Arcos Dorados Holdings Inc.

Fourth Quarter and Full-Year 2019 Earnings Conference Call

Wednesday, March 18, 2020, 10:00 A.M. Eastern

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 Fourth Quarter and Full year 2019 Earnings Call. A slide presentation will accompany today's webcast, which will also be available in the Investors section of the company's Web site, 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. Good morning, everyone, and thank you for joining our earnings call. With me on today's call are Marcelo Rabach, Arcos Dorados' Chief Executive Officer and Mariano Tannenbaum, our Chief Financial Officer.

Please turn to Slide 2. Before we proceed, I would like to make the following safe harbor statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statements section of our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances. In addition to reporting financial results in accordance with generally accepted accounting principles, we report certain non-GAAP financial results. Investors are encouraged to review the reconciliation of these non-GAAP financial results as compared with GAAP results, which can be found in the press release and 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
Thank you, Dan and good day everyone. As you know, we are holding today's call in the middle of a global health crisis that has generated significant uncertainty in the marketplace. So, we will follow the agenda on Slide 3. Mariano and I will highlight some of the strong results from operations that we generated during the last quarter and full year of 2019. We will also provide you with some color on our performance during the first two months of 2020 before the coronavirus began to disrupt our markets.

We believe it is important to review our recent performance, because it shows that we can effectively meet disruptions from an undeniably strong position from both an operating and financial perspective, and without a doubt as the strongest player in our industry. While we do not have certainty in terms of how long the coronavirus crisis will disrupt our markets, we do have certainty that we will overcome this situation as we have overcome other crises in the past. With that in mind, we will also review the ambitious openings and reinvestment plan that we agreed with our partner, McDonald's Corporation. Against this backdrop, we will provide you with the best possible update on how the coronavirus is impacting our business.

Let me start with pointing out a few key highlights of our fourth quarter and full year results on Slide 4. The focused and disciplined execution of our three-pillar strategy, which includes running great restaurants, featuring the most attractive menus and enhancing the customer experience through exceptional interactions with our team, once again drove growth in guest traffic and average checks. Maintaining our strong momentum, we generated consolidated comparable sales growth of 10.4% in the fourth quarter and 11.8% for the full year, which was solidly above the company's blended inflation for both periods.

Our performance in Brazil last year is particularly gratifying, considering the level of competition and the relatively soft economic environment. EOTF delivery and digital along with our affordability and premium platforms, as well as engaging marketing initiatives, also drove the strong 9.5% increase in the quarter and 9.7% increase for the full year in comparable sales. These figures exceeded inflation and were about double the average reported by the entire Brazilian food service industry, which includes our results. At the end of 2019, we have 683 EOTF restaurants, exceeding our target of 650 by year-end. We introduced EOTF restaurants to seven more markets in 2019, and increased the EOTF network in Brazil, Argentina and Uruguay. The new format resonated strongly with our guests, providing a substantially better sales lift versus our initial expectations, which is why we accelerated the implementation.

Turning to the future, I am pleased to announce that we have concluded our discussions with McDonald’s Corporation regarding our next three-year expansion plan, which Mariano will explain in more detail. Again, as a sign of its confidence in our business prospects, McDonald's is providing us with growth support for the 2020 to 2022 period, which will reduce the impact of royalty fees.

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

Mariano Tannenbaum
Thanks, Marcelo. Let's take a look at some of the details of our operating and financial results on Slide 5. Total revenue for the company grew 12.9% in constant currency in the fourth quarter and 1% in U. S. dollars, mostly due to the depreciation of the Argentine peso, with double digit comparable sales above blended inflation for the company. While we are very encouraged with the results of our Brazilian division, our NOLAD division also performed extremely well.

Importantly in Mexico, sales exceeded inflation for the third year in a row but by 11 consecutive quarters of growth. Our brand perception has improved considerably and during 2019, we strengthened our operating position by rebalancing our restaurant portfolio in the country, closing poor performers and reopening restaurants in more promising locations, particularly in larger cities. Additionally, revenues benefited from the acceleration of restaurant openings throughout the year, as well as the continued pickup in the pace of our EOTF rollout plan.

Taking you quickly through our topline results at the divisional level on Slide 6. Brazil’s strong comp sales performance clearly demonstrates the progress we made with our strategic initiatives to accelerate growth in an increasingly competitive environment and our brand’s relevance in the Brazilian market. In our SLAD division, comp sales increased 20.9%, which was below the division’s blended inflation. Traffic continued to be impacted by the weak consumer environment in Argentina and the social unrest that affected our operations in Chile during the quarter.

NOLAD’s 4.7 increase in comp sales, which was almost 2.5 times blended inflation, was the result of both, higher traffic and average check in the quarter. This growth was broad based across all three countries and was mainly driven by our affordability platform, the dessert category and the execution of strong marketing initiatives around the core of our business. Growth in our delivery business, along with digital innovations, also played an important strategic role in the division's performance.

Finally, in the Caribbean, we saw the benefits of operating across a large and diverse geography. Strong performances in Puerto Rico and the French West Indies helped to mitigate the comp sales growth impact from the decline in Columbia as a result of the implementation of the tax reform effective July 1, 2019. Revenues in U. S. dollars were also impacted by the 7% year-over-year depreciation of the Colombian peso.

Consolidating the performance of our business, we had a very solid end to a very strong year, as Q4 marked the fourth consecutive quarter of double-digit system wide comp sales growth. Additionally, our continued focus on managing our costs and expenses led to efficiencies in all our cost line items, including the lowest payroll expense as a percentage of sales in our history. To Marcelo's point, with respect to our position of operating and financial strength, this combination of top-line performance and operating efficiencies resulted in a full year 2019 adjusted EBITDA margin of 10%, which was our highest full year EBITDA margin since we became a public company in April of 2011. Back to you Marcelo.

Marcelo Rabach
Thank you, Mariano. Looking at our strategic growth drivers on Slide 7, our delivery service is now available through more than 1,500 restaurants in 11 key markets. These fast-growing segments that leverages the capacity and costs of our existing restaurants strengthens our omni-channel approach and allows our guests to enjoy the McDonald's experience when they prefer to stay at home. We will come back to this concept when we discuss some of the ways in which we are prepared to manage the ongoing coronavirus situation.

Our mobile app is integral to supporting our delivery business and maintaining direct communications with our customers on promotions and new menu items. In fact, we have just added the ability to order delivery through our app in Brazil in addition to working with all of the major delivery app platforms, and we will soon roll out this capacity to our other delivery markets. We believe that the app will allow us to communicate constantly with our customers and will not only help us through the coronavirus crisis, but it should also allow us to accelerate revenue recovery once the situation normalizes.

With over 34 million downloads to-date and 65% more active users than our nearest QSR competitor, we are the undisputed leaders in our industry when it comes to digital maturity. Part of our digital maturity relates to our aggressive expansion of EOTF locations in Brazil and across the region, and of course, our Cooltura de Servicio program that encourages our teams to serve our guests by being themselves continues to support higher retention and lower absenteeism among employees. Largely as a result of this clear sign of improved employee satisfaction, we are seeing our customers' satisfaction scores rising as well. All of these investments and initiatives are about making the McDonald's brand more relevant and engaging for our guests in Latin America and the Caribbean.

On Slide 8, you will see that our investments are also increasing accessibility with the opening of new restaurants. We added 90 new restaurants to our footprint in 2019, ending the year with 2,293 locations. Our free-standing restaurant footprint is unmatched in our region.

As of the end of 2019, we have almost 1,100 free-standing units. This includes more than 460 free-standing restaurants in Brazil or about 2.5 times more free-standing units than our closest competitor in that country.

Importantly, this format offers the full McDonald's experience to our guests, including the possibility for takeout and drive-through ordering. Given that it includes all our revenue segments, this restaurant format has also historically provided us with the greatest base of support to protect our sales in challenging economic periods. Back to Mariano again to review our performance in terms of costs and profitability.

Mariano Tannenbaum
Thanks Marcelo. Let me walk you through our cost and expenses during the fourth quarter on Slide 9. In the fourth quarter of 2019, adjusted EBITDA increased almost 17% in dollar terms and 25% in constant currency. The margin expanded 180 basis points, including the reversal of a bad debt reserve in our Puerto Rico market. Excluding this non-cash reversal, our adjusted EBITDA margin expanded 50 basis points in the quarter.

For our annual disclosures along with McDonald's Corporation, we have been involved in litigation with our eight Puerto Rican sub-franchisees for several years. During the fourth quarter, we reached an agreement with four of the eight sub-franchisees. As a result of that agreement, we received all 20 McDonald's restaurants previously operated by the four sub-franchises in consideration for about $10 million in receivables for various services rendered. This then generated a non-cash reversal of bad debt reserves related to those receivables in our franchised restaurants' occupancy expense line. Finally, we are also operating with a streamlined G&A structure, U. S. dollar G&A expenses declined by 10% versus the prior year quarter or 90 basis points as a percentage of revenues. On a constant currency basis, it increased 3.5%, well below the blended inflation rate for G&A.

Taking a look at adjusted EBITDA at the divisional level on Slide 10, we captured margin expansion in Brazil, NOLAD and in the Caribbean, including the reversal of the bad debt reserve in Puerto Rico. I want to highlight the impressive increase in margin generated in both, Brazil and NOLAD of 240 basis points. The fourth quarter was an inflection point in Mexico as we achieved our highest level of EBITDA since we began operating in this country. We will remain focused on driving more efficiencies to leverage the strong top line growth in that market. For the full year, I mentioned our adjusted EBITDA margin of 10%, which reflects 120 basis points of margin expansion between 2017 and 2019. This is within the range of the 100 to 200 basis points that we promised to deliver by the end of 2020, during our April 2018 Investor Day.

Finally, as Marcelo anticipated, we have come to an agreement with McDonald's Corporation on an expansion plan for the 2020 to 2022 period as described on Slide 11. We developed this ambitious plan based on our assessment of the optimal combination of growth and profitability for the McDonald's brand across our footprint. So, we expect to open between 285 and 300 new restaurants with total capital expenditures of about $1 billion from 2020 to 2022. I should note that the timing of deployment of capital is under our control. In addition, McDonald's corporation agreed to continue providing growth support for the plan over this period. Thus, we project the effective royalty rate to average about 5.5% over the three-year period. Marcelo?

Marcelo Rabach
Thanks, Mariano. Now, let me take you through the current situation on Slide 12. First of all, we must recognize that we are actively managing a very fluid situation on a country-by-country and market-by-market basis. The world is moving quickly, and governments and businesses are

mobilizing to slow the spread of the coronavirus and protect the public health. Likewise, we are prioritizing the health and safety of our guests and employees, as well as protecting our long-term business results through these uncertain times.

Based on the most recent data available to us from the World Health Organization, there are over 1,000 confirmed cases of coronavirus across our markets. The countries with the highest numbers of confirmed cases in our footprint are Brazil, Chile and Peru. Fortunately, as of this morning's call, we do not have any confirmed cases of coronavirus among our employees at any level. As you have just heard, we are entering the coronavirus crisis from an unquestionably strong position and we 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 ability to offer Delivery, Drive-Thru and Take-Out on a widespread basis.

We have established a Cross-Functional team at the Corporate level that is constantly monitoring and evaluating the situation to implement necessary actions in partnership with our in-market teams. The working group is coordinating efforts across the organization and sharing all available information to ensure an agile and appropriate response. Local leadership teams are also monitoring developments in coordination with government and health officials since local measures vary from country-to-country and region-to-region within those countries.

We are also aligned with the five principles that McDonald's Corporation's CEO, Chris K., outlined on Monday, providing a global consistency and approach and to ensure that our system emerges stronger than ever from this crisis.

First, we are all in this together. McDonald's has been a supportive partner of ours throughout this process, and when we faced challenging times in the past as well, and just as we know that we can count on their support, we will support the three-legged stool in our markets as well, working together with our people, our sub-franchisees and our suppliers to help them through this pandemic.

Second, and this is very important to us, we will think and act with a long-term mindset. Having the certainty that life will normalize again, we know that our decision making will have a lasting impact on our business, we will act accordingly.

Third, we will be transparent with each other and with all our stakeholders. As the situation evolves, we will share information and best practices internally to pursue the most effective strategy through this crisis, and we will be back with you no later than eight weeks from now when we have our first quarter 2020 earnings call on May 13th, to provide you with an additional update.

Fourth, we will lead by example. We will never ask customers or our people to go where we wouldn't go, or work where we wouldn't work. Our decisions on operations will continue to be guided by expert local and global health authority guidance and we will be pragmatic in our approach. We at Arcos Dorados have a longstanding commitment to the communities that we serve, which is as important as ever in times like these.

And, Fifth, is to stay true to that purpose. Wherever we can, we will make every effort to keep our restaurants open, while making sure to always operate with our industry benchmark standards of hygiene and food safety. Additionally, we are using the power of our media reach to support important public service messaging in our markets. This includes staying at home, social distancing and other recommended actions to curb the spread of the virus.

Mariano, why don't you say a word about some of the potential financial impacts, as well as our balance sheet position and capital commitments?

Mariano Tannenbaum
Sure. From a business perspective, on Slide 13, we feel we are facing this crisis from a position of strength. We built momentum for 2019, delivering one of the best performances in our history and that momentum carried into 2020. We saw better U. S. dollar profitability during the first two months of the year, including our best February ever despite the strong depreciation of the Brazilian real since last year. In terms of our cost structure, nearly 90% of Arcos Dorados' food and paper suppliers are local to our markets. So, we are able to work closely with this network of approved suppliers to reduce the risks of disruptions within our supply chain, as well as to certify the quality and safety of the food that we serve to our guests.

We have disclosed in the past that around 20% of our total company food and paper costs are exposed to FX fluctuations. This number is lower in our largest market, Brazil, where only about 16% of our food and paper costs are exposed to FX fluctuations. In order to manage these risks, we have rolling hedges in place to cover about 50% of our estimated exposure to FX going out over the next 6 to 12 months, and in the case of Brazil, we have hedged our exposure at the rate of about BRL4 during the first half of 2020. Additionally, we are closely and regularly communicating with our sub-franchises, providing guidance and support to ensure that they are implementing these same precautionary measures in their restaurants.

Turning to our balance sheet on Slide 14. We ended 2019 with $122 million in cash and a net debt-to-EBITDA ratio of 1.6 times, which is well below our comfort range. Importantly, we currently also have a solid cash position and will access our undrawn $50 million committed credit lines as necessary. Our debt is held in two long-term bonds with expirations in 2023 and 2027, and total interest payments of around $50 million per year. Importantly, we swapped about 50% of the principle and interest of that debt into Brazilian reals when the bonds were issued. In other words, only about $25 million of our annual interest payments are in U.S. dollars, which we can comfortably cover with cash generation from U.S. dollar and other strong currency markets, such as Puerto Rico, Panama, Ecuador, Costa Rica and the French West Indies to name a few.

We will prioritize our cash in the short-term as we navigate the uncertainty of the current situation. We have full discretion on how and when we deploy our capital to meet our plans. Back to you Marcelo.

Marcelo Rabach
Thanks. Let me take you through some of the steps we are taking at the operating level on Slide 15. Every day our restaurants teams practice the highest standards of hygiene and food safety in our industry. From the frequency of handwashing to the extensive procedures we follow to avoid cross contamination of our ingredients, and our guests know that they can trust McDonald's in our Latin American and Caribbean markets. This is because more than 2 million of them have visited our kitchens in each of the last several years through our Puertas Abiertas or Open Doors program. They have seen for themselves that we wrote the book on service, quality and cleanliness.

Our region is among the last to be impacted by the virus and our cross functional team has implemented a robust contingency plan based on best practices and learnings from the global McDonald's system, including McDonald's China and other Asian markets. We also have the benefit of having a medical doctor as a full-time member of our staff in Brazil to help guide our decision making. Depending on the evolution of the virus in each country, we have been implementing a set of protocols and procedures, such as increased frequency of sanitization in our restaurant areas and engagement kiosks, operating only with Delivery and Drive-Thru as permitted when we are no longer able to operate our restaurant counter or dining rooms, establishing protocols for closing and reopening restaurant if an employee receives a positive diagnosis for the coronavirus.

All these measures will be continuously reviewed and adjusted as necessary in accordance with the latest guidelines from local health officials and global best practices for mitigating the potential spread of the virus. We are starting to see limited operating hours and, in some cases, restaurant closures in some of our markets. However, with more options than ever for our guests to enjoy the McDonald's experience, including our fast-growing delivery segment and the industry largest network of drive thru locations, we expect to be available to the majority of our guests throughout this crisis.

Wrapping up my comments with Slide 16, we are facing an unprecedented global health crisis. However, we are confident that our strength in particular and the strength of the McDonald's system globally will shine through this difficult period. The fundamentals of our business are the strongest they have been in many years. Our results demonstrate that we have a solid strategy in place to continue growing our business once this storm has passed. Excellence in execution with a continued focus in enhancing the guest experience will continue to underscore how we operate our business.

We are pleased to have reached an agreement with our partner McDonald's regarding our next three-year openings and CapEx plan, and we look forward to continuing our close working relationship as we work through this period and deliver on our long-term plan.

Finally, we expect to navigate any disruptions to local economies, including those caused by the coronavirus by leveraging our operational excellence, strong balance sheet and prudent capital allocation. This will support continued growth in sales, increased market share and expanding geographic footprint as we profitably capture the full potential of the McDonald's brand in the 20 countries and territories that we operate. 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 (1) 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 (2). In order to allow all listeners to participate, please limit yourself to one question and one followup 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
Thank you and good day, everybody. Marcelo, can you share your experience across markets in the last week in terms of Drive-Thru and Delivery trends, as well as update us on the number of stores and Dessert Centers and malls versus your freestanding locations with Drive-Thrus, please?

Marcelo Rabach

Okay. Good morning, Bob. Yes, what we saw in the last few days as expected is a much better performance and increase in traffic in terms of Delivery. Delivery is growing and we are fortunate to have been pushing hard with Delivery, offering that service in 1,500 restaurants across the region. So that is a key part in order to deal with the headwinds that coronavirus is having in some of our markets.

In terms of restaurant formats, that's another strength for us since we have the more extensive footprint of free-standing units. Almost 46% of our restaurants are free-standing units offering Drive-Thru. It is key in order to have better results in terms of sales and traffic, and we are experiencing that. It is not the first time. In the past, it was the same case during periods of economic crisis.

Typically those formats of restaurants where we can offer the complete McDonald's experience to our customers, typically those restaurants in that period did better. It is the same case nowadays. So, we have 2.5 times more Drive-Thrus, for example, in Brazil than our closest competitor, and if you take the three biggest markets for us, Brazil, Mexico and Argentina, we have 2.2 times more units of free-standing compared with our largest or closest competitor.

So, we are shifting part of our media budget to communicate and to incentivize sales through Delivery and through Drive-Thru. We are very focused in terms of operations in giving the best service through those channels, and on top of that, for example, we continue to add new capabilities to our mobile app. So, for example, in the case of Delivery, as you know, we work typically with the main partners, three at least main partners for Delivery in each market, but on top of that, we have the possibility to order Delivery through our app, we implemented that last week in Brazil, but this week we accelerate the rollout of that, and we already have in the 11 markets where we operate Delivery, the opportunity to order Delivery through our McDonald's app. So, we are very focused in these initiatives as we see that these channels and these strengths that our footprint has allows us to deal in a much better position with these headwinds.

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

Gary Barnes
Hi. This is Gary Barnes from PGGM. Just a question, whether you could remind me, you mentioned that the leverage currently at 1.6 times is well on year-over-year target. Could you just remind me what your target level is? And the second question, maybe you could also cast some light on what you expect to be paying out in dividends going forward or if you have a policy in place there. Thank you

Marcelo Rabach
Okay. Good morning and thank you very much for your question. Maybe, Mariano, you can take this one.

Mariano Tannenbaum
Yes, of course, Marcelo. Hi, Gary. Yes. Our net debt-to-EBITDA ratio by the end of December was 1.6 times, and we have always mentioned that our target level is 2.5 times net debt-to-EBITDA. So, we feel comfortable with that range. Since we closed our financials by the fourth quarter, we have not taken any debt and also please keep in mind that our total debt, half of it is converted or swapped into Brazilian Reals. After the huge and important depreciation of the BRL in the last three months, actually our net debt at this time is lower because that's how this hedge works. As long as the real devalues, our total debt goes down, and Marcelo?

Marcelo Rabach
Yeah, and let me add in terms of dividends. Our Board of Directors declared dividends for 2020 on March the 3rd, a couple of weeks ago, and the first installment will be on April 10th, a $0.05 per share installment, and as part of our cash preservation measures, we sought legal counsel and were advised that once the dividend was declared by our Board two weeks ago, it became a regulated and legal obligation to our shareholders. So, we will meet this commitment of about $10 million on April 10th. The other two installments, which are planned for August 13th and December 10th, each one of $0.03 per share, we expect to honor the commitment, but the Board may be able to revisit the topic if there are any regulatory changes due to these new market conditions. So that's what we are working on in terms of dividends.

Gary Barnes
Thank you.

Operator
Our next question comes from Ian Luketic with J.P. Morgan. Please go ahead.

Ian Luketic
Good morning, all. Thank you for taking my questions. I had a couple of ones, if I may. So, first of all, I would like to understand how many stores you have with Drive-Thru and how many have Delivery, so trying to assess what could be the potential slowdown in sales in case LatAm countries follow Italy and implement a lockdown, and in that regard, have you spoke to McDonald's Corporation to try to understand what are the sales impact in these countries such as Italy, Spain and so on? And my other question will be, if you can mention what the magnitude of the reported one-off provision for contingencies in Brazil? Thank you

Marcelo Rabach
Okay. Hi, and nice to hear from you. I will take the first part, and obviously all this coronavirus situation is a very important topic. So maybe let us give you a comprehensive analysis on this. So, I think that at this time, neither the duration or the scope of the disruption can be predicted. Therefore, the negative financial impact or results cannot reasonably estimate it yet, but a good thing is, our region is among the last to be impacted by the virus, which has informed and helped us to build a robust contingency plan implemented by our cross-functional team, which is based mainly in best practices and learnings from the global McDonald's system, including McDonald's in countries like China and other Asian markets we had contact with and we get information from them all the learnings and best practices.

At the same time, Latin American government are also responding with the benefit of these global learnings, and there are a number of proposals being discussed to protect local economies. So, we are keeping a very close eye to that. As I mentioned before, we think and we are sure that we have a couple of strengths that allows us to face these crisis in the best position in our industry in our region to deal with this situation, I already mentioned, our extensive free-standing units footprint, we have around 1,000 free-standing units in the region. So that's a complete differentiation for us when compared to most of our peers, and as I mentioned before, 1,500 restaurants are offering deliveries across the 11 main markets where we operate.

We also believe that our geographic diversity is another strength, and we see that we are operating in 20 different markets and territories, and the impacts are completely different from one to the other. So, we are taking a close look to that, and obviously we are following all the recommendations coming from the authorities and health specialists in each market. We are leveraging at the same time our relationship with McDonald's. McDonald's Corporation has been very supportive in these days, and it was the same in the past during some economic crisis that we faced. Unfortunately, or fortunately, some of us, I'm Argentinian as you know, have been in different crisis many times in this 30 years with the company. So, in some way, we had those learnings and that flexibility to deal with this kind of situations, and we are following again the best practices on the main recommendations coming from the authorities to deal with this situation.

I have in front of me a dashboard in terms of operation. So, I know exactly how many restaurants are closed, how many restaurants have limited operations to Drive-Thru and Delivery or only Drive-Thru. It is a very small portion of restaurants right now, around 3% of our restaurants are closed mandated or obligated by the authorities. There are others where we can operate only through Drive-Thru. For example, most of them in Puerto Rico where Drive-Thru represents more than 60% of the sales. So, we are okay in that sense, and this is a very fluid and a very dynamic situation. So, this is being led by market by market and city by city by our local teams who are making and are doing a tremendous job in terms of align all the company, all the resources of the company behind these efforts.

So maybe Mariano, you can cover the second part of the question of Ian.

Mariano Tannenbaum
Yes. Thanks, Marcelo. Can you refer to the question again about contingencies in Brazil, please?

Ian Luketic
Yeah. Of course, Mariano. So, I would like you to know what the magnitude of this reported one-off provision.

Mariano Tannenbaum
Well, first let me refer you to our cash flow situation right now, given that you were worried about restaurants operating in the region. So, the first part, let me remind you that, well, first, as you know, we started the year with a very favorable cash position. We still have undrawn committed credit lines of $50 million in addition to many other lines of credits to support our operation cash needs. As I explained before, our financial leverage is low, and half of our debt is converted to reals.

On top of that, we have cash in hand to meet our next financial obligations. As you know, we have the maturity of the two bonds, and my main focus is of on preserving the favorable liquidity position that we have taken, and we will continue taking actions to prioritize our cash until this situation, of course, improves.

First, it is important to note that our largest non-operating cash outflow is CapEx, and as you know, CapEx mainly is concentrated in Arcos Dorados in the second half of the year, but on top of that and even more important is that we have full discretion on when we can do these outflows and how we decide when to do it. So that's something very important to take into account. Our CapEx is very granular and very short-term. So, we have that ability to postpone or delay those outflows that in our cash flow statements are the most important ones.

Also, to keep in mind is that the majority of the costs at the restaurant level are variable costs. So, when sales go down, the main portion of our costs go down as well. Also, our inventories are food, the main inventories are food related. So in this case, the days that we have inventories in hand is also very low, so there is limited risk on that, and we have also taken steps to protecting our people and reducing our G&A. For example, provision of travel for all our personnel, cancellation of all meetings with third-parties and others. As Marcelo mentioned, we don't know the duration, the scope of the disruptions still to come. So, it is very difficult to estimate the negative financial impact to our results and that's mainly from a cash flow perspective and how we are facing and dealing with this disruption.

Regarding the contingency that you asked at the end as part of your second question, the bulk of that contingency is coming from one state in Brazil, where in December 2019, we recorded a reverse provision given a positive outcome to the legal proceedings against us. For further information, remember that in our financial statements in the 20-F, we have all that information, but now the civil complaints are now concluded and that's the reason for the reversal.

Operator
Again, if you would like to ask a question or you have a followup, please press star (*) then one (1).

Our next question will come from Robert Schweich, private investor. Please go ahead.

Robert Schweich
I want to complement you on a really extraordinarily complete presentation of the situation and your answers to the questions under these unusual circumstances. While you have considerable flexibility on the timing of opening stores and capital expenditures related to that, that process is an advanced process to a certain degree and if you are planning on opening any stores in the second half of this year, my guess is you already have commitments on certain number of units, and I am curious if you could tell us how many units and how much capital expenditures you are actually committed for during the current year at this time.

Marcelo Rabach
Okay. First of all, thank you very much, Robert, for your comments. As Mariano told us that's typical year-after-year. Our CapEx investments are typically, at the end of the year, the majority of those. So, we still have a lot of restaurants that aren't being built yet, so we can stop or delay a huge part of our CapEx program for this year. So obviously, we are taking a very close look to these, because we keep in mind that one of the principles, which is guiding us, is thinking long-term in terms of the business results, and that's why we are taking a look restaurant-by-restaurant and situation-by-situation.

In some cases, we can maybe make a stop for a couple of months or for some weeks. In other cases, we can put them under revision if we are going to put those resources there or not in the future, but we are taking this process in a very detailed way in order to make the best decision between taking in account the situation in the short-term and protecting the cash flow of the company and not compromising anything in that sense, but at the same time thinking long-term, and obviously, with the idea that we will overcome this and we will overcome this in the strongest way that any company in our sector will overcome this in Latin America, so that's the way we are thinking on this, but for your records, your information, most of the CapEx plan for this year is still to be applied. So, we are in a good position regarding that in order to protect the cash of the company.

Robert Schweich
I appreciate your answer, and I realize that you're thinking longer-term as well as shorter-term, and the longer-term thought process may lead you to open some units even though there is uncertainty because of coronavirus. Do you think you're likely to open at least 25 restaurants this year all factors considered?

Marcelo Rabach
I do not have the exact number right now and obviously, the situation is so volatile and unpredictable that I don't want to make any statement in any number or commit to any number, but the idea is to have obviously much more detail in the coming weeks and months, but again, for the short-term, our cash protection and the focus on cash is the priority. The plan is for much more than that and taking a look on the long-term involves other things, and again, we are trying to balance those two variables.

Obviously, when we announced that we were planning to open between 285 to 300 restaurants in these three years, that's because our results have been extraordinary. I think, in the last couple of years, we had a very strong momentum that translated to the first couple of months of this year, and then this crisis came up and we are trying to overcome this as soon as possible in the best way and keeping an eye, and a strategic eye on the long-term of the business and the business results. So maybe Mariano, you want to add something?

Mariano Tannenbaum
Yes, Marcelo, and hi, Bob. Yes, but it is important to mention that at this time our main priority is to keep and protect the cash of the company until we have more certainty on how things will develop in the next month. As I mentioned in the previous question from Ian, we have the ability to stop and then start again if situation changes in the next month, and we will of course be monitoring day by day how this situation evolves, but at this time, the main priority is to preserve our cash flow, and afterwards, of course if situation improves, then we are, as I said and mentioned, in an excellent position to resume our CapEx plan, because in the long-term we think that the situation for us is extremely good.

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

CONCLUSION

Marcelo Rabach
Okay. Thank you, again, you all for joining our call today and for your questions. My team and I look forward to speaking with you again in the future. We encourage you to follow the recommendations of your government and health officials to combat the spread of coronavirus in your communities, and please stay safe and have a good day. Thank you very much.

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