Arcos Dorados

Q1 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Dan Schleiniger – *Vice President of Investor Relations*

Marcelo Rabach – *Chief Executive Officer*

Mariano Tannenbaum – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Arcos Dorados First Quarter 2020 Earnings Call. A slide presentation will accompany today's webcast, which will also be available in the Investors' section of the company's website, www.arcosdorados.com/ir. And as a reminder, all participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. 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 statement 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 audited 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 are healthy and safe.

Today, Mariano and I will address the topics on Slide 3, starting with a review of our results for the first quarter of 2020. We will also provide another update on how COVID-19 is impacting our business, including recent trends. And we'll go through some of our expectations for the post-COVID-19 operating environment.

Before we review our first quarter results and more recent trends, I want to take a moment to recognize the truly heroic efforts of healthcare professionals, first responders and other essential workers across the globe. We thank them for putting themselves at risk to save lives, protect our communities and ensure that we have access to essential goods and services while we fight to contain the spread of the virus. We extend our deepest condolences to everyone who has been personally affected by this situation.

As we navigate this historically challenging period, our primary focus and attention remains directed toward the wellbeing and safety of our restaurant crew, staff, sub-franchisees, suppliers and guests. I am FILLED with pride and appreciation for the hard work of our Arcos Dorados family in Latin America and the Caribbean. They are displaying our Core Values on a daily basis, providing support to the communities we serve, including the donation of more than 120 tons of food from our restaurants and distribution centers, as well as hundreds of thousands of McCombos, to hospitals, emergency services professionals and humanitarian aid organizations.

Turning to our first quarter results on Slide 4, the momentum we generated in 2019 with our winning, three-pillared strategy continued into the beginning of the first quarter of 2020. Year-over-year, systemwide comparable sales grew 10.9% for the first two months of the quarter.

In other words, as we mentioned last time, we entered this crisis from a position of strength. Our strategy is supported by investments in opening new restaurants, modernizing existing locations, offering a compelling menu and unmatched service, developing an industry-leading Digital platform and leveraging the growth potential of the Delivery and Drive-thru sales channels.

Throughout 2019 and into early 2020, these investments drove comparable sales growth well above inflation, market share gains in most of our markets, consistent improvements in Brand metrics and important gains in operational efficiency. AND, we accomplished all of this while significantly reducing our financial leverage, putting us in our strongest financial position in many years.

When the COVID-19 crisis began in Latin America, governments throughout the region quickly implemented quarantine measures and mandated the closure of non-essential businesses. This was the main driver for reduced guest traffic and, together with a growing number of restaurant closures, a significant decline in March sales. By the end of March, we were operating 55% of our restaurants, primarily through Drive-thru, Delivery and/or Take-away.
Against that backdrop, first quarter, systemwide comparable sales, which by definition include ALL restaurants in our footprint over the last twelve months, fell 4.5% versus the prior-year.

These trends continued in April. Looking at the evolution of our restaurant operations since the beginning of the crisis, on Slide 5, the number of operating restaurants dipped below 50% in the first few days of April. Four out of our five SLAD division markets and many smaller Caribbean division markets were completely closed for most of the first half of the month.

There is still a long road ahead, but we believe we may have seen the worst in April, with a 64% decline in systemwide comparable sales, excluding Venezuela.

In Brazil, we were forced to close most of our mall-based stores. However, since more than half of our restaurants in the country are free-standing or street-facing, we adapted these locations to operate through Drive-thru, Delivery and/or Take-way, with systemwide comparable sales in Brazil finishing down 54% in April. Importantly, we saw better sales trends during the second half of the month as some of our other markets were able to partially resume operations, notably Argentina, Chile, Ecuador and some of the Caribbean markets.

And, so far in May, we are seeing gradual improvements in sales trends. As of today, thanks to the largest free-standing restaurant footprint in our industry, about 74% of our restaurants are operational. Brazil is now operating 70% of its restaurants, NOLAD 83%, SLAD 69% and the Caribbean is operating 82% of its restaurants, excluding Venezuela.

Throughout this crisis we have gained invaluable insights from across the McDonald's system, which helped us to develop a three-phased Recovery Plan. This will not only guide us through the current situation but is also preparing us for the pandemic's impact on consumer behavior and preferences in the long-term.

I'll turn the call over to Mariano now for a further review of our operating and financial results.

Mariano Tannenbaum
Thanks Marcelo. Let's take a look at some of the details of our sales performance on Slide 6.

As Marcelo mentioned, we began the year with very strong sales trends. The increase of almost 11% in systemwide comparable sales through February included growth above inflation in three of our four divisions. With the spread of the COVID-19 virus in March, guest traffic softened and we began closing restaurants around the middle of the month. March declines in systemwide comparable sales were most pronounced in SLAD and Caribbean, which had the highest levels of restaurant closures and strictest government quarantine guidelines.

Total revenue contracted by just 1% in constant currency, as a result of the COVID-19 pandemic. But, due to the meaningful depreciation of many currencies in Latin America, total revenue was down 15.4% in US dollar terms.

The combination of widespread and prolonged restaurant closures, with strict quarantine orders in many countries, caused April's sales performance to be materially worse than March. Fortunately, as Marcelo already mentioned, government restrictions on restaurant operations and quarantine guidelines began to loosen in the middle of April. We saw sales performance improve during the second half of April, as well as recently in May, when restrictions were further reduced.

We are cautiously optimistic that we have seen the bottom of the crisis, and we will now begin to gradually rebuild revenue trends through the end of the year, and into early 2021.

Turning to Slide 7, Consumers have recognized our high standards for cleanliness and hygiene and some governments are even using our standards as a benchmark for the industry to follow during the pandemic. Our guests have put a premium on value, convenience and, importantly, contactless alternatives for ordering and buying food. So we are leveraging our nearly eleven-hundred free-standing units (the highest number of Drive-thrus in our region) and our unmatched Digital platform, including our Mobile App, that has now been downloaded by more than 39 million people, and still enjoys the industry's highest level of active users and customer ratings.

This has led to comp sales growth of 20 to 40% in Drive-thru and more than 100% in Delivery across our markets. Average check has increased substantially due to an increase in party size and sales have become more balanced between weekdays and weekends as compared with our historical average of about two-thirds of sales coming on Friday, Saturday and Sunday.

I'll now walk you through our costs and expenses during the first quarter on Slide 8. We were able to leverage strong sales performance to generate an 11.3% increase in adjusted EBITDA, including 100 basis points of margin expansion, in the first two months of the year. As a result of the sharp decline in sales in March, particularly in the second half of the month, adjusted EBITDA finished down 51.4% for the first quarter and our EBITDA margin contracted 360 basis points. Most of the margin decline was due to lost leverage on our restaurant-level payroll and occupancy expenses in each of our divisions.

The proactive cost reduction and expense management actions we implemented in response to the crisis, began taking effect toward the end of March, and we expect to benefit from the full impact of most of the initiatives, beginning in the second quarter.

At the end of the first quarter, we reached an agreement with the remaining four sub-franchisees in Puerto Rico, similar to the agreement we reached with the market's other four sub-franchisees during the fourth quarter of 2019. We are very pleased that Puerto Rico, which generates US dollar cash flows and was enjoying a recovery prior to the current crisis, will now be a 100% company-operated market.

Our total G&A expenses decreased 6.7% year-over-year in US dollars. On a constant currency basis, total G&A expenses rose 11.7%, which was below the blended inflation rate of our total G&A. However, due to the sharp decline in sales at the end of the quarter, cash G&A expenses were up 50 basis points as a percentage of revenues.

Capital expenditures in the quarter totaled $41.2 million dollars primarily related to opening seven new restaurants, reimaging twenty-one of our existing restaurants and opening thirty-three dessert centers before the inception of the COVID-19 pandemic in Latin America.

Back to you, Marcelo.

Marcelo Rabach
Thanks Mariano. As I said earlier, our current plan consists of the three phases on Slide 9:

1. Crisis Management, in which we are currently focused on the safety of our people and customers by enhancing our hygiene and cleanliness procedures while emphasizing the competitive strengths of our operation and prioritizing our financial liquidity.
2. The next phase will be Recovery, in which we will see the re-opening of the majority of our restaurants, including the dining rooms. We expect to find a changed consumer and competitive landscape focused on safety standards, value and trusted Brands.
3. Finally, we expect to transition to a Full Revival, where consumers and local economies begin to recover financially and psychologically. As Mariano mentioned, we are planning for the likelihood that some of the trends we are seeing today, will continue well after the COVID-19 outbreak has been brought under control.

Whereas the full service restaurant segment is likely to take a long time to recover from this crisis, the QSR segment should recover more quickly. The McDonald's Brand and our restaurant footprint has many unique attributes in Latin America that will further support our favorable competitive position in the future, as you'll see on Slide 10.

To begin with, we launched a comprehensive program called McProtegidos, or McSafe, across every one of our markets. Through this program, we are providing a safe environment for our employees and guests to enjoy by enhancing our industry-standard quality, service and cleanliness processes.

To support this program, our supply chain team has procured millions of facemasks and tens of thousands of liters of hand sanitizer, so far. In addition to receiving appropriate PPE, our teams are observing recommended social distancing guidelines, sanitizing surfaces more frequently and serving our Drive-thru customers from behind newly-installed protective barriers.

In addition to having a greater focus on hygiene, consumers will be seeking greater Convenience when the situation normalizes. The growth of the Drive-thru and Delivery sales channels has been a consistent theme across the global McDonald's system. We expect this trend to continue, and our footprint is unmatched, in Latin America and the Caribbean, for its ability to capture future growth through our omnichannel approach. We have, by far, the highest number of free-standing restaurants versus our nearest competitor across the region, especially in our three largest markets of Brazil, Mexico and Argentina.

We are also far more advanced in our penetration and operational expertise when it comes to Delivery. We offer the Delivery service across more than fifteen-hundred restaurants in eleven countries, working closely with all of the major aggregators in our main markets for years.

Post-COVID, we expect consumers to favor a strong Value Proposition as we work toward Full Revival. We will address this need through our robust value platform built around our favorite menu items as well as adding functionality to the industry's best Mobile App. As an example, we recently added the ability to order Delivery through our App and have seen 3.5 million customers access this function in just the last four weeks. This has helped us gain market share among active clients, which recently rose to nearly 3 times our nearest competitor. And, while we support existing sales channels and product lines, we are also developing a number of other initiatives for the coming weeks and months.

We operate the Favorite QSR Brand in Latin America and the Caribbean thanks in large part to the success of our Cooltura de Servicio approach to service. We are also the region's favorite QSR Brand for families and we have developed a number of product offerings for people to share while strengthening their family bonds and observing "stay at home" orders.

We believe that consumers will reward those companies that have a track record of making a Positive Impact on the Communities they serve. This is another one of our Core Values as a company, which we have outlined as part of our Receta del Futuro, or Recipe of the Future. Our long-term goals for using our Scale for Good will only expand after this situation has passed.

And, in the short-term, the Arcos Dorados family is supporting our local communities in a variety of ways. In addition to the food donations I mentioned earlier, I am particularly proud of the work of our Hamburger University in Brazil. Our team of corporate trainers and educators have created a course to share some of our best practices around Food Safety and Hygiene with the broader restaurant industry. Almost 1,000 small restaurant owners have joined this free, online class, so far.

Mariano will now take you through some of the specifics related to our cost and liquidity management. Mariano, back to you.

Mariano Tannenbaum
Thanks again Marcelo. As I mentioned earlier, the full impact of our initiatives to reduce costs and expenses, shown on Slide 11, will be realized beginning in the second quarter.

Working together with our mostly-local suppliers, we have made a 30% reduction to our menu offerings in order to simplify operations, streamline our supply chain, improve customer satisfaction and protect margins. And we have a rolling hedge program to mitigate the impact of FX variations on the imported portion of our food & paper, leaving us well-protected in this highly-variable component of our cost structure.

In terms of restaurant Payroll, we are using multiple tools to reduce costs including: a hiring freeze, the non-renewal of short-term contracts, and the re-allocation of employees from closed restaurants to operating locations. We are also working closely with local, state and federal governments to receive, and participate in, support programs for our employees. Beginning in April, many of these programs also helped alleviate our cash flow needs.

One of the largest components of our Occupancy Expenses relates to our nearly eighteen-hundred rental contracts. To date, we have reached agreements with the majority of our property owners, including some rent payment deferrals, as well as a shift to fully-variable rent, based on sales.

Another important component of our Occupancy Expenses is our advertising and promotion spending. In connection with the COVID-19 outbreak, McDonald's has given us the flexibility to reduce the advertising and promotion spending requirement down to 4%, from 5% of our gross sales for 2020.

In addition, McDonald's has agreed to defer all royalty payments related to sales in March, April, May and June 2020 until 2021. This deferral has an important cash flow benefit this year.

Our G&A has been trending consistently downward as a percentage of our sales for many years, so we are already operating with a relatively lean cost structure.

With that said, we have implemented a number of cost-saving measures, including,

- The reduction of certain employee benefits,
- The implementation of a staff-level hiring freeze,
- The suspension of all travel and group events, AND
- The renegotiation or elimination of professional service fees.

In order to support our staff, following the principle that we are all in this together, the members of our Executive Leadership Team have voluntarily deferred 50% of our base salaries. The deferral is for the period from April 1st to June 30th, 2020, subject to extension, if the situation warrants.

Additionally, all country-level Managing Directors and Corporate Directors have deferred 25% of their base salaries for the same period and under the same conditions.

Turning now to our balance sheet, on Slide 12, our deliberate approach to debt reduction since 2015 lowered our Net Debt / Adjusted EBITDA leverage ratio to 1.6x as of the end of December 2019. In addition to starting 2020 with no material debt maturities before 2023, we also had $50 million in available, committed lines of credit at the corporate level as well as multiple lines of credit available in our local markets.

As of March 31, 2020, we had $142.1 million dollars in cash and equivalents. Our leverage ratio, which is measured based on trailing twelve months EBITDA, rose to 1.9 times due to the decline in first quarter EBITDA and an increase in short-term debt.

As of the end of the quarter, we were in full compliance with all covenants for our short-term lines of credit and our public bonds as well as those contained in our Master Franchise Agreement with McDonald's. However, we believe our second quarter EBITDA will be materially worse than our first quarter result, and we are likely to breach our debt covenants.

We are holding discussions with our lenders as well as with McDonald's to obtain waivers for these covenants. Importantly, our 2023 Bond is an investment grade instrument with no debt covenants and the covenant on our 2027 Bond allows for significant financial flexibility, without being an event of default. Based on our current outlook, we are confident that we have sufficient available sources of funding to cover our needs until our cash flows recover.

Since the duration and scope of the outbreak remains difficult to predict, we still cannot reasonably estimate the negative financial impact to our results. That is why we withdrew our long-term guidance and also agreed with McDonald's to withdraw our 2020 to 2022 Restaurant Opening Plan and Reinvestment Plan. We do not expect to finalize a revised Plan until after the COVID-19 outbreak has been brought under control.

In conjunction with the withdrawal of the Plan, we do not expect to receive Growth Support from McDonald’s at least until we develop a revised Plan for the period.

However, as I mentioned earlier, McDonald's has provided relief on royalty payments and our advertising and promotion spending requirements.

With respect to capex, we have stopped all capital investments with the exception of those related to:

1. Preserving food safety and employee safety in restaurants that are still operating, AND
2. IT investments to support the connectivity of our staff and to continue developing the sales channels and Digital capabilities that will meet changing customer preferences.

We began 2020 with an accelerated calendar of restaurant openings and re-imaging projects, for which we invested the $41.2 million dollars that I mentioned earlier. With the limitations we’ve now implemented, for the full year 2020, we currently expect total capex to be no more than $80 million dollars.

As you can see, we have put in place, strict controls to decrease our operating expenses, reduce our G&A, extend or defer payments and minimize our capital expenditures. Let me reiterate that we are confident these measures will allow us to MORE-THAN-COVER our cash needs with our available sources of funding until our cash flows recover.

Marcelo?

Marcelo Rabach
Thanks Mariano. Before we open the call for questions, I want to recap the current situation on Slide 13.

As we’ve been saying since our last earnings call, we entered the Coronavirus crisis from an UNQUESTIONABLY strong position and are, BY FAR, the best positioned company in our industry to effectively respond to the risks associated with this pandemic, while also serving the needs of our guests through our omnichannel approach to offering Delivery, Drive-thru and Take-away on a wide spread basis.

We are leveraging the decades of industry experience of each member of our Management Team to guide us through the Crisis Management, Recovery and Full Revival phases of our Plan. The proactive steps we have taken to manage our costs and cash flows are designed to ensure that our available sources of funding, both current and future, will be more than sufficient to cover our cash needs.

The Arcos Dorados system has risen to the challenge and we will not lose sight of the future potential of our amazing Brand while we continue supporting our people, customers, sub-franchisees and the communities we serve. We appreciate the efforts and support of all our partners and suppliers as we work together to overcome this historic crisis.

And, as the largest independent franchisee in the McDonald’s System, we have, and will continue to leverage the benefits of being part of the world’s biggest and best quick service restaurant Brand.

I have no doubt that we will emerge from the COVID-19 pandemic, ready to serve our customers the great food they love, in the safe environment they've come to expect and in even more innovative and relevant ways.

Our short-term plans and strategy are clearly evolving and there is still a lot of work to be done. But the long-term, competitive fundamentals of our business will only get stronger and our Brand's potential for creating shareholder value remains the most attractive in the entire Latin American and Caribbean QSR industry.

Operator, please open the call to questions.

QUESTIONS AND ANSWERS

Operator
Yes. Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question please press star, then two. In order to allow all listeners to participate please limit yourself to one question and one follow-up question. At this time we will pause momentarily to assemble our roster.

Our first question comes from Robert Ford with Bank of America. Please go ahead.

Robert Ford
Hi. Thank you, good day everybody and hope everybody is well. Yes, I'm going exceed this one question limitation, but hopefully you don't find too much fault with that. I'll go quickly. And I was curious, when was the last time you had your physical assets valued? And what was the valuation at that time? And then, you mentioned that May may have been or you may have seen the worst in April, and I was curious what the cash burn was for the month of April? You mentioned, the very aggressive mitigation, crew and occupancy cost efforts. And I was curious, if those were fully in place for April? And then, Mariano, I was wondering if you could give us some more detailed update on your foreign exchange positions? And then lastly, Marcelo, you mentioned that the pandemic will have longer term influences and impacts on customer preferences. And I was curious, what your opinion of those might be at this time? Thank you.

Marcelo Rabach
Okay. Good morning, Bob, and thanks for your questions. We will try to cover as much as possible. Let's begin with the first one, which is related with the value of our assets. I think Mariano can cover that one.

Mariano Tannenbaum
Yes. Hi, Bob, how are you? Yes, the last comprehensive appraisal of our real estate properties was done in 2009 and the value at that time was about $900 million, $940 million. Of course, you are aware that in 2016 we did the redevelopment, where we valued some of the properties, we didn't do at that time a comprehensive appraisal of all our real estate. It was only done for those properties that we sold. But the last one, in fact, for the whole company was done in 2009.

Marcelo Rabach
Okay. I think that covers the first part of the question. In terms of payroll and occupancy and other P&L cost lines, an important thing, I think, is that the whole team has worked hard to convert to variable as much of our fixed cost structure, as possible. So, we have also worked to minimize the remaining fixed costs in absolute terms, as well as in terms of short-term cash impact.

So, there was a lot of work in different P&L lines. Maybe Mariano can cover some of that, and I will cover the other ones. But I think that you will have some color around occupancy costs, payroll, and other P&L lines, what we do, and particularly the impact coming from all this work will be more visible in April, since we began to work in these during March. But most of these lines were planned for that month with the full operation that we didn't have in the second part of the month of March.

So Mariano, why don't you go through the P&L lines and G&A and then I'll cover a couple more.

Mariano Tannenbaum
Yes, perfect. Yes, we did a lot of work in every single line of our income statement, starting the most important one in food and paper. We extended and deferred payments to our mostly local suppliers, we negotiated with all of them. We reduced our menu offerings by 30%, also to simplify operations, streamline our supply chain, and improve customer satisfaction, while protecting margins.

We have, as you know, a rolling hedge program to mitigate the impact of FX. And that's—part of the answer links with the second or the third question you asked about FX, but our hedging program is in place. And in fact, we hedged all our imported costs from the food and paper line, already for almost full 2020 at very attractive rates.

In terms of payroll, which is the second line in importance, well, we launched various programs, such as McProtegidos, first of all, to make sure our people and customers are safe. We implemented several cost reduction initiatives, such as—I already mentioned some of them during my remarks, but we implemented a hiring freeze, non-renewal of short-term contracts, reallocating employees from closed to open restaurants and we are working with local, state, and federal governments to participate in as many employee support programs as possible, and this has already started helping our cash flow.

In terms of rent, which is another important part of our costs, we have reached agreements with the majority of our 1,800 landlords. And as Marcelo mentioned at the beginning, we shifted to fully variable rent, based on sales, in the majority of our contracts.

So, we don't have, at this time, almost any fixed cost related to rent. We are only paying rent on the opening restaurants. We also deferred some rent payments. And we—it's important to remember that we own almost 500 of our locations. So, in those, we don't pay rent, at all.

Finally, in terms of G&A, G&A expenses have been trending down as a percentage of sales for many years already. And today, we have the lowest G&A since 2008. We are already operating with a lean cost structure. But some of the measures that we have taken in the recent weeks are the reduction of certain employee benefits, staff level hiring freeze as well, of course the suspension of all travel within the company, reduction of professional service fees. We have been working with all our external providers to reduce or defer the majority of those payments.

As I already mentioned during the remarks, our executive leadership team have voluntarily deferred 50% of their base salaries for a three-month period and that will be extended, if needed, as well as country level managing directors and corporate directors that did at a different rate. With these measures, we expect a 20% G&A reduction in 2020 versus 2019. And we remain prepared to make difficult decisions to manage the situation. So Marcelo?

Marcelo Rabach
Yes. I would like to add about all the discussions and all the conversations with McDonald's. They have been very supportive. So, they gave us the opportunity to defer the royalty payments related to

the sales of March, April, May, and June. All those payments were deferred until 2021. And at the same time, given the situation, we agreed with McDonald's to have the flexibility to reduce the advertising and promotion spending requirement by the MFA, we should invest 5% of our gross sales each and every single year. And in 2020, we agreed with McDonald's to reduce this requirement to 4%.

So, those are many of the actions that the management took in order to reduce our costs in different areas of the business. And at the same time, Mariano mentioned during the call that we cut significantly our CapEx expenditures that do not impact our costs in the short-term, but it protects our liquidity.

And maybe Mariano can add some more color in terms of our liquidity situation and some additional measures that we took in order to cover, I think the last part of Bob's question.

Mariano Tannenbaum
Yes. Thanks, Marcelo. Yes. In terms of liquidity, we started the year in a very good shape with a strong cash position. In addition to having $50 million in committed credit lines, we have—which is not common for Latin American companies, we have also uncommitted credit lines outstanding that allow us to fund our operations while we are not receiving all the inflows from our sales.

It's important to remark that during the first quarter and the first weeks of April, we met all our pre-COVID obligations. So, while we expect the second quarter to be materially worse than the first quarter in terms of results, we also believe that April was the worst month in terms of sales and cash flows inflows.

So, towards the end of April, and that's important, the last three weeks, we stabilized our cash flow and we expect the situation to begin improving, as we resume operations and add sales segments to our restaurants. So, more inflows, and we are fully in charge of our outflows, as we already explained.

So let me conclude this long answer by saying that we are really confident that we will have access to the funding sources and cash generation to more than meet our obligations moving forward. So I think that's the end of the question.

Marcelo Rabach
Okay. And finally, Bob, I think that you asked about our expectations about the new normality, after the COVID pandemic crisis. In the short-term, I think that we have pretty good information. We made a lot of research. And based on that, we have our recovery plan in place. The first pillar, because it's the main driver nowadays, at the moment of deciding to have a meal out of home, the main driver for people is safety, is being sure that the place where they are going took all the measures, all the procedures were reinforced, all the protocols to be a safer place. So, people assurance is our best effort in terms of growing sales in the short-term.

And on top of that, we have three very important business segments for us, safe channels, which are key in terms of growing sales in the short-term. And we are very well positioned in all of those, which are Drive-Thru, Delivery, and Take-away. So, we know that consumer habits will change, especially in these early days after the pandemic and when the markets quarantines finish and people go out again. They are—their patterns of consumption and the way they deal with their day-to-day business is different. So safety and trust it is and will be a key driver in consumer decisions.

The economic and financial impact on consumer finances will put, we think, a premium on value and may also drive some trading down from casual dining, fast casual alternatives, or full-service restaurants. And convenience and experience will also influence customers' decision. So, at the same time, in terms of the competitive landscape, we expect some competitor consolidation. We think that some smaller chains or individual operators can make the other side of this crisis. And we will continue to be as aggressive as possible in order to be the best option in the market.

So, we are convinced that we will emerge this crisis in a position of competitive strength, mainly due to our largest freestanding restaurant footprint, our great job around Delivery, Delivery penetration is very high in our case, more than 1,500 restaurants in the region offer this business segment. The brand McDonald's, obviously, the brand McDonald's is recognized around the world by its standards in terms of hygiene and food safety, and we are being even more focused on that than in the past, our favorite menu items.

And all this supported by our industry-leading digital capabilities. We mentioned during the call that we are almost at the 40 million mark in terms of downloads. We are by far the brand with the biggest amount of active users, and we are using that channel in order to be very close to our customers in the region.

So, that's what we have. We do not have all the answers yet, but so far we have these priorities to work on. And I think that we are extremely well positioned to deal with this new normality going forward. So, long answer, but I think that you introduced more than one question. But it was okay.

Thank you, Bob.

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

Gary Barnes
Thank you very much for the presentation. I think most of my questions have actually been covered except for the slight IT issue, whilst some of the previous questions were being answered. And also, I've seen that the filings in the first quarter just have been released. So I think you might have actually—you got it covered this, but just like to know something about the short-term financing that you drew on during the first quarter. There is about close to $100 million that you drew across several of your operating regions. I'd just like to know what is the tenure of these facilities—of these things that are easily rolled over by the end of this year, as I'm cognizant of the fact that you have got approximately $140 million of cash available for any repayment. So I just want to know how urgent that short-term debt is?

Marcelo Rabach
Okay. Good morning, and thank you, Gary. I will let Mariano to cover your question.

Mariano Tannenbaum
Perfect. Yes. As you can see, at the end of March, we drew $136 million in short-term debt. That was our initial strategy, when restaurants began closing and quarantine started in the majority of our markets. We have a very good relationship with most of banks in the region. And we were able to access not only the—of course the committed credit lines, we have $50 million in committed credit lines, $25 million with Bank of America, $25 million with J.P. Morgan. But on top of that, we have several non-committed credit lines with different banks in the region.

So, what we did is to draw whatever we thought we needed to cover the periods when the restaurants were going to be closed. And that's how we arrived to the $136 million. And if you see our cash balance, the majority of that cash is in our bank accounts. The good news is that, as I mentioned in the previous question, that we have stabilized our cash outflow. And our net position in the last three weeks has become stable.

The tenure of these debt depends, because as you can see in our financial statements, in the notes, in the note number four, where you have a lot of detail of the banks and interest rates. First it's important to note that the majority of this debt is in local currency. So we don't have FX exposure on that.

Secondly, even though the tenure of this debt usually is around three months, we didn't have any problem in continue accessing banking credit. And on top of that, we are in constant conversations and discussions with banks. And we did not receive any request from any of the banks to start returning those funds.

So we are—I am extremely confident that we will be able to rollover this debt. Of course, the idea is at some point try to find, as we always do, a long-term strategy to this. So, we are also analyzing different alternatives that we have in capital markets. At this time, this is not, of course, the best time to go to the capital markets.

The good news is, if you follow our bonds, our debt, the 2023 is already trading above par. The '27 is a bit below, it's at 96.30. That's the last quote we have. So, both bonds are trading really, really well. And we are confident that, after this crisis passes, we will be able to refinance that debt as we usually do with a long-term instrument.

Operator
Again, if you would like to ask a question, please press star and then one.

Our next question comes from Ian Luketic with JPMorgan. Please go ahead.

Ian Luketic
Good morning Marcelo and Mariano. Thanks for presentations. So, if I may, I have two questions. During the presentation you mentioned that late April and early May sales trends are improving. I would like to see if you can provide a sense on how much sales throughout this first two weeks of May have improved on a month-over-month? And also, if you can provide a breakdown of how much sales are being through each channel? So how much Drive-Thru, Delivery, and Take-away represents of your sales currently? Thank you.

Marcelo Rabach
Good morning, Ian, and thanks for joining the call. Let me give you some color about April for example. As we mentioned during the call, and I think that we showed a very comprehensive chart. The most difficult situation was in the first two weeks of the month of April, where we have less than half of our restaurants operating. So, there are a difference of around 20 percentage points in terms of comp sales between the first half of April and the second half of April.

And what we are seeing nowadays is that, as soon as we are allowed to operate in the different markets, and this is true in the whole company, people are willing to visit us, is willing to reach us. So, what is happening is, as of today, we have almost three quarters of the restaurants operating. Most of the restaurant that are not in operations are shopping malls, because those are closed.

But in those that are open, what we are seeing is that every single day, we are putting more and more channels on operation. For example, this week, we have the opportunity to begin to operate in Buenos Aires City, the Drive-Thrus, that we weren't allowed to do in the past, we were only operating delivery. So, it's not only the number of restaurants that we can operate, but it's the number of channels we can operate.

So, for the second part, which is the distribution between channels of the sales, obviously the main sales of channels in these last three or four weeks is Drive-Thru. We are very well positioned in Drive-Thru. Drive-Thru is growing around 30% to 40% in comparable sales against last year.

So, for example, if you take the Brazilian market and you look at the freestanding units, around 70% of the sales we are getting in those units, in freestanding units in Brazil, are coming from Drive-Thru, around 70%. Another 20%, 25% is coming from Delivery, and we are growing comp sales at the Delivery segment above 100%, and that's the case for Brazil, too. And the balance to that is Take-away.

So, the best news for us is that we are very strong in Drive-Thru, we are very strong in Delivery. And since we are able to operate, so, since we have the opportunity given by the governments to operate the different restaurants, our sales are recuperating very fast.

Operator
Our next question comes from Jeronimo De Guzman with INCA Investments. Please go ahead.

Jeronimo De Guzman
Hi. Good morning. I had a few just scattered follow-up questions. The first one is, you mentioned that there are some covenants on the bonds, the 2027. I just wanted to see if you could just give me a little bit more detail on what could be those covenants and what could be the limits that could be imposed as you negotiate with them and with the shorter-term creditors?

Also the second follow-up question was on the investment plan. Thanks for the detail on the CapEx for this year. I just wanted a little bit more on, is there any kind of minimum expectation for McDonald's in the investment plan over the next three years? And then, two more questions, sorry. One is on the franchisee health. If you could kind of comment on the sub-franchisees and how they're doing? And finally, in terms of the supply chain. Are you seeing any issues with product availability?

Marcelo Rabach
Okay. Good morning, Jeronimo. I will cover a couple of your questions and then I will let Mariano to talk about the covenant and the bond. Let me start with the CapExpart. We are in constant conversations and discussions with McDonald's. They are—they have been very supportive with us during all these times and this process. And we will have some discussions around, okay, what's the correct amount of Capex for the next couple of years, talking about this cycle 2020 to 2022. I think that we will have those discussions, once the situation goes back to normal.

We are thinking about the third quarter or fourth quarter of this year to have that kind of conversations. Obviously, we will have to forecast our sales and margins and cash flows. And based on that, agree with McDonald's and what kind of Capex should be the right amount. And obviously, we are completely aligned. And I think that the relationship between the two companies, it's in a pretty good shape. So, in terms of CapEx, I would say that's more or less what we have in our minds, as of today.

In terms of sub-franchises, the situation varies from market-to-market. Obviously, we are giving them the same kind of support that we are getting from McDonald's. So, in terms of the royalty payments related with sales for March, April, May and June, those were delayed for them, till 2021.

And, on top of that, we are giving, to some of them, some additional help in terms of rent. But we are managing the support on a country-by-country basis and on a case-by-case basis, because this—the situation is very difficult to have a one-size-fits-all approach because there are markets which are completely closed, or were completely closed for several weeks, there are others that continue to operate.

So we are dealing with this situation on a case-by-case basis, but we are helping them to be as well as possible with this challenge in these days. And we do not expect to revise, as I mentioned before, our Capex plan until they COVID crisis is under control. So, when I told you that we were thinking about quarter three or quarter four of this year, it will depend on the evolution of the pandemic.

So, in terms of sub-franchisees and CapEx, those were the answers. Supply chain, fortunately, most of our suppliers are local. So, we do not have any major issue in terms of assuring our supply chain. And at the same time, we took the decision to focus our menu in our core menu items. So, that helps our supply chain to deal with all the work needed to bring all the products that we need to our restaurants. So, those are the three parts of the question that I can cover. And then I will let Mariano to cover or to talk about the covenant of the bonds.

Mariano Tannenbaum
Yes. Hi. Thanks, Marcelo, and hi, Jeronimo. Yes. Actually, as I mentioned during the remarks, the 2023 is an investment-grade package and doesn't have any covenants. The 2027, in fact, is an almost investment grade package. It has a covenant. And the covenant is a financial incurrence, where net debt to EBITDA should be below 3.5 times. Incurrence, as you know, means that we—if we are above 3.5 times, we should not take additional debt.

But, the good thing in this case, is that this bond and the covenant, considered a basket of approximately $240 million, or 16% of total assets of the company, where we could even incur in additional debt for that amount, that is $240 million of new debt, that by the way, is much higher than the debt that we have at the moment, $136 million, and much higher than the debt that we are planning to—we are not planning to be in breach of that covenant in any moment. So, actually, what we can say here is that the covenant should not--we should not breach the covenant of the 2027 note.

CONCLUSION

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

Marcelo Rabach
Thank you. Thank you very much. And thank you again everyone 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 the coronavirus in your communities. So please stay safe and have a great day. Thank you very much.