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Arcos Dorados Holdings Inc. (ARCO) Q3 2026 Earnings Call Transcript

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Q3: 2026-11-12 Earnings Summary

Insights

EPS of $0.15 misses by $0.02 | Revenue of $1.33B (11.33% Y/Y) beats by $1.40M

Arcos Dorados Holdings Inc. (ARCO) Q3 2026 Earnings Call November 12, 2026 10:00 AM EST

Company Participants

Daniel Schleiniger - Vice President of Investor Relations
Luis Raganato - Chief Executive Officer
Mariano Tannenbaum - Chief Financial Officer

Presentation

Daniel Schleiniger
Vice President of Investor Relations

Good morning, and thank you for joining Arcos Dorados' Third Quarter 2026 Earnings Webcast. With us today are Luis Raganato, our Chief Executive 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 that is also available in the Investors section of our website, ir.arcosdorados.com. To better follow the presentation, please note that you can set your view to full screen on the webcast platform. [Operator Instructions]

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 be found in today's earnings press release and conference call presentation as well as the unaudited financial statements filed today with the SEC on Form 6-K.

Following our customary format, today, Luis will present the highlights of the third quarter's consolidated results. Then he will review the main marketing and digital activities during the quarter as well as divisional revenue performance.

Mariano will take you through consolidated and divisional profitability in addition to our main leverage metrics, restaurant growth and capital expenditures. Luis will then provide some final thoughts before opening the call for questions.

Luis, over to you.

Luis Raganato
Chief Executive Officer

Thank you, Dan, and good morning, everyone. A few weeks ago, we held our 2026 Investor Day. During the presentation, we talked about the key success of the last several years, demonstrating how we strengthened the brand, captured significant market share, delivered strong revenue growth and more than doubled U.S. dollar EBITDA from 2019 to 2025.

In other words, today, we are operating at a very high level in the region's QSR industry. We then took you through some of the initiatives we're working on for tomorrow and the key drivers we expect to sustain long-term growth.

Marketing and digital, leveraging our strengths and connecting with guests when and where they want. Innovation and technology, providing new ways to drive results and unlocking efficiencies across the business, development and supply chain, achieving higher returns on investment and building resilience into the operation.

Our long-term growth objectives are ambitious, mid- to high single-digit annual total revenue growth, high single to low double-digit annual adjusted EBITDA growth, 550 to 600 restaurant openings from 2027 to 2030, and $1.3 billion to $1.5 billion in total capital expenditures from 2027 to 2030.

We believe these objectives demonstrate the confidence we have in the business model and in the initiatives we are pursuing to capture this potential. Importantly, meeting these objectives implies additional free cash flow generation. So today, I want to provide you with a clear view of our capital allocation framework.

First, capital expenditures. We have a significant growth opportunity in a highly underpenetrated region. Importantly, we updated our development model to reduce the average investment per new restaurant without sacrificing sales and cash flow, which is already improving first year returns by 3 to 5 percentage points.

Together with ongoing investments in modernization and technology, we believe this makes disciplined, high expected return CapEx, the best way to generate long-term shareholder value.

Second, a healthy balance sheet. That is where we are today with net debt to adjusted EBITDA of just 1.3x and an investment-grade debt rating, which will help us support the business through all operating environments.

Third, dividends. We have a demonstrated history of paying a cash dividend whenever free cash flow generation allows and/or financial leverage remains at healthy levels. In every year since 2022, we paid an equal or larger dividend versus the prior year.

Fourth, share repurchases. Today, we are announcing that the Board of Directors has approved the second share repurchase program in the company's history. We believe our stock is undervalued at current levels. We are confident in our long-term plan and at current prices, we consider this to be an accretive investment opportunity.

With that, we have been authorized to repurchase and cancel up to $25 million of Class A Arcos Dorados stock in the open market over the next 6 months.

Let's turn to the results for the third quarter of 2026. Our third quarter results show that the business model continues to deliver in a demanding consumer environment. We grew the top line, protected underlying profitability, expanding our market share, and generated significantly more cash than a year ago. That combination is what allows us to keep funding growth and at the same time, return more capital to our shareholders.

Total revenue reached $1.3 billion, up more than 11% versus the prior year quarter in U.S. dollars in a period marked by generally challenging consumer dynamics. System-wide comparable sales grew 15.5%, driven by higher average check and positive guest traffic. New restaurants also contributed. We ended the quarter with more than 100 additional locations compared with a year ago.

Underlying adjusted EBITDA rose 9% in U.S. dollars versus the prior year quarter, excluding the net impact of the significant federal tax credit in Brazil last year. Market share and digital sales penetration remained strong in the period, while revenue growth was strongest in Brazil and SLAD.

Based on our research, the McDonald's brand continues to command the highest market share across Latin America's QSR industry, almost double the nearest competitor. Even with this significant advantage, we were still able to expand market share in the region over the first 9 months of 2026. Market share measured by guest traffic was solid in all main markets during the period.

Sales through digital channels grew by about 22% year-over-year and generated about 2/3 of total system-wide sales. This included very strong growth in NOLAD, where about half of system-wide sales are now generated through digital channels.

Identified sales reached a new high of 29% of total sales. Loyalty program membership grew by 60% versus the prior year with almost 38 million registered users. As shown at our Investor Day, this is the largest loyalty program in the region.

Mobile Order & Pay, Delivery and Loyalty sales all remain strong, supported by increasing guest adoption across markets. Marketing campaigns included the Best Burger launch in several SLAD markets. This initiative was geared towards improving taste and quality perceptions in our core beef menu items as it brings tangible improvements in the way they are prepared, delivering hotter, juicier and tastier hamburgers.

We maintained our value platform strategy across all key markets where consumers remain cautious with their spending. These platforms offer guests a meal at an attractive price point of less than $5 and a choice between chicken or beef menu items, giving the brand a stronger presence in both categories.

We also ran a campaign in the fish category with the reintroduction of the popular McFish sandwich in Brazil. From time to time, we make this guest favorite available for a limited time and this year was the best ever in terms of units sold.

We drove brand affinity by turning the trend among Gen Z consumers by executing a region-wide program with Demon Hunters. The program was built around the themed menu, which included iconic Chicken McNuggets with unique sauces plus a crafted beverage to deliver an exclusive experience to guests.

Finally, as the Formula 1 circuit comes to Latin America with races in Mexico and Brazil, we introduced a Formula One meal across the region. It includes a limited edition Quarter Pounder with Cheese sandwich together with a collectible Formula 1 car, a crafted beverage in collaboration with Red Bull Racing and a unique Formula 1 McFlurry in partnership with Nestle's KitKat.

In Mexico and Argentina, the program further leveraged sponsorships of popular local drivers, Checo Perez and Franco Colapinto, respectively. In Brazil, comparable sales grew 3.5% with positive momentum in guest traffic growth. Together with 70 more restaurants than a year ago and a stronger real, this drove U.S. dollar revenue growth of more than 15%.

NOLAD's comparable sales were about flat, an improvement versus the second quarter. Consumers in the division remain cautious, so we kept value platforms at the center of our marketing strategy.

Panama, Martinique and French Guiana delivered encouraging comparable sales growth and a stronger Mexican peso helped U.S. dollar revenue grow almost 8% in the quarter. And while Argentina and Venezuela continue to drive SLAD comparable sales growth, markets such as Colombia, Peru and Uruguay also had solid third quarter top line performance.

Mariano, over to you.

Mariano Tannenbaum
Chief Financial Officer

Thanks, Luis. Good morning, everyone. In our analysis today, we will make an adjustment to reported results to more accurately evaluate underlying EBITDA performance. The adjustment is the net federal tax credit we recognized in Brazil in the third quarter of last year, which added $85.6 million to that quarter's adjusted EBITDA. Including it will distort the year-over-year comparison. So when I refer to underlying growth or margins today, I am excluding that effect.

Adjusted EBITDA totaled $125.9 million with a 9.5% consolidated margins. Both food and paper and G&A supported consolidated margins in the period. Better pricing and product mix, together with proactive initiatives by the supply chain team, drove a 90 basis point improvement in food and paper as a percentage of revenues.

All 3 divisions contributed to the result, which was the third consecutive quarter of gross margin expansion. G&A rose well below blended inflation due to the restructuring we implemented starting at the end of last year. These positive margin impacts were offset by higher payroll and occupancy and other operating expenses as a percentage of total revenues.

All 3 divisions experienced modest labor cost pressures, especially SLAD, while both Brazil and NOLAD saw some fixed cost deleveraging versus the prior year. Brazil's adjusted EBITDA grew by about 10% in U.S. dollars versus the prior year. Modest payroll cost pressure, together with some higher fixed costs, accounted for most of the margin pressure compared with last year.

Importantly, food and paper was lower as a percentage of revenue versus last year, which is a sign that we are building sales the right way. NOLAD's adjusted EBITDA grew nearly double digits with margin expansion of 20 basis points, demonstrating the effectiveness of our value platforms at protecting margins in a challenging consumer environment.

I am encouraged by the results of our efforts to rebalance volume and average check growth to rebuild NOLAD's margin over time.

In SLAD, improved food and paper performance was offset by payroll cost pressures, keeping the division's adjusted EBITDA margin about flat versus last year. As a result, adjusted EBITDA growth remained in line with revenue growth in U.S. dollars, up high single digits versus last year.

Turning to the bottom line. Net income attributable to Arcos Dorados was $31.2 million or $0.15 per share. Excluding last year's federal tax credit, net income grew almost 24% and net income margin expanded 20 basis points to 2.3%.

This growth came from our underlying operating performance and the lower income tax expense versus the prior year. As Luis explained, expanding our restaurant footprint while maintaining a modernized portfolio is a strategic decision we believe will generate long-term shareholder value.

Next, we must maintain a strong balance sheet to grow consistently over time while ensuring our ability to navigate the region's macroeconomic cycles. During the third quarter, we deployed more than $70 million in capital expenditures, bringing the total investment through the first 9 months of the year to $156 million. These investments included 35 restaurant openings in the quarter and 70 openings through the first 3 quarters of the year.

Returns on investment continued to improve and the remaining restaurants needed to meet this year's opening target have either already been opened or are currently under construction. We constantly seek to enhance our capital structure and debt profile.

As of the end of September, our net debt was about in line with the end of 2025, and the net leverage ratio ended the third quarter at a healthy 1.3x.

We continue to be encouraged by the trends we are seeing in adjusted free cash flow generation, which was more than $100 million higher in the last 12 months versus the prior comparable period. As I just showed you, our top 2 capital allocation priorities are in great shape. This is why we are able to reinforce our belief in providing shareholders with additional sources of return, such as our track record of increasing our dividend and today's announcement of a share repurchase program.

We follow a disciplined approach to capital allocation so that we can focus on what we do best, delivering great food and experiences to our guests. It is important to remember that the long-term ambition we shared at our Investor Day reflects an average growth trend over the long term and it's not specific guidance for any single year. It is also macro-neutral, meaning it does not assume any specific economic or political scenario.

We believe it is an ambitious, achievable level of growth based on our confidence in the business model's ability to deliver attractive returns and generate compelling shareholder value over time.

Let me close by highlighting the main points of the third quarter. Total revenue grew more than 11% in U.S. dollars with system-wide comparable sales up 15.5%. Underlying adjusted EBITDA grew 9% with food and paper improving for the third consecutive quarter.

Adjusted free cash flow for the last 12 months reached $156 million, about 3x the level of a year ago. And with a healthy balance sheet, we're adding a share repurchase program to our dividend track record to return more capital to our shareholders.

With that, I turn it back to Luis.

Luis Raganato
Chief Executive Officer

Thanks, Mariano. Let me share a few final thoughts before we take your questions. We had a solid third quarter with normalizing comparable sales trends in Brazil, which included some encouraging guest traffic trends as well. Importantly, underlying profitability in the quarter also performed well, rising high single digits versus last year.

The fourth quarter is off to a solid start. Comparable sales trends continued normalizing in October, and we have some attractive marketing campaigns designed to take full advantage of the upcoming holiday season.

We are finalizing our plan for next year, which includes more targeted marketing campaigns, strong partnerships throughout the year and exciting product launches designed to drive comparable sales growth.

Also, we believe there are margin opportunities through the implementation of the technologies and continued cost discipline that we talked about during our Investor Day. There is one word we want you to remember today, it is discipline, discipline in how we invest with a development model that is improving returns on new restaurants.

Discipline in how we manage costs, which continues to generate G&A leverage and has improved food and paper for 3 consecutive quarters; and discipline in how we allocate capital, which today allows us to announce a share repurchase program while we keep investing for growth.

Thank you for joining today's call. Dan, back to you to start the Q&A session.

Question-and-Answer Session

Daniel Schleiniger
Vice President of Investor Relations

Thanks, Luis. We'll now take your questions. [Operator Instructions] Let's get started with Eric Huang from Santander.

Eric sends us actually 4 questions, and so we'll just take them one at a time. The first one will be for you, Luis. We saw some sequential deceleration in Brazil's comp sales momentum. Could you elaborate a bit more on the trends throughout the quarter and perhaps how you're thinking about the sales trends as we head into 4Q '26 and 2027, especially given the more challenging consumer backdrop?

Luis Raganato
Chief Executive Officer

All right. Thank you very much, Eric, for the question. The second quarter had the boost of the World Cup actions. The good news is that during the third quarter, we kept on growing not only in volume, but in sales with still better margins. Your question has more inside of it, so it's more complex. So let me give you a little bit more detail about what happened during this third quarter.

First, let me talk to you about the sector. The sector showed an increased traffic in the foodservice and the QSR segment. And in this context, our team was able to sustain positive comp sales growth building on the momentum that we had generated in that second quarter.

At the same time, comparable [indiscernible] volume, that volume growth was the strongest of the last 8 quarters, and it's allowed us to support a healthier sales performance. These results were supported by the continued execution of the local strategy, a strategy that began last year, a strategy that was based on the launch during this quarter of the second phase of [Economequi]. Economequi, just as a reminder, is our always on affordability platform, reinforcing the commitment that we have to be the most accessible option in the market.

And we complemented this platform with initiatives that were built around the passion points of our guests, activities like Happy Meal campaigns that included Spider-Man and SpongeBob. And we also appeal to Gen Z guests with the K-Pop Demon Hunters partnership. This initiative was a [indiscernible], we call that when these actions covered sandwiches, desserts and beverages.

In beef, we also have news. We innovated with the launch of Brabo SmokeHouse in the premium category. And we also brought back the McFish sandwich that worked as a limited time offer and had the best campaign ever in terms of unit sales.

So we boosted our sales with the action -- with all the World Cup actions in the second quarter. Then with these actions, we are preparing the base with a healthy growth in sales for the fourth quarter.

So the result of this strategy is that we grew traffic share even in the context of growing QSR industry volumes. We were able to keep -- we keep competing on our very strong position with more than double the share of the nearest competitor.

I think it's worth highlighting how we grew because while the rest of the market relied more on aggressive promotional activity that we have and a heavy impact in gross margins, we took a more sustainable approach. We try to balance price and volume, and we saw that our growth was driven by guests that came back to our restaurants, while at the same time, we managed to expand gross margin like I told you. So this is showing the effectiveness of our value proposition.

So far in the fourth quarter, we are seeing that the evolution of volume and sales are in line with our expectations. We believe that consumers will remain cautious with tight household budgets, but we believe that the recovery in the industry traffic is an encouraging signal.

So we'll keep a disciplined approach with relevant brand experiences, competitive value, and great execution across all channels because our customers are omnichannel so that we can capture this demand profitably.

Dan, back to you.

Daniel Schleiniger
Vice President of Investor Relations

Thanks, Luis. Eric's two other questions related -- also related to -- the 2 other questions related to Brazil, and I'm going to read them together for you, Mariano. On the cost side, and there's a lot in here, so bear with me.

On the cost side, payroll was once again a headwind given that in Brazil, we should have the reduction in working hours. How should we think about this line, especially in 2027? And what are the main tools and initiatives that could offset such impacts?

And along the lines of reforms, this is labor reform, he also asked with the tax reform in Brazil, the VAC system introduction, what could be the main impacts in terms of profitability when we look at -- into 2027?

Mariano Tannenbaum
Chief Financial Officer

Perfect. Good morning, everybody, and thanks, Eric, for the question. I will start first discussing about payroll in general, and then I'll go to the specific of Brazil that you are asking.

In terms of payroll efficiency, it has steadily improved across our markets over the past several years. You remember before the pandemic, what our figures were and how they improved about 200 basis points in the last years. So -- and that's the evolution over the last years.

During this quarter, wage inflation run ahead of average check growth in all 3 divisions. We are seeing that performance in the 3 divisions. And as a result, payroll expenses slightly increased as a percentage of revenues if we compare to the prior year. But that said, we continue to mitigate part of this pressure through productivity initiatives, improved scheduling accuracy, and also using digital tools that enhance labor deployment across our restaurants.

So while payroll was a headwind during the quarter, we believe the underlying dynamics are improving, and that's worth mentioning. And we have already started to see encouraging trends and expect payroll performance to improve sequentially during the fourth quarter of 2026 as sales growth provides greater leverage on fixed costs, and all the productivity initiatives I mentioned continue to deliver results.

Taken together for 2026, these improving trends give us confidence that if you look at the full year, payroll costs as a percentage of revenues will remain broadly in line with 2025.

Now going to the specifics about labor reform in Brazil. Well, we are closely monitoring the change in legislation in Brazil. There were several changes in the last couple of months. And once the regulation is final, then we will be able to determine its operational and financial impacts.

We have experience managing evolving labor environments, including learnings from other markets. We operate in 20 different markets with 20 different labor regulations and laws. And -- where we already -- we operate in those markets with the type of schedule that Brazil is moving to, and we will implement those initiatives in -- when we manage the Brazilian market.

Our scheduling tools, productivity initiatives, operational flexibility, they will give us the levers to mitigate the potential pressures that while maintaining service quality and a good experience for our crews and guests at our restaurants.

The last question was related to the Brazilian tax reform. And in this case, the government is now adding regulations to the new tax reform laws. With that, I think it would be premature to quantify the scope and depth of the impact. Our understanding is that the restaurant sector will receive a lower VAT rate than was approved for the general legislation.

Additionally, this new VAT tax regime will apply to the entire economy, not just the QSR industry. And the tax reform will be implemented over a transition period, that's important to mention, during which the current tax laws are phased out and the new VAT regime is phased in over the course of several years.

Daniel Schleiniger
Vice President of Investor Relations

Thanks, Mariano. [Indiscernible] with Eric, but we'll move to NOLAD. Eric's last question is, similar to what he asked with sales trends in Brazil, if you could walk us through the main trends in NOLAD, especially with regard to Mexico, that would be helpful. So that one to you, Luis.

Luis Raganato
Chief Executive Officer

Thank you very much, Eric, again. Yes, let me start with NOLAD, then I go to the specifics in Mexico. In NOLAD, in general, we saw continued pressure on consumer spending. Traffic was slightly down in the sector, and we saw also a highly competitive environment. But despite that, and this happened across the markets, the division maintained a stable performance during the quarter.

The main focus was on the value strategy that together with the strength of our brand, and I would say, the effectiveness of our marketing initiatives, we were able to maintain our strong leadership position. The sales increase was driven more from volume than from average check. And regarding channels, the strongest ones were delivery and service centers.

In particular, in Mexico, we have seen a more challenging operating environment in this last quarter, especially in the retail sector, which has been impacted by continued pressure on consumer spending, and this was generated mainly on families' disposable income.

However, the food service sector showed resilience. We managed to outperform both the food service sector and the QSR segment, even with positive comparable value. So that's great news. And as a result of that, we were able to gain market share.

It was very important to maintain the focus on value and combined with the strength again of the McDonald's brand and relevant marketing initiatives because that is what helped us not only maintain the value share, but the visit share also. So those marketing initiatives were the K-Pop Demon Hunters menu, coupled with our value platform that in Mexico is called [Elige tu Fav], and the continued growth of our Loyalty program.

Digital sales are increasing in Mexico in a very healthy way also. And of course, all here to support top line growth and keep brand perception very strong. That is very important for us in the long term.

Sales mostly were driven by volume with a notable improvement in gross margin. So looking ahead, we remain confident in the fundamentals of our business and in the ability to capture demand supported by the solid marketing plan and strong operational execution.

Dan?

Daniel Schleiniger
Vice President of Investor Relations

Thanks, Luis. I'll stay with you, Luis. A question from Jonathan Schwartz from ION Group. And he asks, have you noticed any increase in traffic in Brazil since the ban of online betting in late September?

Luis Raganato
Chief Executive Officer

All right. Thank you, Jonathan, for the question. Now I would say that it's too early to say if the market or even the sector has had any impact. But we think that the banning was a provisional measure.

And looking to 2027, if this remains or becomes permanent, then we could see families resume a higher degree of spending on eating out and other forms of entertainment.

Daniel Schleiniger
Vice President of Investor Relations

Great. Thanks, Luis. We'll move now to Melissa Byun from Bank of America. She has a couple of questions that are very similar to questions from Alvaro Garcia at BTG Pactual. So I'll go through the questions first. And we'll start with you, Mariano.

Melissa says, hello, can you comment on the margin outlook in Brazil given higher food costs and beef in particular, and also the new labor schedule 5 [indiscernible] labor schedule. What opportunities do you have to mitigate the pressure?

Alvaro from BTG asked similar, can you give us more color on payroll and employee occupancy, other expenses in Brazil? So I think that's related to the margin question. And can you comment on different strategy you have to address the work week reduction in Brazil over the next few years? I think you've already addressed the work week piece, but maybe you want to give a little more color on the margin piece.

Mariano Tannenbaum
Chief Financial Officer

Perfect. Thanks, Melissa and Alvaro, for the questions. Yes, I will go first for a margin update and outlook in Brazil, then go specifically about beef costs. Update, Brazil this quarter, the adjusted EBITDA grew $6.2 million up to $68.1 million in this quarter.

This growth was supported by comp sales, new restaurant openings, better gross margin, leverage in G&A and the appreciation of the Brazilian real.

Excluding the net federal tax credit, adjusted EBITDA margin contracted in the quarter by 60 basis points, mostly because of the phasing of some operating expenses, mainly outside services and other restaurant costs that landed in this quarter and are not recurrent, together with slightly higher payroll costs as a percentage of revenue.

When we look Brazil, year-to-date, what we observed is that EBITDA margin remains 50 basis points above the prior year, of course, excluding the tax credit, and we are very pleased with the performance of Brazil.

Thinking -- well, in particular, I'm very pleased with the improvement we have seen in food and paper, driven by better pricing, our product mix together with supply chain initiatives. It's, I think, important to highlight that this marks our fourth consecutive quarter of year-over-year food and paper improvement in Brazil.

We also benefited from lower G&A following last year's restructuring that we talked about in previous quarters. And going to the outlook, as Luis mentioned, the fourth quarter is off to a solid start in terms of sales. We continue to see food and paper and G&A as supportive.

As I mentioned, as sales grow, we expect operating leverage to improve and some recurring -- some specific costs that we observed in the third quarter will not be there on the fourth quarter.

So we are slightly positive, cautiously optimistic in the outlook for Brazil's margin for the next quarter and the beginning of next year. Going specifically about beef costs, it's true that in Brazil, the beef costs increased above inflation during 2026.

However, as I just mentioned, the impact was offset by more favorable trends across other food inputs and disciplined revenue management. So that's how we obtain a better food and paper during the last fourth quarter than we had back in 2025.

Daniel Schleiniger
Vice President of Investor Relations

Great. Thanks, Mariano. Melissa has switched now from Brazil to Mexico. The first part, I think she's already -- we've already answered, I'll read it anyway. And the second part we'll come back to you, Mariano.

So the first part is, can you provide some additional color on sales in Mexico through the third and fourth quarters to date? I think Luis has addressed that. And then she asked about potential offsets to the minimum wage hike and shorter work week next year in Mexico. What impacts do you anticipate from the tax reform in Mexico? So we'll stick with you, Mariano.

Mariano Tannenbaum
Chief Financial Officer

Perfect. In terms of the minimum wage hike in Mexico, we have seen these type of increases in the last 4 to 5 years. And if you see the performance that we had in Mexico over those years was really encouraging in terms of EBITDA growth, in terms of sales growth. So in this respect, I don't think that we don't expect any material changes in our performance in Mexico given the hike in minimum wage.

We think that this is a virtuous cycle where we see more disposable income. We see that sales at our stores increase and that we are able to mitigate the impact of the payroll cost line by increasing sales and other efficiencies that we are gaining in that market. We are very pleased with the performance in Mexico with this in the last years, and we don't expect any changes given the impact on minimum wage.

In terms of the tax reform in Mexico, we are also not seeing any material impact on a consolidated level at the income tax line in Arcos Dorados.

Daniel Schleiniger
Vice President of Investor Relations

Okay. Thanks, Mariano. Going to move now to Thiago Bortoluci from Goldman Sachs. Thiago has a couple of questions. To what would you attribute your recent relative growth performance versus the #2 operator in Brazil? That one is for you, Luis.

Luis Raganato
Chief Executive Officer

All right. Thank you, Thiago, for the question. I hope you're doing well. Okay. First, I can't speak about the specific competitor's performance, especially since we don't know how they calculate comparable sales. And we don't also -- we don't know how detailed -- we don't have the detailed financials to analyze.

What I can tell you is that we believe we're building sales in a sustainable way. In the third quarter, we generated the best case volume growth of the last 8 quarters, while also expanding our gross margin.

Evidence of this is that we have 2:1 market share advantage. And even so, we managed to grow this market share even more. So what we observed was that most of our competitors are using aggressive promotional activity that is usually bad for margins and sustainable over time. And this is why we seek to balance price, volume, and channel growth thinking about the long term.

Dan?

Daniel Schleiniger
Vice President of Investor Relations

Thanks, Luis. And Thiago's second question for you, Mariano. Could you please comment directionally on how gross margin and SG&A evolved per business unit?

Mariano Tannenbaum
Chief Financial Officer

Perfect. Thiago, we have seen improvements in food and paper in the 3 divisions. Brazil was the main contributor with food and paper costs showing a meaningful reduction compared to last year. In this case, the division benefited from lower chicken, potato, and ice cream costs, and the currency appreciation supporting gross margin recovery.

In the case of SLAD also experienced a relevant decrease in food and paper costs, mainly because input cost inflation in Argentina and Chile remained below general inflation. And we also had a more profitable product mix in this case.

And finally, NOLAD delivered further gains supported by lower costs, favorable product mix, and a more benign currency environment in Mexico, Costa Rica and Panama.

Our pricing strategy is worth mentioning remains disciplined and closely aligned with inflation. So with a pricing strategy aligned with inflation, we are seeing reduction in cost inputs, and we are very pleased with the results we have seen during this quarter.

In terms of G&A, we are also seeing improvements in G&A in the 3 divisions. The 3 divisions after the restructuring process have a leaner and more agile cost structure and is better aligned with our strategic priorities and growth agenda.

In this case, SG&A could be affected by appreciation of local currencies, but in constant currency and in real terms, we are seeing improvements in the 3 divisions.

Daniel Schleiniger
Vice President of Investor Relations

Okay. Thanks, Mariano. We have another question, and this one, I'm going to start again with you. And this is from Jorge Puszkar from JPMorgan. How does the election in Brazil change the expectations for system-wide sales in Brazil for the next 2 years? And maybe we can expand on how it impacts the business sort of overall.

Luis Raganato
Chief Executive Officer

Let me take the question because it's about sales and the business. Thank you for the question, Jorge. And we've been in Latin America for more than 40 years, almost 50 years in Brazil. And for us, we concentrate in the things that we can control.

And we are very focused on our business. The political, economic and social environment is part of the environment that we have to manage. And so far, we don't see anything that could affect us in the near future. So we are very confident in our business model, and we'll keep our ambitions.

Daniel Schleiniger
Vice President of Investor Relations

Thanks, Luis. That was the last question in the queue. So we've reached the end of the Q&A session. Thanks again for your interest in Arcos Dorados and for joining today's webcast.

Our next earnings call will be in the middle of March 2027, when we're going to report the results for the fourth quarter of 2026. Until then, we wish you all a very happy holiday season and start of the new year. Have a great day.

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