



BK Brasil Operação e Assessoria a Restaurantes S.A.

3Q18 Conference Call Results

Operator: Good morning and thank you for waiting. Welcome to the **BK Brasil** teleconference to discuss results referring to the third quarter of 2018.

We have present with us today, 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. Afterwards, we will start the Q&A session when more instructions will be provided.

In case any of you requires any assistance during the teleconference, please request help by pressing pound 0. This event is also being transmitted simultaneously via web through a webcast, and it's accessible through www.burgerking.com.br/RI, where you have available the presentation. The slides will be controlled by us. The replay of this event will be available right after its ending. We would like to inform that this teleconference is being simultaneously translated into English to service our foreign investors.

Before we continue, we would like to clarify that any declarations that may be made during this teleconference related to the perspective of business of BK Brazil projections, operational methods and financial methods makeup premises of the company, as well as any information available to BK Brazil.

Future considerations are not guarantees of performance, they involve risks, uncertainties and premises because they refer to future events, therefore, they depend on circumstances that may or may not happen. Investors and analysts should understand that general conditions sector, conditions and other factors may affect the results of BK Brazil in the future and may lead to results that differ materially from those expressed.

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

Mr. Iuri Miranda: Thank you for the introduction, operator. Good morning everyone, good afternoon for those who participate from Europe. My thanks for your interest in our company and for the participation in this teleconference to present the results of the third quarter of 2018 for BK Brasil.

Please, if you could please start by slide number 3 of our presentation, we would like to present the main points of our results of this third quarter and the 9 months of



2018. Keeping our strong pace an expansion plan of restaurants, in this third quarter of 2018 we opened up 20 Burger King restaurants and we got to a total of 736 restaurants in the country.

We are maintaining a pace above 100 net openings of restaurants in the last 12 months. To be more precise, considering the last 12 months we opened up 108 new Burger King restaurants.

Going into our operational results, we had a solid growth of sales of 8.2% in the quarter, which is 4 times higher than the market, according to the Food Service Brazil data, which was 2%. This places us back in the strong pace that we were having before the truckers' strike and the World Cup, and it shows the strength of our brand and the capacity of execution of our strategy.

As a result of the expansion plan and the solid performance of the existing restaurants, our net operational revenues grew 37.9% in this quarter, both at the same quarter of the previous year.

Our brand strategy, innovation of products and the sustainable growth of our brands have led us to this consistent growth even in a challenging economic environment.

I would like to highlight some of the launches that leveraged our revenues in this quarter: we have the launch of the Mega Stacker *Catupiry* in the premium platform; the *Doce de Leite* flavor in ice cream; and the other campaigns in the kids' campaign including Emoji, Nerf and Miraculous. Besides the sales growth, our profitability maintained its positive growth with EBITDA growing an expressive 51.5% in this quarter.

This takes over EBITDA margin to 12.6%, which shows a growth of 120 basis points when compared to the third quarter of 2017.

Aligned with the results and also benefited by a financial result which was above expectations, in this quarter represented a net profit of 27 billion, which shows a nominal growth of 32 million when compared to the same period of 2017, where we had a loss of 5 million.

Lastly, it is important to highlight that accruing the 9 months of 2018, we also present a consistent growth of operational results, and with this our net profit reached 44 million, representing an increase of 32 million when compared to the same period of 2017.

To give you more details about the company's performance, I would like to pass the word to my partner and CFO, Clayton Malheiros.

Clayton, please.

Mr. Clayton Malheiros: Thank you, Iuri. Good morning everyone. Going to slide 4 now, and as said previously, in the third quarter 2018 we opened up 20 restaurants and 14 are own restaurants and 6 franchisees. With that, we totaled 45 openings in the first 9 months of the year. Additionally, as you may see, we sped up our dessert kiosks pace, with 21 new units in the quarter reaching a total of 244 dessert units in operation, which represents an opening of 59 new points of sales in the last 12 months.

As far as the previous quarter, we increased our opening pace 28%, and it's important to highlight that this format is the one that has the most potential for expansion in the next few years giving about average profitability with our current portfolio.

As far as growth of restaurants, as we said in our last results' call, we sped up over openings in the semester in 33% compared to the same quarter of last year. When we look at the openings in the last 9 months, we reached our best performance in the last few years. So much so in the opening of restaurants as well as the freestanding restaurants, reflecting the strategy of the company of higher focus on this model.

It is important to highlight that even though we have good performance, we still have a high concentration of openings forecast for the third quarter of this year.

Going now to slide 5, our comparable sales growth into same-store sale was 8.2% in the quarter, showing a strong recovery compared to the previous quarter. The total accrued performance 50.3%, although we had the impact of the truckers' strike and the World Cup in the second quarter.

Our net operational revenues showed a growth of 37.9% compared to the same quarter of 2017. This strong result comes from the strong comparable sales growth of 8.2%, the 59 restaurants opened in the last 12 months and also the acquisition of the 51 franchise restaurants. In the 9 accumulated months our accumulation was 29%, showing comparable sales growth of 6.3%, the good performance of the store openings and the consolidation of the stores acquired in the second quarter of 2018.

In the slide 6 we have our costs and expenses. Our continuous focus on the expense control and efficiency gain, total expenses with restaurants, which include cost of goods sold, expenses with sales and depreciation to grow less than the net operational revenue, we had the total restaurants totaling 545 million in the period, and as a percentage of the revenue, these expenses reduced to 89.2% in the third quarter of 2018, representing an improvement of 260 basis points compared to the third quarter of 2017.

As far as cost of goods sold as a percentage of the net operational revenue, there was a drop of 100 basis points compared to the third quarter of 2017, reflecting a better mix of products and a better cost control.

We maintain our trajectory consistent and we increased our gross margin versus the fourth quarter of 2017, improving 150 basis points.

Going to sales expenses excluding depreciation and amortization, they represented 46.7% of the net operational revenue, a reduction of 40 basis points versus the third quarter of 2017, reflex of the operational leveraging of the company due to the dilution of the expenses with personnel, rental and utilities.

In the 9 months of 2018, the total expenses with restaurants as a percentage of the net operational revenue improved the 20 basis points compared to the same period of 2017 although we had nonrecurring events, which impacted negatively the operational margins in the second quarter of 2018.

Now, the general and administrative expenses represented 3.8% of the net operational revenue in the third quarter of 2018, an increase of 40 basis points compared to the same period of 2017, mainly due to the expenses related to the services for the management of the franchisees acquired and higher provisions for judicial demands and attorney fees.

In the 9 months, the general expenses represented 4.2% of the net revenue, an increase of 50 basis points due to higher expenses with provisions for core expenses and expenses for the management of the franchisees acquired and the expenses to service the needs of the company after the IPO.

On slide 7 we see that our adjusted EBITDA showed a strong growth of 51%, reaching R\$77 million. This result came mainly due to our net operational revenue due to the increase in the number of restaurants and strong sales growth beyond the cost control. With this, the adjusted EBITDA margin improved 120 basis points in the third quarter of 2018.

In the comparison of the 9 months, the adjusted EBITDA increased 27.6%, even with the impact of the truckers' strike and the World Cup in the second quarter. As for our adjusted EBITDA margin, it reached 10% maintaining itself stable comparing to the same period last year.

Finally, as mentioned in the introduction by Iuri, the company presents a net profit of 27 million in the third quarter 2018, an increase of 32 million when compared to the third quarter of 2017, a consequence of the strong revenue growth aligned to the cost control and an improvement in the financial data. In the 9 months the company showed 24 million in net profit.

Going to slide 8, we highlight the Capex, the financial leverage of the company. In the third quarter of 2018, we had a total Capex of R\$89 million, a growth of 68.2% when compared to 2017. More investments were destined to the opening and rebranding of restaurants beyond the investments in technology and equipment for restaurants.

For the 9 months of 2018, Capex excluding the amount of R\$404 million regarding acquisition grew 29.9% when compared to 2017, reflecting a higher number of openings and a higher mix of freestanding restaurants.

As far as the financial leveraging, we ended the third quarter of 2018 with a net cash of 236 million, basically aligned with the position presented in the previous quarter and above the previous year.

And last, the generation of operational cash in the 9 months of 2018 was positive and totaled R\$78 million, which represented an improvement of 77% or 31 million when we compare the cash generation of 47 million in 2017. This is due to higher financial results, due to higher financial leveraging, better performance of the company and better management of working capital.

Now I'm going to pass the word to Iuri.

Mr. Iuri Miranda: Thank you, Clayton. To end our presentation and for us to begin the Q&A session, I would like to take advantage of this opportunity to update you as far as some issues.

First, we are very happy with the operational performance of the Burger King brand in the country. After a challenging second quarter of 2018, we saw a consistent recovery in our comparable sales growth in same-store sales, which shows the solidity of the brand in Brazil.

Besides that, we delivered a relevant improvement of gross margin, which is connected to strong comparable sales growth supporting our profitability in EBITDA growth. As far as restaurant expansion, our pace of store openings is aligned with our expectation for the year and the performance of the new vintages continues very healthy and encouraging. We are confident with our store expansion strategy for the year and it will maintain itself unaltered.

As we said during the presentation, our store opening pace continues to be 100 stores in 12 months focusing the strategy on freestanding restaurants. We are looking at real estate opportunities and there is a favorable moment for the brand.

Now, as far as this favorable moment, I could highlight 2 institutional campaigns where we connected our brand to the clients and the society that we belong to: The first one was the *Whopper em Branco*, a campaign which was top trending in the world and it talks about the importance of making choices and not let the other person choose in your place, in this case, not voting; the second campaign launched this week brought pioneering in terms of reverse marketing, we show the reopening of consumers who did not have good experience in our restaurants, and afterwards we show some posts also, real posts from the Internet where we have some bias. The company tried to show the difference between opinion and bias. In our restaurants everyone is welcome. Different opinions as well, but not bias.



Another area that I would like to update you on is our technology. It's good to see the evolution of our projects. I'd like to highlight delivery, delivery continues to grow consistently. Currently, the results have been very good, and we have around 80 restaurants in the delivery platform and we'd like to grow over the 100 restaurant marks with delivery still this year.

The process, integration of systems and the technology developed in this project have this as an objective to deliver a consist experience at the same time that the quality of the product that the client expects from Burger King, but at the convenience of their own home, of their own residence.

Still talking about technology, our new mobile app launched in the beginning of the year has reached an expressive 5 million downloads here in Brazil and with a high rate of active users. This means that our consumers are seeing value in this interface, which is light, quick and user-friendly.

And lastly, we would like to update you as far as the development of the Popeyes brand. To give you a quick recap, in March of this year we signed a contract of master franchisee for the brand in Brazil, and in only 7 months our team was able to develop an entire supply chain, adapt our menu to the Brazilian standards, to create new products, to do qualitative tests with client, develop a strategy of launch of the brand, conceptualize a modern, attractive design already incorporating some technology with innovation, like self-service totems and sales tablets. Connected to all this, we tried to identify, negotiate the points of sale and to build the restaurant.

Remembering that only in 7 months the practical result that up until now we open 2 restaurants in Popeyes in malls in the state of São Paulo. The results have been very encouraging, above our initial forecasts with great feedback from the clients and specialized media.

I'd like to give you an example: I'd like to cite that a report came in Veja Magazine talking about the quality and flavor of the products and that Popeye kicks off or is showing, is presented as a "no better option", this is great for the chicken market in the country, and as we said in the last teleconference of the last quarter, we confirm our expectations of opening between 5 and 10 Popeyes restaurants this year.

The encouraging kickoff of the Popeyes brand, the results and continued development of the Burger King brand in the country leave us very happy with our business and the future of the company.

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

Question-and-Answer Session

Operator: Excuse me ladies and gentlemen, we will start now our Q&A session. To ask a question, please, press star 1. To remove your question, type star 2.

Our first question comes from Richard Cathcart, Bradesco.

Mr. Cathcart: Hello, good morning everyone. Congratulations. Just a question as far as the strategy. The promotion and discount strategy, I think that during the third quarter and during the year you had a transition of physical coupons to digital coupons, and since you have 5 million downloads, I believe that the digital coupons are being used more and more. I just wanted to understand the balance between the physical coupon and the digital coupon. How much of each coupon is being used? and that was the question. Thank you.

Mr. Miranda: Hey Richard! Well, first, thank you for your question. As you said, I mean, we have seen an increase in the digital platform with 5 million downloads, I think that an important piece of data is that not only having 5 million downloads, it's how many or how much people use our app, because sincerely, I mean, these people are just downloading and then they don't see any value in the app then it doesn't generate incremental sales for the company.

So, yes, we do see a gradual growth of the use of digital coupons, which for us is part of our strategy, even because you can have higher control in the distribution and even in the offers that you make of that digital coupon. When you distribute physical coupon, it lives equally with the same offers in the same region. A digital coupon, however, we can first have a more directed effort and afterwards, you know, after we grow our CRM, I would say that our future including some more customized offers and more directed to each type of consumer profile.

Answering more practically your question, today we have a balance of 50% of physical coupons versus 50% of digital coupons.

Mr. Cathcart: Excellent, thank you Luri.

Mr. Miranda: No problem, Richard.

Operator: Luis Felipe, BTG Pactual.

Mr. Guanais: Good morning everyone. My question is in regard to the margin dynamics in the quarter. If you can talk a little bit, Luri, about the competitive environment of the sector and how this ended up basically. You know, giving you the path where you had to leverage your operation and you have to optimize your costs.

And the second question, I wanted to understand the integration process of the Midsouth Burger King, are you still using a different type of ID and how you are integrating the teams?

Mr. Miranda: Hey Luis, thank you for your questions. Well, the first question as far as environment and margins, I believe that the economic and social environment continue to be challenging as I said previously, but on the other hand, once you see



the results that we can deliver the growth of 8.2% on top of the growth of last year, which had already been a quite strong, about 12%, that is 20% over 20% growth in 2 years, I believe that regardless of the competitive environment that is out there the brand has been able to position itself and the brand has been able to grow, so much in brand perception as well as the proposal, value proposition that is giving to its consumer.

So, I see a natural growth of the company and basically compensating an environment which is competitive and challenging from the economics perspective. But regardless of that, when you look, for example, at our growth profit, there was a quarter where we can deliver same-store sale above 80% with gross margin growth of 100 bps versus the third quarter of last year. So, for us, it was a very interesting combination sales growth and margin growth. And some of the reasons that made this happen for me is the good campaign that helped us to leverage our product mix, we had good campaigns in our premium platforms, with the Mega Stacker and the desert platform with our sweet milk flavor and in the kit platform, I mentioned Emoji, Nerf and Miraculous as good promotions.

The second point that helps in the margin growth is a good control of restaurant expenses, costs, and there's also a leveraging that we have with suppliers, and as the sale grows, the lower the prices. So, quarter after quarter we really do gain higher negotiating power in partnership with our suppliers and the growth of revenue even though the economics of the country show a GDP below what they expect, we can still show growth.

The second point, now the strategic use of digital coupons which also brings increase in profit. And the second point that I would like to highlight is an improvement in our pricing strategy with the optimization of margins and sales. So, not just margins, net sales; it's a combination of the 2, and there we see very good performance in the quarter, a combination of growth of sales and margin. And as far as the Midsouth, it's running according to schedule, so basically, we created a complete integration on 30 of September, there is a tiny piece of the integration that is still within the plan and should happen until the end of the year.

So, our expectation is to start 2019 with all the restaurants completely integrated into our administrative control platform at the beginning of the year.

Mr. Guanais: Excellent, thank you so much, Iuri.

Operator: Next question Vinicius Strano, Bank of America Merrill Lynch.

Mr. Strano: Good morning. Congratulations for your results and thank you for taking my question. We notice an increase in margin even in the initial points at Popeyes. I would like to know how much these costs caused friction in the third quarter, and in the next quarters, how are you seeing that with the opening of the new units?

Mr. Miranda: Vinicius, thank you for your question. The Popeye's cost, like you said, it is still initial, and we expect the dilution of these costs once we open up more restaurants.

For example, I said that we opened up 2 restaurants in October, one on the 10th of October and the other 1st of November, if I'm not mistaken, one in Itaquera Mall and the other in Cantareira Mall in the North side, the restaurants have been selling above expectations, they have been opened only 30 days so it's pretty mature for us to talk about margin, Capex, you know, we are still closing orders, but as far as sales, they are above expectation.

We maintain our projection of Popeyes store openings in this quarter between 5 and 10 restaurants, which certainly will help us to dilute the initial cost of the project. We don't see this with such a significant amount considering the total G&A of the company, but it is a significant amount and we expect with the opening of the restaurants getting to the level of sales that we are seeing.

We see a reduction in cost already in this fourth quarter.

Mr. Strano: Thank you so much.

Operator: Next question Richard Cathcart, Bradesco.

Mr. Cathcart: Good morning again, I just wanted to ask a second question, Iuri. I think that perhaps this question will be a little bit more difficult to answer, but within your same-store sales, I think you are still trying to increase the flow of your restaurants, the food traffic.

I wanted to see your vision of where this food traffic is coming from. Is this flow coming from direct competitors? Direct hamburger competitors, or do you think you are able to bring in the consumer that perhaps would be having a full lunch in restaurants, in one of these more independent restaurants? Where are your clients coming from?

Mr. Miranda: Well, Richard, it's great question, and I'm going to try to answer you in 2 ways, okay? The first manner, the data that we have as far as comparison with the direct fast food market is data from the IFB (Food Service Brazil data), and then we report 8 and food service, already considering our number, reports 2, so right from there we have a certain notion of what's happening in food service, in the sector, in the food sector.

Now, another thing that I think it's important is that in this growth of 8% of ours, around one third, or a little bit more than one third of that comes from traffic, that is we have been able to really bring new consumers inside the restaurant, it wasn't just a question of price, of ticket. I think is important to say for us to have in our minds. So that's the first part of the equation, as you said.

But if you think that the food-service market nowadays, the Brazilian one, the Brazilian food service market, a big part of it is still made up by what we call unchains, or non-chain restaurants. The last numbers that I had – I don't want to make a mistake here – is that around 90% of the food-service market – around, okay? – still belongs to mom and pop's businesses, and so I think that a natural trend, which already happens in the US and other more mature markets, is a migration of brands that are less known to brands which are more publicly known.

In the US, if I'm not mistaken, the fast food chain in number of outlets is something around 50%. So, you see, there is a relevant difference there against 10% from Brazil, it is a trend that I think is natural, and then when you position the brand and then you grow the statue of the brand, when you have a correct collocation or positioning of strategies of value, when you generate value for the consumer, when you launch products, I think this is a very virtuous cycle, and I see that we also consolidate the food-service market as a whole.

I don't know if that helps you understand our point of view.

Mr. Cathcart: You just help quite a lot, Iuri. Thank you so much for your answer.

Mr. Miranda: You are quite welcome.

Operator: Well, that we close the Q&A session for BK Brazil. I'd like to pass the word to Iuri for final considerations.

Mr. Miranda: Well, first, I'd like to thank everyone for their time, for their participation and especially for the interest in our company. I'd also like to thank you all for the excellent questions, and I place our investor relations team at your disposal for any questions that you may have afterwards.

I'd like to wish you all a good end of the day, good friday for you that are in Europe, thank you and we will see each other in the next results' presentation. Thank you.