CFA Institute Research Challenge

Hosted by

CFA Society of Argentina and Uruguay

Universidad del CEMA

Arcos Dorados Holdings, Inc.

NYSE: ARCO

Recommendation

HOLD

LA&C - Food - QSR

Target Price

12.00

"Lovin´ it again requires both better macro and execution"

We are initiating ARCO with a HOLD recommendation and a Price Target of USD 12.00. The company is the master franchisee of McDonald's in Latin America since 2007 and the leader in the quick service restaurant ("QSR") industry in the region with a 9.9% market share. It is the world's largest McDonald franchisee in terms of systemwide sales and number of restaurants. Given the low penetration of the QSR industry in Latin and Central America, about 1/3 of the USA, ARCO has significant growth potential with room to double its store base over the long term. On the other hand, its attractive growth profile is currently being offset by negative macro conditions in the region, such as inflation, currency devaluation, capital controls, labor regulation, and lower economic growth, which are beyond the company's control and put pressure on margins and cash flows. Furthermore, upon analyzing sales trends on new restaurant openings, we see evidence that sales of new restaurant openings in key markets such as Brazil are running below the system average indicating that ROIC at the restaurant level has been decreasing. Competitive pressures have been rising as well. These require that the company starts executing a better balance between rapid growth and restaurant productivity, a factor within the company's control.

ARCO's stock price reached a high of $28.50 on September 2011, when the macro environment was very favorable for US dollar investors as most local currencies were appreciating and Brazil was experiencing stronger economic growth. Since then, the stock price has lost approximately 58% of its value reflecting macro headwinds which impacted its sales growth and compressed its operating margins. Y/Y sales growth decreased from 21.2% in 2011 to just 3.8% in 2012, even though the company opened more than 100 restaurants during that period. EBITDA1 margins have been decreasing 140bps since 2010 to 8.5% as of June 2013 (LTM). Margin pressure is also due to the fact that a significant part of its cost structure is dollar-linked; therefore, currency volatility has a high impact on margins. As of June 2013, Revenues and EBITDA for the LTM were $3,938mm and $333.6mm respectively. High levels of inflation and capital controls have been particularly negative in Venezuela and Argentina which account for approximately 25% of revenue and 30% of EBITDA combined. Currency devaluation in Argentina is significantly mitigated as the country is the cost center of the whole company; therefore, it has a net short currency exposure as corporate expenses are higher than the Argentinean EBITDA.

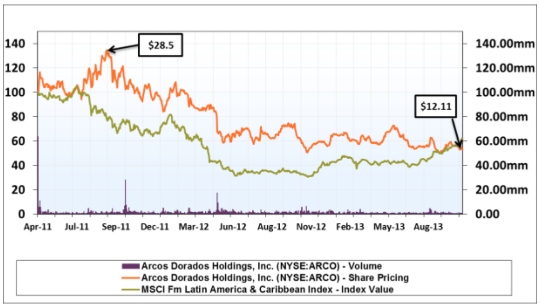
Company Data	
Price (USD)	12.11
Date of price	22-Oct-13
52 week range (USD)	15.52 - 10.45
Average Daily Volume (3m)	1,054,150
Market Cap (USD mm)	2,540.1
Fiscal Year End	Dec
Shares Diluted (USD mm)	209.5
Current PE	32.12
Float	60%

Source: S&P Capital IQ

	Sales Growth	Adj. EBITDA Margin	EPS
2009	0.9%	10.0%	0.33
2010	13.2%	9.9%	0.44
2011	21.2%	9.3%	0.54
2012	3.8%	9.0%	0.55

Source: Company Reports

STOCK PRICE PERFORMANCE



Source: S&P Capital IQ

[1] Throughout the report EBITDA equals Adj. EBITDA as defined and calculated by the company.

As of June 2013, total restaurants were 1971, an increase of 24% since 2007. We still see considerable scope for the company to grow and diversify its store base around its current footprint which is mostly concentrated in urban areas. Rapid population growth and the emergence of a middle class throughout the region point to significant opportunities for the company's products and services. But growth needs to be profitable to add shareholder value; therefore, it needs to be balanced with better execution at the restaurant level, especially under current macro conditions. Due to the company's pricing power, it has managed to increase ticket prices along with inflation but we would like to see more traffic improvement reflected in same store sales ("SSS"). See Exhibit 1for an explanation of SSS calculation.

If macro conditions start to stabilize, better execution at the restaurant level should improve EBITDA margins and ROIC, which might be the catalysts for a multiple expansion, resulting in significant upside to the current stock price. Evidence of these happening would make us consider a rerating of our current HOLD recommendation and price target.

BUSINESS DESCRIPTION

Arcos Dorados Holdings Inc. (NYSE:ARCO) is the master franchisee of McDonald's (NYSE:MCD) in Latin America since August 2007. It is the world's largest McDonald's franchisee in terms of systemwide sales and number of restaurants, operating in 20 countries of Latin America and the Caribbean (LA&C). It has the exclusive right to own, operate and sub-franchise McDonald's restaurants in the region. ARCO represented 5.6% of McDonald's global sales and 7% of McDonald's total franchised restaurants as of December 2012.

Source: Company Reports

The company operates McDonald's-branded restaurants under two different operating formats: company-owned restaurants (~75%) and franchised restaurants (~25%). As of June 2013, Arcos Dorados had 1,971 McDonald's-branded restaurants, 2,057 Dessert Centers, and 340 McCafé2 with over 94,000 employees serving approximately 4.3 million customers a day. The company enjoys a significant real estate portfolio throughout the region with key strategic locations.

Iconic Brand, Key Locations, Diversified Market. The company's operations are classified into four geographical regions as of June 2013:

1. Brazil, which is the largest division.
2. The Caribbean: Aruba, Colombia, Curaçao, French Guyana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, St. Croix, St. Thomas and Venezuela.
3. NOLAD (North Latin America Division): Mexico, Costa Rica and Panama.
4. SLAD (South Latin America Division): Argentina, Chile, Ecuador, Peru and Uruguay.

As of today, 38% of the restaurants are located in Brazil, 19% in SLAD, 25% in NOLAD and 18% in the Caribbean region. The Company top-line growth comes from an increase in same stores sales, new restaurants

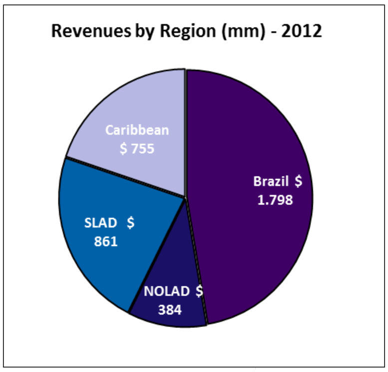
[2] McCafe locations are areas within restaurants where customers can purchase various customized beverages, including lattes, cappuccinos and others. At Dessert Centers customers can buy dessert items such as Mc Flurry and soft-serve ice cream.

openings, company-owned and franchised, and reimaging of existing restaurants.

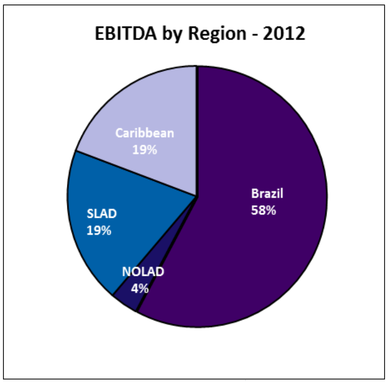
Unit Development by region 2007-2012:

	2007	2008	2009	2010	2011	2012	2013
Brazil	553	564	578	616	662	731	746
Caribbean	142	145	145	142	147	139	354
NOLAD	427	448	456	476	484	503	502
SLAD	471	483	501	521	547	575	369
Total Restaurants	1593	1640	1680	1755	1840	1948	1971

Source: Company Reports



Source: Company Reports



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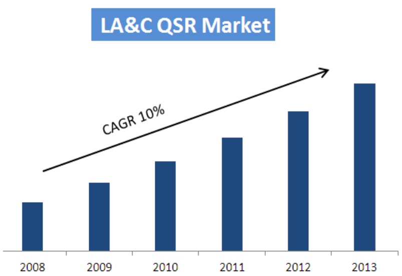


Source: Euromonitor

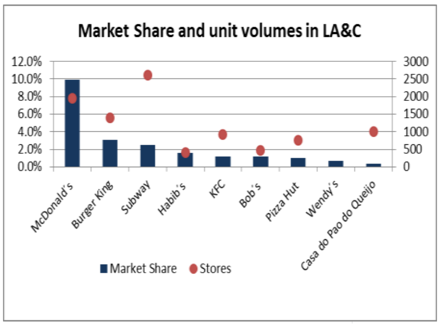
McDonald's brand has a longstanding history in LA&C, opening its first restaurant in Puerto Rico in 1967 and expanding its presence across the region since then. Arcos Dorados Holdings Inc. started its operations, headquartered in Buenos Aires, in August 2007 as a result of the Acquisition of McDonald's Latam Business. Woods Staton is the actual CEO of the company and the controlling shareholder. He was the joint venture partner of MCD in Argentina for over 20 years prior to the Acquisition and also served as the President of McDonald's South Latin America division in 2004-2007. Mr. Staton is the beneficial owner of an aggregate of 40% of the total economic interests and 76.2% of the total voting interests. The outstanding shares are free-floating since the IPO.

Arcos Dorados holds McDonald's franchise rights pursuant to the Master Franchisee Agreement ("MFA"), for all territories except Brazil which holds a separate but identical Brazilian MFA, executed on August 2007 and restated on November 2008. The MFA has a 20-year life with an option by MCD to extend the term for an additional 10 years, prescribes a minimum capital and advertising expenditures, and provides MCD to buy control upon the expiration of the term if not extended with no tagalong to minority shareholders. ARCO is responsible to pay MCD a royalty fee of 5% of sales during the first 10 years, 6% the next five years, and 7% thereafter. (See Exhibit 2).

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

High Growth Industry. Within the Consumer Food Service industry, QSR is a high growth segment both in developed and developing countries. For instance, in the US market, QSR has experienced 20 years of steady growth at a 4.7% CAGR and taking market share from full services restaurants. In comparison, growth rates have been even higher in LA&C where from 2008 to 2013 growth rate averaged 10% annually, according to Euromonitor. This was primarily driven by rapidly increasing income in lower socioeconomic segments of LA&C, faster population growth, and an underdeveloped market. Growth rates are expected to accelerate in the medium term due to increasing number of QSR's new restaurants, potential customer base, and higher average check.

Competitive Industry. Without high barriers to entry, the QSR segment is very competitive. The competitors are diverse and range from local and international restaurant chains to mom and pop operators. ARCO's largest competitors across the entire region include Burger King, Yum! Brands (KFC; Pizza Hut and Pizza Hut Express), and Subway. Although the segment is dominated by multinational brands, there are strong local players as well. In Brazil, the company competes with Habib's, a Brazilian QSR chain that sells mainly Middle Eastern food and Bob's



Source: Company Data & Team Estimates

(formally called BFFC), a leading Brazilian chain that focuses on hamburgers. Other local players are Arturo's in Venezuela, Mostaza, in Argentina, Oxxo in Mexico and El Corral Hamburgesas in Colombia. Street vendors are also competitors, representing 9.1% market share of the total segment in 2012. (See Exhibits 3 and 4).

Market Leader. ARCO is the market leader in the QSR industry in Latin America. It enjoys a market share of 9.9%, which is larger than the next 5 competitors combined. In Brazil, the most attractive market both in size and growth potential, the dominance is particularly strong with almost 3 times the market share of its closest competitor.

Growth Strategy. In July 2011, BKW established a joint venture with a local player, Vinci Partners, to develop hundreds of restaurants in Brazil over the next 5 years. Using this JV as a template, BKW may attempt to expand its presence to other countries in the region. BKW has been rapidly growing its units in Brazil from 140 units in 2011 to 224 by the end of 2012. However, BKW strategy seems to be focusing in opening smaller units in shopping centers which require less capital investment but may have less growth potential over the long term. In contrast, ARCO's strategy is to focus on Free Standing stores which account for 45.8% of their restaurants. Most Free Standing units are drive-thrus which is historically one of McDonald's competences relative to its competitors. These stores also have ample indoor seating, a recreation area, and a parking lot. Many are operating 24-hrs in contrast to limited hours in a mall. Although they require higher Capex than smaller units, they might provide better long term ROIC. They allow for better implementation of McDonald's marketing initiatives in product innovations and promotions. Furthermore, Brazil will host World Cup in 2014, where McDonald's is an exclusive sponsor. This event has required long term infrastructure investment in the country which plays right on ARCO's strategy.

To further differentiate itself from its competitors, ARCO is also focusing on the development of additional McCafé locations and Dessert Centers expecting to attract new customers by increasing the variety of product offerings and improving its image. According to management, they have been very successful in creating a unique customer experience and leveraging unit's fixed costs, resulting in higher profit margin than the regular units. The McCafé concept is well-suited for big restaurants in large-scale commercial areas. With an average ROIC of 33.6% in 2012, they represented 1.3% of total sales of the restaurants where they were located. Dessert centers require low capital expenditures and provide operating margins significantly higher than regular restaurant operations. With a ROIC of 154.2% in 2012, they represented 8.7% of company's total sales. These locations are particularly successful in Brazil (~60% of total centers).

In short, ARCO enjoys an iconic brand in a high-growing industry in a region that embraces a total population target of ~320 million. We believe that ARCO can almost double its store base in the long term. Today's market penetration in LA&C represents 1/3 of MCD's penetration in the US. There is also a substantial scope to diversify around its current presence which is highly concentrated in urban areas.

INVESTMENT SUMMARY

Factors	Upside / Downside
LA&C Economic growth	↑
Currency Appreciation	↑
Ability to increase prices	↑
Currency Depreciation and Inflation	↓
Worsening Venezuela and Argentina Macroeconomic Environment	↓
Increase Competition	↓
Increase in government intervention (labor costs, import restrictions, exchange control)	↓

We consider the company has significant growth potential in an underdeveloped market. However, its attractive growth profile is currently being offset by negative macro conditions in the region, such as currency devaluation, lower economic growth, significant inflation rates, capital controls and labor regulations. All of these are beyond the company's control and put pressure on margins and cash flows.

The stock price has been reflecting macro headwinds which have negatively impacted its sales growth and compressed its operating margins. Y/Y sales growth decreased from 21.2% in 2011 to just 3.8% in 2012, even though the company opened more than 100 restaurants during that period. EBITDA margins have been decreasing 140bps since 2010 to 8.5% as of June 2013. Margin pressure is also due to the fact that a significant portion, 30% on average, of food and paper costs ("F&P") is dollar-linked; therefore, currency volatility has high impact on margins. For instance, a currency devaluation of 10% across all regions would have a negative impact of approximately 83bps on EBITDA margins and a currency appreciation of the same magnitude an improvement of 144bps.

Impact of 10% depreciation	
Region	**EBITDA Impact**
BRAZIL	(19,747.64)
SLAD	(10,577.09)
NOLAD	(4,370.19)
VENEZUELA	(7,227.81)
Corporate	8,952.57
TOTAL EBITDA EFFECT	**(32,970.16)**
Margin Impact in bp	**(83)**

Source: Team Estimates

Impact of 10% appreciation	
Region	**EBITDA Impact**
BRAZIL	39,071.05
SLAD	12,910.76
NOLAD	3,583.16
VENEZUELA	12,606.10
Corporate	(10,941.38)
TOTAL EBITDA EFFECT	**57,229.70**
Margin Impact in bp	**144**

Source: Team Estimates

To see upside on the stock price, we believe that not only the macro environment needs to stabilize but also ARCO needs to improve the mix of SSS growth by increasing its traffic component. Most of ARCO SSS growth seems to be price based due to inflation. We would like to see a more balanced mix between ticket (average check) and traffic especially when competition is intensifying. An increase in traffic will be reflected in better G&A leverage which in turn will mean an improvement in EBITDA margins.

Same Store Sales Growth Breakdown	2011	2012	2013E
TOTAL SSS Growth (CC)	13.7%	9.2%	14.4%
Average Check	81.9%	89.8%	90.0%
Traffic	18.1%	10.2%	10.0%

Source: Company Data & Team Estimates

Same Store Sales - Quarter Analysis	1 Q 12	2 Q 12	3 Q 12	4 Q 12	1 Q 13	2 Q 13
BRAZIL	5.5%	5.6%	3.2%	6.3%	9.1%	10.0%
NOLAD	6.8%	9.2%	1.3%	0.5%	1.5%	-4.2%
SLAD	27.9%	21.9%	15.4%	16.4%	14.6%	21.4%
CARIBBEAN	2.3%	2.8%	1.9%	3.1%	12.1%	14.6%
TOTAL SSS (CC)	**11.6%**	**10.4%**	**6.5%**	**8.6%**	**9.9%**	**11.6%**
TOTAL REVENUES	**11.5%**	**1.8%**	**-2.2%**	**5.3%**	**6.0%**	**9.4%**

Source: Company Reports

Furthermore, upon close examination of trend sales of new restaurant openings, we see evidence that sales of new units in key markets such as

Brazil are running 20-40% below the system average indicating that ROIC at store level has been decreasing. Although part of the reason might be the need for some time for the units to mature, it doesn't seem to be reflected in SSS as it should if the units were to grow to system average. This requires that the company starts executing a better balance between rapid growth and store productivity, a factor within the company's control.

		2 Q 12	3 Q 12	4 Q 12	1 Q 13	2 Q 13
TOTAL	New unit (Annual Sales, 000)	$ 1,927	$ 2,010	$ 2,283	$ 2,141	$ 1,902
	Systemwide (000)	$ 2,484	$ 2,477	$ 2,638	$ 2,542	$ 2,343
	% of Systemwide	**78%**	**81%**	**87%**	**84%**	**81%**
BRAZIL	New unit (Annual Sales, 000)	$ 2,938	$ 2,691	$ 2,964	$ 2,666	$ 2,010
	Systemwide (000)	$ 3,466	$ 3,420	$ 3,496	$ 3,330	$ 3,320
	% of Systemwide	**85%**	**79%**	**85%**	**80%**	**61%**
NOLAD	New unit (Annual Sales, 000)	$ 884	$ 1,043	$ 1,789	$ 1,754	$ 2,120
	Systemwide (000)	$ 1,089	$ 1,103	$ 1,090	$ 1,068	$ 1,110
	% of Systemwide	**81%**	**95%**	**164%**	**164%**	**191%**
SLAD	New unit (Annual Sales, 000)	$ 1,314	$ 2,087	$ 1,929	$ 2,191	$ 2,435
	Systemwide (000)	$ 2,981	$ 3,197	$ 3,139	$ 3,134	$ 3,213
	% of Systemwide	**44%**	**65%**	**61%**	**70%**	**76%**

Source: Company Data & Team Estimates

Although going forward Y/Y comparisons should get easier as macro conditions seems to be stabilizing in Brazil, we think that there is still downside risk to the stock price if conditions deteriorate further in Venezuela and Argentina which account for approximately 9.2% and 15.7% of revenue and 19% and 11% of EBITDA respectively for 2012. High inflation, currency devaluation and economic crisis in Venezuela will contract Venezuelan margins by ~730bps in 2013. In Venezuela, 40% of F&P costs are dollar-linked; moreover, most businesses transact using the unofficial exchange rate which is four times higher than the official one. The inability to convert local currency to dollars and transfer them outside the country complicates royalty payments to MCD (temporarily mitigated by MCD's waiver) and makes cash flow generation in Venezuela much less valuable than in countries where there are not such capital controls.

Argentina's macroeconomic and political environment has similar patterns than Venezuela, such as inflation, capital controls, import restrictions, and a spread of ~60% between the official and unofficial exchange rates. However, being the cost center of the whole company, currency devaluation in Argentina is significantly mitigated having a net short currency exposure as corporate expenses are higher than the Argentinean EBITDA. Additionally, all F&P supplies are locally produced.

VALUATION

To value the company we used both a DCF valuation model and Multiples. Combining both valuation methodologies we come up with a Price Target of USD 12.00 per share. Despite the shortcomings of the DCF model due to the difficulty in projecting very uncertain variables such as inflation, foreign exchange, and economic growth in so many different countries, we found it useful to get a better understanding of the company's value drivers. For valuation multiples we focus on

Cost of Equity	
Risk Free Rate	3%
Market Premium	5.50%
Beta	1.25
Country Risk Premium	4.10%
Cost of Equity	14.0%
WACC	
Cost of Debt	6.3%
Tax Rate	30.0%
Cost of Equity	14.0%
Debt / EV	22.0%
WACC	11.9%

TARGET PRICE (DCF)		
Firm Value	$	3,050,220,551
Net Debt	$	560,000,000
Equit Value	$	2,490,220,551
Common Shares	$	209,529,412
Value per Share	**$**	**11.88**

EBITDA as EPS are negatively impacted by depreciation charges which seem to have a high growth component and to better compare companies with different capital structures.

For DCF analysis we used a WACC of 11.9% which includes a weighted average of country risk of the territories where ARCO operates. We projected cash flows until 2024 to assess the impact of the increase in royalty payments of 1% both in 2018 and 2023. We estimated continuing negative impact from currency devaluation in 2013 getting somewhat better in 2014. After 2014, we estimated steady revenue growth of 8.8% and EBITDA margins improving and stabilizing at a ~9.4% level due to stable macro conditions and positive leverage of G&A. We estimated an average annual SSS growth of 10% after 2014, 80% of it explained by ticket (average check) and 20% by traffic. There is scope for margin improvement to our model if the traffic component of SSS increases. McCafé and Dessert Centers can also improve sales and margins by improving the product mix. EBITDA is expected to fall -3.5% in 2013 to $328mm, increase to $363 in 2014 and to $409 in 2015, resulting in an annual growth rate of 11.6%. For further details of DCF assumptions and projections please see Exhibits 5 to 8.

Although there are many global QSR companies, some master franchisees and local players, none has both the same business model than ARCO (75% company owned/25% franchised) and/or operate in the same region. Nevertheless valuation multiples of the industry provides a good proxy for ARCO's valuation allowing for adjustment to reflect growth potential, risks, and current macro headwinds. ARCO is trading at 9.3x EV/EBITDA, which is somewhat lower than the industry average of 12.3x, but in our opinion correctly reflects current macro conditions, downside risks from Venezuela and Argentina, and uncertainty about the future.

TARGET PRICE		
EBITDA 2013 E	$	328,674,698
EBITDA MULTIPLE		9.5x
Firm Value	$	3,122,409,634
Net Debt	$	560,000,000
Equit Value	$	2,562,409,634
Common Shares	$	209,529,412
Value per Share	**$**	**12.23**

Company	TEV/ EBITDA	% Franchised	2012 unit growth	2012 SSS Growth	EBITDA Margin	P/E	Total Debt/ EBITDA
Yum!	11.8x	78.9%	5.10%	5.0%	20.6%	27.9x	1.1x
Domino's Pizza	16.4x	96%	10.2%	5.2%	18.0%	28.5x	4.8x
Jack in the box	9.3x	76%	2.6%	3.4%	14.9%	24.8x	1.7x
Wendy's	12.0x	78.2%	-0.5%	1.7%	14.1%	34.1x	4.2x
Burger King	14.8x	96.8%	3.9%	3.2%	43.0%	44.6x	4.8x
McDonald's	10.4x	80.9%	2.9%	3.1%	36.0%	17.2x	1.3x
BFFC	6.5x	92.2%	17.8%	5.3%	16.1%	11.3x	0.6x
Tim Hortons	12.5x	99.5%	6.2%	3.7%	24.3%	22.7x	0.7x
McDonalds Japan franchisee	9.5x	NA	NA	NA	11.2%	32.7x	0.2x
ALSEA	17.8x	22.0%	10.8%	10.5%	12.5%	50.8x	2.7x
Average	**12.1x**	**80%**	**6.6%**	**4.6%**	**21%**	**29.5x**	**2.2x**
AD	9x-10x	25.4%	5.9%	9.2%	8.5%	30.6x	2.1x

Source: S&P Capital IQ & Team Estimates

On the other hand, if macro conditions get better, there is an improvement on productivity at the restaurant level, and the mix of SSS growth increases its traffic component, we see scope for higher sales and EBITDA margins in 2015, which might translate in a multiple expansion and a significant increase in share price.

2015 E EBITDA In Millions	EBITDA Multiple 8	8.5	9	9.5	10	10.5	11
320	$ 9.64	$ 10.40	$ 11.17	$ 11.93	$ 12.69	$ 13.46	$ 14.22
340	$ 10.40	$ 11.21	$ 12.02	$ 12.84	$ 13.65	$ 14.46	$ 15.27
360	$ 11.17	$ 12.02	$ 12.88	$ 13.74	$ 14.60	$ 15.46	$ 16.32
380	$ 11.93	$ 12.84	$ 13.74	$ 14.65	$ 15.56	$ 16.46	$ 17.37
400	$ 12.69	$ 13.65	$ 14.60	$ 15.56	$ 16.51	$ 17.47	$ 18.42
420	$ 13.46	$ 14.46	$ 15.46	$ 16.46	$ 17.47	$ 18.47	$ 19.47
440	$ 14.22	$ 15.27	$ 16.32	$ 17.37	$ 18.42	$ 19.47	$ 20.52

Source: Team Estimates

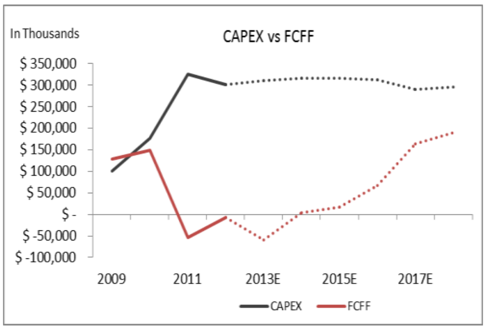
POTENTIAL UPSIDE

	$12 PER SHARE	$13-$15 PER SHARE ~15% UPSIDE	$17-$20 PER SHARE ~50% UPSIDE
	Current	Some Improvement	Improvement
Year	2013E	2014E	2015E
Systemwide Units	2.061	2.171	2.271
Macro	Negative	Better Comps	Stable/Improvement
SSS Mix (Ticket/Traffic)	90/10	85/15	70-80/20-30
EBITDA	$ 328 mm	$ 363 mm	$ 400 - 440 mm
EBITDA Margin	8,30%	8,40%	9,00%
TEV/EBITDA Multiple	9x - 10x	9x - 10x	10x - 12x

Source: Team Estimates

FINANCIAL ANALYSIS

Looking at the Balance Sheet, we see that debt leverage has been increasing but it is still at reasonable levels. The ratio of Net Debt/EBITDA has increased from 1.0x in 2010 to 1.7x as of June 30, 2013. The increase of leverage comes as a result of the company's rapid restaurant openings in the last 5 years and need for significant Capex investment. Negative Free Cash Flow and an annual dividend payment of $50MM has resulted in higher leverage. Although management has said that they expect the dividend payment to remain, they have also committed to maintain a Net Debt/EBITDA below 2.5x. The company estimates annual Maintenance Capex of approximately $70mm which results in an interest coverage ratio of (EBITDA - Maintenance Capex)/Interest expense of 4.6x as of June 30, 2013. The YTM of the newly issued 6.6% bond maturing in 2023 is currently 6.3% reflecting a reasonable credit risk perception by the market.

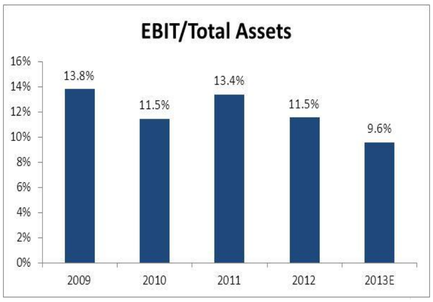


Source: Company Data & Team Estimates

The D/E ratio of 92% is somewhat high on book value basis but a more reasonable 25% at market values.

EBITDA margins of 8.5% are below some of its competitors due in part to different business models, stages in the company's growth cycles, and markets where they operate. Nevertheless, Alsea, a smaller direct competitor has margins of 12.5% and operates in almost the same markets than ARCO. We believe that there is room for margin improvement.

Net Income margins are 2% which is also below the industry average of 7.5%. (See Exhibit 9). This is due to the high growth component of the depreciation charge, interest expense, and non-operating results such as currency swaps and cash depreciation. We expect net income margins to be almost 3% in 2015.



Source: Company Data & Team Estimates

Analyzing the company's return on capital we see a clear downtrend. EBIT/Total Assets has decreased from 13.4% in 2011 to an expected 9.6% in 2013. This is clearly the result of margin compression due to inflation and currency devaluation. However, we believe that there is some contribution from lower returns from new restaurant openings as their sales are coming well below the system average. We would like to see a reversal of this trend from both improvement in the macro and better management execution.

RISKS

Macro Risks:

- An interest rate rise in USA may cause capital outflows from emerging markets, including Brazil, putting down pressure on local currencies, resulting in higher inflation and lower margins for the company's business.
- Brazil largest export economy is China. An economic slowdown in China would negatively affect the Brazilian economy, impacting the company's business.
- A worsening of currency volatility, labor regulations, local inflation, price controls would increase pressure on ARCO's operating margins.
- Capital controls in Venezuela and Argentina put downside risk to the company's business and a further deterioration of these economies would hurt ARCO's profitability.

Industry Risk:

- The level of demand for QSR products and services in the region could end up being less than in developed markets.
- High growth potential in the region has attracted new competitors such as BKW who is expanding rapidly in Brazil and could take market share from the company. ARCO also competes with street vendors and its products have many perfect substitutes.
- An existing global trend for healthy food consumption could negatively affect the company's value proposition

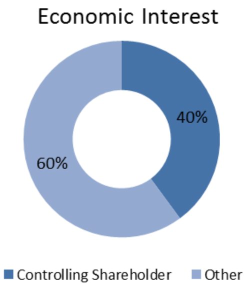
Company Risks:

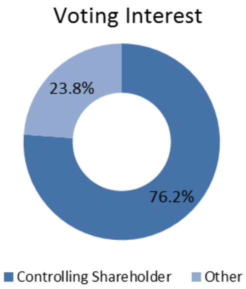
- Strong dependence on the Brazilian market which concentrates 47% of ARCO revenues and 56% of its EBITDA. A higher than projected BRL devaluation may negatively affect the firm´s value.
- Any global negative event affecting McDonald's brand may have a negative impact on ARCO.
- ARCO depends heavily on Woods Staton for the execution of its strategy. Under an event of incapacity, McDonald's can exercise

its call option and purchase LA&C operations with no tagalong to minority shareholders.

- ARCO has a dual share structure which affects its corporate governance. Minority shareholders have to follow Staton´s decisions as he owns 76.2% of voting rights while holding only 40% of economic interest.

CORPORATE GOVERNANCE AND OTHER EVENTS





Source: Company Reports

Corporate Governance. ARCO's Board of Directors has nine members, four of whom are independent directors. However, there are some concerning issues regarding corporate governance that deserve attention. The Chairman, Woods Staton, is also the company's CEO, the board is staggered, and there is a dual share structure. Under the dual share structure Woods Staton has 76.2% of the voting rights but only 40% of the economic interest.

Tender Offer. On September 10th ARCO announced an offer to exchange the outstanding Senior Notes due in 2019 for new senior notes due 2023 or to purchase them for cash. The company was able to exchange US$208,833,000 representing approximately 67.67% of the 2019 existing notes outstanding prior to the tender and exchange offer. The new notes due 2023 will total US$473,767,000. As a result, ARCO will be able to extend its debt maturity profile and reduce its financing costs as the new notes have a 6.625% coupon compared to the 7.5% coupon of the old notes.

Glossary

Acquisition: Arcos purchased Latam business in August 2007.
ARP: Argentinean Peso
BFFC: Brazil Fast Food Corporation
BKW: Burger King Worldwide
Bps: Basis Points
BRL: Brazilean Real
CAGR: Compound Annual Growth Rate
CAPEX: Capital Expenditures
CC: Constant Currency
CEO: Chief Executive Officer
CFO: Chief Financial Officer
COGS: Cost of goods Sold
COP: Colombian Peso
DCF: Discount Cash Flow
EBIT: Earnings before interest and tax
EBITDA: For purpose of this report, EBITDA equals Adjusted EBITDA as defined by the company. Adjusted EBITDA is defined as operating income plus depreciation and amortization plus/minus the following losses/gains included within other operating expenses, net and within general and administrative expenses in the statement of income: compensation expense related to a special award granted to the CEO, incremental compensation expense related to the 2008 long-term incentive plan, gains from sale of property and equipment, write-off of property and equipment, contract termination losses, impairment of long-lived assets and goodwill, stock-based compensation related to the special awards under the 2011 Equity Incentive Plan and bonuses granted in connection with the initial public offering.
EPS: Earnings per Share
EV: Enterprise Value
F&P: Food and Paper
FCFF: Free Cash Flow to the Firm
FX: Foreign Exchange
G&A: General and Administrative Expenses
Hrs: Hours
IPO: Initial Public Offering
JV: Joint Venture
KFC: Kentucky Fried Chicken
LA&C: Latin America and the Caribbean
LATAM: Latin America
LTM: Last Twelve Months
MCD: McDonald´s Corporation
MFA: Master Franchise Agreement
mm: Millions
MXP: Mexican Peso
NM: Net Margin
NOLAD: North Latin America Division
PT: Price Target
QSR: Quick Service Restaurants
ROIC: Return on Invested Capital
SLAD: South Latin America Division
SSS: Same Store Sales
US: United States
USA: Unites States of America
USD: United States Dollars
VEF: Venezuela Bolivar Fuerte
Vs: versus
WACC: Weighed Average Cost of Capital

Appendix

Rating information

We rate companies as either: BUY, HOLD or SELL. A BUY rating is given when the security is expected to deliver total returns of 15-20% or greater over the next twelve months and recommends that investors take a position above the security's weight in the S&P 500, or any other relevant index. A SELL rating is given when the security is expected to deliver negative returns over the next twelve month period, while a HOLD rating implies flat returns over the next twelve months.

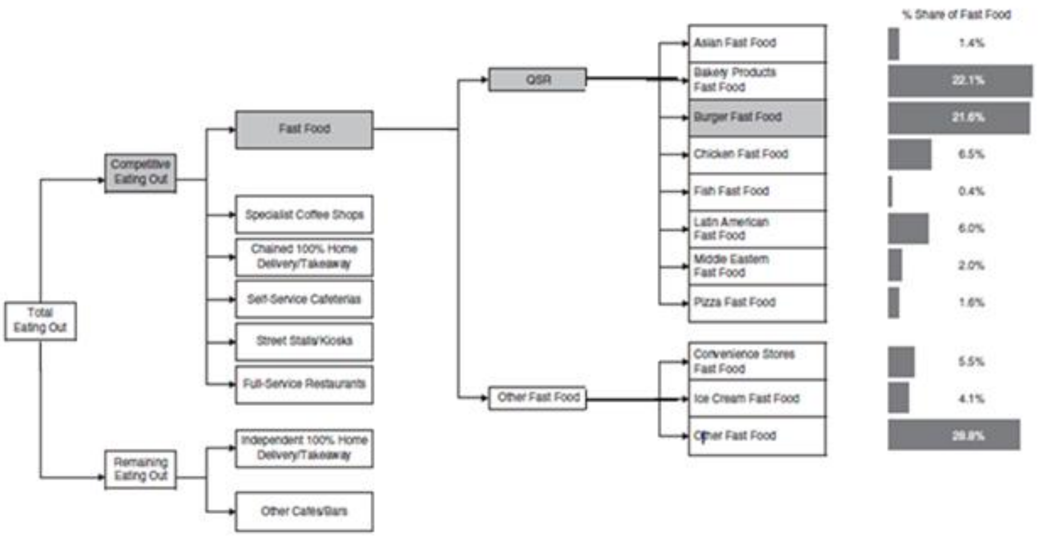
Exhibit 1: Same Store Sales Calculation

Same Store Sales growth or Systemwide Comparable Sales Growth refers to the change in ARCO´s restaurant sales in one period for restaurats that have been open for thirteen months or longer. Systemwide Comparable Sales growth is provided and analyzed on a constant currency basis, which means it is calculated using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from this trend analysis. The company believes this way of calculating SSS provides a more meaningful analysis of the business by identifying the underlying business trend, without distortion from the effect of foreign currency movements.

Exhibit 2: Key aspects of Master Franchise Agreement

Clause	Information
Duration	It has 20-year life for all territories other than French Guyana, Guadeloupe and Martinique. After the expiration, Mc Donald's may grant an option to extend the term for an additional period of ten years for all locations.
Royaltee fees	ARCO is responsible for the monthly payment to Mc Donald's of a royalty fee in an amount equal to 5% of the U.S. dollar sales the first ten years, 6% the next five years and 7% thereafter.
Company-operated restaurants	At least 50% of all Mc Donald´s-branded restaurants in the Territories must be company-operated restaurants.
Opening and reinvestment plan	ARCO must agree with Mc Donald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. As part of the reinvestment plan, for the three-year period that commenced on January 2011, the company must reinvest at least 60 million per year in the territories and open no less than 250 new restaurants.
Marketing	ARCO must spend at least 5% of the gross sales on advertisement and promotion activities. Mc Donald's will approve this plan in advance.
Real estate property	ARCO must own or lease the real estate property where all of the company-operated restaurants are located. No more than 50% of the total number of restaurants in each territory and no more than 10% of the total number of restaurants in all the territories can be located on real estate property owned or leased by franchisees.
Call option	Mc Donald's has a call option to acquire ARCO ´s non-public shares or their interests in one or more territories upon the expiration of the initial term of the MFA in August 2027 if it is not extended, or in the occurrence of a material breach of the MFA, or during the period of 18-30 months after the death or permanent incapacity of Mr. Staton, with no tagalong to minority shareholders.
Decisions	Mc Donald´s has the authority to name executive directors for ARCO and can delimit the level of long run debt the company can take.
Material breach	A material breach under the MFAs would occur if Arcos Dorados or any franchisee fails to perform any of the representations or warranties or obligations related to the franchisee business or the franchisee restaurants. In this scenario Mc Donald's has the right to terminate the MFA and gets the whole equity interests at 80% of its fair market value.

Exhibit 3: Consumer's Food Service Breakdown



Source: Company Reports

Exhibit 4: QSR Competitors

Source: Company Reports

Exhibit 5: Income Statement Forecasts

	Actual	YEAR ENDED											
	12/31/12	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024
Income Statement ($ thousands)													
Sales Company Owned	3,634,371.0	3,786,263.6	4,112,315.4	4,483,120.7	4,885,869.2	5,351,439.8	5,823,560.1	6,333,485.9	6,884,135.8	7,478,648.8	8,120,401.4	8,813,024.6	9,473,752.2
Franchising revenues	163,023.0	175,303.8	188,647.7	203,474.7	219,131.7	236,826.3	255,747.8	276,016.1	297,725.8	320,978.3	345,881.7	372,551.9	392,890.3
TOTAL REVENUES	3,797,394.0	3,961,567.4	4,300,963.1	4,686,595.4	5,105,000.9	5,588,266.1	6,079,307.9	6,609,502.0	7,181,861.6	7,799,627.1	8,466,283.2	9,185,576.5	9,866,642.5
COGS	2,022,266.0	2,134,464.7	2,315,753.6	2,509,607.7	2,714,573.1	2,949,681.4	3,188,096.8	3,444,508.5	3,724,813.4	4,033,662.8	4,371,910.8	4,737,071.2	5,084,050.8
GROSS PROFIT	1,775,128.0	1,827,102.7	1,985,209.5	2,176,987.7	2,390,427.7	2,638,584.8	2,891,211.1	3,164,993.5	3,457,048.2	3,765,964.3	4,094,372.3	4,448,505.3	4,782,591.6
Gross Margin	46.75%	46.12%	46.16%	46.45%	46.83%	47.22%	47.56%	47.89%	48.14%	48.28%	48.36%	48.43%	48.47%
Selling, General & Administrative Exp	1,357,940.7	1,423,971.4	1,542,005.9	1,677,713.7	1,816,249.2	1,976,523.9	2,138,878.7	2,314,735.5	2,506,107.0	2,718,497.8	2,947,098.0	3,193,267.2	3,430,510.5
Royalties Expenses	180,547.0	188,828.0	205,839.9	225,027.0	255,250.0	279,413.3	364,758.5	396,570.1	430,911.7	467,977.6	507,977.0	642,990.4	690,665.0
EBIT	236,640.3	214,303.2	237,363.7	274,246.9	318,928.5	382,647.6	387,573.9	453,687.9	520,029.5	579,488.9	639,297.3	612,247.7	661,416.2
Depreciation	92,328.0	105,871.5	117,332.1	126,255.5	132,554.7	146,061.5	156,881.2	167,274.2	177,134.3	186,362.3	195,799.1	205,449.5	215,318.3
EBITDA	328,968.3	320,174.7	354,695.9	400,502.4	451,483.2	528,709.1	544,455.2	620,962.0	697,163.8	765,851.2	835,096.4	817,697.2	876,734.5
EBITDA Margin	8.66%	8.08%	8.25%	8.55%	8.84%	9.46%	8.96%	9.39%	9.71%	9.82%	9.86%	8.90%	8.89%
Other	3,590.0												
Stock- Based Compensation	7,997.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0
Adj EBITDA	340,555.3	328,674.7	363,195.9	409,002.4	459,983.2	537,209.1	552,955.2	629,462.0	705,663.8	774,351.2	843,596.4	826,197.2	885,234.5
Adj EBITDA Margin	9.0%	8.3%	8.4%	8.7%	9.0%	9.6%	9.1%	9.5%	9.8%	9.9%	10.0%	9.0%	9.0%
Interest Expense	54,247.0	57,726.4	75,411.9	81,489.3	92,755.9	101,328.6	103,349.3	104,670.5	104,369.5	104,429.0	103,505.4	101,430.6	102,376.0
Interest Income & Special items	(21,430.0)	(16,636.6)	(16,638.0)	(10,537.4)	(9,841.9)	(8,933.8)	(7,823.6)	(8,511.0)	(9,253.3)	(10,054.6)	(10,919.5)	(11,852.8)	(12,859.8)
Pre-tax Income	160,963.3	139,940.2	145,313.8	182,220.3	216,330.8	272,385.2	276,401.1	340,506.3	406,406.7	465,005.3	524,872.4	498,964.3	546,180.4
Tax Expense	46,375.1	47,579.7	43,594.1	54,666.1	64,899.2	81,715.6	82,920.3	102,151.9	121,922.0	139,501.6	157,461.7	149,689.3	163,854.1
Minority interest	256.0	256.0	256.0	256.0	256.0	256.0	256.0	256.0	256.0	256.0	256.0	256.0	256.0
Net Income	**114,332.2**	**92,104.5**	**101,463.6**	**127,298.2**	**151,175.6**	**190,413.6**	**193,224.7**	**238,098.4**	**284,228.7**	**325,247.7**	**367,154.7**	**349,019.0**	**382,070.3**

Exhibit 6: Balance Sheet Forecasts

	Actual	YEAR ENDED											
	12/31/12	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024
Balance Sheet ($ thousands)													
Assets	4.87%	5.25%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	4.37%
Cash	184,851.0	207,975.2	150,533.7	164,030.8	178,675.0	195,589.3	212,775.8	231,332.6	251,365.2	272,986.9	296,319.9	321,495.2	431,634.1
Receivables	236,766.0	245,617.2	240,853.9	243,703.0	245,040.0	245,883.7	243,172.3	264,380.1	287,274.5	311,985.1	338,651.3	367,423.1	394,665.7
Inventory	54,824.0	57,630.5	62,525.3	67,759.4	73,293.5	79,641.4	86,078.6	93,001.7	100,570.0	108,908.9	118,041.6	127,900.9	137,269.4
Prepaid Expense	125,057.0	130,731.7	141,931.8	154,657.6	168,465.0	184,412.8	200,617.2	218,113.6	237,001.4	257,387.7	279,387.3	303,124.0	325,599.2
Other Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	601,498.0	641,954.6	595,844.8	630,150.9	665,473.6	705,527.2	742,643.9	806,827.9	876,211.0	951,268.6	1,032,400.2	1,119,943.2	1,289,168.3
Net PPE	1,176,350.0	1,380,378.1	1,578,194.2	1,767,396.0	1,947,486.6	2,091,750.0	2,230,322.1	2,361,790.9	2,484,830.8	2,610,655.2	2,739,326.9	2,870,910.5	2,870,910.5
Other Receivables	70,336.0	69,327.4	64,514.4	63,269.0	63,812.5	64,265.1	63,832.7	66,095.0	71,818.6	77,996.3	84,662.8	91,855.8	98,666.4
Intangibles--Goodwill	67,271.0	73,325.4	75,525.2	79,301.4	84,852.5	89,095.1	93,549.9	96,356.4	98,283.5	99,266.3	100,259.0	101,261.6	101,261.6
Deferred Charges	133,708.0	138,654.9	150,533.7	164,030.8	178,675.0	195,589.3	212,775.8	231,332.6	251,365.2	272,986.9	296,319.9	321,495.2	345,332.5
Other LT Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non- Current Assets	1,447,665.0	1,661,685.8	1,868,767.5	2,073,997.2	2,274,826.7	2,440,699.5	2,600,480.5	2,755,574.9	2,906,298.1	3,060,904.7	3,220,568.7	3,385,523.0	3,416,171.0
Total Assets	2,049,163.0	2,303,640.4	2,464,612.3	2,704,148.1	2,940,300.3	3,146,226.7	3,343,124.4	3,562,402.8	3,782,509.1	4,012,173.4	4,252,968.8	4,505,466.2	4,705,339.3
Liabilities & Owners' Equity													
Accounts Payables	244,365.0	257,203.0	276,732.6	296,133.7	317,605.1	345,112.7	373,007.3	403,007.5	435,803.2	471,938.5	511,513.6	554,237.3	594,833.9
Accrued Payroll & Other Liabilities	150,690.0	158,060.8	171,162.7	186,226.2	201,603.7	219,394.1	237,415.5	256,935.6	278,177.9	301,753.3	327,127.9	354,452.7	380,786.7
Taxes Payable & Deferred Taxes	134,720.0	118,847.0	116,126.0	112,478.3	107,205.0	111,765.3	121,586.2	132,190.0	143,637.2	155,992.5	169,325.7	183,711.5	197,332.8
Royalties Payable to Mc´Donalds Corp	29,278.0	30,212.5	32,934.4	25,878.1	29,353.8	32,132.5	41,947.2	45,605.6	49,554.8	53,817.4	58,417.4	73,943.9	79,426.5
Derivate Instruments	3,952.0												
Other Current Liabilities (contingencies)	507.0	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities ex Debt	563,512.0	564,323.3	596,955.6	620,716.3	655,767.5	708,404.7	773,956.2	837,738.7	907,173.1	983,501.8	1,066,384.5	1,166,345.4	1,252,379.9
Liabilities - Other	60,207.0	63,703.5	69,081.2	75,009.9	81,363.2	88,495.5	96,759.5	104,648.8	113,251.1	122,742.3	133,058.8	145,746.6	156,488.8
Revolver	-	-	144,200.9	205,250.8	102,570.0	89,250.9	81,022.2	13,158.7	68,524.6	56,958.5	43,414.9	52,713.9	-
Other Long Term Debt			-	144,200.9	349,451.7	452,021.6	541,272.5	622,294.7	635,453.4	703,978.0	760,936.5	804,351.4	857,065.3
Long Term Debt	679,134.0	887,199.0	814,496.4	741,793.8	740,080.1	674,601.5	609,122.9	592,423.5	524,598.9	456,774.3	388,949.8	347,358.2	277,795.7
Total Debt	679,134.0	887,199.0	958,697.3	1,091,245.4	1,192,101.7	1,215,874.0	1,231,417.6	1,227,876.9	1,228,576.9	1,217,710.8	1,193,301.1	1,204,423.5	1,134,861.0
Minority Interest	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0
Shareholders Equity	745,143.0	787,247.5	838,711.2	916,009.4	1,009,900.8	1,132,285.4	1,239,824.0	1,390,971.3	1,532,340.9	1,687,051.4	1,859,057.5	1,987,783.7	2,160,442.5
Total Liabilities and Owners' Equity	2,049,163.0	2,303,640.4	2,464,612.3	2,704,148.1	2,940,300.2	3,146,226.6	3,343,124.3	3,562,402.8	3,782,509.1	4,012,173.3	4,252,968.8	4,505,466.2	4,705,339.3

Exhibit 7: Cash Flow Forecasts

	Fiscal Year Ended											
	12/31/2013	**12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**	**12/31/2022**	**12/31/2023**	**12/31/2024**
Free Cash Flow Calculation ($ in thousands)												
EBIT	214,303.2	237,363.7	274,246.9	318,928.5	382,647.6	387,573.9	453,687.9	520,029.5	579,488.9	639,297.3	612,247.7	661,416.2
Stock Compensation	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0	8,500.0
Plus Depreciation	105,871.5	117,332.1	126,255.5	132,554.7	146,061.5	156,881.2	167,274.2	177,134.3	186,362.3	195,799.1	205,449.5	215,318.3
Decrease (increase) in receivables	(8,851.2)	4,763.2	(2,849.0)	(1,337.1)	(843.7)	2,711.4	(21,207.8)	(22,894.4)	(24,710.6)	(26,666.2)	(28,771.7)	(27,242.6)
Decrease (increase) in inventory	(2,806.5)	(4,894.8)	(5,234.1)	(5,534.1)	(6,347.9)	(6,437.2)	(6,923.1)	(7,568.2)	(8,338.9)	(9,132.7)	(9,859.3)	(9,368.4)
Decrease (increase) in prepaid expenses	(5,674.7)	(11,200.1)	(12,725.9)	(13,807.4)	(15,947.8)	(16,204.4)	(17,496.4)	(18,887.9)	(20,386.3)	(21,999.6)	(23,736.7)	(22,475.2)
Decrease (increase) in other current assets	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in Accounts Payables	12,838.0	19,529.6	19,401.2	21,471.4	27,507.7	27,894.6	30,000.2	32,795.7	36,135.4	39,575.0	42,723.8	40,596.6
Increase (decrease) in Accrued Payroll & Other Liabilities	7,370.9	13,101.8	15,063.6	15,377.4	17,790.5	18,021.4	19,520.1	21,242.2	23,575.4	25,374.6	27,324.8	26,334.0
Increase (decrease) in Taxes Payable & Deferred Taxes	(15,873.0)	(2,721.0)	(3,647.7)	(5,273.3)	4,560.3	9,820.8	10,603.9	11,447.2	12,355.3	13,333.1	14,385.9	13,621.3
Royalties Payable to Mc´Donalds Corp	934.5	2,721.9	(7,056.3)	3,475.6	2,778.8	9,814.7	3,658.3	3,949.3	4,262.6	4,599.9	15,526.5	5,482.6
Less Capital Expenditures	(309,899.6)	(315,148.2)	(315,457.3)	(312,645.4)	(290,324.8)	(295,453.4)	(298,742.9)	(300,174.3)	(312,186.7)	(324,470.9)	(337,033.1)	(215,318.3)
Decrease (increase) in intangibles -- goodwill	(6,054.4)	(2,199.8)	(3,776.3)	(5,551.1)	(4,242.6)	(4,454.8)	(2,806.5)	(1,927.1)	(982.8)	(992.7)	(1,002.6)	-
Decrease (increase) in Deferred Charges	(4,946.9)	(11,878.8)	(13,497.1)	(14,644.2)	(16,914.3)	(17,186.5)	(18,556.8)	(20,032.6)	(21,621.8)	(23,333.0)	(25,175.3)	(23,837.3)
Taxes paid	(47,579.7)	(43,594.1)	(54,666.1)	(64,899.2)	(81,715.6)	(82,920.3)	(102,151.9)	(121,922.0)	(139,501.6)	(157,461.7)	(149,689.3)	(163,854.1)
Decrease (increase) in other receivables	1,008.6	4,813.0	1,245.4	(543.5)	(452.5)	432.3	(2,262.3)	(5,723.6)	(6,177.7)	(6,666.6)	(7,192.9)	(6,810.7)
WORKING CAPITAL	(23,063.3)	7,222.0	(14,321.6)	(5,822.7)	8,341.0	23,980.1	(3,208.1)	(1,875.8)	288.2	758.5	11,415.3	3,110.9
Free Cash Flow available to the firm	**(50,859.4)**	**16,488.5**	**25,802.9**	**76,072.5**	**173,057.1**	**198,993.9**	**223,096.8**	**275,968.2**	**316,773.5**	**355,755.7**	**343,697.3**	**502,362.3**
FCFF Growth		*-132.42%*	*56.49%*	*194.82%*	*127.49%*	*14.99%*	*12.11%*	*23.70%*	*14.79%*	*12.31%*	*-3.39%*	*46.16%*
Cash dividends paid to equity holders	50,000.0	50,000.0	50,000.0	57,284.2	68,029.0	85,686.1	86,951.1	142,859.1	170,537.2	195,148.6	220,292.8	209,411.4
Interest Income & Special items	(16,636.6)	(16,638.0)	(10,537.4)	(9,841.9)	(8,933.8)	(7,823.6)	(8,511.0)	(9,253.3)	(10,054.6)	(10,919.5)	(11,852.8)	(12,859.8)
Interest Expense	(57,726.4)	(75,411.9)	(81,489.3)	(92,755.9)	(101,328.6)	(103,349.3)	(104,670.5)	(104,369.5)	(104,429.0)	(103,505.4)	(101,430.6)	(102,376.0)
Liabilities - Other	3,496.5	5,377.7	5,928.7	6,353.3	7,132.3	8,264.0	7,889.4	8,602.3	9,491.2	10,316.4	12,687.8	10,742.3
Stock Compensation & Other	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)	(8,756.0)
variation in Derivate instruments	(3,952.0)	-	-	-	-	-	-	-	-	-	-	-
Variation in Other Current Liabilities (contingencies)	(507.0)	-	-	-	-	-	-	-	-	-	-	-
Original Change in cash	(184,940.8)	(128,939.7)	(119,051.0)	(86,212.1)	(6,858.0)	1,642.9	22,097.5	19,332.6	32,487.9	47,742.6	14,052.9	179,701.4

Exhibit 8: DCF Assumptions

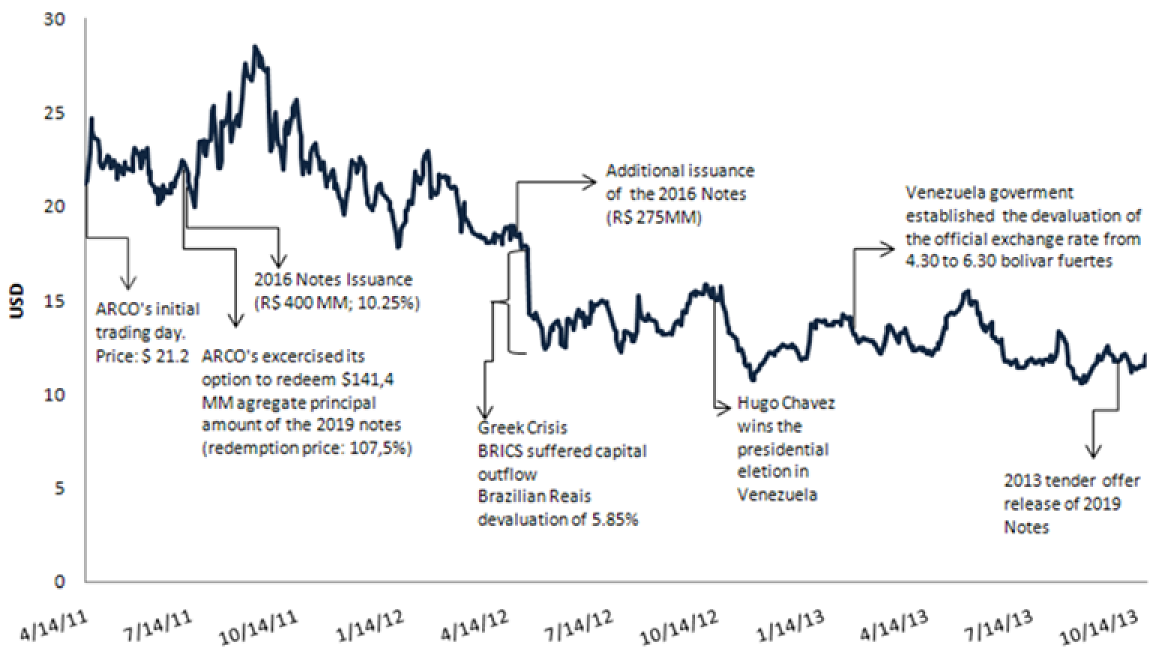
- Local currencies will depreciate at the exact inflation rate as from 2015, therefore stabilizing real exchange rates for all countries.
- World Bank real GDP annual growth estimates by country as from 2015: Brazil 4,16%, Argentina 3%, Mexico 3.3%, Venezuela 2.6% and Puerto Rico 2.5%.
- Franchised restaurants pay 12% of their sales as royalty to ARCO. 2% is kept by the company, 5% represents marketing expenses and the resulting 5% is the royalty payable to MCD.
- Imported COGS by division: 20% for Brazil, 18% for NOLAD, 12% for SLAD, 40% for Venezuela and 90% for Caribbean.
- Temporary Waiver for Venezuela is expected to be renewed annually until 2015.
- The net cost of opening a restaurant is estimated in USD 1,6mm for 2013. As from 2014, net costs rise at USA´s Inflation rate.
- Minimum cash is established in 3.5% of total sales
- In 2016, 2019 and 2023 we have estimated a roll-over of LT Notes maturing on such years.
- Cash needs at the end of every year are covered with revolver debt.
- Interest / LT Debt is established in 8.5% as from 2014 as revolver debt has a substantially higher cost than the 6.625% and 7.5% the company pays as coupons for the USD-nominated Notes.
- Effective Tax rate is estimated 34% for 2013, and 30% from 2014 onwards.
- Dividends Payment ratio is expected to be 45% of Net Income (the ratio the company used in 2011 and 2012) until 2020. As from that year, such ratio rises to 60%.

Exhibit 9: Margin Comparable

Company	EBITDA Margin	Net Income Margin
Arcos Dorados Holdings Inc	8.5%	2.00%
Burger King Worldwide Inc	43.00%	10.50%
Mc Donald's Corporation	35.7%	19.90%
Alsea S.A.B. de C.V.	12.1%	3.10%
Yum! Brands Inc	20.60%	8.50%
Chipotle Mexican Grill Inc	19.7%	10.10%
Panera Bread Company	17.8%	8.30%
Domino's Pizza Inc	18%	7.70%
Starbucks Corporation	18.8%	11.10%
Tim Hortons Inc	24.3%	13.20%
International Meal Company Holdi	10.1%	0.60%
Mc Donald's Holding Company Jap	11.2%	3.70%
Jubilant Foodworks Limited	17.2%	9.30%
Domino's Pizza Group plc	19.6%	8.90%
Domino's Pizza Enterprises Limitec	15.4%	9.80%
Jack in the Box	14.9%	2.70%
Wendy´s	14.1%	0.60%
Brazilian Fast Food Corporation	16.1%	9.60%
AVERAGE	**19.30%**	**7.76%**

Source: S&P Capital IQ

Exhibit 10: ARCO's share price and key economic/corporate events since 2011



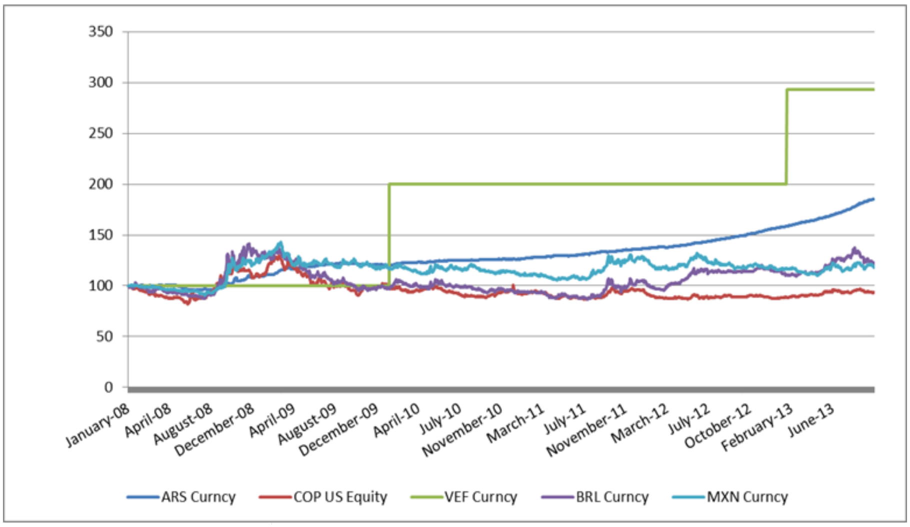
Source: Company Data & Team Estimates

Exhibit 11: ARCO's financial ratios

Ratios						
For the Fiscal Period Ending	Dec-31-2008	Dec-31-2009	Dec-31-2010	Dec-31-2011	Dec-31-2012	LTM 12 months Jun-30-2013
Profitability						
Return on Assets %	NA	NA	8.0%	8.9%	7.9%	7.3%
Return on Capital %	NA	NA	13.5%	14.6%	11.8%	10.5%
Return on Equity %	NA	NA	21.2%	18.8%	16.1%	11.9%
Margin Analysis						
Gross Margin %	16.7%	15.5%	15.9%	16.4%	14.6%	13.8%
EBITDA Margin %	10.6%	9.8%	8.9%	9.0%	8.9%	8.5%
EBIT Margin %	8.7%	7.8%	6.9%	7.1%	6.5%	5.7%
Net Income Margin %	4.0%	3.0%	3.5%	3.2%	3.0%	2.0%
Asset Turnover						
Total Asset Turnover	NA	NA	1.8x	2.0x	1.9x	2.0x
Accounts Receivable Turnover	NA	NA	38.2x	42.4x	42.3x	43.8x
Inventory Turnover	NA	NA	43.4x	52.2x	61.4x	59.0x
Short Term Liquidity						
Current Ratio	NA	1.0x	0.9x	1.0x	1.0x	0.9x
Quick Ratio	NA	0.7x	0.6x	0.5x	0.7x	0.6x
Cash from Ops. to Curr. Liab.	NA	0.4x	0.4x	0.4x	0.4x	0.3x
Avg. Days Sales Out.	NA	NA	9.6	8.6	8.7	8.3
Avg. Days Inventory Out.	NA	NA	8.4	7.0	6.0	6.2
Avg. Days Payable Out.	NA	NA	22.3	24.5	26.2	18.9
Long Term Solvency						
Total Debt/Equity	NA	102.5%	85.5%	78.3%	88.1%	103.2%
Total Debt/Capital	NA	50.6%	46.1%	43.9%	46.8%	50.8%
LT Debt/Equity	NA	100.1%	82.2%	77.5%	87.8%	95.1%
LT Debt/Capital	NA	49.4%	44.3%	43.5%	46.7%	46.8%
Total Liabilities/Total Assets	NA	69.4%	69.2%	63.8%	63.6%	66.0%
EBIT / Interest Exp.	8.7x	2.2x	2.8x	4.5x	4.6x	4.0x
EBITDA / Interest Exp.	10.5x	2.8x	3.6x	5.6x	6.3x	5.9x
(EBITDA-CAPEX) / Interest Exp.	4.9x	1.9x	1.3x	0.2x	0.8x	0.8x
Total Debt/EBITDA	NA	1.8x	1.7x	1.6x	1.9x	2.1x
Net Debt/EBITDA	NA	1.1x	1.0x	1.1x	1.4x	1.7x
Compound Annual Growth Rate Over Two Years						
Total Revenue	NA	NA	7.6%	17.1%	12.2%	8.1%
Gross Profit	NA	NA	5.2%	20.6%	7.4%	0.1%
EBITDA	NA	NA	(1.3%)	12.3%	12.2%	8.1%
EBIT	NA	NA	(4.1%)	12.2%	8.7%	1.0%
Net Income	NA	NA	1.4%	20.2%	3.8%	(18.9%)
Diluted EPS before Extra	NA	NA	1.4%	27.5%	11.6%	(14.3%)

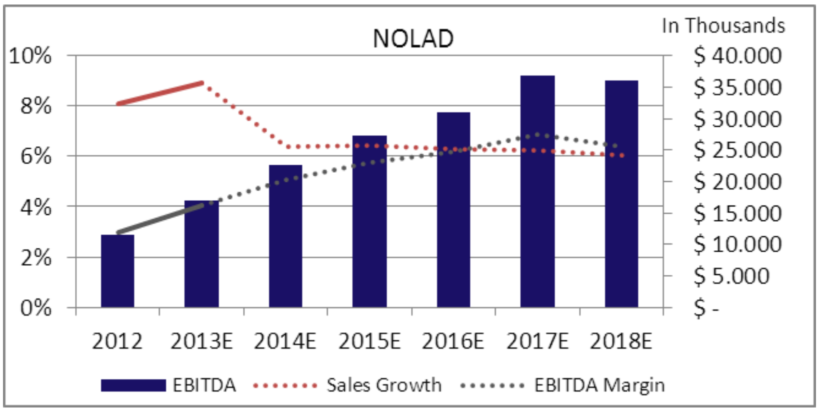
Source: S&P Capital IQ

Exhibit 12: Currency Devaluation Trends



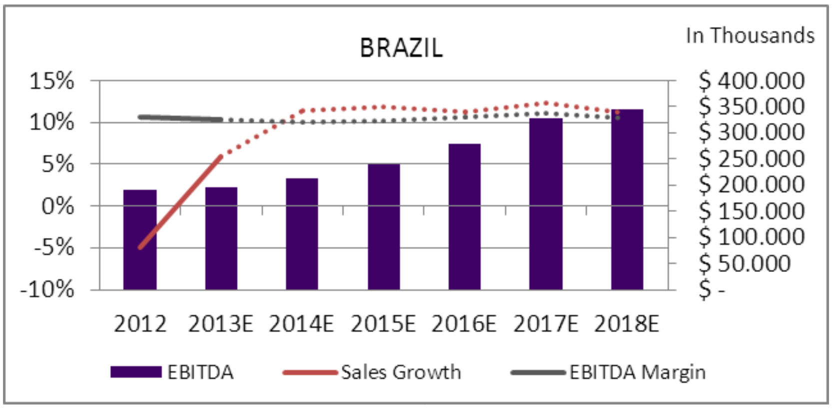
Source: S&P Capital IQ

Exhibit 13: NOLAD's Trends & Forecasts



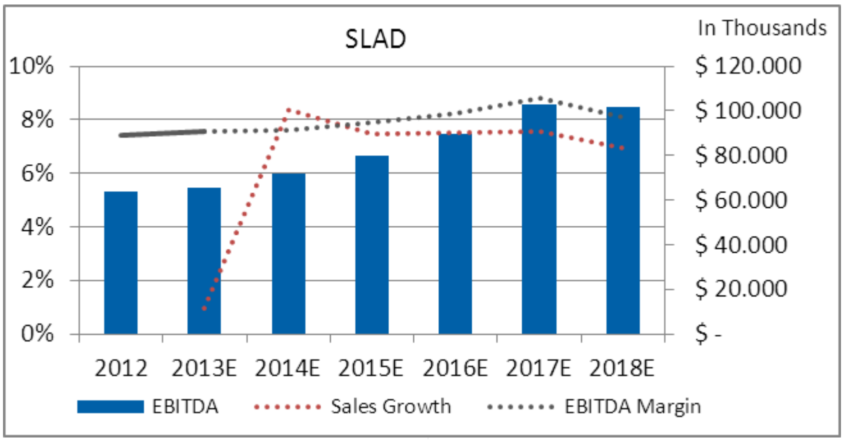
Source: Company Data & Team Estimates

Exhibit 14: BRAZIL's Trends & Forecasts



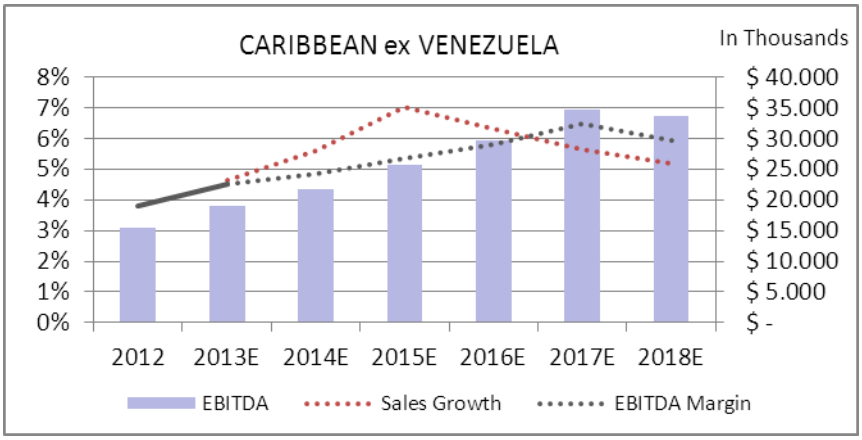
Source: Company Data & Team Estimates

Exhibit 15: SLAD's Trends & Forecasts



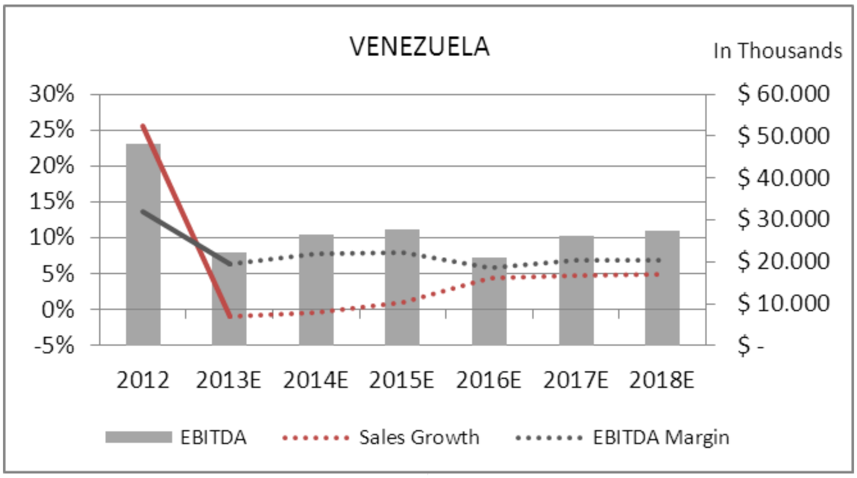
Source: Company Data & Team Estimates

Exhibit 16: Caribbean's Trends & Forecasts



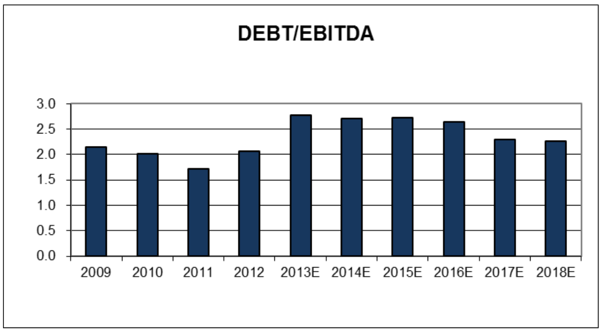
Source: Company Data & Team Estimates

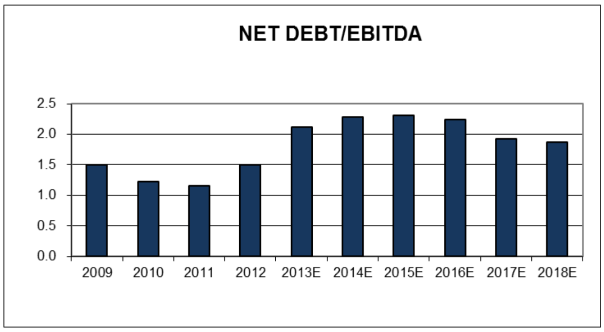
Exhibit 17: Venezuela's Trends & Forecasts



Source: Company Data & Team Estimates

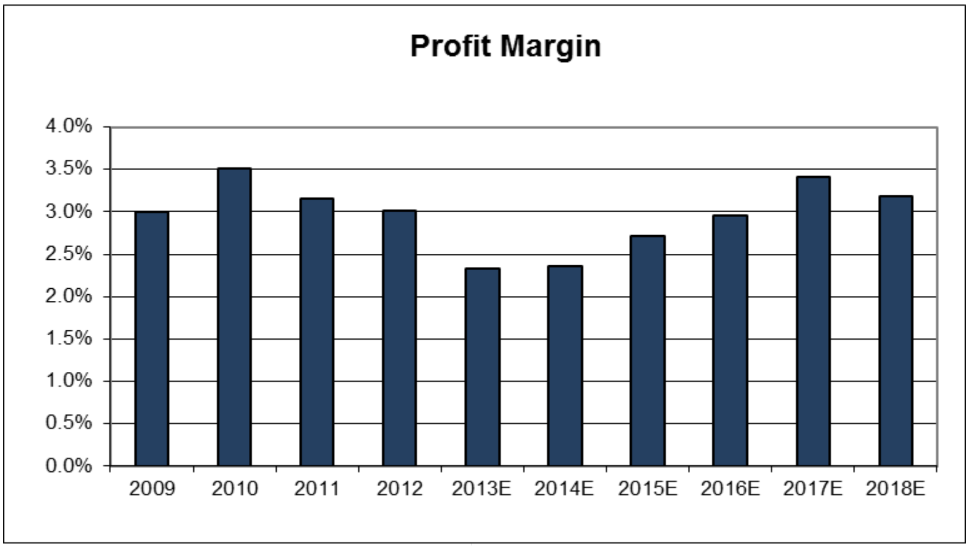
Exhibit 18: Debt's Trends & Forecasts





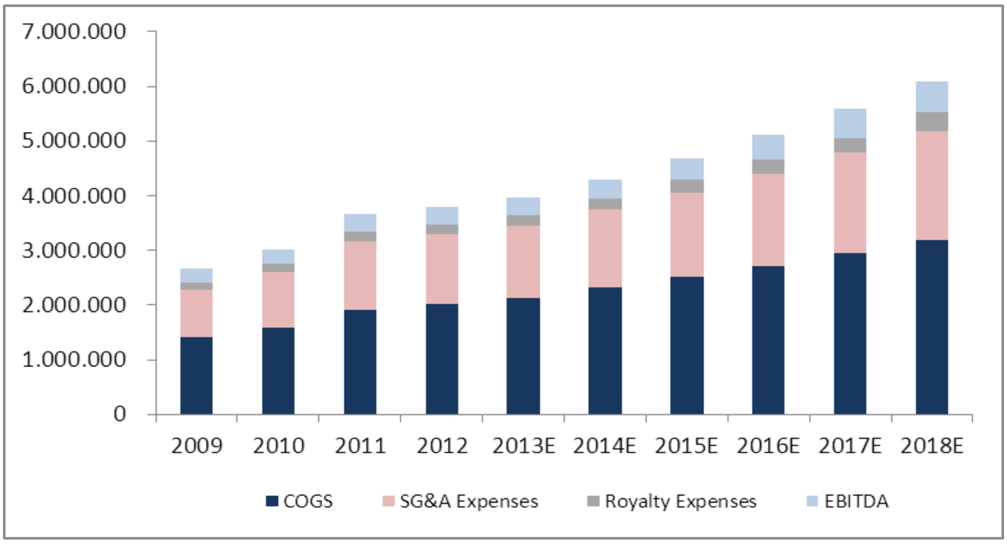
Source: Company Data & Team Estimates

Exhibit 19: Profit Margin's Trends & Forecasts



Source: Company Data & Team Estimates

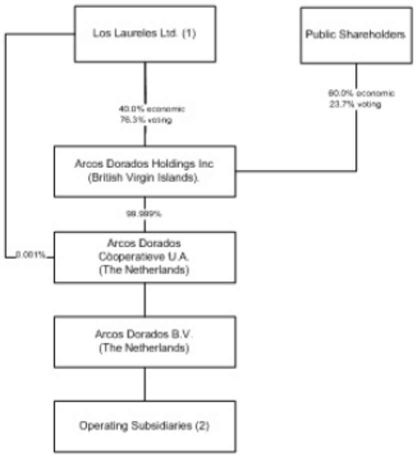
Exhibit 20: Expenses & EBITDA Breakdown



Source: Company Data & Team Estimates

Exhibit 21: Share Ownership

The following chart shows our corporate structure as of March 31, 2013.



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

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

Other than as described above, all of our significant subsidiaries are wholly owned by us, except Arcos Dorados Argentina S.A., of which Mr. Staton owns 0.003%.

Source: Company Reports

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