



BK Brasil Operação e Assessoria a Restaurantes S.A.

1Q18 Conference Call Results

Operator: Good morning everyone and thank you for waiting. Welcome to **BK Brasil** conference call for our results referring to the first quarter of 2018. Today we have here with us the executives **Iuri Miranda – President of BK Brazil; Clayton Malheiros – Financial Director; and Marcelo Cintra – Investor Relations.**

We inform this event is being recorded and all participants will be only hearing the teleconference during the presentation of BK Brazil. Afterwards, we will start the Q&A, when more instructions will be provided. In case you need any help during the teleconference, please press star 0 for an operator.

This event is also being transmitted simultaneously through the Internet being available at: www.burgerking.com.br/rj, where you can find the presentation. The selection of the slides will be controlled by you. The replay of this event will be available right after its ending. We would like to inform that this teleconference is being translated to English in order to attend our foreign investors.

Before we go forward, let me mention that forward-looking statements are being made under the safe harbor of the securities litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Burger King and on information currently available to the company, as well as information available for BK Brazil.

Future-looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may happen or not.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of BK Brazil and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. **Iuri Miranda**, 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 actually good afternoon for those who participate from Europe. Once again, thank you for the interest in our company and for the participation in this results teleconference for the first quarter of 2018 for BK Brazil.

Please, let's get this like number 3 of our results presentation, we highlight the first quarter results. We opened 13 restaurants, with that we overcame the milestone of 700 Burger Kings in the country and we finalized the quarter with a total of 709 restaurants, what means a growth of 111 restaurants in the last 12 months.

Beyond that, as we had already disclosed in March, we signed with Popeye's Louisiana Kitchen the agreement to be the master franchisee of the brand in the country. With this, our company BK Brazil has the exclusive right to develop and operate restaurants through our own restaurants or franchises during a period of 20 years.

In operational and finance terms, we have been delivering strong performance within an economic scenario of slow growth. The net operational revenues grew 24% against the same quarter of last year, reaching R\$483 million with the opening of new restaurants and the significant growth of comparable sales in the same-store sales of 10.3% in the first quarter of 2018, on top of a growth from the previous year, which had already been very significant of 11.3% in the same quarter.

The sales performance reflects the launching of new products, like the Mega Stacker Atomic in the premium lines; desserts with Oreo in our menu; competitive structure and the continuous growth of our brand. These brand growth initiatives leave us very happy and honored with the recent disclosure from *Veja Rio* where Burger King was elected the preferred restaurant brand by the Rio de Janeiro residents.

Still with our sales results, it is worth noting that according to the food service Institute of Brazil the growth of comparable sales of the industry were only 0.6% in the first quarter of 2018, what makes our performance an indication that we are still attracting new consumers and gaining market share.

Beyond the sales growth, our profitability maintained a continuous improvement trend with a growing adjusted Ebitda in 47% for the year, taking our Ebitda to a growth of 120 basis points when compared to the first quarter of 2017, aligned with the operational results and also benefiting ourselves from a financial result which is superior in the quarter due to the slower leverage we provide a net profit of R\$ 9 million in the quarter, which shows the growth of R\$ 29 million when compared to the same period of 2017.

To give more details about the company's performance, I'd like to pass the word to Clayton, our CFO. Clayton.



Mr. Clayton Malheiros: Thank you, Iuri. As you may see on slide 4, and already said by Iuri, we opened 13 new restaurants in the first quarter of 2018, 5 are company-owned and 8 are franchises. Beyond that, we transferred 2 of our company-owned restaurants to our franchisees maintaining our strategy of maintaining our return on investments on our restaurants.

As far as new restaurants, we continued focused on the opening of desserts stands, which represent 50% of the net openings of our company-owned restaurants in the period.

As you can see, during the first quarter of 2018 we added 6 new points of sale of desserts reaching 109 units in operation. Beyond that, it's worth noting that this format has the biggest expansion potential giving above average profitability.

Additionally, we would like to remind you that in the beginning of April we concluded the acquisition of the *franquiado centro-sul*, which operates 51 restaurants in the state of Paraná, Minas Gerais, Goiás, Mato Grosso and Mato Grosso do Sul. The price of acquisition was approximately 393 million, still subject to adjustments, and the consolidation of the results will start to happen in the second quarter of 2018.

Going to slide 5, we continue to deliver strong growth, comparable growth in the same restaurants, reaching 10.3% in the first quarter 2018, on a strong basis of the same quarter of last year when we delivered 11.3%.

With this, our net operational profit showed 28.3% compared to the first quarter of 2018 comparing it to the same period last year. This expressive growth was result of opening new stores, the maturing of open stores in the last 12 months and the strong growth in same stores sales, reflecting the consolidation of the brand and a continues quality improvement in our services.

It's important to highlight the strong results from the restaurants that the opened in the last 2 years, 2016 and 2017, which represented 24% versus approximately 20% in the previous quarter, as mentioned in our last results call.

On slide 6 we have a summary of the evolution of the costs and expenses. Our continues focus in cost control and efficiency gains took the total expenses with restaurants, which includes cost of goods sold and sales expenses, to grow less in the net operational profit. As a percentage of the revenue, the expenses reduced from 25% to 23% in the first quarter of 2018 representing an improvement of 210 basis points.

The expenses with sales in restaurants, excluding depreciation and amortization, as a percentage of the net revenue, was 29%, showing a reduction of 180 basis points in the comparison with the first quarter of 2017, reflecting the strong capacity of operational leveraging in our business.



As far as our cost of goods sold, we have an improvement of 10 basis points when compared to the first quarter of 2017, resulting in higher efficiency in marketing with a focus on profitability in traffic increase in our restaurants, which should continue to benefit the company brand throughout the year. In the comparison with the fourth quarter of 2017, we had an even better performance since the fourth quarter of 2017 was impacted by specific promotions and commemorative dates, as we mentioned in the last call.

Going to general and administrative expenses, we are going to present an increase in the first quarter reaching 4.9% of the net operational revenue, a growth of 70 basis points when compared to the same quarter of 2017. This increase reflects especially the increase of expenses with provisions for legal claims and things due to the change in the national convention of the company and the regulatory costs associated to the opening of the capital of the company, and still was growing less than the total revenues.

Going to adjusted Ebitda growth, we can see that we continue to benefit from the operational leveraging of the business growing 47.2% when compared to the first quarter 2017, improving 120 basis points in the adjusted Ebitda margin, taking the margin from 13.3% from the first quarter 2017 to 7.5% in 2018.

Finally, as mentioned in the Iuri's introduction, the company presented net income very positive, with a loss of 20 million giving better results for the first quarter in the history of the company, reflecting the solid growth of the income, strong operational leverage, growth of profitability in the company's existing portfolio.

Going to slide 8, we highlight the Capex, the financial leveraging and cash flow. In the first quarter 2018, we had a total Capex of R\$45 million. These investments were guided to opening new restaurants and dessert stands, as well as investments in technology and operational improvement projects. The entry of resources from the IPO done in December of 2017 with the lessening of the expenses continues to increase cash flow in the company, which closed the semester with a strong result.

And this allows us to maintain our expansion project, being it through opening new restaurants, or seeking out new opportunities. With all of this, it is important to reinforce that in April we concluded the acquisition of *franquiado centro-sul*, which could give us 193 million to our cash position.

Now with the cash position, it totaled R\$134 million, which represented a significant improvement from the same quarter of 2017. This positive variation is due to operational result, which is superior due to lower financial leveraging and an active management of the working capital, which still continues to benefit from our project.



We also highlight that the cash generation is seasonally impacted by the lower level of store openings in the first quarter versus higher openings in the second quarter due to a normalization of our Accounts Payable and strong sales in December.

With this, I pass the word back to Iuri for him to conclude our presentation.

Mr. Miranda: Thank you, Clayton. Well, to conclude our presentation and to start the Q&A session, I would like to take advantage of this opportunity to reiterate our priorities for 2018, and as you can see on slide 9, the first quarter left us very excited and very trusting as far as the realization of our deliverables for 2018 and we want to reinforce our commitment to the priorities of this year.

We at BK Brazil continue to maintain strong sales growth through the opening of restaurants and dessert centers, company-owned and franchises. In the first semester of 2018, we were able to do more store openings than what was presented in first quarter of 2017 with the inauguration of free-standings.

As far as new technologies and services, we continue to invest in new sources improving our consumers' experience in seeking to increase our sales and marketing. We are going to continue focused on implementation of our delivery service, we also have already done the launching of our new cell phone app in March 2018, which allows our consumers to make an order and to pay directly through their cell phone. The new app will also allow us to have better understanding of the purchasing habits of our clients.

As far as inorganic growth, we have announced in April the conclusion of the acquisition of a franchisee with 51 restaurants. The consolidation of this operation, as Iuri said, will be reflected in the results after the second quarter of 2018.

And lastly, we announced during this quarter the signature of the master franchisee contract with Popeye's. This is going to give us an addition route for growth in the chicken fast food market, where we see a huge potential, which is still very little explored in Brazil.

The solid results from the first quarter aligned to our execution discipline seeking out the strategies that we established, this all leaves us very trusting that we are going to grow consistently, even though we have a slower economic recovery.

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



Question-and-answer Session

Operator: Thank you. Ladies and gentlemen, now we are going to start Q&A. To ask a question, please, press star one. To remove your question, you can press star 2.

Mr. Richard: Good morning everyone. Two questions: I would like to ask Luri first about the opening of the free-standings. And I would like to know if you could tell us a little about the planning of the free-standing openings during the year, if this is aligned with your plan as far as land lease and works.

And the second question is about Popeye's, if you can give us an update as far as you are in the process of opening your first Popeye's store, your pilot store. And you are in the process of setting a team for Popeye's? Thank you.

Mr. Miranda: Hey Richard, good morning! Thank you for the 2 questions. Well, let's begin. Let's begin as far as opening of free-standing stores. Well, we still continue very excited and with the correct strategy of taking advantage of the moment, you know, we've been able to expand down the street, the returns from the last restaurants that we had on the street have been very encouraging and the last dance has given us results which were superior to expectations and, you know, after we have the operational maturity this will continue to grow, and we will have a growth in the stature of the brand.

I talked about the *Veja* article where we were chosen the preferred restaurant by the Rio de Janeiro residents and this brand benefits from a free-standing. So we continue to see this trend even in the restaurants that we just opened, the sales performance from them have been superior to our expectations.

And as free-standing really does have a longer cycle of development, well, all of our pipelines from 2018 naturally it was done in 2017 and we followed in the pace of implementation. So, yes, we do have a pipeline complete for 2018 totally identified and it's a question of licensing and building. So we are aligned with the plan and we are trusting the plan and we will be able to deliver the quantity of free-standings promised.

Now, as far as Popeye's, where we are as far as the procedures, well, that's also a very encouraging piece of news. Let me start with the final piece of your question, which is team allocation. You know, it's been very little since we announced the signing of the contract, but we like speed, we already have a team indicated, we have a project lead, we have a person in development, we have a person in supply, we have a person for marketing, so the team has already been set up, and in the last few weeks, 6 weeks approximately since the signature of the contract, we had lots of progress, and as far as menu construction, as far as initial talks with suppliers, even as far as customization based on local consumption habits, initial thoughts with developers, development and the adequation of layouts together with the Popeye's team from the US, so lots of progress



has been made and they are on track to deliver the first restaurant at the end of the year as we had announced.

Also, like I said in the call for Popeye, our strategy continues to be to open the first restaurant in São Paulo and then to open the first restaurant in malls. So we are on track with the Popeye plan.

Mr. Richard: Okay, thank you, Iuri. And if I may just have a follow-up question. It's a question, more a housekeeping question: On the second quarter you have the World Cup and that will probably complicate things a little bit, and so could you just perhaps tell me about your expectations from the World Cup and also tell me how many stores you have now operating with delivery? Thank you.

Mr. Miranda: Okay Richard. Welcome as far as the second quarter, now you're looking at April and May, okay, we are aligned with our growth expectations for the year, which is to deliver growth, same-store sales above the nominal GDP. So we continue this expectation.

Likely you said really, historically there is an effect, you know, World Cup effect, we saw this in the last 2 World Cups of course, and it's also worth noting that we will be in the second quarter we are going to do a comparison with the strongest numbers that we had last year and perhaps our second semester of 2017 we had same-store sales of 14.2%, we also see some calendar effect, which could happen in the second semester.

But regardless of that, we maintain our annual plan, which is growth of same-store sales of nominal GDP.

Mr. Richard: Okay, thank you, Iuri.

Operator: The next question comes from Robert Ford, Bank of America.

Mr. Ford: Thank you and good morning. Could you tell us about the development of the new stores compared to McDonald's?

Mr. Miranda: Hey Bob, thank you for your question. Thank you for congratulations and congratulations for speaking in Portuguese. I would like to see if I understood correctly your question, and so you want to compare our results to what the competitor has gone in experience of the future?

Mr. Ford: I want to understand the impact of the remodeling program with the format experience of the future.

Mr. Miranda: Well Bob, sincerely, I can't really tell you much as far as what sales results... the competitors' reforms have done, but on our side, when we look at our first quarters delivering 10.3% of same-store sales in an industry which has 0.6%, according to sources,



we seem to continue in the right path of attracting new clients and also of gaining market share.

Having said that, I believe that an important part of our strategy, like I said, the entire piece of innovation that we are working with now as far as the digital environment, now the progress that we are making in delivery – and then I ended up not answering the question that Richard had made, I'm sorry, Richard, it was, how many restaurants we had delivery – and we have approximately 60 restaurants with delivery and a digital platform totally integrated, we launched a new mobile app, like I said, also delivering integrated and a differentiated experience to the consumer, we have seen also as far as toppings and request we are seeing good results and so adding to the brand growth that we have had as far as the brand awareness, brand preference, and the assertive marketing campaign, plus the development that we have done as far as digital strategy and opening restaurants, which have given us good return.

I believe that we have seen this in the same store results and the efficiency gains of the company.

Mr. Ford: What kind of increase in margin is delivery giving you in the same stores? And what about the behavior of client with the electronic kiosks, please?

Mr. Miranda: Well Bob, as far as delivery, what we have seen at this time and what we can share with you, we did a pilot last year and we started to do a rollout now more massively, so it's still pretty immature for us to be able to share more solid number with you.

But what I can say to you is that we have measured the experience through the client satisfaction, this is one thing, and their satisfaction has been very good, I would say, and another thing that we see in delivery is the ticket, which is above the natural transaction ticket from a restaurant, and that's because people when they make a delivery they make a request for more than one person, even to dilute the cost of delivery. So we have seen a higher ticket which is very interesting for us, and basically they are using the same structure that we have in the restaurant.

Now is far as mobile app, the app has been launched, the new app has been launched now in March, from the previous app we had something around 6 million users, and we have 1,600 million users who already downloaded this new tool, which is a very good number for those who launched a little while ago.

So we are also starting to understand, with the new app, what this can actually generate. But I think that the actual number, the gross margin number that we presented in the first quarter, which is a development not only in terms of comparison from the end of the year, but the whole last year, shows that this technology that we are working with points us to a route of margins gains and sales gains.



The second point that I think is very interesting with business technology, I even commented about this, is that it's not only going to bring directly the question of margin for us, you know, sales margins, but it's also starting to bring to us consumer habits information, which can help us to customize and to gain and to even influence our product mix.

So I think it's a route that we are going to be able to gain benefits from that. But it's still very initial, and more towards the end of the year we will have more solid numbers to share with you.

Mr. Ford: Thank you Iuri. And congratulations to you.

Operator: Next question from Fabio Monteiro, BTG Pactual.

Mr. Monteiro: Good afternoon everyone. I would like to explore 2 things quickly here. One is related... well, you already talked a little bit about store openings, the pace that you're opening the stores, you're opening up a little bit quicker these stores. I wanted to know how this process is going as far as finding the locations and if you are finding difficulty if you need to increase the structure as far as store expansion. And you already talked a little bit about the free-standing stores, I wanted to know about the kiosks as well, how we are doing. And so this is the question more related to the expansion.

And I also wanted to hear a little bit about what you feel as far as the general consumer environment, I wanted to see if you've been strong in product launching, marketing strategy, these initiatives, and the stores, you know, the delivery, the app and everything, I wanted to understand how your positioning is in order to face the macro, which is better than during the crisis, but still has not bounced back fully. So I wanted to hear along those lines, okay? Thanks.

Mr. Miranda: Okay Fabio. Thank you so much for your questions. Well, let's begin as far as growth, okay? Well, actually, like I said previously, when you imagine that a good part of our growth is going to come from the street stores, this structuring needs to be done before hand. So if I say to you that we are starting to the structuring now, I would be delayed in my process. I would be late. So for the structuring of how we divided internally, the focus in more streets, in more free-standing, you know, the engineering piece, the procedures, the identification of location, all of this we started in previous years to be able to deliver the pipeline that we have for this year.

So it's a process, a procedure that we began a while ago, which is already ongoing, rolled out and on the way. What I would say is that we have seen an environment in terms of real estate, I would say that the environment is better than it was 3 or 4 years ago where we already bought to have occupation costs better than 3-4 years ago, and so it's a great



time for us to rent now, to lease, and so the team can have better rental negotiations with interesting costs, which also helps on what I have talked about beyond the sales piece.

The profitability and the return of the models, well, we have long-term contracts with an occupation cost which is very attractive, of a rental cost which is very attractive.

And as far as dessert kiosks, we wanted to accelerate the openings, we opened more than we planned, you made contact with the big mall networks and more, also we also have our pipeline being developed to grow more on this front because we think that this is a very important front for us. And so we are happy, we are structured to deliver the year's pipeline.

Now as far as consumer environment, I would say that the main answer to you here, and you already talked about some of the things that we are doing, I would say that it doesn't really change the strategy of what we have done in the last few years, and I see this reflected even in the same-store sales and the results that we have delivered of brand awareness and preference.

What do I want to say with this? The work that we've done is to understand the consumer and you need to understand the consumer, be it during economic crisis, be it during economic boom, or be it recovering economy. And a good example of this is that we deliver a same-store sale of 10.3% at the same time that we get better margins, at the same time that we are able to launch premium products, like I talked about the Mega Stacker Atomic, we can have dessert launches, and at the same time we have a balanced menu offer, which understands the needs of the consumers, be they premium products, be they desserts, or be they more accessible cost, lower cost menu.

And so when you add a marketing strategy, which is adequate, with innovative, intelligent campaign with the balanced menu and at the same time I understand the consumer trends digitally, the new ways of being able to relate with this client through delivery, totems, mobile apps, you close a cycle where you are communicating better with your consumer and he's answering, be it through the recognition of the brand or be it through increased sales in margins.

Mr. Monteiro: Okay, that's great. Awesome luri, thank you so much.

Mr. Miranda: All right, thank you Fabio.

Operator: Ian Luketic, JP Morgan.

Mr. Luketic: Good morning luri, Clayton. Well, most of the questions have already been answered, but I would like to know how was the company's plan for breakfast and, you know, you guys focused on desserts. Can we presume that the next activity will be breakfast?



Mr. Miranda: Hey Ian, thank you for your question. And in a general way, no, not yet. We believe that there are other priorities for us in the year; I'm talking about the year of 2018 before we address breakfast.

Now, everything that we have as far as digital and the first results that we have seen they are very encouraging, and when we see, for example, when we launch a premium product which brings an improvement of margin, improvement in sales, we see an avenue there, the partnership that we have done with desserts as well, so in the year of 2018, we see more clear avenues than starting breakfast.

We don't totally disregard this for the future, but we are focusing on the things that we saw as the year's opportunities, the main priorities for the year.

Mr. Luketic: Thank you Iuri.

Operator: Ladies and gentlemen, we now close the Q&A session. I would like to pass the word to Iuri for final considerations.

Mr. Miranda: Well, first, I would like to thank everyone for your time, for your participation, the interest in our company, also thank you for the questions, which were very interesting. And I would like to leave our IR team available to you for any questions, any additional questions that you might have.

With this, I would like to wish everyone a great end of the day, afternoon for those that are in Europe. Thank you.

Operator: The BK Brazil audio conference is now closed. Thank you for your participation. Have a wonderful day and thank you for using Chorus Call.