International Conference Call
Zamp S/A (ZAMP3)
2Q23 Earnings Results
August 11th, 2023

Operator: Good morning and thank you for waiting. Welcome to the Zamp teleconference to discuss the numbers of the second quarter of 2023.

We have with us Mr. Ariel Grunkraut, Gabriel Guimarães and the Investor Relations team.

We informed that this event is being recorded and that all participants will only be hearing the teleconference during the Zamp presentation. Afterwards, we'll start the Q&A session, where more instructions will be provided.

In case any of you require assistance during the teleconference, please ask for the help of an operator typing *1.

This event is also being transmitted simultaneously via the Internet, via webcast, also accessible at the address www.ri.Zamp.com.br, where you will see the presentation available. The slides will be handled by us. The replay will be available right after its closing. We would like to inform you this teleconference is being simultaneously translated to English in order to help our foreign investors.

Prior to continuing, we would like to clarify that any declarations which may be made during this call related to the business perspective of Zamp, forecasts and operating and financial goals are based on beliefs and assumptions of the company, as well as information currently available to the company. Future considerations are not a guarantee of performance, they involve risks, uncertainties and premises because they deal with future events and therefore depend on circumstances which could or could not happen.

Investors and analysts must understand that general conditions, sector conditions and other operating factors could affect the future numbers of Zamp and could lead to numbers that differ significantly from those expressed in these disclaimers and these conversations.

And I would like to pass the way to Ariel Grunkraut, CEO of Zamp.

Ariel Grunkraut: Thank you for the introduction, operator. Good morning, everyone and thank you for the interest in our company and for your participation in this results call for the second quarter of 2023.

I'd like to share with you our results for the second quarter of 23 with a general overview of our business and an update on important initiatives and priorities which are driving our company to a strategic position in the fast-food market.

The second quarter was set up by important progress where we balanced the sales recovery and gains in market share without giving up profitability even in a hard consumption scenario and low traffic. We delivered a quarter with important adjustments in costs and expenses and the expansion of our gross margin.

Going into the second slide, let's share the key highlights in the second quarter of 23. In terms of net operating revenue, we reached the milestone of 135 million, which represents a growth of 6% versus the second quarter of 22. We have reached a consolidated gross margin of 65% in the second quarter of 23, an advance of 130 basis points compared to the same period of the previous year.

We've done adjustments in SG&A, which resulted in the reduction of the operating deleveraging, and they will support higher efficiency throughout the year. During the time, the digital sales of the company represented 45% of company sales and 50% of total sales are already identifiable.

Finally, we opened 5 new Popeyes and we also closed 7 stores in the period, in line with our strategy to review our portfolio and asset profitability.

Going into the next slide, we see the financial performance highlights in the second quarter, where Zamp reached a net operating revenue of R$935 million, a growth of 6% when compared to the second quarter of 22. Besides that, the digital sales for another quarter present significant numbers, reaching the revenue of R$429 million, a growth of 51% compared to the same period last year.

The gross margin at Zamp was 65%, a growth of 130 basis points year-over-year, reinforcing that the revenue management, strategic sourcing and data management (strategies at the company) continue to prove themselves incrementally beneficial semester after semester, and we reached in the second semester of 23 an adjusted EBITDA ex-IFRS of R$63.4 million, which was a reflex of strong cost reductions in a slower market. And the same-store sales by the Burger King brand was 0.3%, and Popeyes was a positive 0.8%.

With that, I would like to pass the word to my partner and CFO, Gabriel Guimarães, so that he may cover import important aspects of the financial performance of the company.

Gabriel Guimarães: Thank you, Ariel. Good morning, everyone.

On slide four, we present the progress of our restaurant portfolio. In the second quarter of 2023, we concluded the opening of 5 new Popeyes restaurants, all in the food court format, and we closed 7 Burger King stores as part of our strategy of managing our portfolio, focusing on profitability. Thus, we closed the semester with 698 restaurants in Brazil, 772 our same-store and the rest are franchises.

Going into slide five, we present the progress of the net operating revenue at the company of same-store sales of both brands. As we said, in this quarter the net operating revenue was R$935 million, a growth of 6% versus the second quarter of 2022 with same-store sales of 0.3% for the Burger King brand and a positive 0.6% for the Popeyes' brand. As we can see in the chart under right, the net operating revenue in the last 12 months was R$3.7 billion, a growth of 14% compared to the results presented in the previous period.

Going into slide six, we present the net sales revenue, which reached R$873 million in this quarter, a growth of 3% year-over-year and a record for the brand in a second semester. In a more restricted consumer environment, we've adjusted and we work with 3 sales drivers: the Everyday platform and we put in burgers with prices starting at 9,90 which provide a better entry point for our consumers; we also had the Spiderman licensing with a themed combo and we reinforced our kids platform with gifts; and we have the Choripan Whopper, which reinforces our premium category.

Even with the less accelerated market, the second semester was important to reflect the first impacts of these sales initiatives. As you can see in the below chart, we had a progress of 300 basis points in market share in a comparison versus the previous quarter, which reinforces that we are well-placed to grow once the consumption improves in Brazil. As we have said, we continue focused on the ratio that generates the best balance between profitability and revenue growth, therefore maximizing the numbers of our restaurants.

On slide seven, we see that the Popeyes brand reached in the second quarter of 2023 a net revenue of 60 million, a growth of 53% compared to the same period of 2022 and same-store sales of 8.6%. In Popeyes, the quarter was set up by initiatives which were successful, in line with our strategy of building the brand, stimulating trials and experimentation. In April, we published our NBA Brazil sponsorship, and we launched 6 sandwiches regarding the six key teams, and we also did activation at the NBA House.

These initiatives have contributed to the maturing of the performance of the restaurants with a much stronger brand or ever stronger brand.

Going into slide 8, we can see the constant evolution of our digital channels presented by Delivery, Self-Service Kiosks and App. In the second quarter of 2023, the realized sales through these channels totaled 429 million, a growth of 51% compared to the same period last year, which represented 46% of share over the total sales at the company, a progress of 13 percentage points year-over-year or quarter-over-quarter.

In the next slide, we show you our digital ecosystem. We closed the second quarter of 23 at 18.5 million users recorded in our CRM and we reached the level of 50% of sales identified. With the enrichment of our database, we can act in a more accurate manner in terms of our personalization of our offers.

As we saw in the previous slide, our app shows the most relative growth, representing over 5% of all company revenues, which represents a great opportunity for us to drive efficiency, experience and profitability. Our self-service kiosks, an initiative which aligns better experience with gains in the average ticket and gross margin, represented 24% of Zamp revenues, a growth of 7 percentage points versus the same period last year.

We continue advancing our rollout of this feature to most of the restaurants, and besides that, we closed the second quarter of 2023 with 28 businesses which have 100% of their business done digitally.

Delivery continues to be an important revenue driver for the company, representing 17% of sales at the time, leading us to reach market share levels which were significant superior to our balcony numbers, which reinforces our brand through more channels. Besides that, we continue investing in the growth of our proprietary channels in order to capture profitability working in other formats which will allow us to expand our coverage being more efficient.

Finally, we present the data of our loyalty program, the BK Club. At the end of this quarter, we reached 13.5 registered users. We believe that our program is an important driver for us to explore engagement, frequency and spend. We have seen interesting numbers in these last few years still with many opportunities to be explored.

Going into slide 10, we see our SG&A and CMV. To the left of the slide, we can see that the cost of goods sold maintained its expansion trajectory and represented 35.1% of company revenue. That result was supported by 3 pillars: revenue management; sourcing with the start of the cooling of commodities; and data. In the mid part of the slide, we see that the sales expenses at the restaurant represented 47.3% of the net revenue, a growth of 350 basis points compared to the second quarter of 22, especially pulled by the increase in labor costs related to the labor contingencies and take rate due to the acquisition cost to speed up our own delivery channel.

During the second quarter, we took important initiatives in terms of sales, like the adjustment of 7% of our staff at the restaurants, closing of businesses with high rent, and the simplification of the corporate structure with a reduction of approximately 15% of our head count. These measures were concluded throughout the quarter, therefore, although they have contributed, excluding the runoff effects, they have contributed to less relevance, they will be fundamental to the next quarters.

With these actions and a more favorable scenario, we've gone into the most important part of the year, period of the year where we will see most profitability. At the right of the slide, we see our G&A. The G&A had a drop of 140 basis points versus the second quarter of 22, especially due to the reclassification of the labor contingencies in the first signals from the headcount reduction carried out recently.

Going into the next slide, our adjusted EBITDA was R$123 million in the second quarter of 23 with a margin of 13.2%, a drop of 110 basis points versus the same period last year. On the right of the slide, we can see the quarterly loss of R$63.5 million, 31.9 million being above the second quarter of 2022 due to the operating result, the financial result with higher leverage and the tax income or income tax.

Well, we can see that the operating cash flow reported in the second semester of 2023 was R$55 million versus 63 million in the second quarter of 22. As a reflex, operating number which is weaker and a favorable dynamic of working capital and the improvement of our financial cycles. The reported CapEx in the second quarter of 2023 reached R$93 million, an increase of 22% year-over-year, which supported the taking back of the expansion plan during this time with the 5 inaugurations of Popeyes and our investments in IT, maintenance, and the remodeling of a few assets.

As we said, we are making important adjustments in our capital allocation needs, although showing little reflex, or showing little impact due to projects which were ongoing, the projects that were ongoing will be fundamental to lead us to a stronger company with higher generation of free cash flow ahead.

This is the capital structure of our company. In the second quarter, our gross debt reached the level of 1.1 billion, which led to a net debt of 735 million, leading the company to a 2.2 leveraging net EBITDA.

In the chart below, we can see our debts with their due dates 12/2023, and we also issued 125 million in private bonds which contributed to the ongoing of the business throughout the year.

This way we close the financial numbers and I pass the word once again to Ariel to share with you our priorities for the quarter and the rest of the year.

Ariel Grunkraut: We'd like to share with you our prioritizations divided into 3 pillars: the first one is that we will continue to balance our share gain without giving up profitability with the strength of our brands, Burger King and Popeyes, a strong campaign pipeline and licensing and innovations which seem or lead to a boost in experimentation and increase in sales besides our competitive advantages in IT leading to the best experience for the consumer. Due to all this, we are well-positioned for the times that are to come, and we see strong consolidation of the QSR market.

The second pillar has to do with the strong operating efficiency plan, which we will reap the benefits of ahead. During the quarter, we led the simplification of our frameworks, and we also took immediate action which will leave us materially more efficient in the next few months. We've adjusted our headcount at the restaurants supported by the digitalization efforts. We have simplified our corporate structure seeking synergies between areas, a plan concluded at the beginning of August. Our distributed generation, free market and telemetry projects has made progress and our progress in artificial intelligence has led to more gains in efficiencies and the suavization of our inflation starts to benefit us positively, although the highest concentration is in the contract renewals that happened during the second semester. And we closed 7 Burger King stores which were deficient, which were not solvent, and this helps us to prepare for the second semester of 2023 where we expect higher operating leverage, and we want to expand our brands given our higher revenue expectations.

Our third pillar is the adaptation of the company's investment plan seeing a more restrictive environment. In a more challenging macro environment, and since our investments have to go through the threshold of profitability, we have reviewed our investments this year in order to prioritize the investments which are already on course, which represent the biggest returns to the company since capital costs are still very high.

We try to see the best balance between operating cash flow and investments following our cost commitment and care in our capital allocation.

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

Question and Answer Session

Operator: Ladies and gentlemen, we will now start the Q&A session. To ask a question, please type *1. To remove your question from the list, please type *2.

Our first question comes from Thiago Bortoluci, Goldman Sachs.

Thiago Bortoluci: Good morning, everyone. Ariel, Gabriel, thank you for the presentation and for taking our questions. I have two. Let me ask, let's explore the quarter performance and then I can ask a follow-up question on the strategic plan. When I look at this BK performance in the quarter, I see that the revenue increased 4.5% with 7 stores closed. So basically, this basically breaks out even and you said that your foot traffic is still not 100% adjusted. When I tried to match this better sales performance with lower foot traffic, the question is how do you see? Where do you think the price point at BK is? You know, as your BK price points already adjusted to the demand level that we have today? And how many more price adjustments should we expect, or how many other price adjustments are going to be done in the second semester? That's my first question.

Ariel Grunkraut: Hello, Thiago. Thank you so much for your question and the opportunity. We see that the price movements that were undertaken during the first semester they are in line with this more restrictive scenario making the access to our products easier for the population through lower prices. So, according to what Gabriel had said, our Everyday platform comes back strong in the second semester with products starting at 9,99. Therefore, most of the sales strategy and the prices in our opinion already reflect this environment and very in line with what we had said before. We are taking advantage of the cooling of the prices of commodities to use that in our favor so that we can become even more profitable. At the same time, there is the digitalization and the access to the data has allowed us to be more accurate in our promotion.

So, in our understanding – and the market share has shown this in our favor –, we understand that we go into the second semester more competitive and in better conditions to continue doing better work in terms of accessible prices to the consumer.

Thiago Bortoluci: Thank you, Ariel. The second question, I want to explore your route correction or the new focus of the team for the next quarter or year. You mentioned a CapEx which we will prioritize efficiency and margin or CapEx which is more prioritized, and you're going to focus on efficiencies. But how much flexibility does your MSA allow you to actually slow down, you know, to slow down and CapEx for same stores in the next 12 months? How should we imagine this company growing in the mid-term period if the makeup of same stores and franchises should change, if the ratio should change? And how do you see that perhaps? Do you think you should focus more in-house and less on expansion? Could that influence the position of BK since your main competitor is speeding up the pace of their openings?

Gabriel Guimarães: Hey, Thiago, thank you. Thank you for your question. I'm going to start with a panorama that we started with. I think we shared with the market our vision of going into 2023 doing 80 to 100 operations here in Brazil, and most would be Burger King Stores, 2/3 would be same stores and 1/3 would be franchise. This was our plan for the year and something around the 30 Popeyes for 2023, 30 stores to be opened. And as we saw on the macro consumption, we see a more restrictive consumer habit, you know, the same adaptations that we're doing in our OpEx, Ariel spoke about most of them, the review of the restaurant structure or many operating efficiency projects, a few adjustments in synergy and the G&A, and the same plan has to be reflected in investment because the company has a very strong mindset. The company loves to generate free cash flow, and we've been saying that we have to have this very strong balance between operating cash generation and our investment plan because once we have an impact outside of what we had planned, we have to adapt and show the flexibility that the company has in its development plan.

So, we of course, have many of these initiatives already kicked off due to the cycle of the pre standings and the openings of the Popeyes that we started to do more this year, you saw that the opening pace still, although with a reduction, it's still going to continue pointing towards something like 60 and 80 restaurants opened, so a reduction of 30% versus our original plan.

And that is it for this year, that's on the radar. And when we talk about a long-term horizon, well, then obviously, the reflex of the year we're going to carry over the capital allocation to the next years. The Brazil environment still uncertain, a capital cost is still high, but we still are very confident to the amount of opportunities to develop, the opportunities to develop the brands here in Brazil, brands which have very distinct moments. While the investment in

Popeyes, of course, is an investment with a longer maturation cycle, and therefore the BK returns are much clearer, you know, the BK side is the side of a much more mature brand in a format where we see lots of opportunities, we see a competitor who's facing the new opportunities or the same opportunities, and we'll try an opening pace, a growth pace which is adequate using the capital allocation that we desire.

In our relationship with our RBI, we have been working jointly in the last 12-13 years. Basically, we never had any kind of problem in the very good moments and the more challenging moments as well. And we have no reason to believe that this would change at this time. We do have a business model which eventually we do have the flexibility, so if we want to eventually do a little bit more of openings concentrated on more franchises, we've been doing 70 to 80% of our expansion at same stores, but we can perhaps find a different ratio for that just like the competitor.

And so, it is an alternative and these measures that we're taking these measures are measures that are for the benefit of the company. We'll do whatever is needed understanding what is adequate for this current moment in Brazil, and later on, we'll continue to discuss and to make progress on the conversations in this partnership with RBI that we have been able to maintain very well throughout the last 12.

Thiago Bortoluci: Thank you.

Ariel Grunkraut: Just to compliment, Thiago, just one last point here, which I think is important, when you talk about the growth pace, you know, the company continues very optimistic regarding the existing opportunities, regarding the opportunities to develop the Popeyes' brand, and in Investor Day we reinforced this and all the data shows this opportunity of finding something for basically doubling the Burger King restaurants in Brazil in the next 10 years. And when we think about our growth pace, Gabriel said, there is that, you know, that balance between the expansion of the same stores and franchisees, just like our main competitor, and when we look at this year, we're talking about a growth base of around between 40 to 45-50 stores Burger King with a few closings, obviously, that we have already done those closings, we're talking about 15.

So, when we think about the expansion pace close to 30 stores, net stores, is very in line with what our competitor has been doing here in Brazil. So, we understand that at this expansion pace, but with greater balancing between same stores and franchisees, we will be able to protect the cash, the free cash flow we've been speaking about in the last periods, and to make give capturing the opportunities that we continue to find here in Brazil for the Burger King brand.

Thiago Bortoluci: Thank you, Ariel. If I may ask one final question, in Gabriel's question I understand that there is a pace or an investment, you know, with longer investments and basically that takes a longer time. And do you think that buying back shares is a better destination, a probable destination for this free cash flow that you're going to generate?

Gabriel Grunkraut: Thank you for your question, Thiago. Well, dude, I think at this time the company, although still in a position that is reasonably comfortable in terms of its capital structure, this is a company that's 2.2, that's got a leverage of 2.2 times in the last 12 months, so I prefer that we have a clear trajectory of generating free cash flow in the next cycles. Like we said, there will still be a strong balance between operating cash generation and how that is converted into investments so that in 2024 in the later years we have a more adequate structure.

And then at a more opportunistic time, we'll go back to discussing strategies to buy back shares, dividends of any other metrics which are pertinent for a different time at the company, for a different period at the company when that time comes.

Operator: Ladies and gentlemen, we remind you that to ask questions, please type *1. Please, hold on while we collect the questions.

Our next question comes from Laura Hirata, Santander Bank. Laura, you may continue.

Laura Hirata: Good morning, everyone. Thank you for taking my question. I have two questions, actually. The first one is regarding the portfolio adjustment. I want to understand at what level, what percentage of all the stores that you decided to close have been closed, and what can we expect in terms of margin increments related to this closing initiative?

And in terms of capital allocation, I wanted to understand better if we consider your target and put it into a pyramid, what do you prioritize? Do you prioritize the opening of new stores, the portfolio optimization, technology? So, what's your mind around capital allotment, capital allocation?

And I wanted to understand a little bit about this adjustment of pricing. I wanted to understand that now in July how sales performed with these price adjustments that you put in place and what's the duration that you imagine that this initiative will take? What's the time period for this to take effect?

Gabriel Guimarães: Thank you for the questions. I'm going to take the first two questions and I'll send the last one to Ariel. First, the company has been making this portfolio adjustment and most of the retailers, as you have seen, have been doing similar things. Essentially, we wanted to monitor in a post-pandemic world and how that balance would be between the recovery of foot traffic with the new levels of rentals. Despite the cooling of the inflation in the last two years, we are talking about 45-50% of growth, which makes it difficult for a few assets to develop a few assets, and led us to a good part of our Burger King portfolio, you know, we saw a few non solvents operation, we saw first wave of closings in the first semester and we had the second wave of 7 closings in the second quarter.

So, these were the assets that we have mapped out as critical, therefore, the ones that we haven't closed yet are because for some reason we might believe that there is an opportunity to recover them either through revenue growth or better sales conditions during the negotiations to come.

Our rental contracts and the renewals since we concentrate good over our openings pipeline in the second semester, that's where they are concentrated, therefore, if we are favored by the inflation index, this might make a few businesses which have a more challenging scenario that the scenario will be improved significantly.

This ratio of closing stores, of closing the deficitary stores, underperforming stores, of course, on the margin they have a very positive impact since it reduces the operating revenue that these assets contribute to and there is an EBITDA attrition. So, in practice, there is an operating leverage that happens and we're talking about an average revenue of these closed restaurants around 3 million with a negative EBITDA. So, with that calculation you can get to a good proxy of what is the impact of these closings throughout time, and as we evolve and mature this view of needing or not more closings, we will continue the same behavior in order to maximize, optimize the profitability at the company.

In terms of capital allocation, we are very disciplined in our investment priorities and the most important criteria is for these investments, which eventually are not exclusively strategic as these have to be investments bringing the best return to the company. IT investments compete with brick-and-mortar investments.

So, in practice, this is our way of prioritizing where we're going to allocate capitals. And today we have found 3 complementary realities in terms of this capital allocation, the physical assets, especially for the free standing Burger King stores and due to the store brand maturity, our expertise and the sales force of the free standings that we have found, we also have a few IT projects that even in a more complex revenue environment they end up having a very important role in the efficiency, the reductions in headcount in the office and the restaurants as well are only made available because today almost 50% of the company revenues go through the digital channels.

And a very important factor that we have seen – and we see lots of action in this – is the portfolio remodeling. Despite us having a new vintage of assets in Brazil having less demand for very critical remodeling, in a few regions we have seen that either the image has been updated or we could deliver a better experience to our clients, and this will be an important part of the allocation of capital for the next exercises. And we have seen in the same return thresholds within our return matrix, we have seen very important returns because they combine growth, relative revenue growth since the restaurant is north with a better experience, and many times we're able to match this reinvestment to some kind of benefit in the rental cost.

So, that equation ends up generating an important benefit to the company. And throughout this year, we should reach around 40 and 50 remodels here in Brazil, and this is a part of our investment plan for the next few years.

Ariel?

Ariel Grunkraut: Thank you, Gabriel. Laura, I'm going to take on the third question related to July and pricing. I think that it's worth putting into context that in July we were affected by 3 initiatives, 3 fronts: first was pricing. Although pricing has a quick effect in the short-term, we believe since the frequency is less in our segment and it takes a while for the consumer to really be affected, affected by the lower price and comes back to the stores, so there is that delay and that drag, and we think that contributed to it. But there are 2 other impacts important for the numbers in July, for the month of July by nature shows seasonality due to the school vacation month and we had an impact which was an important driver, it makes a lot of difference for our business, which is the movies with the launch of a few very important movies, like the case of Barbie, Oppenheimer, Mission Impossible, among others. So, we did see a second flow since 70% of our restaurants are located in the malls, so we were extremely benefited by this important increase in foot traffic in the malls.

Along with that, together with that flow, we took over as a sponsor of the key movie, which was Barbie. That was the key launch, the key release in the movies, and we were sponsors of strong licenses, and in the case of Barbie, we had a strong marketing campaign which involved the launch of a series of product, sandwiches, milkshakes and campaigns, which made and continue to be successful in our restaurants. And so, once we sum all of that up, we had then a good result in the month of July.

Still too soon for us to talk about the quarter because the month of August has only begun. But what we can tell you, Laura, is that the moment is of caution. But we are very confident in the company strategy. It's important to take advantage of your question to speak a little about the second semester. I think that it's important to put into context that we go into a second semester where this second semester is responsible for 65% of the company EBITDA for the year annual EBITDA, therefore, this is a scenario that's very important for our industry, for retail as a whole, but for us still more so, and we believe that we are going into the second semester much better prepared to capture the opportunities.

Laura Hirata: Here, we're still not optimistic about the macro scenario or to see huge growth in same-store sales or growth in sales because we're still cautious. However, we have been doing and we believe that we have taken effort in all of our cost centers so that even in a cautious and low-consumption scenario or tight consumer scenario, we’d be able to take advantage and get the important operating drivers we need, and I'm going to tell you a few.

First, we spoke about the closing of the stores, Gabriel spoke about the impact there is from these initiatives, so that was an important initiative to start with.

Second was the IT investments that have been made. We had a huge benefit now in the first semester, which is a benefit in the labor costs of our restaurants. Gabriel said that we had based on the digitalization of our stores, the growth of digital sales, we already had a reduction of approximately 7% in headcount in our restaurants due to the capture of the benefits of digitalization. Besides that, like I said during the presentation, the IT investment also has given us good returns in the utilities line.

So, everything that we have done in terms of energy management, water, controls, telemetries and the use of artificial intelligence, this has given us good savings in the utilities line and the other cost centers in the company, and we commented recently about the challenges and the optimizations trying to seek out more efficient synergies in the main office with the reduction of 15% in headcount at the office, and this benefit will be seen in the second semester. Even with the severance costs, these numbers are positive and will generate great savings.

And last but not least, we've got the CTO benefits. Like Gabriel said, they have anniversaries or birthdays much more at the end of the year, so we start to see an important growth in the second semester, and there's also in terms of CMV we see a more positive scenario. After many years negative, the scenario is starting to be more positive in terms of commodities. All of this to say, Laura, that the sales strategy is correct, but especially the cost adjustments that were done on all the lines, we believe that they will benefit us in this scenario of 65% of the numbers of the second semester even being cautious with sales.

So, we are optimistic, less optimistic in revenue, but much more optimistic about saying that even with our compressed revenue, we are prepared to capture and to have good operating leverage in the second part of the year. And starting in 2024, like Gabriel said, we'll be better, we'll see positive cash flow generation.

Laura Hirata: It's clear. Thank you.

Operator: Our next question comes from Wellington Santana, Bank of America.

Wellington Santana: Hello everyone. Thank you for taking our questions. Good morning, Ariel, Gabriel. I would like to understand about these launches you mentioned, and you know, the stores that you haven't closed in these first and second quarter perhaps left you more optimistic about the traffic in the second semester. And have you seen any improvement in foot traffic after digitalization? We see that you didn't only have... you had success with the theme launches, but the app also went through a few changes.

In the second question, I'd like to know in terms of the Popeyes' franchise expansion. You spoke about Popeyes' franchisees having BK franchises, so if you could talk about that as well. These are my two questions. Thank you.

Gabriel Guimarães: Good morning, Wellington. Thank you. Your first question, the big question here is to see what's the durability of this movement happening in the malls, especially in July. The entire portfolio, we have almost 70% of our assets in malls and they were benefited by the increased foot traffic not only by Barbie but other campaigns which worked very well, which made the second week of July bring in very good numbers for all the store owners. We are well-positioned because we had an iconic campaign which also accompanied that success, that furor over the movie.

An event like this is very little for us to see the reassessment of the store. At the end of the day, we have to understand how consistent these movie industry, how consistent the bounce back of the movie industry is going to be so that we can have more balanced traffic, foot traffic numbers so that we can reassess these restaurants hoping that they won't be closed.

We hope that will happen, but we are monitoring very well, very closely, in case it doesn't happen, making the necessary closings as needed.

The second question has to do with the app. You know, this is the biggest growth that we've seen, we go from 3% of total revenue share to over 5 through the app, but this is a feature, the feature has less impact in the incremental traffic than the positive impact that it generates in the operating efficiency, be it because it's a digital channel so there's less manpower need, or be it because through the app we can have better intelligence to drive up the average ticket and the gross margin.

So, we don't have an expectation that exclusively the app will bring in foot traffic, incremental foot traffic, it will bring incremental numbers and we'll see a better unit economics.

In your question in terms of expanding to franchisees the Popeyes franchise, we will do that throughout the second semester. We have realized the milestone of over 80 transactions, 80 Popeyes' transactions in Brazil, a brand which has been very well-accepted, 80 stores, and a brand which has a very good array of products which we think are the best in category and now they are more mature operationally and how we're going to prioritize the franchisees who today have a relationship with Popeyes or, you know, we also can look at synergies that we capture and we can offer them Burger King franchises. As well as the Burger King franchisors being offered the Popeyes. So, this will lead to insights that we will carry into the future.

Wellington Santana: Thank you.

Operator: We at this time close the Q&A session. I'd like to pass the word to Ariel Grunkraut. Please, Ariel.

Ariel Grunkraut: Well, we would like to conclude our call thanking for the participation and the questions. Us, together with the Investor Relations teams, are at your disposal in case of any additional questions. Thank you, have a wonderful day.

Operator: Thank you. The Zamp call is now concluded. Thank you for your participation. Have a wonderful afternoon. Thank you for using Chorus Call.