and so order and pay has been evolving year after year, it's not the first time that we have mobile app, we have enhanced the app in the year 2018 and by the number of downloads that we already have we see that our consumers really did appreciate quite a lot the improvements that we have brought upon the app.

I think technology is not only what the company does, but how the consumer recognizes and utilizes that which you are developing. I'm commenting on this specially to link to your third question, which is the question about CRM. What we do believe is that not in the quantity of information that we have because I the data we have enough data and we'll get even more data are in the future, but the big priority that we give internally here is what is the data that you want to use and how do you want to use this data, because, sincerely, the possibilities are almost infinite as far as what you can do with data.

The strategic issue – and I would like for you to understand the strategic issue – and that is what is information that you are going to use and how you're going to use it. So that's our biggest focus with CRM: to decide what specific data we are going to use and how we are going to use it in a way that we might understand and have a better interface for our consumer.

So, you will see more projects for consumer interaction and specific advertising campaign through this type of interaction.

Mr. Fagundes: Perfect, thank you. Just a quick follow-up as far as the question that Bob made earlier. As far as gross margin, you talked about the competitive environment, that it's a bit more intensive, a bit fiercer. Can you help us to understand a little bit better the margin expansion in the fourth quarter and if we should presume a continuity in this margin from here forward?

Mr. Miranda: The answer that I gave to Bob is very similar, actually, it's the same that I'm going to give to you as far as we really don't change our strategy, our strategy continues to be to seek a balance between sales growth and margin and profit, and when we take a look, for example, at what happened in 2018 then we see that this strategy that we have been depending for some time it does work because we not only increased our sales above industry rates, but at the same time we were able to generate profit through some of the initiatives that we have before mentioned, and we believe that they continue to be valid for the future, you know, the sales channel, the way you interact with the consumers.

So, we continue believing in this the strategy and we believe that the move to balance sales and profit is something that we continue to go after in the future with the market situation as it is, the one that we had before and the one that we have now. And so, we don't have any change in strategy as far as the scenario that you mentioned before, which might be more competitive recently this year.

Mr. Fagundes: Thank you.

Operator: Our next question comes from Marcel Moraes, from Santander.

Mr. Morais: Good morning Iuri, Clayton, Cintra. Congratulations for your earnings results. I have 2 questions. Please, apologize if it's going to be repetitive, I was on another call and couldn't listen. I didn't actually grab the beginning of this call. You had same-store sales of 7% in the fourth quarter, above a very strong customer base. When we look and when we go into the first quarter, the second quarter, your base is weaker. So, do you understand that there is space for you to speed up? What do you think your performance is going to be in terms of numbers?

Then the second question is related to gross margin, it expanded. I understand that you are not as promotional in the fourth quarter as you had been previously, but you have been more promotion-based in last years, so this gain in margins I understand that there are various factors leveraging it between them, new business models.

The question is: What are the main drivers of this growth margin expansion? And throughout 2019, which ones continue driving the gross margin up?

Mr. Miranda: Thank you Marcel for your questions and also for the acknowledgment of the earnings. Let me start with the issue of same-store sales. Just a quick correction: Actually, when you think about the 2017 numbers... sorry, 2018, the first quarter of 2018 is a high average, and it's the biggest one in the year. Just to correct myself here.

Now, going back to the issue of the environment and the scenario, you know, normally we don't provide a guidance, but it is important for us to know that although there was an expectation from the market, from various companies around the beginning of the new administration, we still believe that the economy is still trying to gain traction.

We believe that the taking back of employments is an important move for the industry. And like I said, we don't alter our strategy of seeking out a balance between what we generate in sales and what we have as far as margins. The leverages, these leverages, technology is one of them like I said, I mentioned new sales channels that we have been developing, I mentioned an increase of new dessert points of sales, I mentioned new restaurants that were opening, and which have been bringing us a very interesting return.

I can't tell you that is just one silver dollar, though brand itself continues to grow its stature, it continues to become more acknowledged with effective marketing, advertising campaigns. We don't see this as an isolated event from a certain quarter, we see this as a consolidation of a strategy that we have been following consistently throughout the years and we don't see this as a reason to alter it.

We are going to add, like I said, new sales channels, new ways of interacting with the consumer and we maintain our growth and our strategy. This is basically what we see as far as 2018 and I don't see any reasons to see 2019 separately, differently.

Mr. Morais: Do you think luri... I'm trying to understand, the gross margin is around 62%, 62, 62.5 or around that. Looking at 2019 and forward, the trend that it gets closer to 63 than 62. Can we imagine that that's the path?

Mr. Miranda: Marcelo, I understand your question, but once again, since we don't provide guidance, I wouldn't have any way of commenting the specific level of margins, but what I can tell you – I'm going to repeat this, this is very important for us – our strategy of combining sales and margin generating better results for the company has worked and we will continue to evolve this.

Whenever we find the possibility of adding these things generating more results that's what drives the company actions.

Mr. Morais: All right luri, thank you.

Mr. Miranda: You're welcome.

Operator: Our next question comes from Luiz Felipe Guanais, from BTG Pactual.

Mr. Guanai: Good morning everyone, good morning luri, Clayton and Cintra. My question is related to the freestanding stores. Could you share with us how the panorama is to find the points of sales, if you are still finding good negotiations with the property owners? And adding to this question, you talked about some drivers, luri, which might sustain growth margin, eventually increasing in the next few years, and delivery should be one of these drivers.

If you could talk a little bit more about how we can expect the penetration of delivery in the next few years for Burger King. Thank you.

Mr. Miranda: Thank you for your question. As far as freestanding restaurants, we had been commenting I remember at the beginning of last year when we used to say that the cycle of development of freestanding is a longer cycle if we compare it to other formats, like, for example, the mall format, and we said that we were going to prepare ourselves to speed up, I think that the number of openings that we did in 2018 shows that we have prepared, and this preparation was not only in 2018, actually it starts before so that you can deliver the year of 2018.

We continue to generate the pipeline, we shouldn't change our strategy of continuing to focus in the opening of this format, a freestanding format, and for that we understand that the generated pipeline for the year is something important to be delivered in the next year.

As far as how we see the market of real estate, we continue to see opportunities, like I mentioned, I think that the economy is starting to show signals of recovery, which means that there are still many opportunities out there, and the other thing that is important also is that the more the brand gains the more the brand gains stature, more attractive it is for the property owners to provide the rental for us. So, I think it's a combo of both things and there is a positive cycle there.

As far as sales channels and delivery, this is strategic information, but I would say that we do see this positively, we see the growth of delivery positively in the future, we see that this happened in other markets as well, but I go back to the initial point as far as technology.

Well, we finished the year with 100 restaurants, but most importantly than simply you have an offer and say that you have this offer is how you make that offer and how your clients react to that offer, so having delivery just for delivery we don't believe that is a solution. We are utilizing technology and data sets to provide a unique user experience that is recognized by the consumer as differentiated and we want to continue to deliver the acknowledge quality of our products whatever the sales channel that we are utilizing to make that sale to interact with the user.

In other words, it's not because of we added sales channel that we are going to accept that the Burger King product quality that gets to consumer be different. I think that's the challenge and that's how we think.

Mr. Guanai: Thank you luri.

Operator: We now close the Q&A session for Burger King. Now I would like to pass the word to luri for final considerations.

Mr. Miranda: Once again I would like to thank everyone for your interest. I know that this time of the year, especially this week, you have various earnings reports to go through and you have to do various analysis at the same time, and you have to



participate in various disclosures, and so once again thank you for your participation and for the interest in our company.

With this I wish you all a good end of the day and a great Carnival.