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Arcos Dorados Holdings Inc. (ARCO) Q4 2024 Earnings Call Transcript

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Play Call



EPS of \$0.28 **beats by \$0.07** | Revenue of \$1.14B (-2.66% Y/Y) **misses by \$7.98M**

Arcos Dorados Holdings Inc. (NYSE:[ARCO](#)) Q4 2024 Earnings Conference Call March 12, 2025 10:00 AM ET

Company Participants

Dan Schleiniger - Vice President of Investor Relations

Marcelo Rabach - Chief Executive Officer

Luis Raganato - Chief Operating Officer

Mariano Tannenbaum - Chief Financial Officer

Conference Call Participants

Dan Schleiniger

Good morning, everyone, and thank you for joining our Fourth Quarter and Full-Year 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, ir.arcosdorados.com.

To better follow the presentation, please note that you can set your view to full screen on the webcast platform. 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 be found in today's earnings press release and conference call presentation as well as the audited financial statements filed today with the SEC on Form 6-K.

I'll now turn the call over to our CEO, Marcelo Rabach.

Marcelo Rabach

Thank you, Dan. Good morning, everyone, and thank you for joining us. We have talked a lot about the resilience of the Arcos Dorados' business model over the last couple of years. In my opinion, 2024 is the best example of how the company's geographic, economic and operating diversity allow us to outperform in just about any environment.

Last years sales were strong and profitability has never been higher despite a more discerning consumer and challenging macroeconomic conditions in many of our largest markets.

The Four D's Strategy of Digital, Delivery, Drive-thru and Development leveraged our structural competitive advantages, and each pillar of the strategy still has a lot of potential to drive sales and operating efficiencies into the future. All of this is supported by a strong and stable balance sheet, with a healthy leverage ratio and no significant debt maturities in the next four years.

Let's get into the details of our results. I will focus my comments on the full-year while Luis and Mariano will take you through performance in the fourth quarter. Full-year systemwide comparable sales grew 1.7x blended inflation last year, excluding Argentina. Higher comp sales were supported by growth in both, average check and guest volumes in all three divisions.

Average check benefited from improved product mix and increasing the number of items per order and pricing. As of the end of 2024, comp guest counts had risen for the fourth consecutive year, boosting market share and providing future strategic flexibility as we head into 2025.

Adjusted EBITDA for the full-year reached \$500 million for the first time in Arcos Dorados history. This is a notable achievement given the challenging macroeconomic environment, especially in the second half of the year, when two of the most important currencies in our footprint, the Brazilian real and Mexican peso, depreciated strongly. Not to mention the material reduction in U.S. dollar EBITDA generated in Argentina due to that country's significant economic correction. We are very proud to have reached these important milestones.

Full-year EBITDA margin also reached an all-time high for Arcos Dorados in 2024. Food and paper costs were flat or lower as a percentage of sales in all three divisions. Additionally, we generated operating efficiencies and recovered some expenses in Brazil, mostly related to payroll contributions. Total G&A, including corporate expenses were also lower compared with 2023, benefiting from the natural hedge created by keeping most of our corporate finance and digital factory teams based in Argentina.

All these factors more than offset tighter margins in NOLAD and SLAD were macroeconomic conditions were more challenging. The Digital, Delivery and Drive-thru platforms built on the success of the last several years with even stronger results in 2024. Full-year digital sales grew 18% in U.S. dollars versus 2023 made up of Mobile App, Delivery and Self-Order Kiosk sales.

Notably, Mobile App sales were up 25%, including a growing contribution from the loyalty program. Delivery sales continued to surpass expectations, rising 17% in U.S. dollars last year. And off-premise sales through delivery and drive-thru contributed about 44% of total sales last year, demonstrating how the industry has permanently changed since 2020.

The 85 Experience of the Future or EOTF restaurant openings were within the guidance range for 2024. This included 79 new free-standing locations that together with more than 150 modernizations brought EOTF restaurant penetration to 67% of the total footprint. We are working to reach at least 90% EOTF penetration by year-end 2027.

I will now turn it over to Luis for a look at fourth quarter's sales performance in each division.

Luis Raganato

Thanks, Marcelo, and good morning, everyone. Brazil's total revenue in constant currency grew 9.2% in the fourth quarter, benefiting from a consistent restaurant unit growth and 5.5% higher comp sales. This included solid sales performance in October and November with a record setting Méqui Friday campaign. In December, consumption slowed across Brazil's retail segment due to concerns over the weakening currency and higher than expected inflation leading to softer sales growth in the month. U.S. dollar revenue declined in the quarter due to the depreciation of the Brazilian real.

Digital channels generated nearly 70% of sales in Brazil boosted by the growth in the loyalty program. The Brazil division operates the country's largest free-standing restaurant portfolio by a factor of two, nearly all of which have been modernized to the EOTF format. Brazil's marketing initiatives included the November Méqui Friday campaign that used mobile app promotions to drive digital and identified sales while capturing new users and new loyalty program members.

We also partnered with local celebrities who sang the famous Big Mac jingle to show how icons are recognizable even when we don't see them. We brought back Favorite in the burger category with a relaunch of the Tasty Turbo platform and in the dessert category in collaboration with KitKat. Finally, the Happy Meal offered attractive properties such as Sonic and Wiltopia to support the family business.

NOLAD's total revenue in constant currency rose 5.5% driven by 4.1% higher comp sales in the quarter. The division's comp sales growth was generated mainly through higher guest counts. U.S. dollar revenue growth was negatively impacted by the depreciation of the Mexican peso in the quarter. Digital channels accounted for about 40% of sales in the fourth quarter and full-year 2024.

NOLAD currently has the lowest EOTF penetration of the three divisions. As of the end of the year, EOTF restaurants accounted for 40% of the footprint in Mexico and just under 50% in Costa Rica and Panama. This year, we will continue rolling out the loyalty program to these markets. And over the next three years, the pace of modernization will also pick up across the division. This should boost digital sales penetration in the coming years, helping to drive engagement, frequency and average check with guests in these markets.

NOLAD's marketing included the launch of the Cheddar Jalapeño campaign in Mexico, offering a bowl of melted cheddar cheese with jalapeño together with many favorites in the burger and chicken categories. Panama also innovated in the chicken and burger categories with the McCrispy Legend and Cheddar McMelt to help drive strong traffic and sales growth. In Puerto Rico, we focused on brand strength with the introduction of the Quarter Pounder Western barbecue and value with a new chicken sandwich on the My Combo platform as well as a new burrito for the breakfast value platform.

SLAD's comp sales rose 5.1% in the fourth quarter and 9.8% for the year, excluding Argentina. The full-year benefited from balanced average check and guest volume growth. Digital channel contribution to total sales improved from 51% at the end of 2023 to 57% at the end of 2024. EOTF penetration in the division stood at 55% at year-end with the most modernized markets being Argentina, Chile, Ecuador and Uruguay.

Argentina's performance improved sequentially throughout 2024 with the most pronounced improvement taking place over the course of the fourth quarter. In fact, Argentina's U.S. dollar revenue was flat against the prior year period with volumes down only mid-single digits in December. Mariano will give you the good news on what this meant for profitability.

Marketing initiatives focused on promotions and limited time offers to strengthen the uniqueness of the brand as well as attributes such as quality and taste perception. This included the launch of the McCrispy Chicken Legend sandwich in Chile, a Big Mac platform extension in Colombia, and the introduction of new cone or McFlurry flavors in Argentina, Chile, Colombia, Peru and Venezuela. We also paired special editions of the Quarter Pounder with the regional sponsorship of Formula One to strengthen the core menu. Finally, Argentina and Colombia introduced a new affordability platform reinforcing the value for money perception.

Based on internal research, for the full-year 2024, we added the most market share of the top three QSR operators on average across the region. According to third-party research, this trend also held in Brazil where we added more share than the main competitor while the second largest competitor saw a decline in share. A focus on providing the most consistent guest experience and the best value proposition in the QSR industry supported the share leadership, which was 1.8x the share of the nearest competitor on average in the region and 2.2x our nearest competitor in Brazil.

Mariano, over to you.

Mariano Tannenbaum

Thanks, Luis, and good morning, everyone. Marcelo already told you that full-year EBITDA reached \$500 million for the first time ever and the 11.2% full-year EBITDA margin was also the highest in our history. I think it is worth reinforcing the significance of this result.

We knew it was going to be challenging to deliver U.S. dollar growth this year due to the deep economic adjustment in Argentina, Arcos Dorados' second largest EBITDA market. Fortunately, we realized expense recoveries in Brazil that offset the decline of Argentina's U.S. dollar EBITDA this year. In other words, the growth in this year's U.S. dollar EBITDA came primarily from underlying growth in the rest of the business, which more than offset the significant depreciations of the Brazilian real, Mexican peso and Chilean peso to name a few.

In the fourth quarter, EBITDA grew more than 35% in local currency. But this was lower in U.S. dollars due to the currency depreciations I just mentioned. The quarter's result included \$13.6 million in credits for payroll tax contributions in Brazil. U.S. dollar EBITDA was the highest ever for a fourth quarter and the margin was up 40 basis points versus the prior year, even excluding these credits.

Importantly, net income was also up in the quarter with a 40 basis point margin improvement, delivering \$0.28 per share. Food and paper improved modestly and payroll expenses were better with the payroll tax credits in Brazil or nearly flat without them. Occupancy and other operating expenses were higher mainly in SLAD. Finally, G&A improved as a percentage of sales due partly to the natural hedge from Argentina and lower long-term compensation expenses versus the prior year period.

All year, we focused on the factors we control and leaned into the strength of the Arcos Dorados business model. With the benefit of a diverse operating footprint, we were able to generate solid EBITDA growth in U.S. dollars, overcoming more significant external pressures than we expected when the year began.

Brazil's margin expanded by 290 basis points, helped by the payroll tax credits. Excluding these credits, Brazil's margin was close to flat with higher food and paper costs offset by operating leverage in all other expense line items. NOLAD's margin contracted 20 basis points with lower food and paper and G&A as well as flat payroll expenses. These were offset primarily by lower other operating income, which included income from the formation of a joint venture in Mexico in the fourth quarter of 2023.

SLAD's EBITDA margin expanded by 30 basis points with lower food and paper costs and payroll expenses, partially offset by higher other operating expenses as a percentage of revenue. More importantly, SLAD generated U.S. dollar EBITDA growth after three consecutive quarters of contractions versus the prior year. This included growth in U.S. dollar EBITDA in Argentina for the first time this year.

We run a complex business across the vast geography, and we are currently going through a relatively volatile period in the region's economic and geopolitical environments. However, we believe we are operating from a position of strength like no other QSR operator in Latin America and the Caribbean.

Back to you, Luis.

Luis Raganato

Let's look at how Digital, Delivery and Drive-thru performed in 2024. Digital sales were up 18% in U.S. dollars last year. The percentage of sales from digital channels increased throughout the year, reaching 58% in the fourth quarter, including 25% identified sales. The McDonald's app has been downloaded 147 million times since it was launched in the region with 99 million unique registered users in the customer database. The beauty of digital is that it permeates the entire business, contributing to sales growth in all sales channels.

Delivery is, by definition, a digital sales channel, and its contribution to sales has been relatively stable all year. The same can be said for the contribution from sales in Drive-thru, the other off-premise channels which remains popular among guests. Sales grew 42% in these channels combined since 2021. And together, they account for almost 45% of systemwide sales. No other restaurant operator in our region has the footprint to balance on-premise with off-premise channels and street facing with mall-based restaurants. We view this as a structural competitive advantage that will last for the foreseeable future.

The loyalty program added 12.6 million new members last year, ending the year with 15.8 million registered members, consistently driving higher guest frequency and average check growth among members. Available in Brazil, Costa Rica and Uruguay at the end of 2024, the program accounted for 18% of fourth quarter sales in those three countries. So far this year, we launched a program in Argentina and Colombia with a strong guest response and we will be rolling out loyalty all Arcos Dorados markets by the end of this year or beginning of next year.

The most important metric to monitor in these early days of the program are the 90-day active users and redemption rates among members. Both remain very healthy across all markets currently running loyalty. Additionally, the level of identified sales has increased steadily and we expect to continue making progress as the program reaches new markets this year.

Mariano Tannenbaum

Let's take a look at how we ended 2024 in terms of our balance sheet and capital investments. Total debt ended 2024 lower, but net debt rose as we invested excess cash to support capital expenditures last year. The capital expenditures of the last several years are delivering solid returns, helping to generate U.S. dollar EBITDA growth.

This kept the net debt-to-adjusted EBITDA ratio of 1.1x nearly unchanged compared with the prior year end. In October 2024, Moody's upgraded Arcos debt rating to Ba1 with a stable outlook, and in January 2025, our debt rating to BBB- with a stable outlook. This return to investment grade from Fitch combined with the one notch below investment grade rating from Moody's is the highest combined rating in our history.

In January 2025, we initiated a liability management transaction with the issuance of \$600 million in new debt due in 2032 with a coupon of [6.38]. Proceeds from this investment grade bond were used to fund the tender offer for our outstanding 2027 notes. Next month, we will also use the proceeds to fund the redemption of the untendered portion of these notes.

In other words, once the exercise is completed, we will have two notes outstanding with about \$335 million due in 2029 and \$600 million due in 2032. We expect the net debt-to-EBITDA ratio to end up at about 1.4x after this transaction is completed, which we consider to be a very healthy level of financial leverage and the company's average debt maturity will increase from 2.9 to 5.9 years with this new debt issuance.

We also generated new money with this transaction that will be used mainly to support growth and modernizations over the next 18 to 24 months while our cash flow generation catches up to our long-term growth plans. As you already heard, we met our restaurant opening and capital expenditure guidance for 2024 with 85 openings and almost \$328 million invested respectively. This raised the penetration of EOTF restaurants to 67% of the total footprint, making it the most modernized restaurant portfolio in Latin America and the Caribbean.

Although it has already been communicated, it is worth reiterating guidance for 2025. We expect to open between 90 and 100 EOTF restaurants this year. Total capital expenditures for openings, modernizations, maintenance and other purposes is expected to be between \$300 million and \$350 million in 2025.

We have a clear path forward and will remain focused on the factors we can control to drive consistent sales growth, additional operating efficiencies and strong returns on investment to generate shareholder value over the next several years.

Marcelo, back to you.

Marcelo Rabach

Thanks, Mariano. I will wrap up the presentation with some final thoughts before opening the call for Q&A. We are operating from a position of strength in Latin America. We built significant market share leadership across the region. We developed an industry benchmark digital platform that has just begun to scratch the surface in its ability to drive guest frequency and lifetime value. And we operate the most modernized restaurant portfolio in the region's QSR industry.

This gives us the strategic flexibility to adapt to all kinds of operating conditions and changing consumer preferences. McDonald's in Latin America and the Caribbean offers an unmatched array of restaurant formats, sales channels, menu options and service models, all of which can be managed and adjusted to optimize sales growth and profitability consistently over time.

Our long-term supportive partnership with McDonald's is an important competitive strength. We share a vision for the future of the brand in Latin America and the Caribbean, and we are aligned strategically in terms of how to best realize that vision for at least the next couple of decades.

I will conclude my comments the same way I opened today's call by emphasizing the resilience of the Arcos Dorados business model. The combination of a diversified operating footprint, the company's overall financial strength and our experienced management team is demonstrating now more than ever that we are in a position to succeed in any environment.

Thank you for joining today's call. Dan, back to you.

Question-and-Answer Session

Q -

A - Dan Schleiniger

Thanks, Marcelo. We will now begin the Q&A session. 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.

Okay. So our first question from one of our investors, [Max Joseph], asks if we can provide an update generally on the ROI on new free-standing stores built over the last few years. And we'll start with you, Mariano, on that one.

Mariano Tannenbaum

Thank you, and good morning, everybody. Thank you, Max, for the question. In general, we target 20% on first year return on investments for the openings. And in recent years, we remain at or above this historical average on openings. And we will maintain a disciplined opening process to keep these strong returns.

Dan Schleiniger

Great. Thanks, Mariano. The next few questions actually came in from Melissa Bui from Bank of America. Good morning, Melissa, and thank you. So it's a three or four parter. We'll start with Marcelo. And Melissa's first question, Marcelo, for you is, how are sales trending so far in the first quarter across markets?

Marcelo Rabach

Okay. Thank you. Good morning, Melissa, and thanks for the questions. We believe Arcos is positioned better than any other QSR operator in our region. We expect comparable sales growth to be at or above inflation for the full-year 2025 in most of our markets. Having said that and in line with what you have heard from other consumer companies in Latin America, it is reasonable to think that the first quarter of this year will be a low point for the year for some obvious reasons that all companies are dealing with.

First, we are lapping with a leap year, which generates obviously a tougher comparable sales scenario for this first quarter. Second, in most of our main markets, this first quarter 2025 is expected to have the weakest currency levels versus the prior year period. Third, there is some uncertainty among consumers in some of our main markets due to ongoing geopolitical events, particularly Mexico, I would say.

And we will compare with Holy Week, which was in the first quarter last year, but will be in the second quarter in 2025. And specifically in the case of QSR operators in Mexico, this will have a negative impact in the first quarter and a positive impact in the second quarter in terms of comparable sales. We expect operating conditions to gradually progressively improve as the year goes on. And we firmly believe that we have the right marketing and other investment plans in order to drive growth for the whole year.

Dan Schleiniger

Great. So the second part or follow-up to that question, Marcelo is, are you seeing any impact from anti-U.S. sentiment, particularly in Mexico?

Marcelo Rabach

Not really, not really. I think that we have the advantage that McDonald's is the most loved QSR brand in Latin America. We have worked hard to connect with local consumers with our localized market in our many offerings. And we have been impacting positively the communities where we operate through our ESG platform Recipe for the Future in other region, particularly Mexico. In fact, if you take a look in the case of Mexico, we have currently the highest ever brand reputation scores for the McDonald's brand in Mexico. So we are in a very good position to deal with any volatile scenario like the one you are mentioning.

Dan Schleiniger

Great. Thanks. The second question from Melissa, which I'll give to you, Mariano. What are your expectations for food and paper costs this year? And where do you see potential offsets?

Mariano Tannenbaum

Okay. Thank you, Melissa, for the question. In terms of food and paper costs and pressures, what we are seeing is that it's coming mainly from Brazil in terms of beef costs. This is something that we have mentioned during past calls. And there is where we see the main source of pressure. And we are working to mitigate this pressure by managing menu pricing, product mix, supplier pricing and other efficiencies.

One of the things that we mentioned and that we think is going to offset this is that we are not seeing the same pressures in the other two divisions. We're not seeing the same pressures in NOLAD or SLAD. And in fact, in the fourth quarter, we have seen improvements in food and paper costs in both divisions. This is one of the merits of diversification in Arcos Dorados where some pressures that we have in one division is offset by others.

In addition to that, we think that these pressures are coming to the whole industry and there is another point of strength for Arcos where we can benefit from our scale and the negotiation power we have with suppliers. So in terms of food and paper, we are seeing that pressure and what I just mentioned as potential offsets. In general, we believe that we can keep the full-year margin that we saw in 2024 adjusted for the payroll tax credits, and that's what we are seeing for 2025.

Dan Schleiniger

Thanks, Mariano. And the next one is for you, Luis. Excuse me, this one actually is for Marcelo. How is traffic in Argentina evolving? And is there a lower base tax factor – is the lower base tax a factor in Argentina?

Marcelo Rabach

Okay. Look, consumption in Argentina was down for most of 2024 with a strong recovery at the end of the year. So the momentum with which we entered this year was a very good one. Arcos Dorados volumes were resilient all year during 2024, down about half the country's consumption decline. I think that our local team did an excellent job remaining close to consumers by offering the best value proposition in the country's QSR industry. As a result, we gained market share during last year and we further strengthened our brand attributes, which have positioned us very well for the beginning of this year.

Notably, as Mariano mentioned during the opening remarks, we were able to generate U.S. dollar EBITDA growth in Argentina in the last quarter of 2024 compared with the fourth quarter of 2023. And unfortunately, inflation continues to decline. So we are cautiously optimistic that Argentina's economic stabilization will continue this year, supporting continued improvements in operating conditions as the year progresses. And we are very, very well positioned to capture this revamp, this recovery of the Argentinian economy in order to grow our business in this very important market for us.

In terms of the base tax, remember that we import very few things. I would say the only important thing that we import to Argentina are Happy Meal toys. So the impact of the reduction in the base tax is not that relevant in terms of the improvements in margins in Argentina. The main reason why Argentina is improving its margins are helping the SLAD division to improve its margins is the recovery in sales and the excellent work done by the local team in order to look for efficiencies and opportunities in efficiencies in all the P&L and G&A lands.

Dan Schleiniger

Thanks, Marcelo. And the last piece of Melissa's question, I'll turn it back to you. She's asking what is driving SLAD market expansion?

Marcelo Rabach

Okay. Argentina is part of the explanation, as I mentioned before. But on top of that, we have other important markets that are doing extremely well. I would mention Chile as one of the main ones. But on top of that, Colombia and Uruguay had very strong results in the fourth quarter 2024, and we expect very strong results coming from those markets this year as well.

Dan Schleiniger

Perfect. Thank you. The next question comes from Eduardo Sucarrats at Itau BBA. Hi, everyone. Congrats on the results. Just a quick question from our side. We want to better understand the 4.1% same-store sales from NOLAD. And we'll start with you, Luis.

Luis Raganato

All right. Thank you, Eduardo, for the question. Hello. In Panama, we had a great 2024 with a very strong affordability platform that helped us keep on gaining market share. The brand is stronger than ever and our expectations are positive for the months to come. In the case of Mexico, we are very pleased with the country's performance. Mexico sales have been the fastest growing in Arcos Dorados for the last few years running. This year in particular as Marcelo mentioned, in the first quarter we'll see a direct calendar effect because as you know last year was a leap year and also during the first quarter of 2024, we had Holy Week, which is very important for Mexico. But even though we are seeing a more discerning consumer, we are convinced that we are in a solid position because the McDonald's brand is very strong in the country. Our market share continues to grow.

And we had a solid marketing plan that is based on our – for these are Delivery, Drive-thru, Digital and Development. And this is allowing us to leverage on our restaurant portfolio, which is becoming more digitalized every day. Today, we have 40% of our stores in Mexico are modernized. So we're going to see a positive impact in the coming years over that too. And that leaves us in a real position of strength to face any situation that may arise in the country. Dan?

Dan Schleiniger

Great. Thanks, Luis. And I'll stay with you for Eduardo. His follow-up question is how are you seeing consumption trends particularly in Mexico and in Panama?

Luis Raganato

The consumption trends, as I said, it's going to be slowing down, yes, because we have in general, I would say, a concern about the weakening currency and higher than expected inflation. But even though we see that, as I said, we have this situation of a more discerning consumer. We have, as I said, a right strategy, strong strategy to face any situation.

Dan Schleiniger

Great. Thank you. Next couple of questions from [indiscernible] from UBAM. And his first question, I'll start with you, Mariano. How much of your net income margin pickup in the fourth quarter of 2024 versus the fourth quarter of 2023 is attributable to operating leverage?

Mariano Tannenbaum

Perfect. Thanks, [Joran], for the question. Well, in fact, if you analyze the fourth quarter 2024, there was a 160 bps EBITDA margin expansion. And from there, that includes 120 bps benefits from the Brazil payroll tax credit that I just mentioned. But going to each of the lines, we see an expansion in payroll of around 80 bps, which excluding the benefit from the tax credit in Brazil, would have been kind of flattish.

Then we see an expansion in G&A of 90 bps. And there is how the natural hedge that we have with corporate expenses in Argentina works, another of the merits of diversification in the company and our footprint. We have also seen an improvement in the food and paper cost line of 20 bps where the improvements and the enhancements in NOLAD and SLAD offset the higher food and paper in Brazil.

On the other hand, we have seen a contraction or deleverage in the other occupancy and other operating expense where we had higher costs in SLAD and NOLAD mainly due to delivery fees, utilities and IT expenses. But of course, on the other hand, the delivery fees are part of increasing sales and how this segment is gaining is continuing its dynamic growth within our company.

Dan Schleiniger

Thank you, Mariano. Associated with that, Joran also asked about the continued success of the loyalty plan, loyalty program and our Four D Strategy. I think that's one for you to address those.

Luis Raganato

All right. Okay. About the Four D strategy, it's a pillar of our strategy, our plan for the years that just passed after the pandemic and the years to come. It's very important because they allow us to take advantage of our restaurant portfolio. We have Drive-thru and Delivery with the similar trends of the rest of the channels and Delivery and Drive-thru, Digital growing as you heard, surpassing our expectations.

And when we talk about Development, we are going to – we have an opportunity to modernize. We have Brazil with a moderate level of modernization that is over 90%. And for example, Mexico, as I already mentioned, with a modernization of 40%. So we're going to start to accelerate in those markets. And we will see a positive impact in that too. And about the loyalty program, the program continues to evolve and we continue to learn from it. We are seeing an increase in visit frequency. Indeed, loyalty customers have a 30% higher visit frequency and we are being able to enhance their lifetime value. Another benefit is that it helps us increase the identified sales penetration.

In the fourth quarter, loyalty sales represented 18% of total sales in Uruguay, Costa Rica and Brazil with almost 16 million members and we have just launched the program in Argentina and Colombia. The plan is to compete in the main markets by the end of the year. In terms of margins, we expect to have a positive impact since redeemed products have on average higher margins because they tend to be incremental or associated with a new sale. So, so far what we are seeing is an increase in visit frequency 30%, a higher average check between 10% and 20% depending on the market and increased redemption rates. Dan?

Dan Schleiniger

Thanks, Luis. The next question from [Stella di Rodi], and apologies if I'm not pronouncing your last names correctly, Kent Dream Investors Group. Hi, thank you for the presentation. Could you give me some color on how raw materials prices have been over the past year/outlook? I think Mariano has addressed that already. And then the other question from Stella is also if you could expand on whether price increases are on the menu going forward. And for that one, I'll turn it back to you, Marcelo.

Marcelo Rabach

Okay. Thank you, Dan. Thank you, Stella. We have been and we will continue to be very prudent in terms of price increases across our menu board. Especially in times with a more discerning consumer and when disposal income for consumers is under pressure, it's very important to offer the best value proposition in each market all across our menu.

That's why you will see that we are offering very relevant affordability platforms in all our markets. We've been very broad in terms of price increases across our core menu, the classic McDonald's products. And at the same time, we have a very relevant and very good approach to our top part of the menu board that typically competes with other formats like cash flow lining. So we think that we will continue this way. We will continue to be very prudent in terms of prices, ideally going in line or even below general inflation.

That's our goal. We are managing cost pressures in order to sustain our profitability margins like we did in recent years. And we have a huge advantage in terms of scale and in terms of the way the tools that we use to set prices across our markets. We are working with a very sophisticated system that McDonald's is using in many markets across the world. So we are very confident that we have the right tools and the right approach in terms of pricing in order to grow the business going forward.

Dan Schleiniger

Thanks, Marcelo. The next question from Jack Gater of JO Hambro. How does Arcos' digital strategy compare to its competitors? And I'll give it back to you, Luis.

Luis Raganato

All right. Thank you, Jack. We began the journey way before the pandemic. We are the leaders in the sector. The digitalization is core in our strategy and has been an important driver to our results. Technology, whether it's customer facing or back office, is driving important operational efficiencies and is increasing the customer engagement. It impacts – this product itself impacts development and the modernization of our restaurants that impacts our marketing strategy and the experience of our customers and our employees too. And we believe that is just the beginning. Even though we were leading in the sector, it's the beginning and we think that is going to contribute to sales growth and profitability too. Dan?

Dan Schleiniger

Thanks, Luis. We have a couple of questions here from Thiago Bortoluci of Goldman Sachs. The first one, we'll start with Marcelo here. Could you please share some color on how comp sales – how was the comp sales breakdown between traffic and ticket in Brazil?

Marcelo Rabach

Okay. Thanks, Thiago, for joining us. For the whole year, we had contributions in the case of Brazil coming from both traffic and average check growth in order to get to the comparable sales that we get in Brazil. Specifically, in the fourth quarter, our average check drove growth in Brazil with flat guest counts in the quarter. We are monitoring very closely the consumer environment and the competitive landscape in order to gain traction and to continue gaining market share and to continue grow our volumes in Brazil, which is the healthiest way to build our long-term results and shareholder value.

Dan Schleiniger

Great. Thanks, Marcelo. The second question from Thiago is on how was performance in Brazil by channel? And that question goes to you, Luis.

Luis Raganato

All right. Yes. Thank you, Thiago. When regarding specifically front counter, we saw a positive performance during the fourth quarter and we're seeing that trend in the first months too. Delivery surpassing our expectations with strong growth in volume and sales.

And regarding specifically Drive-thru, we saw a moderation in volume after hitting a peak, a huge peak during the pandemic between 2022 and 2023. But what we are seeing is that customer habits are still evolving and we believe that we still have a room to improve our service and not only maintain to keep on increasing that sales channel.

Dan Schleiniger

Thanks, Luis. And the last question from Thiago is somewhat related to I think what Mariano has already addressed, but just in case. How much additional cost pressure do you think is still to come?

Mariano Tannenbaum

Perfect. Thanks, Thiago, for the question. As I mentioned at the beginning of the call, we think that the main pressure is coming from Brazil beef costs. Besides that, we think that we have seen already cost increases in Brazil during 2024 that were, as I mentioned, offset by improvements in NOLAD and SLAD. So in 2025, we are working to offset these beef cost increases in Brazil with improvements in the other two divisions and also trying to improve our supplier pricing, menu pricing, as Marcelo mentioned, specifically in Brazil. And of course, looking into all the cost lines that we have in our P&L and trying as always to look for efficiencies and getting the lowest cost possible. So I think that's the answer, Thiago.

Dan Schleiniger

Great. Thanks, Mariano. And we actually have no more questions in the queue. So this is the end of the Q&A session. Thank you once again for your interest in Arcos Dorados and for joining today's webcast.

We look forward to speaking with you guys again in the middle of May on our first quarter 2025 earnings webcast. And until then, stay safe and have a great day.

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