International Conference Call
Burger King Brasil S/A (BKBR30
1Q21 Earnings Results
May 7th, 2021

Operator: Good morning and thank you for waiting. Welcome to BK Brasil conference for discussing the results with regard to the first quarter of 2021. Today we have Iuri Miranda, Clayton Malheiros and the team of relationships with investors.

We'd like to let you know that this event is being recorded and all the participants are only listening to the teleconference during the presentation of BK Brasil earnings call, and then we're going to have a Q&A session and then we're going to provide you more instructions.

In case any of you need any assistance for the teleconference, would you please ask for support dialing *0. This event is being simultaneously broadcast for the Internet and it can be excessive on www.burgerking.com.br/RI, where you can have the respective presentation, and the selection of the slides will be controlled by users.

We would like to tell you that this teleconference is being simultaneously translated into English so that the foreign investors can understand what is being said.

Before proceeding, we would like to clarify that any type of declarations, claims that can be made in this teleconference call with regard to respective projections, operational targets, and financial operations they are based upon the Board positioning and all the information are available. For future considerations, they are not a guarantee of this performance because they also are related to risks and future events that may or may not take place.

Investors and analysts must understand that general economic conditions and industry conditions and among other factors can't interfere the performance of the company and conducted to results that is different from what is being presented here.

Now I give the floor to Iuri Miranda, president of BK Brasil, who's going to start the presentation. Please, Iuri, you have the floor.

Iuri Miranda: Thank you very much for the introduction, operator. Good morning everyone. I hope you and your families are well. Thank you for your interest in our company and for participating in this conference call to present the results of BK Brasil for the first quarter of 2021.

After the sales recovery we had in the fourth quarter of last year, the beginning of this year was marked by the combination of the expected resumption that we built and throughout 2020 in the scenario of the second wave of this pandemic that culminated in the intensification of restrictive measures in our country.

When we look at the quarter, January and February were impacted on a smaller scale with sales reaching a level similar to the end of 2020. However, starting in March we had a greater impact to due to the intensification of the lockdowns, where we reached almost 40% of our restaurants closed. Despite this impact, I would like to highlight the resilience we had throughout the quarter, which was favored by the performance of our digital sales.

More than ever, the structure of investments in technology that we have made in the recent years and that we continue to make have played a critical role in supporting this growth. Our sales by delivery, totems, applications have more than doubled their participation from 2020 till today, which accounted for a gain of more than 17 percentage points. This performance helped us to face this second wave in a much more structured fashion. On top of that, drive-thru sales, which are just as important, grew by more than 80% in the same comparison influenced by the positive impact of our free-standing stores, which today already comprise more than 20% of our store base, restaurant base and growing according to our expansion strategy.

I would like to highlight to that we started this year with a solid net cash position after the follow-on that we carried out at the end of 2020 and with the balance that balance… and without some major short-term impacts. This gives us the strength of the balance sheet and the security to go through the second wave, look for opportunities to consolidate this post-pandemic period and also continue with our strategy based upon the pillars of technology, expansion, and profitability.

When we look at the steady growth in off-premise sales, we see that the decision we made to direct the company to a food tech, I mean, to place the consumer at the center of the decision and look at the potential for generating added value of each initiative using technology as a tool for generating value, reducing friction, and also increasing productivity, begins to generate benefits and increasingly clear horizon of the competitive advantage we are building and the difference this will make in the future.

This journey started 2 years ago, and we will speed up quickly.

The combination of residual off-premise sales with a gradual return on on-premise sales as we saw, for example, in the fourth quarter last year, is what we expect from now on with the flexibility of the operating phases in the states of Brazil. In fact, April sales were better than March and May started better than April. There is a direct correlation between the operational restriction phase and the evolution of the sales curve of our business. This curve is attenuated downwards with the restrictions and it's also attenuated upwards with less restrictions.

Let us combine this with the potential for organic expansion where we continue with good opportunities for projects to be carried out, both at Burger King in free-standing format and also in Popeyes. On top of it, it's worth mentioning that in the first quarter we inaugurated the first Popeyes brand store in Rio de Janeiro and there are new openings scheduled to take place.

In terms of profitability, we have maintained our discipline in this strategy revenue management in the search for greater efficiency in our restaurants and using technology to find new avenues of productivity. The self-service totem, already present in almost 50% of our restaurant chain, is a good example of it. Here we have a new User Experience enabling the use of e-Wallets and PIX (the Brazilian payment method). Another good example is the identification of almost 12% of our transactions through CRM, whose rollout is less than 4 months old. This allows us to have a strategy that ranges from micro segmentation by cluster of customer cluster to dynamic future customization. Undoubtably, a powerful tool that will evolve and benefit gross margins, revenue management, and optimization.

It's worth remembering that it took us 2 years working on this project until we were ready to have the rollout at the end of December last year.

We look forward to 2021 with a conscious look at a tracking recovery, but we're positive, confident that it's a matter of time for the advance of vaccination and return of sales on-premise. When we look at markets where the advancements of vaccination have already brought great stability and the return in the flow, for example, in the US the fast-food market has surprised us positively, we are convinced that the pillars of our business based upon product quality, convenience, use of technology, and opportunities for expansion will continue to be key points for gaining market share and winning positioning in the fast-food market.

This is a resilient foodservice category, especially in times of financial recovery. We have seen this film in the past where our company gained market share at times where there was no operational restriction even with negative GDP.

Now I would like to comment on our results of the first quarter of 2021, please proceed to slide #3. Our net operating revenue reached R$562.6 million, a reduction of 13.3% when compared to the same period in the previous year explained by more severe impacts of the pandemic in this quarter. While in the first quarter in 2020 the impact started in second half of March, in this first half of 2021 we were impacted throughout the whole period with March being the month of greatest intensity with the establishments of lockdowns in many municipalities.

Despite this chop in sales, the digital channels, as mentioned before, maintained their growth trajectory and more than doubled their share when compared to the first quarter of 2020, representing almost 30% of the company's revenue. The digital sales represented by delivery, totem, and also our application increased by 121%, totaling almost R$162 million in this quarter. Same-store-sales in the quarter reached less 17% for BKB and the Popeyes brand, which has all stores in shopping malls subject to reduced traffic, dropped 32%.

However, I would like to highlight here the performance of free-standing stores that once again showed growth even in a challenging period of consumption with an increase of 5.3% in the quarter showing the strength and resilience of this format. Our food court stores, on the other hand, naturally impacted by reduced traffic in shopping malls, showed negative SSS levels.

In relation to financial results, the adjusted EBITDA reached minus 31.8 million, a decrease of R$45.37 million when compared to the first quarter of 2020, generating operational deleveraging due to not deluding the fixed costs of closed restaurants. But we see that the company was better to face this wave. For example, if we compare the operating cash flow in the first quarter of 2021 versus the first period in 2020, the impact was significantly less this year even with a loss of sales greater than what we had in the first quarter of 2020 versus 2019. Efficiency is also seen in lower SG&A expenses compared to the first quarter of 2020.

I emphasized that some productivity effects implemented with the acceleration of digital initiatives in the first quarter of 2021 they will be better observed in the second quarter of 2021.

As you already know, in early April we communicated a change in the management in the market, and our vice-president of finance and IR, friend Clayton Malheiros is going to a new project outside the restaurant industry and with that my partner Gabriel Magalhães, who served as a finance and RI director and that has been building a brilliant career in the company for almost 7 years, going through several important strategic positions, will assume the position as interim CFO and investors relation as of today, and Gabriel will make the presentation today. Clayton is also here with us and I would like to take the opportunity and thank him for all the contributions, achievements, for the professionalism, and the legacy that he has left for us for nearly 10 years in Brazil market.

And now I invite Gabriel, the CFO, for the opportunity and wishing success to him, so that he can give more details in terms of company’s performance. Gabriel, you have the floor.

Gabriel Magalhães: Thank you very much, Iuri. Good morning everyone.

Moving on to slide 4, we see that throughout the first quarter of 2021 the company opened 6 stores, 7 of which were openings and own BKs and 3 franchisees and 1 Popeyes, and the closing of 1 franchise. As a result of that, we ended the first quarter of 2021 with a total of 911 restaurants, of which 707 were owned by Burger King and Popeyes brands and 204 by Burger King franchisees, and we also inaugurated the first store of Popeyes in the state of Rio de Janeiro, ending up the quarter with 45 brand stores and all of which are own stores.

Slide 5 now, our net operating revenue reached 563 million, a decrease of 13.3% when compared to the same period in the previous years. The free-standings again show their strength, even with the restrictions they reached positive 5.3% of SSS in this period. After the consistent improvement in the sales scenario until the fourth quarter of 2020, we started this year with the expectation of a more normalized consumption environment. However, with the resumption of the restrictive measures in January mainly in São Paulo and Minas Gerais states where we concentrate more than 50% of our business, our sales were impacted by the reduction in terms of traffic in the main cities.

Giving a little more detail, January and February were impacted in a lesser extent with sales reaching a level similar to the end of 2020 in terms of comparable sales. As of March, with the intensification of lockdowns across the country, around 40% of our operations were closed, bringing our sales to a level of approximately 50% versus the pre-pandemic period, according to the chart nominal sales variation, as you can see on the right-hand side of the slide, where we have our performance since the beginning of the pandemic in the 2020 until the end of the first quarter of this year.

Additionally, in this graph you can also see that in April we had an inflection point with an improvement of sales versus the close of the first quarter.

Now on slide 6, we see a strong growth in sales of digital channels during the first quarter and continuity of the good performance of the previous quarter. These sales represented by delivery, totem, application followed a growth trajectory and increased by 121% compared to the first quarter of 2020, totaling R$162 million in the quarter, which represented 29% of the company's revenue versus 11% in the first quarter of 2020.

When compared to the fourth quarter of 2020, a period in which we had a record number of digital channels, sales remained practically stable despite the seasonality of the period mainly in totem and also app sales, which are greatly impacted by the reduction of consumption on-premise. In the central part of this slide, we can see with more details the growth of the channels with delivery being the largest share of sales followed by totem and then our app.

Now on slide 7, we have more details on sales delivery, which accounted for 142% versus the first quarter of 2020, an increase of 13.7 percentage points, representing more than 70% of digital sales. We ended the quarter with coverage of 560 company stores including franchises and Popeyes brands. The capillarity of our brands that are currently in the main aggregators seeking to guarantee fast delivery throughout national territory. Our own delivery continued to expand after the launch of its pilot project in 2020 with a platform that covers more than 100 stores, and this advance on this front with the rapid gain in scale is closely linked to solutions last mile that are able to help us to deliver the levels of service we desire for all our consumers.

Then, we have developed partnerships and tested the operational models so that we can gain maturity and advanced this year. The sales in drive-thru amounted R$124 million in the quarter, an increase of 82.4% compared to the first quarter of last year. This channel also represents great opportunities for the company and part of the investments in this year will be directed towards the opening of stores in a free-standing format that will further contribute to the growth of this vertical.

The self-service totems had sales growth of 72% versus the first quarter of last year with a gain of 2.6 percentage points, a representation of total stores reaching R$39 million revenue. We ended the first quarter of 2021 with more than 415 stores with equipment bringing efficiency to our operation and less friction to our customer journey.

Now sales through the app following a similar trajectory grew by 159% versus the first quarter last year. In the first quarter this year, we also launched the new version of our application for iOS and Android improving the shopping experience of our customers. Although still not very representative, we believe a lot in this functionality because it will help us out to be more efficient delivering a better experience to our customers.

In this first quarter we reached the mark of 32 million downloads of our app and we already have more than 9.5 million registered users in our platform.

Now on slide 8, we can see the various fronts of the digital ecosystem that we are building through investments in technology that we are driving our transformation. We believe that technology will help us through 3 pillars: (i) the first related to efficiency in restaurants. For example, with the installation of self-serviced totems, inclusion of new payment methods, and use of AI to suggest sales; (ii) the second pilar related to construction of omnichannel with investments in operational improvements and increase the capillarity in our channels, such as delivery, both in-house and through our aggregating partners, drive-thru and counter; (iii) and the third pilar through the improvement of the customer experience, through projects related to CRM fronts that will allow increasingly assertive interactions with our consumers.

Bringing some updates regarding to our CRM, after the rollout in the fourth quarter of 2020, we continue to invest in improvements in the important front that has enabled us to interact with our customers in a personalized way and to monitor the conversion of these interactions in our restaurants. The continuous increase in sales identified is essential for us to enrich our database and increasingly have efficient interactions, increasing purchase frequency, average ticket and consequently bringing greater margins to the company when we continue to improve our CRM and then automated strategies offering a basket of clustered offers within our application.

On top of it, as we announced on February 1st this year, we launched the Club BK, our loyalty program available to Brazil for the 32 million customers who have already download our app. The program already brings encouraging results when we analyze the strong growth of registered active users and we can see that the NPS of our program has proved to be superior to internal and markets references.

Now on slide 9, we present the evolution of our costs, selling expenses in restaurants and G&A. The cost of goods sold reached 41.5% of the revenue of first quarter 2021, an increase of 6 bps versus the first quarter of 20. Of the quarter's initiatives, we highlight the adjustments made in our King on Double pricing platform, in which we changed the focus of our communication on the 2 sandwiches for 16.90 and now 1 sandwich for R$9.90.

Now we are sustainable in the long and in midterm, and in addition, the challenging commodity scenario continues to put pressure in our cost structure, mainly on protein, and due to all flow restrictions, some strategic price adjustments were more sensitive. In this quarter due to the speed of the closing of our operations, we had an impact of 30 basis points referring to the loss of product. In addition, as we evolve with the company's CRM front, we will move forward in personalizing offers and reducing massive discounts, which will favor the balance of gross margin.

Now selling expenses in restaurants including depreciation and amortization amounted R$331 million in the first quarter of 2021, a decrease of 2.3% compared to the first quarter last year.

Despite the significant growth in delivery channel in the short time for any operational adjustments, the company managed to reduce its cost structure in restaurants by R$80 million when compared to the first quarter of last year. This reduction was generated partly by the drop in the sales in variable expenses and part in savings in mostly fixed lines, such as the selling expenses.

With the advancement of lockdowns in late February/early March, the company adopted some structural adjustments aimed at greater efficiency in our business. Now in terms of general administrative expenses excluding depreciation and amortization amounted 35.7 million in the first quarter of this year, down of 1% compared to the first quarter last year.

On slide 10, as already mentioned, the adjusted EBITDA reached minus R$31.8 million, a decrease of 45.7 million if compared to the first quarter last year. This result is explained by the impact on revenue resulting from the closing of stores due to the pandemic generating operating deleveraging due to the non-delusion love the fixed cost of closed restaurants.

Additionally, the growth of sales via delivery still in an incremental scenario ends up negatively impacting the company's margin in the period.

In the central part of the slide, we represent the company's net loss, which reached 162.4 million in the first quarter of 2021 versus a net loss of 55.6 million in the first quarter last year. This result was impacted by the operational activity due to the closing of the stores in the quarter.

In addition, as we did in the last second of 2020, in the first quarter of 2021 we chose not to recognize deferred taxes on tax laws in negative fiscal fees based in the amount of R$58.5 million until we can have clearer evolution of the pandemic.

On the right-hand side, we see the company’s total gross indebtedness reached 826.4 million, which combined with total available cash of R$615.6 million lead to a net debt of 210.9 million.

On slide 11, we have Capex and operating cash flow. The investments reached R$58.1 million in the first quarter, a down of 28.9 percentage compared to the first quarter last year. Despite the reduction versus the previous years, we opened 6 net stores in this period, highlighting the opening of the first Popeye store in Rio de Janeiro.

It is important to mention that despite the restrictive consumption scenario in the on-premise, the company has not stopped its investments in digital front, which already represent a significant part of our capital allocated in growth. On the right-hand side, we see that the company’s operating cash consumption was 103 million versus the cash consumption of 173.7 million in the first quarter of 2020, an improvement of 70.7 million. Despite an even more challenging operating result in the first quarter of 2021, the working capital positively impacted operating cash flow due to the lower level of openings in the last quarter and a more consistent working capital management.

With that, we finish our presentation, and we’d like to open for questions. operator, please now let's have the Q&A.

Question-and-Answer Session

Operator: Ladies and gentlemen, now we're going to start the Q&A session. In order to pose a question, dial asterisk 1. In order to remove the question, dial asterisk 2.

Would you please wait a while until we collect the questions?

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

Bob Ford: Thank you very much for choosing my question. As you have mentioned, today we have an important source of cash flow and working capital. What are you thinking about working capital for this year, and how can we think about the cash flow in the restaurants?

Iuri Miranda: Hello, Bob. Iuri. Before giving the floor to Gabriel, first of all I would like to say that I would like to wish you and your family be well at this moment.

Bob Ford: The same I wish to you!

Iuri Miranda: Thank you, Bob. First of all, I would like to start with the working capital. As Gabriel has mentioned, this is a work that we're doing with our suppliers and with this moment of balance of liquidity and with the restrictions of operations, so it's part of the work of retail and we really thank the comprehension of our vendors or suppliers because we're going to continue working and making a balance between good opportunities of investments and also administration of our cash flow.

And when we think about the cash flow and looking forward to the rest of the year, I would say that we started 2021 being prepared for the situation and we also believe that we are managing it very well as we commented during the presentation, because if you compare the cash flow of this year and the same period last year, we can see that we were less impacted.

And looking at the past and trying to project a future, on the third quarter of 2020 we already had balanced the cash flow with the breakeven, and now we see a second half of the year of 2021 still impacted by the gradual operation in sales and a better position from the second semester on, and we started seeing the sales, as mentioned before, in April they were better than March, May they are better than April and we have incentives of the Mother's Day in Brazil, but we still have most states that are still in the yellow phase or in the orange phase of this pandemic. It's better than what we had in March, when we had most of the states in red flag stage and even in purple phase, and we have an expectation for the second quarter this year, it's a situation which is way better than what we had in 2020, so we must see an improvement if compared to the second quarter of 2020, but we still didn't to reach the levels if compared to pre-pandemic period.

So right now, although we have a strong position of cash, but we have to be very prudent in terms of liquidity and we have balanced good opportunities of investments that we have mapped, so Gabriel has mentioned some openings of free-standings that we have made and some Popeyes and mainly the technology front and the benefits that we have collected right now, and this work we started 2 years ago and now it's bearing fruit. It's going to bring good results for the future and we're going to have this balanced until we confirm the curve of return of sales for the future.

Bob Ford: Thank you.

Gabriel Magalhães: Just to add up something here, Bob – thank you very much, Bob, for your question – our business, as a retail, it has a great impact in terms of seasonality that we carry in the last quarter of every year. On top of this seasonality, we have the volume of openings that is concentrated in the second half of the year. The dynamics of 2019, for example, we opened more than 40 restaurants in the last quarter of 2019, and it ended up bringing a benefit, which is great, together with the seasonality with the working capital of the quarter, but it brings a significant difference for the following quarter. We're trying to have fewer openings and having a more consistent working capital management throughout the quarters and having less oscillations and this way we can have a clearer vision and a more assertive management in the impacts of working capital.

Bob Ford: Thank you, thank you so much.

Operator: The next question comes from Marcela Abria, from Credit Suisse.

Marcela Abria: Hello, Gabriel, hello, Iuri. I hope you all are fine. I have 2 questions, the first is the following: you have brought surprising results with the loyalty program; would you please share what these results are in practice for loyalty program?

And now I have a second question: what are the gains that you already see in business itself in terms of sales that are already identified in the digital channels? Thank you.

Iuri Miranda: Marcela, it's Yuri, thank you very much and I wish you and your family are safe and healthy.

Let's start by the BK Club, our loyalty program. I will start giving some data of global markets where 50% of the transactions of some global players already come from their loyalty programs and it already shows a double-digit same-store-sales in more mature markets. Just to give you a notion of the potential we have gotten in figures that we see for the future with this business if it evolves as it has evolved in more mature markets. Obviously, if it's implemented, of course.

I can also give you some figures, we have few months after we launched the BK Club and we have had more than 17 million points exchange accumulation of points, 17 millions of points accumulated, and if you think about that yesterday we reached more than half million people registered in our loyalty program and we have a challenge, additional challenge that is the following: because we have so many restrictions at the beginning of our launch, so the exchange of points and the usage of the program because of the restrictions of the closed restaurants it was kind of damaged, and even though we have this scenario, for us we see a potential for this business line.

The second part of your questions is what we started seeing in terms of benefits of the digital channels in our business. Well, this is a journey, for example, let's say that the CRM, as I commented before, it's a process that we started 2 years ago when we had a roll out in December, and now I'm going to make a comparison, if you think about our gross margin and our CMV and you compare that to the first quarter of 2020, you will see that there was an increase of 60 basis points, of which most part of this increase was because we had the write-off of some products because we were kind of surprised because of the closing of the restaurants, and great part of that we couldn't do anything with the products because of shelf life.

And if you remove these comparisons and if you imagine that we had a scenario with inflation rates and depending on the inflation rates in the index that you use can vary from between 6 and 30 depending on the index that you use, you will see that we could make a significant repass of this impact and we could mitigate great part of this impact.

And now in terms of the other part, of technology, we could do this, we understood the consumer better, and we could work on the clusters that we could see it was possible to work on. It's only possible through our CRM, and once again I say, it's only 4 months, it's been 4 months since we started, so for 2 years we started, but the rollout was only in December. This is only one single example on what we are doing for the clusters, and as I said in my speech, it is a micro segmented offering and it’s personalized, and that's what we're going to advance at the end.

Another point in terms of technology that we started seeing, for example, is a great amount of self-service totems that we have in our restaurants and how it help us in terms of administrating productivity in such a moment that we don't have MP 936 as we had last year ,and then we see a curve of recovery and the percentage of the totems when the restaurants were open and the growth of the sales for these channels are very significant and they help us a lot in terms of productivity.

Sorry for this long answer, but given and all this seeing, we are really excited for the future with everything we have built in terms of technology and we're going to build much more, and when we compare to places where we have these initiatives and where they are more mature, especially overseas, we can see that it's very positive, but we are leaders in many initiatives, we are the first company to launch the large programs, so we're very excited for the future. **Bob Marcela Abria:** Thank you so much.

Iuri Miranda: Not at all, Marcela.

Operator: Next question comes from João Paulo Andrade, from Bradesco BBI.

João Paulo Andrade: Good morning. Congratulations and thank you so much for accepting my question. I would like to make a follow-up on the previous question but thinking about the gross margin and still excluding all the benefits where the CRM can reach, I believe that's clear to see these initial benefits. In terms of the cost of inputs, how much it would be impacting the gross margin and how can we think about the future in terms of this point specifically?

And second question, if you allow me, in the SG&A you talked about a reduction of operational costs, so would you please clarify that in terms of this? I would appreciate it very much.

Iuri Miranda: Hello, João, thank you so much for your question. I really wish that you and your family are healthy and safe and Bradesco.

Let's start with the gross margin. Yes, as I talked before, if you think about the pressure in terms of protein in the last months, it was significant, and then we could repass great part of the price, as I said to Marcela, but looking forward, if you think about the horizon of 12 months in the future, we believe that it tends to stabilize. OK, there may be short-term pressures, especially because of commodities as you could recently see in corn, soybean, and even with meat, but when we look at the long-term in 12 months, we believe that it tends to stabilize.

There's another point which is important, we can think about all these movements that we have made that are already incorporated, no, no, of course not, we didn't incorporate everything because it depends on what is going to happen and the price of the commodities in the future, but it is an important strategy that we believe to implement in this period. Given the brand awareness and the preference that our brands have acquired in this period, we see that our brands start having a price setting role and then the market starts following our moves in terms of price setting, and of course, given the inflation situation that we have got, a good example of that is the recent change that we have made in our platform 2 per 15, we first put layers and secondly we introduce a new platform which is the sales of 1 sandwich per R$9.90, and we're testing these things with our consumers and we're analyzing all the impacts and shared by clusters and we are seeing the impacts on the gross margin of these initiatives.

We see and you will continue to see with these analyses, and we will continue seeking alternatives to compensates the margin and to gain margin for the future as well.

With regards to the point that you commented about the second quarter that we're going to see some other gains, yes, likewise, as we were surprised with the closings in the first quarter and where we had to find some measures in advance with technology and it has helped us a lot, for example, in terms of productivity through the self-service totems, the return of on-premise sales through other channels like totems and BK Express and anticipated orders – another interface that we had in delivery –, they will help us out to see more effects in terms of productivity that could not be 100% captured in the first quarter.

So, this is what we are referring to and that's what we're going to do to continue and to pursue some efficiencies that couldn't be totally perceived in the first quarter.

I don't know, Gabriel, if you want to add up something here.

Gabriel Magalhães: No, I believe it's exactly what you said. João, there's an important point here, today given the restrictions, operational restrictions that we have got, we end up having limitations to repass the price because you have one channel being operated and the other one being depreciated, but this repass, this other front is correlated to balance that we have in the channels, especially with the return of all on-premise consumption, and then with this you'll be able to make more adjustments and to have better captures in the second half of the year.

And we really believe that this inflations level is already being stabilized and then having a drop, and then we think about the second half of the company, these 2 variations being added up, and we believe that this gross margin context will be back to a more 2 normalized level in our business.

João Paulo Andrade: Thank you.

Operator: Next question comes from Tiago Bartolucci, from Goldman Sachs.

Tiago Bartolucci: Hello everyone, good morning. Thank you for choosing my question. I have 2 questions, in fact. First one, in terms of expansion, you have mentioned that you have mapped the opportunities that are interesting for the short and midterm, and I would like to hear from you what we would expect in terms of the new openings throughout the year within what you can comment upon?

And the second question is with regards the SG&A, but now specifically to what is expected to take rate in the increase of channels. I would like to understand how you are managing the profitability curve of the digital channel in the short and midterm. These are my questions, thank you.

Iuri Miranda: Thank you, Tiago, for your question. I really hope you are fine and your family as well and all the team of Goldman Sachs.

The first part in terms of expansion, the way that we are managing the expansion is a great dilemma, and great dilemma is the following: we have many lease contracts, as I said in the last quarter, and some are available so that we can start, but simultaneously we are choosing the cases that can, you know, because of license of constructions, of start of constructions and timing, in terms of maximization of results throughout the year, and Bob mentioned about that with regards to the balance of cash flow, then we have a good group and then we have to separate free-standings to the BK brand where we are still working and we continue to see the openings of the main cases that we see considering the license and the time of constructions, and we're going to see that and it's going to generate a bigger result throughout the year.

You're going to see the management of these new openings and you're going to see a good case of free-standings being opened in the following quarters.

In terms of Popeyes, it's kind of different because Popeyes we have expanded them in shopping malls and recently we have opened 2 stores in Rio de Janeiro and we have mapped the greatest shopping malls of the market of the city of Rio de Janeiro, and you're also seeing the presence and also the expansion of Popeyes in the city of Rio de Janeiro and then we're going to manage the return of shopping malls sales and good assets so that we can decide which are the malls we are going to expand with Popeyes.

There was something that I didn't talk before, which is ghost kitchen. We have a pilot project of ghost kitchen in São Paulo and we're really happy with the level of sales of ghost kitchen here in São Paulo. We have learned a lot, we have to adjust some things in terms of operations, layout, and this is something that you will see in the following months, which is a new pilot project of ghost kitchen with some learnings of the first pilot we had.

In terms of SG&A – and then you were talking about take rate – I believe that there is something good here. When we think about absolute number of take rate in comparison to last year, you are correct, there is a growth of absolute number of growth because of the delivery sales growth if compared to the total of the other channels, but when we see the percentage of take rates over our sales of delivery, we could in this period because of technology and the growth and the way that we have managed things and for being present in many aggregating points and then we have also Crest IFB survey that shows market share gain, which is significant, in the beginning of the year, especially in this channel, but in total channels as well, and it shows that we are on the right path.

But when you see that take rate percentage, we have a take rate percentage which is lower if compared to last year due to negotiations that we have had with our aggregators for the growth and the way that we have been managing delivery. That's one part. And looking forward, once again I mention technology, we have 100 owned stores making our own delivery and recently we have launched the update of our app with new UX and which is way more modern, more trendy, and with less attritions, and we have new functionalities of delivery. Today if you place an order and then it's in a region where it is served by our own store, the system, for example, will address this order to our own stores.

And thinking of the future as well, we see a future where we're going to continue our partnership with aggregating partners, which is important, but you will start seeing the mid long term a growth of our own stores with our own delivery through a solution that we are using, we are pursuing for last mile not per marketplace, but we think about the last mile especially for servicing a geographic part, which is important. And this solution thinking of the future, this will amplify our own delivery system and we believe that our take rate cost that will be very competitive versus what we have got today.

I hope I have answered your question, João.

Tiago Bartolucci: It's clear.

Iuri Miranda: Oh, Tiago, Tiago! Sorry!

Tiago Bartolucci: Thank you so much.

Operator: The next question comes from Marcel Moraes, from Santander Bank.

Marcel Moraes: Good morning everyone, Iuri, Gabriel, Clayton. My question is the following, it's about sales. Iuri, you mentioned about the yellow phase and orange phase of this pandemic, and when you think about the stores today would you be able to say what are the shopping malls, shopping center stores – that account for about 70% of owned stores, proprietary stores – how much or how many of them are already open for the food courts, for the lunch and dinner time? Would you have this number? That's my first question, thank you.

Marcel Moraes: Hello, Marcel. I really hope you, your team and your family are safe and healthy. It's very dynamic, Marcel, that's the fact. There are things that change so dynamically and now our legal team has been working really hard trying to keep us in operations and being updated split by municipalities because the rules they change by municipalities, not only by states. So, this tracking is very active. Of course, there are many cases, there are cases where, for example, we can service in the lunch and the dinner time. If you think about a day party of week where the lunch and dinner, they follow a standard timing, but when you think about weekends when people would have dinner later and depending on the time of the closure of on the shopping malls, we can partially get the sales of dinner. It really depends.

But good news are that our expectation, once again, is that the vaccination is growing and if it's efficacious and if it advances – and is it has advanced in the United States, for example, in fast food, for example – it's already having a very positive number if you compared to 2019, of course, they have greater stability, but the shopping malls over here they would really depend on the return and the flexibilization that I really believe that the states still have to balance that taking a look at the rate of occupation of the intensive care units of the hospitals and they have also to think about the advance of vaccination, the evolution of vaccination, and it varies from state to state. If you think about Bahia, for example, there is already vaccination of comorbidities, of people that is under 50 years of age. When you think about São Paulo, it depends on which city you are considering.

So, it's a very diversified country and depending on the city, the municipality, you're going to have a recovery different from the other one. As a trend, as I mentioned before, we can see a recovery of on-premise sales recovery in April versus March and now in May we can see another increase, and what is interesting here, Marcel, is the following: we can see that the resumption of on-premise, but off-premises not being dropped at the same proportion, then it's one of our theories that we have to see how much residual we're going to see in *off-premise*, we can hold it for instance, and we have to see what we will deliver in drive-thru and how much we're going to sustain that when the on-premise gets back.

But once again, I say that we might see a second quarter with a greater result if compared to the second quarter of 2020, and that's our expectation. But still, given everything that we have been talking about here, they are in inferior levels if compared to 2019, but this gradual return that's what we expect in fact. At the beginning of the fourth quarter, I believe that you are going to see once again sales close to the figures of 2019.

I really hope that we are positively surprised with this recovery, with the strength of our brands, but in moments like this one, I really believe that it's better to be more conservative even though we see markets like the United States with surprising growths.

Marcel Moraes: I believe that you have answered my second question. This graph that you have shared is very good in terms of the evolution of sales, weekly sales. It seems that the recovery that we're going to see in the following months it tends to be faster than it was last year, and you have just said that would expected that the end of the year it will be similar to 19. Do you think it can happen before the end of the year?

Iuri Miranda: Well, it's possible, but once again, I will get back to you in terms of administration of cash flow because today we have a solid position in terms of balance because of the administration that we have had throughout these years on how to balance investments versus profitability and sales. But once again, I really expect that we are positively surprised, but honestly, that's what I expect. Other countries can show that, but there is a variable that we cannot control, and counting on it, it's difficult in administration, which is the level and speed of vaccination and the flexibilization of the operations. This is something that we cannot control, it comes from initiatives that are out of our control.

And when we think about the United States, there is a component which is very important which is the government incentive that was injected in the economy of over US$1 trillion, and of course, it speeds up the curve of return. But we don't have the same level of government incentive in our country, and once again, I say that fast foods – and I said that in my presentation – is a food service sector which is resilient, it's value for money and in convenience that is quite interesting. However, it depends on external factors, that's why I say that right now we are very optimistic, but we are really conscious in terms of the administration of investment, opportunities and also the return of sales.

Marcel Moraes: It's clear, it's clear.

Iuri Miranda: Of course, these trends they are going to be confirmed throughout the following quarter and then are going to get into the second quarter with another level, and I have just received a survey about levels of vaccinations expectations in the future that they say that in September the level of population that will be vaccinated and this number is very exciting, but it's just a survey, we have to see the reality, we have to see the confirmation of this expectation, maybe we're going to have a positive surprise.

Marcel Moraes: Thank you, Iuri, thank you so much for your answer.

Marcel Moraes: Not at all, Marcel.

Operator: We are now wrapping up the Q&A session. Now I give the floor to Iuri for the final remarks. Iuri, you can proceed.

Iuri Miranda: Thank you, operator. I would like to thank you all and thank you for your level of knowledge that you have got of our business, the level of the questions were very good, very constructive questions thinking about the future of the company, it helps us out to think about the future of the business.

I'd like to finish over here highlighting our strategic priorities for this year, and I would like to highlight our priorities to wrap up this call and it's on slide 12. And I'm going to split it in 3 blocks: the first is that we are going to advance the digital transformation and you can expect it from us, our loyalty program Club BK, as I mentioned before, in few months after being launched it reached half million users already, and if you think about our customer base that has got over 30 million users, it's a great and significant opportunity, we're going to continue to see the capture of revenue management, opportunities by understanding the consumption profile and analytical capacity of CRM, we're going to use this tool to mitigate effects in terms of inflation, and we will also see the progress in the process of becoming a food tech company, we want to place the consumer at the center of the decision-making process, we want to reduce the friction in micro interface processes and focus on generating value and productivity through the massive use of technology. This is not a project in the short-term, it's a project that we have already started, but in the following months and years you will see more and more our business in this direction having the massive use of technology to generate value and productivity;

The second priority that you are going to continue within the conscious optimism and the cash administration is the organic expansion of free-standings of Burger King brand and expansion of PLK to other states, as we are doing now in Rio de Janeiro;

And last but not least, the differentiation of our products that we really believe that today as a price setter and to have a brand awareness that we have got, the preference that we have got is due to the quality of our products and the recognition of our customers, and one of the things that we have done and we see as a trend and being speeded up by everything that society has experienced is done through a clean and preservative-free menu.

We are confident in the recovery curve by ease in restrictions and advance in vaccination, and we really believe that our company has the fundamentals, the people, and the balance that is necessary to win the market and to position itself strategically speaking in the leadership of transformation that this market is going through and it's going to be accelerated.

Thank you all and good afternoon and stay healthy. Thank you.

Operator: The call of BK Brasil is ended. Thank you all for your participation, may you have a very good afternoon.