

ARCO Earnings Call Transcript

Date: 2025-11-12

Quarter: 3

Operator: Hello, and thank you for joining Arcos Dorados Holdings Inc.'s third quarter 2025 earnings webcast. With us today are Luis Raganato, our Chief Executive Officer, and Mariano Tannenbaum, our Chief Financial Officer. Today's webcast is being recorded and 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.arcosdurados.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 at 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 unaudited financial statements filed today with the SEC on Form 6-K. I will now turn the call over to our CEO, Luis Raganato.

Luis Raganato: Thank you, Dan. Good morning, everyone, and thank you for joining us. Today, we will take you through Arcos Dorados Holdings Inc.'s third quarter 2025 results, which included balanced US dollar revenue growth with solid profitability. We successfully navigated challenging consumer dynamics in a couple of our largest markets, as well as persistent input cost pressure, especially in Brazil. As I mentioned in August, we are focused on exceeding guests' expectations in today's business while modernizing and improving our growth processes to support higher returns on investment and to ensure Arcos Dorados Holdings Inc. maintains its leadership position well into the future. In the near term, operating conditions remain challenging, but we believe we are well-positioned to resume more normalized top-line and EBITDA growth across the business when the consumer and macroeconomic environments improve. Let's move now to the key highlights of consolidated results for the third quarter. Total revenue reached \$1.2 billion, a new high for a single quarter, with balanced US dollar growth across the three divisions. System-wide comparable sales rose 12.7%, in line with blended inflation for the period. Comp sales growth was particularly strong in SLAD, specifically Argentina, and in selected NOLAD markets such as Mexico and the French West Indies. Overall check growth drove the result, more than offsetting a low single-digit decline in guest traffic versus the prior year. Marketing and digital have been an important differentiator for the McDonald's brand throughout the Arcos Dorados Holdings Inc. footprint. This has allowed us to protect or expand market share almost without exception in the markets where we operate, which should help us sustain strong performance over the long run. We generated more than \$200 million in adjusted EBITDA in the third quarter. This result included the net impact of a federal tax credit in Brazil. Excluding this impact on the quarter's results and the recovery of social contributions from the prior year period, US dollar adjusted EBITDA declined by about 3%, mainly due to continued food and paper cost pressure. We opened 22 restaurants, with more than half of the quarter's capital expenditures invested in new restaurant growth. With all remaining restaurants under construction, we are on track to deliver this year's 90 to 100 openings guidance. Let's take a look

at a few of the initiatives we used to generate sales growth in the quarter. Digital channel sales rose more than 11% versus the prior year and generated 61% of system-wide sales in the quarter, with continued strength in delivery and self-order kiosks.

Dan Schleiniger: Industry-leading service that only we can offer. Digital sales growth was strongest in Brazilian SLAD, where Argentina capitalized on a modernized restaurant base and a tech-savvy consumer to drive growth. The loyalty program is now available in seven countries, and we expect it to be offered in about 90% of all restaurants by the end of 2025. The program had 23.6 million members at the end of the third quarter, growing by nearly 50% versus 2024. As the program grows in membership and active users, we expect it to help support more sustainable top-line growth in the long term. Marketing in the quarter focused on brand strength across all platforms. We deepened the emotional connection with the brand and created memorable experiences for families with the Hello Kitty and TinyTown licenses. The value platform offered good value for money to guests and remains a strategic priority given the operating environment. Several markets leveraged the McCrispy chicken platform to introduce new sandwiches and bundles in this key growth category. The dessert category also supported guest traffic with locally relevant macrame flavors and the popular Hello Kitty license. Finally, we leveraged the exclusive regional sponsorship agreement with Formula One to drive sales and strengthen brand love in several markets. Over to you, Mariano.

Mariano Tannenbaum: Thanks, Luis. And good morning, everyone. Brazil's total revenue grew 4.9% in the third quarter, including a sequential improvement in comp sales performance. We believe this is an early indication that the worst is over in Brazil in terms of sales growth, especially since guest volumes were down slightly less than during the second quarter. Importantly, according to third-party measurements, we maintained significant market share leadership in Brazil through the first nine months of 2025, despite the challenging environment for the entire restaurant industry. This is a testament to the dynamic approach we have taken in Brazil with competitive pricing designed to balance sales growth and profitability. Digital channels in Brazil accounted for almost 72% of system-wide sales, with notable strength in delivery and self-order kiosks. Additionally, 30% of Brazil's system-wide sales involved Meumeki loyalty program members. NOLAD's total revenue rose 6.1% in US dollars, with strength in Mexico, Costa Rica, and the French West Indies. In fact, Mexico's comp sales rose 6.3%, or 1.8 times the country's inflation rate, and two to four times higher than the main competitor's brands. In NOLAD, Costa Rica and Puerto Rico are seeing excellent guest engagement with the loyalty program, which is also being piloted in Mexico. We expect the program to drive higher digital sales penetration and guest frequency in 2026. US dollar revenue rose 4.9%, supported by comparable sales up 1.3 times the division's blended inflation in the period. Argentina's sales growth remained strong in the quarter, and the division's sales also benefited from good performance in markets like Colombia and Uruguay. Digital sales penetration in SLAD was 61.5% during the third quarter, supported by a strong performance from the loyalty program, which was available in Argentina, Colombia, Ecuador, and Uruguay. Third-quarter profitability remained solid despite below-inflation comparable sales growth in Brazil and NOLAD. And as Luis mentioned, the quarter's result included the net impact of a federal tax credit in Brazil. Let me take you through the details. We generated more than \$200 million in adjusted EBITDA, which included the net benefit of \$85.6 million related to a federal tax credit in Brazil. The credit, which also includes \$39.6 million in interest, arose from the treatment of certain government-related tax incentives for the period 2016 to 2023. We expect the \$125.2 million net credit to have a positive cash impact since we plan to use it to offset federal tax obligations beginning in 2026. We expect to recover the taxes over the next five years. As a reminder, last year's result included a \$5.6 million recovery related to social security contributions in Brazil. Excluding these impacts from both periods' results, adjusted EBITDA declined by about 3% in US dollars due to modest margin pressure. The main margin headwind in the third quarter was elevated food and paper costs. The domestic price of beef in Brazil rose significantly at the end of 2024, but we were able to leverage our supplier relationship and significant purchase volume to delay the impact of the price increase until the first quarter of this year. By generating operational efficiencies during the third quarter, we were able to partially offset the food and paper cost pressures with greater labor productivity as well as leverage in occupancy and other operating expenses. This translated into stable margin performance sequentially in the third quarter, and we expect to capture additional efficiencies

moving forward. NOLAD's margin included improved payroll and lower royalties, more than offset by margin pressure from food and paper, occupancy and other operating expenses, and G&A.; SLAD has been the bright spot all year, generating strong quarterly adjusted EBITDA growth in US dollars and margin expansion in each of the 2025 quarters. Adjusted EBITDA grew more than 30% versus the prior year, supported by a 2.2 percentage point margin expansion. Increased payroll productivity, leveraging occupancy and other operating expenses, and the lower royalty rate more than offset food and paper cost pressure. Our balance sheet is strong, and as I mentioned, in the coming years, cash flows are expected to benefit from the gradual utilization of the federal tax credit in Brazil. At the end of the third quarter, the net debt to adjusted EBITDA ratio was a comfortable 1.2 times.

Dan Schleiniger: We believe this, together with the extra flexibility provided by the new syndicated revolving credit facility, gives us plenty of room to support our medium-term growth plans. Through 2025, we opened 54 restaurants, including 34 in Brazil, with more than half the period's CapEx invested in openings. By the end of the year, there should be more than 2,500 restaurants in the Arcos Dorados Holdings Inc. footprint. We are revising every element of our development process with a focus on identifying and implementing initiatives designed to improve operational efficiency and generate more consistent returns on investment from each of these assets. Performance has been strong this year in Argentina and Mexico, SLAD and NOLAD's largest markets, and we believe this is sustainable going into next year. As Luis mentioned, we believe we are well-positioned to return to healthier sales growth in Brazil moving forward. With our three largest markets aligned, operational profitability and cash flow generation should also improve. We know this is the best way to create shareholder value, and we have the entire team working toward that goal. Back to you, Luis.

Luis Raganato: Thanks, Mariano. Let me wrap up with a few final thoughts. As you have heard before, one of the pillars of the Recipe for the Future platform is youth opportunity. Part of providing first-time formal job opportunities to young people is making sure they have a positive experience in that first job. This is why it is so satisfying to be recognized by Great Place to Work as one of the top employers or to see Arcos Dorados Holdings Inc.'s corporate reputation continue to climb the rankings in several of the markets where we operate. All six pillars of the Recipe for the Future platform are good for business and good for the social, environmental, and economic impacts we make throughout Latin America and the Caribbean. Since beginning my tenure as CEO four and a half months ago, I have worked to refocus the team and the company on three big priorities: optimizing the performance of today's business, maximizing the return on investment from capital expenditures, and ensuring the company is preparing itself for the long term. With that mindset, we are pushing to have a solid finish to the year while positioning ourselves for a stronger performance next year. We are excited about our marketing plans for the remaining seven weeks of 2025, and we believe next year's plan is among the strongest ever. One spoiler I can give you is that next year's marketing calendar includes McDonald's sponsorship of the FIFA World Cup, which is the most popular and impactful sporting event in all the markets where we operate. Notably, next year's World Cup will include Arcos Dorados Holdings Inc.'s three largest markets: Argentina, the defending champion; Brazil, the winningest team in the tournament's history; and Mexico, one of the three host nations. Last week, we reviewed the plans for 2026 with the team, and each of the country-level managing directors, divisional presidents, and corporate leaders is targeting sustainable top-line growth and improved operational efficiency to drive profitability, generate free cash flow, and create shareholder value. Thank you for joining today's call. Dan, back to you.

Dan Schleiniger: Thanks, Luis. We will now begin the Q&A session. You can submit your questions using the Q&A function at 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, great. We have a few questions to get through here in the queue already, and we'll start with Alessandro Chameli from Sao Muyo. He says, good morning. Just a question on the tax benefit and EBITDA. If I adjust out the tax credit from EBITDA, it was down year over year. Was that related to food and paper costs? Could you give some color on that? Thank you. And I'll start with you, Mariano, on that one.

Mariano Tannenbaum: Okay. Thank you. Good morning, everyone, and thanks, Alessandro, for your question. We can see that we have margin contraction mainly related to food and paper and mainly

related to the increase in beef costs in Brazil of 35% year over year. Increases in NOLAD, there's also some G&A; increase mainly related to timing and appreciation of the Argentine peso and the Brazilian real. These forces were partially offset by a very relevant increase or better payroll of 60 basis points year on year. This better payroll, and we can see this increase in payroll mainly in the three divisions: in Brazil, NOLAD, and SLAD. We're very, very pleased with those efficiencies. And also, there are gains in occupancy and other operating expenses of 20 basis points and royalties on 10 basis points approximately.

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

Luis Raganato: Alright. Thank you, Eric, for the question. Good morning, everyone. First, let me give you a little bit of context. Traffic in Brazil remained and remains challenging, especially due to factors related to disposable income. Consumer confidence is still down, and out-of-home consumption is negatively impacted. We believe, in general, consumers, particularly lower-income consumers, are being more rational with their spending power, and this has had an impact in reduced guest traffic in the sector in general. So for this reason, it was very important to remain focused on offering a compelling value proposition with competitive pricing and try to deliver a great experience through all the channels. Our customers today are omnichannel, so we have to deliver that excellent operation in all of them. And what we have seen regarding our competitors is that the industry in general continues to focus on promotion activities. They have been more transactional, trying to just drive traffic. We are on a more comprehensive plan that complements actions targeted to increase traffic and shield our market share with those options that aim to build the love for the brand. For example, we have just launched by the end of the third quarter, the beginning of this fourth quarter, EconoMeki in Brazil, which is a national value platform where guests can get a four-item menu for 22.9 reais, or about \$4.2. And we also have actions like Formula One. Today, we have implemented a co-branded initiative with Red Bull, for example, that makes the brand more aspirational, and those are the actions that aim to keep on improving our revenue in a more healthy way. According to Crest, regarding the question that was asked about our market share, our visit share remains strong, near record highs, and maintaining a positive gap versus our other main competitors. We are comfortable with that position. The main goal in Brazil is to recoup margins, so our main focus is going to be on that. And we think that we are in a position of strength to capture the rebound of the economy when it starts to come back.

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

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

Dan Schleiniger: Thank you.

Mariano Tannenbaum: Great. Thanks, Mariano. Now I'm actually going to take Eric's third question and combine it with a question that we received from Ferdinand Mendez of JPMorgan. First from Eric, entering 2026, if the softness in consumer conditions in both Brazil and, to some extent, Mexico persists, how does management think about expansion? Would it be an opportunity to perhaps scale down openings and accelerate the renovations, especially in Mexico, for example? So on some level, that's associated with what's going into 2026. One question is on the side of renovations. Ferdinand asked a similar question with a different punch line. Also, what are your initial thoughts on pricing versus affordability in 2026? Are you considering a strategy to gain market share in 2025? Will you be able to recover pricing in 2026? So maybe what we should do is focus on what we're seeing for 2026, and then we can talk about the expansion side after that. Over to you, Luis.

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

Dan Schleiniger: I think I covered the two points. Yeah. Thanks, Luis. Next question for you, Mariano, staying with Ferdinand Mendez from JPMorgan. Should we expect lower input cost pressure in Brazil already in the fourth quarter given the recent beef trends?

Mariano Tannenbaum: Perfect. Thank you, Ferdinand, for the question. Let me elaborate a bit on the gross margin of the paper costs in Brazil that were mainly impacted by beef inflation, which remains the primary pressure point. In the last twelve months, they have increased more than 35%, as I already mentioned. However, we believe that the second quarter was the lowest point of the year, and we're confident that we will continue to recover gross margin going forward. In addition, let me point out that the current appreciation of the Brazilian real is also positive for our imported products, so we also can see an improvement related to the appreciation of the currency. And, of course, all the tools that we actively use in order to mitigate impacts like the ones we saw in beef through pricing, mix, supply negotiations, our scale, operational efficiencies, and so forth. On top of that, what we can say is that overall and the early, very early numbers that we are seeing for the last quarter, we are seeing some signs of improvement in beef costs. For sure, we are not expecting additional pressures as we have seen in the last twelve months.

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

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

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

Mariano Tannenbaum: Perfect. Thanks, Alvaro. Yes. \$125 million is the fair number, and the credit will be readily compensated with federal taxes over the next five years. We are currently building our compensation strategy, of course, in full compliance with the law, but we can assume it will be evenly distributed in the next five years.

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

Luis Raganato: Yeah. Thank you, Alvaro, for the question. As you know, under the umbrella of the McDonald's brand, we have different categories, like beverages, desserts, and chicken, that are today

and are going to be very important. For us, an inflection point for the category was the launch of the McCrispy chicken platform that has sandwiches that are excellent regarding quality, that were greatly accepted by our customers, and that are gaining share quarter after quarter. The growth will be, and it's being gradual, but it will be consistent. We're giving, but it's going to be relevant for us in the near future. We do have room for innovations. For example, we have every year windows that we bring innovation with, for example, spicy chickens, which is a flavor that is very well accepted in the region. Or, for example, in this quarter, in Brazil, we launched the chicken bacon ranch, and that is going to be important for us, not only in the top line, as you're seeing and saying in the question, but it's going to be important for us in the bottom line. Important to say that we still have a huge opportunity to keep on growing with a category like McNuggets, which is an asset for us and that, within the chicken category, is a strength for our business. So for sure, this is going to be a strategic pillar in the coming years.

Dan Schleinger: Okay. I'm sorry to do this to you, but we actually have three more questions. Alright. I'm gonna give you, and it's gonna be a combination of questions. First from Thiago Bertolucci at Goldman Sachs. Thiago asks, could you please expand on your same-store sale foot traffic performance in Brazil, Mexico, and Argentina? And in Brazil, how did traffic share evolve? Aligned with that, we have from Alejandro Fuchs at Itau, the first question is for Luis, same-store sales in Brazil. Could you provide some thoughts on the competitive environment today and how have other markets in NOLAD performed, especially against Mexico? So I think another same-store sales question related to that. And from Inca Investments, they asked if we can comment on recent sales trends. Are you seeing a recovery so far in the fourth quarter? So maybe a little bit of the third-quarter performance in terms of same-store sales with the three biggest markets, and then a little bit of recent trends as well.

Luis Raganato: Perfect, Dan. Bear with me. I'm going to start with Brazil because I already said a few things. As you know, even though we did see a challenging situation in the market because we know for a fact that the QSR market is down in visits, we managed to deliver positive comp sales. And even though there isn't a lot of room for higher pricing, we're working through a combination of pricing and mix to increase average check because we need to offset that volume decline that is related to the market. And we need to offset the pressure that we have in margins. So the contribution to sales in the market came more from average check than volume. We are seeing that that is improving in the beginning regarding traffic. In the beginning of this quarter. And we're doing that because we're trying to reach a balance between sales growth and profitability. And to give you a little bit more color about what is happening in the different channels, the strongest channel was delivery in Brazil. That kept on growing in sales supported by positive guest traffic. Front counter remained roughly flat, which is very good because it is proof of how aspirational our brand and the on-premise experience continues to be important. And very relevant too, the research centers' channel is recovering as a result of better operational execution, right pricing, and relevant innovation. For example, we had the Hello Kitty under the Hello Kitty platform and licensing the Happy Meal, we did have some innovation with Sandasia and McFerris. So in this channel, we still have room to grow and improve it, and the goal is to achieve pre-pandemic volume. So regarding NOLAD and Mexico, as I said in Brazil, we think that we are in a position of strength and ready to capture any rebounding economic activity. Regarding Mexico, the economy remains under pressure with high uncertainty levels, and this is driven by external and internal factors. In NOLAD, talking about external factors, we have the potential tariff policies that could be implemented, or internally, there have been some conversations about proposed reforms. If any of this happens, we don't see that it's going to materially impact our business. But despite the uncertainty that I was talking about, the food service sector shows resilience, and from our business perspective, we were able to deliver 6.3% growth in comparable sales. This was driven by growth in guest traffic that we know outperformed the sector. Regarding the channels, the research centers were the main growth engine. All the other channels had a solid performance, which is very good for us. And what is happening in Mexico, and the improving performance that we're having is that, besides the launches and the innovations, we are adding operations improvement that has been going on for the last years. And everything is being worked on under the umbrella of a brand campaign that is called Mexico Mencanta. All this is bringing a very strong improvement in brand attributes and market share gains. According to internal research, we know that the market share gap versus our main competitor is almost three times more in comparable footprints, and we are consolidating our leadership position in

the industry. And now I will go to Argentina. Argentina was the main driver of the division results, the SLAD division results. The context remained during the third quarter challenging due to the macroeconomic instability. This instability had a negative impact on the levels of uncertainty, and it had a negative impact on private consumption. What was notable in the quarter is that despite the ongoing devaluation that we had during the quarter, inflation remained stable at almost 2% per month, and this indicates that we do have limited pass-through to consumer prices. But despite this, the good news is that our business remains solid and continues to show strong performance. The local team has done a terrific job. They were able to capitalize on last year's investments to try to maintain themselves close to their customers. The market share gained, we were able to maintain the market share this year, but the market share that we gained last year also helped us drive strong results. We were able to maintain the gap of more than three times the market share of our main competitor. And in Argentina, even though the market will remain disciplined on pricing, they will also be focused on capturing every opportunity to improve margins. And I think part of the question, Dan, was about the trends in this quarter. Right?

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

Luis Raganato: Okay. Alright. First, I mean, we're going to be finishing this year even though we've had challenging macroeconomic and social situations across the region in a position of strength. Shielding and protecting our leadership position with excellent brand scores. And as you know, going into this fourth quarter, historically, the second half of the fourth quarter is the strongest part of the year. We are excited about the marketing plans that we have for the remaining weeks. We think that these actions will help us push for a solid end of the year. The whole team is working on that. Specifically in Brazil, sales performance stabilized between the second and the third quarter, and we believe we can improve on those results in the fourth quarter. In NOLAD, NOLAD continues to see a challenging environment. We were seeing this in several markets, like, for example, in Panama. Panama faced a challenging comparison this year with strong sales growth during the first half of the year. What made it more challenging was the social unrest in the country. We see that the situation is normalizing, but so far, we have not seen the rebound we expected for the QSR industry. A similar situation in Costa Rica, which has also been dealing with a weaker consumer environment and reduced industry volumes. And what we see in NOLAD is that Mexico has been very resilient. It's going to have a good end of the year, and we believe we're taking the right steps in the rest of the markets to resume more normalized growth. And regarding that, SLAD's results have been strong all year, and we believe it will end the year with another strong quarter. And I think with that, Dan, it covers everything.

Dan Schleiniger: Hey. Thank you, Luis. Very much. But as I said, it's a long list of questions here. Maybe you want a glass of water, but there's one more for you before we switch back to Mariano. Okay. And this one is also from Thiago from Goldman Sachs, where he asks, how has McDonald's value gap evolved versus food away from home and versus other burger QSRs in Brazil? Where is it today, and where do you want it to be? And Jeronimo Guzman from Inca Investments asked a similar question. How much pricing have you taken in Brazil as a result of input cost pressures? What's been the impact on traffic? And how are you thinking about pricing going forward to protect margins versus traffic? You know, again, I think this is the pricing question between the two of them.

Luis Raganato: Okay. So I already talked about the main objective that we have in Brazil. Again, we're going to try to be close to our customers. We already launched a national very convenient value platform called EconoMeki. In that context, we're going to shield our market share, but we aim to improve our margins. So in this context, we increased prices above inflation this year. We did it with the goal to mitigate the margin pressure that we had in Brazil. And having said that, we maintain promotions and affordable prices to try to remain affordable. According to internal research, in the brand attribute value for money, we have reached a record high this year. And so far, we were able to maintain our market share, as I said, to maintain the gap versus our main competitor. And, again, we believe that we are in a position of strength and ready to capture the rebound of the economy.

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

Mariano Tannenbaum: Okay. Thank you, Alejandro. Well, in 2025, our board declared already a 24¢ per share dividend, which was declared in March. And we have been paying dividends in the last few years. But having said that, the board of directors will always consider options such as buybacks based on what they believe is best for the company and its shareholders, considering our capital allocation priorities, available cash, of course, and expected cash generation. So this is on the table, and the board will decide if this is the right path to go, given that we will have more cash generation for sure next year.

Dan Schleiniger: Great. Thanks, Mariano. Had another question from Jeronimo Guzman from Inca, which I think Luis has already answered. Just regarding NOLAD, can you comment on maintaining strong comp sales in Mexico? And on the flip side, what's driving lower sales in the other markets? I think Luis already covered that. So I'm gonna move now to Bob Ford, who has sent us four questions. And back to you, Mariano. Bob's first question: Can you explain the source of the tax credit in Brazil and the rate at which you expect to monetize it over the next five years?

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

Dan Schleiniger: Great. Thanks, Mariano. The next one is a two-parter. And I'll give the first part to Luis, and then I'm gonna come back to you, Mariano, on this one. Can you provide an update on your promotional strategy in Mexico, Luis? And sources of margin pressure in NOLAD given Mexico's strength. That one, I'll move over to you, Mariano.

Luis Raganato: Alright. Thank you, Bob. Hello. How are you? As I said, in general, but specifically in Mexico, we're probably going to be prudent about pricing. We want to be close to our customers by taking care of margins. So in Mexico, we have three engines of traffic growth. The first one is desserts, which we're taking care of with right pricing and with the right operational execution. Then having innovations like, for example, Hello Kitty or the cream of shake, which I don't know if you know that, but it's a very historic and very famous McDonald's character. That launch surpassed our expectations in the market. So desserts are one of those engines. Then we do have the value platform. The value platform is divided into two. We have one that begins pricing at 99 pesos and another one that is called Tres Portres. That is being very effective and with good margins, and we're trying to take care of the promotional activities because at some point, we needed to be more prudent, taking into consideration margins. And then another engine of traffic is the Happy Meal licenses. Like I said, August Hello Kitty was very important, and Tiny Town in September, those two months were the strongest for Mexico in the quarter. With that, Mariano, I pass it to you so you can talk about margins.

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

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

Mariano Tannenbaum: Perfect. Yes. Well, I already mentioned, as you said, what's going on in Brazil. In other markets, what we are seeing is that we are very pleased with efficiencies that we are observing in payroll in the three divisions. 60 basis points. If you recall, Bob, last year, we have seen important minimum salary increases in many of our markets, such as Panama, Puerto Rico, Costa Rica, Mexico, some of the SLAD countries. And payroll was a source of pressure during 2024. What we are seeing in 2025 is that with the implementation of a scheduling system and the efficiencies that we implemented, we have seen a recovery and even much better payroll than what we had last year. So we are very pleased with those results. Then in occupancy and other, we have been seeing some improvements

there even though sales are below inflation. We have seen improvements in this line related also to better deals negotiated with third-party operators. So we are making delivery also more efficient. So we are seeing as sources of operational gains the payroll line and the other and occupancy line as well. And as I mentioned in a previous question, not from you, but from, I think, Jeronimo, what we are seeing in the fourth quarter is that the pressures that we have seen in gross margin are much less now than what we have seen in the last twelve months. So with a better outlook in gross margin, I think we will be able to leverage on the gains, and margins will improve as long as sales continue to improve, as also Luis mentioned.

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

Luis Raganato: Alright. Thank you, Dan, Bob. What you can expect is a positive impact from the FIFA World Cup event. It's very popular and very important for the whole region from Mexico to Argentina, Brazil, and all the geographies. So what you can expect is a positive impact on brand attributes like favorite brand and brand awareness. And you can expect a positive impact on traffic. What happened and what is different today is that comparing with the World Cup in 2022, is that today, the delivery channel is a strength for us. So during the games, we're going to be able to be at home with our customers when they will be enjoying the games. And we're going to have, for sure, marketing campaigns throughout the whole period and more. That, for sure, we're going to surprise you with. Alright? That's all that I can tell you. But, yes, the impact is going to be positive.

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

Mariano Tannenbaum: Perfect. Thanks, Jeronimo. Well, as our strategy has been to grow sales at or above inflation, and we have done this consistently. Although in some quarters, like the third quarter of this year, has been tough in Brazil and in NOLAD given external factors as economic conditions and consumer situation, we think that by doing that, we will be able to leverage on all the operational efficiencies that we have been working on. As, for example, I just mentioned in payroll and other, you know, or other occupancy expenses. So as we are seeing, for example, pressures in gross margin, we have been working a lot in the company in every single cost line to bring efficiencies to the business. We are doing that, and I think for 2026, we are pretty comfortable that this strategy will yield, you know, at the end of the day, better margins, better cash flow, focusing also on efficiencies in our investments. The company will have an improved free cash flow, and with that, we will be able to return to shareholders and invest in the business for all the opportunities that we have.

Luis Raganato: Yeah. And, Mariano, if you let me add, when we talk about digitalization, and that is part of your question, and we're talking about not only customer-facing but back office. We have just implemented it, and we finished the implementation by the end of last year. A new scheduling system with the whole company that is bringing already efficiencies. And you can see that in our payroll line that it's helping us to mitigate, for example, the cost pressure that we have in food and paper. And just to finish this part of the question and the Q&A, I want to just make sure that you understand that our focus, my focus, the team's focus, is to try to deliver sustainable top-line growth and improved operational efficiency to your point. Because the main focus for the whole team is to drive profitability. We're working on the returns on investments, working in every line of the P&L; because the main goal is to generate free cash flow to create shareholder value. So with that, Dan, I pass it to you.

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