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Arcos Dorados Holdings Inc. (ARCO) Q4 2025 Earnings Call Transcript

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Q4: 2026-03-19 Earnings Summary



EPS of \$0.13 **misses by \$0.07** | Revenue of \$1.27B (10.69% Y/Y) **beats by \$3.78M**

Arcos Dorados Holdings Inc. ([ARCO](#)) Q4 2025 Earnings Call March 19, 2026 10:00 AM EDT

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 fourth quarter and full year 2025 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. 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 will now turn the call over to Luis.

Luis Raganato*Chief Executive Officer*

Thank you, Dan, and good morning, everyone. The fourth quarter of 2025 marked a solid finish to the year with double-digit revenue growth, expanded margins, and strong adjusted EBITDA growth despite ongoing cost and consumer pressures in certain markets. Importantly, we exited the year with improving trends, particularly in Brazil, as well as continued momentum in Mexico and SLAD. Mariano and I will take you through the highlights of the financial results for the fourth quarter and full year 2025, as well as how we see 2026 developing. As I've mentioned in prior calls, our focus remains centered on 3 priorities. Optimizing the performance of today's business, maximizing returns on capital investments, especially those related to growth, and preparing the company for tomorrow's business trends. The fourth quarter demonstrated progress across all 3 areas.

Our teams executed with discipline on pricing, cost control, and marketing relevance while continuing to invest in high return restaurant development and digital capabilities. Total revenue reached \$1.3 billion, representing 10.7% growth. Revenue growth was supported by 16% higher system-wide comparable sales, in line with the blended inflation of the 21 markets in the Arcos Dorados footprint. Comparable sales growth was primarily driven by average check, reflecting disciplined pricing, effective promotional execution, and the continued strength of our digital and loyalty platforms. Guest traffic trends were generally stable compared with the third quarter. Adjusted EBITDA totaled \$172.7 million, up 17.2% year-over-year, representing an 80 basis points expansion of the adjusted EBITDA margin. This included a net taxes benefit in Brazil that Mariano will explain in more detail.

For the full year, system-wide comparable sales growth was in line with the company's blended inflation rate, with particularly strong performance in Mexico, Argentina, and several other SLAD markets. Brazil and a couple of new SLAD markets faced a challenging consumption environment last year, but we began to see some improving trends toward the end of the year. Total revenue in 2025 grew by almost 5% in U.S. dollars. Full year adjusted EBITDA was the highest in the company's history, boosted by the net tax benefits we recognized. Together with strong U.S. dollar growth in both SLAD and NOLAD, this tax benefit more than offset the impact of higher food and paper costs and lower consumption in the Brazilian market. The strength of our marketing, digital, and loyalty platforms have helped differentiate us from the competition by enhancing the brand experience across all channels.

We also expanded the brand's presence in 2025 by opening 102 restaurants and bringing the modernized percentage of the portfolio up to 73% at year-end. Let's take a look at a few of the initiatives we used to generate sales growth in the quarter. Marketing activities strengthen consumer connections with the brand through a series of campaigns and initiatives. The highlight for most markets was a fully integrated menu strategy leveraging the cultural relevance of the Stranger Things Netflix series, which boosted sales, drove high levels of engagement and meaningful brand conversations among consumers. Several markets also offered compelling value platforms, including Economia in Brazil and McXMenos in Chile, both of which performed well with price-sensitive consumers. Menu innovation in the quarter included a new chicken sandwich in Colombia and limited time flavors within the dessert category, such as Ovomaltine in Brazil.

Finally, Happy Meal sales were a bright spot for several markets. During the quarter, we ran engaging campaigns for all ages built around popular licenses such as Friends, Zootopia 2, and Disney's Villains. Digital penetration reached its highest level with 62% of total sales coming from digital channels, mobile app, delivery, and self-order kiosks. Digital channel sales grew 18.7% versus the prior year quarter, with self-order kiosks, delivery, and loyalty showing particularly strong performance. Sales growth in delivery has been strong for several years, which is why the strong performance in self-order kiosks is so important. It demonstrates the continued relevance of the on-premise restaurant experience in the Latin American QSR industry.

The loyalty program had 27.2 million registered members at year-end, and is now available in all main markets, completing the planned 2025 rollout and covering more than 90% of all restaurants in the Arcos Dorados footprint. At the divisional level, in the fourth quarter, we saw continued strength in SLAD with sequential improvements in both Brazil and NOLAD, contributing to consolidated top-line growth. In Brazil, where restaurant industry traffic was down all year, we saw modest sequential improvement in comparable sales growth. We also maintained a significant market share advantage versus all competitors by leveraging the strength of the digital platform and popularity of the loyalty program. Almost 3 out of every 4 transactions were generated through digital channels, and about 30% of total sales came through the loyalty platform.

These results were supported strongly by the annual Méqui Friday campaign that capitalizes on the popularity of the Black Friday shopping day to drive mobile app downloads and digital engagement. It is worth noting that the relative strength of the Brazilian real versus the prior year quarter also contributed to U.S. dollar revenue growth in the period. In NOLAD, comparable sales grew 1.7% versus the prior year quarter, with strong guest traffic growth in several markets. As was the case in the first nine months of the year, Mexico was the main contributor in the fourth quarter, with comp sales growth of 5.6% or 1.5x the country's inflation. Importantly, we began seeing improved trends in several other NOLAD markets and also benefited from the stronger Mexican peso and Costa Rican colón versus the prior year quarter.

SLAD's comparable sales increased by 49.5% versus the prior year quarter or 1.2x blended inflation, driven by strong execution in Argentina. We also saw continued momentum in other markets such as Colombia and the Dutch West Indies. Digital channel penetration reached a new high, and market share gains were particularly strong in Argentina and Chile, where guests responded well to the quarter's marketing campaigns.

Over to you, Mariano.

Mariano Tannenbaum

Chief Financial Officer

Thanks, Luis, and good morning, everyone. Consolidated adjusted EBITDA in the fourth quarter grew by more than 17% versus the prior year quarter as reported. While both periods benefited from tax-related items, even excluding these items, adjusted EBITDA grew by almost 14% in U.S. dollars year-over-year with a 30 basis point margin expansion. For the first time in 2025, the fourth quarter included lower food and paper costs as a percentage of revenue in Brazil. This is a sign that our marketing strategies and supplier negotiations are working as they were designed. The main impact on consolidated food and paper costs in the quarter related to some mixed shifts in NOLAD and higher beef costs in Argentina. Payroll expenses were up as a percentage of revenue due to the comparison with last year's quarterly result, which included a tax benefit in Brazil.

Excluding this benefit, payroll expenses improved by about 60 basis points as a percentage of revenue. It is worth noting that over the last few years, certain markets have experienced elevated labor costs, but we have been implementing initiatives and technologies that have successfully offset these pressures. Currently, payroll expenses are among the lowest in our history as a percentage of sales. As you have heard on recent calls, we are very focused on capturing efficiencies at every level of the business, not just in the restaurants. With that, we made the difficult decision to reduce our G&A expenses through a reduction in headcount. This process, which was completed during the first quarter of 2026, was designed to focus resources on the projects and investments we believe will generate the most shareholder value.

Our adjusted EBITDA definition excludes reorganization and optimization charges, so you will see an \$8.7 million add-back associated with this initiative in the EBITDA reconciliation. Finally, the fourth quarter included a net tax benefit in Brazil, arising largely from the same items we recognized during the third quarter. We recorded a benefit of \$20.5 million, mainly as other operating income. Below the line, we recorded \$13.3 million of interest income. With that, the full P&L impact of this net tax benefit was recognized in 2025. As a reminder, full year adjusted EBITDA includes \$106.1 million, and interest income includes \$52.9 million from this benefit, for a total impact of \$159 million in 2025.

Importantly, we have already begun to apply the credit to tax liabilities in 2026. We expect to utilize the tax credit over the course of the next five years with an annual cash benefit of around \$30 million. In terms of full year 2025 results, we are encouraged that even though food and paper costs rose, due mainly to significantly higher beef costs in Brazil, we were able to fully compensate the impact on restaurant margins by capturing efficiencies in payroll and occupancy and other operating expenses. In Brazil, excluding the tax impacts from both the fourth quarters of 2024 and 2025, adjusted EBITDA grew 3% in U.S. dollars, with margin compression of about 160 basis points. The margin decline was primarily related to the higher royalty rate in Brazil in 2025.

Remember that royalties were equalized starting in 2025, with a higher royalty rate in Brazil more than offset by a lower royalty rate in NOLAD and SLAD. The other restaurant level cost and expense line items in Brazil improved versus the prior year. NOLAD generated solid U.S. dollar EBITDA growth in the quarter, despite some margin pressure in food and paper costs as well as G&A. Meanwhile, SLAD delivered another strong quarter to close out a very good year, which included 26.1% U.S. dollar EBITDA growth and almost 2 percentage points of margin expansion. In addition to operating efficiencies, we are implementing certain projects to improve the efficiency of our capital structure and capital allocation decisions, including the recent liability management transaction completed during the first quarter of 2026. Let me take you through it.

In December of last year, our Brazilian subsidiary secured \$150 million in new bank debt that matures in 2029. This is why you see the higher total financial debt as well as cash and cash equivalents at the end of 2025, but a stable leverage ratio versus year-end 2024. We entered into certain derivative instruments to hedge the interest rate and maintain the foreign currency exposure of our long-term debt. As a result of these transactions, the new bank debt has an estimated U.S. dollar cost of 2.53%. The proceeds of the new debt were used to fund a tender offer for about \$135 million of our 2029 sustainability-linked bond, which has a 6 1/8% interest rate. The tender was completed earlier this month.

Among the benefits of the transaction are a reduction of the average U.S. dollar cost of our long-term debt and a more efficient capital structure, both at the consolidated level and in Brazil. Additionally, moving forward, this new local debt increases the deductibility of our interest expenses. In terms of capital allocation, last year we exceeded openings guidance by adding 102 restaurants to our footprint while deploying less total capital expenditures versus the prior year. Importantly, about half the total CapEx in 2025 was used to fund restaurant openings. For 2026, openings guidance is for 105 to 115 restaurant openings and total capital expenditures between \$275 million and \$325 million. With a goal of improving returns on investments through better cash margins and lower per unit opening CapEx.

Also, for 2026, the board of directors has declared a cash dividends of \$0.28 per share, up from \$0.24 last year, payable in equal installments on a quarterly basis this year. Although it is early, we began the year with good momentum by focusing on factors we control. We expect the underlying profitability trends of the fourth quarter to continue. Importantly, we are seeing the potential for a higher gross margin this quarter and throughout 2026. When sales growth normalizes, we believe this focus on cost and expense discipline will generate incremental margin improvement opportunities in other lines of the P&L as well.

Back to you, Luis.

Luis Raganato

Chief Executive Officer

Thanks, Mariano. Let me wrap up with a few final thoughts. We are encouraged by business momentum entering 2026 and confident we're positioned to deliver sustainable growth, expand profitability, and create long-term shareholder value. Our priorities remain unchanged. Disciplined execution, improved returns on invested capital, and continued strengthening of the McDonald's brand into the future. As Mariano mentioned, early results in 2026 have been relatively strong. Although current events have introduced some uncertainty, we believe in the resilience of the Arcos Dorados business model. We see a more normalized consumer environment as the year progresses, and we have a strong marketing plan to strengthen the bond with consumers across income levels. In the short term, we are monetizing the significant market share advantage we built over the last several years.

There is no other QSR operator in Latin America and the Caribbean capable of delivering the omni-channel experience guests prefer in an increasingly digitalized world. We believe longer-term sales trends will recover, and we will have even more opportunities to generate value. Thank you for joining 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]

Great. Okay, we have several questions already in the queue. We'll try to get to all of them if we can. Good morning again, everyone. We have a question from Froylan Mendez from JPMorgan, and Froylan asks us about taxes, and Eric from Santander has a similar question. I'll read both questions, and then I'll pass it over to you, Mariano.

Froylan asks, can you please explain the higher taxes paid during the quarter, and if we should expect this higher level going forward? And Eric Huang from Santander says, "Good morning, all. Thanks for taking our questions. This quarter, income tax was quite elevated. Could you help us understand the moving parts behind such high levels, and how should we think about this line in 2026, especially following the capital structure optimization?" Over to you, Mariano.

Mariano Tannenbaum

Chief Financial Officer

Thank you, Dan. Good morning, everybody, and thanks, Froylan and Eric for the question. Regarding the ETR, remember that we analyze the effective tax rate on a full year basis, not on a quarter by quarter. For the full year 2025, it's important to note that the ETR of Arcos Dorados was 37.7%, an improvement of almost 5 percentage points versus 2024, and reasonably close to the regional statutory rates. This reflects the mix of earnings across countries and some discrete impacts, particularly in Brazil. Going to the fourth quarter, the rate was high compared to the fourth quarter of 2024, but this was in line with our projections. The quarter includes some one-off adjustments, in this case in Chile and Colombia, and higher tax charges in Argentina related to effects on inflation.

It's important to note that there are no structural changes behind that number. Again, going to the full year, 37.7%, 5 percentage points better than in 2024. Looking ahead, 2026, we expect a full year ETR in line with what we had for the full year in 2025. Of course, again, there may be quarterly variability, particularly early in the year, but the annual profile remains stable, and we are not seeing any structural changes on our ETR. Of course, during the year, we will continue to look for efficiencies and to look into ways to reduce that number.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Mariano. We'll stay with you. Froylan sent a couple of other questions that I think will be yours as well. We'll start with, can you give more color on the drivers of margin expansion in Brazil and SLAD?

Mariano Tannenbaum*Chief Financial Officer*

Perfect. First of all, we're very pleased with margins in Brazil, specifically with the gross margin. As we have been mentioning during 2025 in the previous calls, the impact of the increase in beef in Brazil was very high and impacted us particularly in the first half of the year. Now, in the fourth quarter of 2025, for the first time in the year, we are seeing an improvement, small of 10 bps, but we are seeing an improvement that going forward, and we have not finished the first quarter of 2026, but we are expecting that this improvement will continue during the first quarter of 2026 in Brazil and in the other two divisions, and we have a favorable outlook for the rest of the year.

It doesn't end here, the margin expansion or the improvements we have seen in Brazil during the quarter, excluding the one-off related to payroll in 2024. We have seen an improvement in payroll of 90 bps, mainly due to productivity and headcount, and also an improvement in occupancy and other operating expenses, mostly driven in this case by improving delivery margins. We are very pleased when you exclude the one-offs related to payroll in 2024, and you exclude the impact of the gross-up of royalties also in 2024, the expansion in Brazil we are very pleased with that.

Regarding SLAD that you also asked about, Froylan, payroll expenses, royalties, and occupancy and other expenses, we saw leverage in all of those lines having a better other operating income as well, and a flattish G&A in the division. SLAD have seen an improvement of 180 bps regarding same quarter of 2024 from 10.8% in '24 to 12.6% in '26 -- in '25, sorry.

Daniel Schleiniger*Vice President of Investor Relations*

Okay. Great, Mariano. Thanks. One more from Froy, before we move on, and this one is also: Given the recent depreciation of LatAm currencies, does this change your outlook for top line and margins versus the time you shared guidance?

Mariano Tannenbaum*Chief Financial Officer*

Well, if we look at the average for the two main currencies, let's go to the Brazilian real and the Mexican peso. In the first quarter of '26 so far, and we are almost approaching the end of the quarter, the Brazilian real had an average of 5.2 versus 5.86 for the same period of last year. The Mexican peso, an average of 17.4, compared with an average of 20.4 in the first Q of last year. We are seeing an appreciation of the currency that adding the inflation rate, the real appreciation is even higher. We're not seeing that depreciation of the currencies.

Of course, in January, at some point, the real was a bit more appreciated than what it is now, which of course, given the worldwide events that we are experiencing, we are seeing an increase in volatility. The FX are performing much better than everybody expected at the end of last year and even at the beginning of this year. You know that when LatAm currencies are appreciated, and on top of that, with modest level of inflation, we are seeing real appreciation of the currencies that at the end have a positive impact in our results.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Mariano. We're going to go now to Eric Huang of Santander again, who had asked previously about the same income tax question. Eric had a second question, this one for you, Luis. Secondly, how should we think about Brazil's comp sales throughout 2026, bearing in mind all of the initiatives undertaken by the company and the additional resources from the increase in income tax rate exemption level in Brazil?

Luis Raganato*Chief Executive Officer*

Okay. Thank you very much, Eric, for the question. To answer that, I have to go a few steps into 2025, where the market had a very challenging year with industry volumes down mid- to high-single digits versus 2024, and this happened since the first quarter of the year with the additional pressure of the increase in beef costs that somehow made us make an adjustment in our strategy. The pressure to consumption was related to especially factors related to disposable income. However, given this context throughout the fourth quarter and full year, we managed to deliver positive comp sales and Better margins.

About the consumption, we believe that consumers, particularly lower income consumers, are being more rational with their spending power. Even though there isn't a lot of room for higher pricing, we are working through a combination of pricing and mix to increase our check, trying to offset those volume declines, protecting our margins.

What happened in the fourth quarter was that the contribution to sales came more from average check and channel shifts than volume because, as I said, we're trying to strike a balance between sales growth and profitability. What we are seeing today, these first months of the year, is that we're seeing similar consumption trends. Our performance in the first quarter is about in line with our expectations. What we expect from the second quarter and on is that the consumption levels are going to normalize. Still, our focus during this quarter and the rest of the year is going to be to build healthy comparable sales. Dan, back to you.

Daniel Schleiniger

Vice President of Investor Relations

Thanks, Luis. The next question we have is from [Jonathan Szwarc of The Ion Group]. This one will be back to you, Mariano. In addition to a lower rate and no longer needing to hedge part of the U.S. dollar-denominated debt into Brazilian reais, are there any other monetary benefits of raising debt in Brazil or in BRL i.e., lowering pre-tax accounting results that lowers taxes, avoidance of taxes for taking money outside the country, et cetera. That's a question from Jonathan.

Mariano Tannenbaum

Chief Financial Officer

Perfect. Thanks. Jonathan Szwarc, how are you? Thanks for the question. I walk you through the transaction, and I try to answer your several questions here. In this case, this liability management exercise, we identified an opportunity, a market opportunity to lower the cost of our debt. You will start seeing that, of course, during the full year of 2026. We structured, in this case, 3 bilateral loans with 3 different banks and coupled them with derivatives to synthetically maintain our debt in U.S. dollars. Avoiding, of course, paying the cost of carry in Brazil was key for these transactions. We ultimately repaid our 2029 U.S. dollar-denominated debt.

In this case, the resulting cost of these transactions ended in an estimated pre-tax cost of 2.53% in an annual basis. That's the interest rate, which compares, in this case, with 6 1/8% coupon of the senior notes '29. On top of that, in January, we launched the tender offer and successfully repaid \$135 of these notes. This transaction, going to your second part of your question, enable us to capture an even larger tax shield, therefore, having advantages from a tax perspective as well. I hope that with this flow, your questions are answered.

Daniel Schleiniger

Vice President of Investor Relations

Thanks, Mariano. I'm going to move on now to Alvaro Garcia from BTG Pactual. Alvaro asks a couple questions. The first one for you, Luis. On Brazil sales, Economia, are you seeing any interesting behavior from cohorts buying Economia, i.e., adding other items to their order or increased traffic?

Luis Raganato

Chief Executive Officer

Thank you, Alvaro, for the question. Good morning. As I said, the situation in Brazil regarding volumes are directly related with the slowdown that we see in the consumption. This value platform, the Economia value platform, that is a national value platform, is giving us the chance to somehow shield or to protect our market share. For those who do not know about this, it offers a very attractive price point, and it gives the opportunity to our guests to build their own menu. It has very good margins. So far, the platform has very good results. Yes, we do have some add-ons. The value platform is still going on during the first quarter.

Most importantly, what it did is that we were able with that kind of actions, even though the sector is down, we were able to maintain our market share, leading our nearest competitor by a factor of two. We were able to maintain that gap. This is going to position us very well when the operating environment improves, and we expect that to be around the second quarter and on into 2026.

Daniel Schleiniger

Vice President of Investor Relations

Great. Thanks, Luis. Alvaro has a follow question, and I have similar questions from Froy at JPMorgan and Melissa at BofA. I'll read the three, and then I'll bring it over to you, Mariano. I think this one's for you. Alvaro says, headcount reduction. Can you give more color on the headcount reduction, both financial impact and strategically why it makes sense for the organization? Froy at JPMorgan asked, "Can you quantify the impact of the headcount reduction going forward in terms of SG&A reduction as a % of sales or any other metric that we can use to understand the impact?" And Melissa from Bank of America asks, "Can you provide some additional information on the restructuring charge, including drivers of the decision, areas impacted, and anticipated savings?" All those, I think, are the same question.

Over to you, Mariano.

Mariano Tannenbaum

Chief Financial Officer

Thank you. Thanks, everybody, for the question. In this case, maintaining strong discipline over G&A expenses continues to be one of Arcos Dorados' top priorities and is aligned with Luis' message, when he assumed his position. We consistently pursue initiatives aimed at improving efficiency and optimizing our G&A structure, always supporting the needs of the business. In full year 2025, G&A, as a percentage of revenues, remained flat, excluding one-off items that affected 2024. Notably, and this is relevant, during the fourth quarter of 2025, we delivered a 50 basis point improvement in G&A over revenues, also excluding those one-offs. But in line with our commitment to long-term shareholder value creation and enhanced cash generation, and supported by efficiency gains from technology investment, we implemented a G&A restructuring over the last few months that is already completed.

The objective in this case was to preserve operational excellence while better aligning resources with the activities that are more critical to sustaining growth and strengthening our platform for the future. In terms of numbers, sorry, our ongoing cost base has been reduced by more than \$10 million on an annualized basis, and in this case, positioning us to generate operating leverage in 2026. Of course, then there are other moving parts that affect the G&A, as you all know, like, FX movements, like share price movements. But in this case, our cost base case is \$10 million less in the payroll line. This restructure has been made in the 3 divisions and at the corporate level.

Daniel Schleiniger*Vice President of Investor Relations*

Okay, great. Thanks, Mariano. I'll move on to Melissa's next question, which is related to CapEx. We have a similar question from an investor, Max Joseph. I'll read first Melissa and then Max, and I'll turn it over to you. Why was CapEx for 2025 below initial guidance, despite higher number of openings? Is this FX related? And how does investment per unit and ROI for recent openings compare with previous vintages? Max also asks about 2025 CapEx. Can you provide more detail on '25 CapEx outside of new restaurant openings, and how much was allocated to restaurant modernizations, technology initiatives, maintenance, and other categories? I'll stop there, and then they both also asked about CapEx moving forward. Let's talk about '25 first. Over to you again.

Mariano Tannenbaum*Chief Financial Officer*

Thanks, Melissa and Max, for the question. In 2025, we remained focused on optimizing capital spending while fully executing our planned opening and modernization program. It's important to note that we did not obtain the savings by switching to cheaper restaurant formats. We maintained, even exceeded the guidance, and we maintained the number of freestanding openings that we planned at the beginning of the year. In the second half of the year, we accelerated initiatives to be more efficient. We localized suppliers. We did right sizing of the restaurants, so a lot of focus on the construction phase, coupled with FX movements that had some benefits on imported elements that go inside the restaurant, specifically at the kitchen level. All those allowed to reduce the per unit cost without, as I mentioned before, compromising quality or scope.

This area, it's important to note, has been a main focus for the entire finance and development teams during 2025, and the objective was to maximize return on investments, but maintaining the quality of our restaurant openings. As a result of all this, we were able to surpass the plan, opening 102 restaurants instead of or on top of the guidance that was 90 to 100, but with lower capital intensity, and we are very pleased with the results we obtained that contributed to increase and improve the free cash flow of the company. You were going to ask about 2026.

Daniel Schleiniger

Vice President of Investor Relations

Yes. Melissa from Bank of America, what is the allocation of your 2026 CapEx budget across restaurant openings, reimagining technology, and other areas? Max Joseph asked a similar question separately. Are you planning to increase modernization rate to hit your year-end goal of Experience of the Future of 90-plus percent?

Mariano Tannenbaum

Chief Financial Officer

Perfect. Just as a reference, 2025, approximately 80% of the total CapEx was allocated to development CapEx, 20% to non-development CapEx. That includes mainly technology. For 2026, given that we increase the guideline of openings, our expectation is, and also because we are going to finalize and modernize more restaurants, we are expecting that from the total guidance we gave you in January, approximately 85% will be allocated to development and 15% will be allocated to technology and other type of investments.

Daniel Schleiniger

Vice President of Investor Relations

Great. Thanks, Mariano. I'm going to move now to Julia Rizzo from Morgan Stanley. She has a couple questions. I'm going to start with one for Luis. Are there already signs of same-store sales recovery in the first quarter of '26 in Brazil and NOLAD? And when do you expect same-store sales to reach inflation levels according to the company's algorithms?

Luis Raganato

Chief Executive Officer

Thank you. Thank you, Julia, for the question. I mean, our plan is designed to deliver comparable sales growth about in line with inflation level as the year progresses. We do have a strategic marketing plan that is very robust, not only in Brazil and NOLAD but in SLAD also. You saw that in the fourth quarter, for example. We have in Brazil actions like I was telling just a few minutes ago about Economia that drives volume. But we also had the Stranger Things action that brings the love for the brand. We think that the situation in Brazil is going to last for a while. We are prepared for that. As I said, our challenge is to build a healthy comp sales.

In the case of NOLAD, we had a slightly different case because even though we did have a challenging and a highly competitive environment across most markets, comparable sales grew 1.7% with positive volume. This was supported by a slight shift in product mix and competitive pricing strategies. Overall, sales growth was driven more by volume than by average check. The highlight of the fourth quarter was Mexico and Puerto Rico. Looking ahead, we remain confident because Mexico is going to sustain the trend, and we believe that Panama and Costa Rica are taking the right actions to rebalance average check and guest traffic trends. We expect to see that bridging inflation or about in line inflation for the second semester. Dan?

Daniel Schleiniger

Vice President of Investor Relations

Thanks, Luis. I'm going to go now to Julia's second question, and this one will be for you, Mariano. Can we explain NOLAD's margin fall despite the royalty rate being 100 basis points better? What should we expect for NOLAD margins in 2026?

Mariano Tannenbaum

Chief Financial Officer

Perfect. Thanks, Julia, for the question. Margins in NOLAD during the last quarter of last year were challenged due to sales growing below blended inflation. As we always mention, when we have sales growing below inflation, then you start having deleverage in several fixed cost lines. On top of that, we have seen some food and paper cost pressures during the last quarter. Remember that during the full year of 2025, NOLAD did not experience food and paper pressures in the first half of the year, but started having some pressures on the second half of the year. The good news here is that we saw improvements in occupancy and other operating expenses, and we managed to keep payroll almost in line with prior year.

If you recall in 2024, payroll line was under pressure in NOLAD due to increases in minimum wages in several markets such as Puerto Rico, Panama, Costa Rica, and Mexico. We are pleased to see that in 2025 through productivity gains, we saw leverage in this line. We are also very pleased with Mexico's results. That is the division's largest market, where comp sales grew well above inflation, and we expect to generate leverage during 2026. Going back to the food and paper line, and as I mentioned when I was asked about Brazil, in the case of NOLAD, and let me add in the case of SLAD as well, we have seen very good signs during the first quarter of this year that, of course, is still ongoing.

Early results are showing an improvement in food and paper costs in the 3 divisions and in the case of NOLAD, in particular in NOLAD. The fourth quarter was not great, we agree, but we are seeing some good news starting 2026, and we are very pleased how we have managed the payroll line. Remember that between payroll and food and paper are the two most important cost lines in our incomes in our P&L.

Daniel Schleiniger

Vice President of Investor Relations

Great. Thanks, Mariano. I'm going to move over to Thiago Bortoluci from Goldman Sachs. Thiago asks a question related to same-store sales in Brazil, at 2% same-store sales growth, I assume traffic in Brazil is at least mid-single digit negative. How has it evolved sequentially versus the third quarter? To which factors would you attribute this evolution? What are the drivers for an eventual inflection in 2026? I think Luis addressed this earlier. Thiago, I think you sent this while he was answering a similar question. So I'll, we'll try not to be repetitive. Thiago's other question, which is a 2-parter, I think the first part will be for you, Mariano, and probably hooks on what you just mentioned around food and paper costs.

The second part will be for you, Luis. The first part is. What is your base case for beef prices in Brazil in 2026?

Mariano Tannenbaum

Chief Financial Officer

Okay. Thanks, Thiago. In Brazil, the main pressure, I will try not to be that repetitive, but the main pressure on food and paper last year came from beef inflation, which was up about 30% over the last 12 months. The good news is that we have seen 2 consecutive quarters of sequential improvement and that the trend has continued into early 2026. We feel confident in our ability to continue recovering gross margin in this respect. The recent appreciation of the real also helps, especially for our imported items. It's important to mention that our pricing strategy remains disciplined and aligned with inflation, with CPI. We are avoiding aggressive actions that could compromise long-term health of the business. As Luis mentioned, our new affordability platform is performing very well so far.

Daniel Schleiniger*Vice President of Investor Relations*

Thanks, Mariano. The second part, which is sort of a continuation of Thiago's question, and this one will go for you, Luis. How have you prepared your menu board for the next 12 months in the context of the costs?

Luis Raganato*Chief Executive Officer*

All right. Thank you, Thiago, for the question. Good morning. The good news about our menu board is that we're under one brand. We have all the categories. We do have beef, and we have our core items, our core sandwiches. We have our value platform, and we do have our premium sandwiches. In beef, we are really well covered. We have the chicken category that with the launch of the McCrispy Chicken has reinforced, and is now an engine of growth. We have desserts. We are focused on trying to recoup the levels pre-pandemic that we had pre-pandemic.

We have beverages, for example, and coffee that many of our main competitors around the region do not have the chance to talk about all the categories. Our menu board is very healthy. We have an opportunity to not only to increase our top line, but to improve our margins, trying to through pushing these other categories. I would say that, Thiago, it is important to say that, in the region 2025 was challenging and one of the great outputs of 2025 is, for example, we managed to shield our market share. Around the region, we gained 1 percentage point versus 2024, and we maintained the gap versus our main competitors 2x more.

I already talked about Brazil that had 2.2x last year. We have the case of Colombia, Mexico, Costa Rica, and Panama, taking in consideration our internal research, we have more than 2x in those countries in comparable footprints and more than 3x in markets like Argentina, Uruguay, or Chile in comparable footprints, also. Going back to the question that you had, just to give you a little bit more color, we've seen sequential improvement that is reflected in our market share in comparable sales and of course in margins. As we have mentioned in other calls, our target is to bring sustainable top-line growth and to improve operational efficiency. Our focus is in every line of our P&L. This should drive profitability.

This should generate free cash flow and of course, create shareholder value.

Daniel Schleiniger*Vice President of Investor Relations*

Great. Thanks, Luis. We actually have no more questions in the queue, so we've reached 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 May on our first quarter 2026 earnings webcast. Until then, stay safe and have a nice rest of your day.

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