International Conference Call
Burger King Brasil S/A (BKBR30
2Q21 Earnings Results
August 6th, 2021

Operator: Good morning, thank you for waiting. Welcome to the BK Brazil teleconference to discuss the results referring the 2Q of 2021. We have with us today Iuri Miranda, Gabriel Guimarães and the investor relations team.

We inform that this event is being recorded and that all participants will only be listening to the teleconference during the BK Brazil presentation. Afterwards, we will start the Q&A session when more instructions will be provided. In case any of you require any assistance during the teleconference, please require help typing star 0.

This event is also being transmitted simultaneously via Internet via webcast, being accessible at the address: www.burgerking.com.br/RI where you will see the presentation. The selection of the slides will be controlled by us. The replay of this event will be available right after its closing.

We would like to inform that this teleconference is being simultaneously translated into English in order to help our foreign investors. Prior to starting we would like to clarify that any declarations which might be made during this teleconference in terms of the business perspective of BK Brazil, forecasts, operating and financial targets they are based on beliefs of the management, as well as information currently available to BK Brazil.

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

I would like to now pass the word to Iuri Miranda, President of BK Brazil. Please, Iuri.

Iuri Miranda: Thank you for the introduction, operator. Good morning everyone, I hope that you and your families are OK. Thank you for the interest in our company and for the participation in this results presentation teleconference for BK Brazil for the second quarter of 2021.

We started the period in a pandemic scenario with limitations of urban mobility in almost all states, which affected our sales performance, above all, in April. With everything, the progress of vaccination in the country combined with the important dates of Mother's Day and the Valentine's Day in the semester, contributed to accelerate our sales between the months of May and June, making it so that we closed the quarter with a growth of 94% versus the same period of the previous year and a growth of 1% versus the 1Q this year. Once again, the recovery of our business happens in parallel with the loosening of the restrictions, in this scenario, we will start the third quarter closer to a normalized performance.

We continue seeing the resiliency in our freestanding stores, which presented slight growth versus the second quarter of 2020. This format covers over 20% of our store base and continues to grow according to our expansion strategy. The food court stores, which were impacted due to the pandemic, have recovered in a consistent manner. With that and considering the combination of these 2 formats, the same store sales of BKB reached 6.9% in the quarter. this number is calculated according to the methodology of Restaurant Brands International, which excludes restaurants closed over 7 sequential days in this quarter or in the previous quarter, that's why there is a difference, an important difference between the growth of same store sales and the growth of total sales.

In terms of Popeyes, we have seen an important maturing of the brand, which even with its exclusive exposure in malls has been able to reach sales levels very similar to the 2019 levels. As part of the nationalization plan, we have expanded our units in Rio de Janeiro, and we are happy with the brand performance in a new market.

The digital channels continue to show their strength and they were fundamental for the results of the quarter in recovery of sales as well as efficiency in our restaurants. More than ever, the structural investments in technology that we have made in the last few years and that we continue to make have played an important role to support this growth. Our delivery sales continued to grow when compared to the second quarter of 2020, and also when compared to the first quarter of 2021. This shows us the potential benefit that this channel can generate actually in food court sales.

The self-service totems had an important growth and they represented around 11% of all sales transactioned by our company. This reorganization aligned with the vision of digital ecosystem that we are building has allowed us to get to the important milestone of 22% of all of our sales identified. This advancement is fundamental so that we may have a CRM that is more and more efficient and interact in a personalized manner with all of our customers.

The partial recovery of gross margin still in a challenging inflation scenario was possible due to the advancement of the CRM program, which reduces the massive discounts in the app and our continuous revenue management. Without a doubt, the CRM is a powerful tool which has evolved and helped in the makeup of the gross margin. It's worth noting that it's been almost 3 years working on this development.

In terms of the other cost lines – still impacted by the operating deleveraging –, allowed us to make moves aligned with our digitalization strategy, which allowed the company to close the quarter in a positive number. Aligned with what we see in terms of potential organic expansion, we concluded the opening of 10 restaurants in the quarter in freestanding formats and food courts for Popeyes.

And after the quarter we announced, in July, our association with Domino's so that we become the developers of the brand in the country. This combination places the company as the main restaurant operator in Brazil with a very strong presence in the 3 main segments within the QSR industry.

This pizza market is highly fragmented in the country, which represents a significant opportunity for growth in consolidation through a market leader brand in Brazil and the world. The transaction is still subject to antitrust approval and the shareholders in a shareholder assembly.

With this, we go into the 2Q with a positive view in terms of recovery of sales with higher stability and return of the population flow once the vaccination advances. We've seen a residual amount of the growth that happened in delivery and drive-thru, which should sum up to the constant and gradual return of the sales levels pre-pandemic.

In terms of debt, the company has taken important leaps in its digital capacity and its capacity to understand the customer to generate efficiency in the restaurants and the back-office. We are sure that the pillars of our business based on product quality, experience, use of technology, and opportunities for expansion will continue to be key targets for the gain of market share and to have a winning position in the market.

Now I would like to talk to you about our results in the second quarter of 2021. Let's go to slide number three, please. Our net operating revenue reached R$557.8 million, a growth of 94% when compared to the same period last year when around 60% of our business was closed due to COVID restrictions. Comparing to the first quarter, the net revenue showed a growth of 1%.

In terms of digital sales, which are represented by delivery, totems, and app, they once again played an important role in our bounce back and presented record sales being responsible for about 33% of company sales, a growth of 75% versus the 2Q 2020 and 15% versus the 1Q 2021 even with the gradual return of the population and customers on premise.

Same stores sales reached 6.9% for BKP, and Popeyes we continue consistent in building the brand which has been consolidating itself, and even with exposure only in shoppings, in malls, the same store sales have reached basically the levels of 2019.

In terms of financial results, the adjusted EBITDA has reached R$10.6 million, an increase of R$102.6 million when compared to the second quarter of 2020, or 42.4 million compared to the first quarter of 2021 even with sales levels which are very similar. This result comes from the advancement in our operating activities combined with the efficiency brought about by digital efforts and by the performance of these channels in the quarter, which allowed the company to take back their positive levels, positive EBITDA levels.

Besides that, with the improvement in the numbers in this quarter, we had a significant improvement in cash, as well as higher efficiency in costs and SG&A expenses, consequence of discipline and the rigid cost control in the company.

With this, I would like to pass the word to my partner and CFO, Gabriel Magalhães, to give you more details on the company performance. Gabriel.

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

Let's go to slide 4, please, and we see that throughout the second quarter of 2021 the company opened 8 stores, 10 openings of which were BK same stores, 1 BK franchise and 4 Popeyes, besides the closing of 2 franchises. With this, we closed the second quarter of 2021 with a total of 919 restaurants, of which 617 are same stores of the brands Burger King and Popeyes and 202 franchisees from the Burger King brand.

Going to slide 5, as Iuri said, our net operating revenue reached 567 million, a growth of 94% when compared to the same period last year, and around 60% of our operations were closed at the time. In the second quarter of 2021, we had approximately 40% of the restaurants closed in April with the reopening at levels close to 90% throughout May and June, but still with restrictions in operating hours and number of people.

At the beginning of the quarter in a scenario of strong restrictions during the first week of April at the time where we were operating to levels close to 50% of sales compared to pre-pandemic levels, as you can see in the right-hand corner, we saw a quick recovery throughout the quarter getting to the end of June to levels close to 85%. This bounce back came from the loosening of the restrictions and advancing the vaccination curves and the consequent improvement of the urban mobility indicators, which have strong correlation with our business.

The slow recovery of the flow in the malls where we concentrate over 60% of our business besides the continuous growth of the digital channels, they were important for us to retake our growth and we see that with the loosening of the restrictions and a higher portion of the population vaccinated, we went into July with sales levels close to 93% when compared to the pre-pandemic levels, which reinforces our quick progress as the scenario becomes less restrictive.

Our free standings maintained their resilience in sales with a high in the quarter when compared to the second quarter of 2020 and also when compared to the second quarter of 2019.

At Popeyes, we continue consistent in building the brand, which has been consolidating itself well and even with the unique exposure in malls the sales levels in same stores have reached the same levels as 2019.

Going to page 6, we see the strong consistent growth of digital channels, which in the last 10 quarters grew at CAGR of 30%. These channels represented by delivery, totem, and app represented record sales in the quarter, totaling 167 million, a high of 85% which represented 33.33% of the company revenue. Compared to the first quarter of 2021, the digital sales represented a high of 15.5% with a growth in all channels.

Going to the next slide, we have more details on these channels. Delivery sales had a high of 50% versus the second quarter of 2020, showing their resiliency with the standard sales coming back at the balcony, and we've brought in a new last-smile partner specialized in food, and we are operating with them in 60 restaurants of our system in 20 cities. Additionally, we have worked continually to deliver the best experience in this channel, and as a consequence, we have been able to reach consistently the best assessments from the users in the delivery apps.

The self-service totems were highlight in the quarter with a gain of 10.4 percentage points compared to the second quarter of 2020, reaching revenues of R$63 million. If we compared to the first quarter of 2021, the channel grew 59%. This result shows the efficiency of self-service in the stores improving the customer experience during their purchase allowing the company to be more efficient through the use of technology. We closed the quarter with 455 stores with self-service totems.

Our sales via app followed a similar trajectory and grew 356%. The engagement level in our apps continues high with almost 34 million downloads and over 10 million clients recorded, which is fundamental so that we can continue exploring this relationship with our clients.

Still in the second quarter, we rolled out the coupons with QR code for 100% of the app offers and we also launched an app for the Popeyes brand.

On our drive-thru, which represented a slight drop when compared to the second quarter of 2020 performance, a period where we have the sales basically concentrated on this channel, it shows a good consistency in this new cycle, which is approximately 2 times what we had before the pandemic.

Going into slide 8, we can see the mini digital ecosystem fronts we are building through the technology investments that have boosted our transformation.

Besides what I've said prior about delivery drive-thru, totem, and app, I would like to now give you a few updates in terms of our CRM BK Club and our payment means and our CRM. Our identified sales, which represented a little over 10% of the company sales in the first quarter of 2021, they represented over 22% at the end of the second quarter, this growth is fundamental so that the company enrich its database and can offer more and more personalized interactions increasing the consumption frequency with higher tickets and improving margins.

As far as the BK Club, our loyalty program closed the quarter with 1.1 million users registered and over 38 million points issued, expressive considering that the app has been launched only 6 months. Besides that, in order to improve our user experience, we launched new payment means, like Pix and Wallets, like Mercado Pago (payment processors in Brazil).

Going into slide 9, we represented the evolution of our costs, expenses with store sales, and G&A. the cost of goods sold reached 39.7% of the revenue in the quarter, a reduction of 580 basis points versus the second quarter of 2020. When we compared to the first quarter of 2021, the drop was of 180 basis points, the pressure of the commodity scenario and our cost structure was partially mitigated by the price adjustments done in our menu architecture with the closing of the platform of 2 for 16,90 throughout the second quarter besides the efforts we did into the delivery channels.

It's important to say that what we did in revenue management based on the use of data, understanding of the consumption habits, they have been well absorbed by our clients and we have sought a good balance between volume, profitability in a consistent manner. Besides that, as part of our CRM strategy, the company closed all of its opened coupon offers which reduced the massive exposure to discounts and started to convert clients in a more efficient manner.

And now, expenses with store sales excluding depreciation and amortization reached 306 million in the second quarter of 2021, this result represents a drop in approximately 25 million versus the first quarter, which is aligned with our digitalization strategy of the operations, generating higher efficiency and our restaurants, a high of 35.9% compared to the second quarter of 2020 is explained by the benefits of the law 639 in restaurants closed over 60 days in that period, which ended up generating significant savings.

Still so, if we compare the performance of the second quarter of 2019 even with the strong growth of restaurants in operation and increase in delivery sales, we were able to reduce 1% our sales with our store sales expenses in the restaurants.

Now general and administrative expenses excluding depreciation, we saw a high of 8.8% versus the second quarter of 2020 due to the effects of the 639 law of that year. If we compared to the second quarter of the previous year, general and administrative expenses had a drop of 6%.

It's important to say that we continue to reinforce our IT team with profile specialized to support the digital initiative pipeline as quickly as possible.

On slide 10, as we have said prior, the adjusted EBITDA reached 10.6 million, an increase of 103 million when compared to the second quarter of 2020 and 42 million versus the first quarter of 2021 even with levels very close to very similar sales levels. This result comes from the advancement in our operating activities combined with the efficiency brought about by digital initiatives and the performance of these channels in the quarter, which allowed us to take back a positive level of EBITDA.

The main piece of the slide shows the impact of the pandemic and it's still significant in our results, but the measures adopted helped so that we had a net loss 90 million less than the second quarter of 2020.

On the right-hand corner, we see that the total gross debt of the company reached 825 million, which combined with the total available cash of 507 million leads us to a net debt of over 300 million.

Going to slide 11, we can see Capex and the operating cash flow. The total investment of the company reached 61.4 million in the second quarter of 2021, an increase of 62% when compared to the second quarter of 2020, this increase is related to the expansion plan with the opening of 10 stores in the period, like I said prior. Additionally, we maintained our investments in the technology fronts to support our quick growth.

On the right-hand corner, we see that the operating cash consumption was 12 million in the quarter versus a cash consumption of 78 million in the second quarter of 2020, a performance which is much better due to the advance of the operating results. The impact from working capital in the quarter happened due to delays made in the second quarter of 2020, which did not happen in 2021 and the bounce back of the sales.

With that, we close our presentation, and we'd like to open up for Q&A. Operator, please.

Question-and-Answer Session

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

Our first question comes from Marcela Recchia, Credit Suisse.

Marcela Recchia: Hello, Iuri, hello, Gabriel. Thank you for taking my question. I have 2 questions. If we, in a normal scenario, can we think about an operating leveraging with personnel expenses already running to levels superior to the 2019 levels, especially due to the efficiency coming from more sales from digital totems, self-service totems?

And the second question just to understand a bit of how the rest of the month of July came about in terms of sales, did it follow the same pace as the first weeks of June in terms of 93% versus pre-pandemic levels? And can we imagine that this will continue to be driven by the freestanding stores? Thank you.

Iuri Miranda: Hello, Marcela, and thank you so much for your question. I hope you're doing well with the Credit Suisse team and your family as well. Let's go to your first question, which has to do with the normalization of personnel expenses in restaurants due to efficiencies, especially those digital efficiencies coming from the self-service totems. We believe that the trend and the growth of self-service totems, as you saw in the presentation between the first quarter and the second quarter, it was very relevant, significant, which helps us quite a bit in terms of performance, productivity.

I would tell you that that is not the only activity, that's not the only digital path that's helping us in increasing efficiency, but we have taken on many other initiatives which also help in productivity, in increasing productivity in the restaurants, not only actually inside the restaurants. I could give you an example: when we say that we want to become a food tech company, there is a restaurant support process where we would spend something around 10 hours to solve 1 specific issue in the digital system, and in our digital system it would take 10 hours, imagine that! And through the development of the digital ecosystem, we have placed an AI to do this, and this is making it so that automatically that AI understands that there is a crash in the POS system, and it's been able to solve that issue around 2 minutes now.

Just to give you an example of what digital, you know, sometimes we just look at the end game or just looking at the totems and the apps, but, you know, especially for business operators there is an entire back office support that they get, and summarizing, yes, we do expect that the self-service totem continues to make a difference ahead and the return of the food court sales has been gradual, but it still is well below what it used to be in 2019.

That is a very important comment to be made, I mean, the second quarter scenario is a challenging scenario, it is a scenario where we had – specially in April – a good piece of the restaurants affected, a food court which has been bouncing back, but it's still something around 30% below the pre-pandemic sales and with freestanding and delivery at levels way above during the pandemic.

What does that say? That says that we see a gradual recovery of the food courts, June was a good indicator, and we saw a gradual return of people, people coming back to the malls, but under that kind of environment we already can deliver better results, so what we see ahead, Marcela, is really a return of food court sales at the same time that we are able to maintain a residual of that which was a growth in food court sales… oh, I'm sorry, delivery sales and drive-thru sales.

That is the big bet, that's what we're betting on, we have seen that the food court sales have increased and the delivery levels and drive-thru have maintained themselves above pre-pandemic levels, so that is a bet we have made and something we have seen happening.

In terms of July, yes, it did maintain the growth, the gradual food court growth and we still maintain the same levels in delivery, and we see the same levels and drive-thru that we saw before. So, you know, the performance continues.

Looking ahead, I mean, in terms of other countries, we see more normalized countries, you see countries publishing positive sales compared to 2019, of course, the agility of food court depends on other factors, the vaccination rate here has been growing, and I can give you another number: in July, we still had around 10% of our sales affected by some kind of restriction, and besides the scenario being a lot better than the scenario in April or March or May even, it's still so the number of operating hours was less because you still had to close the restaurants at certain times. São Paulo, which is a huge market and very significant, there's been a loosening now in August where you can expand the number of working hours to after 11:00 o'clock PM, but there's still some kind of restriction, and according to the latest information, they should loosen up restrictions more in August, in the middle of August.

Sorry for the long answer, but the environment is really complex, and I wanted you to really get the whole snapshot.

Gabriel Magalhães: You know, Iuri, I think we went going to digital channels and totems looking towards efficiency, and that's a good way to look at why we did this, but there is a benefit we have seen, and we have seen that in all digital channels when we think about CRM, the totem, loyalty. You know, it's a very aligned to what we wanted to build, we wanted to build this interface, we expected an average ticket which was a lot higher than our average ticket at the store, and the result of all these initiatives has been very positive when we see that our assumptions were correct, and we see that besides the growth of these digital channels, they come with an average ticket which is significantly higher than usual and therefore we have been able through operating leveraging which can be very good once we get the traffic coming back to levels 100%.

Marcela Recchia: Alright, thank you for your answer.

Operator: Our next question comes from Roberto Brown, Morgan Stanley.

Roberto Brown: Good morning, Iuri, Gabriel. Thank you for the presentation. I also have 2 questions. The first one is on gross margin, there was a significant improvement, but still so the margin continues a bit below historicals, you talked about a few initiatives which will help you to improve the margins. What is your expectation for the rest of the year? Do you think you will get back to historical levels or the pressure from commodities that we didn't have in 2019 could that perhaps start to affect you in the future? I just wanted to see how you're seeing that.

And in terms of G&A, looking at the slide you showed, it shows a growth of G&A above inflation and you guys explained how that has an effect, is affected by the digital initiatives. So, what kind of levels do you expect from here forward would be my main question, and what kind of performance are you expecting from the digital apps in the future, the digital channels in the future?

Iuri Miranda: Well, I hope you and the Morgan team are all safe and that your family is safe as well. Let's talk about gross margin first. Well, we explained this a little bit in the previous question, but let's go right to your question. The scenario continues to be pressure-driven; we continue to see inflation at high levels. In terms of commodities, we did see significant progress compared to last year, and actually, in terms of the first quarter, even in a very challenging environment. I am just reinforcing these guys because the environment is challenging, of course, but as we had said prior in the first quarter, the company believed that it was preparing to even in a challenging environment, even if we were caught by a second wave, we find productivity gains through IT and to also make use of our operating leverage and the scale that we have to mitigate such effects.

I believe that the second quarter is a good example of what we talked about in the first quarter that we would be doing, the things we said we would be doing.

Now going into the second semester, we continue to see inflation impact, but we will also continue to work with scale, with the size that we have, with the growth that we have and the negotiations with our suppliers every time, any time that it's possible reducing and mitigating such impacts and trying to seek out more interesting cost alternatives.

Digital has been gaining traction, I think that this is the first quarter that you will be able to see in a clear way what we have been telling you all this time, Gabriel has just mentioned that we see had better average tickets, we might get better margins as well from the moment that you're able to identify your transactions, we said that 22% of all of our transactions had already been identified. And what do we want to do with that? We want better revenue management, the BK Club, which already has 1.1 million users, a program which has less than 6 months running and it's generating a traffic increase, and we also see that besides the traffic increase, we see higher ticket, average tickets. These are examples of tools that we have used besides those common ones, like contract negotiations to help in our margin performance.

Going to your second question, we believe that despite all of these headwinds that continue to exist we should get close and even though we see better margins than 2020, even better than the first quarter of 2021, we continue in the second quarter, and we will probably get closer to historical levels that we had, specially in 2019, in terms of margin.

And continuing that answer in terms of G&A, this is something that you mentioned in terms of investments that we have made in technology especially and which is showing itself in other lines that we have just talked about, like gross margin, like top line, you know, preparing the company for the future.

Roberto Brown: OK, just to understand the G&A, perhaps you'll see levels which are a bit higher because of these initiatives, but with the percentage of the revenue and total margin you can still see a positive effect?

Iuri Miranda: Well, we see higher levels of G&A due to 1 of the investments that we have made, we were looking at the effect on top line, that is the main effect that we see, and you also have to consider that we are still not running at sales levels that we had in pre-pandemic levels, that doesn't keep from having an impact. We have made many controls and many cost reductions, but you know, Roberto, I think it's been very clear, I mean, the sales level it is basically the same as the level in the first quarter, you know, you had just 1% increase, but the EBITDA increased over 40 million, so you have seen that we have tried to be as productive as possible, but we also believe that the company has been prepared and cannot lose opportunities like I told you in consolidating the market.

We are a company that is ready to take a leap in productivity and efficiency in the future, and if you just think about now and a few costs which might affect that in the long term, I don't think that's the best way to look at it. Therefore, we have a historical G&A, we control our costs, that's proven in the second quarter, but at the same time, we have our heads in the investments that we need to make now in order to consolidate this competitive advantage that we see in the future.

Roberto Brown: Makes sense, it's been very clear, thank you, Iuri, and I hope you all continue to perform well.

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

Robert Ford: Good morning, Iuri, good morning, Gabriel. Well, do you think you need to have an add-on to reduce the debt, specially now since you're taking on Domino's?

Iuri Miranda: Gabriel can help to answer that question, Bob. What do we see? If you look at the operating cash flow now, we reach even with low sales compared to the pre-pandemic levels, we can see an operating cash flow which is close to breakeven, and we see going above breakeven in the next semesters so the company starts to go back to generating operating cashflow with the return of sales and with all those initiatives that I mentioned prior.

Looking ahead, in terms of Domino's, like we said, during the time of our partnership we saw a huge opportunity for growth, but at a Capex level which is less than the Capex level required for a Burger King or a Popeyes. The sales level is less, but the Capex is less too, and there is a very interesting Capex sales ratio, but it's a business that doesn't consume cash, lots of cash when you incorporate it into the Burger King business and Popeye business because of all the synergies that we can generate.

Gabriel, do you want to say anything else?

Gabriel Magalhães: Hello. Well, us having increased the capital at the end of last year was essential for the company to go into 2021 with the adequate capital structure, and what we have planned to invest today when we think about a net debt scenario of the company running close to 300 million that's well-balanced with the cash generation historicals and the leveraging historicals that the company has seen in the past and normal conditions, and as we see the operating scenario going back to norm, the operating cash generation will be able to balance out a good part of our investment activity, even when we think about a scenario of having more brands inside our portfolio.

Robert Ford: Very clear, thank you so much.

Iuri Miranda: Thank you for your question, Bob. Take care.

Operator: Our next question comes from Galdino Falcão, Goldman Sachs.

Galdino Falcão: Hello, good morning everyone, thank you for allowing me to ask this question. One of my questions has been answered, but in terms of expansion plan, how should we see your expansion in the second semester?

Iuri Mianda: Hello, Galdino, thank you for your question, I hope you are also doing well. We're gradually coming back to our expansion plan and we're balancing it out with a cost control that we find important and prudent once the restrictions are being lifted. Well, if we compare to the 2020 numbers, we close the year of 2020 with a net of -7, we did a few openings, but we also closed restaurants optimizing our portfolio. This year we have the restaurants better prepared, so we believe in a positive net opening balance for restaurants and in the second semester we expect to open 10 new restaurants and you will continue to see more openings until the end of the year always choosing the best spots, the best cases during this recovery time not going back to expansion levels that we saw in 2019, but an expansion level way above the expansion level that we saw in 2020.

And to be more specific, you will continue to see a freestanding growth, there's the consolidation of the brand in Rio de Janeiro with Popeye’s, we opened up in very important malls, we’re very happy with the growth, we’re very pleased with the Popeye’s growth in a market where the brand awareness was very, very low. I don't know if you remember, we started in Sao Paulo and this year we opened up the first stores in Rio, we want to consolidate the expansion in Rio de Janeiro and certainly after that and this pilot in Rio we will start expanding Popeyes in 2 other states, which should start at the end of the year/the beginning of the year of 2022 going into other states markets besides Rio and São Paulo.

But to summarize, you will see a gradual return in investment like you saw in the second quarter, but still not at the levels of 2019 since we're still cautious in the balance between investment and protecting our cash.

Robert Ford: It's very clear, thank you so much.

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

João Paulo Andrade: Thank you for taking my question. I have 2 questions; one is related to the malls. Can you give me an update in terms of your negotiation with malls? Could you tell us about if you think that these malls negotiations are an opportunity, a threat?

And in terms of Domino's own production, is the company ready to meet your expansion plan?

Iuri Miranda: Thank you for your question, I hope you're doing well. As far as the malls, the occupation scenario of the year of 2020 was a scenario that was a bit more flexible in terms of negotiation honestly than we are seeing now. Part of that comes from a conversation with the malls due to, you know, many restaurants sometimes they are not close to 100% because the restriction rules allowed partial business hours, this is generating higher discussion with the malls than the conversation we had in 2020.

We have discussed case by case making our size worth it and also showing them all the growth that our company has seen and will continue to see in our portfolio of brands, and it doesn't make sense for them all to apply a full rent due to a restriction that's happening. Like I said, you know, sometimes even the business hours are restricted, so the conversation with the malls will continue and it has to be handled case by case.

And in terms of Domino's own production, the production still has lots of spare capacity to expand inside. The Domino's production service is only in São Paulo and Rio right now and a little bit of Minas Gerais, I think these 3 states, thus, it has the capability to expand into other states, we're working on that, it is a new business, that's why it's still restricted to these closer states. And this without a doubt is an opportunity that we have seen in order to consolidate, central kitchens it's something that we had been working on for Popeye's, we have visited other countries and we saw that there is a central kitchen or ghost kitchen with its own production, which brings operating efficiency in terms of procedure, but also a gain because you start to buy raw materials in a different manner than finished goods, this is in our plans to conclude and we have a very interesting strategic idea, I mean, if you have a single place where you can do a few central processes, like Domino's on production, like we can have in the same place like a central kitchen for Popeyes and even a few procedures which are done in the restaurants by Burger King, we can also centralize these procedures and, thus, gain some operating efficiency.

It is in our plans, and just to let you know, the production capability would allow for expansion without need for additional investments.

João Paulo Andrade: Thank you, Iuri.

Operator: We now close the Q&A session. I would like to pass the word to Iuri for final comments. Iuri, you may proceed.

Iuri Miranda: I would like to thank you once again for your presence, I know that this is always a time of various results calls and since you guys chose to be here and to dedicate your time to us and to ask such wonderful questions, thank you so much for such insightful questions.

Me and Gabriel would like to end this call reinforcing what are our priorities until the end of the year. The first one is that you will continue to see (I believe now more and more) what we call digital transformation, the BK Club, which has many points generated, it's generating additional traffic and will continue accelerating the BK Club, the CRM initiatives towards revenue management, we spoke many times about the importance of this to mitigate the headwinds that we see in inflation perhaps, in the inflation scenario, and making the company more focused so that it becomes a food tech. That is point one.

Second point, we talked about this, and you also asked a question about this, you ask the question about organic expansion, and there will be a gradual increase of the freestanding openings and also the expansion of Popeyes in Rio. Another pillar that we started last year, actually that we started at the end of 2019 and last year we sped this up, and we believe that this will bring differentiation to the brand and it's actually a consequence brought about by COVID, the differentiation of our products with initiatives like a clean menu without conservatives. This is a trend in other markets, and we think it will be a great differentiator, an important differentiator for Brazilian consumers.

And finally, we want to capture the on-premises sales, especially the food court sales, but our ambition is that this happen maintaining a residual piece of the growth that is coming from delivery and from drive-thru.

And finally, I couldn't keep from saying, our priority is our partnership agreement with Domino's, which still has to go through the eye of the antitrust agency and the assembly, and we have no doubt it'll be an important revenue stream for the company. Our long-term vision leaves us confident about what we can build in this industry even facing adverse situations, like we have faced since March of 2020.

With this, I would like to thank you all and wish you all a great afternoon and I wish you all well.

Operator: The BK Brazil audio conference is now ended. Thank you for your participation, have such a wonderful day and thank you for using Chorus Call.