International Conference Call
Zamp S/A (ZAMP3)
3Q23 Earnings Call
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Operator: Good morning and thanks for waiting. Welcome to the Zamp telecom to discuss the results referring the third quarter of 2023. Together with us, we have Ariel Grunkraut, Gabriel Guimarães, and the Investor Relations team.

We informed that this event is being recorded and that all participants will only be listening to the telecom during the presentation. Afterwards, we'll start the Q&A session where more instructions will be provided. In case any of you require any assistance during the telecom, please request the help from an operator typing star zero.

This event is also being transmitted simultaneously via web, accessible at the address www.ir.zamp.com.br where you will be able to see the presentation. The selection of the slides will be controlled by us. The replay of this event will be available right after its ending.

We'd like to inform that this telecom is being simultaneously translated to the English language in order to assist our foreign investors. Prior to continuing, we would like to clarify that any eventual declarations which may be made during this telecom related to the business perspectives of ZAMP, forecast and operating goals are based on beliefs and assumptions of the company, as well as based on information available to ZAMP at this time. Any future considerations are not guarantees of performance because they involve risks, uncertainties, and assumptions depending on future events, therefore, they depend on circumstances which could or could not happen.

Investors and analysts must understand that general conditions, sector conditions, and other operating factors might affect the future performance of ZAMP and may lead to results which differ materially from those expressed in our future considerations.

I would like to now pass the word to Ariel Grunkraut, CEO of ZAMP. Please, Ariel.

Ariel Grunkraut: Thank you for the introduction, operator. Good morning, everyone. Thank you for the interest in our company and for your participation in this number's telecom results conference for the last quarter of 2023, the third quarter of 2023.

I'd like to share with you the results of our third quarter with a general overview of our business and an update on important initiatives which are driving our company to a strategic position for another quarter. The quarter was based on consistent progress in sales and in our cost reduction. In terms of efficiency and profitability, reaching profitability, even in a colder market, in a less aggressive market. This was all due to our sales aggressiveness, our expansion plan, our operating efficiency, our cash generation, and the sequential expansion of our gross margin. Thus, we believe that we are well-positioned to capture growth opportunities for the strongest quarter of retailers.

Going into the second slide, we're going to share the keynotes. First, in terms of net operating revenue, we've reached a milestone of R$ 948 million, which represents a growth of 4.3% versus the third quarter of 22. We have reached a gross margin, consolidated gross margin, of 65% in the third quarter of 23, a progress of 150 basis points compared to the same period of the previous year. And third, during this period, the digital sales of the company represented 44.9% of all company sales and 49.1% of all total sales already identified. And fourth, important initiatives done to adjust costs expenses, and investments resulted in a positive free cash flow.

Finally, we opened 10 new restaurants, 4 of the Burger King brand and 6 of the Popeyes brand. Besides that, we concluded in this quarter the delivery of another 30 restaurant remodels, of these, 23 same-stores, 23 of these were in the same-stores. We are excited about this initiative, and we think that the improvement of the quality and experience at our restaurants will be from here forward an important growth factor and an important vector to bring more appeal to our company.

Next, we see our financial performance in the third quarter of 23, of which ZAMP reached a net operating revenue of R$ 948 million, a growth of 4.3% compared to the third quarter of 22. Besides that, the digital sales for another quarter presented relevant significance, reaching the revenue of R$ 425 million, a growth of 43.2% compared to the same period of last year.

The gross margin at ZAMP, was 75%, a growth of 150 basis points when compared to the previous year brought about by the cooling of the main commodities or the reduction in the price of the main commodities, especially the proteins, which have allowed us to adjust gradual investments into sales without having important effects on our profitability. And we reached in the third quarter of 2023 an adjusted EBITDA of R$ 127 million, which was a reflex of the continuous cost-efficiency work facing a slower consumption period.

In this quarter, same-store sales recorded by the BK brand was 0.1% and the Popeyes brand 1.6%.

With this, I would like to pass the word to my partner and CFO Gabriel Guimarães so that he can cover important aspects of the finances.

Gabriel Guimarães: Thank you, Ariel, and good morning, everyone.

In slide four, we present the development of our restaurant portfolio. In the third quarter of 2023, we opened 10 restaurants, 6 of them same-stores, 2 of the Burger King brand and 4 of the Popeyes brands, and 4 franchises, 2 Burger King and as part of our brand development strategy, we opened up 2 Popeyes. And we concluded 5 transfers to franchisees, and we closed 5 stores, 3 same-stores and 2 franchisees, continuing our portfolio optimization. With this, we finish the quarter with 1,003 restaurants, 233 being franchises.

Going to slide five, we can see our new opening standard for Burger King openings, Royal Pavilion, the format that will be used in the expansion plan from now on. This new model brings important differentiators, like a better distribution between the sales channels and stores with 100% digital service, which makes us more efficient. We believe that this format will impact positively the experience of our users in the restaurants.

Following the same rationale, on slide six, we started to modernize and remodel a few restaurants, as you can see in the images. We have found interesting results in this vector of capital allocation, seeing an important increase in revenue, a better experience for our users, and many times negotiations of costs, occupation costs which are favorable, or rent agreements which were favorable.

And going into slide 7, we present the development of the net operating revenue of the company and same-stores sales for both brands. As we said, in this quarter, the net operating revenue was R$ 948 million, a growth of 4% versus the third quarter of 22 with same-stores sales of 0.1 for Burger King and 1.6 for Popeyes.

As we can see in the right-hand chart, the net operating revenue recorded in the last 12 months was R$ 3.8 billion, a growth of 9% compared to the result presented for the previous period, the previous year.

Going into the next slide, we show you the net sales for the Burger King brand, R$ 876 million in this quarter, a growth of 2% compared to the same period of the previous year. Still in a challenging macro environment, we took initiatives which allowed us to perform. The union of a global from Hollywood generated expressive results with the Barbie movie, and we were able to see a strong increase in traffic pulled by the cinemas in the malls.

Besides that, seeking higher alignment with the moment of the Brazilian consumer and to offer products which deliver the Burger King experience, we decided to launch our new campaign at the end of the semester, and we have a platform where you can choose our promotion where you can buy 2 sandwiches for R$ 10, and that's paying off. We're also working on a few other movies in order to explore additional channels where we have low penetration in the malls.

We reinforce our premium line in the quarter with the travel chatter campaign and we brought other products, and we have a Nutella shake now as well strengthening the exclusive and well-succeeded partnership with Nutella in Brazil.

On slide nine, we see that the Popeyes brand in the third quarter of 2023 has reached a net revenue of 60 million, growth of 49% compared to the same period of the previous year, same-stores sales of 1.6%. As we expand our capillarity with the growth plan, we're able to intensify our investments in the building of the Popeyes brand in Brazil. Brand equity and the trial of our iconic products are still in the maturing phase, but we do see the Popeyes brand on an upward trend, becoming one of the best fast-food chains in the Brazilian market.

As we shared, we believe that there is space for the increase in unit sales of at least 40% until these restaurants are close to maturity.

Going into slide 10, we can see the continuous evolution of our digital channels, represented by delivery, self-service totems, and the app. In the third quarter of 2023, the sales done through these channels totaled R$ 425 million, a growth of 43% compared to the third quarter of 2022, which represented approximately 45% of share over the total sales of the company, a growth of 12 percentage points compared to the trimester of the previous year.

On slide 11, we show you our digital ecosystem. We closed the third quarter of 23 with 19.4 million users recorded, registered in our CRM, and we have reached approximately 49% of sales identified. With the enrichment of our data sources, we can work more accurately in identifying and personalizing the offers, capitalizing on sales, and gaining more gross margin.

As we saw in the previous slide, our app shows the biggest relative growth, showing or representing 5% of total revenue with great opportunities to drive experience, profitability. Our self-service kiosks, in order to provide better experience, allowing us gains in an average ticket and gross margin, they represented 26% of sales, a great growth versus the same quarter of the previous year. We continue expanding the coverage of that item, that feature, the kiosks to all of our restaurants, 55 restaurants are 100% digital.

Delivery continues to be an important revenue driver for the company, representing 15% of revenues during this time, highlighting the growth of sales in the channel from the investments we have made to improve the experience of the user and to increase our coverage.

Finally, our loyalty plan, our loyalty program at BK. We reached 14.9 users recorded, registered in our loyalty plan, we think this is an important driver to increase our connection with our users. We continue to achieve interesting results in these first few years, but with many opportunities to still be captured.

Going into slide 12, we see our SG&A and CMV. To the left of the slide, you can see that the cost of goods sold continued on the upward trend and represented 34.4% of the revenue in the third quarter of 2023. And this quarter, we started to capture the benefits of the reduction in commodity prices as expected. [unintelligible – audio failure] … a favorable environment for costs. In the center part of the slide, we see that our restaurant sales represented 47% of the net sales, a total of 420 basis points compared to the third quarter of 2022 driven by the increase in cost with labor related to labor litigation and take rate due to the acquisition cost to accelerate our own delivery channel.

Seeing the challenging consumption in the Brazilian market and looking at the macro scenario, the company took important optimization measures in order to adjust to this momentary reality, maximizing its operating profit. Specifically in terms of restaurant expenses, we had an important adjustment of workforce during the second semester of 2023, as said in the last disclosure, supported mainly by the advance of the digital channels.

We also concluded the closing of the 15th same store Burger King stores and 49 dessert kiosks, and we transferred 5 operations to franchisees. In terms of utilities, we continue progressing the initiatives with the free-market, telemetry and distributed generation.

In terms of rental, we start to see a favorable scenario with the softening of the index rate, and we will capture the benefits of the adjustments from this index. To the right of the slide, we see our G&A. The general and administrative expenses saw a drop of 420 basis points compared to the third quarter of 22. The drop in the SG&A and the G&A without the one-off effects from 2022 came about from the synergies found due to the adjust made on the corporate structure of the company.

Going into slide 13, our adjusted EBITDA was 127 million in the third quarter with a margin of 13.4%, which represented a drop of 100 basis points versus the same period of the previous year. The result was brought about by a continuous job to reduce expenses to adapt the company to a slower consumption market. And we can see here our loss in the quarter of R$ 38.5 million and 3.7 million above the third quarter of 2022 due to the operating results and the financing results, the financial results.

In the next slide, you can see that the operating cash flow reported in the third quarter of 2023 was R$ 94 million versus 106 million in the third quarter of 2022. As a reflex of the increase of payments related to interest, which was partially mitigated by better management of the working capital. In this quarter, the entire investments plan of the company was subsidized by the generation of operating cash, which will lead to better free cash flow in 2023.

Going into slide 15, the reported CapEx in the third quarter of 23 reached R$ 88 million, an increase of 17% compared to the same period of the previous year. This observable increase is a result from our expansion program, our maintenance of the portfolio, and the remodeling of the 23 restaurants that we spoke about previously.

In the following slide, we see the capital structure of our company. In the third quarter, our total gross debt reached the level of R$ 1.153 billion, which led to a net debt of R$ 559 million, which led the company to a leverage of 2.3 times. We see that this is a capital structure which is very adequate, especially due to the strong cash generation in the last quarter of the year.

In the below chart, we can also see the aging of our debts without any material investments at the end of 2023. In this way, we close the financial section and now I pass the word to Ariel to share with you our priorities for the next quarter of 2023.

Ariel Grunkraut: Thank you, Gabriel. We would like to share with you our prioritization plan for the company divided into 3 pillars. The first of them is the reinforcement of the sales and traffic drivers with the strength of our brands, Burger King and Popeyes, allied to a strong campaign pipeline, licensing, innovations, focusing on increasing frequency and sales, generating profitability.

The second builder is our continuous search for operating efficiency. We concluded a plan which consists of simplifying our structures, creating and taking important action in seeking out synergies in our corporate office, adjusting the workforce after digitalizing our stores and also focusing on profitability, seeking profitability in strategic lines in the company. This prepares us for a scenario with more efficiency where we hope to have better operating leverage, expanding our margins.

Our third pillar is the focus on openings and remodeling. As we said in previous quarters, the company did adjust its investment plan and became more restricted with it, seeking our constant commitment and care with working capital. But we still remain focused on executing the initiative of inaugurations openings concentrated in the last semester of the year. And as said by Gabriel, the company started to modernize and remodel its older restaurants. As an initiative, that's an important growth driver to make the company more appealing.

We concluded the first few of the almost 200 restaurants which will be acted upon in the next two years.

With this, we go into the most important quarter of the year aware of the challenges, but also of our strengths. We continue confident that we are well-positioned to capture opportunities for growth with the best brands to explore the QSR market in Brazil.

Thank you, guys. Operator, let's go to Q&A.

Question and Answer Session

Operator: Ladies and gentlemen, we're now going to start the Q&A session. To ask a question, please type *1. If your question has been answered, you can remove it from the queue typing *2.

Our first question comes from Mr. Casimiro, from Bradesco.

Felipe Casimiro: Good morning, everyone. Thank you for taking my questions. I have two questions. First question, if you could tell me more about the breakdown of the same-stores, the BK same-stores in the malls versus free-standings. Did you see an improvement in the foot traffic in the malls? I imagine that July must have been… you must have seen wonderful foot traffic, and what's your expectation of foot traffic improvement in the fourth quarter?

And in terms of Popeyes, has there been an impact on the operations? I see there was a drop in your performance, you know, what led to that? Why was there a negative number? Why is there a sub-performance?

And third, I would like to talk about the Mubadala actions and how that affects the company's strategy. So, how is the communication with shareholders and the directors?

Ariel Grunkraut: Hey, Felipe, thank you so much for those questions. I'm going to start answering those, and if needed Gabriel will help me. Let's start talking about same-stores and how we see same-stores in this third quarter in terms of formats. And you are right, July, yes July was a very strong month, especially in the malls, driven not only by the licensing of Barbie, Barbie licensing movie, but by many other actions. So, we saw a very positive number for July and a cooling down throughout the months of August and September.

When we look at freestanding, in comparison, the free-standings continue to perform better than the food courts. Therefore, we have a same store result driven by a higher average ticket and a foot traffic which is slightly below, a bit more positive numbers for free standings versus food courts, and in July the food courts also saw positive numbers.

When Popeyes, at Popeyes, as you know, we are under construction, the brand is under construction, and the brand does the brand a lot still on media investment to reinforce the brand awareness, the consideration of the brand to drive and incentive the consumers to try the product. We do have an advantage compared to the competitor because all of our products are considered by the consumers statistically superior in terms of quality. Therefore, the main challenge we have is to incent people to just go and try out the product.

Since the brand is still being built, you know, today we have a little over 100 Popeyes restaurants in Brazil, since that's happening, our marketing fund is proportional to our revenue. So, although our revenue is growing 50% in comparison to the same period of the previous year, we still do not have the conditions to maintain the brand in constant communication, in media campaigns, promotions, propaganda ads, and marketing actions.

So, we had a third quarter, which was stronger in terms of the media investments we could have made, and we have the weaker media investments in the second semester. So, you can see that, yeah, the product reacts really well when it's stimulated and when it's disclosed to the consumer, and we feel that when we invest less in marketing, we sell less.

So, we have been talking to the brand owner, with RBI, to see in which way they can help us and how we together can draw a stronger plan in terms of future marketing actions. One of the things that is going to help that we spoke about here is the expansion of our network chain not only through our same stores, but as you saw in our numbers, the beginning of the project of franchisees to franchise the Popeyes brand and to bring growth to the Popeyes brand through our franchisees.

As you know, our franchisees have close to 230 Burger King stores and basically no Popeyes stores. Most of the Burger King stores are in food courts and so we do believe that there is an optimistic space in terms of the Popeyes expansion in the key malls where the franchisees also operate the BK brand. So, we are excited, and we still depend, although we still depend a lot on media investment to continue to build the brand.

And last, in terms of Mubadala, you saw that they continue increasing their share and they got to 30%, and for us, that is a reason of pride to have a fund with the Mubadala Board, with the know-how, not only global but also local knowledge. So, for us, we're very fortunate to have a fund with this relevance looking at the growth opportunities we offer, wanting to build with us this future, looking at the opportunities not only of improving our valuation, but especially to bring about real growth opportunities, real expansion opportunities to consolidate the sector in Brazil.

As you know, they still don't have any participation on our Board, therefore, they don't have an active participation in the company, but all the contacts we have been having with the local team of Mubadala is that all the contacts have been very positive, reinforcing the optimism they have in the company with the leadership, with the confidence they have in the leadership team and our ability to consolidate the market.

I hope I have answered your question.

Felipe Casimiro: It was very clear. Thank you.

Tiago Bertolucci: Ariel and Gabriel, thank you for taking my question. I wanted to continue to explore the growth under a different perspective. If I try to summarize the story of BK, we had flat same-store sales in this third quarter and the second quarter, and this by a recovery in the malls there were lots of marketing actions in the first semester. You know, you keep talking about the strength of your brand equity, but when we compare the numbers, we see great underperformance versus your main competitor, which grows above inflation, showing us real growth.

So, I wanted to know what is your diagnosis for the sub performance and what is the action plan that you are placing forth in the stores to try to reverse that trend? And something else that would help us if you could answer, I know it's hard to quantify, but can you tell us what the menu rotation rate would be so that we can understand what's a fixed menu and what is a promotional item, and then depending, that way we'd be able to gauge the marketing better.

And second question, I remember that we had a conversation in the second quarter regarding forward and how you understood your forward growth, and at that time you said that the macro environment was a bit challenging so that same-stores would be pressed, the numbers would be pressed down. But when we think about the next 12 months, has anything changed in your growth strategy? How should we or how are you budgeting same stores, the region growth and the efficiency from here forward? Thank you.

Ariel Grunkraut: Tiago, thank you for your question. The year continues to be a challenging year in terms of consumption, and we have seen, like I said in other meetings, 2023 for us is being an important year, a transition year, an important transition year for us. So, although the scenario is very challenging, and we do have the key indicator that you also monitor, we have seen the Cielo, Indice Stone and the actual Crest data report in terms of market share, and what have we seen? We have seen a cooling down in food consumption, but we have seen a scenario where Burger King – and now I'm speaking specifically about the third quarter, Tiago – Burger King becomes basically baseline in terms of market share.

We have many players losing market share, especially the small players. And we have seen our key competitor earning share, earning market share, and that has been repeating itself for some time, coming from a very accurate strategy that our key competitor used a few years ago, which has been serving as a learning curve, as an insight for us and served also as a diagnosis for our future action plan.

In terms of the market, that's it. The market continues challenging. We don't see any changes in the short term. We continue to see a challenging scenario in the short term pressured by the per capita income of the Brazilian citizen, and we've been able to maintain market share while other competitors are losing it.

And with the exception of our key competitor who has been performing above inflation, for Burger King, Tiago, our diagnosis is the following, we have a very clear plan that I wanted to reinforce with you although we spoke about this before, but the question is great so that we can make this plan clear. The plan goes through 4 big pillars, which will be the focus of our efforts from here forward: the first one has to do with the quality of our restaurants. And this one perhaps is a great insight that we got from our key competitor that from 2015 to 2020 they took great effort to modernize their stores and now they have a great, a modern set of restaurants available to the consumer.

Although our growth is very recent, you know, mostly very recent, we have many stores which are still concentrated in the last few years of expansion, especially pre-COVID. We have in our portfolio a great number of restaurants which already are presented, which are 11 years of age even sometimes, the restaurants are really old, up to 11 years of age. But we concluded in this quarter about 30 renovations in the restaurants, and we believe in a remodeling plan which will be a fundamental piece of our strategy to recover and grow, which will provide, which will act on 200 restaurants in the next two years.

So, we're talking about basically 50 to 70 remodels per year from here forward. This remodeling, Tiago, comes in a model that we have been studying together with RBI, which was well tested here in Brazil. And we internally have called it the Royal Pavilion model. Gabriel showed you in the presentation the first two stores that we opened in this quarter in the freestanding model, in this Royal Pavilion model, these two stores are already performing above R$ 1 million, and these are stores which are 100% digital and who have at least 10 percentage points of improvement compared to the previous model.

And so, the key strategy, the first key strategy is in terms of improving the quality of the restaurants. And we continue in an opening plan, although more restricted, it continues to be still very aggressive. We think that throughout this year, our expectation is to open between 60 and 80 restaurants per year, and we continue believing in that planning.

And forward, we believe in a number around 40 to 60 restaurants per year of new store openings already in the new store model, and the renovations in the 100% digital format as well.

And our second priority, Tiago, is to reinforce the consumer experience. The consumer experience is going to go through a few improvements and a few adjustments. The first one is that this new store design allows a management of channels and brings a series of insights in terms of the consumer experience, especially in terms of the complexity that there is today in a freestanding of you managing well drive-thru, delivery, and the balcony, and pick-up at the counter. So, we think that a better experience aligned with new management of NPS per transaction, basically based on 100% digital stores, should allow us to improve the experience and this is a priority of ours for the next quarters.

The third key driver, Tiago, has to do with something very significant for our consumers, which is the equation of cost-benefit, our value for money. And we're going to take advantage of the slowdown in the commodity curves that we have been talking about, and we're going to continue exploring and testing significant alternatives to the consumer to be able to continue attracting and to increase the frequency and not losing the appeal of our brands, the appeal of our products, especially Burger King, in this cost-benefit analysis.

Gabriel said that now we start to bring back a few important drivers, which we had in the past. The first one was the 2 burgers for R$ 25, but we continue testing and we will implement in the next quarters new promotional events, taking advantage of this cooling down in the commodity prices to be able, to be more appealing and more significant to the consumer.

And the fourth key driver, Tiago, has to do with a marketing action, marketing efforts, especially in the readjustment of the media focus and the increase in what we call internally of the share of voice. We, in the last few years, we ended up concentrating a good piece of our investment in various different channels and this made it so that in some times we basically lost a little bit of our share of voice. Although we haven't reduced the marketing investment, the money we've been investing in ads, we ended up fragmenting it a little bit when we felt that we lost a little bit of our share of voice, and that strategy has been adjusted so when we look at the next 12 months we should see a strong recovery of our share of voice of the Burger King brand in the market, which will help us to recover the levels that we think are the healthy levels of same-stores sales.

I hope that I have answered your question fully. Gabriel, if you want to say anything else, please feel free.

Gabriel Guimarães: Yeah, your second question was regarding the 12 months forward plans in terms of the speed of the growth and how the company could prioritize its investments. We continue with a very conservative perspective for Brazil. Brazil has a GDP which is basically neutral, excluding any agribusiness effects. So, this is an economy which is showing very shy results, we see the reflect of these numbers at the transactional away-from-home level, the number of purchases, and we still see a capital cost which is relatively high.

Although there is a positive trend, the capital cost, or the cost of capital is still very expensive, still very high. And considering 2023 as a transition year in terms of the adjustment of the company, in terms of efficiency, in terms of investments for this more conservative sales reality, we are going to see this priced in the plan for 2024, which involves growth, like Ariel said, growth more focused on the investments which will get to greater maturity, therefore BK, and a greater balance between our capital and the franchisees' capital.

We historically have been concluding 60 to 70% of the investment of the brands in Brazil and this should be adjusted to something closer to 50-50 in a way that the generation of free cash flow in 2024 versus 23, incorporating all these initiatives taken, it will lead to growth and will improve the capital structure of the company.

Ariel Grunkraut: If I can say something else, actually, when we speak about this conservative plan and this recovery and this plan to recover sales in 24, we also should benefit not only from all the adjustments we made in the corporate structure as well as in the restaurants, but we also made a few important changes, and we saw a few important changes like the inflation index change. And many of our openings, since they are concentrated at the end of the year, we still haven't adjusted it to the index rate, which is negative. And so, this will start to be included in the contract starting in 2024, so we're going to start to see an improvement in rental costs in 2024 and we should see opportunities based on our portfolio optimization.

Gabriel spoke a lot about in terms of our openings, but we also have been working hard on closing restaurants, which are underperforming and also to transfer, you know, transfer costs in a few situations. So, the portfolio optimization will continue to be done together with our efficiency efforts and we'll continue to look at the drop in commodity prices and the index rate, inflation index rate.

Tiago Bertolucci: Okay, guys. Thank you.

Operator: Next question, Tiago, from Citibank.

Tiago Hardoin: Thank you for taking my question. I wanted to explore two questions. First, I understand your growth strategy and how it fits into your future efforts, but I wanted to talk about the finances so that we can measure the impact of this for the next few years, and how can this format differentiate itself in terms of profitability from the regular stores, traditional stores?

And the second question is Popeyes' franchise openings. We understand that when you open a store, there is a process of analyzing location, everything else, a few criteria, so I wanted to hear you out on how the franchisee format, how does the Popeyes franchise differ franchise differs from the Burger King franchise?

Gabriel Guimarães: Well, we have this Royal Pavilion model that we are working on, and we've been implementing this in the remodelings we have been doing, and basically, we do see a very significant uplift in sales, which justifies the allocation capital just by the increased foot traffic. Sometimes we see the combination of a benefit generated by lower cost, the renter always has great interest, and so the portfolio of new restaurants will lead to lower rental prices.

This concept is being well assessed by the consumer, which is reflecting and leading to sales, and we have the expectation that the new investment in these new stores, which are being built in this format, that they bring in average sales performance above what we would have with the traditional store designs based on the comments that Ariel made. We have a model which gives you better balance between channels, we have an experience which is 100% digital so all the transactions are all 100% digital, and that affects not only on the higher sales but also in terms of sales the unit economics of this type of asset since the transactions are 100% digital, it's a bit more favorable than a traditional store and we're going through a store today to this remodeling and although, I mean, the store had its road show, we're remodeling this digital journey so that we can be more efficient.

So, when you combine marginal CapEx around 10% higher than our normal for a new restaurant, but with a sales increase and with a cost in in expenses level which is less, this equation is better in terms of working capital and return on investments respecting the same criteria we use for approval here at the company.

This is a concept that we believe in, it was well tested and approved, and we are going to measure how the reality compared to expectations. The first projects, which are these two, have very enlightening numbers, very promising numbers.

Ariel Grunkraut: Tiago, in terms of the second question, the openings of Popeyes stores, I was saying that we have around 230 franchise, Burger King franchises, and we have groups who are very significant who basically represent 80% of our stores. So, we have something close to 15 groups of significant franchisees who have this amount of almost 80% of our stores, and this group of franchisees are part of a group that has already committed themselves in the next few years to expand the Popeyes brand in their area.

So, we work with three, four, five-year brands that we call the development agreements where these franchisees show interest in building the Popeyes brand. So, at this time, we're not opening up the possibility of franchising Popeyes to any outside franchisees, and we're using the strength of these franchisee groups for BK to develop the Popeyes brand, especially in the malls where they already operate the Burger King restaurant.

This makes it easy because they already have the relationship with the mall, they understand the potential of each mall and they understand the opportunity to negotiate better rental prices and there's better G&A when you're located in the same mall. So, our expectation is to explore our existing franchisor base and to use them to develop the company through them. So, the development of Popeyes through the next years is going to be done through the same stores, but also heavily focused on these strategic franchisees.

Tiago Hardoin: Great, thank you.

Operator: Next question comes from Vinicius Preto, Bank of America.

Vinícius Preto: Good morning, Ariel, Gabriel. Thank you for taking my question. We wanted to better understand about your margin development. Your cost margin should improve with lower prices. You have done lots of efficiency work, but you are seeing less consumption, so people are looking at cost benefit. So, how are you going to balance out your profitability versus your marketing investments?

Gabriel Guimarães: Thanks for the question. Let me talk about costs and expenses. I think that we have shared with the market all the initiatives we took throughout the year in the second and third quarters, but just to recap, the growth of the digital channels have allowed us to have a lighter and lighter workforce at the restaurants, we reduced 7% of our headcount during the second quarter, we closed 15 Burger King stores, which were eroding the profitability, we had these restaurants underperforming, we also closed an important amount of kiosks, which in the post-pandemic period, when you look at the new foot traffic levels and the adjusted cost, these kiosks did not make sense anymore, so we ended up closing them. We did work with utilities, going into the free market working with generated distribution, distributed generation, and now we start to be benefited by the adjustment of the inflation index on the lease contracts. So, since the anniversary is in the last quarter, we're going to be able to capture a nominal growth of zero when we look ahead considering next year.

And so, in terms of cost and expenses at the restaurant, we have taken various initiatives throughout the second and third quarter, and if you look at this annually, there is a significant impact. And we also made relevant adjustments to the corporate structure capturing synergies that we found, and we reduced about 10% of the workforce in the office.

When you combine that effect, then, you know, we depend on retailers for our growth to generate operating leverage and us to be able to evolve in marginal and nominal terms, we do depend on a successful execution of this plan.

In terms of gross margin, specifically, I would tell you that we still have some elasticity keeping a level close to what we reported in the last quarters, and still being more aggressive in our sales strategy and the cost benefit of our sales in a way that we started in the last quarter to be affected by the cooling of the commodity prices, reduction of commodity prices, but we still see a more favorable environment, at least in the next 12 months.

And then there are these three other pillars that Ariel spoke about, the remodeling of new restaurants with the new format, the new design, the investment in marketing, and the improvement of the customer experience. So, in a general way, the expectation, obviously, like I said, is of growth aligned with the Brazilian expectations, we're talking about the GDP close to 5% of growth in same-stores next year, but with an operating leverage brought about by these efficiencies.

Vinícius Preto: Great, thank you.

Operator: We now close our Q&A session. I'd like to pass the word to Ariel for his final comments.

Ariel Grunkraut: We would like to end our call thanking you for your participation and your questions. And we, together with the investor relations team, are at your disposal in case of additional questions.

Have a wonderful day.

Operator: Thank you. The ZAMP telecom is now over. Thank you for your participation, have a great day.