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Arcos Dorados Holdings Inc. (NYSE:[ARCO](#)) Q2 2024 Earnings Conference Call August 14, 2024 10:00 AM ET

Company Participants

Dan Schleiniger - Investor Relations
Marcelo Rabach - Chief Executive Officer
Luis Raganato - Chief Operating Officer
Mariano Tannenbaum - Chief Financial Officer

Dan Schleiniger

Good morning, everyone, and thank you for joining our Second Quarter 2024 Earnings Webcast.

With us today are Marcelo Rabach, our Chief Executive Officer; Luis Raganato, our Chief Operating Officer; and Mariano Tannenbaum, our Chief Financial Officer.

Today's webcast, which is being recorded, will consist of prepared remarks from our leadership team, which will be accompanied by a slide presentation, also available in the Investors section of our website, www.arcosdorados.com/ir. As a reminder, to better view the presentation on the webcast platform, please scroll over the upper left-hand part of the screen and click on the arrows to maximize the slides. After we conclude our opening remarks, we will answer your questions, which you can submit using the chat function on the left-hand side of the screen. You will need to minimize the slides to access the chat function.

Today's call will contain forward-looking statements, and I refer you to the forward-looking statements section of our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

In addition to reporting financial results in accordance with Generally Accepted Accounting Principles, we report certain non-GAAP financial results. Investors are encouraged to review the reconciliation of these non-GAAP financial results and unaudited financial statements filed today with the SEC on Form 6-K.

Marcelo, over to you.

Marcelo Rabach

Thank you, Dan. Good morning, everyone, and thank you for joining us.

Today, we will take you through our results for the second quarter, which we believe demonstrate how our business model has evolved to perform strongly in any operating context.

Sales and profitability growth through June have been consistent with our strategy, especially when you consider the tougher-than-expected macroeconomic and consumer environments we are facing this year. We are focused on the factors we can control to minimize short-term volatility and maximize long-term growth. Top-line growth in the second quarter was strong, with comparable sales growing well above inflation in just about every market, leading to continued market share gains for the McDonald's brand in our footprint.

Total revenue rose 6.8% in the second quarter, reaching the highest level ever for the second quarter in US dollars. Guest traffic grew for the 13th consecutive quarter, continuing to support comparable sales growth, even as consumers have become more discerning with their discretionary spending. This is where our omnichannel approach, strong value proposition, and operational excellence have established McDonald's as the region's favorite QSR plan. Systemwide comparable sales growth was 2.4 times the company's blended inflation, excluding Argentina. According to market sources, as well as our own research, market share expanded in our biggest markets, outpacing the main competitors in nearly every market.

The 3D strategy of digital, delivery, and drive-thru has set a new standard of quality, service and value for the quick-service restaurant industry in Latin America and the Caribbean. Today's guests expect their QSR experience to be convenient and versatile, with multiple alternatives to receive great service and high-quality food at a fair value. And we are meeting their expectations with sophisticated digital capabilities, a dedication to operational excellence, convenient freestanding restaurant locations, and the best menu offerings in the QSR industry. No other restaurant brand in the region can match these structural competitive advantages.

We remain on pace to extend this leadership position, with 37 EOTF restaurant openings in the first half of the year, including 34 freestanding locations. In our biggest market, Brazil, we added 21 EOTF restaurants in the first half, including 20 new freestanding units. Importantly, first year returns on investments for new restaurant openings remain strong and will support additional unit growth for many years to come.

Luis will now take us through sales performance in each division.

Luis Raganato

Thanks, Marcelo, and good morning, everyone.

Long-term sustainable customer growth starts with sales. So far this year, sales growth has been strong in US dollar terms.

Brazil's comparable sales rose 10.2%, up 2.6 times inflation in the period, with volume and average check contributing about equally to growth. Digital channels, that include the mobile app, delivery and self-order kiosks, generated almost 70% of total sales in Brazil, and identified sales now represent about 28% of the division sales. Please keep in mind that for a sale to be identified, we need customers to explicitly authorize us to track and use their data. The Meu Méqui loyalty program that we launched in October of last year is performing very well in Brazil. I will tell you more about the loyalty program in a few minutes.

Brazil's marketing campaigns included strong Happy Meal properties, such as Disney's Inside Out 2, boosting the family business. We also continued sponsoring Big Brother Brazil, the country's most popular reality TV program, using it to support the chicken category. We also run promotions and limited time offers to strengthen brand affinity with menu favorites, such as McFish, McFries, Tasty Sauce, and desserts.

NOLAD's comparable sales grew 2.5 times the division's blended inflation. Higher guest volume accounted for most of the quarter's sales growth. Mexico sales grew strongly despite a tough comparison with Holy Week in the prior year quarter. Digital sales grew at least 70% in markets like Mexico, Puerto Rico, and French West Indies. And for the entire division, digital sales grew more than 60% versus the prior year, leading to a significant jump in NOLAD's digital channel penetration.

NOLAD's marketing initiatives included the launch of Best Burger in Mexico, leading to around 50% higher comparable volume growth for the Big Mac, cheeseburger and the Quarter Pounder with cheese in the country. Strong properties supported Happy Meal sales in the quarter as well. In addition, we leveraged the regional Formula One sponsorship with the indulgent Grands platform to drive growth in the Three D's. Finally, we introduced new menu offerings in the important chicken and dessert categories in several of the division's markets.

Comparable sales grew 2 times SLAD's blended inflation, excluding Argentina. Guest volumes accounted for almost half this growth, with markets like Colombia, Chile and Venezuela delivering the best results. The digitalization of Arcos Dorados was also evident in SLAD, with digital channel sales growth between 25% and 50% in markets such as Chile, Colombia, Ecuador and Uruguay. The division's digital sales grew more than 30% versus the prior year, excluding Argentina.

Guest volumes in Argentina outperformed the broader economy and improved slightly against the first quarter of 2024. The country's macroeconomic indicators in the first half of 2024 exceeded our low expectations, but the operating environment remains very challenging. Against this backdrop, we are capitalizing on the competitive advantages we built over the years in Argentina to gain market share and strengthen brand preference. We believe this will position us well to return to growth once economic and consumption conditions stabilize.

SLAD's marketing activities included attractive Happy Meal offerings across the division, chicken-focused promotions in Chile and innovations in the dessert category in Colombia. In addition, we dropped sales by focusing on the sports passion point during the Copa America tournament, with activations related to local football federation sponsorships. According to our proprietary research, the McDonald's brand gained nearly 3 points of market share during the first half of 2024, maintaining a 2 to 1 advantage against its nearest competitor on average. We measured especially strong gains in Brazil, Chile, Colombia, Costa Rica, and Panama, to name a few. Visit share also improved almost 1 point versus the prior year, building on top of the sustained volume growth we generated over the last several years.

We will talk more about delivery when I come back to tell you about the Three D's, but it is fair to say that this sales channel continues to exceed expectations. We are the clear leaders among all QSR brands. And during the first half of 2024, we added additional market share by continuing to deliver the best customer experience in this important segment. According to our research, the biggest market share gains in the first half of the year came in Brazil, Costa Rica, Ecuador, Panama, and Puerto Rico.

Mariano, over to you.

Mariano Tannenbaum

Thanks, Luis. Good morning, everyone.

Second quarter adjusted EBITDA grew about in line with revenue, with a relatively flat margin versus the prior year. To be fair, this year's results included a \$16 million reduction of labor contingencies due to a favorable judgment in Brazil. Excluding this positive impact, adjusted EBITDA was still the second highest US dollar result for a second quarter in Arcos Dorados' history. This, despite the significant negative impact on results from the Argentina business, a weaker currency in Brazil, and the less robust consumer environment across the region.

In other words, to Marcelo's point earlier, Arcos Dorados results are better able to absorb these external pressures, given our geographic and cash flow diversity compared with years past. Food and paper, payroll, and G&A offset higher occupancy and other operating expenses as a percentage of revenue to keep the consolidated margin relatively flat versus the prior year. Without the contingency reduction in Brazil, the payroll line was about flat versus last year.

Most of the margin pressure in the quarter came from a number of factors within occupancy and other operating expenses. These increases were mostly related to delivery fees, utilities, and information technology. As Luis mentioned, delivery sales continued to exceed expectations, as growth outpaced all other sales channels. As a result, fee payments to our delivery partners increased as a percentage of revenue. Additionally, we have been investing in promotional activity that is successfully increasing the penetration of home delivery in the region. Over time, we will shift the strategy to better monetize this segment of the delivery business.

In terms of utilities, we have seen unit cost increases that outpaced revenue growth in the quarter. In response, all markets are currently working to identify ways to reduce energy consumption in restaurants and offices.

Finally, IT expenses are higher at the market level, largely because we're running far more systems and digital tools in restaurants than ever before. In order to help restaurant teams offer the best guest experience and run their businesses more efficiently, over the last few years, we have rolled out everything from the self-order kiosks in EOTF restaurants to employee scheduling and other restaurant level tools. The operations team is working with each market to ensure these new tools are being leveraged in each and every restaurant to generate long-term efficiencies.

Food and paper was lower as a percentage of revenue in Brazil and relatively flat in both NOLAD and SLAD. Payroll was better than last year in Brazil, even excluding the contingency reduction, and flattish in SLAD, despite the challenging environment in Argentina. NOLAD had slightly higher payroll expenses, mainly due to unit cost increases in Mexico. Occupancy and other operating expenses were higher in each division for the reasons I already explained.

Our goal is to support long-term growth with sustainable cash flow generation, while managing through challenging macroeconomic conditions and consumption trends in the short term. As of the end of June 2024, trailing 12-month US dollar EBITDA was the highest ever, and we expect to generate the best full year US dollar EBITDA in Arcos Dorados' history this year.

Luis Raganato

Earlier, I told you about the continued digitalization of Arcos Dorados. Let's take a closer look.

Digital sales grew 24% in US dollars versus the prior-year quarter, accounting for 57% of systemwide sales. With each new download and a growing number of active users, we are increasing identified sales penetration, which rose to 24% of sales in the period. Brazil is leading the digitalization of Arcos Dorados with digital sales penetration rising to 67% in the quarter, including 28% identified sales.

Sales in the off-premise channels of delivery and drive-thru grew a combined 11% in US dollars versus last year and accounted for 45% of system wide sales in the quarter. Delivery sales in particular were very strong in the quarter, growing in the high-20%s to mid-40%s in markets such as Brazil, Colombia, Costa Rica, Mexico and Uruguay. In Brazil specifically, delivery sales were about 4.3 times compared with the nearest competitor.

We have deployed the loyalty program in Brazil, Costa Rica and Uruguay, registering more than 11 million members as of July 31, 2024. We remain on track to deploy loyalty in all markets by year-end 2025. Over time, loyalty will evolve as we bring innovations and incentives to convert non-digital and digital customers alike to active loyalty members. While we are still in early days, 90-day active customer levels are very healthy, and loyalty member visit frequency is 1.5 times to 2 times that of non-loyalty guests.

Mariano Tannenbaum

Let's take a look at our capital structure and investments in growth. Trailing 12-month EBITDA is the highest it has ever been, and net debt is relatively stable, keeping net leverage at a very healthy 1.2 times at the end of the second quarter. Notably, cash flow from operations in the second quarter normalized compared with the first quarter of this year, and we expect it to be relatively normal for the balance of the year. Typically, the second half of the year brings seasonally better cash flow from operations, with stronger EBITDA and working capital generation. While this has been a more challenging year than we expected from a macroeconomic standpoint, we believe cash flow conversion will remain close to historical level for the full year.

In the second quarter of 2024, we opened 15 restaurants. All openings were freestanding units, with 10 in Brazil. Capital expenditures in the quarter totaled \$88 million with investments in the restaurant portfolio and to support our digital and IT structures.

Marcelo, back to you.

Marcelo Rabach

Okay. Let's talk about the MFA renewal process. First, let me remind you of the terms of the current master franchise agreement with respect to the renewal.

McDonald's had until August 3, 2024 to provide us with a renewal notice to extend the MFA for an additional 10 years, beginning on August 3, 2027. Over the last 17 years, Arcos Dorados has been a successful operator in Latin America and in the McDonald's system. A laser focus on leveraging structural competitive advantages through the disciplined execution of the Three D strategy generated unprecedented brand strength and market share, as well as consistent growth in US dollar profitability.

Given this track record of success, we received a renewal notice from McDonald's offering to replace the existing agreement with the new 20-year MFA beginning January 1, 2025. Both companies are aligned in the belief that there is significant growth potential for the McDonald's brand in Latin America and the Caribbean. And we are optimistic that we will reach an agreement to continue generating value for Arcos Dorados and all its shareholders. We expect to keep the market informed of developments in this process, as appropriate, and in accordance with the requirements of the SEC.

Before we open the call for Q&A, I would like to leave you with some final thoughts. The Three D strategy has delivered consistent, resilient, sustainable, and long-term results. We have consistently delivered the best guest experience in the industry by focusing on execution and leveraging the convenience of our freestanding restaurant portfolio and digital platform. Our consistent value proposition has built brand trust with our guests, who know what to expect in terms of price, quality, service and cleanliness from their experience.

Arcos Dorados business model has evolved over the years to a point where we delivered the second best EBITDA in US dollars for the second quarter, despite macroeconomic and currency headwinds in some of our most important markets. We believe we are positioned to generate sustainable US dollar cash flow growth by leveraging our structural competitive advantages.

And sustainability is about more than just financial results. It is about making a positive impact on the communities we serve through our Recipe for the Future ESG platform, because it is the right thing to do and it is good for business.

Finally, it is worth reminding you that we operate in a highly underpenetrated region for both the QSR industry, as well as for the McDonald's brand. We see tremendous growth potential ahead, and we'll work to capture this potential as strategically and profitably as possible.

Dan, over to you to start the Q&A session.

Question-and-Answer Session

A - Dan Schleiniger

Thanks, Marcelo. In order to get started, please minimize the presentation slides so that you can access the chat function on the left-hand side of the webcast platform. Please limit yourself to one or two questions so that I can read, understand, and convey them to our speakers. We will now pause briefly to compile your questions.

Okay. We have several questions here from the analyst community and a few overlaps as well. So, what I'm going to try to do is consolidate the topics. And the first topic that came up from Alejandro Fuchs from Itau, Thiago Bortoluci from Goldman Sachs, Eric Huang from Santander and Bob Ford from Bank of America relate to the master franchise agreement.

Alejandro, "Hello, Marcelo, Mariano, Luis. Thank you for the space for questions. Congratulations on the results." He asks, "On the MFA, can we have somewhat more color on timing? When do you expect to release the new terms?"

Thiago asks, "What do we have so far with respect to the MFA? Has it been renewed or not? And is there a date for us to know more details of things like royalties and growth commitment?"

Eric asks, "Regarding MFA, is there an expected timeline in terms of the announcement?"

And Bob asks, "How should we think about the significance of outstanding issues in your MFA renewal and the time to resolve those?"

And so, putting all those together, and one just came in also from Credicorp asking about more details of the MFA, and we'll start with that one with you, Marcelo.

Marcelo Rabach

Okay. Thank you. And thanks all for the questions and for joining us today. We have disclosed that the renewal notice provided by McDonald's to Arcos Dorados, which was received on August 1, 2024, provides for a 20-year term for a new MFA commencing on January 1, 2025 under certain terms and conditions. The renewal notice itself is a confidential document provided by McDonald's to Arcos Dorados as part of the renewal procedures laid out in the current master franchise agreement between the parties. As you know, the MFA is a complex document that includes a specific timeline for renewal and the process is being conducted within the limits of that timeline. We will communicate additional information in accordance with the applicable legal and regulatory requirements, as appropriate.

Dan Schleiniger

Great. Thank you, Marcelo. Alejandro's other question relates to margin. "So, excluding the positive one-off in Brazil, we saw EBITDA margin contraction year-over-year despite solid top-line and gross margin dynamics. Can you help us understand where the expense pressure is coming from?" And that one I guess is for you, Mariano.

Mariano Tannenbaum

Thank you, Dan, and thank you everybody for joining the call and Alejandro for the specific question. The main pressure we are seeing in our margins is coming from the line of occupancy and other operating expenses where we see a decrease of 100 bps. That's mainly explained by delivery in the first place that, as we mentioned, is growing more than other channels. That means that delivery, which is a segment with lower-margin profitability than the rest of the segments, but highly accretive to the business in terms of US dollars. So, when delivery grows faster than the other segments, it's normal to see that, decrease in that line. On top of that, we're doing investments in our own delivery platform that will bring benefits in the future. And we are confident that this pressure that we are seeing now will be overturned in the coming quarters.

Then, in the same line, we are seeing some pressures in utilities, all across the board. But we are looking in each market for efficiencies to offset these increases in costs. And, lastly, we are seeing in the same line an increase in the IT expenses, but these investments, looking forward, we are seeing that will allow and will bring productivity gains as they will help us to drive more digital sales and also to be more productive at the restaurant level, for example, with new scheduling systems for payroll that we are implementing in many markets.

Dan Schleiniger

Great. Thanks, Mariano. We have another -- now we're going to move over to Thiago Bortoluci from Goldman Sachs, who in addition to the MFA question had a few other questions. "One on demand around the world. We're seeing a challenging momentum for QSR operators with companies focusing increasingly more on their value platforms.

Where does Latin America stand in terms of demand elasticity? And is it different from the rest of the world and why? And also, if we can give a bit more color for -- on Brazil in terms of traffic, ticket, and gross margin." So, we'll start with those two with Marcelo and maybe -- I don't know, Marcelo, you want to first focus on the QSR, and then we can talk about Brazil specifically.

Marcelo Rabach

Yeah, perfect. Yeah, I think that we are facing a more discerning consumer in the region like it is the case in most of the other markets around the world. But that implies, obviously, that the industry and we as the leaders are the first one to do. We are focusing offering great value all across our menu board. In our case, we have very strong value platforms and other promotional activity across the markets. We are focused on offering a great and a compelling value proposition through competitive pricing, at the same time, offering an unmatched restaurant experience for our guests and, through those two main levers, drive volume growth and leverage fixed costs.

And as we saw in the second quarter, which is not different than what we have been seeing in previous quarters, we were able, in this more challenging environment, to grow sales well above inflation in most of our markets. In this year, in particular, we have a more favorable cost environment and the great job done by our supply chain team is helping us to keep gross margins in a very healthy position and to offer a very, very good offers and very good pricing points to our customers all across the region. So, doing all of this, we were able to gain significant market share and outpace most of our peers across the region.

In the second part, and talking specifically about Brazil, in the second quarter, results in terms of sales and volumes were great. And volumes, contributed almost half, and the other half came from average check to the systemwide comparable sales of the second quarter, which were well above inflation. Keep in mind that, specifically talking about average check, the improvement came not only from pricing, but on top of that, came from a better mix and the number of items per order. Importantly, according to CREST, in Brazil, we gained both visit or volume share and sales share over the trailing 12 months, with some of the smaller players in the industry losing share. If you take a look to the midterm, in the last two years, Brazil second quarter comparable sales are up cumulatively or accumulated by 21% when you compare second quarter 2024 with second quarter 2022, with nearly even contributions coming from volume and average check growth. So, a very healthy way to grow the business and improve the results in Brazil and in the whole company.

Dan Schleiniger

And I guess related to that is the gross margin question also with Brazil and we'll turn it over to you, Mariano.

Mariano Tannenbaum

Perfect. Yes, in terms of food and paper, we are happy to observe gain in the food and paper line in Brazil, a leverage of almost 1 percentage point that is coming mainly, as Marcelo mentioned in his answer, from better negotiations with suppliers than by our supply chain team and also by better mix and all the improvements we are doing in respect of pricing and revenue management. So, we are very pleased with the results we are seeing in the food and paper cost line in Brazil.

Dan Schleiniger

Great. Thanks, Mariano. And the last two questions from Thiago, I think, are going to be for you, Luis. The first one, same store sales. "Do you think it's possible to keep same store sales growing at x times inflation over the next several years?" Number one.

And then, Thiago asked a question on Mexico. "We know there was negative calendar effect this quarter. Can you comment on how underlying demand is trending there?"

Luis Raganato

All right. Thank you very much, [Thio] (ph). How are you? Thank you for the question. Talking about the comps, see if we can maintain the comps above blended inflation, yes. We think that it's going to be possible. It's one of our main objectives or main goals. What we're seeing well, we have, like, many engines of sales growth. One of them is that we still have opportunities in the execution of the Three D strategy. I'll remind you that we use our delivery, drive-thru and digital. We're going to be having a positive impact on our investments.

When we talk about comparable sales, I'm talking about investments in technology. We have two important engines of growth that are going to be product categories like chicken and coffee. And even though we have the best scores in some indicators of operations across the region, we still have opportunities and we're going to be focusing in those operational improvements that we need to maintain those sales.

And, regarding the second question, the underlying demand in Mexico. First, to give you a context, NOLAD that is directly related to Mexico, that they have similar performances, NOLAD increased 3.2 times the blended inflation for the division in the first quarter and 2.5 times in the second quarter. So -- and as I said, Mexico is directly related to that. So, yes, we think that the underlying demand is still and is going to be very strong in the near future. We do not do not expect any changes. Dan?

Dan Schleiniger

Thanks, Luis. And maybe a good segue to talking about top-line in Mexico/NOLAD are several questions that came related to Mexico and NOLAD margins, and these came from Julia Rizzo from Morgan Stanley, Eric Huang from Santander, and Bob Ford from Bank of America.

Julia asks -- and these, by the way, all will be for you Mariano. Julia asks, "Margin pressure, especially in Mexico, surprise. Can you comment on your expectations for the region? And how do you intend to offset that? How long will it take? Can you comment on delivery channel growth on impact on margins?" We'll come back to that one.

And then, Eric asks about, "Could you please explore the operating leverage opportunities among the different operating regions and comment about the increase in payroll expenses, especially in NOLAD?"

And then, he asks -- Bob Ford asks about the causes for the margin contraction in Mexico. Again, I think we're talking about NOLAD and expectations for the balance of the year. So, we'll start with that, Mariano, and then I'll come back with a couple more.

Mariano Tannenbaum

Perfect. Well, thanks for those questions, and I will focus on the concern about NOLAD and Mexico, specifically. As Luis explained, for NOLAD and specifically for Mexico, we need to analyze not the quarter itself, but it's -- I think it's better to explain it through the first half of the year due to the seasonality effect of the Easter holiday that last year was in the second quarter and this year in the first one. So, if we consider the whole the first six months of the year, what we see is that NOLAD's margin is down by 70 basis points, from which 50 basis points are coming from payroll in Mexico. So, I will focus on what's going on in payroll in Mexico.

In Mexico, we have been observing wage increases well -- minimum wage increases well above inflation for the past years. And that, of course, affecting the payroll line in particular. But what we see is that in the medium or what we usually observe in our region is that when we see those salary or minimum salary increases is that, in the medium term, we see a benefit because there's more disposable income and that increases consumption. So, that's part of the explanation of how well we are doing in Mexico in terms of EBITDA. So, analyzing the first semester, what we see is that even though margin was down by 70 bps, EBITDA in US dollar terms was up by 5% in US dollars. So, we're pleased with the trends that we are seeing in Mexico, in particular, and in NOLAD. And, we don't have a special concern with this line going forward.

Dan Schleiniger

Great.

Mariano Tannenbaum

That's specifically about questions about Mexico and NOLAD.

Dan Schleiniger

Okay. So, Julia's other question has to do with delivery. "Can you comment on the delivery channel growth and impacts on margin? How much of the pressure on margins maybe in the quarter came from delivery and what should we expect in this regard?"

Mariano Tannenbaum

Yes. As I explained in the first question that Alejandro made, we are seeing -- each time we are seeing an increase in delivery over the other channels, so faster than the other channels, we will see pressure on percentage terms on the occupancy and other line, another expenses line. But the growing delivery and that's -- we analyze that and we are very pleased with the results we are seeing in delivery. First, it's highly accretive to the business in US dollar terms. So, a relevant portion of the EBITDA growth that we are seeing, we have been seeing in the last years, is coming from that segment. That's really important. And on top of that the growing delivery is helping to dilute fixed costs at the restaurant level because of also the time of the delivery is stronger at night, where the on-premise sales are stronger usually at lunchtime. So, it's helping dilute fixed costs at the restaurant level. So, in terms of delivery, we are very pleased with the gains we are seeing in market share and the benefits that delivery is bringing to our EBITDA.

Dan Schleiniger

Great. Thanks, Mariano. And a quick one, also on margin. So back to you. And this one came from Eric Huang from Santander. "Additionally, in Brazil, how did payroll expenses evolve excluding the positive impact from the labor contingency reductions?"

Mariano Tannenbaum

Yes. Excluding the effect that, of course, is almost entirely reflected on the payroll line, we are seeing gains in the payroll line in Brazil. So, in that respect, as opposed as what we are seeing in NOLAD, we are seeing leverage in Brazil, given that sales are increasing above inflation and we are seeing leverage on the payroll line, even excluding the one off.

Dan Schleiniger

Great. Thanks. And Eric had another one that has to do with the digitalization opportunities, and what benefits those might bring. So, I'll turn it over to you, Luis.

Luis Raganato

All right. Thank you, Eric. About the digital growth, we're very pleased with the results we achieved so far, and we are confident in our ability to maintain the growth trend. Digital sales growth are going to keep on being driven by three main factors. The implementation of new functionalities to our app, like mobile order and pay, or MOP, like we call it, or on delivery, all right? The continued increase in the number of downloads is a second factor. We have already achieved 130 million downloads, that's a record for us. And a great trend in active users. We today have 21 million monthly active users, another record for us. And a booster of our digital sales in the near future, and we are already seeing the results, is the loyalty program that is also contributing to -- for example, to have access to our customer data and identified sales. So, that is going to allow us to offer a more personalized experience. And, we already have good results in three main performance indicators of the program, like number of members. We have reached more than 11 million registered members in three markets that we have the loyalty program: Brazil, Uruguay and Costa Rica. We are today, as we speak, piloting Puerto Rico, and we have the objective to fully implement the program in all of our markets by the end of 2025.

So, one indicator of performance is the number of members. The other one is average check. We have a higher average check in loyalty customers, 20% higher than non-loyalty customers. And the other one is frequency. We know that 90-day active customers, the levels of these 90-day active customers are very healthy, and we're seeing that the digit frequency is 1.5 times to 2 times that of non-loyalty customers. So, we're going to keep on investing in the expansion of our digital platform, because it enhances the value and convenience, while drives guest frequency and optimizes the customer lifetime value. Dan?

Dan Schleiniger

Thanks, Luis. I'm going to come back to Bob Ford. He had a sort of a little follow-up within his original question on margins, and that had to do with recent operating trends in July and August. And I don't know, Marcelo, if you want to give us a little color there.

Marcelo Rabach

Yeah. Bob, let me start with how are we doing and what we saw so far in the third quarter in terms of sales. As I mentioned before, we are facing a more discerning consumer, but through remaining focus on delivering great value to our guests with different intensity depending on the market, we expect that comparable sales growth should remain at or above inflation for the full year 2024 in most of our markets. And the beauty of the Arcos Dorados business today is that it is very diversified. So, this help us to mitigate the pressures we are managing in some of our markets, for example, Argentina, where the consumption environment is more challenging, but we are more than offsetting those challenges with great excellent results and excellent sales growth in markets like Mexico, for example, that was mentioned a couple of minutes ago. So, good start to the third quarter in terms of sales. And again, the outlook for the year continued to be that we will be able to grow our sales above inflation in most of our markets and on a consolidated basis. Maybe we should talk a little bit more specifically on any market when we report Q3 results.

Dan Schleiniger

Great. And thanks, Marcelo. And another one for you actually, and this comes from [Rodrigo] (ph). I assume he is a shareholder of the company. "What about the work that we're doing in remodeling in Mexico, and will this continue?"

Marcelo Rabach

Yes. Thanks for the question. And, yes, for sure. We are, I would say, in the early stages in terms of modernization of our restaurants in Mexico. At the end of June this year, we have about one-third of the restaurants converted to EOTF in Mexico. So, still a lot of job to do and a lot of results to get from those investments because we continue to see a significant sales lift in those restaurants that are transformed to EOTF. And we firmly believe that digitalization of our operation in Mexico and in the company in general will be the next big step in our growth story. So in fact, for example, in the case of Mexico, in 2023, our mobile app, the McDonald's mobile app in Mexico became the most popular in the market. And that's based on active users reported by third party. So, we think we are in the right track, in the right direction. And we still have a lot of work to do in Mexico, but with excellent results so far.

Dan Schleiniger

Thanks, Marcelo. Now one for you Mariano from Froylan Mendez at JPMorgan. Thanks for the question. He asks, "Will the lower labor contingency burden in Brazil imply higher margins for Brazil on a consistent basis moving forward?"

Mariano Tannenbaum

Okay. No. Actually, the lower level contribution is no longer applicable. So, future contributions will be made at the higher level. So, we're not expecting any changes there.

Dan Schleiniger

Okay. By the way, we received a couple of follow-up questions on more details of the MFA, so I think Marcelo has already addressed that. But if you have a specific question still pending, please feel free to reach out to me via email, and I'm happy to get back to you on that one.

Bob Ford has sent a follow-up. "How should we think about your own delivery solution in terms of its initial expense pressure as well as the longer-term implications for lower cost and better service?" And I'll turn that over to you, Luis.

Luis Raganato

All right. Thank you, Bob. Hello. How are you? Home delivery for us is strategic for those points. It has a lower cost and it allows us to deliver a better service. Just to give you a little bit of context, we have the service in 1,500 restaurants in nine countries. Still it's very small. 12% of our total delivery sales come from this channel, is growing quarter by quarter. But we are still working on finding a scalable logistical model that has to meet our guest expectations. For sure, and we're seeing that today, the solution is going to be different from market to market. And we expect to benefit from an increase in these sales over time. Like you said it has slightly better economics, but the impact will be gradual and it is still too early to quantify the potential gains.

Dan Schleiniger

Thanks, Luis. Also a follow-up from Alejandro Fuchs at Itau, and he says, "Can I make a follow-up on Argentina? How have you seen July in terms of volume? And have we seen comments improve -- improving trends from other consumer companies with exposure to Argentina? And I'll hand that one to you, Marcelo.

Marcelo Rabach

Okay. Thank you, Alejandro. Yes, we saw an improvement in the trends of the business in Argentina. We continue to face a challenging consumption environment there. But I would say since the beginning of the year, we've been doing better than most of our peers in the market. If you take a look to the first half of the year, consumption in general in Argentina declined around 25% and Arcos Dorados volumes remain resilient and declining at just about half of that rate. I think that our local team has been doing a very good job remaining very close to the customers and offering the best value proposition in the QSR industry in Argentina. As a result, we have gained significant market share this year and further strengthened our brand attributes, which have been already very high in Argentina for many years.

I think that this work that we are doing in Argentina should position us in a very strong position for when the Argentine economy begins its expected recovery. Fortunately, inflation in the country has been declining since its December 2023 peak, but it is still too soon to know how all the macroeconomic factors will impact results for the full year 2024. But we are cautiously optimistic that the second half will be much better than the first half in Argentina based on the trends we already saw in July and August.

Dan Schleiniger

Great. Thanks, Marcelo. We have a question from Gian Pierre Aguilar from Credicorp. And he asks, "If we have any plans to refinance the international 2027 notes?" And that was for you, Mariano.

Mariano Tannenbaum

Okay. Thanks, Gian Pierre, for the question. We are three years ahead of maturity, so we don't have any plans to announce yet.

Dan Schleiniger

Great. And that actually was the last question that we received. One thing I wanted to mention before we close is we're aware that, I think, there were some audio issues perhaps for some of you. I apologize for that. The audio for this call will be available for replay on our website today -- later today, and we'll also make the transcript available as soon as possible for any of you who might have missed part of the call. We wanted to thank you for all of your interest in Arcos and for joining today's webcast. Look forward to speaking to you again in the middle of November on our third quarter earnings call. And until then, please stay safe and have a great day.

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