

Arcos Dorados

Solid 4Q, despite higher expenses; digital, remodels & new MFA are themes

Maintain Rating: BUY | PO: 14.50 USD | Price: 11.02 USD

Revenue +15.4%, EBITDA +16.3%, EPS +2.4%

EPS increased 2.4% y/y to \$0.26, ahead of a \$0.25 consensus, as a lower tax rate offset non-cash Argentine FX losses and impairment charges. SSS rose 32.4% (29.2% ex Venezuela), or 1.1x blended inflation, and we perceive market share gains across major markets. EBITDA margin expanded 8bp, as favorable food & paper costs (Exhibit 9) and operating leverage mitigated higher payroll and other expenses in Brazil and NOLAD.

SLAD gains offset expense pressure in Brazil/NOLAD

Brazil SSS moderated to +6.2% (1.3x inflation), on a tough comp against prior-year World Cup promotions, but far outpaced rivals. EBITDA margin narrowed 58bp y/y on higher profit sharing and aggregator fees, as delivery continues to gain share. NOLAD's SSS also slowed to +5.4%, as Panamanian protests mitigated Mexican strength. EBITDA margin declined 32bp on wage pressures. SLAD SSS of +94.7% was in line with inflation, and operating leverage enabled EBITDA margin expansion of 155bp.

Digitalization: sales, efficiency and experience enabler

ARCO continues its digital QSR leadership and greater use of CRM tools. ARCO had 3mn loyalty program members at year-end, and over 5mn as of February, with identified sales reaching 21% of total (26% in Brazil) in 4Q. Digital channel sales represented 53% of systemwide sales (63% in Brazil). We look for efforts to enable client-specific insight into elasticity, improve activation and average ticket, generate savings on store crew costs, and strengthen service levels.

Further market share opportunity, MFA renewal

While ARCO faces difficult top-line comps and headwinds in Argentina (~16% of revenue) we look for digitalization, remodels and industry dislocation to create further market share opportunities. Expense pressure in Brazil also appears largely seasonal. Despite some market uncertainty related to the renewal of ARCO's Master Franchise Agreement (MFA) with McDonald's, [we anticipate an MFA that preserves existing franchise fees, but accelerates growth \(see report\)](#). We reaffirm our Buy rating.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------|-------|--------|-------|-------|-------|
| EPS | 0.22 | 0.67 | 0.84 | 0.86 | 0.96 |
| EPS Change (YoY) | NM | 204.5% | 25.4% | 2.4% | 11.6% |
| Underlying EPS | 0.21 | 0.67 | 0.82 | 0.86 | 0.96 |
| DPS | 0 | 0.15 | 0.19 | 0.20 | 0.21 |
| Valuation (Dec) | | | | | |
| P/E | 50.1x | 16.4x | 13.1x | 12.8x | 11.5x |
| Underlying P/E | 53.0x | 16.3x | 13.4x | 12.8x | 11.5x |
| Dividend Yield | 0% | 1.4% | 1.7% | 1.8% | 1.9% |
| EV / EBITDA* | 11.1x | 7.8x | 6.4x | 5.8x | 5.4x |
| Free Cash Flow Yield* | 6.2% | 5.5% | -0.1% | -0.5% | 1.0% |

* For full definitions of *IQmethod*SM measures, see page 11.

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Refer to important disclosures on page 12 to 14. Analyst Certification on page 10. Price Objective Basis/Risk on page 10.

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Timestamp: 13 March 2024 11:30AM EDT

13 March 2024

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Stock Data

| | |
|--------------------------------|----------------------|
| Price | 11.02 USD |
| Price Objective | 14.50 USD |
| Date Established | 27-Nov-2023 |
| Investment Opinion | B-1-7 |
| 52-Week Range | 7.02 USD - 13.20 USD |
| Mkt Val (mn) / Shares Out (mn) | 2,321 USD / 210.7 |
| Free Float | 94.9% |
| Average Daily Value (mn) | 9.99 USD |
| BofA Ticker / Exchange | ARCO / NYS |
| Bloomberg / Reuters | ARCO US / ARCO.N |
| ROE (2023E) | 43.6% |
| Net Dbt to Eqty (Dec-2022A) | 142.7% |
| ESGMeter TM | Medium |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

ARCO: Arcos Dorados

NOLAD: North Latin American Division

SLAD: South Latin American Division

EOTF: Experience of the Future

ex FX: excluding FX impacts (local currency)

y/y: year-over-year

q/q: quarter-over-quarter

SSS: same store (restaurant) sales

CRM: customer relationship management

QSR: quick service restaurant

iQprofileSM Arcos Dorados

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 4.6% | 8.9% | 9.5% | 9.6% | 9.7% |
| Return on Equity | 21.8% | 51.6% | 43.6% | 32.8% | 28.8% |
| Operating Margin | 5.2% | 7.3% | 7.6% | 7.8% | 8.3% |
| Free Cash Flow | 143 | 128 | (2) | (13) | 22 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|--------|--------|--------|--------|-------|
| Cash Realization Ratio | 5.7x | 2.5x | 2.1x | 2.0x | 2.0x |
| Asset Replacement Ratio | 1.0x | 1.8x | 2.6x | 2.2x | 2.0x |
| Tax Rate | 41.1% | 37.8% | 40.5% | 39.0% | 38.0% |
| Net Debt-to-Equity Ratio | 225.8% | 142.7% | 126.5% | 106.9% | 88.1% |
| Interest Cover | 2.8x | 7.2x | 8.6x | 7.7x | 8.5x |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|-----------|---------------|--------------|-------------|--------------|
| Sales | 2,660 | 3,619 | 4,251 | 4,399 | 4,535 |
| % Change | 34.1% | 36.1% | 17.5% | 3.5% | 3.1% |
| Gross Profit | 1,761 | 2,392 | 2,820 | 2,925 | 3,021 |
| % Change | 34.7% | 35.8% | 17.9% | 3.7% | 3.3% |
| EBITDA | 272 | 387 | 471 | 516 | 557 |
| % Change | 304.9% | 42.2% | 21.8% | 9.7% | 7.9% |
| Net Interest & Other Income | (64) | (38) | (26) | (46) | (47) |
| Net Income (Adjusted) | 45 | 140 | 176 | 182 | 202 |
| % Change | NM | 208.5% | 25.4% | 3.2% | 11.2% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|------------|---------------|-----------|----------------|-----------|
| Net Income from Cont Operations (GAAP) | 45 | 140 | 176 | 182 | 202 |
| Depreciation & Amortization | 120 | 120 | 145 | 171 | 183 |
| Change in Working Capital | 93 | 84 | 16 | 13 | 8 |
| Deferred Taxation Charge | 0 | 0 | 39 | 0 | 0 |
| Other Adjustments, Net | 0 | 1 | (2) | 0 | 4 |
| Capital Expenditure | (115) | (217) | (377) | (378) | (373) |
| Free Cash Flow | 143 | 128 | -2 | -13 | 22 |
| % Change | NM | -10.3% | NM | -735.7% | NM |
| Share / Issue Repurchase | NA | NA | NA | NA | NA |
| Cost of Dividends Paid | 0 | (32) | (40) | (42) | (44) |
| Change in Debt | 7 | (200) | (9) | 2 | 62 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 279 | 304 | 146 | 93 | 134 |
| Trade Receivables | 82 | 124 | 133 | 140 | 145 |
| Other Current Assets | 179 | 256 | 274 | 288 | 297 |
| Property, Plant & Equipment | 744 | 856 | 1,132 | 1,339 | 1,530 |
| Other Non-Current Assets | 1,078 | 1,096 | 1,216 | 1,216 | 1,216 |
| Total Assets | 2,361 | 2,637 | 2,902 | 3,077 | 3,320 |
| Short-Term Debt | 24 | 37 | 0 | 0 | 0 |
| Other Current Liabilities | 594 | 722 | 773 | 807 | 828 |
| Long-Term Debt | 754 | 730 | 760 | 762 | 824 |
| Other Non-Current Liabilities | 61 | 75 | 73 | 72 | 75 |
| Total Liabilities | 2,140 | 2,312 | 2,417 | 2,452 | 2,537 |
| Total Equity | 221 | 324 | 485 | 625 | 783 |
| Total Equity & Liabilities | 2,361 | 2,637 | 2,902 | 3,077 | 3,320 |

* For full definitions of iQmethodSM measures, see page 11.

Company Sector

Restaurants

Company Description

Arcos Dorados is the world's largest McDonald's franchisee, and Latin America's leading quick service restaurant operator. The company has exclusive rights to operate or sub-franchise restaurants in over 20 countries in Latin America and the Caribbean. Brazil represents about half of revenues and nearly 60% of EBITDA. Arcos Dorados was created in 2007 via the acquisition of McDonald's assets in the region. The company completed a \$1.4bln initial public offering in April 2011.

Investment Rationale

ARCO's digitalization efforts could be the most advanced among regional QSR rivals. The company appears to be sustaining delivery as markets normalize, lowering crew costs, and mitigating food cost pressures with revenue management and client relationship management initiatives. Overall QSR penetration rates remain low, and we look for market exits and disruption to accelerate share gains. App adoption and data analytics also fuel new opportunities to drive traffic and ticket.

Stock Data

Average Daily Volume 906,620

Exhibit 1: Arcos Dorados 4Q23 - consolidated income statement

SSS grew 29.2% ex Venezuela, Adj. EBITDA +16.3% y/y, EPS +2.4%; USD, mn

| | 4Q22 | 4Q23 | % Chg | BofA | vs Est | Cons | vs Cons |
|--|----------------|----------------|---------------|----------------|---------------|----------------|---------------|
| Total Restaurants | 2,312 | 2,278 | -1.5% | 2,352 | -3.1% | | |
| Comparable Sales Ex. Vz., % Chg (ex FX) | 35.7% | 29.2% | | 27.4% | | 18.7% | |
| Comparable Sales, % Chg (ex FX) | 37.3% | 32.4% | | | | | |
| Net Revenue | 1,018.6 | 1,175.5 | 15.4% | 1,174.1 | 0.1% | 1,135.1 | 3.6% |
| Adjusted EBITDA¹ | 114.1 | 132.6 | 16.3% | 131.8 | 0.6% | 130.7 | 1.4% |
| Operating Income | 81.5 | 81.8 | 0.3% | 91.9 | -11.0% | 95.0 | -13.9% |
| Net Interest Income / (Expense) | (6.5) | (17.9) | 173.3% | (8.3) | 115.2% | (9.5) | 88.6% |
| Pretax Income | 74.7 | 63.9 | -14.5% | 83.6 | -23.5% | 85.5 | -25.3% |
| Income Tax Credit / (Expense) | (20.1) | (7.8) | -61.2% | (17.5) | -55.7% | (33.0) | -76.4% |
| <i>Effective tax rate</i> | 26.8% | 12.2% | -1,467bp | 21.0% | -883 bp | 38.5% | -2,635bp |
| Net Income | 54.5 | 55.8 | 2.4% | 65.8 | -15.2% | 52.6 | 6.1% |
| EPS | 0.26 | 0.26 | 2.4% | 0.31 | -15.2% | 0.25 | 6.1% |
| Adj. EBITDA Margin | 11.2% | 11.3% | 8bp | 11.2% | 5 bp | 11.5% | -24bp |
| Operating Margin | 8.0% | 7.0% | -104bp | 7.8% | -87 bp | 8.4% | -141bp |
| Net Margin | 5.3% | 4.7% | -60bp | 5.6% | -86 bp | 4.6% | 11bp |

1: 4Q23 excludex USD7.4mn non-cash expenses related to higher impairments and write-offs of long-lived assets

Source: Company filings, Bloomberg, BofA Global Research estimates

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Exhibit 2: Arcos Dorados segment data

SLAD operating leverage offsets some expense pressure in Brazil and NOLAD; USD, mn

| | 4Q22 | 4Q23 | % Chg | % Local | BofA | vs Est |
|---------------------------------|---------|---------|--------|---------|---------|--------|
| Brazil | | | | | | |
| Restaurants | 1,084 | 1,130 | 4.2% | | 1,119 | 1.0% |
| Comparable Sales, % Chg (ex FX) | 21.9% | 6.2% | | 6.2% | 6.2% | |
| Net Revenue | 406.3 | 482.8 | 18.8% | 11.8% | 473.2 | 2.0% |
| Operating Profit | 67.3 | 73.6 | 9.4% | 2.7% | 76.2 | -3.4% |
| Operating Margin | 16.6% | 15.3% | -132bp | | 16.1% | -85bp |
| Adjusted EBITDA | 81.2 | 93.7 | 15.4% | 8.3% | 94.2 | -0.5% |
| EBITDA Margin | 20.0% | 19.4% | -58bp | | 19.9% | -48bp |
| SLAD (ex-Vz) | | | | | | |
| Restaurants | 492 | 501 | 1.8% | | 502 | -0.2% |
| Comparable Sales, % Chg (ex FX) | 70.7% | 85.3% | | 85.3% | 69.0% | |
| Net Revenue | 345.8 | 381.2 | 10.2% | 87.0% | 403.9 | -5.6% |
| Operating Profit | 24.9 | 26.4 | 5.7% | 209.0% | 27.7 | -4.9% |
| Operating Margin | 7.2% | 6.9% | -30bp | | 6.9% | 5bp |
| Adjusted EBITDA | 32.3 | 42.0 | 29.9% | 177.7% | 36.6 | 14.9% |
| EBITDA Margin | 9.3% | 11.0% | 167bp | | 9.0% | 197bp |
| SLAD | | | | | | |
| Restaurants | 590 | 584 | -1.0% | | 590 | -1.0% |
| Net Revenue | 351.6 | 392.1 | 11.5% | 94.3% | 412.9 | -5.0% |
| Operating Profit | 23.4 | 24.6 | 5.1% | 220.7% | 25.2 | -2.4% |
| Operating Margin | 6.6% | 6.3% | -38bp | | 6.1% | 17bp |
| Adjusted EBITDA | 31.3 | 41.0 | 31.0% | 180.9% | 34.6 | 18.7% |
| EBITDA Margin | 8.9% | 10.5% | 155bp | | 8.4% | 209bp |
| NOLAD | | | | | | |
| Restaurants | 638 | 647 | 1.4% | | 643 | 0.6% |
| Comparable Sales, % Chg (ex FX) | 19.6% | 5.4% | | 5.4% | 5.4% | |
| Net Revenue | 260.8 | 300.4 | 15.2% | 7.5% | 288.0 | 4.3% |
| Operating Profit | 19.1 | 19.1 | 0.0% | -7.7% | 20.2 | -5.1% |
| Operating Margin | 7.3% | 6.4% | -97bp | | 7.0% | -63bp |
| Adjusted EBITDA | 27.9 | 31.1 | 11.7% | 3.6% | 31.1 | 0.2% |
| EBITDA Margin | 10.7% | 10.4% | -32bp | | 10.8% | -42bp |
| Corporate and Others | | | | | | |
| Operating Profit | (28.3) | (35.5) | -25.6% | -96.5% | (29.7) | 19.8% |
| Adjusted EBITDA | (26.4) | (33.3) | -26.1% | -100.0% | (27.9) | 19.0% |
| Consolidated (ex-Vz) | | | | | | |
| Restaurants | 2,312 | 2,361 | 2.1% | | 2,352 | 0.4% |
| Comparable Sales, % Chg (ex FX) | 35.7% | 29.2% | | 29.2% | 27.4% | |
| Net Revenue | 1,012.8 | 1,164.5 | 15.0% | 36.3% | 1,165.1 | -0.1% |
| Operating Profit | 83.1 | 83.6 | 0.6% | 30.3% | 94.4 | -11.5% |
| Operating Margin | 8.2% | 7.2% | -103bp | | 8.1% | -93bp |

Exhibit 2: Arcos Dorados segment data

SLAD operating leverage offsets some expense pressure in Brazil and NOLAD; USD, mn

| | 4Q22 | 4Q23 | % Chg | % Local | BofA | vs Est |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Adjusted EBITDA | 115.1 | 133.6 | 16.1% | 33.7% | 133.8 | -0.2% |
| EBITDA Margin | 11.4% | 11.5% | 11bp | | 11.5% | -1bp |

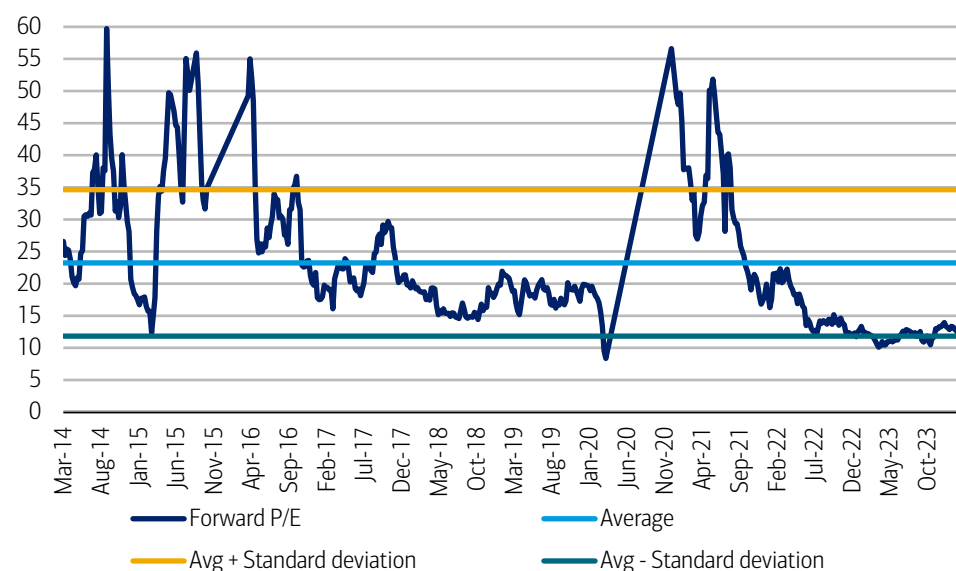
Source: Company financials, BofA Global Research estimates

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Valuation

Exhibit 3: ARCO is trading nearly one standard deviation below its historical P/E average of 22x

Consensus forward 12-month P/E



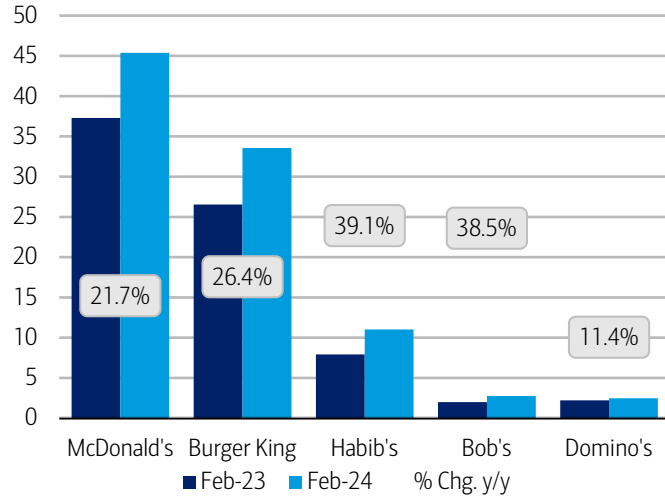
Source: Bloomberg, BofA Global Research

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Brazil app downloads and usage

Exhibit 4: Brazilian restaurant app downloads continue to grow

Brazil, cumulative downloads (mn) and % Chg y/y

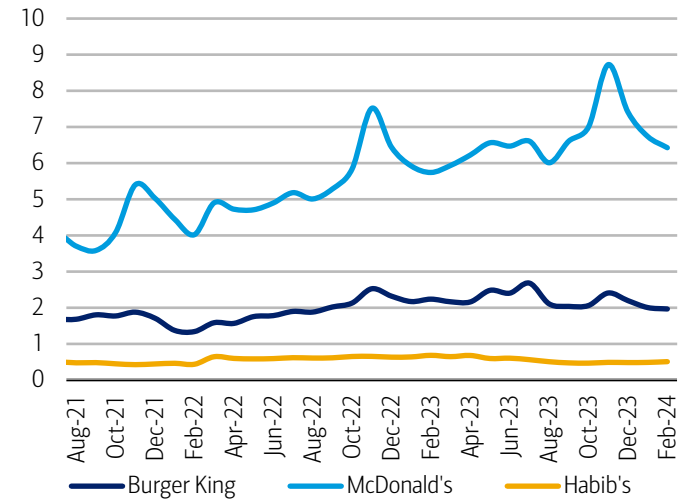


Source: Sensor Tower, BofA Global Research

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Exhibit 5: McDonald's leads peers with 6.4mn monthly active app users in Brazil

Brazil, monthly active app users (MAU), mn

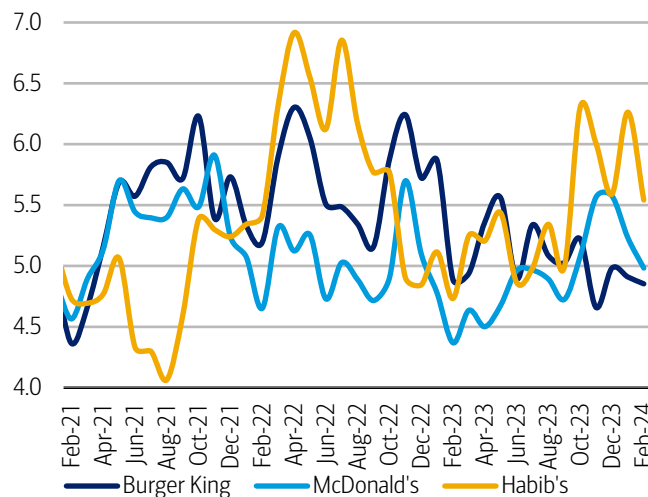


Source: Sensor Tower, BofA Global Research

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Exhibit 6: McDonald's frequency lags peers, but gap is narrowing

Brazil, monthly frequency (sessions per monthly active app user)

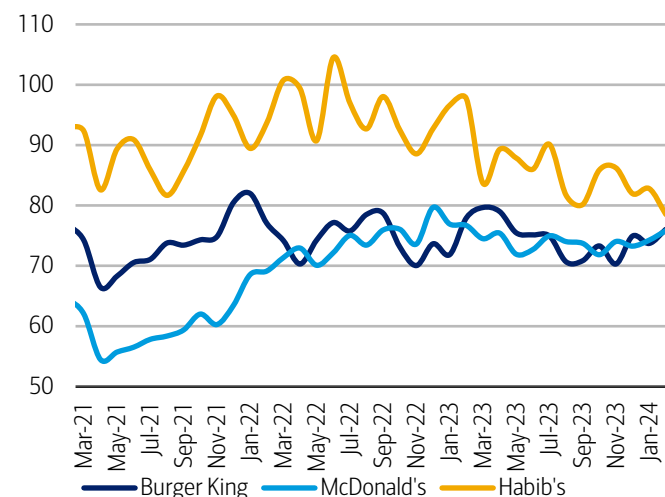


Source: Sensor Tower, BofA Global Research

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Exhibit 7: Users spend an average of 76 seconds per session on the McDonald's app

Brazil, average time per session, seconds

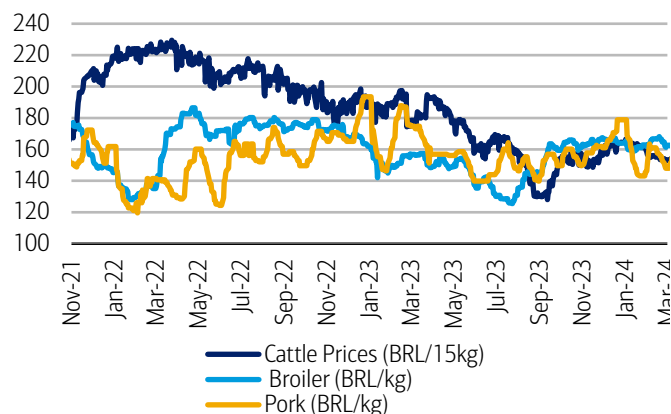


Source: Sensor Tower, BofA Global Research

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Cost environment improving**Exhibit 8: Beef prices are lower y/y...**

Brazil protein prices index, Jan-2019 = 100

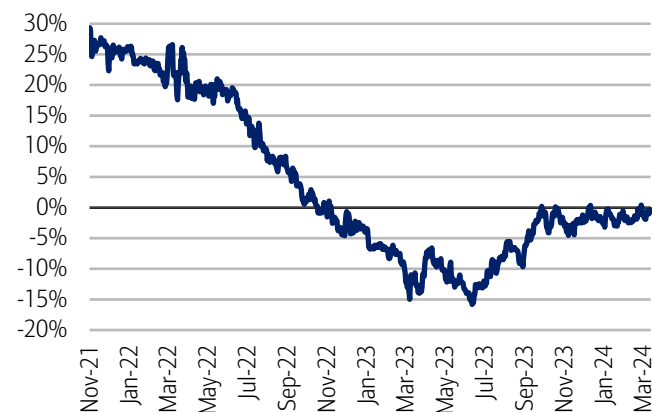


Source: ESALQ, BofA Global Research, Bloomberg

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Exhibit 9: ...and inputs as a whole are fairly flat

ARCO input cost basket, USD, % chg y/y



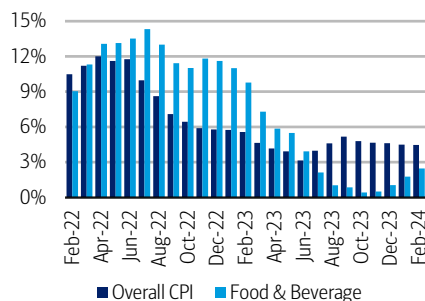
Source: BofA Global Research, Bloomberg

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Food lags CPI in Brazil, leads elsewhere

Exhibit 10: Brazilian Food and beverage inflation accelerated to +2.5% y/y in February

CPI: total vs. food, % chg y/y

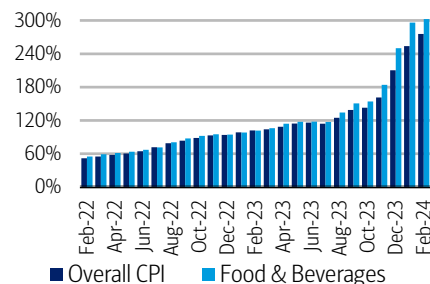


Source: IBGE

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Exhibit 11: Argentine food inflation over 300% y/y in February

Overall CPI & Food Inflation, % Chg y/y

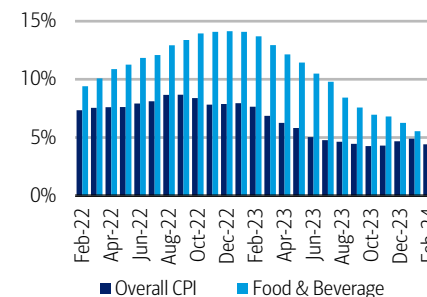


Source: INDEC

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Exhibit 12: Mexican food inflation slowed to 5.3% y/y in February, but continues to lead the overall CPI

Overall and food & beverage CPI, % chg y/y



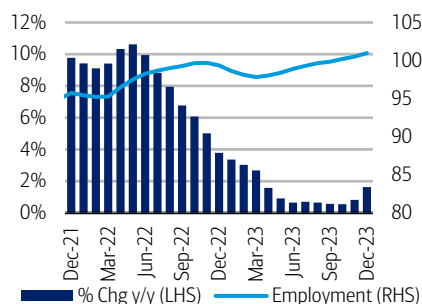
Source: INEGI

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Macroeconomic indicators

Exhibit 13: Brazilian job growth improving, +1.6% y/y in December

Employment, mln of inhabitants and % chg y/y

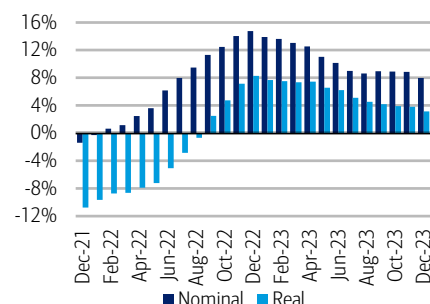


Source: IBGE

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Exhibit 14: Brazilian real wages up 3.1% y/y in December

Real vs. nominal wages, % chg y/y

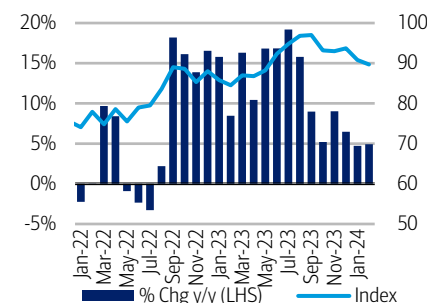


Source: IBGE

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Exhibit 15: Brazilian consumer confidence has weakened, but still up 4.9% y/y in February

Total consumer confidence

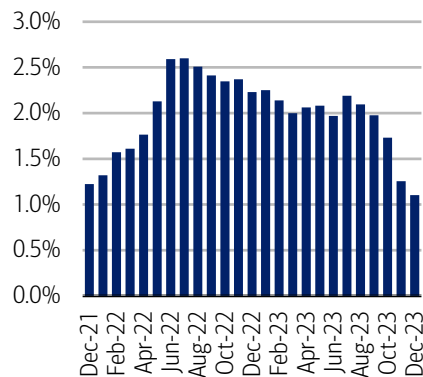


Source: FGV

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Exhibit 16: Argentine employment still growing in December, up 1.1% y/y

Employment, % Chg y/y

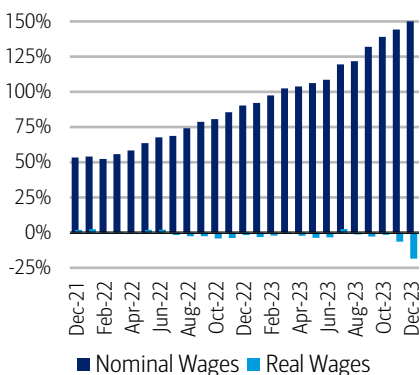


Source: INDEC

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Exhibit 17: Argentine wage increases lagging inflation

Real vs Nominal wages, % Chg y/y

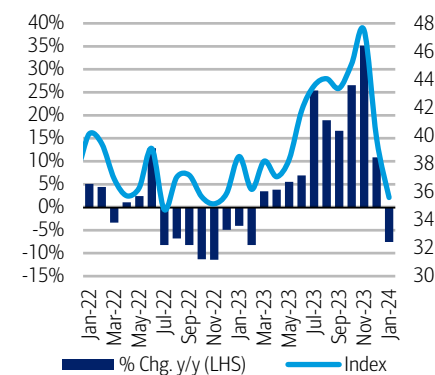


Source: INDEC

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Exhibit 18: Sharp deterioration in Argentine consumer confidence

Consumer confidence, % Chg y/y

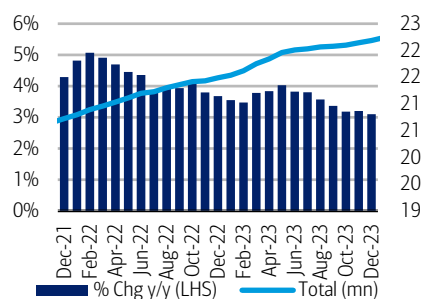


Source: UTDT

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Exhibit 19: Strong Mexican formal employment growth of 3.1% y/y in December

Total employment registered in IMSS, % chg y/y

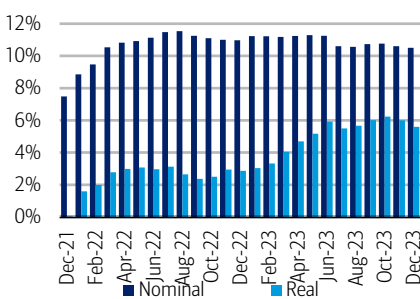


Source: IMSS

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Exhibit 20: Mexican real wage growth accelerated during 2023 as inflation moderated; up 5.6% y/y in December

Nominal and real wage growth, % chg y/y

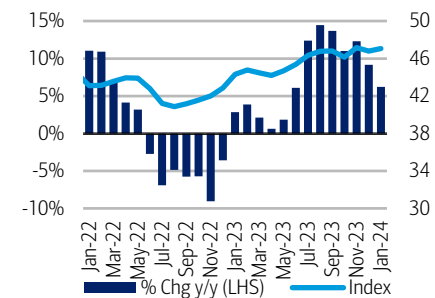


Source: IMSS

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Exhibit 21: Mexican consumer confidence up 6.2% y/y in January

Overall consumer confidence, % chg y/y



Source: INEGI

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Price objective basis & risk

Arcos Dorados (ARCO)

Our \$14.50 price objective is based on a 15x forward-year (2025E) EPS, within ARCO's historical valuation range and supported by strong execution and market share gains.

Risks to our price objective are weaker investor sentiment, operating restrictions, COVID or other transmission concerns, corporate governance, including differential voting and no tagalong rights, competition, weaker local FX rates, asset write-downs, higher input costs, rising labor costs, excessive investment requirements, restrictions on promotions and advertising, other regulatory changes, execution challenges, competition, macroeconomic sluggishness, debt and/or franchise agreement breaches, and political uncertainties.

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We, Robert E. Ford Aguilar, CFA, Vinicius Pretto and Wellington Santana, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Latin America - Consumer Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|--------------------------|-------------|------------------|-----------------------------|
| BUY | | | | |
| | Alsea | ALSSF | ALSEA* MM | Robert E. Ford Aguilar, CFA |
| | Arcos Dorados | ARCO | ARCO US | Robert E. Ford Aguilar, CFA |
| | Arezzo & Co | XARZF | ARZZ3 BZ | Robert E. Ford Aguilar, CFA |
| | Assaí Atacadista | XFCXF | ASAI3 BZ | Robert E. Ford Aguilar, CFA |
| | Assaí Atacadista | ASAI | ASAI US | Robert E. Ford Aguilar, CFA |
| | Chedraui | GCHF | CHDRAUIB MM | Robert E. Ford Aguilar, CFA |
| | CVC | CVCBF | CVCB3 BZ | Robert E. Ford Aguilar, CFA |
| | Grupo Carrefour Brasil | XLDPF | CRFB3 BZ | Robert E. Ford Aguilar, CFA |
| | Grupo SOMA | XNASF | SOMA3 BZ | Robert E. Ford Aguilar, CFA |
| | Hypera Pharma | XHPYF | HYPE3 BZ | Robert E. Ford Aguilar, CFA |
| | Kimberly-Clark de México | KCDMF | KIMBERA MM | Robert E. Ford Aguilar, CFA |
| | Lojas Quero-Quero | XZUXF | LJQQ3 BZ | Robert E. Ford Aguilar, CFA |
| | Mercadolibre | MELI | MELI US | Robert E. Ford Aguilar, CFA |
| | Natura &Co Holding SA | XZVAF | NTCO3 BZ | Robert E. Ford Aguilar, CFA |
| | Natura &Co Holding SA | NTCO | NTCO US | Robert E. Ford Aguilar, CFA |
| | RaiaDrogasil S.A. | RAIAF | RADL3 BZ | Robert E. Ford Aguilar, CFA |
| | Smartfit | XSMRF | SMFT3 BZ | Robert E. Ford Aguilar, CFA |
| | Tiendas 3B | TBBB | TBBB US | Robert E. Ford Aguilar, CFA |
| | Track & Field | XWZRF | TFCO4 BZ | Robert E. Ford Aguilar, CFA |
| | Vivara | XUVZF | VIVA3 BZ | Robert E. Ford Aguilar, CFA |
| NEUTRAL | | | | |
| | Alpargatas S.A. | SRDDF | ALPA4 BZ | Robert E. Ford Aguilar, CFA |
| | Cencosud | XCSCF | CENCOSUD CI | Robert E. Ford Aguilar, CFA |
| | Falabella | XDIYF | FALAB CI | Robert E. Ford Aguilar, CFA |
| | FEMSA | FMX | FMX US | Robert E. Ford Aguilar, CFA |
| | FEMSA | FMXUF | FEMSAUBD MM | Robert E. Ford Aguilar, CFA |
| | Magazine Luiza | MGZZF | MGLU3 BZ | Robert E. Ford Aguilar, CFA |
| | Multilaser | XMTLF | MLAS3 BZ | Robert E. Ford Aguilar, CFA |
| | Petz | XUXUF | PETZ3 BZ | Robert E. Ford Aguilar, CFA |
| UNDERPERFORM | | | | |
| | CBD | CBD | CBD US | Robert E. Ford Aguilar, CFA |
| | CBD | GPSAF | PCAR3 BZ | Robert E. Ford Aguilar, CFA |
| | El Puerto de Liverpool | ELPQF | LIVEPOLC MM | Robert E. Ford Aguilar, CFA |
| | Grupo Casas Bahia SA | GBXPF | BHIA3 BZ | Robert E. Ford Aguilar, CFA |
| | Lojas Renner SA | LORPF | LREN3 BZ | Robert E. Ford Aguilar, CFA |
| | Soriana | ONZBF | SORIANAB MM | Robert E. Ford Aguilar, CFA |

Latin America - Consumer Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|---------|-------------|------------------|-----------------------------|
| | Walmex | WMMVF | WALMEX* MM | Robert E. Ford Aguilar, CFA |
| | Walmex | WMMVY | WMMVY US | Robert E. Ford Aguilar, CFA |

iQmethodSM Measures Definitions

| | | |
|-----------------------------|--|--|
| Business Performance | Numerator | Denominator |
| Return On Capital Employed | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$ | $\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$ |
| Return On Equity | Net Income | Shareholders' Equity |
| Operating Margin | Operating Profit | Sales |
| Earnings Growth | Expected 5 Year CAGR From Latest Actual | N/A |
| Free Cash Flow | $\text{Cash Flow From Operations} - \text{Total Capex}$ | N/A |
| Quality of Earnings | Numerator | Denominator |
| Cash Realization Ratio | Cash Flow From Operations | Net Income |
| Asset Replacement Ratio | Capex | Depreciation |
| Tax Rate | Tax Charge | Pre-Tax Income |
| Net Debt-To-Equity Ratio | $\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$ | Total Equity |
| Interest Cover | EBIT | Interest Expense |
| Valuation Toolkit | Numerator | Denominator |
| Price / Earnings Ratio | Current Share Price | Diluted Earnings Per Share (Basis As Specified) |
| Price / Book Value | Current Share Price | Shareholders' Equity / Current Basic Shares |
| Dividend Yield | Annualised Declared Cash Dividend | Current Share Price |
| Free Cash Flow Yield | $\text{Cash Flow From Operations} - \text{Total Capex}$ | $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$ |
| Enterprise Value / Sales | $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$ | Sales |
| EV / EBITDA | Enterprise Value | $\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$ |

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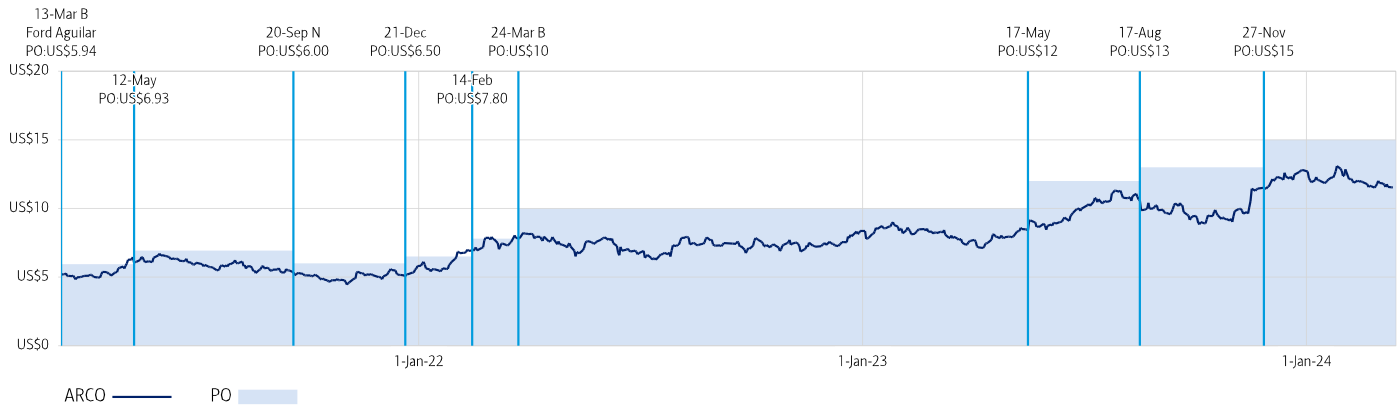
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Arcos Dorados (ARCO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 21 | 58.33% | Buy | 10 | 47.62% |
| Hold | 10 | 27.78% | Hold | 3 | 30.00% |
| Sell | 5 | 13.89% | Sell | 4 | 80.00% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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