Arcos Dorados

Q2 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Marcelo Rabach - *Chief Executive Officer*

Mariano Tannenbaum - *Chief Financial Officer*

Dan Schleiniger - *Vice President of Investor Relations*

PRESENTATION

Operator
Good morning, and welcome to the Arcos Dorados Second Quarter 2020 Earnings Call. A slide presentation will accompany today's webcast, which will also be available in the Investor section of the company's website, www.arcosdorados.com/ir. And as a reminder, all participants will be in listen-only mode. [Operator Instructions]. Today's conference call is being recorded.

At this time I would like to turn the call over to Dan Schleiniger, Vice President of Investor Relations. Please go ahead.

Dan Schleiniger
Thank you, operator. Good morning, everyone and thank you for joining our earnings call. With me on today's call are Marcelo Rabach, our Chief Executive Officer; and Mariano Tannenbaum, our Chief Financial Officer.

Please turn to Slide 2. Before we proceed, I would like to make the following Safe Harbor statement. 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 the press release and unaudited financial statements filed today with the SEC on Form 6-K.

Our discussion today excludes the results of the Venezuelan operation, both at the consolidated level, as well as for the Caribbean division, due to the country's ongoing macroeconomic volatility. For your reference, we include a full income statement excluding Venezuela with our earnings release.

I would now like to turn the call over to our CEO, Marcelo Rabach.

Marcelo Rabach
Thanks Dan, and good morning everyone. I hope you and your families have remained healthy and safe during this very challenging time.

Today Mariano and I will cover the discussion topics on Slide 3, starting with highlights of our second quarter results, an update on recent trends and a discussion of our strategic priorities.

As expected, our second quarter results were materially worse than the first quarter, particularly due to the impact of the COVID-19 pandemic on our April results. But, as you'll hear today, there are a number of reasons to be confident in the recovery and outperformance of our business in the months and years to come.

The most important reason is the strength of the Arcos Dorados system and the McDonald's Brand. The continued dedication, collaboration and hard work of our entire system has been second-to-none! We have come together to ensure that our guests are served the highest quality food while enjoying the best service and safest restaurant experience in Latin America and the Caribbean. So, before I go on, let me just say: "THANK YOU" to all our collaborators. Let's keep up the great work!

Turning to our second quarter results on Slide 4, our systemwide comparable sales, which include all restaurants in our system for more than 13 months, whether open or temporarily closed, were heavily impacted by restaurant closures in April. However, with each passing month, the strength of our restaurant portfolio became evident as our comparable sales had a strong recovery throughout the quarter. Leveraging the region's largest free-standing restaurant footprint, and in-line with McDonald's globally, we focused on the Three D's – Drive-thru, Delivery and Digital – to drive improved sales and customer engagement.

The significant sales downturn in April also drove more than half of the negative EBITDA result for the quarter. We were able to quickly recover from this trend, however, with divisional EBITDA at almost breakeven in June. In fact, eight markets generated positive EBITDA results in the month, including Brazil and several "hard currency," cash-generating markets, such as Costa Rica, Puerto Rico, Martinique and Panama.

I am pleased to report that this improving trend continues, and consolidated EBITDA already returned to positive territory in the month of July. We expect this recovery in profitability to accelerate through the third and fourth quarters of this year.

Let me also remind you that our cash flows have been stable since about April 20th. I'm immensely proud of our entire team for this important accomplishment given all the challenges we're facing during this pandemic.

We began the quarter with barely 55% of our restaurants operating at least one sales segment. On Slide 5 you can see the steady pace of re-openings that began in mid-April and took us to 88% of our restaurants open at the end of the quarter. Today, we are operating about 91% of our total restaurant base. The restaurants that remain closed are mostly in shopping malls that have not re-opened or are not generating enough traffic for re-opening to make business sense.

One important trend to monitor going forward is the gradual return of fully-open restaurants. As of June 30th, only 17% of our restaurants had resumed operating all sales segments, including many free-standing locations offering dine-in service with reduced capacity. As of this morning, this figure has grown to 40%. This is good news given the historical importance of the front counter and self-ordering kiosk sales segment to our business, which will be key contributors to the current recovery and the long-term growth of our business as well.

People across Latin America and the Caribbean remain concerned with the health risks associated with COVID-19. The McProtegidos, or McSafe, Program we implemented shortly after the start of the pandemic, has successfully addressed this issue. Our employees have expressed their appreciation for the steps we've taken to protect them and our guests have recognized McDonald's restaurants as the safest place to eat out across the region. I'll tell you more about this in a few minutes.

I'll turn the call over to Mariano now for a deeper dive into our sales trends and EBITDA performance in the quarter.

Mariano Tannenbaum

Thanks Marcelo. Last month we released a market update with our monthly systemwide comparable sales performance during the second quarter as well as commentary on our restaurant operations and cash flows. The charts on Slide 6 reflect the related total revenues by division for the quarter. Imbedded in these figures is the important recovery in systemwide comparable sales of May and June that, similar to EBITDA, had a high correlation to free-standing restaurant penetration across our markets.

Early third quarter sales trends have remained encouraging. As an example, in our largest market, Brazil, local currency sales in the month of July were up about 15% versus June. We were particularly pleased with this performance given we did not have the seasonal sales boost from July school holidays in the country. So far in August, Brazil's systemwide comparable sales are already above 70% of last year's levels.

Let's turn now to our second quarter costs and expenses on Slide 7. Clearly the aggressive and proactive steps we took to reduce our costs and expenses were effective in minimizing the EBITDA impact of the severe decline in revenues, related to restaurant closures and operating restrictions.

Our sophisticated supply chain has operated with no interruptions since the beginning of the crisis, adapting to almost daily changes in operating conditions and rising food inflation in many of our largest markets. Our food & paper costs have increased only modestly as a percentage of sales since the beginning of the crisis, benefitting from our rolling FX hedging program, revenue management, smart couponing, menu simplification and pan-regional operations.

While we will surely face some cost pressures ahead, I believe our first half results demonstrate the best-in-class capabilities of the Arcos Dorados supply chain.

Throughout this crisis, one of our top priorities has been the safety of our people. This is not limited to providing them with a safe place to work. Our efforts to preserve jobs included participating in government support programs, sharing employees with companies from other industries, and re-allocating employees from closed to operating restaurants, among others.

As reported Payroll was down 50% and G&A was down 30% versus the prior year quarter. Due to the significant sales decline in the quarter, however, both Payroll and G&A expenses increased as a percentage of sales. We have been relatively successful in limiting this effect so far and expect even better performance in the second half of 2020. For the full year, we still project total G&A to decline by about 20% versus 2019's historically-low level.

Our Occupancy and Other Operating Expenses fell by 36% versus the prior year period. However, this line item had the largest impact on our margin performance in the quarter due to a higher incidence of fixed costs along with a few new factors.

We shifted almost all our rent agreements to variable, limiting the increase in rent expense as a percentage of sales. Aggregator commissions increased as a result of the growth in Delivery and we incurred higher expenses related to Personal Protective Equipment for our employees. Also due to the depressed sales levels, we experienced important de-leveraging of restaurant fixed costs such as utilities, insurance and security, to name a few. These impacts were partially offset by our agreement with McDonald's to decrease our advertising and promotion spend to 4.0%, from 5.0% of sales last year.

So that's the picture for the full quarter. More than half of the negative EBITDA came in April but, by June we were essentially breakeven at the divisional level. As you have already heard, we generated positive consolidated EBITDA in July, which we expect to accelerate in the third and fourth quarters of this year.

Back to you, Marcelo.

Marcelo Rabach
Thanks Mariano. Let's take a closer look at the three D's on Slide 8.

Drive-thru sales in constant currency grew nearly 30% in the quarter, despite declining initially in April when restaurant closures and operating restrictions were at their peaks. Almost 60% of the quarter's total sales came from this resilient sales segment.

We have improved customer satisfaction levels while reducing Drive-thru service times by 15% versus last year. The more efficient operation also significantly increased the service capacity of the region's most extensive network of Drive-thru restaurants.

Delivery is now available in 15 of our 20 markets, including Brazil, all of NOLAD and all of SLAD as well as the largest markets in the Caribbean division. Second quarter Delivery sales grew by more than 150% in constant currency versus the prior year, accounting for 20% of sales in the period. We continued improving the customer experience by focusing on two KPI's:

- Delivery times, which are down by one third since last year, and
- Order accuracy, which is an important factor to ensure customer preference.

While we have agreements with all the major 3PO's, we are testing new customer acquisition and logistical models to further develop the Delivery segment. This includes additional Mobile App features, company-operated delivery and e-commerce partnerships, among others.

That brings me to the Digital aspect of our business. More than 40% of the quarter's sales came from our industry-leading Digital platforms. This includes sales driven by our Delivery segment, industry-leading Mobile App and self-ordering kiosks as well as our growing CRM and digital marketing capabilities.
Just looking at our 40 million mobile app downloads or industry-leading number of active users doesn't tell the full story. We have assembled a multi-disciplinary team to lead the next phase of the Digital transformation of Arcos Dorados.

The sophistication of our Digital Marketing efforts, for example, will grow exponentially through partnerships with Salesforce and Amazon Web Services. We are improving our Customer Relationship Management capabilities and enhancing our ability to analyze and use the MASSIVE amounts of data we are capturing from our guests.

We have established rules-based customer segmentation, allowing us to better personalize our communications to drive guest traffic. The team is currently working on more sophisticated behavioral marketing triggers that will lead to predictive personalization in the near future.

Consumers consistently rate our Mobile App as the best in the industry and we are constantly adding new features such as the Delivery Hub, which has shown significant volume growth in the four short months since it was launched. And, we are now rolling out Mobile Order and Pick-up to allow customers to easily place and pay for their orders on their mobile devices, ensuring a nearly contactless Take-away experience.

Soon our dining rooms will start to generate more guest traffic. Our 710 Experience of the Future restaurants will provide us with another technological platform for Digital innovation and customer engagement.

Thanks to our early commitment to Digital, our first-mover position in Delivery and the best restaurant portfolio in Latin America and the Caribbean, we expect to capture outsized market share gains in the

region's restaurant industry for many years to come.
In the short-term, consumers remain cautious because of the pandemic. On Slide 9 you can see how our McProtegidos, or McSafe, Program is addressing their concerns. All our operating restaurants feature branded signage to communicate safety, acrylic dividers to minimize physical contact and appropriate PPE to protect our employees, among other enhancements to our industry benchmark operational procedures. We have also used our Digital platform and other media to highlight the Program, receiving significant recognition from our employees, guests, local governments and health authorities.

McDonald's is, BY FAR, the most trusted brand compared to our nearest competitors in each of our markets. In fact, in our most recent consumer survey, we achieved an improvement in 18 of the 23 weekly indicators we've been tracking since the beginning of the pandemic.

Turning now to our restaurant portfolio on Slide 10, we suspended our expansion program soon after the start of the crisis. As a result, we limited our total capital expenditures to $11.4 million dollars in the quarter. We are currently evaluating each of the suspended development projects to determine which ones to complete this year.

In addition to opening new restaurants, we have historically closed 15 to 25, or around one percent, of our locations each year mostly due to changed market conditions. In order to optimize our portfolio for a post-COVID world, we will accelerate some restaurant closings previously planned for future years and expect to close 50 to 60 restaurants this year.

Back to Mariano for a look at our balance sheet and cash flow. Mariano?

Mariano Tannenbaum

Thanks again Marcelo. Starting with our financial leverage on Slide 11, our Net Debt to Adjusted EBITDA ratio rose to 3.4x as of June 30th, 2020, largely due to the decrease in our trailing-twelve-month EBITDA. We also modestly increased our short-term borrowings and used some of our cash available during the quarter. As was the case at the end of the first quarter, our short-term lending balance was drawn from local lines of credit with our relationship banks in Brazil, Argentina and Uruguay, among others.

With the decline in our trailing-twelve-month EBITDA, we are no longer in compliance with the leverage ratios established in our Master Franchise Agreement with McDonald's. However, we have received a waiver from McDonald's through the end of 2020. We expect to review the need for a waiver extension later this year when we discuss our plans for 2021.

We have also received a waiver from JPMorgan for the covenant on our $25 million dollar committed line of credit, subject to certain conditions.

We were informed that Bank of America made a centralized decision to reduce its risk in Latin America, at least as it relates to committed lines of credit. Therefore, we repaid the $10 million dollar balance on the committed line of credit that expired earlier this month.

Importantly, we have always treated these committed lines as a convenient back-stop, uncommon for Latin American companies. With that said, we have extensive banking relationships and more-than-sufficient credit availability to meet our needs.

With respect to our long-term debt, our 2023 Bond is an investment grade instrument with no debt covenants and our 2027 Bond has a 3.5x Net Debt to EBITDA financial incurrence covenant. Above that level, we are still able to borrow a basket of additional funds – roughly between $240 million and $400 million dollars – without being an event of default.

As a reminder, both bonds' principal and interest have been swapped 50% into Brazilian reais. And are currently trading well above par, close to pre-pandemic levels.

As Marcelo mentioned, we successfully stabilized our cash flows around April 20th. In addition to better sales trends, we achieved cash flow stability through several management actions:

- First, we aggressively and proactively made our cost structure as variable as possible, reducing all costs and expenses significantly.
- Second, cash flows received additional relief from the deferral of some payments to suppliers and landlords, as well as March through July royalty payments to McDonald's,
- And Third, we reduced our investments to focus on employee and customer safety in our restaurants and the continued development of our Digital capabilities.

As sales have recovered, our cash position has remained relatively stable while we begin to meet some of those deferred obligations. Based on current sales and profitability trends, we believe we can sustain our cash flow stability through the end of the year and into 2021, when we expect operating conditions to further normalize.

Our cash allocation priorities remain with our operating needs at the restaurant level, meeting our obligations to suppliers, landlords and lenders as well as sustaining the Digital transformation of Arcos Dorados.

We will also evaluate opportunities to drive additional sales and profitability through specific projects and investments related to our restaurant portfolio.

Marcelo, I know you have some closing remarks before we open the call for Q&A.

Marcelo Rabach

That's right Mariano. As a leading Company in our region, for decades we have worked to support the wellbeing of the planet and the communities we serve. Turning now to Slide 12, since 2016 our Receta del Futuro – or Recipe for the Future – has been aligned with McDonald's Scale for Good and has used the United Nations Sustainable Development Goals as a guide. We're focused on five pillars:

1. Sustainable Sourcing: to source our ingredients responsibly. We have quadrupled sustainable beef purchases in Brazil and we are the only company in the industry using satellite monitoring to ensure farms in our supply chain are not engaged in deforestation.
2. Climate Change: where we work to minimize the environmental impact of our operation. Through packaging changes and the elimination of plastic straws and lids from our beverages, we reduced single-use plastic by thirteen hundred tons in our restaurants over the last two years.
3. Packaging and Recycling: has reduced waste and helped educate our guests on the importance of recycling. Importantly, more than 90% of our packaging is certified by the Forest Stewardship Council as being produced from sustainable fiber.
4. Youth Opportunity: is generated every day in our restaurants, where more than 75% of our employees gain their first formal work experience. Along with carefully-selected strategic partners, we are supporting the future of the region's young people, having impacted more than 390 thousand youth last year alone.

5. Commitment to Families: that starts with ensuring the wellbeing of the thousands of families who visit us every day. The nutritional content of our menu is constantly evolving and improving to offer balanced alternatives to our guests. And we continue to work with Ronald McDonald House Charities in Latin America, having provided support to more than 260 thousand families at their time of greatest need, so far.

We have also maintained our commitment to supporting the communities where we operate by providing food to those most in need. So far, we have donated around 500 tons of food and another 500 thousand McCombos across our markets.

We take our Recipe for the Future very seriously and you can look forward to more news in the months and years to come.

I'll conclude with Slide 13. We are now firmly in the Recovery Phase of our Plan. This means the vast majority of our restaurants are operating, but guests remain concerned about the risks of COVID infection as they prioritize safety and value in choosing their restaurant experience. Operationally, we are focused on optimizing and innovating across the Three D's to drive sales, which are also benefitting from the Brand trust generated by our McProtegidos Program.

The results so far are clear, and we are confident that we are the best-positioned restaurant operator in Latin America to emerge from this situation in the industry's strongest competitive and financial position. We will grow our market share across the entire informal eating out industry through the Recovery Phase and when we begin the Full Revival Phase of our Plan.

Finally, let me say again how much I appreciate all the efforts of the entire Arcos Dorados system along with the support and cooperation we've received from our network of suppliers, landlords and other partners. We are all in this together.

Operator, please open the call to questions.

Question-and-Answer Session

Operator
Yes, thank you. [Operator Instructions] Our first question comes from Robert Ford with Bank of America/Merrill Lynch. Please go ahead.

Robert Ford
Hi, good morning, everybody and congratulations on the improvements in the quarter. Marcelo, can you talk a little bit about your mix when it comes to the shift towards–for the value platform in this environment and maybe some of the weakness you're seeing in higher margin products. And perhaps you could also touch on the increased functionality of the app, data analytics and some of your strategies to drive a richer mix, activate consumption, and maybe offset the environment somewhat.

Marcelo Rabach
Okay, good morning, Bob and I'm glad to have you on the call. In terms of margins and the focus on value, I think that the economies across the region are being impacted by the pandemic, obviously. I think that this will lead to a higher price sensitivity among consumers. In that scenario, we have the most attractive value propositions I think, based on our band strength, our attractive price points, the food quality that we are offering or usually our service and reputation for safety.

Other segments in the industry, in the restaurant industry are under more pressure, especially those with on-premise service models, full-service restaurants and on top of that casual dining restaurants. So, what we are doing is that we are trying to lever us all the investments we did in the past in terms of digital, for example, to provide segmented offers according to customer needs and preferences.

We work very hard and very focused, developing and promoting family bundles, so families can customize the order for each family member at a very attractive price. We have markets like Panama, for example, where the share over the total sales of these kinds of offers is around one-fourth; 30% of the total sales are related with family bundle. So, we are doing extremely well in that area.

And on top of that, we continue to offer our pre-COVID-19 crisis set of value platforms. So, we have examples like 3x3 Mexico, [inaudible] in Colombia, and all of these platforms are doing very well. And we are doing that, not affecting in a big way our margins. In fact, our gross margin in the second quarter, despite all the pressure with lower sales, was very strong.

So, I would say that going forward, you mentioned about the capabilities in our app. It will play a huge role. We are trying to add more and more features to our mobile app, because obviously we have more than 40 million people across the region with the McDonald's app in their devices, but the true value of these downloads is the number of people that use that app as frequently as possible. We saw over the last quarter that we increased the active users' gap versus our competitors, which is very encouraging for us.

And to keep our app relevant, we introduced more and more features. Recently, for example, we introduced the Mobile Order & Pick-Up, MOPs in early launch stage, but with this new feature a customer can use the McDonald's app to order and pay their food, so, that when they reach at the restaurant the order is ready and this is the fast and contactless experience which is very valuable for the customers in these days.

This feature is already available in almost 150 restaurants in Argentina and is doing very well and on the first of August we introduced MOP in Brazil, so a few days there, but we have very encouraging results too.

And on top of that the Delivery app is doing very well. And I think that the most important thing around this is having a strategic approach to this digital transformation and for that you need, for example, to partner with leading companies. That's why we are very happy to work with the Salesforce, for example, in terms of CRM, and with Amazon web services in terms of data analysis and all related with that.

Where are we today? I would say that we are in the early stages of all these developments. We are basically working with rules-based segmentation. Next, we are trying to go to the next phase, which is the behavioral market in three years, so, we can understand how customers make decisions, in what timeframes and then we can adjust our digital marketing accordingly, aiming to increase frequency and have them purchasing more consistently in our restaurants.

And finally, the end of this road is to go to predictive personalization, where we can use a database algorithm that can predict the probability of a customer making a purchase within a certain period.

So, we are, again, at the beginning of this journey, but results have been very encouraging and we are taking this very seriously. That's why I think we are delivering the kind of results in terms of sales recuperation that we'll deliver in the second quarter and the trend continues in the third quarter.

Robert Ford

That’s very encouraging. With respect to the closures, is there a concentration in malls or food courts, or more troubled geographies, like Venezuela?

Marcelo Rabach
No, I would say that the first part, yes, most–the majority of the closures will be in less promising mall based restaurants, small restaurants, small volume restaurants, but obviously in the bigger markets like Mexico, Argentina, in Argentina we have a large amount, but there are a few in many markets. So, again, we are taking this decision because we will not foresee in the short-to-medium term an easy recuperation of those restaurants, particularly in most with low traffic previous to the pandemic, so, since the pandemic situation became even more challenging.

So, we will take a look to additional opportunities to use those equipment packages in other sites in order to capture potential new units in the future. So that's the idea with the closures this year.

Operator
Our next question comes from Robert Brown with Morgan Stanley. Please go ahead.

Robert Brown
Hi, good morning, everyone. Thanks for taking my question. Marcelo and Mariano, you mentioned that in July consolidated EBITDA was back to the positive territory, including further even and also that cash flows had been stabilized for a few months. I just wanted to confirm how confident you are that sales are already back to levels of which you don't meet some of the short term expensive initiatives that are fading, like the government support on labor, or are the royalty deferrals that went into July as you mentioned.

And also related, I was just wondering, some of those expense of savings you have, you might expect to carry beyond the downturn. So, maybe if you can carry on with potentially lower rents after the renegotiations you had or even maybe lower costs and labor as the penetration of the digital initiatives to take order, for example, as you mentioned increase. Thank you.

Marcelo Rabach
Okay, okay, good morning, Robert. Let me begin with the answer and then I will pass it to Mariano to talk a little bit more in detail about margins.

I would say that the main reason behind our implement in profitability, having been at divisional level almost breakeven in June and at consolidated level positive in terms of EBITDA in July, is the recuperation we have in terms of sales. We've made very good progress so far, but I think that still it’s too soon to claim that we are in full revival. There’s still a lot of uncertainty in the markets, but the good news for us is more and more restaurants already are open and those restaurants that are already open are adding more and more business segments to the operation. So, from now on we think that the recovery will be gradual, but we have a shallow dip, obviously, but also, we expect a slower rebound for now.

Having said that, I think that all the efforts, all the measures we took in these three, four months during the crisis to reduce our cost structure and particularly we were very focused in trying to convert as many of our fixed costs to variable costs and we were very successful in that sense, I think as you mentioned as an example with the rent.

So, I will pass the call to Mariano in order to cover more in detail what we did in terms of margins and our forecast going forward based on the information we already have.

Mariano Tannenbaum
Thanks, Robert, how are you? Thanks for the question. Yes, regarding your first comment about cash stabilization, in fact I can say that the cash stabilization started almost half April, around the 20th of April. At the beginning of April we had some financial payments, like a dividend payment of around $10 million and interest payments on our 2027 bond of around $8 million.

After that, I would say that our net cash position did not change materially since April 20th and our cash position, that in the quarter our cash burn for the entire quarter was around $45 million, including these financial expenses that I mentioned to you.

And after that, all the efforts we have made and we mentioned already trying to convert a lot of fixed costs into variable, for example, with rent, all the negotiations we have been maintaining with our main suppliers in terms of the Food & Paper, but not only that, in the G&A as well are the ones that are leading to the results that we are experiencing now in June and in July. Coupled with that, we have all the deferments that we have from McDonald's in terms of royalties for, that we already mentioned we're going to pay next year and with other suppliers that we are starting to pay now on the second half of the year.

So, regarding how sustainable are those cost decreases, we expect that many of the reductions in costs that we experienced during this quarter are going to be maintained in the future. For example, in labor, in 2019, we already had one of the lowest labor costs for the company ever. In fact, we experienced a very material improvement in payroll margin of more than 200 basis points in the last three to four years, and we expect to maintain that or even improve it in 2021. So, of course, all our efforts will be to maintain all the cost reductions that we obtained and in terms of deferments, of course, we're going to comply with our obligations when they are due.

Marcelo Rabach
Okay, and just a final comment. I think that part of your question had to be with the government programs that we receive in order to help us with labor costs, for example. That was true and in fact there are some countries like Argentina that are continuing with those kind of initiatives in order to support the private companies to deal with the pandemic issues and this lower recovery in the economy.

But I would say that we were able to work in a very strong way in order to reduce costs on top of that, because for example in terms of gross margin, we had only 40 to 50 basis points of deleverage and, in fact, that's a result of a good cost management. It's not only about supply chain and all the work we did with our suppliers, but embed in those numbers is our revenue management work, the simplification, the many simplifications we implemented, so we were able to concentrate our sales in products with higher margins and we did that, again, recovering our sales faster than most of our competitors. So, I think that we are in a good position in order to face the coming months with the full revival phase of our plan.

Robert Brown
Very clear, gentlemen. Thanks for the detailed answers.

Operator
Our next question comes from Gary Barnes with PGGM. Please go ahead.

Gary Barnes
Hi, gentlemen. Thank you very much for the presentation. Just one initial question and maybe if there's time after that, a follow-up. But last call you mentioned that you intended to refinance the incurred

incremental shortened debts on the balance sheet with maybe a public bond in the future. Is that still an idea that is in the cards? It would make a fairly small bond, if I'm going by what has been incurred as of now. That's my first question.

Marcelo Rabach
Okay, thank you, Gary. I will let Mariano to address your question.

Mariano Tannenbaum
Hi, Gary, how are you? First of all, let me tell you that we are very pleased with the support we received so far from our relationship banks from whom we were able to increase short-term borrowings during the quarter as needed, mostly in local currencies at very attractive interest rates and maturities.

Having said that, we are evaluating every alternative that is on the table, including converting or extending the maturity of the current debt. We are looking into market conditions and we'll see–we are going to take any opportunity that is there for the company, as long as it's efficient in costs and maturity.

Gary Barnes
Okay, thank you. And then just maybe if I may, a follow-up question. Just a headline that reached my screens with regards to an effort being made in one of the southern Mexican states to curb what is deemed unhealthy dietary habits of the children there. I couldn't quite gauge whether this will actually be a ban on high-calorie drinks or that a tax will be added. I don't know whether you are in a position to actually comment on what you're seeing in Mexico.

Marcelo Rabach
Okay, I think that what you are referring to is about processed foods, not food at the restaurant. So, again, based on my knowledge around this issue, we are not affected by this, but maybe if I have the opportunity to get more information, more in detail, I can share with you, but again my understanding is that's related with processed food.

Operator
[Operator Instructions]. Our next question comes from Ian Luketic with JP Morgan. Please go ahead.

Ian Luketic
Good morning, Marcelo and Mariano. I have a quick question regarding store closings. So, I noticed that during second Q, franchisee stores declined by 75 stores, while owned stores increased by 70 stores. So, in that regard, can we assume that Arcos's bought back most of those stores to help franchisees under financial distress? And also, if we could see that going forward, more of that going forward? Thank you.

Marcelo Rabach
Hi, good morning and thanks for the question. I do not think that that number is correct. The only change in ownership we had in the second quarter was related with the final 13 restaurants that had been operated in the past by sub-franchisees in Puerto Rico that we took control in the second quarter, but we are talking only about 13 restaurants. So, maybe there's some error in that number from our side, because there weren't significant changes in terms of ownership and fortunately our sub-franchisees are dealing very well with the challenges that we are facing.

So, let me take a look to those numbers that you mentioned, but based on the information I have, obviously, that there was no significant change in terms of ownership. Actually sub-franchisees still operate around 30% of the total restaurants in the region and we are operating 70%. That number hasn't changed materially in the last couple of years. So, let me get back to you with may be why that number came up from your side. I'm sorry for that.

Ian Luketic
Thank you, Marcelo. Probably my mistake, so glad to hear that everything continues to be normal. Thank you.

Marcelo Rabach
Thank you.

Operator
There are no further questions. I would now like to turn the call back over to Mr. Rabach.

Marcelo Rabach
Okay, thank you, and thank you again, you all for joining our call today and for your questions. My team and I as always look forward to speaking with you again in the future, and we encourage you to follow the recommendations of your government and health officials to combat the spread of COVID-19 in your communities. So please stay safe and have a great day everyone!

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.