

RIO DE JANEIRO--( [BUSINESS WIRE](#) )--Fitch Ratings has assigned a 'BBB-' rating to Arcos Dorados Holdings Inc.'s (Arcos) proposed 2023 notes, in an amount up to USD400 million.

The senior unsecured notes are fully and unconditionally guaranteed by Arcos Dorados B.V. (AD) and relevant operating companies. The proceeds will be used to prepay the 2019 notes, in connection with the concurrent Tender and Exchange Offers, and to extend Arcos' debt maturity profile.

Fitch currently rates Arcos and AD and related issuances as follows:

AD

--Foreign currency Issuer Default Rating (IDR) 'BBB-';

--Local currency IDR 'BBB-';

--USD450 million senior unsecured notes due 2019 'BBB-'.

Arcos

--Foreign currency IDR 'BBB-';

--BRL675 million senior unsecured Brazilian-real notes due 2016 'BBB-'.

The Rating Outlook is Stable.

The 2019 notes issued by AD are guaranteed jointly and severally, unconditionally and irrevocably by all relevant subsidiaries, while the 2016 notes issued by Arcos are fully and unconditionally guaranteed by AD and relevant operating companies.

### KEY RATING DRIVERS

The ratings reflect Arcos' solid consolidated financial profile, with consistent and stable operating margins, moderate leverage and strong liquidity. The company's cash flow generation capacity is concentrated in investment-grade countries, which adds some stability to the results. The ratings also consider Arcos' geographic diversification and business strength as the largest McDonald's franchisee in the world, with operations in 20 countries in Latin America, the strength of McDonald's as franchisor, and its longstanding relationship with Arcos' owners and management. The company's high transferability risk in its operations in Venezuela and Argentina, its aggressive expansion plan, and strong competition were also incorporated in the analysis.

Arcos is the indirect holding company of AD. Arcos' ratings assume all its debt issuances would be fully and unconditionally guaranteed by AD and the relevant operating companies, and will rank pari-passu with AD's senior unsecured debt.

### Business Strength Benefits the Company

Arcos is the largest McDonald's franchisee in the world in terms of system-wide sales and number of restaurants. The company purchased the Latin American operations of McDonald's in August 2007 by signing a Master Franchise Agreement (MFA) for 20 years with renewable options. The MFA sets strict strategic, commercial and financial guidelines for the operations of Arcos, which support the operating and financial stability of the business as well as the underlying value of the McDonald's brand in the region. As of June 2013, the company operated or franchised 1,971 McDonald's-branded restaurants, 340 McCafe units and 2,057 Dessert Centers. About 75% of the restaurants are operated by Arcos, and the remaining 25% are franchised restaurants.

### Stable Operating Margins

Arcos has been successful in preserving its operating margins in different macroeconomic conditions. In the LTM ended June 2013, Arcos reported net revenues of USD3.938 billion, compared to USD3.797 billion in 2012 and USD3.658 billion in 2011. In 2012, systemwide comparable sales growth was 9.2%, a reduction compared to 13.7% in 2011, due to lower growth in Brazil, NOLAD (North Latin America division) and SLAD (South Latin America division) regions. Despite lower sales growth, Arcos has been able to maintain stable EBITDAR margins. In the LTM ended June 2013, EBITDAR was USD517 million and EBITDAR margin 13.1%. From 2009 to 2012, EBITDAR margin ranged between 13.3% and 14.4%.

The company's cash generation is concentrated in investment-grade countries. During the first half of 2013, Brazil represented 47% of the company's consolidated revenues and 58% of EBITDA, excluding corporate expenses. During this period, the SLAD region contributed with 24% of EBITDA, NOLAD with 5% and Caribbean with 13%. Arcos still has the challenge of recovering its operating performance in Mexico.

### Strong Liquidity

Arcos has comfortable liquidity and an extended debt maturity profile. As of June 30, 2013, cash and marketable securities was USD129 million and total adjusted debt was USD2 billion, including off-balance-sheet debt of USD1.3 billion related to rental expenses, as per Fitch's methodology. Cash reserves covered short term debt of USD77 million 1.7x, including principal, interest payable and current portion of long-term debt. The proposed notes will extend Arcos' average debt life and reduce the cost of debt. The company has only one high-debt maturity, of USD305 million, in 2016. Liquidity also benefits from a USD75 million committed credit facility, renewed in August 2013.

### Leverage Should Remain Moderate

Arcos was able to preserve relatively stable leverage ratios over the past few years, despite high investments. In the LTM ended June 2013, the company reported net debt/EBITDA of 1.8x, while net lease adjusted debt/EBITDAR was 3.6x. These ratios compare with an average of 1.4x and 3.1x, respectively, from 2009 to 2012. The proposed notes should not materially affect the company's leverage, as it will be used to prepay

the 2019 notes and to extend its debt maturity profile. However, Fitch does not expect a reduction in leverage ratios in the next few years, as the company will continue its expansion plans, and net lease adjusted debt/EBITDAR should remain around 3.5x.

### Free Cash Flow Pressured by High Capex

Arcos' aggressive expansion plan should continue to pressure the company's cash flow. In the LTM ended June 2013, Arcos generated USD207 million of funds from operations (FFO) and USD196 million of cash flow from operations (CFFO). These numbers compare with USD241 million and USD230 million, respectively, in 2012. CFFO was insufficient to cover capital expenditures of USD285 million and dividends of USD50 million, and free cash flow (FCF) was negative USD139 million in the period. The company's strategy is to open approximately 128 restaurants in 2013 (net openings), with investments of approximately USD270 million. Although planned investments are high, Fitch notes that Arcos has the flexibility to reduce investments to the minimum levels set under the MFA.

### High Transferability Risk in Venezuela and Argentina

Arcos is exposed to high transferability risk in its Venezuelan operations. Restrictions imposed by the Venezuelan Central Bank have limited the U.S. dollar supply in that country, which constrains the repatriation of available cash and restricts the payment for imported goods and royalties. Following recent measures announced by the local government, Arcos obtained a temporary waiver to reduce royalty payments to McDonald's Corporation in 2013. Venezuela represented 19% of consolidated operating income in 2012. Arcos is also exposed to transferability risk in its Argentinean operations. However, this risk is partially mitigated by the fact that local operations do not generate excess cash, as Arcos' headquarter is based in Argentina.

### RATING SENSITIVITIES

Ratings could be positively affected by higher than expected cash generation from investment-grade countries (i.e. faster growth in Brazil and sound recovery of Mexico's performance) that would lead to a material improvement in leverage metrics.

Ratings could be negatively affected by higher than expected investments that pressure FCF and leverage ratios. Additional factors that could lead to a consideration of a Negative Outlook or a downgrade include:

--A material adverse action by the Venezuelan government;

--Weaker and slower than expected recovery in Mexico's performance;

--Significant deterioration of same store sales;

--Failure to comply with the terms of the MFA.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 5, 2013);

--'Parent and Subsidiary Rating Linkage' (Aug. 5, 2013).

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=715139](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139)

Parent and Subsidiary Rating Linkage Fitch's Approach to Rating Entities within a Corporate Group Structure

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=714476](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714476)

Additional Disclosure

Solicitation Status

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