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Arcos Dorados Holdings Inc. (ARCO) Q3 2025 Earnings Call Transcript

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EPS of \$0.71 **beats by \$0.58** | Revenue of \$1.19B (5.22% Y/Y) **misses by \$20.95M**

Arcos Dorados Holdings Inc. ([ARCO](#)) Q3 2025 Earnings Call November 12, 2025 10:00 AM EST

Company Participants

Luis Raganato - Chief Executive Officer

Daniel Schleiniger - Vice President of Investor Relations

Mariano Tannenbaum - Chief Financial Officer

Presentation

Luis Raganato*Chief Executive Officer*

Thank you, Dan. Good morning, everyone, and thank you for joining us. Today, we will take you through Arcos Dorados' third quarter 2025 results, which included balanced U.S. dollar revenue growth with solid profitability. We successfully navigated challenging consumer dynamics in a couple of our largest markets as well as persistent input cost pressure, especially in Brazil. As I mentioned in August, we are focused on exceeding guest expectations in today's business while modernizing and improving our growth processes to support higher returns on investment and to ensure Arcos Dorados maintains its leadership position well into the future. In the near-term, operating conditions remain challenging, but we believe we are well positioned to resume more normalized top line and EBITDA growth across the business when the consumer and macroeconomic environments improve.

Let's move now to the key highlights of consolidated results for the third quarter. Total revenue reached \$1.2 billion, a new high for a single quarter with balanced U.S. dollar growth across the three divisions. System-wide comparable sales rose 12.7%, in line with blended inflation for the period. Comp sales growth was particularly strong in SLAD, specifically Argentina and selected Northern markets such as Mexico and the French West Indies. Average check growth drove the result, more than offsetting a low single-digit decline in guest traffic versus the prior year.

Marketing and digital have been an important differentiator for the McDonald's brand throughout the Arcos Dorados footprint. This has allowed us to protect or expand market share almost without exception in the markets where we operate, which should help us sustain strong performance over the long run. We generated more than \$200 million in adjusted EBITDA in the third quarter. This result included the net impact of a federal tax credit in Brazil. Excluding this impact on the quarter's results and the recovery of social contributions from the prior year period, U.S. dollar adjusted EBITDA declined by about 3%, mainly due to continued food and paper cost pressure. We opened 22 restaurants with more than half of the quarter's capital expenditures invested in new restaurant growth. With all remaining restaurants under construction, we are on track to deliver this year's 90 to 100 openings guidance.

Let's take a look at a few of the initiatives we used to generate sales growth in the quarter. Digital channel sales rose more than 11% versus the prior year and generated 61% of system-wide sales in the quarter with continued strength in delivery and self-order kiosks. We are encouraged by the positive impact of the self-order kiosk since it demonstrates the relevance of the on-premise restaurant experience and the value guests see in our omnichannel offerings, convenient restaurant locations and industry-leading service, the only we can offer. Digital sales growth was strongest in Brazil and SLAD, where Argentina capitalized on a modernized restaurant base and a tech-savvy consumer to drive growth.

The loyalty program is now available in seven countries, and we expect it to be offered in about 90% of all restaurants by the end of 2025. The program had 23.6 million members at the end of the third quarter, growing by nearly 50% versus the end of 2024. As the program grows in membership and active users, we expect it to help support more sustainable top line growth in the long-term.

Marketing in the quarter focused on brand strength across all platforms. We deepened the emotional connection with the brand and created memorable experiences for families with the Hello Kitty and Tiny Tan licenses. Value platform offered good value for money to guests and remains a strategic priority given the operating environment. Several markets leveraged the McCrispy Chicken platform to introduce new sandwiches and bundles in this key growth category. The dessert category also supported guest traffic with locally relevant McFlurry flavors and the popular Hello Kitty license.

Finally, we leveraged the exclusive regional sponsorship agreement with Formula 1 to drive sales and strengthen brand love in several markets.

Over to you, Mariano.

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Thanks, Luis, and good morning, everyone. Brazil's total revenue grew 4.9% in the third quarter, including a sequential improvement in comp sales performance. We believe this is an early indication that the worst is over in Brazil in terms of sales growth, especially since guest volumes were down slightly less than during the second quarter. Importantly, according to third-party measurements, we maintained significant market share leadership in Brazil through the first nine months of 2025 despite a challenging environment for the entire restaurant industry. This is a testament to the dynamic approach we have taken in Brazil with competitive pricing designed to balance sales growth and profitability.

Digital channels in Brazil accounted for almost 72% of system-wide sales with notable strength in delivery and self-order kiosks. Additionally, 30% of Brazil's system-wide sales involved Meu Méqui loyalty program members. NOLAD's total revenue rose 6.1% in U.S. dollars with strength in Mexico, Costa Rica and the French West Indies. In fact, Mexico's comp sales rose 6.3% or 1.8x the country's inflation rate and 2x to 4x higher than the main competitors' brands.

In NOLAD, Costa Rica and Puerto Rico are seeing excellent guest engagement with the loyalty program, which is also being piloted in Mexico.

We expect the program to help drive higher digital sales penetration and guest frequency in 2026. SLAD's U.S. dollar revenue rose 4.9%, supported by comparable sales up 1.3x the division's blended inflation in the period. Argentina's sales growth remained strong in the quarter, and the division's sales also benefited from good performance in markets like Colombia and Uruguay.

Digital sales penetration in SLAD was 61.5% during the third quarter, supported by a strong performance from the loyalty program, which was available in Argentina, Colombia, Ecuador, and Uruguay. Third quarter profitability remained solid despite below inflation comparable sales growth in Brazil and NOLAD. And as Luis mentioned, the quarter's result included the net impact of a federal tax credit in Brazil. Let me take you through the details. We generated more than \$200 million in adjusted EBITDA, which included the net benefit of \$85.6 million related to a federal tax credit in Brazil. The credit, which also includes \$39.6 million in interest, arose from the treatment of certain government-related tax incentive for the period 2016 to 2023. We expect the \$125.2 million net credit to have a positive cash impact since we plan to use it to offset federal tax obligations beginning in 2026. We expect to recover the taxes over the next 5 years. As a reminder, last year's result included a \$5.6 million recovery related to social security contributions in Brazil.

Excluding these impacts from both periods results, adjusted EBITDA declined by about 3% in U.S. dollars due to modest margin pressure. The main margin headwind in the third quarter was elevated food and paper costs. The domestic price of beef in Brazil rose significantly at the end of 2024, but we were able to leverage our supplier relationship and significant purchase volume to delay the impact of the price increase until the first quarter of this year. By generating operational efficiencies during the third quarter, we were able to partially offset the food and paper cost pressures with greater labor productivity as well as leverage in occupancy and other operating expenses. This translated into stable margin performance sequentially in the third quarter, and we expect to capture additional efficiencies moving forward.

NOLAD's margin included improved payroll and lower royalties, more than offset by margin pressure from food and paper, occupancy and other operating expenses, and G&A. SLAD has been the bright spot all year, generating strong quarterly adjusted EBITDA growth in U.S. dollars and margin expansion in each of the first 3 quarters of 2025. Adjusted EBITDA grew more than 30% versus the prior year, supported by a 2.2 percentage point margin expansion. Increased payroll productivity, leverage in occupancy and other operating expenses, and the lower royalty rate more than offset food and paper cost pressure.

Our balance sheet is strong. And as I mentioned, in the coming years, our cash flows are expected to benefit from the gradual utilization of the federal tax credit in Brazil. At the end of the third quarter, the net debt to adjusted EBITDA ratio was a comfortable 1.2x. We believe this, together with the extra flexibility provided by the new syndicated revolving credit facility, gives us plenty of room to support our medium-term growth plans. Through the first 3 quarters of 2025, we opened 54 restaurants, including 34 in Brazil, with more than half the period's CapEx invested in openings. By the end of the year, there should be more than 2,500 restaurants in the Arcos Dorados footprint. We are revising every element of our development processes with a focus on identifying and implementing initiatives designed to improve operational efficiency and generate more consistent returns on investment from each of these assets. Performance has been strong this year in Argentina and Mexico, SLAD and NOLAD's largest markets, and we believe this is sustainable going into next year.

As Luis mentioned, we believe we are well-positioned to return to healthier sales growth in Brazil moving forward. With our 3 largest markets aligned, operational profitability and cash flow generation should also improve. We know this is the best way to create shareholder value, and we have the entire team working toward that goal. Back to you, Luis.

Luis Raganato

Chief Executive Officer

Thanks, Mariano. Let me wrap up with a few final thoughts. As you have heard before, one of the pillars of the Recipe for the Future platform is youth opportunity. Part of providing first-time formal job opportunities to young people is making sure they have a positive experience in that first job. This is why it is so satisfying to be recognized by Great Place to Work as one of the top employers or to see Arcos Dorado's corporate reputation continue to climb the rankings in several of the markets where we operate.

All 6 pillars of the Recipe for the Future platform are good for business and good for the social, environmental, and economic impacts we make throughout Latin America and the Caribbean. Since beginning my tenure as CEO 4.5 months ago, I have worked to refocus the team and the company on 3 big priorities: optimizing the performance of today's business, maximizing the return on investment from capital expenditures, and ensuring the company is preparing itself for the long term. With that mindset, we're pushing to have a solid finish to the year while positioning ourselves for a stronger performance next year.

We are excited about our marketing plans for the remaining 7 weeks of 2025, and we believe next year's plan is among the strongest ever. One spoiler I can give you is that next year's marketing calendar includes McDonald's sponsorship of the FIFA World Cup, which is the most popular and impacted sporting event in all the markets where we operate. Notably, next year's World Cup will include Arcos Dorado's 3 largest markets: Argentina, the defending champion; Brazil, the winningest team in the [indiscernible] history; and Mexico, one of the 3 host nations.

Last week, we reviewed the plans for 2026 with the team, and each of the country-level managing directors, divisional presidents, and corporate leaders is targeting sustainable top-line growth and improved operational efficiency to drive profitability, generate free cash flow, and create shareholder value. Thank you for attending today's call. Dan, back to you.

Question-and-Answer Session

Daniel Schleiniger

Vice President of Investor Relations

Thanks, Luis. We will now begin the Q&A session. [Operator Instructions]. We have a few questions to get through here in the queue already. We'll start with Alessandro Ciarnelli from Sal Muoio. He says, just a question on the tax benefit and EBITDA. If I adjust out the tax credit from EBITDA, then it was down year-over-year. Was that related to food and paper costs? And could you give some color on that? I'll start with you, Mariano, on that one.

Mariano Tannenbaum*Chief Financial Officer*

Okay. Thank you. Good morning, everyone, and thanks, Alessandro, for your question. You're right. Basically, if we remove the one-off, we can see that we have margin contraction mainly related to food and paper and mainly related to the increase in beef costs in Brazil of 35% over the year and in a much lesser extent in increases in NOLAD. There is also some G&A increase, mainly related to timing and appreciation of the Argentine peso and the Brazilian real. These forces were partially offset by a very relevant increase or better payroll of 60 bps year-on-year. We can see this increase in payroll -- or this better payroll mainly in the 3 divisions in Brazil, in NOLAD and SLAD. We're very, very pleased with those efficiencies. Also, there are gains in occupancy and other operating expenses of 20 bps and royalties on 10 bps approximately.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thank you. We now have 3 questions from Eric Huang from Santander. I'll give this next one to you, Luis. And Eric asks, in Brazil, how has the company's market share evolved in the previous quarter? And how has competition been moving given it's a still challenging macro backdrop in the country? He further goes on to ask, does management foresee potential additional initiatives to boost revenues? Or is the balance between market share protection and/or gain versus profitability protection at comfortable levels? Again, over to you, Luis.

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All right. Thank you, Eric, for the question. Good morning, everyone. First, let me give you a little bit of context. Traffic in Brazil remained, and remains, challenging, especially due to factors related to disposable income. Consumer confidence is still down and out-of-home consumption is negatively impacted. We believe in general consumers, particularly lower income consumers, are being more rational with their spending power [indiscernible]. We've seen an impact in reduced guest traffic in the sector in general. For this reason, it was very important to remain focused on offering a compelling value proposition with competitive pricing and try to deliver a great experience through all the channels our customers today are omnichannel, so we have to deliver the good -- excellent operation in all of them.

And what we have seen regarding our competitors is that the industry in general continue to focus on promotional activities. They have been more transactional, trying to just drive traffic on a more comprehensive plan that complements actions targeted to increase traffic and shield our market share with those actions that aim to build the love for the brand. For example, we have just launched by the end of the third quarter, the beginning of this fourth quarter, Economequi in Brazil. It is a national value platform where customers can get a 4 item menu for BRL 22.9 or about \$4.2. We also have actions like Formula 1. Today, we have implemented a co-branded with Red Bull, for example, that makes the brand more aspirational, and those are the actions that aim to keep on improving our revenue in a more healthy way. According to CREST, regarding the part of the question that was asking about our market share, our visit share remains strong, near record highs and maintaining a positive gap versus our other main competitors. We are comfortable with that position. The main goal in Brazil is to recoup margins. So our main focus is going to be on that. And we think that we are in a position of strength to capture the rebound of the economy when it starts to come back.

Daniel Schleiniger

Vice President of Investor Relations

The second question from Eric that we'll take here is, given the potential for dividend taxation in Brazil starting in 2026, does the company see any potential impacts on its operations when it comes to the repatriation of results from the Brazilian entity to the parent company or the holding company. I'll give that one over to you, Mariano.

Mariano Tannenbaum*Chief Financial Officer*

Perfect. Thanks, Eric, for the question. First of all, this taxation has not been approved yet. But we can mention that we deal with similar rules all over the countries we operate. We have a very efficient cash management structure. On top of that, we have very relevant expansion plan in Brazil. But if the law is approved, we will comment on that later.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Mariano. Now I'm actually going to take Eric's third question and combine it with a question that we received from Froylan Mendez of JPMorgan. First from Eric, entering 2026, if the softness in consumer conditions in both Brazil and to some extent Mexico, persists, how does management think about expansion? Would it be an opportunity to perhaps scale down openings and accelerate the renovations, especially in Mexico, for example? So on some [level], that's associated with what's going into 2026. One question is on the side of renovations. Froy asked a similar question with a different punchline. Also, what are your initial thoughts on pricing versus affordability in '26? Are you considering a strategy to gain market share in '25? Will you be able to recover pricing in '26? Maybe what we should do is focus on what we're seeing for '26, and then we can talk about the expansion side after that. Over to you, Luis.

Luis Raganato*Chief Executive Officer*

Okay. As I mentioned, my focus or our focus for the pricing in 2026 is that we're going to remain close to our customers, having a compelling value proposition, trying to shield our market share. We're going to be laser-focused trying to capture any opportunity that we have to improve our margins. The objective for next year is to expand the EBITDA margin versus this year. And regarding the growth plan, right? Yes, let me first tell you that our growth plan is aligned with our long-term vision that is to unlock McDonald's full potential in the region. It already incorporates market opportunities and funding strategies to support this expansion. But let me tell you that we're going to be flexible. If conditions change, we are going to be flexible to adjust the pace and the focus of investments, not just in Brazil and Mexico, in the whole region, as we have done in the past. We're going to prioritize the most profitable markets and restaurant formats. In fact, as I said in our call in August, we're in the process of revisiting every element of our development process because we are convinced that in order to increase our cash flow generation and create more value for our shareholders, we need to ensure that every dollar invested brings the best possible return, and we're going to -- regarding the nondevelopment investments, we're going to accelerate or defer as needed to preserve cash.

As you know, the guidance for 2026 are going to be given in the first quarter of next year as we have done historically. I think I covered the 2 points.

Daniel Schleiniger

Vice President of Investor Relations

Yes, Thanks, Luis. Next question for you, Mariano, staying with Froylan Mendez from JPMorgan. Should we expect lower input cost pressure in Brazil already in the fourth quarter given the recent beef trends?

Mariano Tannenbaum

Chief Financial Officer

Perfect. Thank you, Froylan, for the question. Let me elaborate a bit on the gross margin of the paper costs in Brazil that were mainly impacted by beef inflation, which remains the primary pressure point. In the last 12 months, they have increased more than 35%, as I already mentioned. However, we believe that the second quarter was the lowest point of the year, and we're confident that we will continue to recover gross margin going forward. In addition, let me point out that the current appreciation of the Brazilian real is also positive for our imported products, so we also can see an improvement related to the appreciation of the currency.

And of course, all the tools that we actively use in order to mitigate impacts like the ones we saw in beef through pricing, mix, supplier negotiations, our scale, operational efficiencies and so forth. On top of that, what we can say is that overall and the early -- very early numbers that we are seeing for the last quarter, we are seeing some signs of improvement in beef costs in Q4. And for sure, we are not expecting additional pressures as we have seen in the last 12 months.

Daniel Schleiniger

Vice President of Investor Relations

Thanks, Mariano. Now we have a few questions from Alvaro Garcia from BTG Pactual. I will start with a bigger picture question he has on Brazil. He says you're clearly not losing market share. So I wanted to get your take on consumer weakness. What are your thoughts on the impact of sports betting or GLP-1 drugs might be having on your sales? And I'll give that one to you, Luis.

Luis Raganato

Chief Executive Officer

Okay. Yes. As I said, we are seeing an impact in the consumption. And as I said, it's related to disposable income and mainly in lower income consumers. The [indiscernible] for sure, are having a big impact in the purchasing power of -- in general but mainly in lower income socioeconomic levels. And the GLP-1 today regarding that, we're not seeing yet an impact in consumption due to this kind of treatment in the region. And we really do not believe that it will have a material impact in the future.

Daniel Schleiniger*Vice President of Investor Relations*

Okay. Thanks, Luis. The next question from Alvaro, and this will be for you, Mariano. Double checking on the \$125 million tax credit in Brazil, can you share how those savings might be phased over the next 5 years? And is \$125 million the fair number of gross savings to use going forward on federal tax benefits in Brazil?

Mariano Tannenbaum*Chief Financial Officer*

Perfect. Thanks, Alvaro. Yes, \$125 million is the fair number. And the credit will be gradually compensated with federal taxes over the next 5 years. We are currently building our compensation strategy, of course, in full compliance with the law. But we can assume it will be evenly distributed in the next 5 years.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Mariano. And Alvaro has another question, and this one, I'll give it to you, Luis. A bigger picture question on chicken. Can you please provide an update or view -- updated view on how you see your mix shifting towards chicken in a heavy beef-loving markets like Brazil and Argentina?

Luis Raganato*Chief Executive Officer*

Yes. Thank you, Alvaro, for the question. As you know, under the umbrella of the McDonald's brand, we have different categories like beverages, like desserts and chicken that are today and are going to be very important, after the -- for us, an inflection point for the category was the launch of the McCrispy chicken platform that has sandwiches that are excellent regarding quality that were greatly accepted by our customers and that are gaining share quarter after quarter.

The growth will be and it's being gradual, but it will be consistent. We're giving -- but it's going to be relevant for us in the near future. We do have room for innovations. For example, we have [indiscernible] windows that we bring innovation with, for example, spicy chicken, that is a flavor that is very well accepted in the region, or for example, in this quarter in Brazil, we launched the Chicken Bacon Ranch, and that is going to be important for us, not only in the top line as you're seeing and saying in the question is going to be important for us in the bottom line.

Important to say that we still have a huge opportunity to keep on growing with a category like McNuggets that is an asset for us that within the chicken category is strength for our business. So for sure, this is going to be a strategic pillar in the coming years.

Daniel Schleiniger

Vice President of Investor Relations

Okay Luis, I'm sorry to do this, but we actually have 3 more questions I'm going to give you, and it's going to be a combination of questions.

First, from Thiago Bortoluci of Goldman Sachs. Thiago asks, could you please expand on your same-store sales foot traffic performance in Brazil, Mexico and Argentina and Brazil, how did traffic share evolve? Aligned with that, we have from Alejandro Fuchs at Itaú. First question is for Luis. Same-store sales in Brazil. Could you provide some thoughts on the competitive environment today? And how have other markets in NOLA performed, especially against Mexico? So I think it's another same-store sales question related to that. And Jeronimo de Guzman from INCA Investments asks if we can comment on recent sales trends. Are you seeing a recovery so far in the fourth quarter? So maybe a little bit of the third quarter performance in terms of same-store sales with the 3 biggest markets and then a little bit of recent trends as well.

Luis Raganato

Chief Executive Officer

Perfect Dan. Bear with me. I'm going to start with Brazil because I already said a few things. As you -- even though we did see a challenging situation in the market because we know for a fact that the QSR market is down in visits, we managed to deliver positive comp sales. And even though there isn't a lot of room for higher pricing, we're working through a combination of pricing and mix to increase average check because we need to offset that volume decline that is related to the market, and we need to offset the pressure that we have in margins.

So the contribution to sales in the market came more from average check than volume. We are seeing that, that is improving in the beginning regarding traffic in the beginning of this quarter. And we are doing that because we're trying to reach a balance between sales growth and profitability. And to give you a little bit more color about what is happening in the different channels, the strongest channel was delivery in Brazil that kept on growing in sales, supported by positive guest traffic, from [indiscernible] remained roughly flat for us is very good because it is proof of how aspirational our brand and the on-premise experience continues to be important. And very relevant too, the dessert [indiscernible] channel are recovering as a result of better operational execution, right pricing and relevant innovation. For example, we have Hello Kitty under the Hello Kitty platform and licensing the Happy Meal. We did have some innovation with [indiscernible] and McFlurry. So in this channel, we still have room to grow and improve and the goal is to achieve pre-pandemic volumes. So regarding the [indiscernible] and Mexico, as I said, in Brazil, we think that we are in a position of strength and ready to capture any rebound in the economic activity. Regarding Mexico -- Mexico, the economy remains under pressure with high uncertainty levels, and this is driven by external and internal factors. Talking about external factors, we have the potential tariff policies that could be implemented or internally, there have been some conversations about proposed reforms. If any of this happens, we don't see that it's going to materially impact our business. But despite the uncertainty that I was talking about, the food service sector shows resilience. And from our business perspective, we were able to deliver 6.3% growth in comparable sales. This was driven by growth in guest traffic that we know that outperformed this sector.

Regarding the channels, the research centers were the main growth engine. All the other channels had a solid performance that is very good for us. And what is happening in Mexico and the improvement in performance that we're having is that besides the launches and the innovations, we are adding an operations improvement that has been going on for the last years. And everything has been working on under the umbrella of a brand campaign that is called Mexico Me encanta. All this is bringing a very strong improvement in brand attributes and market share gains. According to internal research, we know that the market share gap versus our main competitor is almost 3x more in comparable footprint, and we are consolidating our leadership position in the industry.

And now I will go to Argentina. Argentina was the main driver of the division results, the SLAD division results. The context remained during the third quarter challenging due to the macroeconomic instability. This instability had a negative impact on the levels of uncertainty and it had a negative impact on private consumption. What was notable in the quarter is that despite the ongoing [devaluation] that we had during the quarter, inflation remained stable at almost 2% per month. And this indicates that we do have limited pass-through to consumer prices. But despite of this, the good news is that our business remains solid and continue to show strong performance.

The local team has done a terrific job. They were able to capitalize on last year's investments to try to maintain themselves close to their customers. The market share gained, we were able to maintain the market share this year, but the market share that we gained last year also helped us drive strong results. We were able to maintain the gap of more than 3x the market share of our main competitor. And in Argentina, even though the market will remain disciplined on pricing, they will also be focused on capturing every opportunity to improve margins. And I think part of the question then was about the trends in this quarter, right?

Daniel Schleiniger

Vice President of Investor Relations

Yes. And actually, I'll add one more because Thiago's second question is associated with that as well. So what are your general expectations for the fourth quarter performance in Brazil? And what gives you confidence what are your expectations for fourth quarter? And what gives you confidence in sequentially better trends? So...

Mariano Tannenbaum*Chief Financial Officer*

All right. First, we're going to be finishing this year even though we've had a challenging macroeconomic and social situation across the region in a position of strength, shielding and protecting our leadership position with excellent brand scores. And as you know, going into this fourth quarter, historically, the second half of the fourth quarter is the strongest part of the year. We are excited about the marketing plans that we have for the remaining weeks. We think that these actions will help us push for a solid end of the year. The whole team is working on that, specifically in Brazil, sales performance stabilized between the second and the third quarter, and we believe we can improve on those results in the fourth quarter.

In NOLAD, NOLAD continues to see a challenging environment. We were seeing this in several markets like, for example, in Panama, Panama faced a challenging comparison this year with strong sales growth during the first half of the year. What made more challenging was the social unrest in the country. We see that the situation is normalizing. But so far, we have not seen the rebound we expected for the QSR industry. Similar situation in Costa Rica that has also been dealing with a weaker consumer environment and reduced industry volumes. And what we see in NOLAD is that Mexico has been very resilient. It's going to have a good end of the year, and we believe we're taking the right steps in the rest of the markets to resume more normalized growth. And regarding SLAD, SLAD's results have been strong all year, and we believe it will end the year with another strong quarter. And I think with that, Dan, I covered everything.

Daniel Schleiniger*Vice President of Investor Relations*

I think you did ... As I said, it's a long set of questions here, maybe you want a glass of water, but there's one more for you before we shift back to Mariano. And this one is also from Thiago from Goldman Sachs, where he asks, how has McDonald's value gap evolved versus food away from home and versus other burger QSRs in Brazil? Where is it today? And where do you want it to be? And Jeronimo de Guzman from INCA Investments asked a similar question, how much pricing have you taken in Brazil as a result of input cost pressures? What's been the impact on traffic? And how are you thinking about pricing going forward to protect margins versus traffic? Again, I think this is the pricing question between the 2 of them.

Luis Raganato*Chief Executive Officer*

Okay. So I already talked about the main objective that we have in Brazil. Again, we're going to try to be close to our customers. We already launched a national, very convenient value platform called Economequi. In that context, we're going to shield our market share, but we aim to improve our margins. So in this context, we increased prices above inflation this year. We did it with the goal to mitigate the margin pressure that we had in Brazil. And having said that, we maintain promotions and affordable prices to try to remain affordable according to internal research in the brand attribute value for money, we have reached a record high this year.

And so far, we were able to maintain our market share, as I said, to maintain the gap versus our main competitor. And again, we believe that we are in a position of strength and ready to capture the rebound of the economy.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Luis. Back to you, Mariano. A question from Alejandro Fuchs at Itaú. Now with more cash flow generation expected and the flexibility of the new MFA in terms of CapEx, how do you feel about the possibility of buybacks as a priority for capital allocation?

Mariano Tannenbaum*Chief Financial Officer*

Okay. Thank you, Alejandro. Well, in 2025, our Board declared already a \$0.24 per share dividend, which was declared on March this year. And we have been paying dividends in the last few years. But having said that, the Board of Directors will always consider options such as buybacks based on what they believe is best for the company and its shareholders, considering our capital allocation priorities, available cash, of course, and expected cash generation. So this is on the table. And the Board will decide if this is the right path to go, given that we will have more cash generation for sure next year.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Mariano. Actually, I had another question from Jeronimo de Guzman from INCA, which I think Luis has already answered. Just regarding [indiscernible] can you comment on what's helping maintain strong comp sales in Mexico? On the flip side, what's driving lower sales trends in the other markets? I think Luis has already covered that. So I'm going to move now to [Bob Ford], who has sent us 4 questions. And back to you, Mariano. Bob's first question. Can you explain the source of the tax credit in Brazil and the rate at which you expect to monetize it over the next 5 years?

Mariano Tannenbaum*Chief Financial Officer*

Okay. Thank you very much for the question. Well, we cannot go into all the specifics, but the case is based on the treatment of [indiscernible] subsidies within the federal tax calculations. And as I already mentioned, in terms of monetizing it over the next 5 years, we don't know yet for sure, but our best estimate is that this credit will be evenly monetized in the next 5 years. That's the best we can -- our best estimation right now.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Mariano. The next one is a 2-parter, the first part will be for Luis, and then I'm going to come back to you, Mariano, on this one. Can you provide an update on your promotional strategy in Mexico, Luis, and then sources of margin pressure in NOLAD, given Mexico's strength, that I'll move over to you, Mariano.

Luis Raganato*Chief Executive Officer*

All right. Thank you, Bob. As I said, in general, but specifically in Mexico, we're going to be prudent about pricing. We want to be close to our customers, but take care of margins. So in Mexico, we have like 3 engines of traffic growth. The first one is desserts that we're taking care of with the right pricing and with the right operational execution. Then having innovations like, for example, Hello Kitty or the Grimace Shake, that -- I don't know if you know that, but it's a very historic and very famous McDonald's character. That launch surpassed our expectations in the market. So desserts is one of those engines. Then we do have the value platform. The value platform is divided into 2. We have one that begins pricing at MXN 99 and another one that is called [indiscernible]. That is being very effective and with good margins. And we're trying to take care of the promotional activities because at some point, we needed to be more prudent, taking into consideration margins.

And then another engine of traffic are the Happy Meal licenses. Like I said, August Hello Kitty was very important, and Tiny Tan in September. Those 2 months were the strongest for Mexico in the quarter. With that, Mariano, I pass it to you so you can talk about margins.

Mariano Tannenbaum*Chief Financial Officer*

Perfect. And the question is the sources of margin pressure in NOLAD. They were mainly in food and paper costs. So even though Mexico is growing well above inflation, in terms of food and paper, we have seen some pressures during this third quarter. And that also applies to other NOLAD markets. And also, there was a timing effect on G&A that we expect to normalize in the coming quarters.

Daniel Schleiniger

Vice President of Investor Relations

Great. Actually, sticking with you, Mariano, and your last third question is what is your outlook for key input costs in Brazil and other markets? And where do you see additional operating efficiencies? I think you've covered the input cost [piece] in Brazil. Maybe you want to touch a little bit on other markets and then talk about where we see some additional efficiencies.

Mariano Tannenbaum

Chief Financial Officer

Perfect. Yes. Well, I already mentioned, as you said, what's going on in Brazil. In other markets, what we are seeing is that we are very pleased with the efficiencies that we are observing in payroll in the 3 divisions, 60 bps. If you recall, last year, we saw important minimum salary increases in many of our markets, such as Panama, Puerto Rico, Costa Rica, Mexico, and some of SLAD countries. and payroll was a source of pressure during 2024.

What we are seeing in 2025 is that with the implementation of the scheduling system and the efficiencies that we implemented, we have seen a recovery and even a much better payroll than what we had last year. So we are very pleased with those results. Then, in occupancy and others, we have been seeing some improvements there, even though sales during this quarter in NOLAD and Brazil were growing below inflation. We have seen improvements in this line, related also to better deals negotiated with 3POs. So we are making deliveries also more efficiently. So we are seeing as sources of operational gains, the payroll line and the other [indiscernible] occupancy line as well.

And as I mentioned in a previous question, not from you, but from, I think, Jeronimo, what we are seeing in the fourth quarter is that the pressures that we have seen in gross margin, are mainly -- they are much less now than what we have seen in the last 12 months. So with a better outlook in gross margin, I think we will be able to leverage the gains, and margins will improve as long as sales continue to improve, as Luis also mentioned.

Daniel Schleiniger

Vice President of Investor Relations

Great. Thanks, Mariano. Final question from [Bob Ford] is, how do you expect the World Cup to impact traffic? And are there global McDonald's marketing campaigns and/or regional efforts that you can comment on? And I'll give that one to you, Luis.

Luis Raganato

Chief Executive Officer

All right. Thank you, Bob. What you can expect is a positive impact from the FIFA World Cup event. It's very popular and very important for the whole region from Mexico to Argentina, Brazil, and other geographies. So what you can expect is a positive impact in brand -- attributes like favorite brand and brand awareness, and you can expect a positive impact on traffic.

What happened and what is different today is that, comparing with the World Cup in 2022 is that, today, the delivery channel is a strength for us. So during the games, we're going to be able to be at home with our customers when they will be enjoying the games. And we're going to have, for sure, marketing campaigns throughout the whole period and more that, for sure, we're going to surprise you with, all right? That's all that I can tell you. But yes, the impact is going to be positive.

Daniel Schleiniger

Vice President of Investor Relations

Great. Thanks, Luis. And I think we have time for one more. This one is from [Yuron from Obam]. And he asks, at what point do you believe operating leverage after a long stretch of very strong top line will convincingly lead to a higher level of margins, especially taking into account further improvements in the digitalization and other efforts. And maybe you both want to take this, but I'll start with you, Mariano.

Mariano Tannenbaum

Chief Financial Officer

Perfect. Thanks, [indiscernible]. Well, our strategy has been to grow sales at or above inflation, and we have done this consistently, although in some quarters, like the third quarter of this year has been tough in Brazil and in NOLAD, given external factors as economic conditions and consumer situation, we think that by doing that, we will be able to leverage on all the operational efficiencies that we have been working on.

As for example, I just mentioned payroll and other occupancy expenses. So as we are seeing, for example, pressures in gross margin, we have been working a lot in the company in every single cost line to bring efficiencies to the business. We are doing that. And I think for 2026, we are pretty comfortable that this strategy will yield, at the end of the day, better margins, better cash flow, focusing also on efficiencies in our investments. The company will have an improved free cash flow. And with that, we will be able to return to shareholders and invest in the business for all the opportunities that we have.

Luis Raganato

Chief Executive Officer

Yes. And Mariano, if you let me add, when we talk about the digitalization, and that is part of your question. And we're talking about not only customer-facing, but also back office. We have just implemented, and we finished the implementation by the end of last year, a new scheduling system in the whole company that is bringing already efficiencies, and you can see that in our payroll line, that is helping us to mitigate, for example, the cost pressure that we have in food and paper.

And just to finish this part of the question and the Q&As, I want to just make sure that you understand that our focus, my focus, the team's focus is to try to deliver sustainable top-line growth and improved operational efficiency, to your point, because the main focus for the whole team is to drive profitability. We're working on the returns on investments, working in every line of the P&L, because the main goal is to generate free cash flow to create shareholder value. So with that, Dan, I pass to you.

Daniel Schleiniger*Vice President of Investor Relations*

Thanks, Luis. And that actually was the last question that we have here in the queue. So that brings us to the end of the Q&A session. Thank you once again for your interest in Arcos and for joining today's webcast. We look forward to speaking with you again in the middle of March on our fourth quarter 2025 earnings webcast. Until then, stay safe, and have a great holiday season, everyone.

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