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Arcos Dorados Holdings Inc. (NYSE:[ARCO](#)) Q3 2024 Earnings Call Transcript November 13, 2024 10:00 AM ET

Company Participants

Dan Schleiniger - Vice President of Investor Relations

Marcelo Rabach - Chief Executive Officer and Director

Luis Raganato - Chief Operating Officer

Mariano Tannenbaum - Chief Financial Officer

Conference Call Participants

Dan Schleiniger

Good morning, everyone, and thank you for joining our Third 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. We moved to a new webcast platform beginning with today's call. To better follow the presentation, please note that you can set your view to full screen. Additionally, you can submit your questions at any time during the presentation using the Q&A function on the bottom of the screen. After we conclude our opening remarks, we will answer your questions.

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 as compared with GAAP results which can found in the press release and unaudited financial statements filed today with the SEC on Form 6-K. I'll not turn the call over to our CEO, Marcelo Rabach.

Marcelo Rabach

Thank you, Dan. Good morning, everyone and thank you for joining us. Third quarter 2024 results demonstrate the resilience of Arcos Dorados' business model. Sales and profitability were strong while the strategy built around Digital, Delivery and Drive-through remained a structural competitive advantage across all our markets. Our balance sheet is as strong as ever, which allows us to continue ramping up on the fourth D of our strategy, Development. In line with McDonald's global growth strategy, we expect our restaurant opening pipeline to unlock even more shareholder value as we capture the significant opportunity to expand our footprint over the next several years. This is why, moving forward, you will hear us talk about our fourth D strategy.

Let's get into the details of the quarter's results, starting with the key highlights. U.S. dollar revenue set a new high for the third quarter. From guests count rose for the 14th consecutive quarter, with broad-based traffic increases in the region. This helped drive systemwide comp sales up more than 32% in the quarter, despite a more challenging economic and consumer environment. All three divisions contributed positively to the result. US dollar EBITDA was the second highest for the third quarter, with a 50-basis point margin contraction and devalued currencies impacting the result, especially in SLAD.

The Digital, Delivery and Drive-thru platforms continued to be an unmatched competitive advantage. Total Digital sales grew 16%, while guest count growth in both drive-thru and delivery helped these off-premise channels generate 43% of systemwide sales. For the year-to-date through September, we opened 56% Experience of the Future restaurant including 32 openings in Brazil. And just a few weeks away from the end of the year, we are on track to deliver openings guidance for 2024. I will turn it over to Luis now for a look at sales performance in each division.

Luis Raganato

Thanks, Marcelo, and good morning, everyone. Brazil's third quarter comp sales were up 6.8% on top of last year's double-digit growth. Notably, for the last 24 months, Brazil's comp sales grew more than 18%. Both guest count growth and a higher average check drove the quarter's result. US dollar sales were impacted by the devaluation of the Brazilian real versus the prior year. Digital channels that include the Mobile App, Delivery, and Self-Ordered Kiosks generated almost 70% of sales in Brazil, one of the region's most digitalized marketplaces. Drive-thru sales growth was also strong in the third quarter, leveraging the largest freestanding restaurant portfolio in Brazil.

Based on internal research, Brazil strengthened its brand attributes in the quarter, including its industry leading top of mind and favorite brand scores with marketing activities focused on brand with the Why I call Méqui, Méqui campaign, menu with the Shira swimming pool and bravos swimming line campaigns, desserts with innovations in cones, sundaes and McShake and family with a successful Despicable Me 4 for a Happy Meal.

NOLAD's comp sales rose 6.2% in the quarter with higher guest counts responsible for most of the division's sales growth in the quarter. The digitalization of NOLAD continued in the third quarter. Digital channels accounted for 40% of sales in the period, up from 30% last year. The increased penetration of digital sales channels was helped by the continued modernization of the restaurant portfolio in Mexico, which is ramping up in the market. NOLAD's marketing initiatives included campaigns focused on menu items designed for families, generating strong engagement with relevant Happy Meal licenses. We also appealed to Gen Z guests with a special edition of Chicken McNuggets, introducing Asian-inspired sauces in collaboration with the popular K-pop group BTS. Mexico continued benefiting from the launch of Best Burger with a campaign emphasizing the unique taste and high quality of our core products.

In SLAD, comp sales growth of 90.4% includes the impact of Argentina's high inflation rate over the last 12 months. Comp sales excluding Argentina rose strongly with guest counts and average check contributing about evenly to the result. Digital sales are strengthening the connection with guests in SLAD and accounted for 57% of the division's sales in the quarter. Inflation in Argentina remains high but has declined steadily this year through September. The currency is weaker than last year but it has been stronger than originally expected. Against the backdrop, Arcos Dorados' performance in Argentina has improved sequentially from quarter-to-quarter so far in 2024. SLAD's marketing activities included a focus on improving value perception building compelling entry-level menu items with a strong guest response. We also built our chicken credentials through the BTS collaboration as well as variations on the popular McChicken sandwich. Finally, with the same Happy Meal licenses that Marcelo already mentioned, SLAD significantly improved its brand attributes related to families.

One of the keys to sustainable, long-term and profitable growth is maintaining healthy market share levels. This is why this year's market share gains have been so important. No matter what short-term operating environment we are currently navigating, being the favorite QSR brand in the industry supports a more efficient operation and continued expansion throughout the region in the long-term. With that in mind, we are capturing important market share gains. Based on proprietary research, the McDonald's brand gained five points of value share across a company's footprint in the quarter, and 3.6 points of value share during the first nine months of the year. Importantly, we also gained the most market share this year in our biggest market, Brazil. The QSR industry is growing faster than the broader restaurant segment in many markets, and by providing the best value proposition and restaurant experience in the industry, we are consolidating our leaders' position throughout the region. Mariano?

Mariano Tannenbaum

Thanks, Luis. And good morning, everyone. Profitability in the third quarter was strong, despite currency devaluations and the ongoing economic adjustment in Argentina that contributed to a small contraction in US dollar EBITDA. Nonetheless, as Marcel already mentioned, consolidated EBITDA was still the second highest for a third quarter in the company's history. Food and paper remained relatively steady compared with last year. Margin pressure from payroll and occupancy and other operating expenses was partly offset by margin expansion in G&A and the other operating income line. EBITDA margin expanded in Brazil but this was offset by contractions in NOLAD and SLAD that led to a 50 basis point lower consolidated margin versus the prior year quarter.

Although, the macroeconomic and consumer environments remain challenging we are focusing on the factors we control. Assuming there is no significant deterioration from current macroeconomic and operating conditions, we continue to expect full year 2024 EBITDA to beat last year's result in US dollar terms with a flattish margin. Brazil's margin expanded by 60 basis points helped by a \$5.6 million positive impact from a recovery related to social security contributions. Excluding this recovery, Brazil's margin contracted 70 basis points mainly due to higher food and paper costs and royalty expense as a percentage of revenue.

Both NOLAD and SLAD's margins were pressured mainly by increases in payroll and occupancy and other operating expenses as a percentage of revenue. Operating expenses also rose as a percentage of revenue in SLAD due to lower guest counts in Argentina which further pressured the division's margin in the quarter. We believe we are operating at a healthy margin level but we also see opportunities for incremental improvements in all three divisions. Looking ahead, we expect to gain efficiencies through the ongoing digitalization of the business. This together with the equalization of operations from market-to-market can lead to better profitability margins over time. We also expect to capitalize on the market share advantage we built in recent years. The digital tools we have today and the new tools we are developing will ensure we deliver the best value in the industry, which in turn will further monetize guest traffic and sustain sales growth for many more years to come.

We are proud of all the progress we have achieved so far with the digitalization of Arcos Dorados, but we are even more excited about the potential and opportunity we see ahead. With that in mind, let's talk about how Digital, Delivery and Drive-thru continue to be the primary sources of organic sales growth for Arcos Dorados. No other QSR brand in the region can match our digital platform or modernized restaurant portfolio, which we believe will provide us with structural competitive advantages for many years to come. Digital sales were up about 16% in US dollars, generating 58% of systemwide sales in the quarter. The McDonald's app has been downloaded about 140 million times in the Arcos Dorados footprint since it was launched, and we have a database of more than 94 million unique registered users that we are constantly analyzing to generate insights and bring innovation to guests.

Downloads of the McDonald's app have consistently and significantly outpaced the competition throughout the region for many years, and thanks to the popularity of our menu combined with the convenience of our multi-purpose app, downloads of the McDonald's app rival that of the main delivery aggregators in many of our markets. Delivery and Drive-through have been long-term growth drivers for systemwide sales since we exited the pandemic. In fact, year-to-date sales in these two off-premise channels have grown 43% in US dollars when compared to the first nine months of 2021. This growth has been largely incremental to total sales, especially for delivery, which is now a billion-dollar business for Arcos Dorados accounting for almost 20% of sales so far this year compared with 2019 when it was barely 4% of total sales.

The Loyalty Program has been implemented in Brazil, Costa Rica and Uruguay. Membership growth has been robust this year and so far, has reached about 14 million registered members across all three markets. We continue to see high 90-day active user numbers and healthy retention rates among members. Frequency is on the rise among active members and we have been able to re-engage with guests who have not visited us for a while. Importantly, the program's appeal has helped boost identified sales penetration to between 30% and 40% percent in all three markets. Over the course of next year, we plan to roll out the Loyalty Program to the remaining Arcos Dorados markets and we are confident this will help drive additional guest engagement and sales growth.

Let's turn to the company's capital structure and the four D of our strategy, Development. Net debt rose this year as we deployed the excess cash on the balance sheet. This was offset by a higher EBITDA over the trading 12 months as we opened new restaurants and modernized existing locations with strong returns on those investments. As a result, the net debt-to-adjusted EBITDA ratio held steady at 1.2x for the first nine months of the year. Last month, we received the good news that Moody's upgraded Arcos Dorados' debt rating to Ba1 with a stable outlook. They highlighted the company's strong operating performance and geographic diversification to support the upgrade. This rating is now in line with the BB+ plus rating we received from Fitch a few months ago. Both ratings are now just one notch below investment grade and in line with Brazil's sovereign debt rating.

Cash flow from operating activities in the third quarter was about \$96 million. We expect the seasonal strength of cash from operations to continue in the fourth quarter. The QSR industry is capital intensive, which is why it is so important to have healthy cash generation, a strong balance sheet and a disciplined development process. The fourth D of our strategy is development and we opened 19 EOTF restaurants in the quarter, including 11 locations in Brazil. Additionally, we are on track to meet this year's guidance for capital expenditures. Developing a pipeline of profitable restaurant openings takes time and resources. For the last several years, we have been increasing this pipeline by investing in the process and the people we need to identify, develop, build and run new restaurants across the Arcos Dorados footprint.

This has kept returns on investment at or above the historical average as the number of openings increased in each of the last three years. We firmly believe the region remains vastly under-penetrated and we see a significant growth opportunity for many years to come. But we will not cut corners to accelerate growth at the expense of shareholder returns. The underwriting process will be disciplined and our focus will remain on running great restaurants while we capture the growth opportunity for the company and generate significant social and economic benefits for the communities we serve. Marcelo, back to you.

Marcelo Rabach

Before we open the for Q&A, I will wrap up the presentation with some final thoughts. In recent interactions with the market, we have been asked what we think investors are missing about Arcos Dorados. I believe there are so many reasons to be excited about the future of the company and its shareholders. Let me share a few. First, we operate the world's most-loved QSR brand with the largest market share in the region by far. Our restaurants receive at least twice as many guests and generate at least two times the same as our nearest competitors.

Additionally, we operate the region's most modernized restaurant portfolio with the highest number of freestanding locations that will continue to be a structural competitive advantage for the foreseeable future. Second, we have the right strategy. Four of these include best-in-class digital, delivery and drive-through and a sophisticated development process to ensure we capture profitable, long-term growth.

Third, we believe we are operating in the world's best sea coast. Latin America has one of the globe's most underpenetrated QSR industries. When it is true we have political and economic cycles, we are the least impacted emerging market when it comes to the serious geopolitical issues in other parts of the world. And the consumer class continues to grow in Latin America's biggest markets, which will generate growing demand for the world's most popular QSR brand. Finally, our balance sheet is as strong as ever. We have low financial leverage, which provides us with plenty of flexibility when it comes to capital allocation. The strength and diversification of the business, together with improved debt ratings from Fitch and Moody's also provide us with efficient access to capital markets to support future growth. It will be our job to capitalize on these opportunities in the years to come. Thank you for joining today's call. Dan, back to you.

Question-and-Answer Session

Operator

[Operator Instructions]

Dan Schleiniger

Thanks, Marcelo. We will now begin the Q&A section. You can submit your questions using the Q&A function on the bottom of the screen. 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. Great. So we have a few questions already here in the Q&A chat.

The first comes from John Paulo Londrade from Bradesco. John Paul says, congratulations for the results. And how does the competitive environment look like in terms of promotional activity this quarter, especially in Brazil? I'll start with you Marcelo; I think on that one.

Marcelo Rabach

Excellent, thank you John Paulo for the question. I would say that in general what we saw is more or less the same competitive landscape that we have been facing all through the year. Important to mention that we gained significant market share across our footprint in the third quarter not only based on our internal research but for example in the case of Brazil based on Crest information. In most of the markets there has been a great focus on value platforms and different kind of promotional activities across the industry that's more or less the general rule.

In this scenario, we are focused on offering a compelling value proposition with not only competitive pricing but on top of that and what I think is on a much restaurant experience for our guests in order to drive volume growth and leverage our fixed costs. So the McDonald's brand, comp sales over the last two or three years, has been stronger than any of our main competitors, including Brazil, and importantly, this growth of comp sales is of a much higher average unit volume base, and as a result, our favorable GAAP in sales and profitability continues to expand in absolute terms.

Dan Schleiniger

Great. And John Paulo has a second question, which I think is also for you, Marcelo. How did post-elections macroenvironment in Mexico impact overall consumer environment in that country, especially in the QSR segment?

Marcelo Rabach

Okay. Well, Mexico, we are very pleased, absolutely pleased with the trends we are seeing in Mexico for the last many years. Mexico has been the fastest growing history in Arcos Dorados, and the McDonald's brand performance has been among the strongest in the Mexican QSR industry. Guests have responded positively to our main architecture, our compelling value, and it's important to mention our improved execution. And we are in fact, for example, in terms of the digitalization of the business in Mexico in the early stages. For example, in terms of the modernization of the restaurants in order to offer the EOTF package, we have less than 40% of the restaurants in Mexico modernized to the EOTF format. So still a lot of work to do there, but we believe that this digitalization of our operation in Mexico will be the next big step in our growth story in the market. And in fact, just as an example of the digital ramp up in Mexico last year, our mobile app, we gained the most popular in the market based on active users which is huge in a very competitive market.

Dan Schleiniger

Great. We'll now move to Eric Wang from Santander who sent four questions and we're going to work through each one of these. The first one I think is for you Mariano and I'm going to read Eric's and then we have a similar question from Troy Mendez from JP Morgan. I'll read both of them for you. Regarding the food and paper pressure we saw in Brazil, could you elaborate if these were more related to protein prices or paper and how are the recent price increases in proteins going to affect the company's margins in the short term? That from Eric of Santander.

Troy Mendez from JP Morgan has similar question. We're seeing higher food inflation in Brazil with beef having a strong momentum. How confident are you that you'll be able to pass through to consumers given considering what seems to be a second half deceleration in consumption in Brazil?

Mariano Tannenbaum

Perfect. Thanks, Dan. And thanks, Eric and Troy, for the questions and hi to everybody. First of all, regarding what we have seen during this third quarter, the increase we have seen, the modest increase we have seen in food and paper in Brazil was not related to specific protein price increases, but other general increases that were basically some cost increases that we have been delaying from the beginning of the year, as you have seen that the food and paper lag actually was positive with some gains. The gross margin was better in the first half of this year.

Regarding specifically about protein price increases and beef in particular, the way our pricing protocol works, we are not expecting this to have an impact on 2024. But of course, at the end of the day, for next year, we will see some pressure building up in beef costs, not for Arcos, but for the industry in general. And of course, we will try to mitigate these effects by managing pricing and mix in a way to have a lower impact, of course, in our cost structure. But also, we feel confident that this impact will, as I mentioned, will affect the whole industry. So some of the prices we will be able to pass as well to consumers.

Dan Schleiniger

Great. Eric's second question. As for the ongoing labor and other cost pressures in NOLAD, what are management's expectations regarding the easing of such pressures?

Mariano Tannenbaum

Yes, we effectively have seen some increases in minimum salaries in NOLAD, particularly Mexico and Puerto Rico. And of course, it's difficult to predict what will happen next year, but we do not expect these to continue at the same pace during 2025. On top of that, we have deployed digital tools to generate sales more efficiently and also to manage restaurant staffing in a better way.

Dan Schleiniger

The next question from Eric is, and I think this one is for you, Luis, regarding digital and especially delivery, could you provide us with an update in terms of own delivery penetration and current levels of investments as well as the impacts and profitability from such investments?

Luis Raganato

All right. Thank you, Dan. Hello, Eric. Digital sales were up 16% in the quarter and represented 58% of total sales and specifically delivery grew 14% in US dollars. Home delivery represented 12% of total delivery sales and the marginal contribution is positive in the channel, the returns are positive and is accreted to our results mainly because it allows us to leverage fixed costs. And regarding home delivery, we continue working on finding a scalable logistic model, it has to meet our guest expectations and this solution will for sure be different from market to market.

Dan Schleiniger

And then the fourth and final question from Eric of something there, this one's going to come back to you Mariano. And a similar question came in from Chago Bortolucci of Goldman. So I'll read both of those questions and then I'll turn it over to you.

First from Eric, on the potential end of the 6x1 labor regime in Brazil, how's the company's initial assessments about the potential negative impacts on labor costs? And Chago asks, from Goldman asks, what are your early views on the potential improvement of the 6x1 one labor reform in Brazil?

Mariano Tannenbaum

Perfect, and thanks, Chago, for the question. We still don't have all the details on the reform, so we will give you more information in the coming calls once we know all the details.

Dan Schleiniger

From Melissa Bui, now of Bank of America. Apologies, Melissa, I know that you asked a couple of questions related to what we've already answered. I'll read your full questions and then we'll start with Marcelo on the first one. And I think some of this has already been answered, Marcell, and you can address the rest. Can you please provide an update on consumption and sales trends and EOTF rollout in Mexico? And what are your expectations for labor costs next year and what opportunities do you have to offset them? The second part, I think Mariano has answered the first part. I'll give it to you.

Marcelo Rabach

Yes, as I mentioned before, Mexico is doing extremely well. Comparable sales are multiple times inflation of the market, where we are seeing an improvement in volumes per restaurant, which has been very significant, not only this year, but this is the fourth year in a row that we see Mexico grow in volumes. And I'm going to check. So as a result, growing very strongly, comparable sales. As I mentioned before, we are in the early stages in terms of the EOTF deployment in the market, less than 40% of the restaurants. But we are accelerating that process this year and coming years and at the same time looking for opportunities to grow the base of restaurants with new restaurant openings.

And this growth in sales is part of the answer to the pressure, the part of the question related to the pressure in labor costs because sales are growing so fast in Mexico that even though we have some pressures in terms of labor costs, we are experiencing leveraging in many other cost lines of both D&A and G&A and bottom line margin in Mexico is growing. So we are extremely pleased with what is going on in Mexico and for sure there are a lot of opportunities for Arcos Dorados in this market incoming.

Dan Schleiniger

And Melissa's second question again, the first part I think Mariano you've already answered and the second part is I think Well, I'll turn over to you, Mariano. What's the outlook for food and paper costs, especially or specifically in Brazil? And can you provide an update on your FX hedges in Brazil and in other markets?

Mariano Tannenbaum

Perfect and thanks Melissa. Yes, the first part I already answered regarding food and paper costs in Brazil. Regarding the hedges, our policy in terms of food and paper hedges is to hedge 50% of the projected food and paper exposure. We do this on a rolling basis looking out from two to three quarters in advance. But this is done to reduce volatility of our input costs. These are not meant to be speculative hedges and we have them in five markets in Brazil, Colombia, Chile, Mexico and Uruguay. So we are currently hedged according to our policy in the main markets through the first quarter of 2025. And we are implementing hedges as appropriate now for the second and third quarter of next year, so we are going according to policy. And this is how we manage the FX exposure related to for the paper costs.

Dan Schleiniger

Great. Thanks Mariano. The next question from Monty Escalarsi from Black Creek. Venezuela used to be a significant contributor to the business and so was Argentina. What are the prospects for these two countries to again become significant contributors for the business? And how do you manage the business in these two countries until that happens? And I'll give that one to you Marcelo.

Marcelo Rabach

Okay. Thank you. Thanks for the question. I think that these are two different stories. These days for the company, these two markets. In the case of Venezuela, even though the McDonald's brand strength remains very high in this country, Venezuela does not have a material impact on our current financial results. It's a small business in this day, so we are also not expecting a significant change in this scenario in the short term. So we continue to invest in the basic of the business, keeping running great restaurants, taking care of our people. Once the Venezuelan economy begins to grow, for sure, we are well positioned in order to capture a big part of growth. But as of today, it's not material in terms of our financial results.

On the other hand, Argentina, it is important for us and despite consumption in Argentina remains negative, our global volumes have been resilient all year and declines at about half the broader rate in the market. So we remain close to consumers by offering a great value proposition and as a result, we have gained market share significantly and further strengthened our brand attributes in Argentina. We should have us in a very well positioned for when the Argentine economy begins its expected recovery as soon as first quarter next year based on the market consensus.

And in fact, this year we have seen sequential improvements in our results in each quarter in Argentina. So we are very, very positive in terms of the trend of Argentina. It's a market that continues to be a big contributor to our results and for sure we continue to do that in the short and long term.

Dan Schleiniger

Let's move now back to Chago Bortolucia of Goldman who had sent the question earlier about labor reform in Brazil, but he had two other questions as well. First, let's go with, could you elaborate more on Brazil growth? How much of the comp sales or the same-store sales was traffic versus ticket? And how was your growth in delivery and drive-through separately? And we'll start with you, Luis.

Luis Raganato

All right, hello, Chago. Comp sales was mostly driven by average check, this third quarter, even though volume was positive. In Drive-through, Drive-through continues to perform well and represents about 20% of total sales, and delivery is growing at a faster pace and in line with the growth of the company. Dan?

Dan Schleiniger

And then the third question from Chago is, I think for you, Marcelo, any early comments on the next three year plan, and can you walk us through how you're seeing ROICs within each cohort of stores?

Marcelo Rabach

Okay, thanks Chago for the question. What I can share with you is basically what we already said about 2025, where we expect to open something between 90 and 100 restaurants. This is consistent with what we have said about a gradual increase each year in the pace of openings in order to ensure acceptable ROICs. In fact, ROICs in these recent years remain at or above historical average on openings, and the same applies to modernizations. Good news is that both our Arcos Dorados and McDonald's, we are aligned that there's a huge opportunity for the McDonald's brand and for Arcos Dorados business in a very under-penetrated region like Latin America is. So for sure, we want to capture that big potential in the region and we have a very robust pipeline for continued growth throughout the region.

So moving forward, we will continue to be focused on the freestanding restaurants, which have an extremely strong return on investment because we can operate in the best way all the business segments drive-thru, delivery, those two off-premise segments that have become so relevant after the pandemic. But at the same time, there are new developments in Latin America. Some shopping malls developers have resumed growth. So at the same time, we are looking for opportunistic and specific opportunities in order to open restaurants in malls, mall stores or food courts, typically with an excellent return on investment, since the investment in those formats is lower than in the freestanding. So I think this is very exciting looking Arcos Dorados for the long term the opportunity we have to grow the business.

Dan Schleiniger

And we have a couple of questions, a couple of additional questions from Troy Mendez of JP Morgan. I think they're both for you, Luis, but I'll, actually, they're multi-part questions, but I'll start with you. You mentioned that identified sales of 20% to 30% in all markets. Can you elaborate on what are the tangible effects of this type of sale in terms of top line or margin acceleration? And are there examples elsewhere in the McDonald's system that can help illustrate what we could expect from this?

Luis Raganato

Yes, hello, Troy. First, identified sales for the company were 25% of total sales. We have markets like Brazil that are in 28%. We have some markets that are above that, around 30%, but most of them are around that 25% that I just mentioned. And, of course, we're learning from the global system, but we, let me tell you, we're a little bit ahead in this matter. We have three main new functionalities that boost identified sales. One is home delivery, the other one is MOP or mobile order and pay, and the last one is the Loyalty Program. What that does is it allows us to increase the personalization of our guest experience, and it allows us to be more efficient with our marketing efforts.

But what we can expect from this is that we're going to have an increase in frequency. When you see loyalty members, frequency is 1.5x to 2x higher than non-loyalty or non-identified customers, and it improves margins too because those transactions are new or they have additional products and the average check is higher. So what we can expect is to be more personalized in that experience and to increase our margins and top line.

Dan Schleiniger

Great, and then the final question, which is also from Troy Mendez of JP Morgan. What in your view is the main reason behind a large same-store sales deceleration in Brazil, and what's your view for 2025 consumption in Brazil? Again, back to you, Luis.

Luis Raganato

Troy, thanks again for the question. What we are seeing is a continued growth, and I would say strong growth in comparable sales in Brazil. In this third quarter, we had positive volume and positive average check growth that combined allowed us to grow 1.6x inflation. And we were able to do this on top of a very strong quarter in 2023. That was 10.8%. So in 24 months, our growth in sales was 18%. And that, for a fact, is the highest growth in the sector. And this growth allowed us to keep gaining market share. According to Crest, this growth was one plus one percentage point, and we are outperforming the main competitor by 2x. So our focus for the future will continue to be in offering a compelling value proposition across the entire menu. This will allow us to, we're going to focusing to improve our operations, to deliver the best experience to our customers, and to leverage the strength of our 4D strategy. This is going to allow us to be, and to keep the leadership in the sector. Dan?

Dan Schleiniger

Actually, we have another question from Oliver Mihailovic, who asks, when we deploy capital, do we think about ROI relative to FX assumptions? Or do we simply assume that FX stays stable? Or do we allow for local currency depreciation? And then he makes a comment about historically how that impacts the assumptions. So, Marcelo, I think you might want to address that.

Marcelo Rabach

Thank you. Yes, and thanks Oliver. Obviously, we cannot control FX but first we measure our real cash on cash in dollar terms historically and we make decisions based on the potential we see for the McDonald's brand in each market and we have obviously different expectations in terms of returns related with risk in different markets and based on the success or not that the different markets of our hotels have in terms of returns on investment. So we cannot control FX but at the same time we take in account that FX exist and we sell in local currencies and our shareholders and many of the company's stakeholders expect returns on investment in U.S. dollars. So we take in account that and we are very serious in terms of analyzing each opportunity and how to capture them.

Dan Schleiniger

Great. Thanks, Marcelo. And that actually was the last question in the queue, so we've reached the end of the Q&A session. Thank you all once again for joining the call and for your interest in Arcos Dorados. We look forward to speaking with you again in the middle of March on our fourth quarter earnings webcast. Until then, have a safe end of the year. And have a great day.

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