



# IMC (MEAL3)

Initiating coverage with a Neutral rating and a target price of R\$ 4



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# Table of Contents

**03** Executive Summary

**09** Business Units

**15** Financials & Valuation

**21** Company Overview

**29** Industry Overview

**34** Appendix

# Executive Summary

We are initiating coverage on International Meal Company (ticker MEAL3) with a Neutral rating and target price of BRL 4,00/share, yielding 8% upside potential from the current stock price. In a nutshell, we believe that the company is moving towards the right direction of portfolio simplification, but we would like to see some medium-term initiatives gain traction before getting more positive with the stock. Among such initiatives, we would highlight the resumption of the Pizza Hut expansion in a post-pandemic scenario, as well as the continuation of the divestment process in smaller brands such as Batata Inglesa. On our estimates, MEAL3 trades at 6.6x EV/EBITDA 2021, only 4% below its historical average of 6.9x as well as slightly below selected peers historical average of 7.0x (BKBR3, ARCO and Alsea), justifying our Neutral rating.

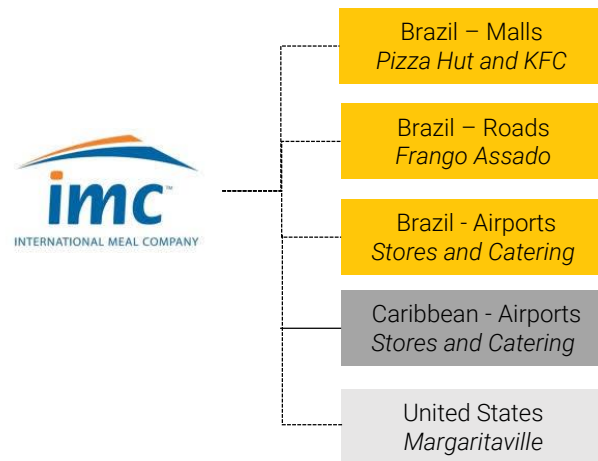
Prior to the Covid-19 pandemic, IMC seemed to be in the middle of an interesting turnaround process that could potentially unlock much value for the company if it focused on its three brands: Frango Assado, Pizza Hut and KFC. Nonetheless, with the arrival of the Covid-19 pandemic and its severe impacts throughout the entire restaurant industry, we understand that some, if not most transformation initiatives, may have to be postponed until a vaccine is widely distributed. Additionally, after recent news of breach of contract with KFC, such growth avenue for the company may also have been compromised (please find a detailed discussion of this event on slide 8).

Finally, it is worth highlighting that the airports segment (both retail and catering) represents about 1/3 of IMC's result, and its demand plunged during the pandemic – we expect it to return to historical levels only by 2023. On the positive side, approximately another third of IMC's results come from its USA operations, whose results were boosted by BRL's devaluation in 2020. Still, overall, the macro scenario remains challenging for IMC, reinforcing our Neutral rating. In summary: We understand that IMC needs fewer assets in order to be more focused on the high-return ones and accelerate their expansion process; we welcome the portfolio simplification process that the company had been promoting pre-pandemic, but we need more signs that this process should continue in the medium term before we become more constructive with the stock.

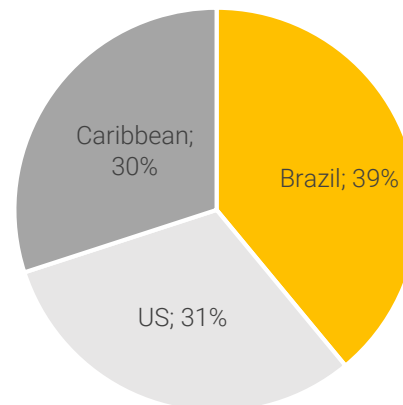
# IMC at a glance

- **International Meal Company (IMC)** is a company that operates in the restaurant segment across several countries in the Americas, including: (i) Brazil, through traditional brands such as Pizza Hut (232 stores, as of 3Q20), KFC (93 stores) and Frango Assado (25 stores), in addition to other smaller brands such as Viena, Batata Inglesa and Olive Garden; (ii) airports in Brazil, Panama and Colombia, both through restaurants in the terminals and through air catering units; (iii) the United States, with the Margaritaville and Landshark restaurants (22 stores).
- **Brief Historical Background:** founded by Advent, from 2006 up to 2014 IMC went through a period of strong growth through several M&As, followed by a phase of asset sales between 2015 and 2019 after results started to deteriorate. By 2019, the company seemed to be once again ready to seize growth opportunities, which it did by acquiring the Pizza Hut and KFC operations in Brazil. Ever since, the company remains focused on reducing its number of assets to increase its focus on brands with greater profitability, namely Pizza Hut, KFC and Frango Assado..

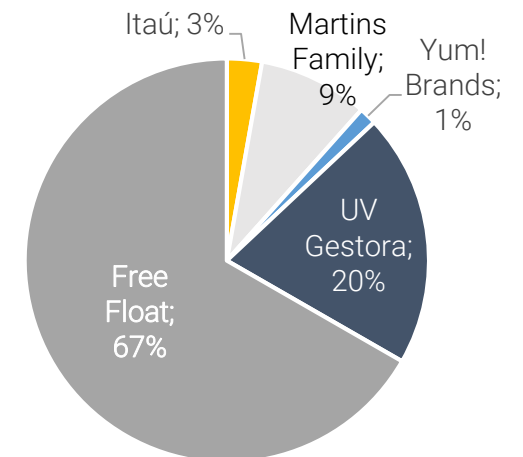
## Business Structure



## Adjusted EBITDA per Geography (2019)



## Shareholder's Structure



# Frango Assado

XP View



## Strengths & Opportunities

In the last decade, the Frango Assado chain proved to benefit from attractive returns (historical EBITDA margin of 13%) and resilient demand (in October, sales were only 4% lower versus same stores sales in 2019).

In addition, the chain has great potential for expansion, either through brownfields in the short term - especially now that many competitors have been left weakened by the pandemic - or through greenfields in the medium term, with smaller and more modern stores.

## Weaknesses & Threats

Despite its great potential for expansion, no stores have been opened since IMC's IPO - on the contrary, five stores were closed, fostering skepticism among investors regarding the company's execution abilities.

Furthermore, new competitors are emerging: in addition to the traditional Graal chain, the Madero group recently opened its Ecoparada, reinforcing the idea that in a market with good margins, incumbents rarely compete alone for a long time.

# Pizza Hut and KFC

XP View



## Strengths & Opportunities

Pizza Hut and KFC represent a clear growth avenue for IMC due to a combination of: (i) attractive margins with low CAPEX; (ii) high scalability through the franchise model; (iii) attractive value proposition for consumers.

In addition to the store opening plan, another opportunity for IMC would be the manufacture of Pizza Hut's dough at the company's Central Kitchen - we would like to see this plan underway soon.

## Weaknesses & Threats

Historically, IMC faced some bumps in the road regarding the management of its brands, for example, the weakening of the Viena brand, the stagnation of the Red Lobster and Olive Garden brands in Brazil and the recent contract termination with KFC (please find a more detailed discussion in slide #8).

In our view, if the company fails to quickly sell smaller brands like Batata Inglesa, or if it fails to provide a reasonable solution for the KFC situation, it will continue to suffer from the threat of lack of focus and consequently of investors' skepticism.

# Airports

## Strengths & Opportunities

Historically, air catering was responsible for most of IMC's results in the airport segment, with higher margins than the retail segment (restaurants on terminals).

On the other hand, the two units are governed by the same driver: circulation of passengers in airports, which has been drastically reduced by the pandemic, and should only return to normal by 2023.

## Weaknesses & Threats

Regarding the current scenario, the air segment was the most affected by the pandemic: in Brazil, 3Q20 SSS fell 77%; in the Caribbean, there was a 46% drop in constant FX.

Structurally, the segment has fewer clear avenues for growth and should still experience at least two more years of difficulties, in our view.

# Margaritaville

## Strengths & Opportunities

Margaritaville offers some advantages, including its EBITDA, which has been improving in USD since 2017 and its relatively consistent pace of opening stores, as well as its brand appeal in the US.

It also provides cash generation in dollars, which was of great help to IMC's result during the pandemic, as the BRL suffered a strong devaluation in the period.

## Weaknesses & Threats

Strategically, there is no clear synergy with the company's other businesses. There is no joint purchase of inputs, or a similar franchise agreement, for example.

In years of devaluation of the BRL against the USD, Margaritaville becomes a welcome addition to results; on the other hand, perhaps it is yet another brand that takes the focus off IMC.

## A word on the latest events:

On January 18, IMC received a “notification of termination” with immediate effects from KFC Holdings LLC. Since 2019, IMC became the exclusive master franchisor of the Pizza Hut and KFC brands in Brazil, both owned by American company Yum! Brands. The Master Franchise Agreement (MFA) establishes, among other items, store expansion goals, as well as the percentage of royalties that IMC pays for Yum! in exchange for the right to exploit its brands in Brazil. It is worth highlighting that, though both brands belong to Yum!, **the contracts for Pizza and KFC are dealt with independently.**

In 2020, IMC failed to fulfill the agreement, largely due to the disruption caused by the pandemic. The company allegedly tried to renegotiate the contract with Yum! for the past four months but, as no consensus was reached between both parties, KFC International Holdings LLC sent a “notice of termination” to IMC, stating that the MFA would not be renewed. IMC sought an injunction in the local court to reverse the decision, but so far it has not been successful. KFC International Holdings LLC, in turn, **would be considering transferring the right of master-franchisee in the country to another company.**

Though we currently have very low-visibility on what this event implies for IMC in the long term, short-term effects include: (i) IMC should continue to receive revenues from its own KFC stores in Brazil; (ii) IMC should stop receiving revenues from its KFC franchisees in Brazil, but it is still unclear to whom franchisors should pay royalties; (iii) IMC believes it can continue to open KFC's own stores in the country, but this has not yet been defined; (iv) Pizza Hut's operation in Brazil should continue to operate normally, unaffected, since IMC was able to effectively renegotiate its contract. **In light of combination of effects, the preliminary conclusion we draw is that the level of uncertainty among investors has increased, reinforcing our Neutral thesis.**

- **Pre-event scenario:** No elimination of KFC franchising stores, with previously expected expansion plan considered for the segment;
- **Scenario 1:** KFC's franchising stores elimination, with the preservation of expansion forecasts for owned KFC stores;
- **Scenario 2 (XP's base case):** KFC's franchising stores elimination, without any organic expansion forecast for owned KFC stores.
- **Scenario 3:** KFC's franchising stores elimination, with all currently owned KFC stores sold throughout 2020-25.

### Target-Price Sensitivity (R\$/share)

Target-Price Sensitivity	Additional Risk Attribution*				
	0.00p.p.	0.25p.p.	0.50p.p.	0.75p.p.	1.0p.p.
Pre-event	4,20	4,04	3,89	3,75	3,62
Scenario 1	4,10	3,95	3,80	3,67	3,55
Scenario 2	4,02	3,87	3,73	3,60	3,48
Scenario 3	3,98	3,84	3,70	3,57	3,46



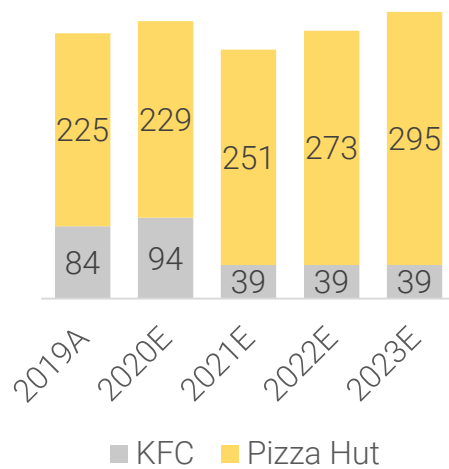
# Business Units

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# Brazil: Malls – KFC, Pizza Hut and Others

- **KFC is the global leader in poultry meat fast food segment**, with over 24,000 restaurants in around 140 countries. As of 3Q20, IMC owned 94 KFC stores in Brazil, including 55 franchises and 39 own stores. During the quarter, 82 stores (out of 94) remained open despite the pandemic, and same-store sales (SSS) numbers improved sequentially, closing the quarter at -24% year-on-year.
- **Pizza Hut is one of the largest pizza chains in the world**, with over 18,000 restaurants in more than 110 countries. At the end of 3Q20, IMC owned 229 Pizza Hut (PH) stores in Brazil, with 194 franchises and 35 own stores. During the quarter, 218 stores (out of 229) remained open despite the pandemic and, as in KFC, SSS numbers improved sequentially, closing the quarter at -35% year-on-year.
- **XP View:** we understand that PH should follow a bold expansion plan, while KFC's situation remains undefined after the contract breach with Yum! brands. In order to mitigate that, we understand that IMC should accelerate Pizza Hut's expansion, specially through the launch and/or adaptation of Pizza stores to a smaller format, with less area for consumption on site and more focus on delivery, which should prove interesting in terms of profitability.

KFC and Pizza Hut: # of stores



Facts & Figures

**R\$ 16.4bn** pizza market in Brazil (2019), vs. R\$ 14bn for burger market

**~21k** pizzerias in the country (Pizza Hut has 1% of market share)

**28%** of the restaurants focused on poultry are KFC ones

**+50%** of the protein consumed in LatAm is poultry

XP estimates

	2018A	2019A	2020E	2021E	2022E	2023E
Net Revenue (R\$ mn)	229	244	225	348	425	479
YoY Change (%)	-2%	7%	-8%	54%	22%	13%
Number of Stores (#)	91	381	374	341	363	385
Gross Margin (%)	29%	25%	16%	26%	25%	25%
Operational Margin (%)	9%	10%	1%	12%	12%	12%

# Brazil: Roads – The Frango Assado Restaurant Chain

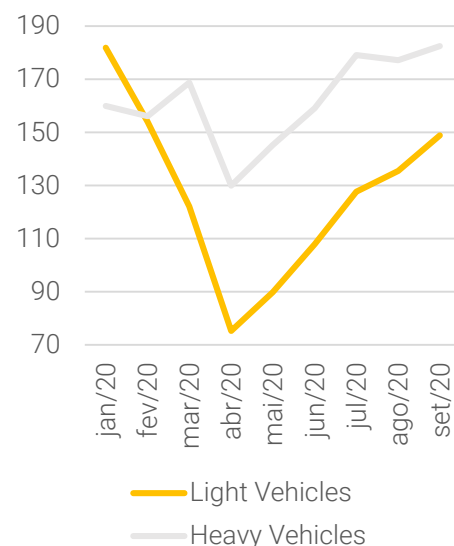
- **The Frango Assado chain** is a pioneer roadside-restaurant brand. As of 3Q20, IMC owned 25 Frango Assado units, all located in the states of São Paulo and Minas Gerais. A traditional Frango Assado unit includes a quick-casual style restaurant, a convenience store, a bakery and a newsstand. Out of these 25, 18 units also included a gas station, plus one stand-alone gas station. Frango Assado's #1 SKU remains the traditional "semolina bread".
- **Growth opportunities:** while one needs to recognize that growth has been sluggish in this segment, it remains a significantly profitable one. In this sense, IMC lists three possible growth avenues for Frango Assado: i) purchase of gas stations and restaurants (ex-real estate), ii) purchase of gas stations, including real estate, from distributors, iii) partnership with existing gas stations for the restaurant's. A fourth one is the opening of PH and KFC units inside Frango stores.
- **XP View:** in the short term, Frango Assado's resiliency during the pandemic was a fortuitous surprise- its same-store sales dropped only by 19% in 3Q20 and already reached -4% in October. This result is in line with traffic data from São Paulo's roads, which has been showing sequential improvement since April. In the medium to long term, we expect the company to open two stores in 2021 plus another two in 2022.

## Frango Assado's Footprint



- Frango Assado Stores
- Gas Station
- Frango Assado + Gas Station

## ABCR SP Roads' Traffic Data



## XP estimates

	2018A	2019A	2020E	2021E	2022E	2023E
Net Revenue (R\$ mn)	483	514	403	520	576	582
YoY Change (%)	3%	6%	-22%	29%	11%	1%
Number of Stores (#)	25	25	25	27	29	29
Gross Margin (%)	17%	20%	11%	18%	20%	20%
Operational Margin (%)	11%	16%	8%	14%	15%	15%

# Brazil: Airports – Restaurants and Catering Units

- **The Brazilian Airports segment** comprises two distinct business: air catering and airport restaurants. In Brazil, the company has restaurants under a concession regime in three different airports (Brasília, Confins and Guarulhos), plus catering units in five airports (Brasília, Congonhas, Confins, Salgado Filho, e Viracopos). It is worth highlighting that historically the catering segment has provided higher margins than the retail one.
- **Pandemic Effects:** clearly the pandemic has taken a significant toll in the airport segment, as the numbers of flights decreased by 72% in the quarter at selected airports where the company operates, therefore lowering the influx of passengers. As a way to minimize expenses, IMC suspended several contracts with employees as well as renegotiated rental fees and closed 11 of its units, mostly retail ones, which should have a positive effect on margins.
- **XP View:** we remain extremely cautious with the segment, with net revenues per store only reaching pre-Covid levels by 2022. As we don't forecast any store openings in the near future, that leads us to perpetuate a net revenue level that remains below 2019's, though we expect margins to improve slightly sequentially, due to the fact that catering now represents a higher share of results, as most of the closings were from restaurants units with lower margins.

**Brazil – Airports: IMC's Footprint and Traffic Data** (in thousands of passengers)

Airport	State	Catering Unit	Retail Unit	PAX 1Q20	PAX 2Q20	PAX 3Q20
Brasília	DF	X	X	1.954	104	632
Confins	MG	X	X	1.269	76	314
Congonhas	SP	X		2.299	35	188
Guarulhos	SP		X	6.588	535	1.691
Salgado Filho	RS	X		928	70	223
Viracopos	SP	X		1.256	339	693

**XP estimates**

	2018A	2019A	2020E	2021E	2022E	2023E
Net Revenue (R\$ mn)	240	204	69	98	129	131
YoY Change (%)	-2%	-15%	-66%	42%	32%	2%
Number of Stores (#)	38	30	22	19	19	19
Gross Margin (%)	35%	33%	16%	29%	29%	29%
Operational Margin (%)	15%	24%	10%	18%	25%	23%

# United States: Margaritaville and Landshark Restaurants

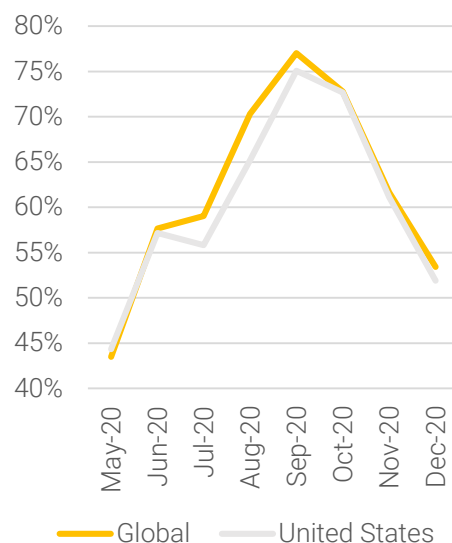
- **Jimmy Buffett's Margaritaville is a United States-based hospitality company** that manages and franchises a casual dining American restaurant chain, a chain of stores selling themed merchandise, as well as some lodging facilities and casinos. The brand is named after Buffett's hit song "Margaritaville" and it is present in several locations across the US, Canada, Mexico and the Caribbean, including its franchise owned units.
- **IMC acquired Margaritaville's American restaurant operations in 2014** and conducted a successful turnaround in operations. As of 2Q20, there were 15 Margaritaville units, 4 Landshark ones and 3 restaurants from other brands. Almost all of the stores remained open throughout 3Q20 in spite of the pandemic (22 out of 23 stores) and SSS data has been improving sequentially (-21% in October in USD, +8% in BRL, due to the FX strong devaluation in the period).
- **XP View:** we expect Margaritaville to open four stores in 2021 plus another three in 2022, as the Covid-19 impacts on demand as measured by Opentable data on seated diners should ease once the vaccine is widely distributed. We expect net revenues per store to ramp-up throughout this year and remain in-line with the 2017-19 average from 2022 onwards, considering an FX rate of R\$ 5,20, leading to a 10% EBITDA margin, in-line with historical levels.

The Margaritaville brand is  
recognized by 75% of Americans



**MARGARITAVILLE RESTAURANT –  
ORLANDO**

**Opentable: Seated Diners YoY**



**XP estimates**

	2018A	2019A	2020E	2021E	2022E	2023E
Net Revenue (US\$ mn)	119	115	77	125	158	158
YoY Change (%)	4%	-4%	-33%	63%	26%	0%
Number of Stores (#)	22	22	23	26	29	29
Gross Margin (%)	39%	40%	37%	39%	39%	39%
EBITDA Margin (%)	10%	13%	15%	15%	13%	13%

# Caribbean: Airports – Restaurants and Catering Units

- **The Caribbean airport segment** can be divided between its catering and retail operations. In Colombia, IMC has restaurants in two airports (Cartagena and Rionegro, both under a concession regimen) and eight catering units – altogether, the country should represent ~30% of the segment's results. In Panama, the company operates only in retail, with stores in the Tocumen airport, whose expansion was delayed due to covid-19 and is now expected by 1H22.
- **Pandemic Effects:** similarly to what happened in the Brazilian airports segment, the pandemic has taken a significant toll in the Caribbean operations. Most notably, the Tocumen airport in Panama – IMC's largest unit in the Caribbean - remained closed until mid-October, leading to significant losses, only partially mitigated by the company's efforts to minimize expenses through the suspension of contracts with employees as well as renegotiation of rental fees.
- **XP View:** we remain extremely cautious with the segment, with net revenues per store only reaching pre-Covid levels by 2023. We do not project any store opening, mostly due to the postponement of the Tocumen's Airport new terminal expansion to 2022, IMC's main site. Still, margin-wise, we project a gross margin ramp-up until 2023, returning to 2019 levels by then, but still based on a lower topline coupled with a slowly-recovering EBITDA (2024-30 CAGR of 2%).

## Tocumen's Airport new terminal expansion has been postponed to 2022



## XP estimates

	2018A	2019A	2020E	2021E	2022E	2023E
Net Revenue (R\$ mn)	191	191	63	69	139	166
YoY Change (%)	7%	0%	-67%	11%	100%	19%
Number of Stores (#)	43	43	38	37	37	37
Gross Margin (%)	54%	53%	38%	41%	47%	53%
EBITDA Margin (%)	26%	32%	26%	29%	24%	30%

# Financials & Valuation

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# IMC's Valuation

- We are initiating coverage on International Meal Company (ticker MEAL3) with a Neutral rating and TP of BRL 4,00/share, yielding 8% upside potential from the current stock price. We believe the stock is fairly priced and that the company has yet to prove its ability to seize the growth opportunities and operational synergies it has ahead of itself, now under an even more challenging scenario due to the Covid-19 impacts on the restaurant sector coupled with an increasingly challenging competitive landscape in Brazil as well as a tough macroeconomic backdrop throughout Latin America.
- On our estimates, MEAL3 trades at 6.6x EV/EBITDA 2021, only 4% below its historical average of 6.9x, as well as slightly below selected peers historical average of 7.0x (BKBR3, ARCO and Alsea), justifying our Neutral rating. Our TP is DCF-based and assumes a 10.2% WACC coupled with a 3.3% perpetuity growth, in BRL nominal terms. We incorporate a flat FX rate at R\$ 5,20 from 2022 onwards, impacting mostly the company's American operations through the Margaritaville and Landshark Bar & Grill operations (please find a sensitivity table regarding FX in the Risks section).

Latam Restaurants Comps Table

	Market Cap (\$)	P/E 2021E	P/E 2022E	EV/Ebitda 2021E	EV/Ebitda 2022E
Alsea	\$ 993mn	n.a.	45x	8x	7x
Arcos Dorados	\$ 1,161mn	54x	24x	9x	7x
Burger King Bz	\$ 524mn	190x	36x	10x	7x
<b>Average</b>	<b>\$ 893 mn</b>	<b>122x</b>	<b>35x</b>	<b>9x</b>	<b>7x</b>
IMC	\$ 198mn	n.m.	15x	7x	5x
<b>IMC vs Avg.</b>	<b>-78%</b>	<b>n.m.</b>	<b>-56%</b>	<b>-25%</b>	<b>-33%</b>

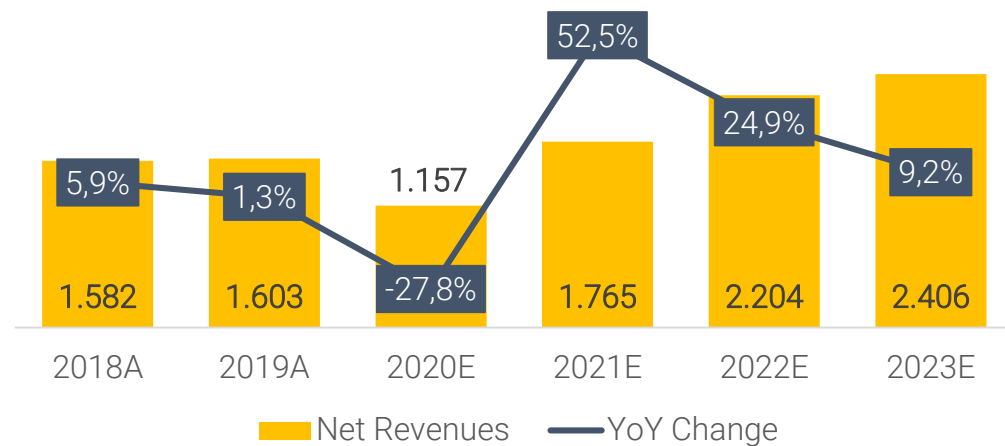
EV's Sensitivity Table: WACC (horizontal) vs. Perpetuity Growth (vertical)

EV	9,0%	9,3%	9,6%	9,9%	10,2%	10,5%	10,8%	11,1%	11,4%
<b>2,1%</b>	1.431	1.377	1.327	1.281	<b>1.238</b>	1.198	1.161	1.126	1.093
<b>2,4%</b>	1.467	1.409	1.356	1.307	<b>1.262</b>	1.220	1.181	1.144	1.110
<b>2,7%</b>	1.507	1.445	1.388	1.336	<b>1.288</b>	1.244	1.202	1.164	1.128
<b>3,0%</b>	1.550	1.483	1.423	1.367	<b>1.316</b>	1.269	1.226	1.185	1.147
<b>3,3%</b>	<b>1.603</b>	<b>1.530</b>	<b>1.465</b>	<b>1.405</b>	<b>1.350</b>	<b>1.300</b>	<b>1.253</b>	<b>1.210</b>	<b>1.170</b>
<b>3,6%</b>	1.651	1.573	1.502	1.438	<b>1.380</b>	1.327	1.278	1.232	1.190
<b>3,9%</b>	1.710	1.625	1.548	1.479	<b>1.417</b>	1.359	1.307	1.259	1.215
<b>4,2%</b>	1.777	1.683	1.600	1.525	<b>1.457</b>	1.395	1.339	1.288	1.241
<b>4,5%</b>	1.853	1.749	1.657	1.575	<b>1.501</b>	1.435	1.374	1.319	1.269

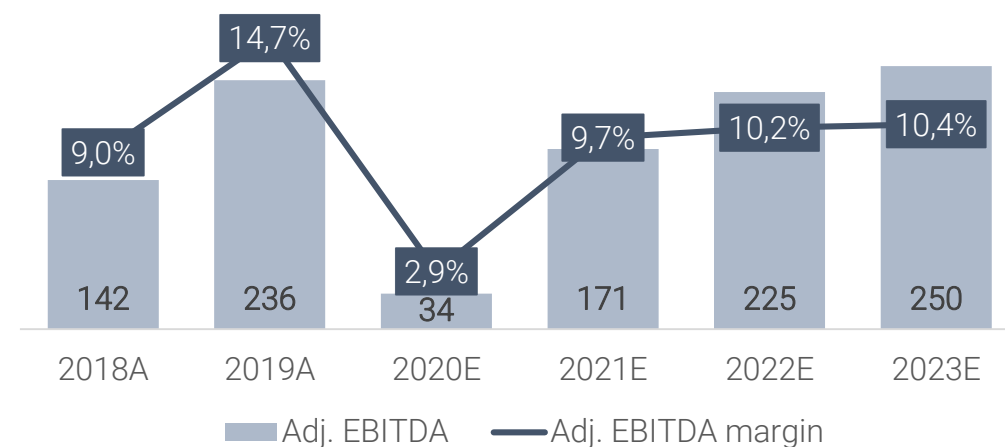


# IMC's Key Financial Metrics

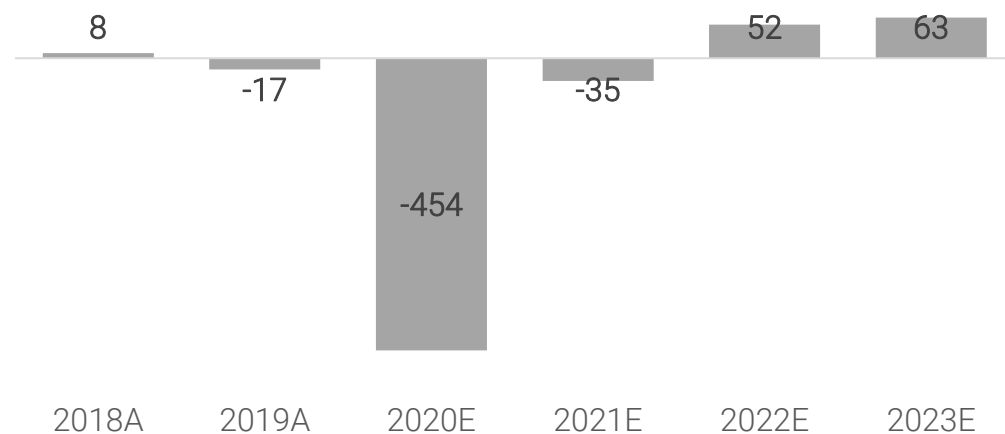
Net Revenues (BRL mn) and YoY change (%)



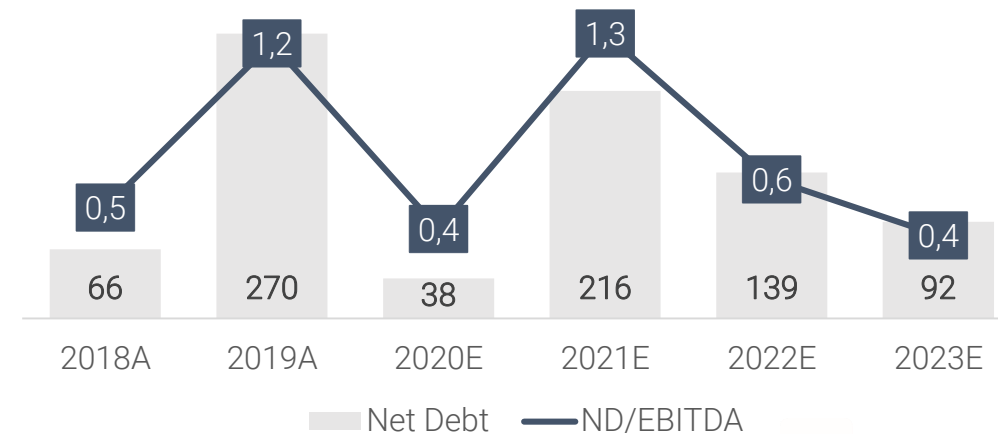
Adj. EBITDA (BRL mn) and adj. EBITDA margin (%)



Net Income (BRL mn)

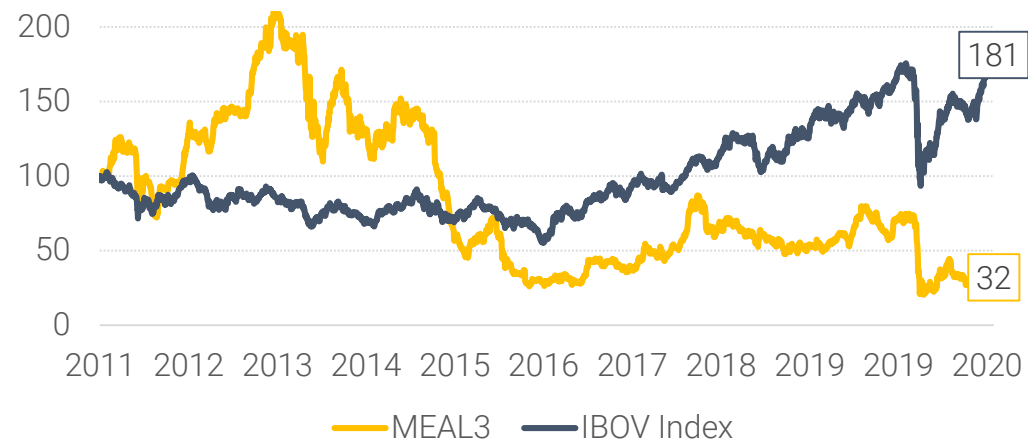


Net Debt (BRL mn) and ND/EBITDA (x)

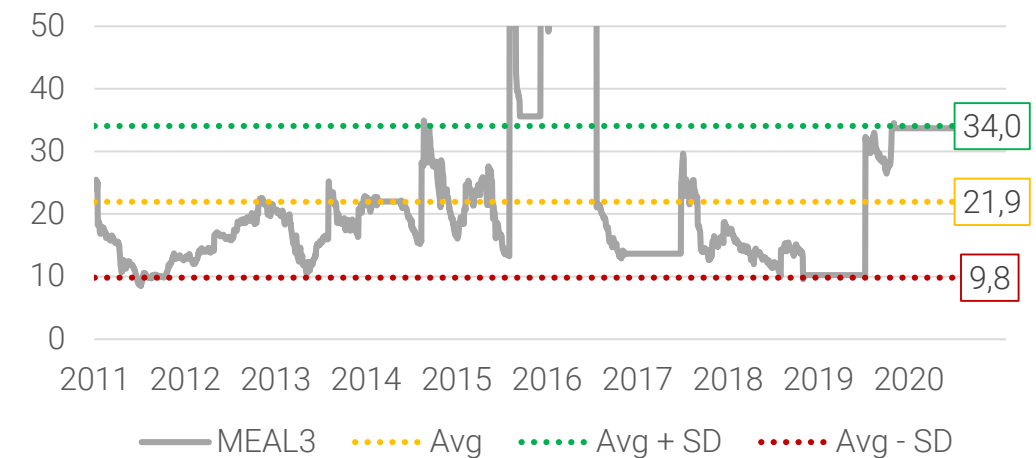


# IMC's Key Trade & Valuation Metrics

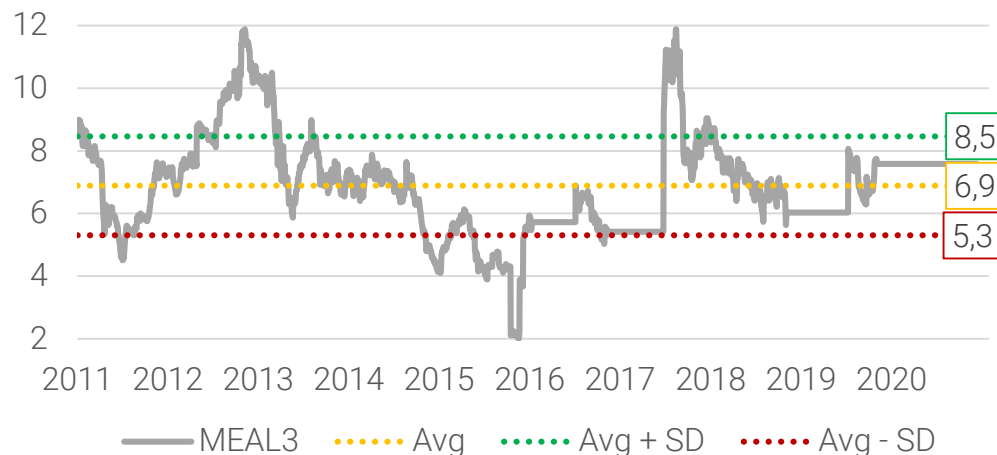
MEAL3 versus Ibovespa Index (100 = IPO date, March 2011)



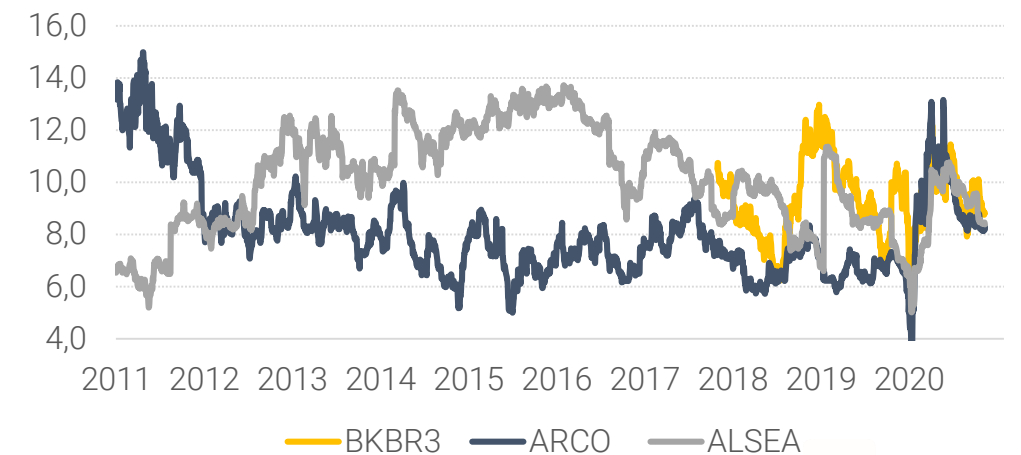
MEAL3 Historical P/E ratio (since IPO date on March, 2011)



MEAL3 Historical EV/EBITDA ratio (since IPO date on March, 2011)



Selected Peers: Historical EV/EBITDA ratio (7x average)



# Key Risks

## KFC's and PH's Execution

KFC's and Pizza Hut's pace of store opening could be weaker than anticipated and therefore represent a downside to our numbers. Furthermore, now that Yum! Brands accused IMC of breaching the KFC contract, the future of the chain in Brazil remains highly uncertain. Though IMC should get to keep the stores it currently owns, only losing the revenues from franchisees royalties, we have very little visibility of a scenario with a new master franchiser in the country.

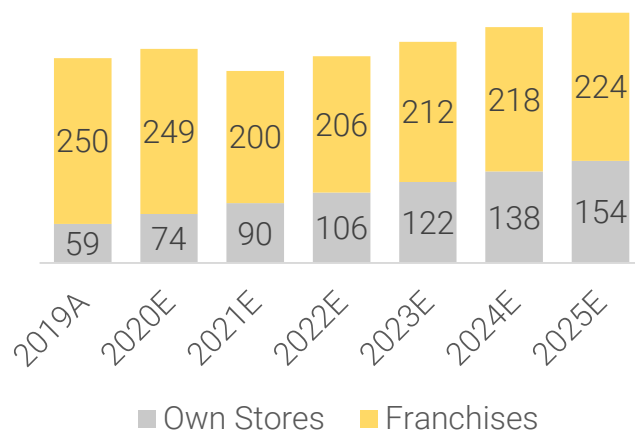
## Fiercer Competition in Brazil

Brazil accounts for roughly 40% of IMC's adj. EBITDA. The country's restaurant industry remains a highly fragmented one, leading us to believe that multiple large players may coexist without entering into price wars. Nonetheless, if one or a few of these players were to stand-out, either due to consumer preferences or price affordability, IMC brands could be penalized and that could present a downside to our numbers. Please find more details in the industry segment of this report.

## Strengthening of the BRL against the USD

We incorporate a flat FX rate at R\$ 5,20 from 2022 onwards as a measure of conservatism for most of our covered companies in the Agri, F&B coverage. For IMC, said measure mostly impacts the company's American operations through the Margaritaville and Landshark Bar & Grill units. Should the BRL become stronger against the USD, there could be a downside to our numbers (for instance, a R\$ 5,00 FX rate could lead to a 2% decline in our target price for 2021).

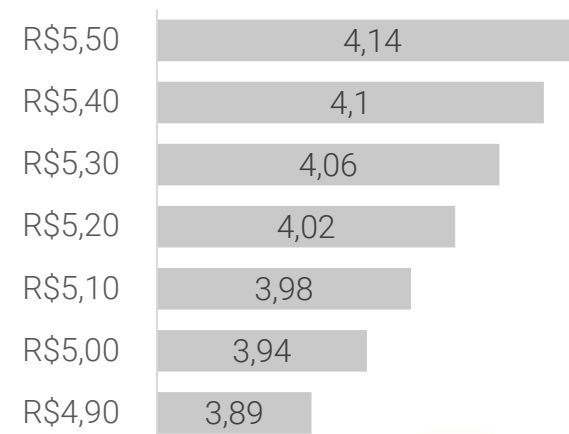
KFC and Pizza Hut: # of Stores



Source: Company data, Research XP,



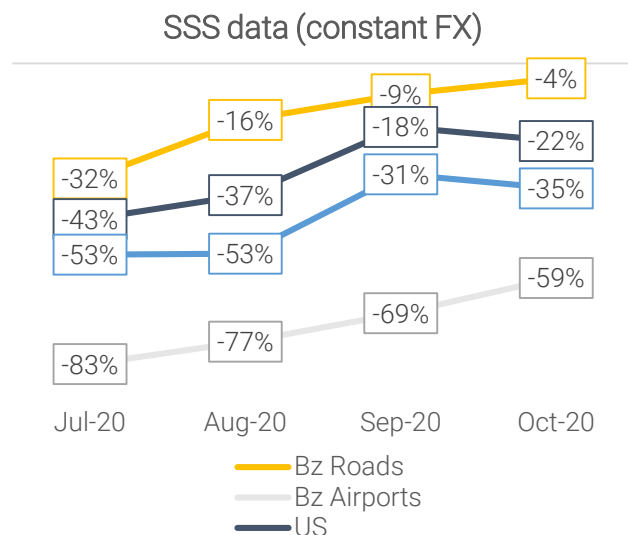
TP Sensitivity to FX (R\$/share)



# Key Risks

## Covid-19 Second Wave Impacts

Covid-19 has severely impacted the restaurant industry, including IMC. As of October, Brazilian Airports' segment SSS were still 59% below 2019 levels, and Caribbean's were at -35%. US operations were still suffering with reduced hours and posted a SSS of -21%. On the other hand, Brazil has been posting resilient results in the Pizza Hut (-17%) and Roads (-4%) segments. Still, should Covid-19 last longer than anticipated, that should negatively impact our numbers.

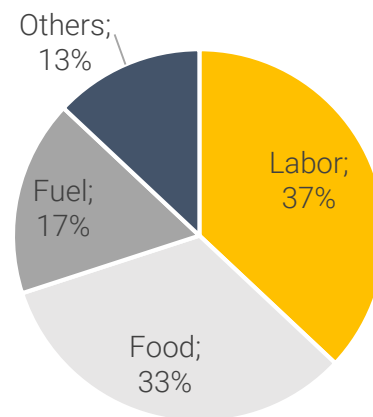


Source: Company data, Research XP,

## Increase in Commodities Prices

In consolidated terms, IMC's COGS can be broken down in direct labor (37%), food inputs (33%), fuel and automotive (17%) and others (13%). We assume that a significant part of food costs are related to proteins, notably poultry, as well as grains. On one hand, IMC benefits from a varied supplier base as well as some bargaining power due to its large orders. On the other hand, should commodity prices increase faster than anticipated, that could represent a downside to our numbers.

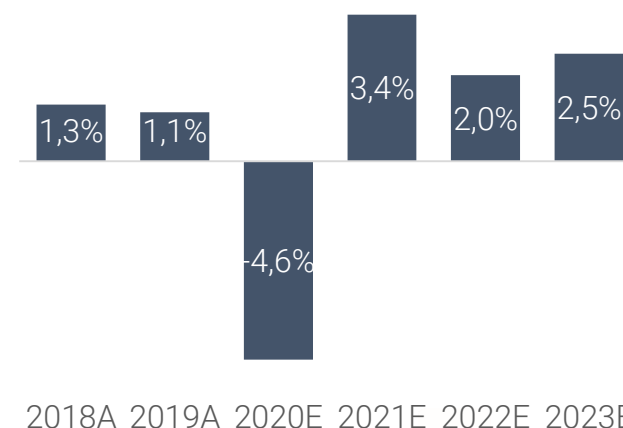
## Consolidated COGS Breakdown



## Tougher Macroeconomic Scenario








A tougher macroeconomic scenario in LatAm – and to a lesser extent, in the US as well – should lead to lower disposable income, negatively impacting the restaurant industry. On the other hand, IMC's portfolio could partially mitigate this, as the PH and KFC brands both offer good value propositions, appealing during times of economic hardship. Nonetheless, should the macro scenario become increasingly tougher, that could represent a downside to our numbers.

## Brazilian GDP (XP estimates)










# Company Overview

# Board of Directors

Name	Key Experience	Title	Short Bio
Flavio Jansen Ferreira		<i>Chairman</i>	Mr. Ferreira is a member of the Company's Board of Directors since 2018 and became chairman in May, 2019. He was Locaweb's CEO from 2013 up to 2018 and remains a member of its board. He is a board member of several other companies, including Lojas Quero-Quero, and Estácio Participações. He was the chairman of Submarino during the company's IPO and during the merger with Americanas that resulted in the B2W company.
Lucas Rodas		<i>Independent Director</i>	Mr. Rodas is a Managing Partner at FARO Capital, chairman of board of Companhia Nitro Química Brasileira, a member of the Board of Directors of Montecitrus, a member of the Board of the Institute for Studies in Industrial Development and a partner of Baraúna Gestora. Prior work experiences include Bank of America and Unibanco. He earned a degree in Business from FAAP and completed the Harvard Business School's OPM program.
Luiz Edmond		<i>Independent Director</i>	Mr. Edmond is a Co-Founder of Dreampact Ventures and a member of the Board of Directors of Alpargatas and Life Equals. He was the CEO of Ambev and Anheuser-Busch, and the Chief Sales Officer of ABInbev. He was also a member of the Board of Directors of Ambev. Luiz earned a degree in Production Engineering from UFRJ and completed the Harvard Business School's OPM program for Key Executives.
Marcel Fleischmann		<i>Independent Director</i>	Mr. Fleischmann holds a degree in business administration from FGV and post graduated from San Diego State University. He has worked for over 25 years in the restaurant industry, having spent over two decades working for McDonald's, where he became one of the company's key executives. He has been an associated partner of MACANA, a consulting firm focused on retail, for the last 11 years.
Charles Martins		<i>Director</i>	Mr. Charles Martins has a degree in Political Sciences from Brigham Young University. Among many other positions, his professional background includes the following: chairman of the board and CEO of Mundo Verde, a Brazilian chain of natural products; member of the board of MultiQSR, the master franchisee of the brands Taco Bell, Pizza Hut and KFC in Brazil.
Lincoln Martins		<i>Director</i>	Mr. Lincoln Martins has a degree in Economics from Brigham Young University and an MBA from FGV. He started his career in 2003 at Wizard, reaching the position of CEO in 2010. During this period, he was responsible for several M&As, consolidating the Multi Education; he also led and concluded the sale of the group to Pearson for R\$ 2bn in 2013. Afterwards, he founded the family holding Sforza, in which he currently works as CEO.
Joseph Call		<i>Director</i>	Mr. Call is an executive vastly experienced in the restaurant industry, with over 20 years working in the segment. He is currently the Executive Officer of Restaurant Development of Pizza Hut International. Previously, Mr. Joseph was Senior Development Officer of KFC, Development Officer of KFC Africa, CFO of KFC Africa and CFO of Yum! International Restaurants in Canada.

# Management

Name	Key Experience	Title	Short Bio
Newton Maia Alves	 <b>Advent International</b> GLOBAL PRIVATE EQUITY	CEO	Mr. Alves holds an MBA from Harvard Business School and a bachelor's degree in Aviation from ITA. He acted as Executive Officer at Advent International from 2007 until 2018, having served as a member of board of Kroton Educacional, among others. Previously, he was the founder and CEO of Oceano, a Brazilian shrimp producer and exporter; he also served as associate at Allen & Company, in New York, and as a consultant at McKinsey & Co
Luis Felipe Bresola	 <b>via varejo</b>	IR officer	Mr. Bresola holds a degree in Business Administration from PUC-SP, and is a Harvard Business School Alumnus as part of the Program for Leadership Development (PLD). Prior to IMC, he was the Investor Relations Officer at Via Varejo. Mr. Bresola spent most of his career in the financial markets as a sell equity research analyst at Citi.
Maristela Nascimento	 <b>Deloitte.</b>	CFO	Mrs. Nascimento holds a degree in Business Administration and Accounting Sciences and an MBA in Finance from Insper. She worked for more than five years at Deloitte Touche Tohmatsu, as an auditor. She has worked at IMC since 2013 as head of the controlling department.
Andrea Piccinato	 <b>GRUPO RIA CATERING</b>	Head of RA Catering	Mrs. Piccinato has a degree in Nutrition from UMC and an from Universidade Mackenzie. She has over 20 years of experience in the food service industry and has worked at IMC since 1997, holding the positions of Nutritionist, Production/Quality Manager, Operations Manager and currently Executive Officer of Catering Operations.
David Crabtree	 <b>PLANET HOLLYWOOD</b>	Head of the US operations	Mr. Crabtree has a degree from University of Wisconsin and an MBA from University of Nevada-Las Vegas. He has extensive experience in both the financial services as well as the food industry, having spent eleven years at Westgate Resorts, followed by five years at the Planet Hollywood and finally CEO of IMC USA since 2016.
Fausto Kusano	 <b>imc</b>	Head of M&A and Frango Assado	Mr. Kusano graduated from Ufscar in 2011 and has been working at IMC's financial team ever since. From 2016 up to 2019, he acted as financial manager and then CFO for the Colombian and Panamanian operations. From 2019 onwards, he became IMC's M&A Director and has recently taken up the role of head of Frango Assado as well.
Jerônimo de Souza	 <b>POLISHOP</b>	Head of PH, KFC and Olive Garden	Mr. Souza graduated from Mackenzie University. He has extensive experience in large companies, having worked at the América chain, McDonald's and the Rubaiyat restaurant. After 12 years in the food industry, Jerônimo was Chief Expansion Officer at Polishop for over ten years. Finally, he spent three years at SONAE Sierra Brasil.

# Company History

## 2006 – 2014: Foundation and International Growth

- 2006 {
  - IMC was founded by Advent with the acquisition of operations in Mexico and the Dominican Republic
- 2007 {
  - IMC made its first acquisition in Brazil: RA catering, one of the leaders in airline catering in the country
- 2008 {
  - IMC made a series of acquisitions in Brazil, including the Viena and Frango Assado restaurant chains
- 2011 {
  - In March 2011, IMC concluded its IPO, with shares traded on the Novo Mercado segment of B3
- 2013 {
  - IMC became the exclusive operator of Red Lobster and Olive Garden brands in Brazil
- 2014 {
  - IMC began its activities in the United States with the acquisition of Margaritaville restaurant chain
- 2015 {
  - Controlling shareholders announce a capital increase in order to deleverage the company

## 2016 – 2019: Portfolio Simplification and Geographical Focus

- 2016 {
  - IMC sold some operations in Latin America
  -   
- 2017 {
  - IMC discontinued the GO Fresh and Wraps brands
  -  
- 2019 {
  - IMC discontinued the Red Lobster and Carl's Jr brands
  -  



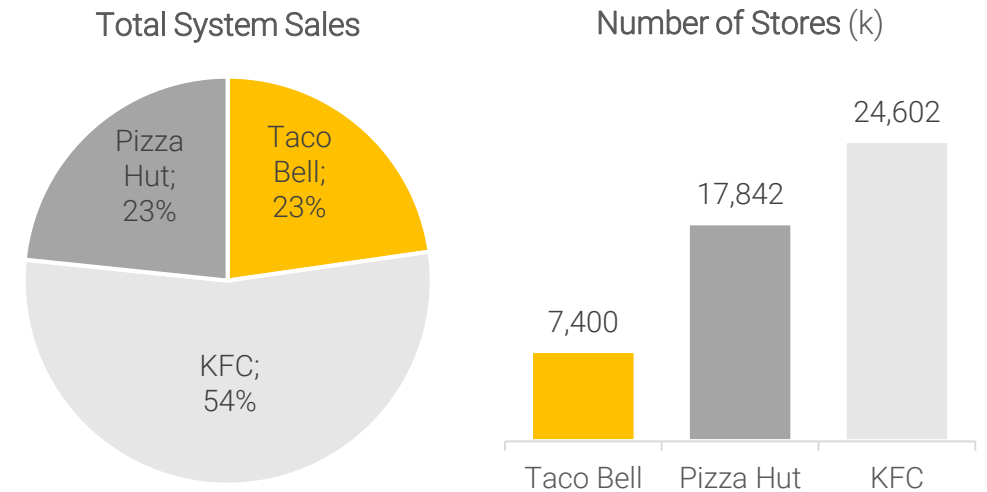
# Yum! Brands

- **Yum! Brands, Inc.** is an American company based in Kentucky that has approximately 50,000 restaurants in more than 150 countries, primarily operating the company's restaurant brands – KFC, Pizza Hut and Taco Bell - global leaders of the chicken, pizza and Mexican-style food categories, respectively. 97% of its units are franchises, and the core of the company's revenues come from royalties paid by franchisees as a percentage of total system sales.
- Since its **spin-off from PepsiCo in 1997**, Yum! Brands became a global company led by over 2,000 franchisees. In 2016, its China business was successfully listed as an independent company focused on growth in mainland China, due to the belief that the company's Asian business could be better served with a more focused strategy there. Yum! Brands therefore remained global "pure play" franchisor with its three iconic brands
- **XP View:** IMC's acquisition of the Martins Family's MultiQSR and the subsequent establishment of a 10-year contract with Yum!Brands created an important growth avenue for the company. The Martins bring valuable knowledge on the franchise business to the table coupled with Yum's international seal. That being said, due to its volatile track record, **we believe IMC has yet to prove its ability to manage PH and KFC.**

Yum! Brands: one of the largest restaurant franchisors in the world



Yum Key Numbers: system sales and number of stores (as of 3Q20)



# Price Architecture and Brand Awareness

*We conducted a simplified price survey in early January regarding KFC and Pizza Hut's products: Prices were consulted from São Paulo, Brazil, using the main delivery apps.*

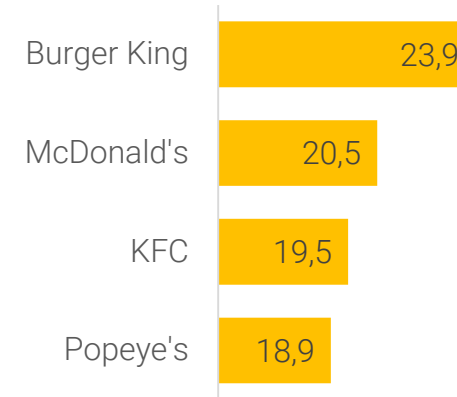
Though slightly more expensive than Popeye's, **KFC is considerably more affordable than its peers McDonald's and Burger King**, which could foster growth in a post-crisis scenario. Plus, KFC currently only relies on Uber Eats for its delivery operation; once it becomes present in other aggregators such as Rappi and iFood, that could also boost its delivery growth.

Pizza Hut remains the most affordable choice across channels when compared to its closest competitor, Domino's. Nonetheless, the latter is known for its efficient delivery, **made popular by the "30-minute delivery or your money back" campaign**; we look forward for the development of smaller Pizza Hut stores, better integrated with delivery operations.

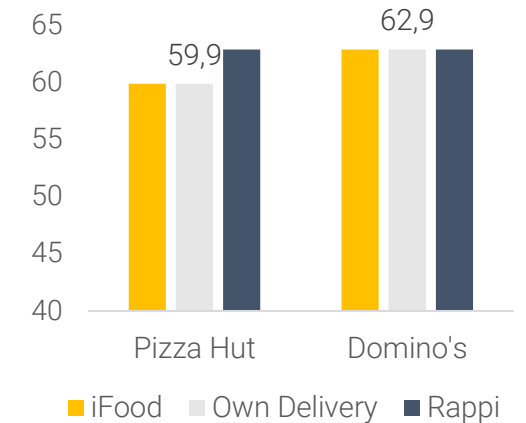
**Brands awareness is a key part of the fast-food business** and IMC seems to be performing in-line with industry average on this front: though Pizza Hut still lags behind Domino's in terms of Instagram followers, KFC recently launched a marketing campaign and has now almost 4x the amount of Popeye's.

**Now for client satisfaction, IMC seems to be doing a good job on this front:** in the last six months, Pizza Hut had less complaints coupled with a higher grade on Reclame Aqui, a Brazilian consumer association; KFC also had a significantly higher grade than Popeye's, though on a larger base of complaints, indicating that the brand still has room for improvement.

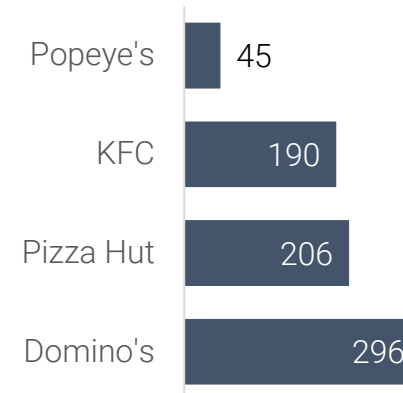
## Chicken Sandwich Prices (BRL)



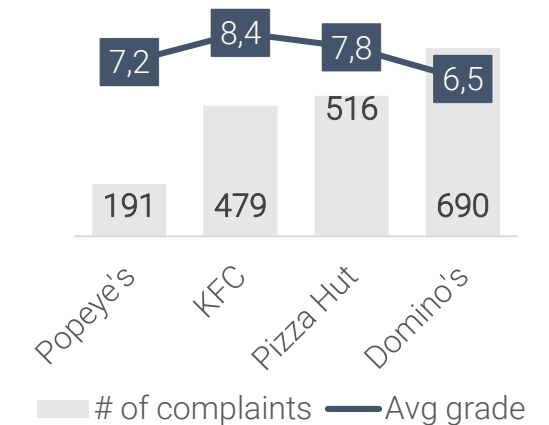
## Large Pizza Prices (BRL)



## Instagram Followers (thousands)



## Reclame Aqui Results (2H20)



# ESG analysis

A long road ahead for IMC

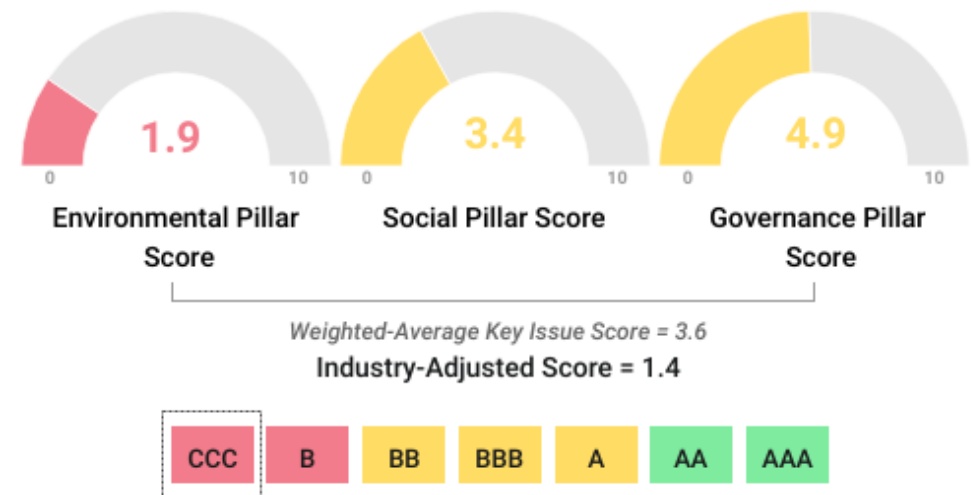
Marcella Ungaretti

XP's ESG specialist

[marcella.Ungaretti@xpi.com.br](mailto:marcella.Ungaretti@xpi.com.br)

We see the social pillar as the most important factor regarding IMC's ESG analysis, followed by governance and environment, respectively. In our view, a challenging business environment due to Covid-19 coupled with a mature sector with high standards keep IMC's ESG performance under pressure and we found limited information regarding company's initiatives on the ESG agenda, **leading us to conclude there is much room for improvement.**

Having said that, **publishing a sustainability report would be a good place to start.** On the positive side, when it comes to Governance, we welcome (i) IMC's Board of Executive Officers' diversity, composed of 50% of women (4 out of the 8 directors); and (ii) independent majority on IMC's Board of Directors (4 out of the 7 members), in addition to an independent chairman.



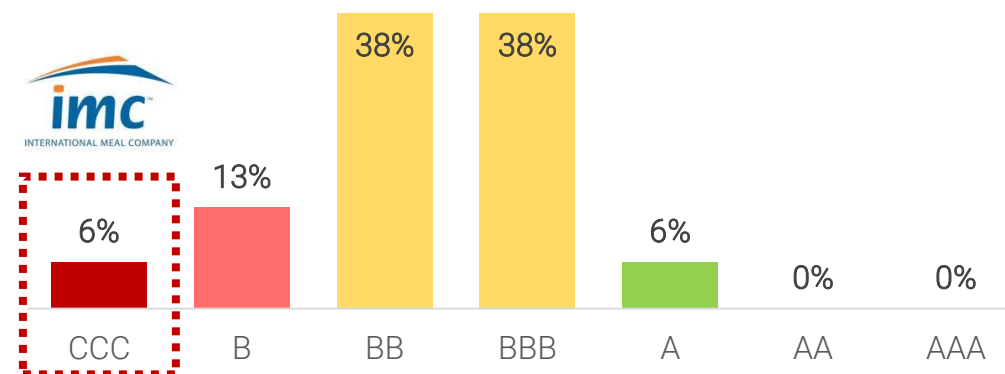
# ESG Analysis: a long road ahead for IMC

**Environmental:** We found limited information regarding IMC's initiatives to mitigate its impacts to the environment. On this matter, we highlight two key sensitive points that IMC should focus on: (i) there is limited evidence of the company's initiatives regarding sustainable raw material sourcing; (ii) there is limited evidence of the company's efforts to reduce the impact of packaging and waste, particularly in the retail segment of restaurants.

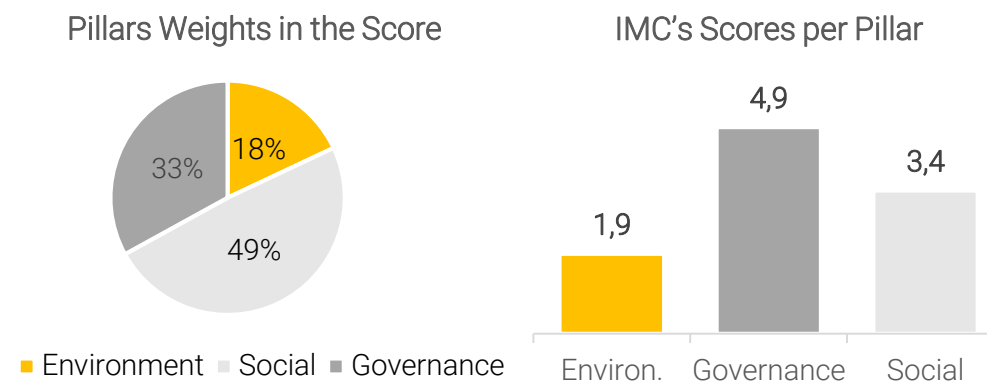
**Social:** Labor-intensive foodservice operations such as fast food – especially if located in malls - are under increasing scrutiny due to their higher health risks for both customers and clients, especially during the Covid-19 pandemic. Therefore, an enhanced disclosure of IMC's structure in place to assist employees is paramount to investors ESG analysis. In addition, the restaurants industry has significant opportunities to meet changing consumer demand for healthier products by reformulating its product portfolio. Having said that, nutritional issues are also relevant given IMC's relevant share of processed products.

**Governance:** IMC is listed on the Novo Mercado segment, the highest level of corporate governance in the Brazilian Stock Exchange. Regarding company's Board of Directors, we positively acknowledge the presence of 4 independent members (out of 7), which led IMC's Board with an independent majority, while we note the lack of gender diversity among the board, as there are no women. On the other hand, still regarding gender diversity, we deeply welcome IMC's Board of Executive Officers' composition, as women represents 50% (4 out of the 8 directors).

## MSCI ACWI Index for restaurants: ESG Rating Distribution; IMC is a CCC



## IMC's MSCI ESG Rating: key scores and weights

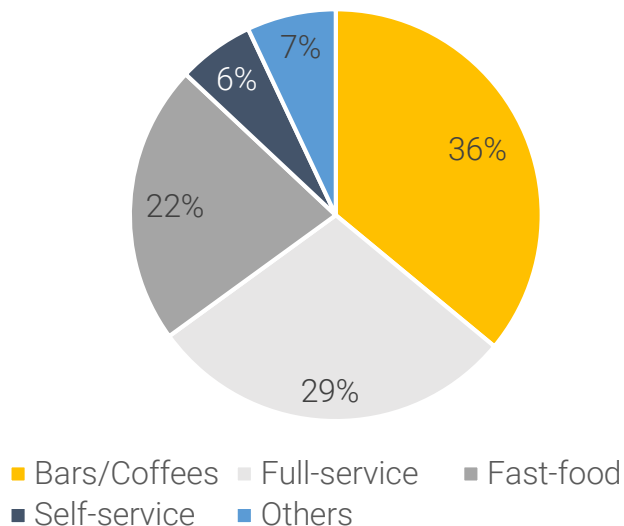


# Industry Overview

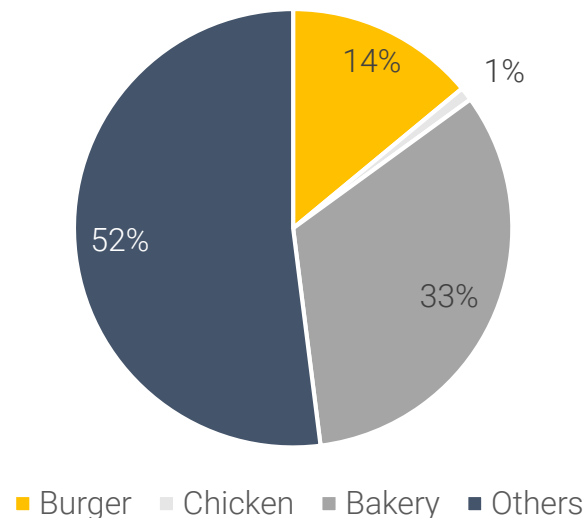
# The Brazilian Foodservice Industry

- Brazil has one of the most **underpenetrated and fragmented** foodservice industries in the world. According to Euromonitor, Brazilians spend only 2.9% of their GDP at restaurants, while the Chinese, for example, spend 5%. Furthermore, only 9% of the stores belong to a chain (versus 34% in neighboring Chile). In our view, that points out to **a multiple-winner scenario** (as opposed to a winner-takes-it-all scenario) even though brand preferences play a crucial role.
- Full-service restaurants (FSR) represent only 29% of the R\$ 427bn Brazilian foodservice market, while fast-food and other formats of quick service restaurant (QSR) ad bars represent nearly 58%. In this scenario, we understand that **affordability remains key**, with QSR benefitted by the good-value-for-money proposition, specially during a **challenging macroeconomic scenario**, such as the one that is expected for 2021 in post-pandemic Brazil.
- Fast-food in Brazil remains a largely fragmented segment on its own, with almost half of sales comprised by categories other than bakeries, burger or poultry-focused chains. Still, regarding the latter, it is clear that there is a large opportunity for chicken-oriented fast food chains such as IMC's KFC and Burger King's Popeye's, as the market remains focused on burgers (14%), a segment largely dominated by the giants McDonald's (ARCO) and Burger King (BKBR3).

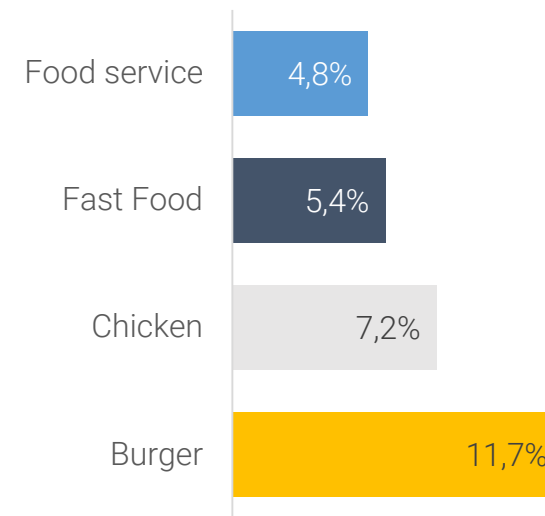
Food Service in Brazil: a R\$ 427bn market



Fast Food in Brazil: a R\$ 96bn market



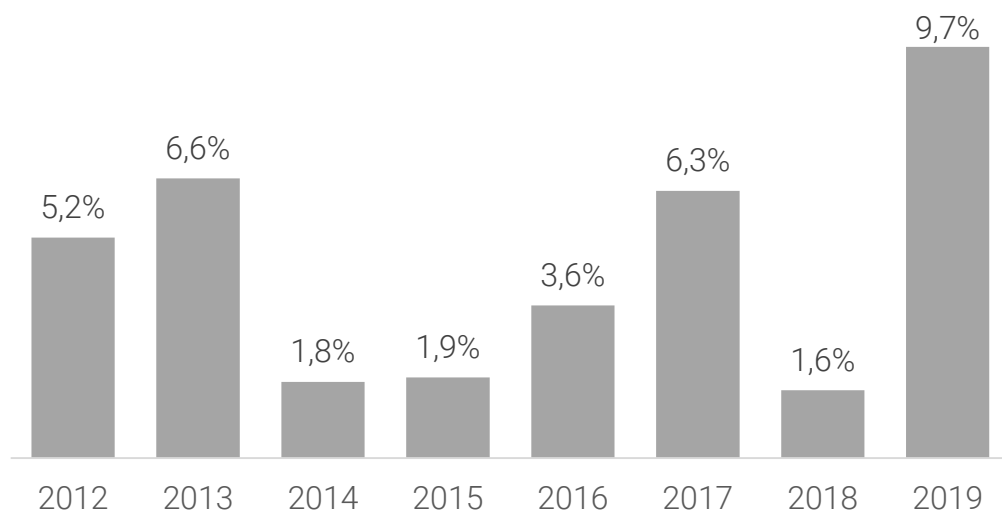
2014-19 CAGR for the different segments



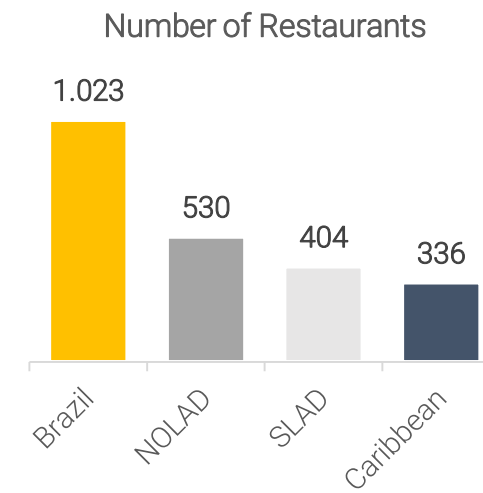
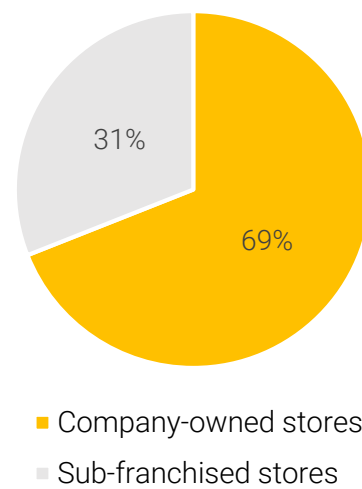
# Selected Listed Peers: Arcos Dorados (ARCO)

- **Arcos Dorados is the world's largest independent McDonald's franchisee**, operating the largest QSR chain in Latin America and the Caribbean. It has the exclusive right to own, operate and grant franchises of McDonald's restaurants in 20 Latin American and Caribbean countries and territories with more than 2,200 restaurants, operated by the company or by its sub-franchisees, including more than a thousand restaurants in Brazil, as of 3Q20.
- In Brazil, around **600 units are company-operated, while the other 400+ are sub-franchised**. Most of them are either free-standing stores (~45%) or located in food courts (~34%). The company also owns 2k dessert centers and approximately 80 McCafé units in the country. The company mentions as key accelerators to its plan for sustainable growth the following: delivery, app and **key store upgrades through the Experience of the Future (EOTF) program**.
- **XP View**: we believe there are two key lessons to be learned from Arco's case: (i) the importance of retrofitting and upgrading stores, particularly involving a tech appeal such as the one promoted by the EOTF program; (ii) **operational excellence, coupled with brand awareness**, must always remain a priority for foodservice companies, in order to promote a good-value-for-money proposition consistently.

ARCO's Financial Highlights: Comparable Sales in Brazil (YoY change, %)



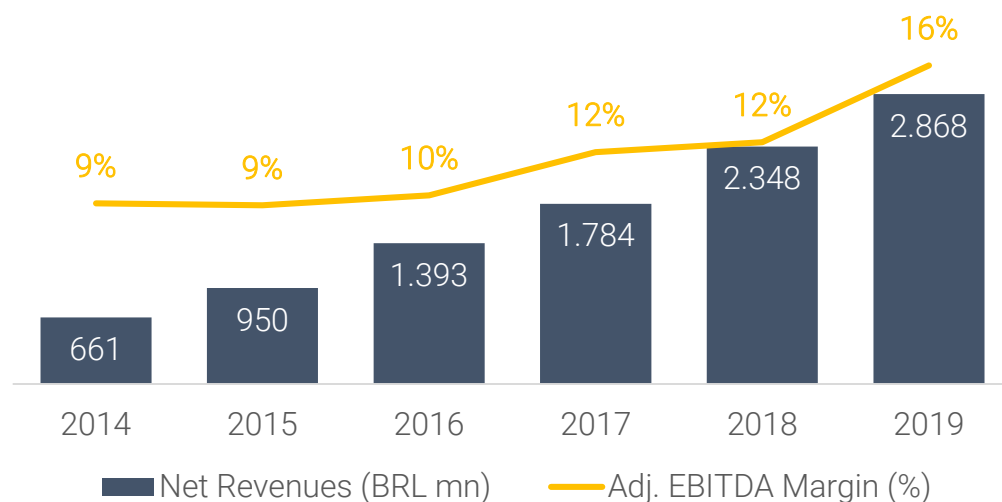
Arcos LatAm Footprint: over a Thousand units in Brazil



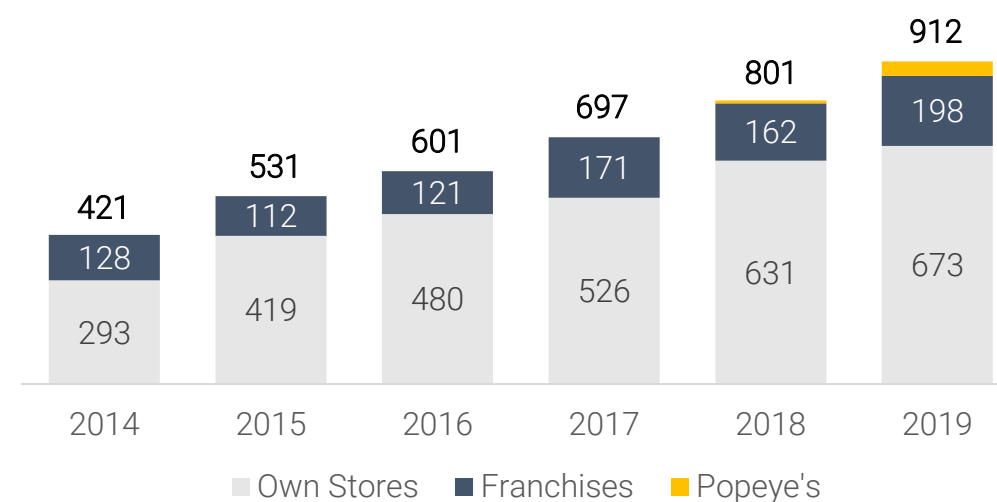
# Selected Listed Peers: Burger King (BKBR3)

- Founded in 1954, **Burger King is the second largest fast food hamburger chain in the world**. BKBR's parent company started its operations in Brazil on June/2011 as a JV between an investment fund managed by Vinci and a subsidiary of Burger King Corporation, to exclusively manage and develop the brand in the country. After several M&As with franchisees in Brazil, the company filed for an IPO and its shares began to be traded on B3 in December/2018.
- On March 20, 2018, the company earned the exclusive right to develop and operate restaurants, through its own operation or franchisees, under **the Popeyes brand in Brazil for a period of 20 years**. As of 3Q20, BKBR had 857 restaurants in Brazil, 43 of each under the Popeye's brand. It claims to have had significant market share gains since 2011, being the 2<sup>nd</sup> largest player in the country in the burger segment and the 3<sup>rd</sup> largest QSR in number of restaurants.
- **XP View:** BKBR's launch of the Popeye's brand in Brazil reinforces the notion that the poultry-oriented fast-food market seems to be an attractive one, as long as: (i) the typical menus of foreign brands such as Popeye's itself as well as KFC's become adapted to Brazil's tropical reality; (ii) the good-value-for-money perception is constantly reinforced by marketing campaigns, as IMC has recently done with KFC; (iii) delivery operations become increasingly digital.

## BKBR's Financial Highlights



## BKBR's Store Numbers

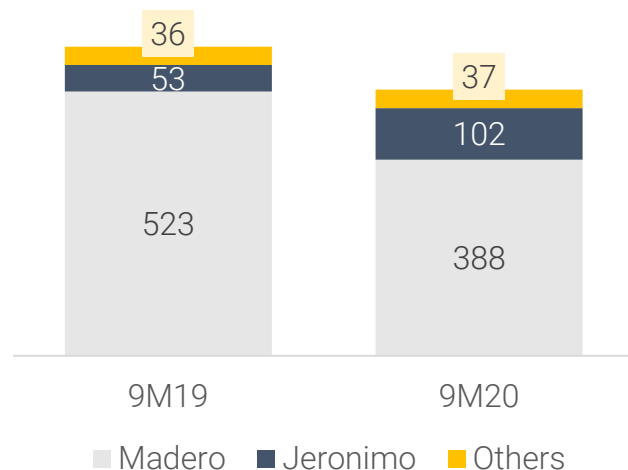




# Non-Listed Selected Peers: Madero, Graal and Domino's Pizza

- Founded in 2005 by Junior Durski, **Grupo Madero has more than 200 restaurants in Brazil**, including the brands Restaurante Durski, Madero and Jeronimo Burger. In 2018, the American private-equity fund Carlyle bought 23.3% of the company for R\$ 700 million, and there were rumors of an IPO in 2019. In December 2020, **the group entered the roadside-restaurant sector**, with the opening of a concept store called Ecoparada on a highway in São Paulo.
- Founded in 1974 by the Alves brothers, **Rede Graal operates in the roadside-restaurant segment** and is Frango Assado's largest competitor. The company has 50 units in the states of São Paulo, Minas Gerais, Rio de Janeiro and Santa Catarina. Its controllers have a stake in other gastronomic ventures, including the Barbacoa steakhouse chain and the Rancho Português restaurant. **A merger between Graal and Frango seems unlikely due to anti-trust laws.**
- Founded in 1960 in the US, **Domino's Pizza is today the largest chain of pizzerias in the world**. It arrived in Brazil in 1993 and received an investment from Vinci, a traditional Brazilian private-equity firm, in 2018. Currently, **it is the leader of the pizzeria segment in Brazil**, with its 300 stores in the country and plans to reach 650 units by 2023 through the investment of R\$ 250mn; the company's sales amounted to R\$ 450mn in 2019 (+22.7% YoY).

Grupo Madero: revenues per brand (BRL mn)



Rede Graal: Frango Assado's main competitor



Domino's Pizza: robust delivery as a moat



# Appendix

# IMC's Consolidated Income Statement and DCF (FCFF and FCFE)

Consolidated Income Statement		2017	2018	2019	2020	2021	2022	2023	2024	2025
Net Revenues	R\$ mn	1.495	1.582	1.603	1.157	1.662	1.834	1.905	1.979	2.057
COGS	R\$ mn	-1.029	-1.073	-1.092	-900	-1.181	-1.436	-1.502	-1.552	-1.604
Gross Profit	R\$ mn	466	509	511	257	481	628	675	691	708
Gross Margin	%	31%	32%	32%	22%	29%	34%	35%	35%	34%
Operating Expenses	R\$ mn	-422	-447	-426	-367	-438	-525	-547	-557	-569
EBIT	R\$ mn	29	25	48	-520	43	103	128	134	139
EBIT Margin	%	2%	2%	3%	-45%	3%	5,6%	6,7%	6,8%	6,8%
Depreciation	R\$ mn	-80	-78	-150	-174	-146	-142	-136	-136	-138
EBITDA	R\$ mn	111	111	200	-344	189	244	263	269	276
EBITDA Margin	%	7%	7%	12%	-30%	11%	13%	14%	14%	13%
Net Financial Result	R\$ mn	-9	-17	-57	-59	-62	-26	-32	-39	-40
EBT	R\$ mn	20	8	-10	-579	-19	77	96	94	99
Taxes	R\$ mn	-16	0	-8	120	1	-4	-5	-5	-34
Net Income	R\$ mn	4	8	-17	-460	-18	73	91	90	66

Consolidated Income Statement		2017	2018	2019	2020	2021	2022	2023	2024	2025
EBIT	R\$ mn	29	25	48	-520	43	103	128	134	139
(-) Taxes	R\$ mn	-16	0	-8	120	1	-4	-5	-5	-34
(+) Depreciation	R\$ mn	80	78	150	174	146	142	136	136	138
(+) Change in WK	R\$ mn	-21	5	108	70	-163	33	3	2	2
(=) Operating Cash Flow	R\$ mn	71	108	297	-157	28	275	262	267	245
(-) CAPEX	R\$ mn	-70	-79	-144	-97	-118	-130	-135	-140	-145
(=) FCFF	R\$ mn	2	29	153	-254	-90	145	128	127	100
(+) New Debt Issue	R\$ mn	42	163	269	20	35	39	40	42	44
(+) Net Financial Result	R\$ mn	-9	-17	-57	-59	-62	-26	-32	-39	-40
(=) FCFE	R\$ mn	35	175	365	-292	-117	158	136	129	104

Source: Company Data, Research XP

# IMC's Consolidated Balance Sheet

Consolidated Balance Sheet		2017	2018	2019	2020	2021	2022	2023	2024	2025
Assets										
<b>Current Assets</b>	<b>R\$ mn</b>	<b>373</b>	<b>458</b>	<b>556</b>	<b>788</b>	<b>715</b>	<b>865</b>	<b>1.005</b>	<b>1.137</b>	<b>1.244</b>
Cash and cash equivalents	R\$ mn	184	269	333	579	463	621	757	886	990
Accounts receivable	R\$ mn	87	79	63	38	89	72	75	78	81
Inventories	R\$ mn	44	38	53	58	51	61	61	61	61
Other current assets	R\$ mn	58	73	107	112	112	112	112	112	112
<b>Non-current Assets</b>	<b>R\$ mn</b>	<b>1.140</b>	<b>1.180</b>	<b>2.129</b>	<b>1.935</b>	<b>1.906</b>	<b>1.894</b>	<b>1.892</b>	<b>1.897</b>	<b>1.904</b>
Property, plant and equipment	R\$ mn	244	259	373	330	302	289	288	292	300
Intangible assets	R\$ mn	838	854	1.300	1.109	1.109	1.109	1.109	1.109	1.109
Other non-current assets	R\$ mn	58	67	456	495	495	495	495	495	495
<b>Total Assets</b>	<b>R\$ mn</b>	<b>1.512</b>	<b>1.638</b>	<b>2.686</b>	<b>2.723</b>	<b>2.621</b>	<b>2.759</b>	<b>2.898</b>	<b>3.034</b>	<b>3.149</b>
Liabilities										
<b>Current Liabilities</b>	<b>R\$ mn</b>	<b>245</b>	<b>376</b>	<b>495</b>	<b>470</b>	<b>386</b>	<b>451</b>	<b>498</b>	<b>545</b>	<b>594</b>
Suppliers	R\$ mn	90	81	188	238	119	145	151	156	162
Loans and financing	R\$ mn	46	196	90	77	113	151	192	234	277
Other current liabilities	R\$ mn	110	99	217	155	155	155	155	155	155
<b>Non-current Liabilities</b>	<b>R\$ mn</b>	<b>264</b>	<b>247</b>	<b>1.046</b>	<b>1.019</b>	<b>1.019</b>	<b>1.019</b>	<b>1.019</b>	<b>1.019</b>	<b>1.019</b>
Loans and financing	R\$ mn	126	138	514	546	546	546	546	546	546
Deferred taxes	R\$ mn	70	72	78	60	60	60	60	60	60
Provision for contingencies	R\$ mn	13	13	85	78	78	78	78	78	78
Other non-current liabilities	R\$ mn	56	24	370	335	335	335	335	335	335
<b>Total Liabilities</b>	<b>R\$ mn</b>	<b>508</b>	<b>623</b>	<b>1.541</b>	<b>1.489</b>	<b>1.405</b>	<b>1.470</b>	<b>1.517</b>	<b>1.564</b>	<b>1.613</b>
Shareholders' equity										
Capital and Reserves	R\$ mn	8	0	1.112	1.532	1.532	1.532	1.532	1.532	1.532
Accumulated losses	R\$ mn	876	983	-7	-461	-479	-406	-315	-225	-160
Other comprehensive income	R\$ mn	120	32	40	163	163	163	163	163	163
<b>Total Shareholder's equity</b>	<b>R\$ mn</b>	<b>1.004</b>	<b>1.015</b>	<b>1.145</b>	<b>1.234</b>	<b>1.216</b>	<b>1.289</b>	<b>1.380</b>	<b>1.470</b>	<b>1.536</b>

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