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## Would you like to large your combo for \$13.33?

We assigned ARCO an initial HOLD rating and a PT of \$13.33, a 10.1% upside from its current price. We ground our recommendation on the following: although ARCO operates in a challenging environment in which uncertainty and risk are present, growth perspectives and potential market expansion offer the opportunity to cope with these though macro conditions. ARCO is by far the leading QSR chain in LatAm&C, leveraging MCD's powerful brand image throughout the 20 countries and territories it operates on and generating revenues of \$4,730mm (2013E). ARCO has expanded its presence across the region since 2007 and proved being able to adjust its product offerings to local tastes and people's lifestyles. Given ARCO's territories macro difficulties and Company's strong fundamentals, we estimate that ARCO's shares are fairly valued.

**A macro tailwind would be enough to boost ARCO's financial results.** By 2Q2013, ARCO reported a revenues increase of 9.4% yoy (16.9% on an organic basis) to \$989.2mm and we estimate revenues and EBITDA CAGR to be 14.23% and 13.79% respectively for the period 2013-2017. Remarkable growth opportunities in the region are underlined by an underpenetrated QSR market in LatAm&C: total McDonald's restaurants per million people in the Territories are almost 12x smaller than in the U.S.. However, ARCO's upside is being eroded by its downside. Not only have local currencies' depreciations in the Territories significantly affected ARCO's 2012 USD-reported results, but also FX market restrictions in Venezuela & Argentina and current inflation rates in the region are threatening ARCO's growth opportunities.

**ARCO's strategy: CAPEX.** MFA's requirement over ARCO to invest \$60 million per year on reinvestment activities and no less than 250 new restaurants openings in the period 2011-2013, are clear indicators of ARCO's need to capture a large stake on the QSR segment's growth potential. We estimated a CAPEX CAGR of 11% for 2013-2017, with 140, 154 and 169 new restaurant openings for 2013, 2014 and 2015, respectively. This strategy is underpinned by ARCO's operating cash flows and debt issuances, being its actual ND/LTM EBITDA rate 1.7x as of June 30, 2013, and maintaining stable at 2.1x for our 2013's estimated EBITDA.

**ARCO's latest moves.** Prior to release its 3Q2013 results, ARCO announced on September 10, 2013 a debt tender and exchange offer for its outstanding US\$308.6 principal amount of its 7.5% Senior Notes due 2019. A total of US\$90.47 million principal amount was exchanged for \$98.77 million principal 2023 notes (at a \$1,092 conversion ratio), partially extending the maturity profile of the Company's debt and delaying principal payments. Additionally, new 2023 notes for US\$375 million were issued, strategy that we identify as a necessary step to continue its ambitious expansion plan through the upcoming years. This enabled ARCO also to repurchase US\$118.37 million of principal 2019 notes and repay certain short-term banking debt. ~US\$170mm in cash, net of expenses, went to the Company.

**Key points in our valuation.** We used a DCF approach weighting FCFF at a constant 14% WACC and constant 27.2% D/EV and FCFE at constant Cost of equity, resulting in \$13.33 per share. At PT, ARCO would trade 11.1x EV/2013E EBITDA.

Unless otherwise stated, \$ accounts for US Dollars.

## Arcos Dorados Holdings Inc.

Recommendation | HOLD  
Target Price | US\$ 13.33

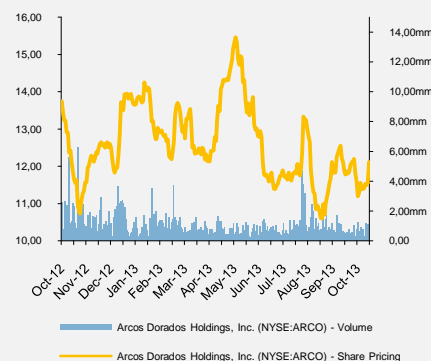
NYSE Ticker | ARCO  
Reuters | ARCO.N  
Bloomberg | ARCO:US

Sector | Services  
Industry | Restaurants

Initiation Report

Stock Data	US\$
Latest Price (as of Oct' 22 2013)	12.11
52 week Range (low – high)	10.45 - 15.52
Avg Vol (3m)	1,054,150
Market Val/ Shares Out (mm)	2,541 / 209.9
Fiscal Year End	Dec
PER	40.37
DPS	0.24
EPS (2013E)	0.3
Last Earnings Date	2Q13 (Aug' 6 2013)
Next Earnings Date	3Q13 (Nov' 5 2013)

Source: Yahoo Finance & Team estimates



Source: Capital IQ

Estimated EPS	
2013E	0.30
2014E	0.38
2015E	0.50
2016E	0.97
2017E	0.93

Source: Team estimates

A glossary of terms is served in Page XX.

## BUSINESS DESCRIPTION

**ARCO is the world's largest MCD's franchisee, accounting for 5.6% of global sales in 2012 and hosting 7% of MCD's 2012 total franchised restaurants.**

Arcos Dorados Holding Inc. (ARCO) commenced its operations in 2007 as a result of the acquisition of McDonald's (MCD) LatAm business and franchise rights. The previous holding company of the MCD LatAm business was Arcos Dorados Limited, which was incorporated in July 2006. On December 2010, ARCO was incorporated as a direct, wholly owned subsidiary of Arcos Dorados Limited, and four days later Arcos Dorados Limited carried out a downstream merger into ARCO, being the latter the surviving entity. ARCO is a British Virgin Islands company with limited liability and subject to British Virgin Islands law.

**ARCO's Chairman and CEO is Mr. Woods Staton**, who holds 76.2% and 40.0% of the voting and economic interests, respectively. ARCO's corporate headquarters are located in Buenos Aires, Argentina. Staton was the joint venture partner of MCD in Argentina for over 20 years prior to the acquisition and also served as President of MCD South Latin America division from 2004 until the acquisition. ARCO's senior management team is comprised mostly of executives who have previously worked in MCD LatAm business.

**ARCO's relationship with McDonald's is governed by a MFA**, which became effective since the acquisition and is eligible for renewal in August 2027. Under the MFA, ARCO has the right to operate, own and grant franchises of McDonald's-branded restaurants in selected countries and territories in LatAm&C. Mr. Staton is required by the MFA to hold at all time at least 51% of the voting interests and 30% of the economic interest.

**ARCO held its IPO on April 2011.** They launched a primary and secondary offer, composed of 9,529,412 new class A shares and 63,954,752 class A shares offered by selling shareholders. Class A shares are all listed on the NYSE under the "ARCO" ticker symbol. As of October 2013 Arcos Dorados had 209,867 thousand outstanding shares divided among institutional and individual investors. Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share. The latter ones are completely owned by Mr. Staton.

**Since the acquisition, ARCO has increased its presence in the region.** By the end of 2Q2013, ARCO operated 1,971 restaurants that are distributed in 20 countries and territories across LatAm&C defined as the Territories. Their operations are divided according to the following geographical division (See Fig. 1):

- **Brazil**
- **NOLAD:** Costa Rica, Mexico and Panama;
- **SLAD:** Argentina, Chile, Ecuador, Peru and Uruguay;
- **Caribbean Division:** Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad & Tobago, Venezuela and the U.S. Virgin Islands of St. Thomas and St. Croix.

ARCO classifies its portfolio restaurants into four different categories: freestanding, in-store, food court, and mall stores. As of 2012, 892 (45.8%) of ARCO's restaurants were freestanding, 432 (22.2%) courts, 293 (15.1%) in-stores and 329 (16.9%) mall stores (See Fig. 4).

**The MFA regulates ARCO's and MCD's relationship.** Under the MFA, ARCO must fulfill with a restaurant opening plan and a reinvestment plan. Both are agreed between ARCO and MCD every three-year period during the term of the MFA. For the period 2011-2013, ARCO must comply with an

Fig. 1. Network of ARCO's Restaurants



Fig. 2. Stock & Market Performance

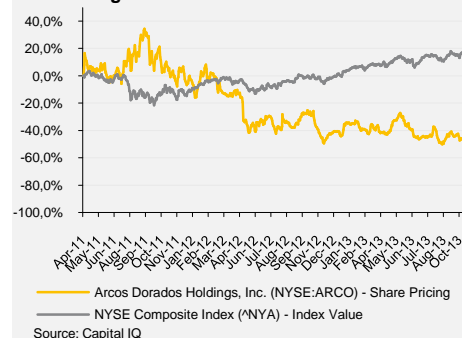


Fig. 3. Geographical Revenues Breakdown In Thousands USD

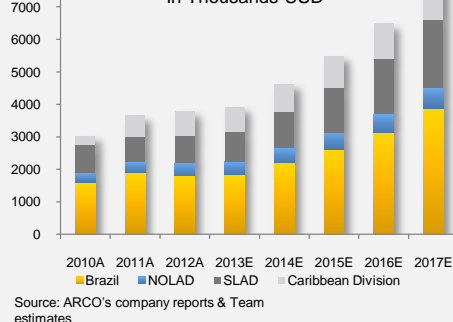
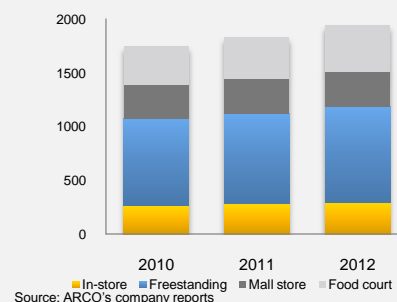


Fig. 4. Store Categories Development



aggregate reinvestment of \$60 million per year and the opening of no less than 250 new restaurants. In 2011, there were 85 net restaurant openings and in 2012, 108. For 2013, ARCO expects to achieve 140 gross restaurant openings. In addition, ARCO is required to spend at least 5% of gross sales and its franchisees to pay 5% of their gross sales, in order to fulfill with advertisement and promotion activities.

**Strong marketing campaigns help increase market share and penetration.** ARCO has a strong marketing calendar, which includes new product introductions and also adding value to existing ones. Throughout the years, it focuses in different key strategic platforms that need to be leveraged in order to drive sales. In 2012, they focused on menu relevance, convenience, strengthening kids and family experience and price segmentation for margin optimization and they launched several marketing initiatives related to each of these focuses.

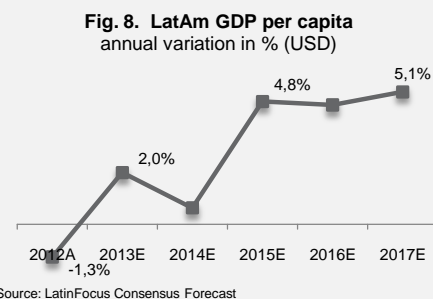
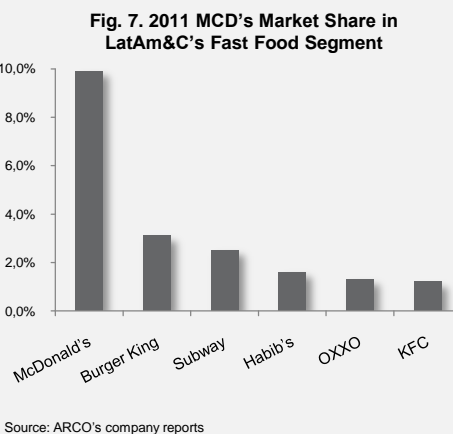
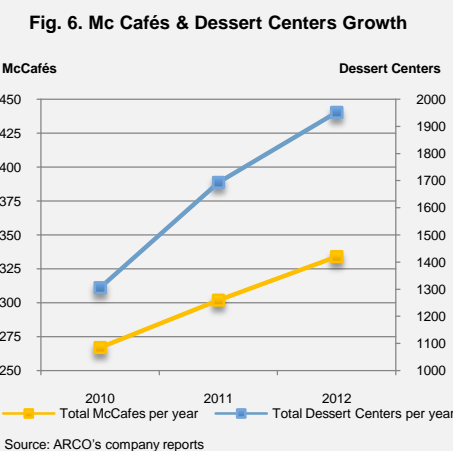
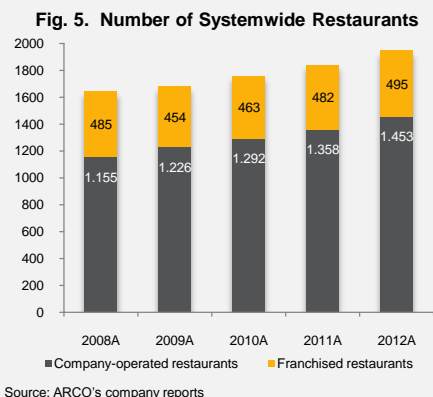
**The company has two different sources of revenue:** sales by Company-operated restaurants and revenues from franchised restaurants. The former are revenues generated by restaurants that are fully owned, managed and operated by ARCO. The latter are revenues generated by restaurants operated and managed by the franchisee with technical and operational support from ARCO. In exchange for this, franchisees pay a monthly rent based on the greater of a fixed fee or a percentage of franchised restaurants' gross sales. By 2012, 74.6% of total restaurants were Company-operated, and 25.4% were franchised (See Fig. 5).

**ARCO extended its brand's reach through new McCafé locations and Dessert Centers openings.** McCafé locations, with an average ROI of 33.6% and representing 1.3% of total sales in 2012, are primarily successful because they attract new customers while optimizing the use of ARCO's restaurants. Dessert Centers, with an average ROI of 154.2% and representing 8.7% of total sales in 2012, are an important driver of market penetration as they extend the brand to non-traditional areas. In the last few years, McCafés and Dessert Centers openings have accelerated and total number has quickly risen (See Fig. 6).

**INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING**

**ARCO operates in the restaurant industry, in particular, in the QSR segment.** This sector embraces strong competition due to low entry barriers and the popularity of the QSR concept in many of the markets in which ARCO operates, most importantly in Mexico and Puerto Rico. Competition ranges from national and international restaurant chains to regional and local restaurant operators, including also street vendors. Key players are McDonald's, Burger King, Subway and KFC. McDonald's brand is the largest in LatAm&C with a market share of 9.9% for 2011, compared to 3.1% of its closest competitor Burger King, and being even higher than its next five competitors combined (See Fig. 7). Street vendors should also be taken into consideration for they represent a 9.1% of total market share and they are expected to continue expanding.

**Fast Food & QSR show growth potential.** It is expected that the fast food segment in LatAm&C will reach a CAGR of 21% between 2012-2016. U.S. estimated CAGR has been significantly lower for the last years: for the period 2008 – 2013, it was estimated to be at 2.9% CAGR and estimates show that it will continue to be on these levels in the upcoming years. Main drivers for this difference are the expanding disposable income in lower socioeconomic segments in LatAm&C and higher population growth rates, which combined



increase QSRs customer traffic and average check. Furthermore, total employment growth has a strong correlation to QSR comps, being a positive sign for ARCO due to LatAm&C expectations of unemployment's rate decrease in the next years (See Fig. 9). QSRs reached a 61% of market share within the fast food segment in LatAm&C in 2011, and estimates reveal that the QSRs will even show a higher growth rate than the fast food segment in the near future.

**LatAm&C give rise to penetration.** ARCO's market penetration has the potential to expand as many of the countries in the Territories show a penetration measure below that of the U.S.. We computed total restaurants per million people in the Territories and found that total average is almost 12x smaller than in the U.S. (See Fig. 10).

**Expectations of slow rebound in LatAm's consumption.** Annual variation of consumption had been slowing down from 5.1% in 2011 to an estimated 2.9% in 2013 (See Fig. 11). However, experts estimate that it will increase to 4.0% in the next four years. This possibility provides ARCO the chance of increasing sales and achieving a successful expansion.

**QSR customer's profile and behavior.** Population demographics in LatAm&C are ideal for the QSR market since its target customers are young adults in the age range of 14-35 and families with children. Specifically, ARCO's operations have benefited from its Territories' populations size and age profile since they covered a market of ~575.9 million people in 2010 of which ~28% are under 14 years old and 46% are under 25 years old. In addition, QSRs in LatAm&C have experienced positive growth rates due to the region's modernization of consumption patterns, as people tend to seek for convenience, speed and value.

**Health highlights.** Nutrition and well-being have recently become more than a concern for QSRs as they receive pressure from people's healthy eating habits and face the risks of receiving legal actions and claims in respect to their products. This is the reason why ARCO adapted its product mix by including fruits, salads, and meals with reduced sodium, calorie and total fats.

**INVESTMENT SUMMARY**

After a valuation by DCF, we calculate a PT of \$13.33 with an upside of 10.1%. Therefore, we maintain a HOLD recommendation on the stock.

**ARCO is leader in the QSR in Latam&C.** It has 9.9% of QSR industry market share in the region, which surpasses the aggregate share of its five largest competitors. It has a priceless advantage over its competitors since it is a franchise of one of the most powerful brands in the world. ARCO can profit from long-term competitive advantages due to size and scale. Senior management has on average 22 years in the company, having experienced diverse and challenging operating environments.

**There are several growth opportunities at all levels.** ARCO operates in 20 territories and countries in Latam&C, an emerging region, currently growing above world average GDP (See Fig. 12). Strong macroeconomic indicators in Brazil, Chile, Colombia, Mexico and Peru reinforce the possibility of continuing to expand in these markets and also increase market share. Moreover, QSR industry is expected to grow at a 21% annual rate from 2012-2016 according to Euromonitor. According to team estimates, market is still underpenetrated: while in Latam&C there are less than 4 restaurants per million people, in the USA, there are almost 45 restaurants per million people.

**Socioeconomic shifts in Latam&C also represent a growth opportunity.** A

Fig. 9. LatAm&C Unemployment

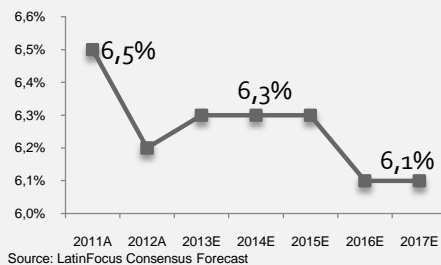


Fig. 10. Penetration Measure

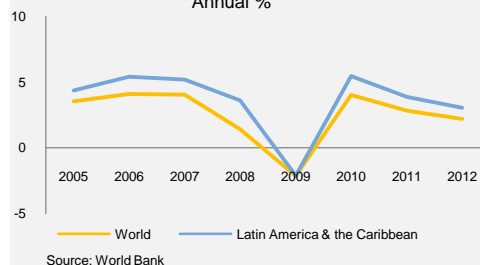
Region/Country	Population (in mill.)	Total Restaurant s*	Penetration Measure
Brazil	199	735	3,7
Nolad	129	366	2,8
Slad	107	366	3,4
Caribbean	84	355	4,2
Total Territories	520	1959	3,8
USA	314	14157	45,1

\*McDonald's Branded Restaurants  
Source: CIA World Fact Book & Team estimates

Fig. 11. LatAm Consumption annual variation in %



Fig. 12. GDP Growth Annual %



rapidly growing middle class in ARCO's largest market, Brazil, represents a unique chance given its preference for convenience and eating out. Moreover, a high percentage of population between 15-34 years old in key countries for ARCO, suggest that further expansion could be derived from enhancing efforts to target this segment (Fig. 13).

**Challenging conditions in some markets make us have a conservative approach to ARCO's growth forecasts.** ARCO has faced many operational challenges in these last years: volatile exchange rates, restrictions to access foreign exchange currency market, rising inflation and industry competition continue to pose a threat to earnings quality.

- Books and records are maintained in US dollars but revenues are generated in local currency. Brazilian's real, Argentinian's peso and Venezuelan's BF depreciations against USD have significantly affected 2012 results.
- Venezuelan's political instability and restrictions to currency's market affect operations in that country and threatens ARCO's operations as a whole. However, MCD has granted ARCO a royalty fee waiver, which is expected to be extended and also, ARCO is starting to establish long term relationships with internal suppliers, which will help alleviating COGS, denominated in USD.
- Argentina's FX currency market restrictions affect ARCO's ability to transfer funds abroad and therefore some payments are being prevented or delayed (e.g. 10% of F&P is imported and thereby USD denominated).
- Inflation is also threatening ARCO's ability to increase average check in line with general price increases. Some of the highest inflationary countries in the Latam&C region are found among ARCO's main contributors to revenues generation (Venezuela, Argentina and Brazil) (See Fig. 14).
- A highly competitive QSR industry in Mexico continues to menace NOLAD's margin as this country is the biggest contributor to revenues generation for the region. We believe that increasing marketing efforts and reimagining in Mexico will contribute to gradually increase its presence in the region.

All these risks are taken into consideration in the financial projections, and mainly included in the WACC buildup (For further details on this calculation, please refer to Valuation section).

**Although challenging conditions, ARCO still has a remarkable growth opportunity in the region.** We expect CAPEX to be around \$1,484 mm in the period 2013-2017 in order to expand its regional presence. Restaurant openings will increase in the medium term in all Territories (approximately 800 restaurants for the period 2013-2017) but the regions that will see major growth are Brazil and SLAD as seen in Fig. 15.

**VALUATION**

**For our valuation, we only took into consideration a DCF approach.** We computed both FCFF at a constant WACC and FCFE rebalancing debt throughout our planning horizon in order to keep D/EV at a constant and optimum level, as we consider ARCO's Management has the expertise in order to implement this task. Since the Acquisition, ARCO experienced a complete economic cycle. This is the reason why we used the information available from that point onwards, as a reference of how ARCO will perform under different economic scenarios.

**We performed a comparable companies analysis.** As a result of such analysis, we found that only ALSEA (BVM ticker: ALSEA\*) remains a reasonable comparable to ARCO for they have close target consumers, are present in similar geographies and have analogous operations. In this sense,

Fig. 13. % of population between 15-34 yrs old (2010)

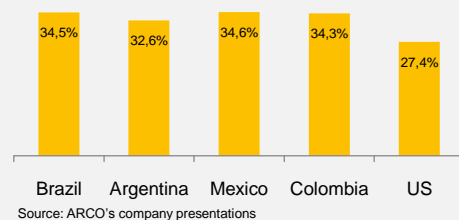
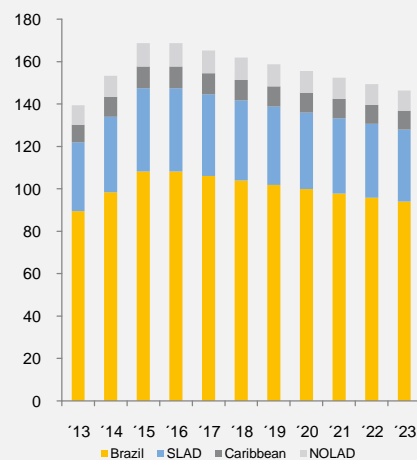


Fig. 14. 2013 Estimated Inflation

Brazil	6.00%
Mexico	3.90%
Argentina	22.39%
Venezuela	34.60%

Source: Team estimates

Fig. 15. Restaurant Openings per Region per year



we decided to conduct PER, EqV/Ni and EV/EBITDA multiples valuation only as an exercise and therefore, not to be factored in our weighted PT.

**Fair value determined by company's fundamentals.** We considered that computing FCFF through a DCF approach is the most appropriate method because it is based in ARCO's fundamentals, which are different from other peer companies and therefore difficult to value on a marked-to-market basis. It is essential to understand company's operations and financial management. Given the debt's target assumption implied in ARCO's forecasted expansion, we conduct alternatively a FCFE verifying target capital structure remains viable along time. The fair value PPS outcome is \$13.52 for FCFF and \$13.13 for FCFE. Assigning an equal percentage to each method, we reach at a final \$13.33 PPS (Fig. 16). Expected total return analysis can be seen in Fig. 17.

**Main FCFF & FCFE assumptions.** As ARCO operates in markets classified as emerging (Brazil, Mexico) and frontier (Argentina, Venezuela), for computing WACC, we added a weighted-by-revenues-share country premium to the risk-free rate. We used a levered beta congruent with a 27.2% D/EV target ratio, resulting in a cost of equity equal to 17.8%. To calculate the cost of debt, we weighted ARCO's three outstanding listed debt (which represent 92% of total financing debt) yields by their share in the total outstanding amount arriving at a 5.9% value. These results lead to a 14% WACC value as seen in Fig. 18. Our 10-year planning horizon relies on the fact that after the tenth year, cash flow stabilizes and we were able to calculate an accurate TV. To compute the TV we used an expected annual growth rate of 4%, which is consistent with a company with strong sales growth potential operating in a geography offering fast economic growth and with a well-known brand that can leverage this opportunity.

**Revenues growth perspectives offer the opportunity to continue consolidating expansion.** As shown in Fig. 19, company-operated restaurants sales growth varies throughout the regions due to intrinsic characteristics of each market. In a consolidated basis, we obtain a CAGR growth of 14.23% for the period 2013-2017. We considered the QSR industry growth and ARCO's expansion through CAPEX, mainly in Brazil and SLAD, as main growth drivers. We believe that each region will encounter different macroeconomic and operational conditions which will lead to ARCO's divisions growing at different levels.

**Operating costs put pressure on EBITDA margin.** Operating costs and expenses continue to remain stable as a percentage of revenues. F&P are expected to remain at a ~35% of Sales by company-operated restaurants as we do not foresee the possibility of reaching economies of scale in the short term. Suppliers are to be standardized under the MFA in order to comply with quality standards and bargaining power from the 25 largest suppliers, most of them strong multinationals with a unique product offer and representing 80% of F&P, will remain strong and thereby limit ARCO's ability to renegotiate better economical agreements. Additionally, by 2017 royalty fees are going to step up to 6% of revenues (and to 7% in 2022), which will eventually add more pressure on operating income.

**CAPEX strategy.** In order to capture a larger stake of QSR industry's potential growth, ARCO is required to make substantial capital disbursements. Our CAPEX estimates of 11% 2013-2017 CAGR are consistent with ARCO's growth plan. We assigned a share of total restaurant openings to each region according to management's view on each division. Two key CAPEX's components are new units' openings and reimagining of existing restaurants,

**Fig. 16. DCF (US\$m)**

FCFF	<b>NPV FCFF</b>	<b>1.082,04</b>
	+ PV of TV	2.423,08
	= Enterprise value	3.505,12
	- Debt	955,05
	Cash & Equivalents	287,65
	= Equity value	2.837,72
/ Shares Outstanding (mm)	209,87	
	<b>Equity value per Share (US\$)</b>	<b>13,52</b>
	D/EV ratio	0,27
FCFE	<b>NPV FCFE</b>	<b>1.282,33</b>
	+ PV of TV	1.185,95
	= Equity operativo	2.468,28
	+ Cash & Equivalents	287,65
	= Equity value	2.755,93
	/ Shares Outstanding (mm)	209,87
	<b>Equity value per Share (US\$)</b>	<b>13,13</b>
	D/EV ratio	0,27
	<b>Weighted Equity value per Share (US\$)</b>	<b>13,33</b>

Source: Team estimates

**Fig. 17. Expected Total Return**

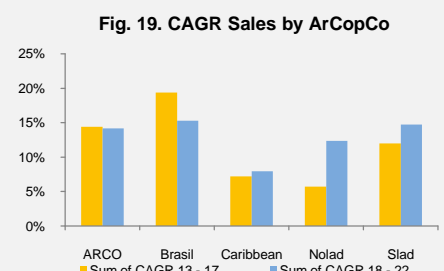
Price (Oct. 21, 2013)	12.11
Target Price	13.33
Expected Share Price Return	10.1%
Expected Dividend Yield	1.8%
<b>Expected Total Return</b>	<b>11.8%</b>

Source: Capital IQ & Team estimates

**Fig. 18. WACC Calculation**

10-Yr T-Bond = Risk free rate	2.6%
Latam&C Risk Premium	5.4%
Equity Risk Premium	5.8%
Adjusted Levered Beta	1.70
Cost of Equity	17.8%
Effective Tax rate	33.8%
Cost of debt	5.9%
D/EV	27.2%
<b>WACC</b>	<b>14.0%</b>

Source: Damodaran, Bloomberg & Team estimates



Source: Team estimates

which represented on average a ~41% and a ~14% of total CAPEX in 2009-2012 respectively. As of NOLAD division, the ongoing turnaround operations referred to by management will lead mainly to strong efforts in reimagining Mexico's existing restaurants. We expect this will help progressively build traffic, which in turn will result in better margins.

**Multiples analysis.** Although it is desirable to analyze the Company from a market's point of view, we consider that in this case it would be misleading due to ARCO's almost unique characteristics. Companies such as Burger King Worldwide, Inc. (NYSE:BKW), Chipotle Mexican Grill, Inc. (NYSE:CMG) and The Wendy's Company (NasdaqGS:WEN) have their main operations in the U.S.. Doctor's Associates Inc. (which runs SUBWAY) is not listed on a stock exchange, while Brazil Fast Food Corp. (OTCPK:BOBS) is not geographically diversified across LatAm as it only operates in Brazil. Although ALSEA's markets are similar to ARCO's, it should be taken into consideration that ALSEA not only has the Burger King franchise for the region but also the Starbucks' one and the latter has been rapidly expanding during recent years and is responsible mostly for ALSEA's current multiples. We calculated ALSEA's PER, EqV/Ni and EV/EBITDA, and found it is currently operating at 50.8x, 51.4x and 19.31x respectively. As a result, we arrived at a ARCO's PPS of US\$19.16, US\$19.39 and US\$30.69.

**FINANCIAL ANALYSIS**

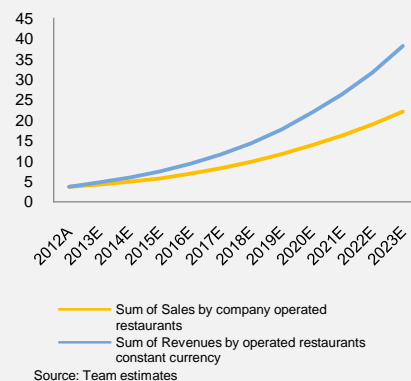
**Revenues growth on a continued mild upward trend.** From the Acquisition to 2012, ARCO's revenues consistently grew at an annual 7.81% CAGR, and we estimate this percentage to be 8.99% by the end of 2013, below 10.2% CAGR for QSR industry projected by Euromonitor for the same period. In spite of economic challenges in developed economies, with its consequent impact on emerging markets that tend to react with greater volatility, we expect revenues and EBITDA CAGR to rise to 14.23% and 13.79% respectively for 2013-2017. This will be mainly led by underpenetrated LatAm&C's potential and also, Company's success to overcome its competitors in major markets.

**FX impact to continue adding uncertainty to P&L.** With operations in 20 countries along the region and results reported in US dollars, FX impact are more than considerable. Local currencies are highly volatile, especially in Argentina and Venezuela where 25% of ARCO's revenues are generated. During 2013, Brazil has proven to deserve attention on this matter: USD/BRL is expected to decrease 12.20% by Dec13. (See Fig. 20)

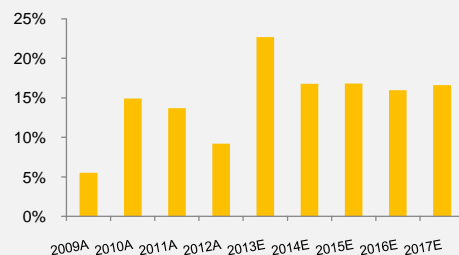
**Key revenue metrics remain unstable.** There are three main business measures that ARCO employs to evaluate its sales performance: SCSG, which is not distorted from the effect of foreign currency movements, SArES and SSG. As of 2Q13, SCSG increased by 11.6% YoY driven by Brazil and SLAD. Brazil contributed with 10% (~70% of this number is explained by higher average check) and SLAD with 21.4%. The SCSG 2013-2017 CAGR according to team estimates is 13%, and individual year-growth is shown in Fig. 21. After a 15.7% YoY increase in 2011, SARS 1.7% YoY contraction in 2012 reflects market volatility and difficulties for ARCO to overcome operational challenges. This has also impacted on SSG figures, which have been largely volatile since the acquisition. We consider that more stable revenue metrics would boost investors' confidence and share price would definitely capitalize this advantage.

**Cost initiatives to reach operational efficiencies still to be reflected on P&L.** ARCO's main cost lines are F&P (34.9% of ArcOpCo 2012

**Fig. 20. FX Effect**  
In millions



**Fig. 21. SCSG YoY**



sales), Occupancy (27.1%) and P&EB (20.7%), all of them related to company operated restaurants. Additionally, G&A expenses represent a total of 8.3% of net revenues. ARCO is facing several cost structure challenges on its operating divisions. In Brazil, we are cautious in reference to ARCO's overhead, as labor market puts upward pressure towards margins. Minimum wages increase beyond inflation (9% vs. 6% respectively), while company's strategy is to increase average ticket in line with inflation. Also, company's shift from temporary to fixed-work schedules, as a consequence of changes in legislation, will continue to have an impact on payroll costs. In SLAD, Argentina's rising inflation will continue to impact on main costs lines, in particular F&P and P&EB. Nevertheless, we believe ARCO will be able to rise average ticket in line with inflation. In the Caribbean Division, political and economic instability in Venezuela makes us consider further increases on its inflation and FX rate. ARCO has already begun to assure the provision of local sourcing in this country. We do not foresee major changes in cost structure for NOLAD. As for G&A expenses, management believes that they will continue to dilute as a % of revenues as ARCO continues to expand its business. Although they only represent 8.3% of revenues, this improvement could alleviate cost burden and marginally improve EBITDA.

**More predictability in P&L achieved through hedging operations.** ARCO is making an effort to reduce volatility in the P&L via currency hedge instruments on F&P and debt nominated in USD. In 2013, 100% of estimated Brazil's F&P and goods imports were hedged at an average 2.1 BRL/USD, and part of Colombia, Mexico, Chile and Uruguay's imported goods were also hedged. We anticipate this policy to be deepened in upcoming years, as currency devaluations are expected to be sizeable in ARCO's main markets (Argentina, Venezuela and Brazil).

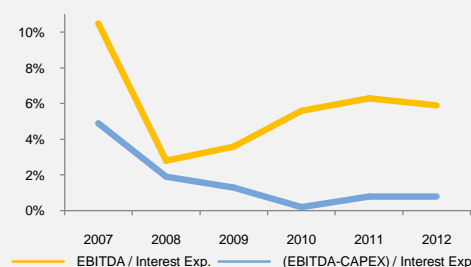
**Demanding CAPEX continues to consume high percentage of EBITDA.** Given ARCO's expansion strategy, CAPEX has been and will remain EBITDA demanding in the short term. Management intends to continue expanding and take advantage of QSR industry growth potential and also, foresees an opportunity in favorable current market conditions for incurring additional debt, as they have done in Sep. 2013. This will probably decrease company's cash needs and the possibility of any shortfalls. (See Fig. 22).

**No changes expected in dividend policy.** ARCO has paid \$50 million in dividends for the last three years. Management has expressed its intentions to continue with this policy in the medium term as long as the Board of Directors agrees and ARCO does not face restrictions of any type (e.g. limitations imposed in 2019 notes indenture). We expect that in the event of a worldwide credit tightening, dividends should be adjusted accordingly.

**ARCO to continue benefiting from negative operating WK.** QSR industry operators usually exhibit negative operating WK, as its customers pay upfront and suppliers are paid after 38 days on average. As a QSR industry player, we believe ARCO will continue to maximize its efficiency by succeeding to show negative operating WK. Its CCC is relatively stable and negative (See Fig. 23), proving that ARCO sells its inventories fast, receives upfront payment from customers and takes 38 days on average to pay its payables. ARCO will use this as a main source of financing CAPEX for 2014. We do not foresee changes in operating WK in the medium term.

**No additional material debt is to be issued in near future.** Under Company's revolving credit facilities, ND/LTM EBITDA should remain below 2.5x. Being 1.7x as of June 30, 2013, after 2023 notes issuance and using EBITDA

Fig. 22 CAPEX Impact on EBITDA



Source: ARCO's company reports

Fig. 23 Working Capital  
In days

	2011	2012
DSO	10	11
DIO	15	16
DPO	37	39
<b>CCC</b>	<b>-12</b>	<b>-13</b>

Source: Team estimates

2013E, a ratio of 2.1x was estimated. ARCO's Management feels well off with a 2x ratio, so we do not expect material variations in debt level in the medium term.

**MFA's indebtedness covenants are not currently threatening.** Subject to the MFA, FCCR should be at least 1.5 (1.92 in Dec. 2012) and LR is not supposed to exceed 4.25 (4.07 in Dec. 2012). By Dec. 2013, we estimate this metrics to be at 2.05 and 2.4 respectively which lead us to think that there is still certain flexibility as to debt management. Two additional debt-related metrics that are closely followed by rating agencies are D/EBITDA and EBIT/Interest and both remain relatively stable for ARCO, indicating good financial health.

**ARCO's access to fixed-income markets remains open.** At current levels, the Company complies with both, bank and markets requirements, indicating that there are still opportunities for placing further debt as long as its financial condition remains stable.

**INVESTMENT AND VALUATION RISKS**

**Upside risks**

**Reaching economies of scale could alleviate cost burden.** In the past few years, costs as percentage of sales have been relatively stable (Fig. 24). If ARCO succeeds to take advantage of its operation's growth, it could ease some of its costs in the medium-term, such as G&A and F&P. In particular, G&A could be diluted as a percentage of ARCO's sales since they are to be distributed among a higher number of restaurants. Even though most of ARCO's F&P are supplied by a limited number of companies with strong bargaining power, in the long term, ARCO might have the opportunity to improve conditions in negotiations with suppliers. It could then reach economies of scale and gradually increase Company's margins.

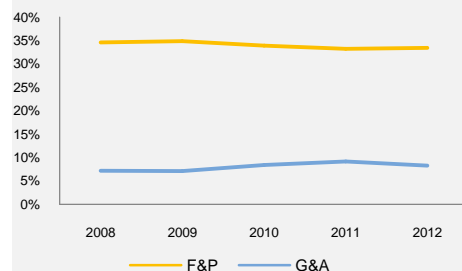
**Political and economical conditions in Argentina and Venezuela could improve in the medium term.** Reversion of latest economical and political measures would imply a significant improvement in countries image and therefore, an immediate adjustment of WACC (through lower country risk premium). Stock value could potentially rise.

**Downside risks**

**Given ARCO's international profile, the company is sensitive to foreign exchange rate fluctuations (Fig. 25).** ARCO is exposed to exchange rate risk fluctuations in several ways: (i) it reports its revenues in USD and any depreciation in local currencies directly affects ARCO's financial results; (ii) approximately 30% of COGS are imported and a depreciation of the local currency could raise operational costs; (iii) royalties and dividends to shareholders are paid in USD. In case of depreciation these could increase; (iv) as of October 2013 65,3% of outstanding long-term debt listed is issued in USD. A decrease in the value of local currencies would negatively affect ARCO's ability to fulfill their obligations.

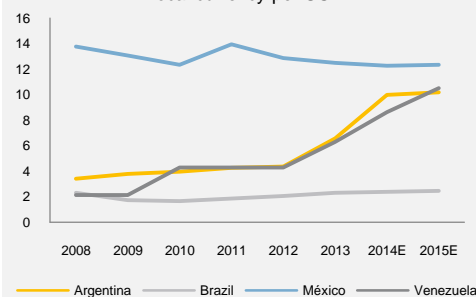
**Cost inflation could erode margins and affect earnings.** Given that ARCO operates in highly inflationary countries, such as Argentina and Venezuela (Fig. 26), it faces a dual risk of increasing operative costs and decreasing margins in case they are not able to fully pass these increases on to their customers. In addition, ARCO could also be affected by global commodities' price increase (Fig. 27) as Happy Meal toys that are imported from China, among others, which could endanger its cost structure. Labor costs increasing above inflation could as well undermine ARCO's profits.

**Fig. 24. G&A and F&P Costs to Total Revenue**  
% Costs/Total Revenue



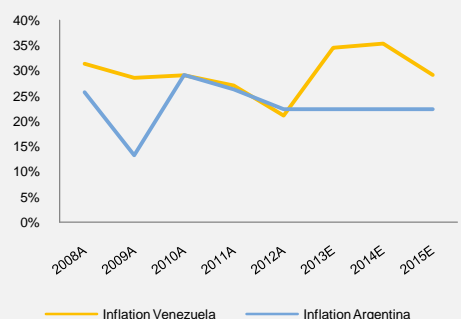
Source: ARCO's company reports

**Fig. 25 FX Rates**  
Local currency per USD



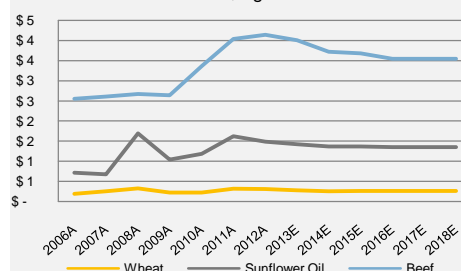
Source: Company reports and team estimates

**Fig. 26 Inflation Rates**



Source: Company reports and Team estimates

**Fig. 27 Commodity Prices**  
\$/kg



Source: IMF

**Unstable economic and political conditions in Argentina and Venezuela may affect ARCO's operations.** As of 2012, Argentina and Venezuela were the third and the fourth largest markets in terms of restaurants and they represented the 15.4% and 9.1% of company's total revenues. Both countries face restrictions to foreign exchange markets that hinder the purchase of other currencies and therefore restrict the ability of ARCO of making payments abroad. Alternative ways of accessing to foreign currency market have emerged in both economies. While in Argentina it is still possible to access to government bonds issued in USD (with a higher implicit exchange rate as seen in Fig. 28), in Venezuela restrictions are more aggressive and the FX market has been virtually shut down.

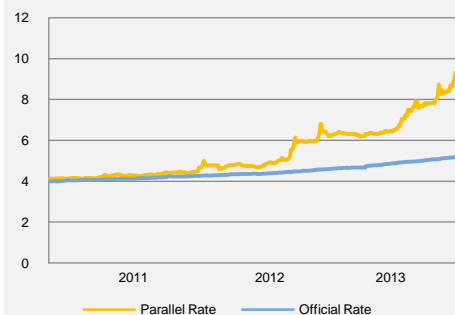
**Business operations are subject to MFA's conditions.** Failure to comply with MFA's requirements could result in MCD taking over part or all of ARCO's business. If ARCO does not follow the reinvestment plan and unit development renegotiated every 3-year period or fails to keep a dual class structure (class A shares with one vote per share and listed in NYSE and class B shares with 5 votes per share), which allows Mr. Staton to concentrate at least 30% economic interest and 51% voting interest, its normal operation will be threatened. Additionally, ARCO is required to comply with all royalty payments agreed on the MFA to MCD. Failure to do so will allow MCD to acquire all non-public shares or ARCO's interests in the territory that did not comply. Moreover, it imposes restrictions to the amount of debt that ARCO can incur (FCCR should be at least 1.5 and LR should not exceed 4.25).

**OTHER HEADINGS**

**Strong brand image and reputation.** MCD was ranked 7th by Forbes in its "World's Most Powerful Brands 2012" ranking, and according to Euromonitor, MCD is one of the most widely recognized consumer brands in LatAm&C. In the case of Latam&C MCD's Franchise, the aspirational prestige was achieved mainly by its ability to associate with the communities in which it operates and by emphasizing its attention on consumer's needs and perception of the brand. Its initiative to adapt its business to different cultures is materialized in their product offerings, which is constantly tailored to local tastes. In addition, MCD adjusts its product mix according to people's lifestyle. For example, nutrition and healthy eating habits have been drivers of the introduction of fruits, salads and meals with reduced fat, calories and sodium. Even to strengthen its relationship with customers, ARCO launched this year in Argentina the "Más alla de la Cocina" campaign about the origin of their products in order to reinforce its commitment with quality.

**ARCO's consumer perception is enhanced by its socially responsible performance.** ARCO is well-known for its Corporate Social Responsibility actions which have a positive impact on its employees, customers and communities. ARCO has ranked 6th in the "Great Place to Work" survey, among 25 multinational companies operating in Latin America. They are involved in several charitable and social activities: its major charitable cause is the Ronald McDonald House Charities, through which it supports children's health and well-being. One day a year, McHappy Day takes place and all income from Big Mac's sales is donated to Ronald McDonald House Charities. In addition, ARCO encourages people to follow a balanced lifestyle and focus on their well-being through several sports initiatives. One of the most well known is "McDonald's 5K Women Run", an event in which more than 60,000 women from 19 countries in LatAm&C participate, and through which ARCO is able to raise funds and awareness on health conditions.

**FIG. 28. Argentina's Currency Rate \$/USD**



Source: Reuters and La Nación

**Fig. 29. Most Valuable Brands in the World**

Rank	Brand	Brand Value (\$bil)	Industry
1	Apple	87,1	Technology
2	Microsoft	54,7	Technology
3	Coca-Cola	50,2	Beverages
4	IBM	48,5	Technology
5	Google	37,6	Technology
6	Intel	32,3	Technology
7	McDonald's	37,4	Restaurants
8	General Electric	33,7	Diversified
9	BMW	26,3	Automotive
10	Cisco	26,3	Technology
54	Starbucks	6,3	Restaurants
90	Subway	4,9	Restaurants

Source: Forbes

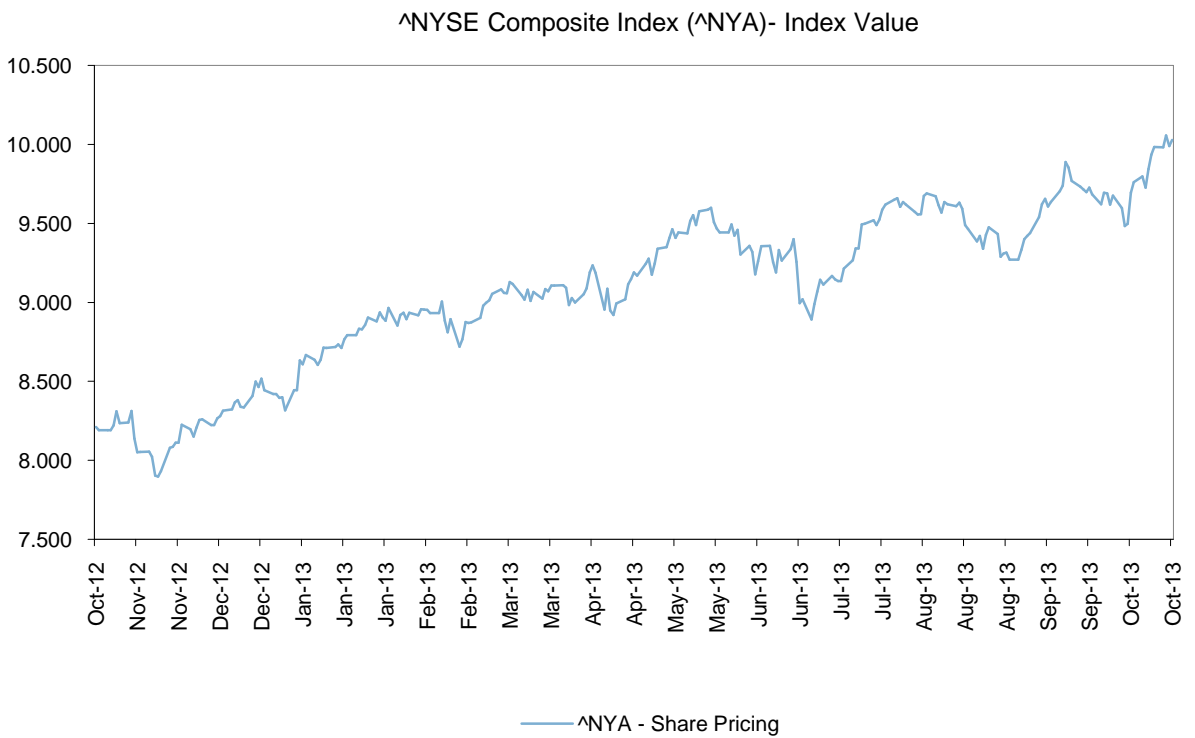
## Appendix

### 1. Rating Definition

The following table describes Team's rating criteria:

Rating	Criteria
BUY	Stock's return is expected to be above 20% over the next 12 months.
HOLD	Stock's return is expected to be between 0% and 20% over the next 12 months.
SELL	Stock's return is expected to be below 0% over the next 12 months.

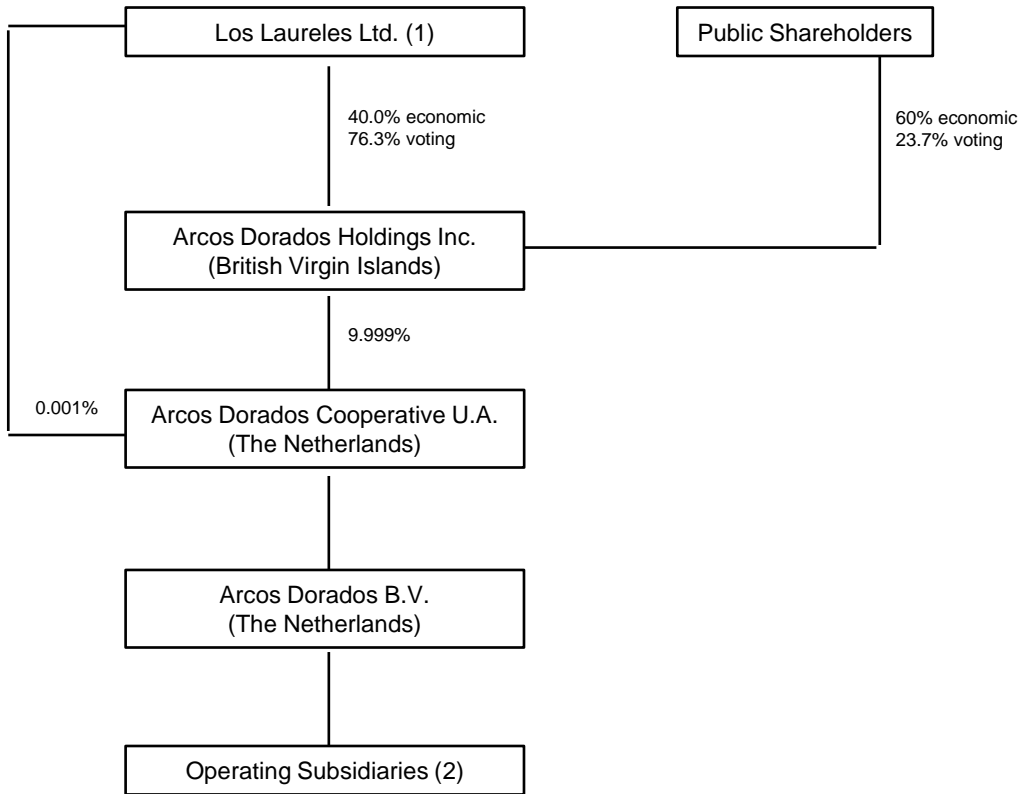
### 2. LTM NYSE Composite Performance



Source: Capital IQ

Appendix

3. ARCO's Corporate Structure



(1) Includes class A shares and class B shares beneficially owned by Mr. Staton, our Chairman and CEO. Los Laureles Ltd. is beneficially owned by Mr. Staton. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders— Los Laureles Ltd." Mr. Staton directly owns 0.001% of the shares of Arcos Dorados Cöoperative U.S.

(2) Includes operating subsidiaries held directly and, in some cases, indirectly through certain intermediate subsidiaries.

Source: ARCO company reports

## Appendix

### 4. ARCO's Restaurant Categories



**Freestanding**



**In-store**



**Mall Store**

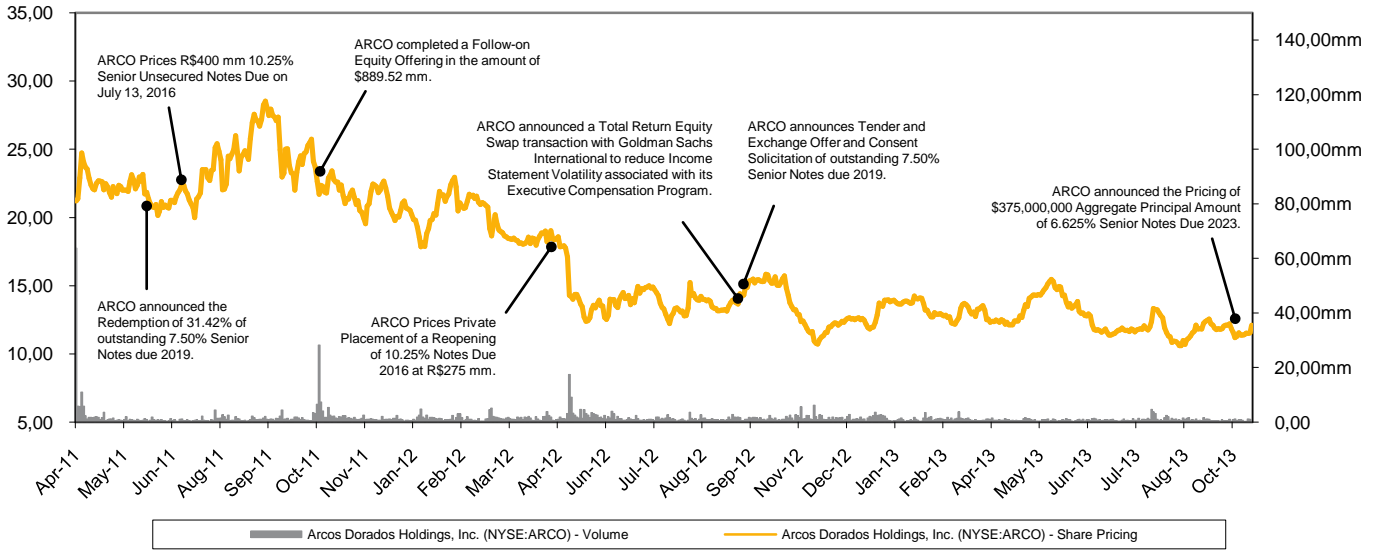


**Food Court**

Source: ARCO company reports

## Appendix

### 5. ARCO's Timeline

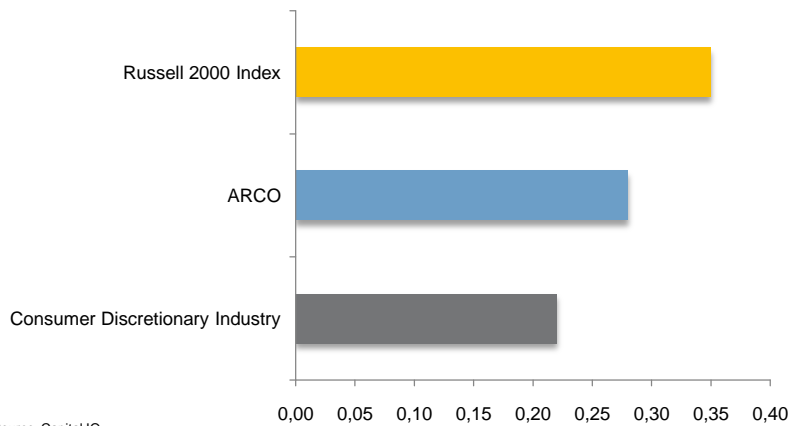


Source: Capital IQ & ARCO company information

### 6. Takeover Defenses

ARCO is between Consumer Discretionary Industry and Russell 2000 Index in terms of takeover defenses.

Fig. XX Takeover Defenses Comparison



Source: Capital IQ

## Appendix

## 7. Financial Statements

	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
<b>Operating Results in USD Mm.</b>												
Sales by company operated restaurants	3,634.4	4,185.8	4,904.3	5,679.5	6,876.1	8,196.1	9,758.9	11,621.6	13,883.6	16,204.0	18,918.1	22,093.5
Revenues from franchised restaurants	163.0	184.3	215.4	250.1	257.4	303.5	358.1	361.7	426.0	494.5	493.1	572.2
<b>Total Revenues</b>	<b>3,797.4</b>	<b>4,370.1</b>	<b>5,119.7</b>	<b>5,929.6</b>	<b>7,133.6</b>	<b>8,499.6</b>	<b>10,117.1</b>	<b>11,983.3</b>	<b>14,309.6</b>	<b>16,698.5</b>	<b>19,411.2</b>	<b>22,665.8</b>
Food and paper	1,296.2	1,490.5	1,734.5	1,995.4	2,399.6	2,841.2	3,368.6	3,994.4	4,752.7	5,541.9	6,464.7	7,543.9
Payroll and employee benefits	753.1	874.0	1,044.5	1,208.2	1,464.5	1,746.8	2,081.6	2,480.0	2,965.3	3,461.1	4,041.0	4,719.3
Occupancy and other operating expenses	1,011.8	1,163.5	1,363.1	1,580.1	1,907.3	2,271.8	2,703.4	3,217.5	3,841.0	4,483.5	5,235.1	6,114.5
Royalty fees	180.6	200.5	236.7	276.0	336.2	489.3	583.0	694.8	833.0	972.2	1,324.3	1,546.5
Company-operated restaurant expenses	3,241.7	3,728.6	4,378.8	5,059.7	6,107.7	7,349.1	8,736.5	10,386.6	12,392.1	14,458.8	17,065.0	19,924.3
Franchise restaurants - occupancy expenses	58.6	65.3	76.9	90.0	90.9	107.8	127.7	127.3	150.6	173.2	171.9	200.0
General and administrative expenses	95.7	121.6	142.2	165.2	184.7	219.5	260.3	283.9	337.1	391.0	416.7	483.4
Depreciation and Amortization	119.3	109.4	123.6	134.3	143.5	160.7	182.8	203.6	227.3	251.5	278.0	308.3
Other operating expenses, net	3.3	9.1	10.7	12.4	15.0	17.9	21.3	25.3	30.2	35.3	41.2	48.1
<b>Total operating costs and expenses</b>	<b>3,518.6</b>	<b>4,033.9</b>	<b>4,732.2</b>	<b>5,461.7</b>	<b>6,541.7</b>	<b>7,855.0</b>	<b>9,328.6</b>	<b>11,026.8</b>	<b>13,137.4</b>	<b>15,309.8</b>	<b>17,972.9</b>	<b>20,964.2</b>
<b>EBIT</b>	<b>278.8</b>	<b>205.3</b>	<b>234.2</b>	<b>290.4</b>	<b>419.9</b>	<b>439.6</b>	<b>544.4</b>	<b>724.0</b>	<b>894.5</b>	<b>1,064.5</b>	<b>1,135.5</b>	<b>1,348.0</b>

## Appendix

	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
<b>Balance sheet in USD Mm</b>												
<b>Current Assets</b>												
Cash and cash equivalents	184.85	236.45	372.39	536.76	895.68	1,101.88	1,466.62	1,989.84	2,608.07	3,337.99	4,241.93	4,897.46
Accounts and notes receivable net	105.02	116.62	136.63	158.23	191.57	228.35	271.89	323.78	386.80	451.45	527.06	615.53
Other receivables	131.75	79.48	92.76	107.07	128.97	153.11	181.83	215.96	257.34	300.22	350.35	409.01
Inventories	54.82	63.31	73.67	84.75	101.92	120.67	143.07	169.65	201.86	235.38	274.57	320.41
Prepaid expenses and other current assets	101.15	144.85	169.06	195.15	235.07	279.06	331.39	393.61	469.03	547.17	638.55	745.45
Derivative instruments	1.73	1.04	1.21	1.39	1.67	1.98	2.35	2.78	3.31	3.86	4.50	5.25
Deferred income taxes	22.18	20.74	23.65	29.33	42.40	44.40	54.98	73.12	90.33	107.50	114.68	136.13
McDonald's Corporation's indemnification for contingencies	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>601.5</b>	<b>662.5</b>	<b>869.4</b>	<b>1,112.7</b>	<b>1,597.3</b>	<b>1,929.5</b>	<b>2,452.1</b>	<b>3,168.7</b>	<b>4,016.7</b>	<b>4,983.6</b>	<b>6,151.7</b>	<b>7,129.2</b>
<b>Non - Current Assets</b>												
Miscellaneous	59.30	69.12	77.08	85.35	93.75	102.51	110.58	118.70	127.36	135.13	143.00	151.65
Collateral deposits	5.33	6.21	-	-	-	-	-	-	-	-	-	-
Property and equipment, net	1,176.35	1,371.14	1,528.98	1,692.97	1,859.70	2,033.28	2,193.53	2,354.53	2,526.32	2,680.43	2,836.49	3,008.02
Net intangible assets and goodwill	67.27	52.45	67.12	47.16	13.83	6.95	20.45	20.45	20.45	20.45	20.45	20.45
Deferred income taxes	133.71	155.85	173.79	192.43	211.38	231.11	249.32	267.62	287.15	304.67	322.41	341.90
McDonald's Corporation's indemnification for contingencies	5.71	6.65	-	-	-	-	-	-	-	-	-	-
<b>Total Non - Current Assets</b>	<b>1,447.7</b>	<b>1,661.4</b>	<b>1,847.0</b>	<b>2,017.9</b>	<b>2,178.7</b>	<b>2,373.8</b>	<b>2,573.9</b>	<b>2,761.3</b>	<b>2,961.3</b>	<b>3,140.7</b>	<b>3,322.3</b>	<b>3,522.0</b>
<b>Total Assets</b>	<b>2,049.2</b>	<b>2,323.9</b>	<b>2,716.3</b>	<b>3,130.6</b>	<b>3,775.9</b>	<b>4,303.3</b>	<b>5,026.0</b>	<b>5,930.1</b>	<b>6,978.0</b>	<b>8,124.2</b>	<b>9,474.0</b>	<b>10,651.3</b>
<b>Liabilities</b>												
<b>Current Liabilities</b>												
Accounts payable	244.37	277.44	323.81	373.77	450.23	534.49	634.73	753.89	898.34	1,048.01	1,223.04	1,427.78
Royalties payable to McDonald's Corporation	29.28	27.59	32.57	37.96	46.25	67.31	80.21	95.98	114.60	133.75	182.18	212.76
Income taxes payable	21.05	41.88	49.07	56.83	68.80	82.01	97.65	116.29	138.92	162.14	189.30	221.07
Other taxes payable	104.66	103.95	121.79	141.05	170.76	203.54	242.35	288.61	344.79	402.41	469.82	548.68
Accrued payroll and other liabilities	150.69	71.84	97.53	112.89	135.55	161.62	192.48	227.17	271.43	316.61	366.39	427.62
Provision for contingencies	0.51	0.56	0.66	0.76	0.92	1.10	1.31	1.56	1.87	2.18	2.54	2.97
Interest payable	21.57	27.72	34.17	37.44	42.57	46.85	51.92	56.68	60.99	64.82	73.31	68.53
Short-term debt	0.57	0.63	-	-	-	-	-	-	-	-	-	-
Current portion of long-term debt	1.63	2.24	-	-	-	-	-	-	-	-	-	-
Derivative instruments	3.95	5.41	6.76	7.84	8.92	9.81	10.88	11.87	12.78	13.58	15.36	14.36
<b>Total Current Liabilities</b>	<b>578.3</b>	<b>599.3</b>	<b>666.4</b>	<b>768.5</b>	<b>924.0</b>	<b>1,106.7</b>	<b>1,311.5</b>	<b>1,551.7</b>	<b>1,843.7</b>	<b>2,143.5</b>	<b>2,521.9</b>	<b>2,923.8</b>
<b>Non-current liabilities</b>												
Accrued payroll and other liabilities	40.12	19.12	25.96	30.05	36.08	43.02	51.24	60.48	72.26	84.29	97.54	113.84
Provision for contingencies	20.09	27.52	-	-	-	-	-	-	-	-	-	-
Long-term debt, excluding current portion	649.97	890.26	1,112.29	1,289.84	1,466.50	1,614.02	1,788.78	1,952.66	2,101.09	2,233.24	2,525.70	2,360.92
Derivative instruments	5.40	7.39	9.24	10.71	12.18	13.40	14.85	16.21	17.45	18.54	20.97	19.60
Deferred income taxes	9.01	10.67	12.06	13.11	14.00	15.67	17.83	19.86	22.18	24.54	27.12	30.08
<b>Total Non - Current Liabilities</b>	<b>724.6</b>	<b>985.0</b>	<b>1,159.6</b>	<b>1,343.7</b>	<b>1,528.8</b>	<b>1,686.1</b>	<b>1,872.7</b>	<b>2,049.2</b>	<b>2,213.0</b>	<b>2,360.6</b>	<b>2,671.3</b>	<b>2,524.4</b>
<b>Total Liabilities</b>	<b>1,302.9</b>	<b>1,514.2</b>	<b>1,825.9</b>	<b>2,112.2</b>	<b>2,452.8</b>	<b>2,792.9</b>	<b>3,184.2</b>	<b>3,600.9</b>	<b>4,056.7</b>	<b>4,504.1</b>	<b>5,193.3</b>	<b>5,448.2</b>
<b>Equity</b>												
Capital	344.38	344.38	344.38	344.38	344.38	344.38	344.38	344.38	344.38	344.38	344.38	344.38
Retained earnings	400.76	400.76	464.12	588.21	772.31	967.93	1,231.12	1,605.90	2,088.89	2,679.30	3,304.60	4,077.81
Total Arcos Dorados Holdings Inc. shareholders' equity	745.14	745.14	808.50	912.59	1,116.69	1,312.31	1,575.50	1,950.28	2,433.27	3,023.68	3,648.98	4,422.19
Non-controlling interests in subsidiaries	1.17	1.17	1.33	1.65	2.39	2.50	3.09	4.12	5.08	6.05	6.45	7.66
<b>Total Equity</b>	<b>746.31</b>	<b>746.31</b>	<b>809.83</b>	<b>914.24</b>	<b>1,119.08</b>	<b>1,314.81</b>	<b>1,578.60</b>	<b>1,954.40</b>	<b>2,438.36</b>	<b>3,029.73</b>	<b>3,655.44</b>	<b>4,429.85</b>
<b>Total liabilities and equity</b>	<b>2,049.16</b>	<b>2,260.54</b>	<b>2,635.75</b>	<b>3,026.49</b>	<b>3,571.84</b>	<b>4,107.68</b>	<b>4,762.83</b>	<b>5,555.27</b>	<b>6,495.04</b>	<b>7,533.84</b>	<b>8,848.70</b>	<b>9,878.06</b>

## Appendix

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
<b>Income statement in USD Mm</b>											
<i>EBIT</i>	205,32	234,15	290,45	419,89	439,64	544,43	724,03	894,49	1,064,46	1,135,54	1,347,96
<i>Intereses</i>	56,21	69,28	75,92	86,32	95,00	105,29	114,93	123,67	131,45	148,66	138,96
<i>Other non operating expenses</i>	53,09	42,74	56,76	24,24	48,16	40,26	41,09	38,82	38,21	39,19	37,15
<i>Ganancia sujeta a impuesto</i>	96,02	122,13	157,76	309,32	296,48	398,87	568,01	732,00	894,80	947,69	1,171,84
<i>Tax</i>	32,48	41,31	53,36	104,62	100,28	134,91	192,12	247,59	302,65	320,54	396,36
<i>Net Income</i>	63,54	80,82	104,40	204,70	196,20	263,96	375,89	484,41	592,15	627,15	775,49
<i>Minority interest</i>	0,19	0,24	0,31	0,60	0,58	0,78	1,11	1,42	1,74	1,84	2,28
<b>Net income attributable to Arcos Dorados Holdings Inc</b>	<b>63,4</b>	<b>80,6</b>	<b>104,1</b>	<b>204,1</b>	<b>195,6</b>	<b>263,2</b>	<b>374,8</b>	<b>483,0</b>	<b>590,4</b>	<b>625,3</b>	<b>773,2</b>

## Appendix

Revenues Breakdown by Regions									
	2011	2012E	2013 2Q	2013E	2014E	2015E	2016E	2017E	
Brazil	52%	47%	47%	46%	49%	53%	54%	57%	
SLAD	20%	23%	23%	24%	24%	22%	23%	22%	
NOLAD	10%	10%	10%	10%	9%	9%	8%	7%	
Caribbean	18%	20%	20%	19%	18%	17%	15%	14%	

## Appendix

## 8. Valuation

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	TV
<b>DCF@ FCFE</b>												
EBIT	205,3	234,2	290,4	419,9	439,6	544,4	724,0	894,5	1.064,5	1.135,5	1.348,0	
-(EBIT*(T))	69,4	79,2	98,2	142,0	148,7	184,1	244,9	302,5	360,0	384,1	455,9	
+ Depreciaciones	109,4	123,6	134,3	143,5	160,7	182,8	203,6	227,3	251,5	278,0	308,3	
-(Δ KT)	36,7	-31,1	-18,8	-23,4	-51,4	-40,5	-40,7	-56,8	-57,9	-103,6	-85,1	
-(Δ CAPEX)	289,3	266,7	287,9	307,2	332,7	338,5	360,1	394,6	401,1	429,6	475,4	
<b>FCFF</b>	-80,8	43,0	57,4	137,6	170,3	245,1	363,4	481,4	612,8	703,6	810,1	8.418,3
TV												
Total FCFE	-80,8	43,0	57,4	137,6	170,3	245,1	363,4	481,4	612,8	703,6	810,1	8.418,3
WACC	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
NPV FCFE	-78,8	36,8	43,0	90,5	98,2	124,0	161,2	187,3	209,1	210,6	242,3,1	
<b>= Enterprise Value</b>	<b>3.505,1</b>											
- Debt	955,1											
+ Cash&cash equivalents	287,7											
<b>= Total Equity Value</b>	<b>2.837,7</b>											
/ Diluted Shares outstanding	209,9											
<b>= Equity Value per Share</b>	<b>13,52</b>											
<b>DCF@ FCFE</b>												
Debt	955,1	1.177,1	1.289,8	1.466,5	1.614,0	1.788,8	1.952,7	2.101,1	2.233,2	2.525,7	2.360,9	
FCFF	-80,8	43,0	57,4	137,6	170,3	245,1	363,4	481,4	612,8	703,6	810,1	
- Interest (with tax shield)	37,2	45,8	50,2	57,1	62,9	69,7	76,1	81,8	87,0	98,4	92,0	
+ Δ Debt	-	222,0	112,8	176,7	147,5	174,8	163,9	148,4	132,2	292,5	-164,8	
<b>FCFE</b>	-118,0	219,2	119,9	257,1	255,0	350,1	451,2	548,0	657,9	897,6	553,4	5.750,4
TV												
Total FCFE	-118,0	219,2	119,9	257,1	255,0	350,1	451,2	548,0	657,9	897,6	630,8	
Cost of Equity	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
NPV FCFE	-114,3	180,3	83,7	152,3	128,2	149,5	163,5	168,5	171,8	198,9	1.185,9	
<b>= Operating Equity</b>	<b>2.468,3</b>											
+ Cash&cash equivalents	287,7											
<b>= Total Equity Value</b>	<b>2.755,9</b>											
/ Diluted Shares outstanding	209,9											
<b>= Equity Value per Share</b>	<b>13,13</b>											
<b>Weighted Price@50%</b>	<b>13,33</b>											

## Appendix

### Glossary

#### #

1Q: First Quarter

2Q: Second Quarter

#### A

ARCO: Arcos Dorados Holding Inc.

ArCopCo: Company-operated Restaurants

#### C

CAGR: Compound Annual Growth Rate

CAPEX: Capital Expenditure

Capitalized Lease Obligations: obligations under a lease which are required to be classified and accounted for as capital lease obligations under GAAP.

CCC: Cash Conversion Cycle

CD: Caribbean Division

COGS: Cost of Goods Sold

COMPS: Comparable Same-Store Sales

#### D

D: Debt

DCF: Discounted Cash Flow

D/EV: Debt to Enterprise Value

#### E

EBIT: Earnings Before Interests and Taxes.

EBITDA: Earnings Before Interests, Taxes, Depreciation and Amortization

EBITDAR: for any period, an amount equal to EBITDA for such period plus, to the extent deducted in calculating Net Income for such period, Capital Leases and Synthetic Lease Obligations for such period.

EqV/NI: Equity Value to Net Income

EV: Enterprise Value

#### F

F&P: Food and Paper Costs

FCCR: Fixed Charge Coverage Ratio, which is defined as the ratio of EBITDAR minus distributions and dividends in each case for the period of four consecutive fiscal quarters ending on such date of determination, to the sum of Principal and Interest Expense plus Capital Leases and Synthetic Lease Obligations in each case for the period of four consecutive fiscal quarters ending on such date of determination

FCFE: Free Cash Flow to the Equity

FCFF: Free Cash Flow to the Firm

FX: Foreign Exchange

#### G

G&A: General and Administrative Expenses

## Appendix

GDP: Gross Domestic Product

### **I**

IPO: Initial Public Offering

### **K**

KFC : Kentucky Fried Chicken

### **L**

LatAm&C: Latin American and Caribbean territories in which Arcos Dorados operates

LatAm: Latin American territories in which Arcos Dorados operates

LTM: Last Twelve Months

LR: Leverage Ratio, which means the ratio of Rent-Adjusted Debt to EBITDAR for four fiscal quarters most recently ended.

### **M**

MCD: McDonald's Corporation

MFA: Master Franchise Agreement

Mm: Millions

### **N**

ND: net debt expressed as: total financial debt minus cash and cash equivalents

NOLAD: North Latin American Division

NYSE: New York Stock Exchange

### **P**

P&B: Payroll and employee benefits

PER: Price Earnings Ratio

PPP: Purchase Power Parity

PPS: Price per Share

PT: Target Price

### **Q**

QSR : Quick Service Restaurant

### **R**

Rent-Adjusted Debt: for any period the sum of the aggregate amount of Funded Debt plus the Attributable Indebtedness in respect of Capital Leases and Synthetic Lease Obligations.

ROI : Return On Investment

### **S**

SAReS: System-wide Average Restaurant Sales. It is calculated by dividing sales for the relevant period by the arithmetic mean of the number of our restaurants at the beginning and end of such period.

SCSG: System-wide Comparable Sales Growth. It refers to the change in restaurant sales in one period from a comparable period for restaurants that have been open for thirteen months or longer. System-wide comparable sales growth is provided and analyzed on a constant currency basis, in other words, it is calculated using the same exchange rate over the periods under comparison.

SLAD : South Latin American Division

SSG: System-wide Sales Growth. It refers to the change in sales from one period to another of all the restaurants, whether company-operated or franchised

## Appendix

### **I**

The Acquisition: Arcos Dorados Holding Inc.'s acquisition of McDonald's Latin American and the Caribbean business in the year 2007.

The Territories: Latin American and the Caribbean territories in which Arcos Dorados is operating.

TV: Terminal Value

### **U**

USD: United States Dollars

### **W**

WACC: Weighted Average Cost of Capital

WC: Working Capital

### **Y**

YOY: Year-over-year

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