

# ARCOS DORADOS HOLDINGS INC.

## FORM 20-F

(Annual and Transition Report (foreign private issuer))

Filed 04/29/20 for the Period Ending 12/31/19

Telephone	598 2626-3000
CIK	0001508478
Symbol	ARCO
SIC Code	5812 - Retail-Eating Places
Industry	Restaurants & Bars
Sector	Consumer Cyclical
Fiscal Year	12/31

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2019  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35129

**Arcos Dorados Holdings Inc.**

*(Exact name of Registrant as specified in its charter)*

**British Virgin Islands**

*(Jurisdiction of incorporation or organization)*

**Dr. Luis Bonavita 1294, Office 501**

**Montevideo, Uruguay, 11300 WTC Free Zone**

*(Address of principal executive offices)*

**Juan David Bastidas**

**Chief Legal Officer**

**Arcos Dorados Holdings Inc.**

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**Telephone: +598 2626-3000**

**Fax: +598 2626-3018**

*(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A shares, no par value	ARCO	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

*(Title of Class)*

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

*(Title of Class)*

Indicate the number of outstanding shares of each of the issuer's classes of capital stock or common stock as of the close of the period covered by the annual report.

Class A shares: 124,070,029

Class B shares: 80,000,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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ARCOS DORADOS HOLDINGS INC.

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to “U.S. dollars,” “dollars,” “U.S.\$” or “\$” are to the U.S. dollar. All references to “Argentine pesos” or “ARS\$” are to the Argentine *peso*. All references to “Brazilian reais” or “R\$” are to the Brazilian *real*. All references to “Mexican pesos” or “Ps.” are to the Mexican *peso*. All references to “Venezuelan bolívares” or “Bs.” are to the Venezuelan *bolívar*, the legal currency of Venezuela. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls” for information regarding exchange rates for the Argentine, Brazilian and Mexican currencies.

### Definitions

In this annual report, unless the context otherwise requires, all references to “Arcos Dorados,” the “Company,” “we,” “our,” “ours,” “us” or similar terms refer to Arcos Dorados Holdings Inc., together with its subsidiaries. All references to “systemwide” refer only to the system of McDonald’s-branded restaurants operated by us or our franchisees in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to as the “Territories,” and do not refer to the system of McDonald’s-branded restaurants operated by McDonald’s Corporation, its affiliates or its franchisees (other than us).

We own our McDonald’s franchise rights pursuant to a Master Franchise Agreement for all of the Territories, except Brazil, which we refer to as the MFA, and a separate, but substantially identical, Master Franchise Agreement for Brazil, which we refer to as the Brazilian MFA. We refer to the MFA and the Brazilian MFA, as amended or otherwise modified to date, collectively as the MFAs. We commenced operations on August 3, 2007, as a result of our purchase of McDonald’s operations and real estate in the Territories (except for Trinidad and Tobago), which we refer to collectively as the “McDonald’s LatAm” business, and the acquisition of McDonald’s franchise rights pursuant to the MFAs, which together with the purchase of the McDonald’s LatAm business, we refer to as the “Acquisition.”

### Financial Statements

We maintain our books and records in U.S. dollars and prepare our financial statements in accordance with accounting principles and standards generally accepted in the United States, or “U.S. GAAP.”

The financial information contained in this annual report includes our consolidated financial statements at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, as stated in their report included elsewhere in this annual report.

We were incorporated on December 9, 2010 as a direct, wholly owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006.

Our fiscal year ends December 31. References in this annual report to a fiscal year, such as “fiscal year 2019,” relate to our fiscal year ended on December 31 of that calendar year.

### Operating Data

Our operating segments are composed of four geographic regions of operation: (i) the South Latin American division, or “SLAD,” which is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, (ii) the Caribbean division, which is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, (iii) Brazil and (iv) the North Latin American division, or “NOLAD,” which is comprised of Costa Rica, Mexico and Panama.

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We operate McDonald’s-branded restaurants under two different operating formats: those directly operated by us, or “Company-operated” restaurants, and those operated by franchisees, or “franchised” restaurants. All references to “restaurants” are to our freestanding, food court, in-store and mall store restaurants and do not refer to our McCafé locations or Dessert Centers. Systemwide data represents measures for both our Company-operated restaurants and our franchised restaurants.

We are the majority stakeholder in two joint ventures with third parties that collectively own 15 restaurants in Argentina and Chile. We consider these restaurants to be Company-operated restaurants. We also have granted developmental licenses to 11 restaurants. Developmental licensees own or lease the land and buildings on which their restaurants are located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald’s. We consider these restaurants to be franchised restaurants.

### **Market Share and Other Information**

Market data and certain industry forecast data used in this annual report were obtained from internal reports and studies, where appropriate, as well as estimates, market research, publicly available information (including information available from the United States Securities and Exchange Commission, or the SEC, website) and industry publications, including the United Nations Economic Commission for Latin America and the Caribbean and the CIA World Factbook. Industry publications generally state that the information they include has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal reports and studies, estimates and market research, which we believe to be reliable and accurately extracted by us for use in this annual report, have not been independently verified. However, we believe such data is accurate and agree that we are responsible for the accurate extraction of such information from such sources and its correct reproduction in this annual report.

### **Basis of Consolidation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

### **Rounding**

We have made rounding adjustments to some of the figures included in this annual report. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

## **FORWARD-LOOKING STATEMENTS**

This annual report contains statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “intend,” “estimate” and “potential,” among others.

Forward-looking statements appear in a number of places in this annual report and include, but are not limited to, statements regarding our intent, belief or current expectations. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to of various factors, including, but not limited to, those identified in “Item 3. Key Information—D. Risk Factors” in this annual report. These risks and uncertainties include factors relating to:

- effects of COVID-19 pandemic and private or government measures that could negatively affect the global economy and our markets’ economy and business;
- changes in our liquidity or the availability of lines of credit and other sources of financing, including as a result of the COVID-19 pandemic;
- general economic, political, demographic and business conditions in Latin America and the Caribbean;



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- fluctuations in inflation and exchange rates in Latin America and the Caribbean;
- our ability to implement our growth strategy;
- the success of operating initiatives, including advertising and promotional efforts and new product and concept development by us and our competitors;
- our ability to compete and conduct our business in the future;
- changes in consumer tastes and preferences, including changes resulting from concerns over nutritional or safety aspects of beef, poultry, french fries or other foods or the effects of health pandemics and food-borne illnesses, such as COVID-19, “mad cow” disease and avian influenza or “bird flu,” and changes in spending patterns and demographic trends, such as the extent to which consumers eat meals away from home;
- the availability, location and lease terms for restaurant development;
- our intention to focus on our restaurant reimagining plan;
- our franchisees, including their business and financial viability and the timely payment of our franchisees’ obligations due to us and to McDonald’s;
- our ability to comply with the requirements of the MFAs, including McDonald’s standards;
- our decision to own and operate restaurants or to operate under franchise agreements;
- the availability of qualified restaurant personnel for us and for our franchisees, and the ability to retain such personnel;
- changes in commodity costs, labor, supply, fuel, utilities, distribution and other operating costs;
- changes in labor laws;
- our ability, if necessary, to secure alternative distribution of supplies of food, equipment and other products to our restaurants at competitive rates and in adequate amounts, and the potential financial impact of any interruptions in such distribution;
- changes in government regulation;
- material changes in tax legislation;
- other factors that may affect our financial condition, liquidity and results of operations; and
- other risk factors discussed under “Item 3. Key Information—D. Risk Factors.”

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

### **ENFORCEMENT OF JUDGMENTS**

We are incorporated under the laws of the British Virgin Islands with limited liability. We are incorporated in the British Virgin Islands because of certain benefits associated with being a British Virgin Islands company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions, and the availability of professional and support services. However, the British Virgin Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent. In addition, British Virgin Islands companies may not have standing to sue before the federal courts of the United States.

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A majority of our directors and officers, as well as certain of the experts named herein, reside outside of the United States. A substantial portion of our assets and several of such directors, officers and experts are located principally in Argentina, Brazil and Uruguay. As a result, it may not be possible for investors to effect service of process outside Argentina, Brazil and Uruguay upon such directors or officers, or to enforce against us or such parties in courts outside Argentina, Brazil and Uruguay judgments predicated solely upon the civil liability provisions of the federal securities laws of the United States or other non-Argentine, Brazilian or Uruguayan regulations, as applicable. In addition, local counsel to the Company have advised that there is doubt as to whether the courts of Argentina, Brazil or Uruguay would enforce in all respects, to the same extent and in as timely a manner as a U.S. court or non-Argentine, Brazilian or Uruguayan court, an original action predicated solely upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable; and that the enforceability in Argentine, Brazilian or Uruguayan courts of judgments of U.S. courts or non-Argentine, Brazilian or Uruguayan courts predicated upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable, will be subject to compliance with certain requirements under Argentine, Brazilian or Uruguayan law, including the condition that any such judgment does not violate Argentine, Brazilian or Uruguayan public policy.

We have been advised by Maples and Calder, our counsel as to British Virgin Islands law, that the United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be automatically enforceable in the British Virgin Islands. We have been advised by Maples and Calder that a final and conclusive judgment obtained in U.S. federal or state courts under which a sum of money is payable (i.e., not being a sum claimed by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages) may be the subject of an action on a debt in the court of the British Virgin Islands under British Virgin Islands common law.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

#### A. Directors and Senior Management

Not applicable.

#### B. Advisers

Not applicable.

#### C. Auditors

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

#### A. Offer Statistics

Not applicable.

#### B. Method and Expected Timetable

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

The selected balance sheet data as of December 31, 2019 and 2018 and the income statement data for the years ended December 31, 2019, 2018 and 2017 of Arcos Dorados Holdings Inc. are derived from the consolidated financial statements included elsewhere in this annual report, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global. The selected balance sheet data as of December 31, 2017, 2016 and 2015 and the income statement data for the years ended December 31, 2016 and 2015 of Arcos Dorados Holdings Inc. are derived from consolidated financial statements audited by Pistrelli, Henry Martin y Asociados S.R.L., which are not included herein.

Our operating segments are composed of four geographic regions of operation: (i) the South Latin American division, or “SLAD,” which is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, (ii) the Caribbean division which is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela (iii) Brazil and (iv) the North Latin American division, or “NOLAD,” which is comprised of Costa Rica, Mexico and Panama.

We were incorporated on December 9, 2010 as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006. We did not commence operations until the Acquisition on August 3, 2007.

We maintain our books and records in U.S. dollars and prepare our consolidated financial statements in accordance with U.S. GAAP. This financial information should be read in conjunction with “Presentation of Financial and Other Information,” “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report.

**For the Years Ended December 31,**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>(in thousands of U.S. dollars, except for per share data)</b>					
<b>Income Statement Data:</b>					
Sales by Company-operated restaurants	\$ 2,812,287	\$ 2,932,609	\$ 3,162,256	\$ 2,803,334	\$ 2,930,379
Revenues from franchised restaurants	146,790	148,962	157,269	125,296	122,361
<b>Total revenues</b>	<b>2,959,077</b>	<b>3,081,571</b>	<b>3,319,525</b>	<b>2,928,630</b>	<b>3,052,740</b>
Company-operated restaurant expenses:					
Food and paper	(1,007,584)	(1,030,499)	(1,110,240)	(1,012,976)	(1,037,487)
Payroll and employee benefits	(567,653)	(607,793)	(683,954)	(607,082)	(660,773)
Occupancy and other operating	(799,633)	(803,539)	(842,519)	(752,428)	(793,622)
Royalty fees	(155,388)	(157,886)	(163,954)	(142,777)	(149,089)
Franchised restaurants—occupancy expenses	(61,278)	(67,927)	(69,836)	(55,098)	(54,242)
General and administrative expenses	(212,515)	(229,324)	(244,664)	(221,075)	(270,680)
Other operating income (expenses), net	4,910	(61,145)	68,577	41,386	6,560
<b>Total operating costs and expenses</b>	<b>(2,799,141)</b>	<b>(2,958,113)</b>	<b>(3,046,590)</b>	<b>(2,750,050)</b>	<b>(2,959,333)</b>
<b>Operating income</b>	<b>159,936</b>	<b>123,458</b>	<b>272,935</b>	<b>178,580</b>	<b>93,407</b>
Net interest expense	(52,079)	(52,868)	(68,357)	(66,880)	(64,407)
Gain (loss) from derivative instruments	439	(565)	(7,065)	(3,065)	(2,894)
Foreign currency exchange results	12,754	14,874	(14,265)	32,354	(54,032)
Other non-operating (expenses) income, net	(2,097)	270	(435)	(2,360)	(627)
<b>Income (loss) before income taxes</b>	<b>118,953</b>	<b>85,169</b>	<b>182,813</b>	<b>138,629</b>	<b>(28,553)</b>
Income tax expense	(38,837)	(48,136)	(53,314)	(59,641)	(22,816)
<b>Net income (loss)</b>	<b>80,116</b>	<b>37,033</b>	<b>129,499</b>	<b>78,988</b>	<b>(51,369)</b>
Less: Net income attributable to non-controlling interests	(220)	(186)	(333)	(178)	(264)
<b>Net income (loss) attributable to Arcos Dorados Holdings Inc.</b>	<b>79,896</b>	<b>36,847</b>	<b>129,166</b>	<b>78,810</b>	<b>(51,633)</b>
<b>Earnings (Loss) per share:</b>					
Basic net income (loss) per common share attributable to Arcos Dorados	\$ 0.39	\$ 0.18	\$ 0.61	\$ 0.37	\$ (0.25)
Diluted net income (loss) per common share attributable to Arcos Dorados	\$ 0.39	\$ 0.18	\$ 0.61	\$ 0.37	\$ (0.25)

## As of December 31,

	2019	2018	2017	2016	2015
(in thousands of U.S. dollars, except for share data)					
<b>Balance Sheet Data:</b>					
Cash and cash equivalent	\$ 121,880	\$ 197,282	\$ 308,491	\$ 194,803	\$ 112,519
<b>Total current assets</b>	<b>405,368</b>	<b>464,562</b>	<b>653,037</b>	<b>445,190</b>	<b>378,996</b>
Property and equipment, net	960,986	856,192	890,736	847,966	833,357
<b>Total non-current assets</b>	<b>2,152,317</b>	<b>1,113,477</b>	<b>1,150,706</b>	<b>1,059,863</b>	<b>1,024,206</b>
<b>Total assets</b>	<b>2,557,685</b>	<b>1,578,039</b>	<b>1,803,743</b>	<b>1,505,053</b>	<b>1,403,202</b>
Accounts payable	259,577	242,455	303,452	217,914	187,685
Short-term debt and current portion of long-term debt	16,529	4,192	4,359	28,099	163,740
<b>Total current liabilities</b>	<b>595,447</b>	<b>493,312</b>	<b>605,583</b>	<b>548,308</b>	<b>577,314</b>
Long-term debt, excluding current portion	623,575	626,424	629,142	551,580	491,327
<b>Total non-current liabilities</b>	<b>1,540,672</b>	<b>691,968</b>	<b>702,018</b>	<b>605,169</b>	<b>538,998</b>
<b>Total liabilities</b>	<b>2,136,119</b>	<b>1,185,280</b>	<b>1,307,601</b>	<b>1,153,477</b>	<b>1,116,312</b>
Total common stock	516,119	512,760	509,647	506,884	504,772
<b>Total equity</b>	<b>421,566</b>	<b>392,759</b>	<b>496,142</b>	<b>351,576</b>	<b>286,890</b>
<b>Total liabilities and equity</b>	<b>2,557,685</b>	<b>1,578,039</b>	<b>1,803,743</b>	<b>1,505,053</b>	<b>1,403,202</b>
Shares outstanding	204,070,029	205,232,247	211,072,508	210,711,224	210,538,896

	For the Years Ended December 31,									
	2019		2018		2017		2016		2015	
	(in thousands of U.S. dollars, except percentages)									
<b>Other Data:</b>										
Total Revenues										
Brazil	\$	1,385,566	\$	1,345,453	\$	1,496,573	\$	1,333,237	\$	1,361,989
Caribbean division(1)		399,251		483,743		474,822		409,671		398,144
NOLAD		431,266		406,848		386,874		363,965		367,364
SLAD		742,994		845,527		961,256		821,757		925,243
<b>Total</b>		<b>2,959,077</b>		<b>3,081,571</b>		<b>3,319,525</b>		<b>2,928,630</b>		<b>3,052,740</b>
<b>Operating Income</b>										
Brazil	\$	164,342	\$	159,511	\$	160,608	\$	122,636	\$	116,820
Caribbean division(1)		(1,100)		(49,567)		1,538		(12,392)		(40,102)
NOLAD		16,539		7,726		99,152		45,145		8,710
SLAD		42,410		53,777		71,718		66,359		78,022
Corporate and others and purchase price allocation		(62,255)		(47,989)		(60,081)		(43,168)		(70,043)
<b>Total</b>		<b>159,936</b>		<b>123,458</b>		<b>272,935</b>		<b>178,580</b>		<b>93,407</b>
<b>Operating Margin(2)</b>										
Brazil		11.9 %		11.9 %		10.7 %		9.2 %		8.6 %
Caribbean division(1)		(0.3)		(10.2)		0.3		(3.0)		(10.1)
NOLAD		3.8		1.9		25.6		12.4		2.4
SLAD		5.7		6.4		7.5		8.1		8.4
<b>Total</b>		<b>5.4</b>		<b>4.0</b>		<b>8.2</b>		<b>6.1</b>		<b>3.1</b>
<b>Adjusted EBITDA(3)</b>										
Brazil	\$	227,844	\$	218,391	\$	218,172	\$	168,076	\$	174,102
Caribbean division(1)		24,955		(8,281)		40,844		18,049		2,059
NOLAD		39,027		32,313		33,717		36,288		31,424
SLAD		63,120		73,670		87,083		76,327		100,718
Corporate and others		(63,171)		(58,096)		(74,879)		(60,295)		(78,132)
<b>Total</b>		<b>291,775</b>		<b>257,997</b>		<b>304,937</b>		<b>238,445</b>		<b>230,171</b>
<b>Adjusted EBITDA Margin(4)</b>										
Brazil		16.4 %		16.2 %		14.6 %		12.6 %		12.8 %
Caribbean division(1)		6.2		(1.7)		8.6		4.4		0.5
NOLAD		9.0		7.9		8.7		10.0		8.6
SLAD		8.5		8.7		9.1		9.3		10.9
<b>Total</b>		<b>9.9</b>		<b>8.4</b>		<b>9.2</b>		<b>8.1</b>		<b>7.5</b>
<b>Other Financial Data:</b>										
Working capital(5)		(190,079)	\$	(28,750)	\$	47,454	\$	(103,118)	\$	(198,318)
Capital expenditures(6)		267,893		197,041		175,636		92,282		92,055
Dividends declared per common share	\$	0.11	\$	0.10	\$	—	\$	—	\$	—

	As of December 31,				
	2019	2018	2017	2016	2015
<b>Number of systemwide restaurants</b>	<b>2,293</b>	<b>2,223</b>	<b>2,188</b>	<b>2,156</b>	<b>2,141</b>
Brazil	1,023	968	929	902	883
Caribbean division	336	337	350	353	356
NOLAD	530	524	519	517	518
SLAD	404	394	390	384	384
<b>Number of Company-operated restaurants</b>	<b>1,580</b>	<b>1,540</b>	<b>1,546</b>	<b>1,553</b>	<b>1,588</b>
Brazil	612	584	579	584	615
Caribbean division	251	251	263	266	267
NOLAD	364	362	363	365	364
SLAD	353	343	341	338	342
<b>Number of franchised restaurants</b>	<b>713</b>	<b>683</b>	<b>642</b>	<b>603</b>	<b>553</b>
Brazil	411	384	350	318	268
Caribbean division	85	86	87	87	89
NOLAD	166	162	156	152	154
SLAD	51	51	49	46	42

- (1) Currency devaluations in Venezuela have had a significant effect on our income statements and have impacted the comparability of our income statements. See “Item 5. Operating and Financial Review and Prospects-A. Operating Results-Foreign Currency Translation-Venezuela.”
- (2) Operating margin is operating income divided by total revenues, expressed as a percentage.
- (3) Adjusted EBITDA is a measure of our performance that is reviewed by our management. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. Total Adjusted EBITDA is a non-GAAP measure. For our definition of Adjusted EBITDA, see “Item 5. Operating and Financial Review and Prospects-A. Operating Results-Key Business Measures.”
- (4) Adjusted EBITDA margin is Adjusted EBITDA divided by total revenues, expressed as a percentage.
- (5) Working capital equals current assets minus current liabilities.
- (6) Includes property and equipment expenditures and purchase of restaurant businesses paid at the acquisition date.

Presented below is the reconciliation between net income and Adjusted EBITDA on a consolidated basis:

Consolidated Adjusted EBITDA Reconciliation	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
	(in thousands of U.S. dollars)				
<b>Net income (loss) attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 79,896</b>	<b>\$ 36,847</b>	<b>\$ 129,166</b>	<b>\$ 78,810</b>	<b>\$ (51,633)</b>
Plus (Less):					
Net interest expense	52,079	52,868	68,357	66,880	64,407
(Gain) loss from derivative instruments	(439)	565	7,065	3,065	2,894
Foreign currency exchange results	(12,754)	(14,874)	14,265	(32,354)	54,032
Other non-operating expenses (income), net	2,097	(270)	435	2,360	627
Income tax expense	38,837	48,136	53,314	59,641	22,816
Net income attributable to non-controlling interests	220	186	333	178	264
<b>Operating income</b>	<b>159,936</b>	<b>123,458</b>	<b>272,935</b>	<b>178,580</b>	<b>93,407</b>
Plus (Less):					
Items excluded from computation that affect operating income:					
Depreciation and amortization	123,218	105,800	99,382	92,969	110,715
Gains from sale or insurance recovery of property and equipment	(5,175)	(4,973)	(95,081)	(57,244)	(12,308)
Write-offs of property and equipment	4,733	4,167	8,528	5,776	6,038
Impairment of long-lived assets	8,790	18,950	17,564	7,697	12,343
Impairment of goodwill	273	167	200	5,045	679
Stock-based compensation related to the special awards in connection with the initial public offering under the 2011 Plan	—	—	—	—	210
Reorganization and optimization plan	—	11,003	—	5,341	18,346
2008 Long-Term Incentive Plan incremental compensation from modification	—	(575)	1,409	281	741
<b>Adjusted EBITDA</b>	<b>291,775</b>	<b>257,997</b>	<b>304,937</b>	<b>238,445</b>	<b>230,171</b>

### Exchange Rates and Exchange Controls

In 2019, 66.7% of our total revenues were derived from our restaurants in Brazil, Argentina and Mexico. While we maintain our books and records in U.S. dollars, our revenues are conducted in the local currency of the territories in which we operate, and as such may be affected by changes in the local exchange rate to the U.S. dollar. The exchange rates discussed in this section have been obtained from each country's central bank. However, in most cases, for consolidation purposes, we use a foreign currency to U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the aforementioned central banks.

#### Brazil

##### Exchange Rates

The Brazilian *real* depreciated 47.0% against the U.S. dollar in 2015, and appreciated 19.4% in 2016, 1.7% in 2017, depreciated 19% in 2018, depreciated 25.5% in 2019 and depreciated 18.3% in the first quarter of 2020. As of April 24, 2020, the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Brazil was R\$5.65 per U.S. dollar.

##### Exchange Controls

Brazilian Resolution 3,568 establishes that, without prejudice to the duty of identifying customers, operations of foreign currency purchase or sale up to \$3,000 or its equivalent in other currencies are not required to submit documentation relating



to legal transactions underlying these foreign exchange operations. According to Resolution 3,568, the Central Bank of Brazil may define simplified forms to record operations of foreign currency purchases and sales of up to \$3,000 or its equivalent in other currencies.

The Brazilian Monetary Council may issue further regulations in relation to foreign exchange transactions, as well as on payments and transfers of Brazilian currency between Brazilian residents and non-residents (such transfers being commonly known as the international transfer of *reais*), including those made through so-called non-resident accounts.

Brazilian law also imposes a tax on foreign exchange transactions, or “IOF/Exchange,” on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. As of October 7, 2014, the general IOF/Exchange rate applicable to almost all foreign currency exchange transactions was increased from zero to 0.38%, although other rates may apply in particular operations, such as the below transactions which are currently not taxed:

- inflow related to transactions carried out in the Brazilian financial and capital markets, including investments in our common shares by investors which register their investment under Resolution No. 4,373;
- outflow related to the return of the investment mentioned under the first bulleted item above; and
- outflow related to the payment of dividends and interest on shareholders’ equity in connection with the investment mentioned under the first bulleted item above.

Notwithstanding these rates of the IOF/Exchange, in force as of the date hereof, the Minister of Finance is legally entitled to increase the rate of the IOF/Exchange to a maximum of 25% of the amount of the currency exchange transaction, but only on a prospective basis.

Although the Central Bank of Brazil has intervened occasionally to control movements in the foreign exchange rates, the exchange market may continue to be volatile as a result of capital movements or other factors, and, therefore, the Brazilian *real* may substantially decline or appreciate in value in relation to the U.S. dollar in the future.

Brazilian law further provides that whenever there is a significant imbalance in Brazil’s balance of payments or reasons to foresee such a significant imbalance, the Brazilian government may, and has done so in the past, impose temporary restrictions on the remittance of funds to foreign investors of the proceeds of their investments in Brazil. The likelihood that the Brazilian government would impose such restricting measures may be affected by the extent of Brazil’s foreign currency reserves, the availability of foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil’s debt service burden relative to the economy as a whole and other factors. We cannot assure you that the Central Bank will not modify its policies or that the Brazilian government will not institute restrictions or delays on cross-border remittances in respect of securities issued in the international capital markets.

## ***Argentina***

### *Exchange Rates*

The Argentine *peso* depreciated 51.7% against the U.S. Dollar in 2015, 21.9% in 2016, 17.7% in 2017, 49.7% in 2018, 58.8% in 2019 and depreciated 7.7% in the first quarter of 2020. As of April 24, 2020, the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Argentina was AR\$66.43 per U.S. dollar.

### *Exchange Controls*

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Among other consequences, the crisis resulted in Argentina defaulting on its foreign debt obligations and the introduction of numerous changes in economic policies, including currency controls that tightened restrictions on capital flows, exchange controls, an official U.S. dollar exchange and transfer restrictions that substantially limited the ability of companies to retain foreign currency or make payments abroad. These foreign exchange controls were eased in a series of measures introduced by former President Mauricio Macri’s administration starting in December 2015.

For instance, on May 19, 2017, the Central Bank of Argentina issued Communication “A” 6244, effective as of July 1, 2017, which structurally modified the exchange regulations in force, establishing a new foreign exchange regime that significantly eased the access to the exchange market (“MLC,” *Mercado Libre de Cambios*). This regime was in force until September 1, 2019.

On September 1, 2019, with the purpose of strengthening the normal functioning of the economy, fostering a prudent administration of the exchange market, reducing the volatility of financial variables and containing the impact of the variations of financial flows on the real economy, the Argentine government issued Decree No. 609/2019 whereby foreign exchange controls were reinstated. The decree: (i) reinstated, originally until December 31, 2019, exporters' obligation to repatriate and settle for Argentine *pesos* (through the MLC) the proceeds from exports of goods and services on the terms and conditions set forth by the Central Bank of Argentina's implementing regulations; and (ii) authorized the Central Bank of Argentina to (a) regulate access to the foreign exchange market for the purchase of foreign currency and outward remittances; and (b) set forth regulations to avoid practices and transactions aimed to circumvent, through the use of securities and other instruments, the measures adopted through the decree. On the same date, the Central Bank of Argentina issued Communication "A" 6770, which was subsequently amended and supplemented by further Central Bank of Argentina communications. As a consequence of the reimposition of exchange controls, the spread between the official exchange rate and other exchange rates resulting implicitly from certain capital market operations usually effected to obtain U.S. dollars has broadened significantly, reaching a value of approximately 72% above the official exchange rate as of April 27, 2020.

At present, foreign exchange regulations have been consolidated in a single regulation, Communication "A" 6844, as subsequently amended and supplemented from time to time by Central Bank of Argentina's Communications, including without limitation Communications "A" 6862, 6869, 6882 and 6915 of the Central Bank of Argentina (jointly, the "Argentine FX Regulations"). Below is a description of the main exchange control measures implemented through the aforementioned regulations:

***Specific provisions for inward remittances***

***Obligation to repatriate and settle in Argentine pesos the proceeds from exports of services***

Section 2.2 of the Argentine FX Regulations imposes on exporters the obligation to repatriate, and settle in the MLC, the proceeds from exports of services within 5 business days following payment thereof.

***Sale of non-financial non-produced assets***

Pursuant to section 2.3 of the Argentine FX Regulations, the proceeds in foreign currency of the sale of non-financial non-produced assets must be repatriated and settled in Argentine *pesos* in the MLC within 5 business days following either the perception of funds in the country or abroad, or their accreditation in foreign accounts.

***External financial indebtedness***

Pursuant to section 2.4 of the Argentine FX Regulations, the new regulations have reinstated the requirement to repatriate, and settle in Argentine *pesos* through the MLC, the proceeds of new financial indebtedness disbursed from and after September 1, 2019 as a condition for accessing the MLC to make debt service payments thereunder. The reporting of the debt under the reporting regime established by Communication "A" 6401 (as amended and restated from time to time, the "External Assets and Liabilities Reporting Regime") is also a condition to access the MLC to repay debt services.

Additionally, section 3.3 of the Argentine FX Regulations states that the Central Bank of Argentina's prior approval will be required to access the MLC for the prepayment of debts for imports of goods and services.

***Specific Provisions Regarding Access to the Exchange Market***

Residents are authorized to access the MLC for the payment of import of goods in accordance with section 10.1 of the Argentine FX Regulations. This regulation sets forth different requirements depending on whether it relates to the payment of imports of goods with customs clearance or the payments of import of goods pending customs clearance. Moreover the imports and import payments monitoring system (SEPAIMPO) has been reinstated, setting forth rules governing such monitoring process and exceptions thereof. Importers will need to appoint a financial entity in charge of monitoring compliance with the aforementioned obligations.

Likewise, the local importer must designate a local financial entity to act as a monitoring bank, which will be responsible for verifying compliance with the applicable regulations, including, among others, the liquidation of import financing and the entry of imported goods.

Prior authorization by the Central Bank of Argentina is required for access to the MLC for payments of overdue or due to payment debts for imports of goods with related companies abroad when it exceeds the equivalent of US\$ 2 million per month per resident customer, as stated by section 10.3.2.5 of the Argentine FX Regulations.

It should be noted that all outstanding debts as of August 31, 2019, either those whose maturity had operated prior to such date or those that did not have a stipulated expiration date, are considered to be overdue or due to payment debts.

Payment of services provided by non-residents

Pursuant to section 3.2 of the Argentine FX Regulations, residents may access the MLC for payment of services provided by non-residents (except to affiliates), as long as it is verified that the operation has been declared, if applicable, in the last overdue presentation of the External Assets and Liabilities Reporting.

Access to the MLC for the prepayment of debts for services requires prior authorization by the Central Bank of Argentina.

Repayment of principal and interest of imports of goods and services

Access to the foreign exchange market for the repayment of principal and interest of imports of goods and services is granted, provided that the operation has been declared, if applicable, in the last overdue presentation of the External Assets and Liabilities Reporting Regime.

Access to the MLC for the prepayment of debts for imports of goods and services shall require prior authorization by the Central Bank of Argentina.

**Other Specific Provisions**

Access to the MLC by non-residents

In accordance with section 3.12 of the Argentine FX Regulations, prior approval by the Central Bank of Argentina will be required for access to the foreign exchange market by non-residents for the purchase of foreign currency, except for the following operations: (a) International organizations and institutions that perform functions of official export credit agencies, (b) diplomatic representations and consular and diplomatic personnel accredited in the country for transfers made in the exercise of their functions, (c) Representatives in the country of Courts, Authorities or Offices, Special Missions, Commissions or Bilateral Bodies established by Treaties or International Agreements, in which the Argentine Republic is part, to the extent that transfers are made in the exercise of their functions, (d) foreign transfers in the name of individuals who are beneficiaries of retirement and / or pensions paid by the ANSES, for up to the amount paid by said agency in the calendar month and to the extent that the transfer is made to a bank account owned by the beneficiary in your registered country of residence, and (e) purchase of foreign currency (in cash) by non-resident individuals for tourism and travel expenses, up to a maximum amount of US\$100 dollars, to the extent the financial entity can verify that the client has settled an amount equal or higher than the sum to be purchased within 90 days prior to the operation.

Exchanges and arbitrage. Transactions involving securities

Pursuant to section 4.2 of the Argentine FX Regulations, entities are allowed to carry out exchange and arbitrage operations with their clients in the following cases: (i) such operation is not subject to the settlement obligation in the MLC; (ii) an individual transfers funds from their local accounts in foreign currency to own bank accounts abroad, (iii) when foreign currency transfers by local central collective deposit securities for funds received in foreign currency for capital services and income from National Treasury securities, (iv) arbitration operations not originated in foreign transfers provided that such funds are debited from an account in foreign currency of the client in a local entity, and (v) may be carried out without the need to obtain prior Central Bank of Argentina approval, provided that if structured as separate transactions, these would have access to the MLC without the need of an authorization by the Central Bank of Argentina.

Securities-related Operations

As per section 4.5 of the Argentine FX Regulations, if an individual purchases securities through payment in foreign currency, the same must have been held by the client for at least 5 business days since the settlement of the transaction before their subsequent sale or transfer to another depository. This minimum holding period shall not apply if the sale of the securities is carried out in the same jurisdiction and the settlement of the transactions is made in the same foreign currency. In all cases, the client shall be obligated to submit a sworn statement expressing that the funds shall not be used for the secondary purchase of securities within the following 5 business days.

Moreover, when a mere transfer of foreign currency deposited in a local account of a resident individual to a foreign account of the same individual is done, a sworn statement must be submitted expressing that there has not been any sale of securities with local settlement in foreign currency within the last 5 business days.

Foreign Exchange Criminal Regime

Any operation that does not comply with the provisions of the foreign exchange regulations is subject to compliance with the Foreign Exchange Criminal Regime.

Notwithstanding the above mentioned measures adopted by the current administration, the Central Bank of Argentina and the federal government in the future may impose additional exchange controls that may further impact our ability to transfer funds abroad and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina.

## **Mexico**

### *Exchange Rates*

The Mexican *peso* depreciated 0.27% against the U.S. dollar in 2018, appreciated 4.26% in 2019 and depreciated 24.8% in the first quarter of 2020. As of April 24, 2020, the free-market exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Mexico in the Federal Official Gazette as the rate of payment of obligations denominated in non-Mexican currency payable in Mexico was Ps.24.58 per U.S. dollar.

### *Exchange Controls*

For the last few years, the Mexican government has maintained a policy of non-intervention in the foreign exchange markets, other than conducting periodic auctions for the purchase of U.S. dollars, and has not had in effect any exchange controls (although these controls have existed and have been in effect in the past). We cannot assure you that the Mexican government will maintain its current policies with regard to the Mexican *peso* or that the Mexican *peso* will not further depreciate or appreciate significantly in the future.

## **B. Capitalization and Indebtedness**

Not applicable.

## **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

## **D. Risk Factors**

*Our business, financial condition and results of operations could be materially and adversely affected if any of the risks described below occur. As a result, the market price of our class A shares could decline, and you could lose all or part of your investment. This annual report also contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements." Our actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors, including the risks facing our company or investments in Latin America and the Caribbean described below and elsewhere in this annual report.*

## **Certain Factors Relating to Our Business**

***The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so.***

Since mid-March 2020, the continued spread of COVID-19 has disrupted our operations in all of our markets. Several countries in which we operate have declared states of emergency and ordered their citizens to shelter in place in order to stem the spread of COVID-19. As of the date of this annual report, in certain markets, including Chile, Peru, Ecuador, Martinique, Guadeloupe, French Guiana and Curaçao, we have closed all of our restaurants in accordance with government orders and restrictions. In other markets, such as Brazil, Argentina, Puerto Rico, Trinidad and Tobago and Colombia, we have taken steps to limit operations based on government guidelines or our assessment of the operating environment. These steps have included reducing hours of operation, closing dining rooms and only operating the drive-thru and/or delivery segments. There has also been an increase in unemployment in several countries as businesses close, and we expect discretionary spending by consumers to decline accordingly. As a result of the foregoing, we have experienced a significant decline in sales at our restaurants since mid-March 2020, and expect to continue to see lower sales until such time as the pandemic is brought under control and consumer behavior normalizes. We may also be forced to lower prices in response to lower demand for our products, or we may see our supply chain disrupted as our suppliers experience disruption of their operations as a result of the pandemic. In some markets, we have also experienced difficulties obtaining gloves, masks and other protective equipment required to operate our restaurants during a pandemic. In addition to reduced sales, we have experienced other losses, such as food spoilage as a result of restaurant closures.

Moreover, our franchisees began having difficulty meeting rent payments to us during the month of April 2020. In certain markets, including Mexico and Panama, we deferred rent payments for our franchisees for 90 days. In other markets, we began renegotiating rental terms and may receive lower rental payments as a result of such negotiations. Our franchisees also owe us continuing franchise fees, which we in turn owe to McDonald's under the MFAs. We are responsible for paying any ongoing franchise fees to McDonald's regardless of whether our franchisees are able to pay us. McDonald's has agreed to defer all franchise fee payments, whether they are related to company-operated or franchisee-operated restaurants, for March, April, May and June 2020 sales until 2021. If we are unable to pay such franchise fees when they are due, or we have further difficulty meeting our obligations in coming months and are unable to obtain a similar deferral, we will be in default under the MFAs.

While we cannot predict the duration or scope of the COVID-19 pandemic, it has negatively impacted our business and such impact could be material to our financial results, conditions and outlook. Consequently, we are taking measures to mitigate the potential effects on our Company from the pandemic by preserving cash and reducing our expenses, as well as capital expenditures and renegotiating terms and conditions with landlords and other suppliers. Also in connection with the COVID-19 pandemic, we have agreed with McDonald's to reduce the advertising and promotion spending requirement from 5% to 4% of our gross sales for the full year 2020.

Regarding our liquidity, as of March 31, 2020, we had drawn \$136 million of short-term indebtedness, including \$35 million from our committed revolving credit facilities and expect to continue to draw on our available lines as needed and until the COVID-19 pandemic is brought under control. Any unavailability of such lines of credit may also negatively impact our liquidity. In addition, we are required to meet certain financial ratios under our revolving credit facilities. While we expect to be in compliance with such ratios in the first quarter of 2020, we likely will be unable to meet such ratios in subsequent quarters if current conditions persist or worsen and will need to seek an amendment to our facilities or waivers from our lenders. If we are unable to obtain waivers for such non-compliance, we will be in default under our lines of credit and revolving credit facilities. In such event, in the case of our revolving credit facilities, any amounts drawn under such facilities may be declared immediately due and payable by the relevant lender. In the case of the non-committed lines of credit, if we have previously drawn any amounts, then such amounts may be immediately due and payable to the relevant lender, subject to the terms of each non-committed line of credit.

As a result of this impact, beginning in the second quarter of 2020 we do not expect to meet certain quarterly financial ratios specified in the MFAs. Although we have requested a waiver from McDonald's for these commitments for all of 2020, we cannot guarantee that McDonald's will grant us that waiver, or that we will be able to meet our quarterly financial ratios or obtain additional waivers in the future once the COVID-19 pandemic has been brought under control. In addition, we currently have certain letters of credit in place that guarantee our obligations under the MFAs. Although we do not have any amounts outstanding under them at this time, certain of our lenders may terminate these letters of credit if we do not meet certain ratios thereunder or if we are in default under our other indebtedness, among other reasons. Any termination of our letters of credit would also constitute a material breach of our obligations under the MFAs.

Moreover, the spread of COVID-19 has led to disruption and volatility in the financial markets, which is likely to increase our cost of capital and may make it more difficult for us to obtain additional financing. As a result of the foregoing, we have agreed with McDonald's to withdraw our previously-approved 2020-2022 restaurant opening plan and reinvestment plan and we do not expect to finalize a revised 2020-2022 plan at least until the COVID-19 outbreak is under control. If we are unable to meet our commitments under a future plan and we are unable to reach an agreement on revised terms of the restaurant opening plan and reinvestment plan or are otherwise unable to obtain a waiver from McDonald's, we will be in default under the terms of the MFAs. Moreover, any increase in the cost of capital may negatively impact our other capital expenditure projects in process in 2020.

If the impacts of the COVID-19 pandemic become other than temporary, we may also need to consider it as an indicator of impairment in future quarters, which could further negatively impact our financial condition.

The duration and scope of the COVID-19 outbreak cannot be predicted at this time, and we expect to continue to experience these significant disruptions until the outbreak is brought under control.

***Our rights to operate and franchise McDonald's-branded restaurants are dependent on the MFAs, the expiration of which would adversely affect our business, results of operations, financial condition and prospects.***

Our rights to operate and franchise McDonald's-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald's in two MFAs through 2027. As a result, our ability to continue operating in our current capacity is dependent on the renewal of our contractual relationship with McDonald's.

McDonald's has the right, in its reasonable business judgment based on our satisfaction of certain criteria set forth in the MFAs, to grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years after the expiration in 2027 of the initial term of the MFAs upon such terms as McDonald's may determine. Pursuant to the MFAs, McDonald's will determine whether to grant us the option to renew between August 2020 and August 2024. If McDonald's grants us the option to renew and we elect to exercise the option, then we and McDonald's will amend the MFAs to reflect the terms of such renewal option, as appropriate. We cannot assure you that McDonald's will grant us an option to extend the term of the MFAs or that the terms of any renewal option will be acceptable to us, will be similar to those contained in the MFAs or will not be less favorable to us than those contained in the MFAs.

If McDonald's elects not to grant us the renewal option or we elect not to exercise the renewal option, we will have a three-year period in which to solicit offers for our business, which offers would be subject to McDonald's approval. Upon the expiration of the MFAs, McDonald's has the option to acquire all of our non-public shares and all of the equity interests of our wholly owned subsidiary Arcos Dourados Comercio de Alimentos Ltda., the master franchisee of McDonald's for Brazil, at their fair market value.

In the event McDonald's does not exercise its option to acquire LatAm, LLC and Arcos Dourados Comercio de Alimentos Ltda., the MFAs would expire and we would be required to cease operating McDonald's-branded restaurants, identifying our business with McDonald's and using any of McDonald's intellectual property. Although we would retain our real estate and infrastructure, the MFAs prohibit us from engaging in certain competitive businesses, including Burger King, Subway, KFC or any other quick-service restaurant, or QSR, business, or duplicating the McDonald's system at another restaurant or business during the two-year period following the expiration of the MFAs. As the McDonald's brand and our relationship with McDonald's are among our primary competitive strengths, the expiration of the MFAs for any of the reasons described above would materially and adversely affect our business, results of operations, financial condition and prospects.

***Our business depends on our relationship with McDonald's and changes in this relationship may adversely affect our business, results of operations and financial condition.***

Our rights to operate and franchise McDonald's-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald's in the MFAs. As a result, our revenues are dependent on the continued existence of our contractual relationship with McDonald's.

Pursuant to the MFAs, McDonald's has the ability to exercise substantial influence over the conduct of our business. For example, under the MFAs, we are not permitted to operate any other QSR chains, we must comply with McDonald's high quality standards, we must own and operate at least 50% of all McDonald's-branded restaurants in each of the Territories, we must maintain certain guarantees in favor of McDonald's, including a standby letter of credit (or other similar financial guarantee acceptable to McDonald's) in an amount of \$80.0 million, to secure our payment obligations under the MFAs and related credit documents, we cannot incur debt above certain financial ratios, we cannot transfer the equity interests of our subsidiaries, any significant portion of their assets or certain of the real estate properties that we own without McDonald's consent, and McDonald's has the right to approve the appointment of our chief executive officer and chief operating officer. In addition, the MFAs require us to reinvest a significant amount of money, including through reimagining our existing restaurants, opening new restaurants and advertising, which plans McDonald's has the right to approve. As a result of the business disruptions caused by COVID-19 outbreak, we have agreed with McDonald's to withdraw our previously-approved 2020-2022 restaurant opening plan and reinvestment plan and we do not expect to finalize a revised 2020-2022 plan at least until the COVID-19 outbreak is under control. Also in connection with the COVID-19 outbreak, we have agreed with McDonald's to reduce the advertising and promotion spending requirement from 5% to 4% of our gross sales for the full year 2020. In addition to using our cash flow from operations, we may need to incur additional indebtedness in order to finance future commitments, which could adversely affect our financial condition. Moreover, we may not be able to obtain this additional indebtedness on favorable terms, or at all. Failure to comply with our future commitments could constitute a material breach of the MFAs and may lead to a termination by McDonald's of the MFAs. McDonald's Corporation had also previously agreed to provide growth support, which we planned to use to support our restaurant opening plan and reinvestment plan for the 2020-2022 period. Until we are able to finalize a revised 2020-2022 restaurant opening plan and reinvestment plan, we can make no assurances related to receiving growth support for 2020-2022.

Notwithstanding the foregoing, McDonald's has no obligation to fund our operations. In addition, McDonald's does not guarantee any of our financial obligations, including trade payables or outstanding indebtedness, and has no obligation to do so.

If the terms of the MFAs excessively restrict our ability to operate our business or if we are unable to satisfy our restaurant opening and reinvestment commitments under the MFAs, our business, results of operations and financial condition would be materially and adversely affected.

***McDonald's has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value.***

Pursuant to the MFAs, McDonald's has the right to acquire our non-public shares or our interests in one or more Territories upon the occurrence of certain events, including the death or permanent incapacity of our controlling shareholder or a material breach of the MFAs. In the event McDonald's were to exercise its right to acquire all of our non-public shares, McDonald's would become our controlling shareholder.

McDonald's has the option to acquire all, but not less than all, of our non-public shares at 100% of their fair market value during the twelve-month period following the eighteen-month anniversary of the death or permanent incapacity of Mr. Woods Staton, our Executive Chairman and controlling shareholder. In addition, if there is a material breach that relates to one or more Territories in which there are at least 100 restaurants in operation, McDonald's has the right either to acquire all of our non-public shares or our interests in our subsidiaries in such Territory or Territories. By contrast, if the initial material breach of the MFAs affects or is attributable to any of the Territories in which there are less than 100 restaurants in operation, McDonald's only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory. For example, since we have more than 100 restaurants in Mexico, if a Mexican subsidiary were to materially breach the MFA, McDonald's would have the right either to acquire our entire business throughout Latin America and the Caribbean or just our Mexican operations, whereas upon a similar breach by our Ecuadorean subsidiary, which has less than 100 restaurants in operation, McDonald's would only have the right to acquire our interests in our operations in Ecuador.

McDonald's was granted a perfected security interest in the equity interests of LatAm, LLC, Arcos Dourados Comercio de Alimentos Ltda. and certain of their subsidiaries to protect this right. In the event this right is exercised as a result of a material breach of the MFAs, the amount to be paid by McDonald's would be equal to 80% of the fair market value of the acquired equity interests. If McDonald's exercises its right to acquire our interests in one or more Territories as a result of a material breach, our business, results of operations and financial condition would be materially and adversely affected. See "Item 10. Additional Information—C. Material Contracts—The MFAs—Termination" for more details about fair market value calculation.

***The failure to successfully manage our future growth may adversely affect our results of operations.***

Our business has grown significantly since the Acquisition, largely due to the opening of new restaurants in existing and new markets within the Territories, and also from an increase in comparable store sales. Our total number of restaurant locations has increased from 1,569 at the date of the Acquisition to 2,293 restaurants as of December 31, 2019.

Our growth is, to a certain extent, dependent on new restaurant openings and therefore may not be constant from period to period; it may accelerate or decelerate in response to certain factors. There are many obstacles to opening new restaurants, including determining the availability of desirable locations, securing reliable suppliers, hiring and training new personnel and negotiating acceptable lease terms, and, in times of adverse economic conditions, franchisees may be more reluctant to provide the investment required to open new restaurants. In addition, our growth in comparable store sales is dependent on continued economic growth in the countries in which we operate as well as our ability to continue to predict and satisfy changing consumer preferences. In particular, we expect both new restaurant openings and growth in comparable store sales to be negatively affected as a result of the novel coronavirus (COVID-19) outbreak. See "—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so."

We plan our capital expenditures on an annual basis, taking into account historical information, regional economic trends, restaurant opening and reimagining plans, site availability and the investment requirements of the MFAs in order to maximize our returns on invested capital. The success of our investment plan may, however, be harmed by factors outside our control, such as changes in macroeconomic conditions, including as a result of the COVID-19 outbreak, changes in demand and construction difficulties that could jeopardize our investment returns and our future results and financial condition.

***We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations.***

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. We use McDonald's centralized supply chain management model, which relies on approved third-party suppliers and distributors for goods, and we generally use several suppliers to satisfy our needs for goods. This system encompasses selecting and developing suppliers of core products—beef, chicken, buns, produce, cheese, dairy mixes, beverages and toppings—who are able to comply with McDonald's high quality standards and establishing sustainable relationships with these suppliers. McDonald's standards include cleanliness, product consistency and timeliness as well as commitments to follow internationally recognized manufacturing practices, to meet or exceed all local food regulations and to comply with our Hazard Analysis Critical Control Plan, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up.

Our 35 largest suppliers account for approximately 78% of our purchases excluding Venezuela. Very few of our suppliers have entered into written contracts with us as we only have pricing protocols with a vast majority of them. Our supplier approval process is thorough and lengthy in order to ensure compliance with McDonald's high quality standards. We therefore tend to develop strong relationships with approved suppliers and, given our importance to them, have found that pricing protocols with them are generally enough to ensure a reliable supply of quality products. While we source our supplies from many approved suppliers in Latin America and the Caribbean, thereby reducing our dependence on any one supplier, the informal nature of the majority of our relationships with suppliers means that we may not be assured of long-term or reliable supplies of products from those suppliers.

In addition, certain supplies, such as beef, must often be locally sourced due to restrictions on their importation. In light of these restrictions, as well as the MFAs' requirement to purchase certain core supplies from approved suppliers, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders.

If our suppliers fail to provide us with products in a timely manner due to unanticipated demand, production or distribution problems, financial distress or shortages, if our suppliers decide to terminate their relationship with us or if McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards and we are obligated to terminate our relationship with such supplier, we may have difficulty finding appropriate or compliant replacement suppliers. As a result, we may face inventory shortages that could negatively affect our operations.

***Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements.***

As of December 31, 2019, 31.1% of our restaurants were franchised. Under our franchise agreements, we receive monthly payments which are, in most cases, the greater of a fixed rent or a certain percentage of the franchisee's gross sales. Franchisees are independent operators with whom we have franchise agreements. We typically own or lease the real estate upon which franchisees' restaurants are located and franchisees are required to follow our operating manual that specifies items such as menu choices, permitted advertising, equipment, food handling procedures, product quality and approved suppliers. Our operating results depend to a certain extent on the restaurant profitability and financial viability of our franchisees. The concurrent failure by a significant number of franchisees to meet their financial obligations to us could jeopardize our ability to meet our obligations. As a result of the COVID-19 pandemic, we expect many of our franchisees to have difficulty meeting their financial obligations to us. We are also deferring rent payments for 90 days in certain of our markets and are in the process of renegotiating rental terms in other markets as a result of the pandemic. See “—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so.”

We are liable for our franchisees' monthly payment of a continuing franchise fee to McDonald's, which represents a percentage of those franchised restaurants' gross sales. To the extent that our franchisees fail to pay this fee in full, we are responsible for any shortfall. As such, the concurrent failure by a significant number of franchisees to pay their continuing franchise fees could have a material adverse effect on our results of operations and financial condition.



***We do not have full operational control over the businesses of our franchisees.***

We are dependent on franchisees to maintain McDonald's quality, service and cleanliness standards, and their failure to do so could materially affect the McDonald's brand and harm our future growth. Although we exercise significant influence over franchisees through the franchise agreements, franchisees have some flexibility in their operations, including the ability to set prices for our products in their restaurants, hire employees and select certain service providers. In addition, it is possible that some franchisees may not operate their restaurants in accordance with our quality, service, cleanliness, health or product standards. Although we take corrective measures if franchisees fail to maintain McDonald's quality, service and cleanliness standards, we may not be able to identify and rectify problems with sufficient speed and, as a result, our image and operating results may be negatively affected.

***Ownership and leasing of a broad portfolio of real estate exposes us to potential losses and liabilities.***

As of December 31, 2019, we owned the land for 494 of our 2,293 restaurants and the buildings for all but 11 of our restaurants. The value of these assets could decrease or rental costs could increase due to changes in local demographics, the investment climate and increases in taxes.

The majority of our restaurant locations, or those operated by our franchisees, are subject to long-term leases. We may not be able to renew leases on acceptable terms or at all, in which case we would have to find new locations to lease or be forced to close the restaurants. If we are able to negotiate a new lease at an existing location, we may be subject to a rent increase. In addition, current restaurant locations may become unattractive due to changes in neighborhood demographics or economic conditions, which may result in reduced sales at these locations.

***The success of our business is dependent on the effectiveness of our marketing strategy.***

Market awareness is essential to our continued growth and financial success. Pursuant to the MFAs, we create, develop and coordinate marketing plans and promotional activities throughout the Territories, and franchisees contribute a percentage of their gross sales to our marketing plan. In addition, we are required under the MFAs to spend at least 5% of our sales on advertising and promotional activities in the majority of our markets. In connection with the COVID-19 outbreak, we have agreed with McDonald's to reduce this spending requirement from 5% to 4% of our gross sales for the full year 2020. Pursuant to the MFAs, McDonald's has the right to review and approve our marketing plans in advance and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We also participate in global and regional marketing activities undertaken by McDonald's and pay McDonald's approximately 0.1% of our sales in order to fund such activities.

If our advertising programs are not effective, or if our competitors begin spending significantly more on advertising than we do, we may be unable to attract new customers or existing customers may not return to our restaurants and our operating results may be negatively affected.

***We use non-committed lines of credit to partially finance our working capital needs.***

We use non-committed lines of credit to partially finance our working capital needs. In response to the COVID-19 pandemic and related disruption in regional and global economic activity, as of March 31, 2020, we had drawn \$101 million of short-term indebtedness from these lines of credit, and we expect to continue to draw on our available lines as needed and until the COVID-19 pandemic is brought under control. Given the nature of these lines of credit, they could be withdrawn and no longer be available to us, or their terms, including the interest rate, could change to make the terms no longer acceptable to us. The availability of these lines of credit depends on the level of liquidity in financial markets, which can vary based on events outside of our control, including financial or credit crises. Any inability to draw upon our non-committed lines of credit could have an adverse effect on our working capital, financial condition and results of operations.

***Covenants and events of default in the agreements governing our outstanding indebtedness could limit our ability to undertake certain types of transactions and adversely affect our liquidity.***

As of December 31, 2019, we had \$595.8 million in total outstanding indebtedness, consisting of \$626.8 million in long-term debt, \$13.3 million in short-term debt and \$(44.3) million related to the fair market value net of our outstanding derivative instruments. The agreements governing our outstanding indebtedness contain covenants and events of default that may limit our financial flexibility and ability to undertake certain types of transactions. For instance, we are subject to negative covenants that restrict some of our activities, including restrictions on:

- creating liens;
- paying dividends;

- maintaining certain leverage ratios;
- entering into sale and lease-back transactions; and
- consolidating, merging or transferring assets.

If we fail to satisfy the covenants set forth in these agreements or another event of default occurs under the agreements, our outstanding indebtedness under the agreements could become immediately due and payable. In addition, we are required to meet certain financial ratios under our line of credit and revolving credit facilities. While we expect to be in compliance with such ratios in the first quarter of 2020, we likely will be unable to meet such ratios in subsequent quarters if current conditions persist or worsen and will need to seek an amendment to our facilities or waivers from our lenders. If we are unable to obtain waivers for such non-compliance, we will be in default under our line of credit and revolving credit facilities. In the case of our revolving credit facilities, any amounts drawn under such facilities may be declared to be immediately due and payable by the relevant lender, who may also terminate its obligation to provide loans under such agreements. In the case of our non-committed line of credit, if we have previously drawn any amount, then such amounts may be immediately due and payable to the relevant lender, subject to the terms of each non-committed line of credit. If our outstanding indebtedness becomes immediately due and payable and we do not have sufficient cash on hand to pay all amounts due, we could be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financing. Refinancing may not be possible and additional financing may not be available on commercially acceptable terms, or at all.

***Uncertainty relating to the calculation of LIBOR and other reference rates and their potential discontinuance may materially adversely affect the value of our indebtedness and as a result our business, results of operations, financial condition and prospects.***

As of December 31, 2019, we had \$2.5 million outstanding indebtedness with third parties pursuant to our revolving credit facilities, which are tied to LIBOR. In recent years, national and international regulators and law enforcement agencies have conducted investigations into a number of rates or indices, such as LIBOR, which are deemed to be “reference rates.” Actions by such regulators and law enforcement agencies may result in changes to the manner in which certain reference rates are determined, their discontinuance, or the establishment of alternative reference rates. In particular, on July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Notwithstanding the foregoing, it appears highly likely that LIBOR will be discontinued or modified by 2021.

At this time, it is not possible to predict the effect that these developments, any discontinuance, modification or other reforms to LIBOR or any other reference rate, or the establishment of alternative reference rates may have on LIBOR, other benchmarks or floating rate debt securities, including the floating rate notes. Uncertainty as to the nature of such potential discontinuance, modification, alternative reference rates or other reforms may materially adversely affect the value of certain of our credit agreements that are tied to LIBOR. Furthermore, the use of alternative reference rates or other reforms could cause the interest rate calculated for such indebtedness to be materially different than expected. Any of the foregoing could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our inability to attract and retain qualified personnel may affect our growth and results of operations.***

We have a strong management team with broad experience in human resources, product development, supply chain management, operations, finance, marketing, real estate development and training. Our growth plans place substantial demands on our management team, and future growth could increase those demands. In addition, pursuant to the MFAs, McDonald’s is entitled to approve the appointment of our chief executive officer and chief operating officer. Our ability to manage future growth will depend on the adequacy of our resources and our ability to continue to identify, attract and retain qualified personnel. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Also, the success of our operations depends in part on our ability to attract and retain qualified regional and restaurant managers and general staff. If we are unable to recruit and retain our employees, or fail to motivate them to provide quality food and service, our image, operations and growth could be adversely affected.

***The resignation, termination, permanent incapacity or death of our Executive Chairman could adversely affect our business, results of operations, financial condition and prospects.***

Due to Mr. Woods Staton's unique experience and leadership capabilities, it would be difficult to find a suitable successor for him if he were to cease serving as Executive Chairman for any reason. In the event of Mr. Woods Staton's death or permanent incapacity, pursuant to the MFA, McDonald's has the right to acquire all of our non-public shares during the twelve-month period beginning on the eighteen-month anniversary of his death or incapacity.

In addition, in the event that we need to appoint a new CEO, pursuant to the MFA, we must submit to McDonald's the name of such proposed successor for McDonald's approval. If we and McDonald's have not agreed upon a successor CEO after six months, McDonald's may designate a temporary CEO in its sole discretion pending our submission of information relating to a further candidate and McDonald's approval of that candidate. A delay in finding a suitable successor CEO could adversely affect our business, results of operations, financial condition and prospects.

***Labor shortages or increased labor costs could harm our results of operations.***

Our operations depend in part on our ability to attract and retain qualified restaurant managers and crew. While the turnover rate varies significantly among categories of employees, due to the nature of our business we traditionally experience a high rate of turnover among our crew and we may not be able to replace departing crew with equally qualified or motivated staff.

As of December 31, 2019, we had 80,855 employees in our Company-operated restaurants and staff. Controlling labor costs is critical to our results of operations, and we closely monitor those costs. Some of our employees are paid minimum wages; any increases in minimum wages or changes to labor regulations in the Territories could increase our labor costs. For example, during 2019, Venezuela implemented three increases in the minimum wage. In addition, in December 2019, the government of Argentina enacted a decree establishing that employees dismissed without cause in the following six months are entitled to double indemnification from employers in an effort to mitigate the impact of economic difficulties facing the country at the time, and in April 2020, amid the COVID-19 outbreak, the government prohibited dismissals with or without cause under the argument of force majeure or lack of/reduction of work not imputable to the employer until June 30, 2020 (this last cause also applies for temporary suspensions). These or similar regulations, if adopted, may have an adverse impact on our results of operations. Competition for employees could also cause us to pay higher wages.

We are also impacted by the costs and other effects of compliance with regulations affecting our workforce. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, employee safety and other employee benefits and workplace practices. Claims of non-compliance with these regulations could result in liability and expense to us. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our franchisees or suppliers, including those giving rise to claims of sexual harassment or discrimination (or perceptions thereof) could have a negative impact on consumer perceptions of us and our business. In 2019, two of our restaurant employees in Peru died in a workplace accident at one of our restaurants. This accident is under investigation by Peruvian authorities, and while we do not expect a material impact from this event, any future workplace accidents could have a material adverse effect on our business, financial condition and results of operations.

Some of our employees are represented by unions and are working under agreements that are subject to annual salary negotiations. We cannot guarantee the results of any such collective bargaining negotiations or whether any such negotiations will result in a work stoppage. In addition, employees may strike for reasons unrelated to our union arrangements. Any future work stoppage could, depending on the affected operations and the length of the work stoppage, have a material adverse effect on our financial position, results of operations or cash flows.

***A failure by McDonald's to protect its intellectual property rights, including its brand image, could harm our results of operations.***

The profitability of our business depends in part on consumers' perception of the strength of the McDonald's brand. Under the terms of the MFAs, we are required to assist McDonald's with protecting its intellectual property rights in the Territories. Nevertheless, any failure by McDonald's to protect its proprietary rights in the Territories or elsewhere could harm its brand image, which could affect our competitive position and our results of operations.

Under the MFAs, we may use, and grant rights to franchisees to use, McDonald's intellectual property in connection with the development, operation, promotion, marketing and management of our restaurants. McDonald's has reserved the right to use, or grant licenses to use, its intellectual property in Latin America and the Caribbean for all other purposes, including to sell, promote or license the sale of products using its intellectual property. If we or McDonald's fail to identify unauthorized filings of McDonald's trademarks and imitations thereof, and we or McDonald's do not adequately protect McDonald's trademarks and copyrights, the infringement of McDonald's intellectual property rights by others may cause harm to McDonald's brand image and decrease our sales.

***Non-compliance with anti-terrorism and anti-corruption regulations could harm our reputation and have an adverse effect on our business, results of operations and financial condition.***

A material breach under the MFAs would occur if we, or our subsidiaries that are a party to the MFAs, materially breached any of the representations or warranties or obligations under the MFAs (not cured within 30 days after receipt of notice thereof from McDonald's) relating to or otherwise in connection with any aspect of the master franchise business, the franchised restaurants or any other matter in or affecting any one or more Territories, including by failing to comply with anti-terrorism or anti-corruption policies and procedures required by applicable law.

We maintain policies and procedures that require our employees to comply with anti-corruption laws, including the Foreign Corrupt Practices Act of 1977 (the "FCPA"), and our corporate standards of ethical conduct. However, we cannot ensure that these policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents. If we are not in compliance with the FCPA and other applicable anti-corruption laws, we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, and results of operations. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or other governmental authorities could adversely impact our reputation, cause us to lose or become disqualified from bids, and lead to other adverse impacts on our business, financial condition and results of operations.

***Any tax increase or change in tax legislation may adversely affect our results of operations.***

Since we conduct our business in many countries in Latin America and the Caribbean, we are subject to the application of multiple tax laws and multinational tax conventions. Our effective tax rate therefore depends on these tax laws and multinational tax conventions, as well as on the effectiveness of our tax planning abilities. Our income tax position and effective tax rate are subject to uncertainty as our income tax position for each year depends on the profitability of Company-operated restaurants and on the profitability of franchised restaurants operated by our franchisees in tax jurisdictions that levy income tax at a broad range of rates. It is also dependent on changes in the valuation of deferred tax assets and liabilities, the impact of various accounting rules, changes to these rules and tax laws and examinations by various tax authorities. If our actual tax rate differs significantly from our estimated tax rate, this could have a material impact on our financial condition. In addition, any increase in the rates of taxes, such as income taxes, excise taxes, value added taxes, import and export duties, and tariff barriers or enhanced economic protectionism could negatively affect our business. Fiscal measures that target either QSRs or any of our products could also be taken.

We cannot assure you that any governmental authority in any country in which we operate will not increase taxes or impose new taxes on our operations or products in the future.

***Tax assessments in any of the jurisdictions in which we operate may negatively affect our business and results of operations.***

As part of the ordinary course of business, we are subject to inspections by federal, municipal and state tax authorities in Latin America. These inspections may generate tax assessments which, depending on their results, may have an adverse effect on our financial results. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings."

***Litigation and other pressure tactics could expose our business to financial and reputational risk.***

Given that we conduct our business in many countries, we may be subject to multi-jurisdictional private and governmental lawsuits, including but not limited to lawsuits relating to labor and employment practices, taxes, trade and business practices, franchising, intellectual property, consumer, real property, landlord/tenant, environmental, advertising, nutrition and antitrust matters. In the past, QSR chains have been subject to class-action lawsuits claiming that their food products and promotional strategies have contributed to the obesity of some customers. We cannot guarantee that we will not be subject to these or similar types of lawsuits in the future. We may also be the target of pressure tactics such as strikes, boycotts and negative publicity from government officials, suppliers, distributors, employees, unions, special interest groups and customers that may negatively affect our reputation.

***Information technology system failures or interruptions or breaches of our network security may interrupt our operations, exposing us to increased operating costs and to litigation.***

We rely heavily on our computer systems and network infrastructure across our operations including, but not limited to, point-of-sale processing at our restaurants. We implement security measures and controls that we believe provide reasonable assurance regarding our security posture. However, there remains the risk that our technology systems are vulnerable to damage, disability or failures due to physical theft, fire, power loss, telecommunications failure or other catastrophic events. If those systems were to fail or otherwise be unavailable, and we were unable to recover in a timely way, we could experience an interruption in our operations. Moreover, security breaches involving our systems may occur from time to time. These include internal and external security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Our information technology systems contain personal, financial and other information that is entrusted to us by our customers, our employees and other third parties, as well as financial, proprietary and other confidential information related to our business. For example, on September 20, 2019 a journalist gained access to sensitive employee and partner information in Brazil due to a misconfigured service system provided by one of Arcos' service providers. Our IT team discovered and resolved the breach in a matter of hours in conjunction with the service provider and we engaged a well-known consultancy firm to help us perform an investigation of the breach and its ramifications. While our investigation determined that the impact of the breach was low, we cannot assure you that we will not experience similar security breaches in the future. Moreover, our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. An actual or alleged security breach of our or their systems could result in disruptions, shutdowns, theft or unauthorized disclosure of personal, financial, proprietary or other confidential information. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and criminal penalties or civil liabilities.

***Our insurance may not be sufficient to cover certain losses.***

We face the risk of loss or damage to our properties, machinery and inventories due to fire, theft and natural disasters such as earthquakes and floods. While our insurance policies cover some losses in respect of damage or loss of our properties, machinery and inventories, our insurance may not be sufficient to cover all such potential losses. For example, we suffered losses in connection with a truck drivers' strike in Brazil in 2018, which disrupted our supply chain that were not covered by our insurance policies. We also do not expect our insurance to cover losses due to lower sales as a result of the COVID-19 pandemic. In the event that any losses exceed our insurance coverage or are not covered by our insurance policies, we will be liable for the excess. In addition, even if such losses are fully covered by our insurance policies, such fire, theft or natural disaster may cause disruptions or cessations in its operations and adversely affect our financial condition and results of operations.

## Certain Factors Relating to Our Industry

### ***The food services industry is intensely competitive and we may not be able to continue to compete successfully.***

Although competitive conditions in the QSR industry vary in each of the countries in which we conduct our operations, we compete with many well-established restaurant companies on price, brand image, quality, sales promotions, new product development and restaurant locations. Since the restaurant industry has few barriers to entry, our competitors are diverse and range from national and international restaurant chains to individual, local restaurant operators. Our largest competitors include Burger King, Yum! Brands (which operates KFC restaurants, Taco Bell and Pizza Hut and Pizza Hut Express restaurants), Carl's Junior and Subway. In Brazil, we also compete with Habib's, a Brazilian QSR chain that focuses on Middle Eastern food, and Bob's, a primarily Brazilian QSR chain that focuses on hamburger product offerings. We also face strong competition from new businesses targeting the same clients we serve, as well as from street vendors of limited product offerings, including hamburgers, hot dogs, pizzas and other local food items. We expect competition to increase as our competitors continue to expand their operations, introduce new products and market their brands.

If any of our competitors offers products that are better priced or more appealing to the tastes of consumers, increases its number of restaurants, obtains more desirable restaurant locations, provides more attractive financial incentives to management personnel, franchisees or hourly employees or has more effective marketing initiatives than we do in any of the markets in which we operate, this could have a material adverse effect on our results of operations.

### ***Increases in commodity prices or other operating costs could harm our operating results.***

Food and paper costs represented 35.8% of our total sales by Company-operated restaurants in 2019, and 21.5% of our food and paper raw materials cost is exposed to fluctuations in foreign exchange rates. We rely on, among other commodities, beef, chicken, produce, dairy mixes, beverages and toppings. The cost of food and supplies depends on several factors, including global supply and demand, new product offerings, weather conditions, fluctuations in energy costs and tax incentives, all of which makes us susceptible to substantial price and currency fluctuations and other increased operating costs. Our hedging strategies on the imported portion of our food and paper raw materials may not be successful in fully offsetting cost increases due to currency fluctuations. Furthermore, due to the competitive nature of the restaurant industry, we may be unable to pass increased operating costs on to our customers, which could have an adverse effect on our results of operations.

### ***Demand for our products may decrease due to changes in consumer preferences or other factors.***

Our competitive position depends on our continued ability to offer items that have a strong appeal to consumers. If consumer dining preferences change due to shifts in consumer demographics, dietary inclinations, trends in food sourcing or food preparation and our consumers begin to seek out alternative restaurant options, our financial results might be adversely affected. In addition, negative publicity surrounding our products could also materially affect our business and results of operations.

Our success in responding to consumer demands depends in part on our ability to anticipate consumer preferences and introduce new items to address these preferences in a timely fashion.

### ***Our investments to enhance the customer experience, including through technology, may not generate the expected returns.***

We are engaged in various efforts to improve our customers' experience in our restaurants. In particular, in partnership with McDonald's, we have invested in Experience of the Future ("EOTF"), which focuses on restaurant modernization and technology and digital engagement in order to transform the restaurant experience. As we accelerate our pace of converting restaurants to EOTF, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives and payment systems.

We have also started a digital transformation with the goal of increasing our engagement with our customers and using data in order to improve our decision-making. In order to accomplish this goal, we are making structural changes in our IT, including creating a "digital factory" to facilitate collaboration across groups within Arcos Dorados and adopting agile methodologies and principals to aid different groups in transforming products and services and the customer experience, or in otherwise achieving a specific business objective. We may not fully realize the intended benefits of these significant investments, or these initiatives may not be well executed, and therefore our business results may suffer.

***Our business activity may be negatively affected by disruptions, catastrophic events or health pandemics.***

Unpredictable events beyond our control, including war, terrorist activities, political and social unrest and natural disasters, could disrupt our operations and those of our franchisees, suppliers or customers, have a negative effect on consumer spending or result in political or economic instability. These events could reduce demand for our products or make it difficult to ensure the regular supply of products through our distribution chain.

In addition, incidents of health pandemics, food-borne illnesses or food tampering could reduce sales in our restaurants. Widespread illnesses such as avian influenza, the H1N1 influenza virus, e-coli, bovine spongiform encephalopathy (or “mad cow” disease), hepatitis A or salmonella could cause customers to avoid meat or fish products. Furthermore, our reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents being caused by third-party food suppliers and distributors who operate outside of our control and/or multiple locations being affected rather than a single restaurant. In addition, recurrent events in our region related to Dengue, Yellow Fever and Zika viruses, as well as the COVID-19 outbreak in 2020, have resulted in heightened health concerns in the region, which could reduce the visits to our restaurants if these cases are not controlled.

Food safety events involving McDonald’s outside of Latin America or other well-known QSR chains could negatively impact our business industry. Another extended issue in our region is the use of social media to post complaints against the QSR segment and the use of mobile phones to capture any deviation in our processes, products or facilities. Media reports of health pandemics, such as the COVID-19 outbreak, or food-borne illnesses found in the general public or in any QSR could dramatically affect restaurant sales in one or several countries in which we operate, or could force us to temporarily close an undetermined number of restaurants. As a restaurant company, we depend on consumer confidence in the quality and safety of our food. Any illness or death related to food that we serve could substantially harm our operations. While we maintain extremely high standards for the quality of our food products and dedicate substantial resources to ensure that these standards are met and well communicated publicly the spread of these illnesses is often beyond our control and we cannot assure you that new illnesses resistant to any precautions we may take will not develop in the future.

In addition, our industry has long been subject to the threat of food tampering by suppliers, employees or customers, such as the addition of foreign objects to the food that we sell. Reports, whether true or not, of injuries caused by food tampering have in the past negatively affected the reputations of QSR chains and could affect us in the future. Instances of food tampering, even those occurring solely at competitor restaurants, could, by causing negative publicity about the restaurant industry, adversely affect our sales on a local, regional, national or systemwide basis. A decrease in customer traffic as a result of public health concerns or negative publicity could materially affect our business, results of operations and financial condition.

***Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children’s meals may harm McDonald’s brand image and our results of operations.***

A significant portion of our business depends on our ability to make our product offerings appealing to families with children. Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay are considering imposing, or have already imposed, restrictions that impact the ways in which we market our products, including proposals that would have the effect of restricting our ability to advertise directly to children through the use of toys and to sell toys in conjunction with food.

In June 2012, Chile passed a law banning the inclusion of toys in children’s meals with certain nutritional characteristics (Law N° 20,606). This law came into effect on June 26, 2016. The ban in Chile also restricts advertisements to children under the age of 14. As a result of these laws, we modified our children’s meals in order to continue offering toys in them. However, we were subject to several audits by the Chilean authorities. Chilean Law N° 20,869, which also came into effect on June 26, 2016, restricts advertisements on television and in movie theaters between 6:00 a.m. and 10:00 p.m. This law affects food products that exceed certain standards of nutritional quality set by the Chilean authorities. These restrictions on advertisements did not affect or have any impact on our sales. On June 26, 2019, strict standards of nutritional quality set by the Chilean authorities came into effect. As a result of modifications that we made to the contents of some of our products in adherence with these stricter standards, we were able to continue offering toys in children’s meals. However, the volume of Happy Meals sold in Chile has been declining since 2016.

Similar to Chile, in 2013, Peru approved Law No. 30021, which, together with the corresponding Regulatory Decree approved in June 2017, restricts the advertising of processed food products and non-alcoholic beverages intended for children under 16. In addition, regulations establish that advertisements of food products and non-alcoholic beverages containing trans-fat and high levels of sodium, sugar and saturated fat must contain a warning stating that excessive consumption should be avoided. These regulations do not include food prepared on the spot at the request of a customer, and as a result, Arcos Dorados’ products are excluded from the scope of application of such law.

Since 2014, the Mexican Ministry of Health empowered the Federal Commission for Prevention of Sanitary Risks (*Comisión Federal para la Protección contra Riesgos Sanitarios* or COFEPRIS) to regulate advertising directed at families with children. On April 15, 2014, COFEPRIS issued certain regulations which establish the maximum contents of fat, sodium and sugars that every meal advertised to children on television and in cinemas may contain. In February of 2015, COFEPRIS ordered us to stop advertising Happy Meals on television until we disclosed all the nutritional information for Happy Meals to COFEPRIS. We provided this information to COFEPRIS, but we have not yet received any legal authorization to advertise Happy Meals either during the general times when children may be watching television or during any programming geared towards children. We have developed a Happy Meals with chicken nuggets that complies with COFEPRIS' nutritional requirements and will begin a pilot advertising program that complies with the advertising requirements in select areas of Mexico. However, generally, we are prohibited from advertising Happy Meals from 2:30 p.m. to 7:30 p.m., Monday through Friday, and from 7:00 a.m. to 7:00 p.m. on Saturday and Sunday.

In Brazil, the Federal Prosecutor's Office filed suit in 2009 seeking to enjoin various QSRs, including us, from including toys in our children's meals. The Lower Federal Court in São Paulo ruled that the lawsuit was without merit. The Prosecutor's Office filed an appeal against this decision, which will be adjudicated by the Regional Federal Court in São Paulo. As of the date of this annual report, this appeal is still pending and the outcome remains uncertain. In addition, the number of proposed laws seeking to restrict the sale of toys with meals increased significantly in Brazil at the federal, state and municipal levels. In April 2013, a consumer protection agency in Brazil fined us \$1.6 million for a 2010 advertising campaign relating to our offering of meals with toys from the motion picture *Avatar*. We filed a lawsuit seeking to annul the fine. The lower court ruled there was no basis for the penalty, which was upheld by the appellate court. The consumer protection agency filed a special appeal against this decision, which is pending final decision. Although similar fines relating to our current and previous advertising campaigns involving the sale of toys may be possible in the future, as of the date of this annual report, we are unaware of any other such fines, and in 2018, our subsidiaries in Brazil and Mexico joined the International Food and Beverage Alliance that regulates advertising for kids to help ensure our ongoing compliance with advertising restrictions.

On July 28, 2014, Colombia enacted Decree 975 of 2014, which sets forth certain directives regarding advertising directed at children. These directives include, (i) limiting any insinuation that the food and beverage being advertised is a substitute for any of the principal daily meals; (ii) any advertising directed at children or adolescents, during certain times of the day when children and adolescents are more likely to be consuming such advertising, must include disclosure that the advertisement is not part of the actual program; and (iii) requiring parental approval for any advertisement through a child/adolescent digital platform that requests any download or purchase.

Certain jurisdictions in the United States are also considering curtailing or have curtailed food retailers' ability to sell meals to children including free toys if these meals do not meet certain nutritional criteria.

In Argentina, there are currently several bills in Congress aimed at restricting advertising of high-calorie or processed food and beverages and promoting healthy food/nutrition habits, which are being discussed. Although as of the date of this annual report there are currently no federal regulations in force, some of these bills might be enacted in the short term. In addition, at the local level, the Province of Santa Fe and the City of Buenos Aires have enacted local regulations, imposing certain restrictions on the advertisement of high-calorie or processed foods and beverages targeting underage consumers.

Although we have introduced changes in our Happy Meals in order to offer more balanced and healthy options to our customers and in many cases been able to mitigate the impact of these types of laws and regulations on our sales, we may not be able to do so in the future and the imposition of similar or stricter laws and regulations in the future in the Territories may have a negative impact on our results of operations. In general, regulatory developments that adversely impact our ability to promote and advertise our business and communicate effectively with our target customers, including restrictions on the use of licensed characters, may have a negative impact on our results of operations.



***We are subject to increasingly strict data protection laws, which could increase our costs and adversely affect our business.***

On August 2018, Brazil approved the General Data Protection Law (“*Lei Geral de Proteção de Dados*” or “LGPD”), federal law 13,709/2018. Very similar to the European Union General Data Protection Regulation (“GDPR”), the LGPD significantly improves Brazil’s existing legal framework by regulating the use of personal data by the private and public sectors. The concept of “data processing” is broad and includes the collection, storage, transfer, deletion and other activities related to personal data; penalties include warnings, single and daily fines, blocking and elimination of the personal data at stake. By the time of its enforcement, Arcos Dourados Comercio de Alimentos Ltda. will need to ensure that personal data processing is grounded on at least one legal basis provided for in the LGPD and will need to adopt administrative and technical security measures to protect personal data. The implementation of these and similar laws and regulations in the other countries in which we operate may increase our operation costs, which could have a material adverse effect on our business. Another example is Peru, where the Personal Data Protection Law (Law No. 29733) was approved in 2011; and the Supreme Decree No. 003-2013-JUS, Regulation of the Personal Data Protection Law, in 2013. All companies are required to comply with these regulations since May 2015. This legal framework regulates the use of personal data, which is defined as any operation that allows the recompilation, registration, organization, conservation, elaboration, modification, suppression, transference, or any other operation that facilitates access, correlation or interconnection of personal data. Failure to comply is punishable with economic fines by the Personal Data Protection Authority. In November 2019, Peru approved the Directorial Resolution No. 80-2019-JUS/DGTAIPD, Practical Guide to Comply with the “Obligation to Inform.” This is a general guideline to facilitate compliance with the obligation to inform the various owners of personal data of the processing of their personal data and provides information about the obligation and various exceptions to it.

***Environmental laws and regulations may affect our business.***

We are subject to various environmental laws and regulations. These laws and regulations govern, among other things, discharges of pollutants into the air and water and the presence, handling, release and disposal of, and exposure to, hazardous substances, single use plastics and recycling. These laws and regulations provide for significant fines and penalties for noncompliance. Third parties may also assert personal injury, property damage or other claims against owners or operators of properties associated with release of, or actual or alleged exposure to, hazardous substances at, on or from our properties.

Liability from environmental conditions relating to prior, existing or future restaurants or restaurant sites, including franchised restaurant sites, may have a material adverse effect on us. Moreover, the adoption of new or more stringent environmental laws or regulations could result in a material environmental liability to us.

In addition, beginning in 2018, Latin America experienced a wave of regulatory attempts to eliminate single use plastic products in the region. In many countries, new laws and regulations, especially in relation to the use of plastic straws, have already been approved and in many cases will carry stiff penalties for violations. We have addressed this issue in our business by removing all the plastic straws and instead using alternative products. Additionally, we removed plastic tops from products used in our business and changed the salad containers in Argentina for carton containers. We will need to find suitable alternatives before these new laws and regulations become effective. Regulations tend to be replicated across countries, and we are seeing an increase in related activity, both nationally and locally, in Brazil, Mexico, Colombia, Argentina, Ecuador, Chile, Peru among other territories. We may need to quickly replace other plastic products that we continue to use should additional laws and regulations be put in place. These alternatives may be more expensive than the plastic products we currently use, which may increase our costs and have a material adverse effect on our business.

***We may be adversely affected by legal actions with respect to our business.***

We could be adversely affected by legal actions and claims brought by consumers or regulatory authorities in relation to the quality of our products and eventual health problems or other consequences caused by our products or by any of their ingredients. We could also be affected by legal actions and claims brought against us for products made in a jurisdiction outside the jurisdictions where we are operating. An array of legal actions, claims or damaging publicity may affect our reputation as well as have a material adverse effect on our revenues and businesses. See “Item 8. Financial Information —A. Consolidated Statements and Other Information—Legal Proceedings.”

***Unfavorable publicity or a failure to respond effectively to adverse publicity, particularly on social media platforms, could harm our reputation and adversely impact our business and financial performance.***

The good reputation of our brand is a key factor in the success of our business. Actual or alleged incidents at any of our restaurants could result in harmful publicity. Moreover, we have seen a significant increase in the use of our delivery options as a result of the COVID-19 pandemic. Any actual or perceived delay in the delivery of orders could also result in harmful publicity. Even incidents occurring at restaurants operated by our competitors or in the supply chain generally could result in negative publicity that could harm the restaurant industry and thus, indirectly, our brand. In particular, in recent years, there has been a marked increase in the use of social media platforms and similar devices which give individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their participants' posts, often without filters or checks on accuracy of the content posted. A variety of risks are associated with the dissemination of this information online, including the improper disclosure of proprietary information, negative comments about our company, exposure of personally identifiable information, fraud or outdated information. The inappropriate use of social media platforms by our customers, employees or other individuals could increase our costs, lead to litigation or result in negative publicity that could damage our reputation. If we are unable to quickly and effectively respond, we may suffer damage to our reputation or loss of consumer confidence in our products, which could adversely affect our business, results of operations, cash flows and financial condition, as well as require resources to rebuild our reputation.

#### **Certain Factors Relating to Latin America and the Caribbean**

***Our business is subject to the risks generally associated with international business operations.***

We engage in business activities throughout Latin America and the Caribbean. In 2019, 72.3% of our revenues were derived from Brazil, Argentina, Mexico and Chile. As a result, our business is and will continue to be subject to the risks generally associated with international business operations, including:

- governmental regulations applicable to food services operations;
- changes in social, political and economic conditions;
- transportation delays;
- power, water and other utility shutdowns or shortages;
- limitations on foreign investment;
- restrictions on currency convertibility and volatility of foreign exchange markets;
- inflation;
- import-export quotas and restrictions on importation;
- changes in local labor conditions;
- changes in tax and other laws and regulations;
- expropriation and nationalization of our assets in a particular jurisdiction; and
- restrictions on repatriation of dividends or profits.

Some of the Territories have been subject to social and political instability in the past, and interruptions in operations could occur in the future. See also “— Developments and the perception of risk in other countries, especially emerging market countries, may adversely affect business, results, financial conditions and prospects.”

***Developments and the perception of risk in other countries, especially emerging market countries, may adversely affect business, results, financial conditions and prospects.***

Arcos Dorados' growth and profitability depend on political stability and economic activity in Latin America and the Caribbean, especially in emerging market countries. Recent political unrest and social strife could affect developments and perception of risk in this region. For example, in 2019, political and social unrest in Latin American countries, including Ecuador, Chile, Bolivia and Colombia sparked political demonstrations and, in some instances, violence. In October 2019, presidential elections were held in Bolivia, Uruguay and Argentina. Controversial outcomes in Bolivia and Uruguay led to violent protests and claims of fraudulent elections in Bolivia and a runoff election in Uruguay.

Similarly, Chile experienced political unrest and social strife, including a wave of protests and riots, beginning on October 18, 2019, sparked by an increase in the subway fare of the Santiago Metro and widened to reflect anger over living costs and inequality. The unrest in Chile and associated civil protests caused political and economic instability and led to damage of property and other vandalism. Six of our restaurants in Chile were closed due to significant damages caused by fire and a seventh suffered minor damages but remains closed because the shopping center where it is located has not re-opened. Although our insurance will cover all of the physical damage and our direct losses as a result of the restaurant closures, there are certain losses that may not be recoverable, such as losses suffered from adjusted business hours to ensure the safety of our staff and other travel and safety measures.

As a result of this political and social turmoil there was a decrease in demand at our restaurants in certain regions and certain of our restaurants experienced physical damage in Chile as a result of the civil protests. While this damage did not have a material adverse effect on our business, any further turmoil could have such an effect on the business. Accordingly, the political unrest and social strife, including waves of protests, civil demonstrations and riots could have a significant impact on us. We cannot assure you that future developments affecting the political and social situation, including economic or political instability, in this region will not adversely affect our business, results of operations, financial condition and prospects.

***Changes in governmental policies in the Territories could adversely affect our business, results of operations, financial condition and prospects.***

Governments throughout Latin America and the Caribbean have exercised, and continue to exercise, significant influence over the economies of their respective countries. Accordingly, the governmental actions, political developments, regulatory and legal changes or administrative practices in the Territories concerning the economy in general and the food services industry in particular could have a significant impact on us. We cannot assure you that changes in the governmental policies of the Territories will not adversely affect our business, results of operations, financial condition and prospects.

***Latin America has experienced, and may continue to experience, adverse economic conditions that have impacted, and may continue to impact, our business, financial condition and results of operations.***

The success of our business is dependent on discretionary consumer spending, which is influenced by general economic conditions, consumer confidence and the availability of discretionary income in the countries in which we operate. Latin American countries have historically experienced uneven periods of economic growth, recessions, periods of high inflation and economic instability. In 2019, the economic growth rates of the economies of many Latin American countries slowed and some entered recessions, and we expect to see further slowdowns in 2020 as a result of COVID-19. Any prolonged economic downturn could result in a decline in discretionary consumer spending. This may reduce the number of consumers who are willing and able to dine in our restaurants, or consumers may make more value-driven and price-sensitive purchasing choices, eschewing our core menu items for our entry-level food options. We may also be unable to sufficiently increase prices of our menu items to offset cost pressures, which may negatively affect our financial condition.

In addition, a prolonged economic downturn may lead to higher interest rates, significant changes in the rate of inflation or an inability to access capital on acceptable terms. Our suppliers and service providers could experience cash flow problems, credit defaults or other financial hardships. If our franchisees cannot adequately access the financial resources required to open new restaurants, this could have a material effect on our growth strategy.

***Many of our customers depend on remittances from family members living overseas. Laws, regulations or events that limit such remittances or any changes to United States immigration policy may adversely affect our financial condition and results of operations.***

Many of the jurisdictions in which we operate depend on remittances as a source of revenue. Many of our customers rely on remittances from family members living overseas as a primary or secondary source of income. Any law, regulation or event that restricts, taxes or prevents those remittances may adversely affect demand for our products and our customers' ability to repay their consumer loans, which in turn may adversely affect our financial condition and results of operations. In particular, President Trump's administration has in the past mentioned the possibility of taxing remittances to Mexico. We cannot assure you that the Trump administration will not implement taxing of remittances to Mexico or the other countries in which we operate. The implementation of any such measure may have a material adverse effect on our financial condition and results of operations.

***Inflation and government measures to curb inflation may adversely affect the economies in the countries where we operate, our business and results of operations.***

Many of the countries in which we operate, have experienced, or are currently experiencing, high rates of inflation. For example, as of July 1, 2018, Argentina is considered highly inflationary under U.S. GAAP. In addition, Venezuela has been considered hyperinflationary under U.S. GAAP since 2010. Although inflation rates in many of the other countries in which we operate have been relatively low in the recent past, we cannot assure you that this trend will continue. The measures taken by the governments of these countries to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and retarding economic growth. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in many of these countries and to heightened volatility in their securities markets. Periods of higher inflation may also slow the growth rate of local economies that could lead to reduced demand for our core products and decreased sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to fully pass on to our customers, which could adversely affect our operating margins and operating income.

***Exchange rate fluctuations against the U.S. dollar in the countries in which we operate have negatively affected, and could continue to negatively affect, our results of operations.***

We are exposed to exchange rate risk in relation to the United States dollar. While substantially all of our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports, as well as some of our capital expenditures and a significant portion of our long-term debt, are denominated in U.S. dollars. As a result, the decrease in the value of the local currencies of the countries in which we operate as compared to the U.S. dollar has increased our costs, and any further decrease in the value of such currencies will further increase our costs. Although we maintain a hedging strategy to attempt to mitigate some of our exchange rate risk, our hedging strategy may not be successful or may not fully offset our losses relating to exchange rate fluctuations.

As a result, fluctuations in the value of the U.S. dollar with respect to the various currencies of the countries in which we operate or in U.S. dollar interest rates could adversely impact our net income, results of operations and financial condition.

***Price controls and other similar regulations in certain countries have affected, and may in the future affect, our results of operations.***

Certain countries in which we conduct operations have imposed, and may continue to impose, price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products. For example, there are currently certain price control regulations in force in Argentina. Although the industry in which we operate is not yet subject to these regulations, it is not clear whether the current administration will apply or enforce price controls in the future on the industry in which we operate.

Moreover, the Venezuelan market is subject to a regulation establishing a maximum profit margin for companies and maximum prices for certain goods and services. Although we managed to navigate the negative impact of the price controls on our operations from 2013 through 2019, the existence of such laws and regulations continues to present a risk to our business. We continue to closely monitor developments in this dynamic environment. See "Item 4. Information on the Company—B. Business Overview—Regulation."

The imposition and enforcement of these and similar restrictions in the future may place downward pressure on the prices at which our products are sold and may limit the growth of our revenue. We cannot assure you that existing price controls will not be enforced or become more stringent, or that new price controls will not be imposed in the future, or that any such controls may not have an adverse effect on our business. Our inability to control the prices of our products could have an adverse effect on our results of operations.

***We are subject to significant foreign currency exchange controls and currency devaluation in certain countries in which we operate.***

Certain Latin American economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds out of certain countries, including for the purchase of dollar-denominated inputs, the payment of dividends or the payment of interest or principal on our outstanding debt. In the event that any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

For example, in 2019, our subsidiaries in Argentina represented 13.2% of our total revenues. Since September 2019, the current Argentine government has tightened restrictions on capital flows and imposed exchange controls and transfer restrictions, substantially limiting the ability of companies to retain foreign currency or make payments outside of Argentina. Furthermore, the Central Bank of Argentina implemented regulations requiring its prior approval for certain foreign exchange transactions otherwise authorized to be carried out under the applicable regulations, such as dividend payments or repayment of principal of inter-company loans as well as the import of goods. As a consequence of the reimposition of exchange controls, the spread between the official exchange rate and other exchange rates resulting implicitly from certain capital market operations usually effected to obtain U.S. dollars has broadened significantly, reaching a value of approximately 72% above the official exchange rate as of April 27, 2020. The implementation of the above-mentioned measures could impact our ability to transfer funds outside of Argentina and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina. As a result, if we are prohibited from transferring funds out of Argentina, or if we become subject to similar restrictions in other countries in which we operate, our results of operations and financial condition could be materially adversely affected.

In addition, the continuing devaluation of the Argentine *peso* since the end of 2015 and the Venezuelan *bolivar* since 2010 has led to higher inflation levels, has significantly reduced competitiveness, real wages and consumption and has had a negative impact on businesses whose success is dependent on domestic market demand and supplies payable in foreign currency.

Further currency devaluations in any of the countries in which we operate could have a material adverse effect on our results of operations and financial condition. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls.”

***If we fail to comply with, or if we become subject to, more onerous government regulations, our business could be adversely affected.***

We are subject to various federal, state and municipal laws and regulations in the countries in which we operate, including those related to the food services industry, health and safety standards, importation of goods and services, marketing and promotional activities, nutritional labeling, zoning and land use, environmental standards and consumer protection. We strive to abide by and maintain compliance with these laws and regulations. The imposition of new laws or regulations, including potential trade barriers, may increase our operating costs or impose restrictions on our operations, which could have an adverse impact on our financial condition.

For example, Argentine regulations require us to seek permission from the Argentine authorities prior to importing certain goods. Although these regulations do not currently affect us, they may in the future prevent or delay the receipt of goods that we require for our operations, or increase the costs associated with obtaining those goods, and therefore have an adverse impact on our business, results of operations or financial condition. Additionally, in 2017, Venezuela enacted the Productive Foreign Investments Constitutional Act, which replaced the Foreign Investment Act of 2014. This law establishes the requirements and limitations for the transfer of dividends and repatriation of foreign investments. It also establishes a minimum investment sum to be registered with the Ministry of Popular Power with Foreign Investment, limits access to internal financing, modifies the criteria of foreign investments and creates a new penalty system for those who do not comply with the law.

Regulations governing the food services industry have become more restrictive. We cannot assure you that new and stricter standards will not be adopted or become applicable to us, or that stricter interpretations of existing laws and regulations will not occur. Any of these events may require us to spend additional funds to gain compliance with the new rules, if possible, and therefore increase our cost of operation.

***We could be subject to expropriation or nationalization of our assets and government interference with our business in certain countries in which we operate.***

We face a risk of expropriation or nationalization of our assets and government interference with our business in several of the countries in which we do business. These risks are particularly acute in Venezuela. The current Venezuelan government has promoted a model of increased state participation in the economy through welfare programs, exchange and price controls and the promotion of state-owned companies. We can provide no assurance that Company-operated or franchised restaurants will not be threatened with expropriation and that our operations will not be transformed into state-owned enterprises. In addition, the Venezuelan government may pass laws, rules or regulations which may directly or indirectly interfere with our ability to operate our business in Venezuela which could result in a material breach of the MFAs, in particular if we are unable to comply with McDonald's operations system and standards. A material breach of the MFAs would trigger McDonald's option to acquire our non-public shares or our interests in Venezuela. See "—Certain Factors Relating to Our Business—McDonald's has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value."

#### **Certain Factors Relating to Our Class A Shares**

***Mr. Woods Staton, our Executive Chairman, controls all matters submitted to a shareholder vote, which will limit your ability to influence corporate activities and may adversely affect the market price of our class A shares.***

Mr. Woods Staton, our Executive Chairman, owns or controls common stock representing 39.61% and 76.49%, respectively, of our economic and voting interests. As a result, Mr. Woods Staton is and will be able to strongly influence or effectively control the election of our directors, determine the outcome of substantially all actions requiring shareholder approval and shape our corporate and management policies. The MFAs' requirement that Mr. Woods Staton at all times hold at least 51% of our voting interests likely will have the effect of preventing a change in control of us and discouraging others from making tender offers for our shares, which could prevent shareholders from receiving a premium for their shares. Moreover, this concentration of share ownership may make it difficult for shareholders to replace management and may adversely affect the trading price for our class A shares because investors often perceive disadvantages in owning shares in companies with controlling shareholders. This concentration of control could be disadvantageous to other shareholders with interests different from those of Mr. Woods Staton and the trading price of our class A shares could be adversely affected. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders" for a more detailed description of our share ownership.

Furthermore, the MFAs contemplate instances where McDonald's could be entitled to purchase the shares of Arcos Dorados Holdings Inc. held by Mr. Woods Staton. However, our publicly held class A shares will not be similarly subject to acquisition by McDonald's.

***Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our class A shares to decline.***

Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our Class A shares to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our articles of association, we are authorized to issue up to 420,000,000 class A shares, of which 124,070,029 class A shares were outstanding as of December 31, 2019 and 7,993,602 class A shares were held in treasury. We cannot predict the size of future issuances of our shares or the effect, if any, that future sales and issuances of shares would have on the market price of our class A shares.

***As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain NYSE corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This may afford less protection to holders of our Class A shares.***

Section 303A of the New York Stock Exchange, or NYSE, Listed Company Manual requires listed companies to have, among other things, a majority of their board members be independent, and to have independent director oversight of executive compensation, nomination of directors and corporate governance matters. As a foreign private issuer, however, we are permitted to, and we will, follow home country practice in lieu of the above requirements. British Virgin Islands law, the law of our country of incorporation, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee, and our board thus may not include, or may include fewer, independent directors than would be required if we were subject to these NYSE requirements. Since a majority of our board of directors may not consist of independent directors as long as we rely on the foreign private issuer exemption to these NYSE requirements, our board's approach may, therefore, be different from that of a board with a majority of independent directors, and as a result, the management oversight of our Company may be more limited than if we were subject to these NYSE requirements.

#### **Certain Risks Relating to Investing in a British Virgin Islands Company**

***We are a British Virgin Islands company and it may be difficult for you to obtain or enforce judgments against us or our executive officers and directors in the United States.***

We are incorporated under the laws of the British Virgin Islands. Most of our assets are located outside the United States. Furthermore, most of our directors and officers reside outside the United States, and most of their assets are located outside the United States. As a result, you may find it difficult to effect service of process within the United States upon these persons or to enforce outside the United States judgments obtained against us or these persons in U.S. courts, including judgments in actions predicated upon the civil liability provisions of the U.S. federal securities laws. Likewise, it may also be difficult for you to enforce in U.S. courts judgments obtained against us or these persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to bring an action against us or these persons in a British Virgin Islands court predicated upon the civil liability provisions of the U.S. federal securities laws.

As there is no treaty in force on the reciprocal recognition and enforcement of judgments in civil and commercial matters between the United States and the British Virgin Islands, courts in the British Virgin Islands will not automatically recognize and enforce a final judgment rendered by a U.S. court.

Any final and conclusive monetary judgment obtained against us in U.S. courts, for a definite sum, may be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issue would be necessary, provided that in respect of the U.S. judgment:

- the U.S. court issuing the judgment had jurisdiction in the matter and we either submitted to such jurisdiction or were resident or carrying on business within such jurisdiction and were duly served with process;
- the judgment given by the U.S. court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of ours;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;
- recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and
- the proceedings pursuant to which judgment was obtained were not contrary to public policy.

Under our articles of association, we indemnify and hold our directors harmless against all claims and suits brought against them, subject to limited exceptions.

***You may have more difficulty protecting your interests than you would as a shareholder of a U.S. corporation.***

Our affairs are governed by the provisions of our memorandum of association and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law. The rights of our shareholders and the responsibilities of our directors and officers under the British Virgin Islands law are different from those applicable to a corporation incorporated in the United States. There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, the British Virgin Islands regulations governing the securities of British Virgin Islands companies may not be as extensive as those in effect in the United States, and the British Virgin Islands law and regulations in respect of corporate governance matters may not be as protective of minority shareholders as state corporation laws in the United States. Therefore, you may have more difficulty protecting your interests in connection with actions taken by our directors and officers or our principal shareholders than you would as a shareholder of a corporation incorporated in the United States.

***You may not be able to participate in future equity offerings, and you may not receive any value for rights that we may grant.***

Under our memorandum and articles of association, existing shareholders are entitled to preemptive subscription rights in the event of capital increases. However, our articles of association also provide that such preemptive subscription rights do not apply to certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

###### **Overview**

We were incorporated as Arcos Dorados Holdings Inc. on December 9, 2010 under the laws of the British Virgin Islands as a direct, wholly owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. Following the merger, we replaced Arcos Dorados Limited in the corporate structure and replicated its governance structure.

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act. Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges.

Our principal executive offices are located at Dr. Luis Bonavita 1294, Office 501, WTC Free Zone, Montevideo, Uruguay (CP 11300). Our telephone number at this address is +598 2626-3000. Our registered office in the British Virgin Islands is Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

The SEC maintains an internet website that contains reports, proxy, information statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov). Our website address is [www.arcosdorados.com](http://www.arcosdorados.com). The information contained on, or that can be accessed through, our website is not part of, and is not incorporated into, this annual report.

###### **Important Events**

###### ***The Acquisition***

McDonald's Corporation has a longstanding history in Latin America and the Caribbean, dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its presence across the region as consumer markets and opportunities arose, opening its first stores in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.



We commenced operations on August 3, 2007, as a result of the Acquisition of McDonald's LatAm business. Woods Staton, our Executive Chairman and controlling shareholder, was the joint venture partner of McDonald's Corporation in Argentina for over 20 years prior to the Acquisition and also served as President of McDonald's South Latin American division from 2004 until the Acquisition. Our senior management team includes executives who had previously worked in McDonald's LatAm business or with Mr. Woods Staton.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010, June 3, 2011 and March 17, 2016, entered into by us, LatAm, LLC (the "Master Franchisee"), our former wholly owned subsidiary Arcos Dorados Coöperatieve U.A., Arcos Dorados B.V., certain subsidiaries of the Master Franchisee, Los Laureles, Ltd. and McDonald's. On March 21, 2018, Arcos Dorados Group B.V. (together with Arcos Dorados B.V. and us, the "Owner Entities") replaced Arcos Dorados Coöperatieve U.A. as party to the MFA. On August 3, 2007, our subsidiary Arcos Dourados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008. See "Item 10. Additional Information—C. Material Contracts—The MFAs."

### *The Axionlog Split-off*

We used to own and operate some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). As of the date of the split-off, Axionlog operated in Argentina, Chile, Mexico and Venezuela, and its main third-party customers were Sodexo, Eurest, Sadia, WalMart, Carrefour, Subway and Dairy Queen. We effected a split-off of Axionlog to our existing shareholders in March 2011. For additional information about the split-off of Axionlog, see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Axionlog Split-off."

### **Capital Expenditures and Divestitures**

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimagining or upgrading restaurants in the Territories during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan. In the event that we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing reinvestment plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan. We may also propose, subject to McDonald's prior written consent, amendments to any restaurant opening plan and/or reinvestment plan to adapt to changes in economic or political conditions.

As a result of the business disruptions caused by COVID-19 outbreak, we have agreed with McDonald's to withdraw our previously-approved 2020-2022 restaurant opening plan and reinvestment plan and we do not expect to finalize a revised 2020-2022 plan at least until the COVID-19 outbreak is under control. If we are unable to meet our commitments under a future plan and we are unable to reach an agreement on revised terms of the restaurant opening plan and reinvestment plan or are otherwise unable to obtain a waiver from McDonald's, we will be in default under the terms of the MFAs. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so."

As a result of our previous restaurant opening plan and reinvestment plan, property, property and equipment expenditures were \$265.2 million, \$197.0 million and \$174.8 million in 2019, 2018 and 2017 respectively. In 2019, we opened 90 restaurants, reimaged 271 existing restaurants, opened 6 McCafé locations and 296 Dessert Centers. In 2018, we opened 70 restaurants, reimaged 173 existing restaurants, opened 6 McCafé locations and 375 Dessert Centers. In 2017, we opened 50 restaurants, reimaged 124 existing restaurants and opened 2 McCafé locations and 223 Dessert Centers. In 2019, 2018 and 2017, we closed 20, 35 and 18 restaurants, respectively.

In addition, outflows related to purchases of restaurant businesses paid at acquisition date totaled \$2.7 in 2019 and \$0.9 million in 2017. We had no such outflows in 2018.

Proceeds from the sale of property and equipment and sales of restaurant businesses, including related advances, totaled \$8.2 million, \$13.0 million and \$72.4 million in 2019, 2018 and 2017, respectively.

Prior to the inception of the COVID-19 pandemic, we planned to open at least 285 to 300 new restaurants and invest approximately \$1.0 billion in total capital expenditures, which includes reinvestment capital expenditures, from 2020 through 2022. Due to the COVID-19 outbreak, as of the date of this annual report, we have withdrawn this plan and do not expect to finalize a revised plan for 2020 to 2022 at least until the COVID-19 outbreak has been brought under control. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so.”

In March 2015, we announced a plan to monetize certain real estate assets in our portfolio that are either non-core or operating assets where the value significantly exceeds the operating potential of the asset, through which we received over \$170 million from the sale of these properties. The main goal of the redevelopment initiative was to reduce debt levels. We have concluded with this plan.

## **B. Business Overview**

### **Overview**

We are the world’s largest independent McDonald’s franchisee in terms of systemwide sales and number of restaurants, according to McDonald’s, representing 3.99% of McDonald’s global sales in 2019. We have the exclusive right to own, operate and grant franchises of McDonald’s restaurants in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to collectively as the Territories. As of December 31, 2019, we operated or franchised 2,293 McDonald’s-branded restaurants, which represented 6.35% of McDonald’s total franchised restaurants worldwide. In 2019 and 2018, we accrued \$155.4 million and \$157.9 million, respectively, in royalties to McDonald’s (not including royalties accrued on behalf of our franchisees).

We operate in the QSR sub-segment of the fast food segment of the Latin American and Caribbean food service industry. In Latin America and the Caribbean, the fast food segment has benefited from the region’s increasing modernization, as people in more densely populated areas adopt lifestyles that increasingly seek convenience, speed and value.

We commenced operations on August 3, 2007, as a result of the Acquisition. We operate McDonald’s-branded restaurants under two different operating formats, Company-operated restaurants and franchised restaurants. As of December 31, 2019, of our 2,293 McDonald’s-branded restaurants in the Territories, 1,580 (or 68.9%) were Company-operated restaurants and 713 (or 31.1%) were franchised restaurants. We generate revenues primarily from two sources: sales by Company-operated restaurants and revenues from franchised restaurants. Revenues from franchised restaurants primarily consist of rental income, which is generally based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. We own the land for 494 of our restaurants (totaling approximately 1.1 million square meters) and the buildings for all but 11 of our restaurants.

Our business has grown significantly in the last three years: we have increased our presence in existing and new markets in the Territories by opening a net total of 70 restaurants (90 total restaurants opened, including 65 Company-operated and 25 franchised, while 20 closed), 6 McCafé locations and 296 Dessert Centers (see “—Our Operations—McCafé Locations and Dessert Centers”).

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela; NOLAD, consisting of Costa Rica, Mexico and Panama; and SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay.

As of December 31, 2019, 44.6% of our restaurants were located in Brazil, 17.6% in SLAD, 23.1% in NOLAD and 14.7% in the Caribbean division. We believe our diversified market presence reduces our dependence on any one market and helps stabilize the impact of individual countries’ economic cycles on our revenues. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer

satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

The following table presents a breakdown of total revenues by division:

	<b>For the Years Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>(in thousands of U.S. dollars)</b>					
<b>Total Revenues</b>					
Brazil	\$ 1,385,566	\$ 1,345,453	\$ 1,496,573	\$ 1,333,237	\$ 1,361,989
Caribbean division(1)	399,251	483,743	474,822	409,671	398,144
NOLAD	431,266	406,848	386,874	363,965	367,364
SLAD	742,994	845,527	961,256	821,757	925,243
<b>Total</b>	<b>2,959,077</b>	<b>3,081,571</b>	<b>3,319,525</b>	<b>2,928,630</b>	<b>3,052,740</b>

(1) Currency devaluations in Venezuela have had a significant effect on our income statements and have impacted the comparability of our income statements. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Foreign Currency Translation—Venezuela.”

## **Our Operations**

### ***Company-Operated and Franchised Restaurants***

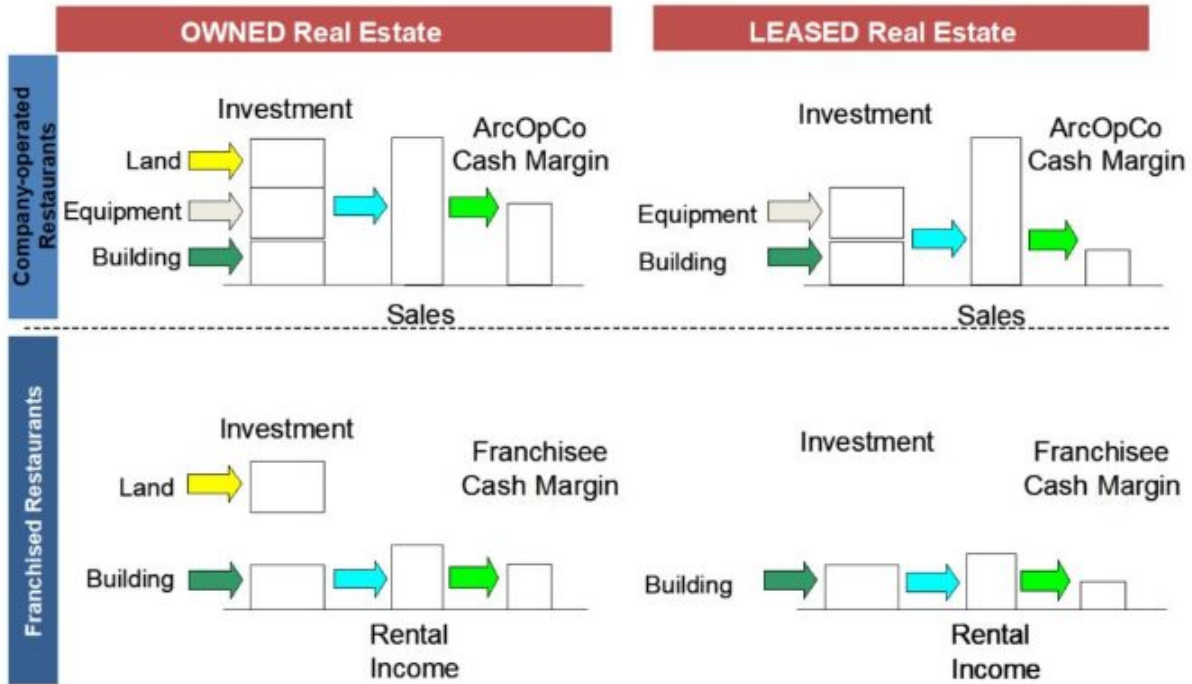
We operate our McDonald’s-branded restaurants under two basic structures: (i) Company-operated restaurants operated by us and (ii) franchised restaurants operated by franchisees. Under both operating alternatives, the real estate location may either be owned or leased by us.

We own, fully manage and operate Company-operated restaurants and retain any operating profits generated by such restaurants, after paying operating expenses and the franchise and other fees owed to McDonald’s under the MFAs. In Company-operated restaurants, we assume the capital expenditures for the building and equipment of the restaurant and, if we own the real estate location, for the land as well.

In contrast to Company-operated restaurants, franchised restaurants are operated and managed by the franchisee with technical and operational support from us as master franchisee, including training programs, operations manuals, access to our supply and distribution network and marketing assistance. Under our conventional franchise arrangements, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and decor of their restaurants, and by reinvesting in the business over time. We are required by the MFAs to own the real estate or to secure long-term leases for franchised restaurant sites. We subsequently lease or sublease the property to franchisees. This arrangement allows for long-term occupancy of the property and assists in the alignment of our franchisees’ interests with our own.

In exchange for the lease and services, franchisees pay a monthly rent to us, generally based on the greater of a fixed rent or a certain percentage of gross sales. In addition to this monthly rent, we collect the monthly continuing franchise fee, which generally is 5% of the U.S. dollar equivalent of the restaurant’s gross sales, and pay these fees to McDonald’s pursuant to the MFAs. However, if a franchisee fails to pay its monthly continuing franchise fee, we remain liable for payment in full of these fees to McDonald’s. Pursuant to the MFAs, franchisees pay an initial franchise fee in connection with the opening of a new franchised restaurant and a transfer fee upon transfer of a franchised restaurant, both of which are subsequently shared by McDonald’s and us. See “Item 10. Additional Information—C. Material Contracts—The MFAs—Franchise Fees.”

The chart below illustrates the economics for Company-operated restaurants and franchised restaurants in the case of owned and leased real estate:



Source: Arcos Dorados

In addition, we are the majority stakeholder in two joint ventures that collectively own 15 restaurants in Argentina and Chile. We have also granted developmental licenses to 11 restaurants. Pursuant to the developmental licenses, the developmental licensees own or lease the land on and building in which the restaurant is located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald's. All of our joint ventures and developmental licenses were in existence at the time of the Acquisition.

**Restaurant Categories**

We classify our restaurants into one of four categories: (i) freestanding, (ii) food court, (iii) in-store and (iv) mall stores. Freestanding restaurants are the largest type of restaurant, have ample indoor seating and include a drive-thru area and parking lot. Food court restaurants are located in malls and consist primarily of a front counter and kitchen and do not have their own seating area. In-store restaurants are part of a larger building, but they do not have a drive-thru area or a parking lot. Mall stores are located in malls like food court restaurants, but have their own seating areas. As of December 31, 2019, 1,083 (or 47.3%) of our restaurants (not including non-traditional satellite stores) were freestanding, 594 (or 25.9%) were food courts, 294 (or 12.8%) were in-stores and 320 (or 14.0%) were mall stores. These percentages vary by country, and may shift as opportunities in malls and more densely populated areas become available in some of the Territories.

Below are examples of each of our restaurant categories:



**Freestanding**



**In-store**



**Mall Store**



**Food Court**

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Source: Arcos Dorados

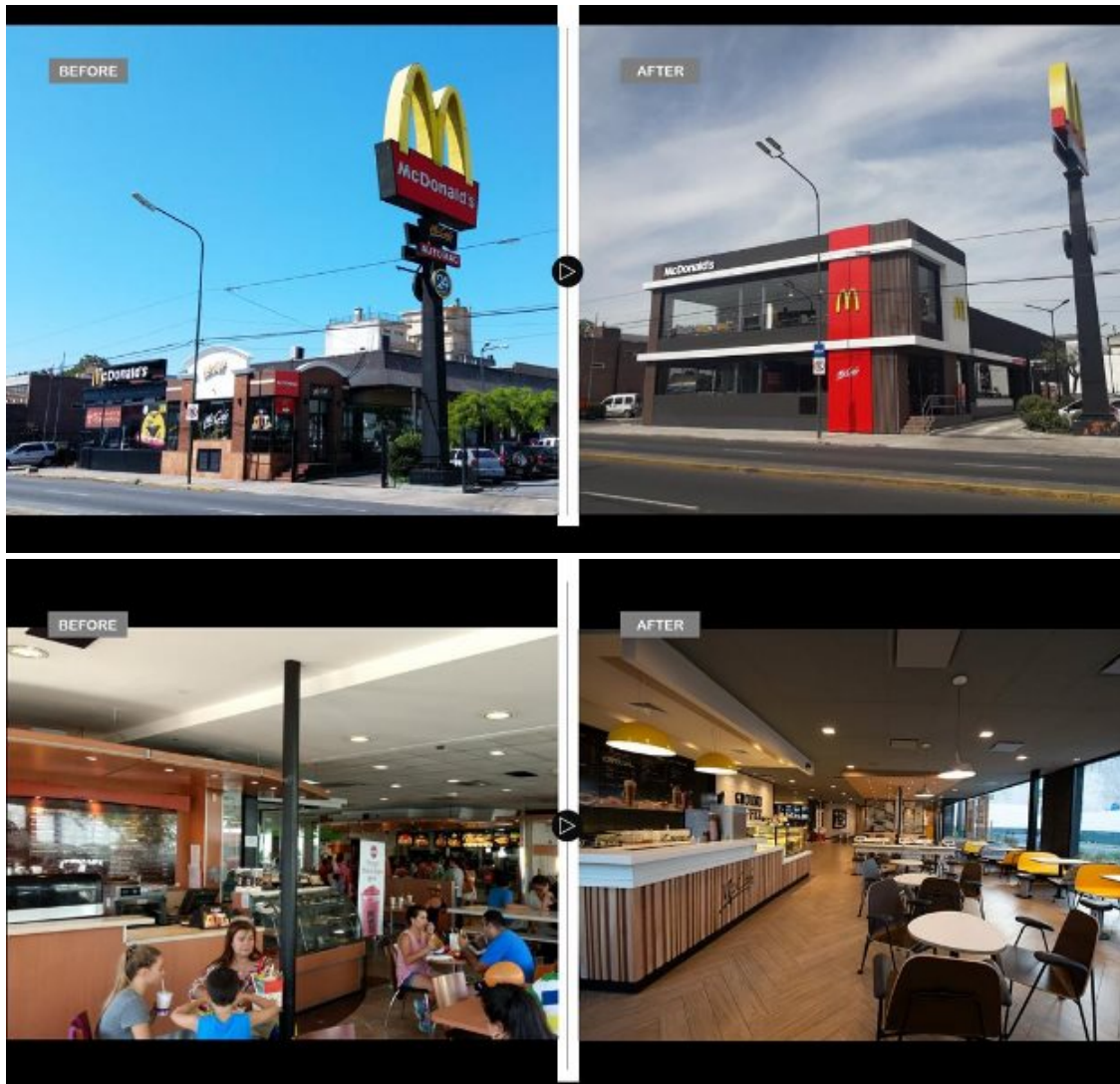
Returns on investment in each type of restaurant vary significantly due to the different capital expenditures required and their different sales potential; mall stores generally provide the highest return on investment while freestanding restaurants generally provide the lowest. Moreover, returns vary significantly on a country-by-country basis.

### ***Reimaging***

An important component of our development plan is the reimaging of existing restaurants. As of December 31, 2019, we had completed the reimaging of 1,018 of the 1,569 restaurants we purchased in the Acquisition, an increase of 177 restaurants as compared to December 31, 2018. Our restaurants that have undergone reimaging during the past three years have experienced an additional increase in sales per restaurant over the comparable sales growth experienced by restaurants which have not been reimaged in the same period. Both we and McDonald's are committed to maintaining an image for our restaurants that creates a contemporary dining experience. Over the last few years, we have invested substantially in the reimaging of our restaurants, and we, pursuant to the MFAs, have committed to a significant reimaging plan. See "Item 10. Additional Information—C. Material Contracts."

Objectives of the reimaging include elevating the customer's perception of McDonald's and creating a more sophisticated and highly aspirational environment. We have developed systemwide guidelines for the interior and exterior design of reimaged restaurants. When carrying out a reimaging project, we try to minimize the impact on the operations and sales of the restaurants, for instance, when possible, by keeping the restaurants open and operating during the renovations and working in specific areas of the location at particular times.

Below are images of the exterior of a few of our restaurants that have benefited from reimaging:



Source: Arcos Dorados

### ***McCafé Locations and Dessert Centers***

Our brand extension efforts focus on the development of additional McCafé locations and Dessert Centers. McCafé locations are stylish, separate areas within restaurants where customers can purchase a variety of customizable beverages, including lattes, cappuccinos, mochas, hot and iced premium coffees and hot chocolate. McCafé locations have been very successful in creating a different customer experience, optimizing the use of our restaurants at all hours of operation and providing a higher profit margin than our regular restaurant operations. We believe the primary benefit of McCafé locations is that they attract new customers by increasing the variety of our product offerings and improving our image.

McCafé locations have been a key factor in adding value to our customers' experience and represented 9.3% of the total transactions and 5.6% of total sales of the restaurants in which they were located in 2019. As of December 31, 2019, there were 258 McCafé locations in the Territories, of which 17.1% were operated by franchisees. Argentina and Brazil, with 81 locations, each, have the greatest number of McCafé locations. The first McCafé in Latin America was opened in Argentina in 1999. Pursuant to the MFAs, we have the right to add McCafé locations to the premises of our restaurants.

Below are images of the interior of two of our McCafé locations:



Dessert Center - Ice Cube



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*Source:* Arcos Dorados

In addition to McCafé locations, Dessert Centers have been a very successful brand extension. Dessert Centers operate separately from existing restaurants, but depend on them for supplies and operational support. For example, a mall store restaurant can provide support for several Dessert Centers located in different locations throughout the same mall. Our Dessert Centers are conveniently located to attract customers, thereby serving as important transaction generators and providing an effective method of extending our brand presence to non-traditional areas. At Dessert Centers, customers can purchase a variety of dessert items, including the McFlurry and soft-serve ice cream. Dessert Centers require low capital expenditures and provide returns on investment and operating margins that are significantly higher than our regular restaurant operations. As such, we believe they are an important driver in increasing our market penetration.

Dessert Centers represented 43% of our transactions and 14.7% of our total sales in 2019. As of December 31, 2019, there were 3,326 Dessert Centers in the Territories. Dessert Centers are highly successful in Brazil, where we have 2,000 locations. The first Dessert Center was created in Brazil in 1979.

The following maps set forth our McCafé locations and Dessert Centers in each of the Territories as of December 31, 2019:

**Network of McCafé Locations**

258 total McCafé locations



**Network of Dessert Centers**

3,326 total Dessert Centers



Source: Arcos Dorados

***The McDonald's Brand***

Interbrand, a brand consulting firm, ranked McDonald's ninth among the top twenty global brands in 2019. In addition, we believe that in Latin America and the Caribbean, the McDonald's brand benefits from an aspirational cachet as a "destination" restaurant with a reputation for safe, fresh and good-tasting food in an attractive setting. McDonald's strong brand equity stems from the dedicated execution of its brand promise and its ability to associate with the local community where it operates. McDonald's sets the standard in the restaurant industry worldwide for brand stewardship and marketing leadership.

***Product Offerings***

A crucial part of delivering the brand to clients depends on our product offerings, or more specifically, our menu strategy and management. The key objective of our menu strategy is the development and offering of quality food choices that attract customers to our restaurants on a regular basis. The elements we utilize to achieve this goal include offering McDonald's core menu, our product innovation initiatives and our focus on food safety.



Our menus feature three tiers of products: (i) affordable entry-level options, such as our *Combo del Día* (Combo of the Day), *McTrio 3x3* in Mexico and *Almuerzo Colombiano* (Colombian Lunches) in Colombia, (ii) core menu options, such as the Big Mac, Happy Meal and Quarter Pounder, and (iii) premium options, such as Big Tasty and Signature Collection or Picanha hamburgers, chicken sandwiches and salads or wraps for those clients that want low calorie options. These platforms can be based on the type of products, such as beef, chicken, salads or desserts, or on the type of customer targeted, such as the children's menu. We have offered a new menu with fewer calories and less sugar and sodium in the majority of our Territories since 2011. Since 2013, we have offered dairy products, fresh fruits or vegetables with our Happy Meals in all of the Territories except Venezuela.

Our core menu is the most important element of our menu strategy and includes well-recognized food choices that have global customer acceptance and are what customers repeatedly order at McDonald's-branded restaurants worldwide. During 2019, we evolved the Happy Meal Menu making significant reductions in fat, sodium and added sugars, making it more nutritious in all of our markets. We also made extensions of our core products, such as Big Mac Bacon and Triple Quarter Pounder with Cheese in Brazil, Quarter Pounder with Bacon, Lettuce and Tomato in Argentina and the McNuggetear with different sauces in Mexico.

### **Product Development**

We have been very innovative in our product development in Latin America and the Caribbean. In key countries, our understanding of the local market has enabled us to successfully introduce new items to appeal to local tastes and to provide our customers with additional food options. Our chicken-based offerings include bone-in chicken in markets such as Colombia, Peru, Panama and Costa Rica. We also offer Signature Collection hamburgers with innovative flavors and premium offerings, such as Club House, Bacon Smoke House, Mushroom Deluxe, Egg and Bacon, Crispy Onion Barbecue. Also, we carefully monitor the sales of our products and are able to quickly modify them if necessary. For instance, although we always offer the McFlurry dessert product, we include in this product platform a promotional topping that is offered for a limited period of time, followed by a new promotional topping to maintain the sales momentum (for example, Oreo, Ovomaltine, Hershey's, Milka and Kit Kat). In August 2019, we also updated our Happy Meal menus to include more fruits and vegetables and reduce fat, sodium and added sugars. See “—Social Initiatives and Charitable Activities—Nutrition and Well-Being.”

In 2011, we began the rollout of Made For You, or MFY, a new kitchen operating platform that allows us to improve the quality and freshness of our products, provide faster service and diversify our offerings. MFY's implementation is funded by cutting waste and productivity gains. As of the end of 2018, we had implemented MFY in all of the territories in which we operate.

We work closely with McDonald's to develop new product offerings and McDonald's considers our recommendations regarding regional tastes and preferences and works with us to accommodate such tastes and preferences. We continue to benefit from McDonald's product development efforts following the Acquisition and have access to a library of products developed globally for the McDonald's system. In addition, we continue to benefit from the Hamburger Universities in the United States and Brazil and the food studio located in Brazil that aims to develop locally relevant products for the region. The Hamburger Universities and the food studio models have been McDonald's main global source of people and product development. The Hamburger Universities provide restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of the business, like restaurant and people management, sales and accounting, while emphasizing consistent restaurant operations procedures, service, quality and cleanliness.

### **Product and Pricing Strategy**

Value perceptions change significantly between markets and even between areas within a single market. In order to adjust pricing to meet customers' expectations in each market, we have developed local expertise aimed at understanding the dynamics of the local marketplace and the characteristics of its customers. We also examine trends in the pricing of raw materials, packaging, product-related operating costs as well as individual item sales volumes to fully understand profitability by item. In addition, we use international consultants with particular experience in this area to understand marketplace dynamics and consumer characteristics. These insights feed into the local markets' menu, promotional and pricing strategy as well as the marketing plan that is disseminated to both Company-operated and franchised restaurants. Restaurants may then adjust pricing and/or item offerings as they choose in an attempt to optimize sales, profitability and local preferences. This cycle is part of an overall revenue management philosophy and is part of our business management practices utilized throughout the region.

### ***Advertisement & Promotion***

We believe that sales in the QSR sub-segment can be significantly affected by the frequency and quality of our advertising and promotional programs. In particular, we benefit from the strength of McDonald's global resources, including its global alliances with some of the largest multinational conglomerates and sponsorship of sporting events such as the FIFA World Cup and participation in various movie promotions, which provides us with important advertising and promotion opportunities.

We promote the McDonald's brand and our products by advertising in all of the Territories. We create, develop and coordinate marketing plans and promotional activities throughout the Territories; however, pursuant to the MFAs, McDonald's reserves the right to review and approve any advertising materials and related promotional activities and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We are required under the MFAs to spend at least 5% of our gross sales, and our franchisees generally are required to pay us a certain percentage of their gross sales for the portion of advertising expenditures related to their restaurants, on advertisement and promotion activities. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico. In connection with the COVID-19 outbreak, we have agreed with McDonald's to reduce the advertising and promotion spending requirement from 5% to 4% of our gross sales for the full year 2020.

Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage to drive sales. The advertisement and promotion program is formulated based on the amount of advertisement and promotion support needed for each strategic platform for the year. Our key strategic platforms include menu relevance, by introducing premium products and extending core product lines, convenience and strengthening the kids and family experience. In terms of pricing, we understand that our customers seek great-tasting food at affordable prices and that their perception of value while at the restaurant is a significant factor in determining overall satisfaction and frequency of visits. Other initiatives included the "books or toys" campaign in all our markets in Latin America, through which we sold more than 18 million books since 2013, which aims to encourage children's creativity. We also continued our premium platform through which we offered new, premium dishes, such as the Bacon Smoke House, Mushroom Deluxe, Egg and Bacon, Crispy Onion Barbecue, Picanha and McVeggie preparations of our Signature Collection burgers.

Through the execution of these initiatives, we work to enhance the McDonald's experience for customers throughout the Territories, and increase our sales and customer counts. We aim to position ourselves as a "forever young" brand by delivering a youthfully energetic, distinctly casual, personally engaging and delightful dining/brand experience.

### ***Regional Operations***

The Company is divided into four geographical divisions: Brazil, the Caribbean division, NOLAD and SLAD. Except for Brazil, the divisions are subsequently divided into sub-groups comprised of individual Territories. The presidents of the divisions report directly to our chief operating officer.

The following map sets forth the number of our restaurants in each of our operating divisions as of December 31, 2019:



Source: Arcos Dorados

We remain close to customers by managing operations at the local level, including implementing recruiting centers, conducting marketing campaigns and promotions, monitoring consumer perception and managing menu offerings. We conduct administrative and strategic activities at either the divisional level or at our headquarters, as appropriate. In addition, we have designed standardized crew recruiting manuals and have implemented an online communication platform for crew and managers. These centralized operations help us maintain consistent procedures, quality control and brand management across all of our markets.

Set forth below is a summary of our restaurant portfolio as of December 31, 2019.

Portfolio by Division	Ownership				Total	Freestanding	Store Type <sup>(1)</sup>				Real Property <sup>(2)</sup>		
	Company-Operated	Joint Venture	Franchised	Developmental License			Food Court	In-Store	Mall Store	Dessert Centers	McCafé Locations	Owned	Leased
Brazil	612	0	411	0	1,023	462	350	92	119	2,000	81	108	915
Caribbean Division	251	0	84	1	336	224	21	36	55	311	36	128	207
NOLAD	364	0	156	10	530	273	146	51	59	626	13	160	360
SLAD	338	15	51	0	404	124	77	115	87	389	128	98	306
<b>Total</b>	<b>1,565</b>	<b>15</b>	<b>702</b>	<b>11</b>	<b>2,293</b>	<b>1,083</b>	<b>594</b>	<b>294</b>	<b>320</b>	<b>3,326</b>	<b>258</b>	<b>494</b>	<b>1,788</b>

(1) Non-traditional satellite restaurants are not included in these figures.

(2) Developmental licenses and mobile stores are not included in these figures.

*Brazil*

Brazil is our largest division in terms of restaurants, with 1,023 restaurants as of December 31, 2019 and \$1,385.6 million in revenues in 2019, representing 44.6% and 46.8% of our total restaurants and revenues, respectively. Our operations in Brazil are based in Sao Paulo and McDonald's has been present in Brazil since opening its first restaurant in Rio de Janeiro in 1979.

*Caribbean Division*

The Caribbean division includes eleven territories with 336 restaurants as of December 31, 2019 and \$399.3 million in revenues in 2019, representing 14.7% and 13.5% of our total restaurants and revenues, respectively. Its primary market in terms of number of restaurants is Venezuela, representing 35.7% of the Caribbean division's restaurants. Venezuela is our fourth-largest market in terms of restaurants. McDonald's has been present in Venezuela since opening its first restaurant in Caracas in 1985. In terms of revenues, however, our primary market in this region is Puerto Rico, accounting for 35.7% of the Caribbean division's revenues.

*NOLAD*

NOLAD includes three countries with 530 restaurants as of December 31, 2019 and \$431.3 million in revenues in 2019, representing 23.1% and 14.6% of our total restaurants and revenues, respectively. Its primary market is Mexico, where the division's management is based. McDonald's has been present in Mexico since opening its first restaurant in Mexico City in 1985. Mexico represents 73.0% of NOLAD's restaurants and 45.8% of NOLAD's revenues, and Mexico is our second-largest market in terms of restaurants.

*SLAD*

SLAD includes five countries with 404 restaurants as of December 31, 2019 and \$743.0 million in revenues in 2019, representing 17.6% and 25.1% of our total restaurants and revenues, respectively. Its primary market is Argentina, where the division's management is based. McDonald's has been present in Argentina since opening its first restaurant in Buenos Aires in 1986. As of December 31, 2019, Argentina represented 57.2% of SLAD's restaurants and 52.7% of SLAD's revenues in 2019. Argentina is our third-largest market in terms of restaurants.

***Seasonality***

Our sales and revenues are generally greater in the second half of the year than in the first half. Although the impact on our results of operations is relatively small, this impact is due to increased consumption of our products during the winter and summer holiday seasons, affecting July and December, respectively.

***Supply and Distribution***

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. Currently, we have an integrated and centralized supply chain management system that focuses on (i) the highest possible quality and food safety, (ii) competitive market pricing that is predictable and sustainable over time, and (iii) leveraging of local, regional and global sourcing strategies to obtain a competitive advantage. This system consists of the selection and development of suppliers that are able to comply with McDonald's high quality standards and the establishment of the appropriate type of relationships with these suppliers. These standards, which are based on the highest industry standards, such as International Organization for Standardization (ISO) standards, British Retail Consortium (BRC) standards and others, include cleanliness, product consistency and timeliness, meeting or exceeding all local food regulations and compliance with our Hazard Analysis Critical Control Plan, or HACCP, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up. Due to our supply chain management and high quality standards, we believe our products have a competitive advantage because they have many attributes that make them appealing to our customers. For instance, our McNuggets are made of 100% white meat; our frying oil is 100% free of trans fatty acids; the dairy mix for our sundaes and the McFlurry undergo aseptic processes to rid them of bacteria; our vegetables are washed and sanitized; and our hamburger patties are made with 100% beef and do not contain additives.

Pursuant to the MFAs, we purchase core products and services, such as beef, chicken, buns, produce, cheese, dairy mixes and toppings, from approved suppliers and distributors who satisfy the above requirements. If McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards, it may terminate the supplier's approved status. Beyond the purchase of core products and services, we have no restrictions on which suppliers or distributors we may use. We have largely continued the supply relationships that McDonald's had established prior to the Acquisition, and we develop relationships with new suppliers in accordance with McDonald's product and supplier protocols, including the following: Supplier Quality Management System, (SQMS), Social Workplace Accountability (SWA), Distributor Quality Management Program (DQMP), Animal Health and Welfare (AHW) or Packaging Quality Management Systems (PQMS).

Since the process to become an approved supplier is lengthy, expensive and requires proof of compliance with McDonald's high quality standards, we have found that oral agreements with our approved suppliers generally are sufficient to ensure a reliable supply of quality food products, and we have developed long-term relationships with many of our suppliers. In addition, we enter into written agreements with most of our suppliers regarding the cost of such goods, which can be based on pricing protocols, formula costing, benchmarking or open bidding, as appropriate. Our 35 largest suppliers account for approximately 78% of our supplies excluding Venezuela, and no single supplier or group of related suppliers account for more than 15% of our total food and paper costs. Among our main suppliers are McCain Foods Limited, HAVI Group L.P., JBS S.A., Reyes Holdings L.L.C., BRF S.A., The Coca-Cola Company, Campo del Tesoro S.A., Polenghi Industrias Alimenticias Ltda., Bimbo S.A., Arytza S.A., Dohler S.A., Axionlog B.V., Eco Axial S.A., Frima S.A., AB Brasil Industria e Comercio de Alimentos LTDA, Tyson Foods, Golden State Foods, Kerry Group plc., Schreiber Foods Inc., Griffith Foods Worldwide Inc., Granja Tres Arroyos SRL, Panifresh S.A., Lactalis, Brasilgrafica S.A., Sergesa, Lacteos de Poblet S.A, Bemis Company Inc., Fortunato Mangravita SA, Terbium Industrial S.A. de C.V., Bunge Limited, J F C & Natural Salads Distribuidora de Produtos Hortifrutigranjeiros Ltda, 2 F Alimentos LTDA, Trenier Grafica E Industria De Artefatos De Papel Ltda, Marfrig Global Foods S/A e Industrial and American Beef S.A.

Our integrated supply chain management optimizes value as we work with suppliers to develop pricing protocols, inventory, planning and product quality. As of December 31, 2019, approximately 21.5% of the food and paper products used in our restaurants were exposed to fluctuations in foreign exchange rates. This percentage varies among the Territories; for example, 31.7% of the products consumed in Mexico are exposed to fluctuations in foreign exchange rates, while 13.8% and 49.3% of the products consumed in Brazil and Colombia, respectively, are exposed. This includes the toys distributed in our restaurants, which are imported from China. Certain supplies, such as beef, must often be locally sourced in 2019 due to restrictions on their importation. Combined with the MFAs' requirement to purchase certain core supplies from approved suppliers, although we maintain contingency plans to back up restaurant supplies, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations." The suppliers send almost all of their products to distribution centers that are in charge of transportation, warehousing, financial administration, demand and inventory planning and customer service. The distribution centers interact directly with our Company-operated and franchised restaurants.

Until March 16, 2011, we owned and operated some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). See "—A. History and Development of the Company—Important Events—The Axionlog Split-off." In 2011, we entered into a master commercial agreement with Axionlog on arm's-length terms pursuant to which Axionlog provides us with distribution inventory, storage (dry, frozen and chilled) and transportation services in Argentina, Chile, Colombia, Mexico, Uruguay, Peru, Venezuela and Ecuador. For additional information about our transactions with Axionlog, see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Axionlog Split-off."

### ***Supply Chain Management and Quality Assurance***

All products that we sell meet McDonald's specifications, including new products and promotions. We work with our suppliers to implement key standards testing at each stage of our supply chain, including raw materials, processing and distribution. With respect to raw materials, we verify that produce suppliers undergo verification audits. All protein suppliers also undergo Animal Welfare Policy, "mad cow" disease and HACCP audits. At the processing stage, we implement a supplier quality management system that encourages continuous improvement in each key product category. We conduct seminars annually with all key suppliers on topics such as standards calibration, product sensory evaluation and best practices, and all suppliers are audited annually by a third party for compliance with McDonald's SQMS. As members of the Global Food Safety Initiative (GFSI), we encourage our suppliers to adopt any norm under the umbrella of GFSI that is recognized globally. We measure compliance through visits to processing plants, supplier summits, regularly scheduled audits and sensory testing that is achieved through a combination of product, equipment and operational procedures. At the distribution stage, we have implemented the Distribution Quality Management Program, which includes a shelf-life management system, strict temperature controls for receiving and storage of food products, a sophisticated stock recovery program and a quality inspection program. In 2017, we complemented our audit process with the implementation of unannounced checks at the facilities of high-risk suppliers.

Our quality testing extends to restaurant operations. The Quality Program that includes Across The Counter Quality (ATCQ), Behind The Counter Quality (BTCQ) and Field Service Support is designed for restaurant improvement and food safety verification processes that allow us to track the implementation of changes in restaurant operations, new products, procedures and equipment. Moreover, in 2017 we introduced a Food Safety Restaurants audit, which is an audit of our vendors run by a third-party contractor. We participate in the restaurant operations improvement process designed by McDonald's, under which Company-operated and franchised restaurants are visited at least three times in any 12-month cycle to identify system opportunities to continuously improve our operations. Visits are conducted by our operation consultants, who assess restaurants based on food quality, service and cleanliness. We also participate in the worldwide mystery shopper program designed by McDonald's, where all restaurants are visited twice a month by a third-party vendor who provides us with feedback from a customer perspective. This feedback, called customer satisfaction opportunity reports, is sent to a centralized monitoring system that evaluates key operations indicators. Our multidisciplinary teams, which include members of our Supply Chain and Marketing and Operations teams, work to improve quality and efficiency at the restaurant level throughout the Territories.

### **Our Competition**

We compete with international, national, regional and local retailers of food products. We compete on the basis of price, convenience, service, menu variety and product quality. Our competition in the broadest perspective includes restaurants, quick-service eating establishments, pizza parlors, coffee shops, street vendors, ice cream vendors, convenience food stores, delicatessens and supermarkets.

### **Our Customers**

We aim to provide our customers with safe, fresh and good-tasting food at a good value and a favorable dining experience in the family friendly environment demanded by our target demographic of young adults and families with children. Based on data from the United Nations Economic Commission for Latin America and the Caribbean, the Territories represented a market of approximately 550 million people in 2019—equivalent to the combined population of the United States, Germany, France and the United Kingdom—of which approximately 23.1% are under 14 years old and 39.2% are under 25 years old. As a business focused on young adults in the 14 to 35 age range and families with children, our operations have benefited, and we expect to continue to benefit, from our Territories' population size, age profile when compared to more developed markets and improving socio-economic conditions.

The McDonald's brand in Latin America is positioned as an aspirational experience and a destination for our guests. In order to maintain that brand positioning, we have implemented several initiatives focused on providing our guests with a differentiated customer experience. EOTF provides an innovative experience with a noticeable change in the areas of service, hospitality, and atmosphere in the restaurant. We will evolve to an integrated vision, based on 5 fundamental pillars to transversally deliver the expected experience for our guest: atmosphere, people, family, menu and technology.

Despite ongoing risks generally associated with international business operations, the confluence of favorable factors throughout many of the Territories, including growth in our target demographic markets, offer an opportunity of profitable growth and the ability to serve an ever-increasing number of customers.

## Regulation

We are subject to various multi-jurisdictional federal, regional and local laws in the countries in which we operate affecting the operation of our business, as are our franchisees and suppliers. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, tax, operating, building and fire agencies in the jurisdiction in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals can delay or prevent the opening of a new restaurant in a particular area. Restaurant operations are also subject to federal and local laws governing matters such as wages, working conditions and overtime. We are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment.

Substantive laws that regulate the franchisor/franchisee relationship presently exist in several of the countries in which we operate, including Brazil. These laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply and regulate franchise sales communications.

Certain countries in which we conduct operations have imposed, and may continue to impose, price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products.

For example, in September 2014, Argentina passed: (i) Law No. 26,991, the “Regulation on Production and Consumption Relationships Act,” which reformed a 1974 Act (Law on Supply of Goods and Services); and (ii) Law No. 26,992, the “Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act.”

The Regulation on Production and Consumption Relationships Act empowers the Secretary of Commerce to, among other things: (i) establish profit margins and set price levels (setting maximum, minimum and benchmark prices); (ii) issue regulations on commerce, intermediation, distribution or production of goods and services; (iii) impose the continuance of production, industrialization, commercialization, transport, distribution or rendering of services or impose the production of goods; (iv) set subsidies; (v) request any kind of documentation and correspondence related to commercial activities or the management of the businesses and impose the publication of prices and availability of goods and services and seize such documentation for up to 30 working days; (vi) impose registration and recordkeeping requirements; and (vii) impose licensing regimes for commercial activities. In addition, the Secretary of Commerce is entitled to impose certain penalties for failure to comply with the Regulation on Production and Consumption Relationships Act, including fines, temporary closure of businesses, seizure of goods and products and loss of fiscal benefits.

The Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act created a technical agency under the Secretary of Commerce (the Observatory of Prices and Availability of Inputs, Goods and Services) to control and systematize prices. The Argentine government has not enforced the aforementioned regulations since 2015 and neither this agency nor those regulations has had an adverse impact on us. As of the date of this annual report, we are not aware of any measures carried out implementing the abovementioned regulations in Argentina. However, a new administration took office in Argentina in December 2019. Therefore, we cannot assure you that such regulations will not be enforced and impact our business and results of operations in the future.

Similarly, in Venezuela, the Fair Price Act has been in force since 2013, which seeks to lower high inflation by controlling prices and costs in the chain of production. The Fair Price Act generally sets forth a profit cap of 30% on the cost structure of goods and services, thus reducing management’s ability to freely determine final prices. According to regulations passed under the Fair Price Act, to determine a final and fair price, management must observe and consider all of the costs of production, including (i) acquisition costs of raw materials, the determination of which must comply with existing regulations on transfer pricing (i.e., price, freight, primary storage, non-recoverable taxes and other costs directly attributable to the acquisition of raw materials), (ii) labor costs, and (iii) indirect costs of production.

The Fair Price Act also empowers the National Agency for the Defense of Socio-economic Rights to implement provisions and regulations on “fair pricing” and to oversee and audit businesses in Venezuela. Breaches of the Fair Price Act can result in criminal charges against merchants or business people. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Latin America and the Caribbean—Price controls and other similar regulations in certain countries have affected and may continue to affect our results of operations.” Although we managed to navigate the negative impact of the price controls on our operations from 2013 through 2019, the existence of such laws and regulations continues to present a risk to our business. We continue to closely monitor developments in this dynamic environment.

We are also subject to labor laws applicable in the countries in which we operate. The adoption of new or more stringent labor laws or regulations could result in a material liability to us. For example, during 2019, Venezuela implemented three increases in the minimum wage and the United States Virgin Islands approved the final wage increase in a three-stage increase started in 2015. In addition, in Argentina, certain proposed bills have attempted to implement overtime payments for weekends and mandatory employee profit-sharing, although none of those have been enacted by Congress. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Labor shortages or increased labor costs could harm our results of operations.”

In September 2014, Argentina enacted Law No. 26,993 (the “Prior Conciliation Service in Consumer Relations”). The Prior Conciliation Service in Consumer Relations is an administrative dispute resolution service within the Argentine Ministry of Production, by which consumers may freely submit their claims, with the purpose of reaching a settlement enforceable before the courts in case of noncompliance before a mediator within 30 days from the filing of the relevant claim. Consumers may only carry out proceedings before this administrative entity when the claims do not exceed a value equivalent to 55 times the minimum wage. Pursuant to Law No. 26,993, companies that are summoned to, but do not appear before, the Prior Conciliation Service in Consumer Relations may be subject to a fine equivalent to one minimum wage.

In addition, we may become subject to legislation or regulation seeking to regulate high-fat and/or high-sodium foods, particularly in Argentina, Brazil, Chile and Uruguay. Moreover, restrictions on advertising by food retailers and QSRs have been proposed or adopted in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay, including proposals to restrict our ability to sell toys in conjunction with food. Certain jurisdictions in the United States are considering curtailing or have curtailed McDonald’s ability to sell children’s meals including free toys if these meals do not meet certain nutritional criteria. Similar restrictions, if imposed in the Latin American countries where we do business, may have a negative impact on our results of operations. We will comply with any laws or regulations that may be enacted, and we can provide no assurance of the effect that any possible future laws and regulations will have on our operating results. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Industry—Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children’s meals may harm McDonald’s brand image and our results of operations.”

### **Environmental Issues**

To the best of our knowledge, there are currently no international, federal, state or local environmental laws, rules or regulations that we expect will materially affect our results of operations or our position with respect to our competitors. However, we can provide no assurance of the effect that any possible future environmental laws will have on our operating results.

For example, in 2019, there was increased attention on single-use plastic products, such as plastic straws, and various countries and big cities in Puerto Rico, Uruguay, Argentina, Peru and Brazil, among other countries, began implementing regulations prohibiting or restricting the use of certain plastic products. The implementation of these and similar laws and regulations may increase our supply costs if we are required to change the types of disposable products that we use in our restaurants, which could have a material effect on our business. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Industry—Environmental laws and regulations may affect our business.”

### **Insurance**

We maintain insurance policies in accordance with the requirements of the MFAs and as appropriate beyond those requirements, to the extent we believe additional coverage is necessary. Our insurance policies include commercial general liability, workers compensation, “all risk” property and business interruption insurance, among others. See “Item 10. Additional Information—C. Material Contracts—The MFAs—Insurance.”

### **Social Initiatives and Charitable Activities**

The well-being of the communities where we operate is of considerable importance to us and we are engaged in a wide range of programs focused on positively impacting those communities. In addition to the support we give to Ronald McDonald House Charities, both currently and historically, we expanded our social reach in 2018 to the areas of Youth Employment and Sustainable Development and have strengthened our efforts in these areas in 2019 to reinforce our position as a socially responsible company.



Our social initiatives and charitable activities are often aligned with McDonald's Scale for Good, which has five key pillars: youth opportunity, climate change, packaging and recycling, sustainable beef and commitment to families. We seek to embody these pillars through our *Receta del Futuro*. The following paragraphs summarize some of our principal programs and contributions in these areas.

### ***Youth Employment***

Youth unemployment is one of the most critical issues facing countries in Latin America. Through our *Youth Employment* initiative, we promote social mobility by providing employment opportunities to young people in Latin America that help them develop valuable customer service and leadership skills that can be applied to a wide range of career paths in the future. We are implementing this initiative through strategic alliances and by leveraging our trajectory and experience in this field. We are also developing projects for labor participation that include technical training and programs to support the employment of people with disabilities, as well as financial literacy for our employees. For instance, we partnered with the Ministries of Labor of Mexico, Argentina, Costa Rica, Puerto Rico and Ecuador to promote employment participation of certain minority groups and provided financial training through online education platforms that foster the development of such life skills.

We increased our focus on Youth Employment because it has been one of the most significant problems facing Latin American countries in recent years. According to the Interamerican Development Bank ("IDB"), 40% of the working-age population in the region is young, between the ages of 15 and 29 years old. The unemployment on this particular age bracket is 20%. Informality in the youth job sector in our region is amongst the largest in the world, reaching almost 60% according to the International Labour Organization's ("ILO"), and we play a significant role in helping to fix this problem. Being one of the largest youth employers in Latin America and the Caribbean, over 80% of our new hires during 2019 were young adults between the ages of 16 to 24.

Arcos Dorados also engaged in the "future of work" discussion through our "CREATON" initiative, where more than 500 young people, along with governments, unions, research bodies and companies, all came together to reflect and co-curate a comprehensive vision for the future of the workplace. The results were collected and combined into a book published in Argentina titled "Creatones. Protagonistas de la experiencia que vendra."

Another initiative is *Empleo con Apoyo*, which aims to provide employment opportunities to youth with disabilities, encouraging the development of their skills and raise awareness with respect to the needs of individuals with disabilities. During 2019, more than 3,000 employees were part of this program. In addition and related to *Empleo con Apoyo*, in 2018 we received the Global Recognition Award from the United Nations for our exemplary employment practices for disabled people in the State of Sao Paulo, Brazil. We maintain these practices in several of our markets through alliances with local organizations, such as the one with DISCAR in Argentina, which offers formal job opportunities to people with disabilities. In 2019, we were invited to present our work in the ILO "Decent Jobs for Youth" conference held in Rome. Arcos Dorados was the only company in our sector from Latin America invited to participate, which we believe is a testament and a recognition of the efforts we are making in helping this group of young people move forward with their lives as productive citizens. We also work with Liceo Impulso in Uruguay to provide education to young people with disabilities. In Ecuador, we also make contributions to Fundacion el Triangulo in order to support their local work in promoting employment opportunities for people with disabilities.

In addition, in April 2012, we became one of the founders and partners of the New Employment Opportunities (NEO) Program developed by the Inter-American Development Bank and the International Youth Foundation, which promotes the employability of the region's youth. One of our most important soft skills training programs is *Creating Your Future*, a program supported by the Ministry of Education in Argentina that provides opportunities for skills development for our employees. This program was implemented with Kuepa, an organization dedicated to providing professional and soft skills training in Latin America, and the Global Fairness Initiative, an international non-profit organization focused on economic development. Additionally, we have continued to strengthen our partnerships with other organizations that focus on soft skills training, such as the Forge Foundation (including its branches in Argentina, Mexico, Uruguay, Peru and Mexico), Aldeas SOS and Movimiento Nueva Generación, Instituto Ayrton Senna (Brazil), and Junior Achievement Americas, among others. In 2019, we donated over \$5.0 million in connection with Gran Dia and McHappy Day. Those funds were transferred to non-governmental organizations that support the development of soft skills and the employability skills of young people across the region as well as supporting the local chapters of the Ronald McDonald Foundation.

In addition, in partnership with the JPMorgan Chase Foundation and IOS (Institute of Social Opportunities) in Brazil, we signed an alliance to develop a certified academic program in IT, *Talentos del Futuro*. Approximately 100 young people from our crew graduated from the program after studying to acquire technical knowledge in programming, networks and system languages.

In Puerto Rico, we've signed a collaboration agreement with "Jovenes de Puerto Rico en riesgo," a nongovernmental organization that focuses on early detection of young people at risk and then develops specific support programs that monitor their progress, through coaching sessions, job readiness training and life skills. In 2019, we provided support to more than 1,000 young women and men in the market.

Our partnership with Digital House, a leading digital development institution in Argentina, allowed us to offer scholarships to young people interested in developing those skills, gaining significant brand exposure.

Fundacion Si in Argentina builds and operates student houses for low income young people that don't have access to universities in their local communities. Through our alliance with them, more than 400 students were able to continue with their studies.

Instituto Ayrton Senna in Brazil is a renowned NGO working to improve education at all levels. Our strong partnership allowed Arcos Dorados to reach more than 250,000 young students in their last year of public education, through the program called "socio-emotional conversations"

We also participate in programs in Mexico and Colombia, including the *Jovenes Construyendo el Futuro* program in Mexico, which helps teach life skills such as financial planning to young people, and the *40,000 Employees* initiative in Colombia, which has created a consortium of companies with the goal of providing job opportunities to 40,000 people. We also have an alliance with Movimiento Nueva Generacion in Panama, through which we support community centers for young people in Panama.

### ***Community***

In 2019, we executed our yearly Gran Dia and McHappy campaigns, which seeks to broaden the social impact of Arcos Dorados. Through this campaign, funds raised through the sale of Big Macs were donated to local organizations supporting youth employment and the Ronald McDonald House Charities. We raised more than \$5.0 million.

We primarily contribute to the communities in which we operate through the Ronald McDonald House Charities, which is dedicated to creating, finding and supporting programs that directly improve the health and well-being of children by providing "a home away from home" to children undergoing medical treatment in hospitals and their families. As of December 31, 2019, there were 61 Ronald McDonald House Charities programs in 13 countries in Latin America and the Caribbean, including 26 Ronald McDonald Houses, 33 Ronald McDonald Family Rooms and 2 Ronald McDonald Care Mobiles, which were built to deliver pediatric care services to remote locations.

### ***Nutrition and Well-Being***

As part of our commitment to offering nutritious and high quality products to our customers, we are dedicated to actively promoting a balanced lifestyle. This includes providing reliable, accessible information to guide educated nutritional decisions. We were the first restaurant chain in Latin America to provide full nutritional and calorie information about our menu on our websites in every country. In 2014 we added a nutritional calculator on our websites to complement nutritional transparency with a personalized tool to enable our customers to make the right nutritional choices for their lifestyle. In addition, in 2017, we developed our *Receta para el Futuro*, which focuses, among other goals, on offering balanced meals that meet certain criteria regarding saturated fat, added sugar and sodium. We also updated our Happy Meal menus in all of our markets between 2018 and 2019 by including more fruits and vegetables and reducing fat, sodium and added sugars. It now contains less than 600 calories in total and is comprised of the four basic food group (fruits and vegetables, whole grains, lean proteins and dairy products), offering enhanced nutritional value for children. As of August 2019, Happy Meal offerings in all of our markets complied with the nutritional criteria set by the Scale For Good program's standards. Several associations supported these changes, such as the Interamerican Society of Cardiology, the Brazilian Association of Nutrition, the Cardiologic Foundation of Argentina, the Peruvian Society of Nutrition and the Uruguayan Association of Dieticians and Nutritionists.

From a safety and quality perspective, we only use products that have passed strict quality and hygiene controls throughout the production chain, inside our restaurants and up to the moment they are served to our customers. These products are sourced from our approved supplier network for all McDonald's restaurants. We seek to adhere to the strictest food safety standards in the industry and we pay special attention to the enforcement of those standards. All of our restaurants are audited on a yearly basis by a third party entity.

We also run the so called "*Puertas Abiertas*" program in the region, in which customers and key stakeholders are invited to visit our behind-the-counter operations. This program is aimed at greater transparency and has hosted over 13 million customers across the region since 2015 when the program was created. In 2019, approximately 2.3 million customers visited our kitchens.

We also participate in several educational, sports and well-being programs throughout Latin America and the Caribbean, promoting our brand and encouraging our employees and customers to participate.

#### *Sustainable Development*

We strive to be an environmental steward dedicated to conserving natural resources and minimizing waste. We have developed sustainability initiatives with a focus on sustainable supplies, energy and water efficiency. To carry out these initiatives, we have developed strategic partnerships with prestigious organizations such as the World Wildlife Fund ("WWF"), the Nature Conservancy, the Rainforest Alliance the Forest Stewardship Council and the Marine Stewardship Council. For the eleventh consecutive year, together with the WWF, all restaurants in our 20 markets have participated in Earth Hour by switching off their external lights and canopies.

As part of our *Receta del Futuro* platform, we have focused on several initiatives relating to climate change, packaging and recycling and sustainable food sourcing in recent years.

#### *Climate Change*

We are following McDonald's commitment to reduce greenhouse gas ("GHG") emissions from 2015 levels by 36% in our restaurants and offices. In addition, we are also committed to reducing GHG emissions from 2015 levels by 31% in our supply chain processes. In order to achieve these reductions at the restaurant level, we're taking specific actions, such as our Programa Natal, which is aimed at conserving and reducing our water consumption, especially in regions with limited access to water. The program has been implemented in more than 500 restaurants as of December 31, 2019. In 2019, we saved and reused more than 90 million liters of water through Programa Natal. We have also deployed LED lighting in all our restaurants and were able to reduce our electricity consumption by more than 150,000,000 KWH. In our offices, we have eliminated single use hot and cold cups and replaced traditional printer paper with sugar-based paper. We are also participating in the Carbon Disclosure Program, pursuant to which we respond to questionnaires relating to water usage, deforestation and climate change and are ranked based on our contribution to each issue. Workshops were conducted in our major markets, along with our key suppliers. In 2018, Arcos Dorados was recognized as the company with the highest response rate in Latin America.

#### *Packaging and Recycling*

Our goal is to guarantee that 100% of our packaging comes from renewable, recycled or certified sources by 2025. Also, by 2025, we seek to offer recycling in all our restaurants. We understand that recycling infrastructure, regulations and consumer behaviors vary city to city and country to country, but we plan to be part of the solution and help influence powerful change.

In this sense, in certain markets, we are members of CEMPRE (*Compromiso Empresarial para el Reciclaje*), a group comprised of leading companies from different industries such as Coca Cola, Nestle, Unilever and Natura, that is dedicated to working on environmental issues in Latin America. The company is also an active member of CEADS (*Consejo Empresario Argentino para el Desarrollo Sustentable*), as well as similar organizations in other countries.

We took a leadership position in 2018 when we proactively started to provide plastic straws only when requested by customers, rather than automatically providing them. By the end of 2019, we had eliminated more than 200 tons of plastic from our supply chain, just by taking this important step. We continue eliminating packaging through innovation, shifting to materials from 100% renewable, recycled or other certified sources. Well ahead of schedule, 100% of our packaging comes from certifiable sources, a process followed by the Forest Stewardship Council and similar organizations.

In all our restaurants, we recycle used cooking oil, which is being reused according to local regulations in a series of different ways. For example, in Mexico, we have recycled more than 150,000 liters of used cooking oil, which was then used to manufacture biodiesel, and in Ecuador, we recycled more than 72,000 liters of used cooking oil for other uses.

In Brazil, as well as other markets, we are partnering with several organizations that are focused on creating employment and economic development opportunities through the recycling and selling of recycled materials in the open market. Through these alliances, we seek to provide a solution to multiple problems while creating opportunities for disadvantaged communities at the same time.

More than 600 restaurants in the region have already implemented our Programa de Desarrollo Sustentable, which we developed with the objective of increasing awareness of climate change in our customer base as well as employees. Through this program, we provide education, waste sorting bins, United Nation's SDG's materials, community opportunities, beach cleaning programs and composting classes.

We have also signed a unique collaboration agreement with UBQ, an Israeli company specializing in materials and innovation. Through this alliance, we are innovating and taking leadership by producing restaurant items, such as trays, with organic waste, thereby reducing waste and the environmental impact of our restaurants. We are also partnering with Tetra Pack in order to manufacture restaurant furniture with recycled Tetra Pack containers, such as McCafe tabletops and newspaper stands.

Reverse logistics is another component of our recycling program. We are leveraging our logistics provider structure to recover cardboard from our restaurants, which is then recycled and reused in generating new packaging. The solution is being tested in several markets.

#### *Sustainable Beef and Responsible Sourcing of Materials*

We work hard to continuously improve how we source our ingredients in a way that allows people, animals and the planet to thrive. We're focusing our efforts in beef, coffee, fish, palm oil and chicken.

We strive to work with suppliers that have strong standards of animal welfare and that meet McDonald's standards and policies. We have committed to ensuring that all pork used in our restaurants will be sourced by producers that can demonstrate plans to promote group housing for their pigs. We are actively working with our pork suppliers, producers and other stakeholders to transition over time to this standard. The responsible use of antibiotics is important for animal health, as well as to ensure the future effectiveness of antimicrobial medicines. In March 2015, we announced that we will only source from suppliers who can guarantee that their animals (i) are raised without growth-stimulating antibiotics; (ii) have only received antibiotics to cure or prevent disease under veterinary supervision; (iii) are only administered antibiotics approved for veterinary use; and (iv) are raised in environments that encourage healthy animal welfare and husbandry conditions to help reduce the need for antibiotic use. We are continuously working with our suppliers and producers to achieve this goal for the responsible use of antibiotics. Based on the premise that our customers deserve high quality products originating from healthy animals, together with McDonald's, we have been pioneers in prioritizing animal welfare. We have a specific committee for animal welfare issues, which acts under the guidelines of the Professional Animal Auditor Certification Organization (PAACO), an animal welfare organization.

Protecting the forests is a top priority. In 2017, McDonald's publicly announced its Commitment on Forests, which aims to eliminate deforestation from our supply chains and promote responsible forestry and production practices that benefit people, communities and the planet. This commitment includes the Amazon, the Cerrado and the Chaco, a province in Argentina. In October 2011, McDonald's signed a global moratorium against harvesting soy from the Amazon region and has maintained this commitment every year since, including actively supporting the 2014 renewal of the Brazilian Soy Moratorium. In August 2016, we sourced the first sustainably-produced beef in Latin America from the Novo Campo Project, an initiative that complies with the standards of the Brazilian Roundtable for Sustainable Beef. With this initiative, we were the first restaurant in the QSR industry in Brazil to acquire the product from production cycles that meet global principles and criteria established by the Global Roundtable for Sustainable Beef. Among other criteria, this meets our commitments to end deforestation, not source products within Conservancy and/or Indian areas, ensure that child labor or slavery conditions do not occur and pass through a third-party verification audit regarding each of these commitments.

Arcos Dorados is also an active member of several working groups and has a leadership position regarding the development of sustainable agricultural practices in the region. Our teams work with farmers, environmental groups and governments to discover, test and scale methods that support decent farming livelihoods, while protecting resources for generations to come. In Brazil, we are active members of the *Grupo de Trabalho de Pecuaria Sustentavel*, a group that facilitates collaboration among industry leadings as well as NGOs and to find solutions that allow farmers to produce more meat in a less impactful way. Our work is focused on managing natural resources responsibly, respecting people and communities, caring for the welfare of animals, ensuring the safety and quality of beef and driving efficiency and innovation. In 2019, we doubled our purchases of sustainable beef in Brazil, while monitoring deforestation via satellite in collaboration with Agrotools and Proforest.

Arcos Dorados has partnered with coffee roasters to help advance coffee sustainability over the last decade and we remain committed to further progress. We source coffee from suppliers that meet internationally certified sustainability standards. In 2019, more than 93% of all the coffee served in our restaurants was sourced from verifiable sustainable sources, while we continue to develop programs to reach 100% by 2020.

In the markets where we sell fish products, we partner with the Marine Stewardship Council to identify ways to protect long term fish production and improve the marine ecosystem. Our suppliers are responsible for maintaining sustainably produced fish stocks, minimizing the impact of fishing and conserving the environment.

High demand for palm oil has had an impact on natural forests which are being replaced by palm oil plantations. We are partnering with key stakeholders, growers, traders and food manufacturers to guarantee that all palm oil used in manufacturing processes is certified by the Roundtable on Sustainable Palm Oil. At the end of 2019, 100% of the palm oil used in our extensive supply chain was sustainably produced and verified.

Arcos Dorados is committed to ensuring a sustainable supply of chicken. We do this by sourcing from suppliers that reduce or eliminate the use of antibiotics to protect human health as well as ensure animal welfare. In addition, in October 2016, we announced that we would begin sourcing only cage free eggs in various countries, with the goal of having 100% of the eggs served at our restaurants coming from cage free eggs by 2025. We started partially sourcing cage free eggs in Brazil as part of our commitment to a more sustainable chicken industry.

As of December 31, 2019, we had 4 LEED-certified restaurants and 1 LEED-certified corporate university. Leadership in Energy & Environmental Design, or LEED-certified buildings are more environmentally responsible and resource-efficient buildings throughout their lifecycle. In December 2008, we opened the first LEED-certified restaurant in Latin America in Bertioga on the coast of São Paulo, Brazil. This restaurant received its LEED certification in September 2009, becoming the first McDonald's restaurant in Latin America to receive such certification. In August 2010, we opened our second LEED-certified restaurant in Pilar, Argentina. In July 2011, we re-inaugurated the McDonald's at Parque Hundido, in Mexico DF, as our third LEED-certified restaurant. In January 2013, we opened the fourth LEED-certified restaurant in Guaynabo, Puerto Rico, which obtained its LEED certification in November 2013. The McDonald's University in São Paulo, Brazil, was remodeled and reopened in April 2011 as a LEED-certified building. This McDonald's University, one of seven such units in the world, is the corporate education center for employees from all over Latin America and the Caribbean. Among the programs offered at the McDonald's University in São Paulo is an MBA in Strategies for Sustainable Development, the only educational program of its kind at this level in Latin America.

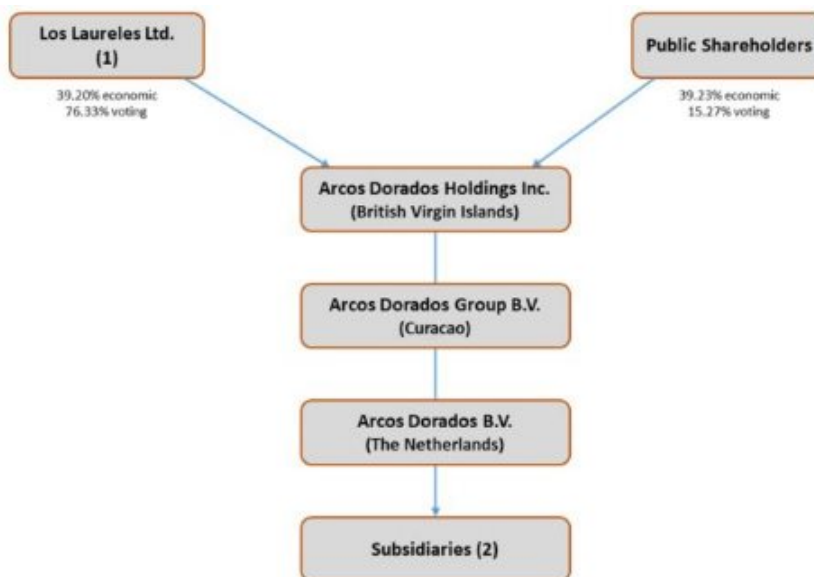
The know-how accumulated in the construction of these ecological buildings is being used for the development of new McDonald's restaurants, such as our High Efficiency Restaurants, developed in Brazil in compliance with McDonald's standards as required by the MFAs, at which efficiencies have been achieved by implementing sustainability measures for, among others, the reuse of water and the use of more efficient lightning technics and using a more efficient architectural design with regard to the amount of equipment, kitchen and support areas. These architectural changes allow a reduction in carbon footprint associated to building process.

### **C. Organizational Structure**

We conduct substantially all of our business through our indirect, wholly owned Dutch subsidiary Arcos Dorados B.V. Our controlling shareholder is Los Laureles Ltd., a British Virgin Islands company, which is beneficially owned by Mr. Woods Staton, our Executive Chairman. Under the MFAs, Los Laureles Ltd. is required to hold at all times at least 51% of our voting interests, which is accomplished through its ownership of 100% of the class B shares of Arcos Dorados Holdings Inc., each having five votes per share. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See "Item 7. Major Shareholders and

Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.” Arcos Dorados B.V. owns all the equity interests of LatAm, LLC, the master franchisee, and owns, directly or indirectly, all the equity interests of the subsidiaries operating our restaurants in the Territories.

The following chart shows our corporate structure as of April 2020.



(1) Includes class A shares and class B shares beneficially owned by Mr. Woods Staton, our Executive Chairman. Los Laureles Ltd. is beneficially owned by Mr. Woods Staton. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.”

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

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

## D. Property, Plants and Equipment

### *Property Operations*

Our long-standing presence in Latin America and the Caribbean has allowed us to build a significant property portfolio with hard-to-replicate locations in key markets across the region that enhance our customers’ experience and ultimately support our brand and market position. As of December 31, 2019, we owned the land for 494 of our 2,293 restaurants (totaling approximately 1.1 million square meters). We owned the buildings for all but 11 of our stand-alone restaurants, all of which are under developmental licenses, whereby the licensees own or lease the land on and buildings in which the restaurants are located. We lease the remaining real estate property where we operate. Accordingly, we are able to charge rent on the real estate that we own and lease to our franchisees. The rental payments generally are based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. When we lease land, we match the term of our sublease to the term of the franchise. We may charge a higher rent to franchisees than that which we pay on our leases, therefore deriving additional rental income.

The selection, construction and maintenance of restaurant locations and other related real estate assets, which is a key element of our performance, is determined based on an evaluation of expected returns on investment and the most efficient allocation of our capital expenditures. In addition to our restaurant property, we have (i) corporate offices in Montevideo, Uruguay; Buenos Aires, Argentina; and Sao Paulo, Brazil; and regional offices in Mexico City, Mexico and Bogota, Colombia; (ii) distribution centers in the Caribbean; (iii) an industrial center called Food Town in Sao Paulo, Brazil, where our logistics operator is located; and (iv) training centers in Sao Paulo, Brazil and Buenos Aires, Argentina.

## ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A. Operating Results

*The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, and the notes thereto, included elsewhere in this annual report, as well as the information presented under “Presentation of Financial and Other Information” and “Item 3. Key Information—A. Selected Financial Data.”*

*The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in “Forward-Looking Statements” and “Item 3. Key Information—D. Risk Factors.”*

### Segment Presentation

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin American division, or NOLAD, consisting of Costa Rica, Mexico and Panama; and the South Latin American division, or SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay. As of December 31, 2019, 44.6% of our restaurants were located in Brazil, 17.6% in SLAD, 23.1% in NOLAD and 14.7% in the Caribbean division. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

We are required to report information about operating segments in our financial statements in accordance with ASC 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. We have determined that our reportable segments are those that are based on our method of internal reporting, and we manage our business and operations through our four geographical divisions (Brazil, the Caribbean division, NOLAD and SLAD). The accounting policies of the segments are the same as those for the Company on a consolidated basis.

### Principal Income Statement Line Items

#### *Revenues*

We generate revenues primarily from two sources: sales by Company-operated restaurants and revenue from franchised restaurants, which primarily consists of rental income, typically based on the greater of a flat fee or a percentage of sales reported by our franchised restaurants. This rent, along with occupancy and operating rights, is stipulated in our franchise agreements. These agreements typically have a 20-year term but may be shorter if necessary to mirror the term of the real estate lease. In 2019, sales by Company-operated restaurants and revenues from franchised restaurants represented 95% and 5% of our total revenues, respectively. In 2018 and 2017, sales by Company-operated restaurants and revenues from franchised restaurants represented 95.2% and 4.8% and 95.3% and 4.7% of our total revenues, respectively.

#### *Operating Costs & Expenses*

Our sales are heavily influenced by brand advertising, menu selection and initiatives to improve restaurant operations. Sales are also affected by the timing of restaurant openings and closures. We do not record sales from our franchised restaurants as revenues.

Company-operated restaurants incur four types of operating costs and expenses:

- food and paper costs, which represent the costs of the products that we sell to customers in Company-operated restaurants;

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- payroll and employee benefit costs, which represent the wages paid to Company-operated restaurant managers and crew, as well as the costs of benefits and training, and which tend to increase as we increase sales;
- occupancy and other operating expenses, which represent all other direct costs of our Company-operated restaurants, including advertising and promotional expenses, the costs of outside rent, which are generally tied to sales and therefore increase as we increase our sales, outside services, such as security and cash collection, building and leasehold improvement depreciation, depreciation on equipment, repairs and maintenance, insurance, restaurant operating supplies and utilities; and
- royalty fees, representing the continuing franchise fees we pay to McDonald's pursuant to the MFAs, which are determined as a percentage of gross product sales.

Franchised restaurant occupancy expenses include, mainly, as applicable, the costs of depreciating and maintaining the land and buildings upon which franchised restaurants are situated or the cost of leasing that property. A significant portion of our leases establish that rent payments are based on the greater of a flat fee or a specified percentage of the restaurant's sales.

We promote the McDonald's brand and our products by advertising in all of the Territories. Pursuant to the MFAs, we are required to spend at least 5% of our sales on advertisement and promotion activities annually. These activities are guided by our overall marketing plan, which identifies the key strategic platforms that we leverage to drive sales. Our franchisees are generally required to pay us a certain percentage of their sales to cover advertising expenditures related to their restaurants. We account for these payments as a deduction to our advertising expenses. As a result, our advertising expenses only reflect the expenditures related to Company-operated restaurants. Advertising expenses are recorded within the "Occupancy and other operating expenses" line item in our consolidated income statement. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico. In connection with the COVID-19 outbreak, we have agreed with McDonald's to reduce the advertising and promotion spending requirement from 5% to 4% of our gross sales for the full year 2020.

General and administrative expenses include the cost of overhead, including salaries and facilities, travel expenses, depreciation of office equipment, buildings and vehicles, amortization of intangible assets, occupancy costs, professional services and the cost of field management for Company-operated and franchised restaurants, among others.

Other operating income (expenses), net, include gains and losses on asset acquisitions and dispositions, gains related to sales of restaurant businesses, write-offs of property and equipment, insurance recovery, impairment charges, rental income and depreciation expenses of excess properties, accrual for contingencies, write-offs and write-downs of inventory, recovery of taxes and other miscellaneous items.

### ***Other Line Items***

Net interest expense primarily includes interest expense on our short-term and long-term debt as well as the amortization of deferred financing costs. Gain (loss) from derivative instruments relates primarily to the results of derivatives that are not designated for hedge accounting.

Foreign currency exchange results relate to the impact of remeasuring monetary assets and liabilities denominated in currencies other than our functional currencies. See "—Foreign Currency Translation."

Other non-operating (expenses) income, net, primarily include contingencies, certain results related to tax credits, asset taxes that we are required to pay in certain countries and other non-operating charges.

Income tax expense includes both current and deferred income taxes. Current income taxes represent the amount accrued during the period to be paid to the tax authorities while deferred income taxes represent the earnings impact of the change in deferred tax assets and liabilities that are recognized in our balance sheet for future income tax consequences.

Net income attributable to non-controlling interests relate to the participation of non-controlling interests in the net income of certain subsidiaries that collectively owned 15 restaurants at December 31, 2019 (15 restaurants at December 31, 2018).



## **Impact of Inflation and Changing Prices**

Some of the countries in which we operate have experienced, or are currently experiencing, high rates of inflation. In general, we believe that, over time, we have demonstrated the ability to manage inflationary environments effectively. During 2019 and 2018, our revenues were favorably impacted by our pricing strategy in many of these inflationary environments, as we were able to increase average check to keep pace with inflation.

The Venezuelan market is also subject to price controls, which limit our ability to increase prices to offset the impact of continuing high inflation on our operating costs. Although we managed to navigate the negative impact of the price controls on our operations from 2015 through 2019, the existence of such laws and regulations continues to present a risk to our business. We continue to closely monitor developments in this dynamic environment.

## **Key Business Measures**

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth.

In analyzing business trends, management considers a variety of performance and financial measures which are considered to be non-GAAP including: Adjusted EBITDA, comparable sales growth, systemwide data and constant currency measures.

### ***Comparable Sales***

Comparable sales is a key performance indicator used within the retail industry and is indicative of the success of our initiatives as well as local economic, competitive and consumer trends. Comparable sales are driven by changes in traffic and average check, which is affected by changes in pricing and product mix. Increases or decreases in comparable sales represent the percent change in sales from the prior year for all restaurants in operation for at least thirteen months, including those temporarily closed. Some of the reasons restaurants may close temporarily include reimaging or remodeling, rebuilding, road construction and natural disasters. With respect to restaurants where there are changes in ownership, all previous months' sales are reclassified according to the new ownership category when reporting comparable sales. As a result, there will be discrepancies between the sales figures used to calculate comparable sales and our results of operations. We report on a calendar basis, and therefore the comparability of the same month, quarter and year with the corresponding period for the prior year is impacted by the mix of days. The number of weekdays, weekend days and timing of holidays in a period can impact comparable sales positively or negatively. We refer to these impacts as calendar shift/trading day adjustments. These impacts vary geographically due to consumer spending patterns and have the greatest effect on monthly comparable sales while annual impacts are typically minimal.

We calculate and analyze comparable sales and average check in our divisions and systemwide on a constant currency basis, which means that sales in local currencies, including the Argentine *peso* and Venezuelan *bolivar*, are converted to U.S. dollar using the same exchange rate in the applicable division or systemwide, as applicable, over the periods under comparison to remove the effects of currency fluctuations from the analysis. We believe these constant currency measures, which are considered to be non-GAAP measures, provide a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency fluctuations.

Company-operated comparable sales growth refers to comparable sales growth for Company-operated restaurants and franchised comparable sales growth refers to comparable sales growth for franchised restaurants. We believe comparable sales growth is a key indicator of our performance, as influenced by our strategic initiatives and those of our competitors.

### ***Average Restaurant Sales***

Average restaurant sales, or ARS, is an important measure of the financial performance of our systemwide restaurants and changes in the overall direction and trends of sales. ARS is calculated by dividing the sales for the relevant period by the arithmetic mean of the number of restaurants at the beginning and end of such period. ARS is influenced mostly by comparable sales performance and restaurant openings and closures. As ARS is provided in nominal terms, it is affected by movements in foreign currency exchange rates.

### ***Sales Growth***

Sales growth refers to the change in sales by all restaurants, whether operated by us or by franchisees, from one period to another. We present sales growth both in nominal terms and on a constant currency basis, which means the latter is calculated by converting sales in local currencies, including the Argentine *peso* and Venezuelan *bolivar*, to U.S. dollar using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from the analysis.

### ***Adjusted EBITDA***

We use Adjusted EBITDA to facilitate operating performance comparisons from period to period. Adjusted EBITDA is defined as our operating income plus depreciation and amortization plus/minus the following losses/gains included within other operating income (expenses), net, and within general and administrative expenses in our statement of income: gains from sale or insurance recovery of property and equipment; write-offs of property and equipment; impairment of long-lived assets and goodwill; stock-based compensation related to the special awards in connection with the initial public offering, under the 2011 Equity Incentive Plan; reorganization and optimization plan expenses; and incremental compensation related to the modification of our 2008 long-term incentive plan. See “Item 3. Key Information—A. Selected Financial Data.”

We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures (affecting net interest expense and other financial charges), taxation (affecting income tax expense) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to operating performance. In addition, we exclude gains from sale or insurance recovery of property and equipment not related to our core business; write-offs of property and equipment and impairment of long-lived assets and goodwill that do not result in cash payments; stock-based compensation related to the special awards under the 2011 Equity Incentive Plan; reorganization and optimization plan expenses; and incremental compensation expense related to the modification of our 2008 long-term incentive plan. While a GAAP measure for purposes of our segment reporting, Adjusted EBITDA is a non-GAAP measure for reporting our total Company performance. Our management believes, however, that disclosure of Adjusted EBITDA provides useful information to investors, financial analysts and the public in their evaluation of our operating performance.

### ***Systemwide data***

Systemwide data represents measures for both Company-operated and franchised restaurants. While sales by franchisees are not recorded as revenues by us, management believes the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised restaurant revenues and are indicative of the financial health of our franchisee base. Systemwide results are driven primarily by our Company-operated restaurants, as 68.9% of our systemwide restaurants are Company-operated as of December 31, 2019.

### ***Foreign Currency Translation***

The financial statements of our foreign operating subsidiaries are translated in accordance with guidance in ASC 830, Foreign Currency Matters. Except for our Venezuelan and Argentine operations, the functional currencies of our foreign operating subsidiaries are the local currencies of the countries in which we conduct our operations. Therefore, the assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rates as of the balance sheet date, and revenues and expenses are translated at the average exchange rates prevailing during the period. Translation adjustments are included in the “Accumulated other comprehensive loss” component of shareholders’ equity. We record foreign currency exchange results related to monetary assets and liabilities transactions, including intercompany transactions, denominated in currencies other than our functional currencies in our consolidated income statement.

Under U.S. GAAP, an economy is considered to be highly inflationary when its three-year cumulative rate of inflation meets or exceeds 100%. Since January 1, 2010 and July 1, 2018, Venezuela and Argentina, respectively, were considered to be highly inflationary, and as such, the financial statements of each of these subsidiaries are remeasured as if its functional currency was the reporting currency of the relevant subsidiary’s immediate parent company (U.S. dollars for Venezuelan operations and Brazilian *reais* (“BRL”) for Argentine operations). As a result, remeasurement gains and losses are recognized in earnings rather than in the cumulative translation adjustment component of “Accumulated other comprehensive loss” within shareholders’ equity.

## *Venezuela*

Venezuela's exchange rate system is administered by the Central Bank of Venezuela, and currently consists of a unified foreign exchange market called DICOM, which operates through an auction mechanism and which was introduced in February 2018, replacing the previous dual exchange rate system. During 2018, the Company accessed to DICOM at an exchange rate greater than the one published by the governmental authorities. This rate is considered for remeasurements purposes.

On August 20, 2018, the Venezuelan government announced the removal of five zeros from the Venezuelan currency and renamed it the "Sovereign Bolivar" (VES). In addition, the new currency experienced devaluation from 2.48 to 59.93 VES per U.S. dollar. Since 2018, the Sovereign Bolivar has continued depreciating in value against U.S. dollar. As of December 31, 2019, the exchange rate was 44,080.58 VES per U.S. dollar.

As of December 31, 2019, our local currency-denominated net monetary position in Venezuela, that would be subject to remeasurement in the event of further changes in the exchange rate, was a net asset of \$0.2 million. In addition, our Venezuelan subsidiary's non-monetary assets were \$13.6 million (mainly fixed assets).

Currency devaluations in Venezuela have had a significant effect on our income statements and have impacted the comparability of our income statements. For more details about the Venezuelan exchange rate used for financial reporting, see Note 22 to our consolidated financial statements.

### **Critical Accounting Policies and Estimates**

This management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, we evaluate our estimates and judgments based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions.

We consider an accounting estimate to be critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on our financial condition or operating performance is material.

We believe that of our significant accounting policies, the following encompass a higher degree of judgment and/or complexity.

### ***Depreciation of Property and Equipment***

Accounting for property and equipment involves the use of estimates for determining the useful lives of the assets over which they are to be depreciated. We believe that the estimates we make to determine an asset's useful life are critical accounting estimates because they require our management to make estimates about technological evolution and competitive uses of assets. We depreciate property and equipment on a straight-line basis over their useful lives based on management's estimates of the period over which these assets will generate revenue (not to exceed the lease term plus renewal options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. We periodically review these lives relative to physical factors, economic considerations and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense or write-offs in future periods. No significant changes to useful lives have been recorded in the past. A significant change in the facts and circumstances that we relied upon in making our estimates may have a material impact on our operating results and financial condition.

### ***Impairment of Long-Lived Assets and Goodwill***

We review long-lived assets (including property and equipment, intangible assets with definite useful lives and lease right of use assets, net) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We review goodwill for impairment annually, primarily during the fourth quarter. In assessing the recoverability of our long-lived assets and goodwill, we consider changes in economic conditions and make assumptions regarding, among other factors, estimated future cash flows by market and by restaurant, discount rates by country and the fair value of the assets. Estimates of future cash flows are highly subjective judgments based on our experience and knowledge of our operations. These estimates can be significantly impacted by many factors, including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. A key assumption impacting estimated future cash flows is the estimated change in comparable sales.

See Note 3 to our consolidated financial statements for a detail of markets for which we performed impairment tests of our long-lived assets and goodwill, as well as impairment charges recorded.

If our estimates or underlying assumptions change in the future, we may be required to record additional impairment charges.

### ***Leasing Arrangements***

The Company leases locations through ground leases (the Company leases the land and owns the building) and through improved leases (the Company leases land and buildings). The operating leases are mainly related to restaurant and Dessert Center locations. The right-of-use assets and lease liabilities reflect the present value of the future minimum lease payments, which include renewal options provided by the agreement or government regulations, as they are reasonably certain to be exercised. Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed the initial lease term, and the sales performance of the restaurant remains strong. Therefore, its associated payments are included in the measurement of the right-of-use asset and lease liability. As the interest rate implicit in the Company's leases was not readily determinable, the Company utilizes its incremental borrowing rate to discount the lease payments.

### ***Accounting for Taxes***

We record a valuation allowance to reduce the carrying value of deferred tax assets if it is more likely than not that some portion or all of our deferred assets will not be realized. Our valuation allowance as of December 31, 2019, 2018 and 2017 amounted to \$194.4 million, \$219.9 million and \$271.7 million, respectively. We have considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance. This assessment is carried out on the basis of internal projections, which are updated to reflect our most recent operating trends, such as the expiration date for tax loss carryforwards. Because of the imprecision inherent in any forward-looking data, the further into the future our estimates project, the less objectively verifiable they become. Therefore, we apply judgment to define the period of time to include projected future income to support the future realization of the tax benefit of an existing deductible temporary difference or carryforward and whether there is sufficient evidence to support the projections at a more-likely-than-not level for this period of time. Determining whether a valuation allowance for deferred tax assets is necessary often requires an extensive analysis of positive (e.g., a history of accurately projecting income) and negative evidence (e.g., historic operating losses) regarding realization of the deferred tax assets and inherent in that, an assessment of the likelihood of sufficient future taxable income. In 2019, 2018 and 2017, we recognized net gains amounting to \$23.9 million, \$24.6 million and \$19.1 million, respectively. If these estimates and assumptions change in the future, we may be required to adjust the valuation allowance. This could result in a charge to, or an increase in, income in the period this determination is made.

In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company assesses the likelihood of any adverse judgments or outcomes on its tax positions, including income tax and other taxes, based on the technical merits of a tax position derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position.

As of December 31, 2019, there are certain matters related to the interpretation of income tax laws which could be challenged by tax authorities in an amount of \$183 million, related to assessments for the fiscal years 2009 to 2014. No formal claim has been made for fiscal years within the statute of limitation by tax authorities in any of the mentioned matters; however, those years are still subject to audit and claims may be asserted in the future.

It is reasonably possible that, as a result of audit progression within the next 12 months, there may be new information that causes the Company to reassess its tax positions because the outcome of tax audits cannot be predicted with certainty. While the Company cannot estimate the impact that new information may have on its unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate as determined under ASC 740.

**Provision for Contingencies**

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. Accounting for contingencies involves the use of estimates for determining the probability of each contingency and the estimated amount to settle the obligation, including related costs. We accrue liabilities when it is probable that future costs will be incurred and the costs can be reasonably estimated. The accruals are based on all the information available at the issuance date of the financial statements, including our estimates of the outcomes of these matters and our lawyers' experience in contesting, litigating and settling similar matters. If we are unable to reliably measure the obligation, no provision is recorded and information is then presented in the notes to our consolidated financial statements. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. Because of the inherent uncertainties in this estimation, actual expenditures may be different from the originally estimated amount recognized. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings" for a description of significant claims, lawsuits and other proceedings.

See Note 18 to our consolidated financial statements.

**Results of Operations**

We have based the following discussion on our consolidated financial statements. You should read it along with these financial statements, and it is qualified in its entirety by reference to them.

In a number of places in this annual report, in order to analyze changes in our business from period to period, we present our results of operations and financial condition on a constant currency basis, which is considered to be a non-GAAP measure. Constant currency results isolate the effects of foreign exchange rates on our results of operations and financial condition. In particular, we have isolated the effects of appreciation and depreciation of local currencies in the Territories against the U.S. dollar because we believe that doing so is useful in understanding the development of our business. For these purposes, we eliminate the effect of movements in the exchange rates by converting the balances in local currency for both periods being compared from their local currencies to the U.S. dollar using the same exchange rate.

**Key Business Measures**

The following tables present sales, sales growth, sales growth on a constant currency basis, comparable sales growth and average restaurant sales increases/(decreases):

	Sales			Sales growth		Sales growth in constant currency		Comparable sales growth	
	For the Years Ended December 31,			For the Years Ended December 31,		For the Years Ended December 31,		For the Years Ended December 31,	
	2019	2018	2017	2019 <sup>(1)</sup>	2018 <sup>(3)</sup>	2019 <sup>(1)</sup>	2018 <sup>(3)</sup>	2019 <sup>(2)</sup>	2018 <sup>(4)</sup>
	(in thousands of U.S. dollars, except percentages)								
Sales by Company-operated restaurants	2,812,287	2,932,609	3,162,256	(4.1) %	(7.3) %	2,606.9 %	1,244.5 %	2,649.4 %	1,270.4 %
Franchised sales <sup>(5)</sup>	1,189,533	1,200,112	1,250,606	(0.9) %	(4.0) %	6,118.5 %	3,100.2 %	6,040.1 %	2,983.0 %
<b>Systemwide sales</b>	<b>4,001,820</b>	<b>4,132,721</b>	<b>4,412,862</b>	<b>(3.2) %</b>	<b>(6.3) %</b>	<b>3,626.7 %</b>	<b>1,770.4 %</b>	<b>3,654.4 %</b>	<b>1,778.1 %</b>

(1) In nominal terms, sales decreased during 2019 due to the negative impact of the depreciation of currencies mainly in Venezuela, Argentina and Brazil against the U.S. dollar. This was partially offset by comparable sales growth of 3,654.4%, as a result of hyperinflation in Venezuela. We had 1,580 Company-operated restaurants and 713 franchised restaurants as of December 31, 2019, compared to 1,540 Company-operated restaurants and 683 franchised restaurants as of December 31, 2018.

- (2) Our comparable sales growth on a systemwide basis in 2019 was driven by the increase in average check, which resulted mainly from price increases in Venezuela and Argentina (driven by the hyperinflation), and from increased traffic at our restaurants, especially in Brazil.
- (3) In nominal terms, sales decreased during 2018 due to the negative impact of the depreciation of currencies mainly in Venezuela, Argentina and Brazil against the U.S. dollar. This was partially offset by comparable sales growth of 1,778.1%, as a result of hyperinflation in Venezuela. We had 1,540 Company-operated restaurants and 683 franchised restaurants as of December 31, 2018, compared to 1,546 Company-operated restaurants and 642 franchised restaurants as of December 31, 2017.
- (4) Our comparable sales growth on a systemwide basis in 2018 was driven by the increase in average check, which resulted mainly from price increases in Venezuela (driven by the hyperinflation) and in Argentina and from increased traffic at our restaurants.
- (5) Franchised sales correspond to sales generated by franchised restaurants, which we do not collect. Revenues from franchised restaurants primarily consist of rental income.

### By division

	Sales			Sales growth		Sales growth in constant currency		Comparable sales growth	
	For the Years Ended December 31,			For the Years Ended December 31,		For the Years Ended December 31,		For the Years Ended December 31,	
	2019	2018	2017	2019	2018	2019	2018	2019	2018
(in thousands of U.S. dollars, except percentages)									
<b>Sales by Company-operated restaurants:</b>									
Brazil	\$ 1,283,005	\$ 1,251,458	\$ 1,396,411	2.5 %	(10.4) %	11.1 %	2.0 %	9.5 %	1.1 %
Caribbean division	390,589	467,352	457,033	(16.4) %	2.3 %	16,275.6 %	8,559.0 %	16,506.1 %	8,719.4 %
NOLAD	410,601	388,233	370,457	5.8 %	4.8 %	6.3 %	6.3 %	5.3 %	6.4 %
SLAD	728,092	825,566	938,355	(11.8) %	(12.0) %	27.0 %	19.7 %	25.1 %	19.6 %
Total Sales by Company-operated restaurants	2,812,287	2,932,609	3,162,256	(4.1) %	(7.3) %	2,606.9 %	1,244.5 %	2,649.4 %	1,270.4 %
<b>Franchised-sales:(3)</b>									
Brazil	834,653	773,908	815,184	7.8 %	(5.1) %	16.8 %	8.1 %	9.8 %	2.3 %
Caribbean division	64,813	120,702	127,599	(46.3) %	(5.4) %	60,683.6 %	30,277.9 %	61,561.5 %	30,716.2 %
NOLAD	171,672	159,180	142,657	7.8 %	11.6 %	7.9 %	13.5 %	4.3 %	6.8 %
SLAD	118,395	146,322	165,166	(19.1) %	(11.4) %	26.9 %	31.3 %	26.4 %	22.3 %
Total Franchised sales	1,189,533	1,200,112	1,250,606	(0.9) %	(4.0) %	6,118.5 %	3,100.2 %	6,040.1 %	2,983.0 %
<b>Systemwide sales:</b>									
Brazil	2,117,658	2,025,366	2,211,595	4.6 %	(8.4) %	13.3 %	4.3 %	9.7 %	1.6 %
Caribbean division	455,403	588,054	584,632	(22.6) %	0.6 %	25,390.7 %	13,299.2 %	25,753.0 %	13,557.8 %
NOLAD	582,273	547,414	513,114	6.4 %	6.7 %	6.8 %	8.3 %	5.0 %	6.5 %
SLAD	846,486	971,887	1,103,521	(12.9) %	(11.9) %	27.0 %	21.4 %	25.3 %	20.1 %
Total Systemwide sales	<b>4,001,820</b>	<b>4,132,721</b>	<b>4,412,862</b>	<b>(3.2) %</b>	<b>(6.3) %</b>	<b>3,626.7 %</b>	<b>1,770.4 %</b>	<b>3,654.4 %</b>	<b>1,778.1 %</b>

	Sales			Number of restaurants				Average restaurant sales		
	For the Years Ended December 31,			For the Years Ended December 31,				For the Years Ended December 31,		
	2019	2018	2017	2019	2018	2017	2016	2019(1)	2018(2)	2017
	(in thousands of U.S. dollars, except for number of restaurants)									
Sales by Company-operated restaurants	\$ 2,812,287	\$ 2,932,609	\$ 3,162,256	1,580	1,540	1,546	1,553	\$ 1,780	\$ 1,901	\$ 2,041
Franchised sales(3)	\$ 1,189,533	\$ 1,200,112	\$ 1,250,606	713	683	642	603	\$ 1,668	\$ 1,811	\$ 2,009
<b>Systemwide sales</b>	<b>\$ 4,001,820</b>	<b>\$ 4,132,721</b>	<b>\$ 4,412,862</b>	<b>2,293</b>	<b>2,223</b>	<b>2,188</b>	<b>2,156</b>	<b>\$ 1,745</b>	<b>\$ 1,874</b>	<b>\$ 2,032</b>

- (1) Our ARS decreased in 2019 due to the negative impact of the depreciation of currencies, mainly in Venezuela, Argentina and Brazil, against the U.S. dollar. This was partially offset by comparable sales growth of 3,654.4%, mainly driven by Venezuela's hyperinflation.
- (2) Our ARS decreased in 2018 due to the negative impact of the depreciation of currencies, mainly in Venezuela, Argentina and Brazil, against the U.S. dollar. This was partially offset by comparable sales growth of 1,778.1%, mainly driven by Venezuela's hyperinflation.
- (3) Franchised sales correspond to sales generated by franchised restaurants, which we do not collect. Revenues from franchised restaurants primarily derive from rental income.

### Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Set forth below are our results of operations for the years ended December 31, 2019 and 2018.

	For the Years Ended December 31,		% Change
	2019	2018	
	(in thousands of U.S. dollars)		
Sales by Company-operated restaurants	\$ 2,812,287	\$ 2,932,609	(4.1) %
Revenues from franchised restaurants	\$ 146,790	\$ 148,962	(1.5) %
<b>Total revenues</b>	<b>\$ 2,959,077</b>	<b>\$ 3,081,571</b>	<b>(4.0) %</b>
Company-operated restaurant expenses:			
Food and paper	\$ (1,007,584)	\$ (1,030,499)	(2.2) %
Payroll and employee benefits	\$ (567,653)	\$ (607,793)	(6.6) %
Occupancy and other operating expenses	\$ (799,633)	\$ (803,539)	(0.5) %
Royalty fees	\$ (155,388)	\$ (157,886)	(1.6) %
Franchised restaurants – occupancy expenses	\$ (61,278)	\$ (67,927)	(9.8) %
General and administrative expenses	\$ (212,515)	\$ (229,324)	(7.3) %
Other operating income (expenses), net	\$ 4,910	\$ (61,145)	(108.0) %
<b>Total operating costs and expenses</b>	<b>\$ (2,799,141)</b>	<b>\$ (2,958,113)</b>	<b>(5.4) %</b>
<b>Operating income</b>	<b>\$ 159,936</b>	<b>\$ 123,458</b>	<b>29.5 %</b>
Net interest expense	\$ (52,079)	\$ (52,868)	(1.5) %
Gain (loss) from derivative instruments	\$ 439	\$ (565)	(177.7) %
Foreign currency exchange results	\$ 12,754	\$ 14,874	(14.3) %
Other non-operating (expenses) income, net	\$ (2,097)	\$ 270	(876.7) %
<b>Income before income taxes</b>	<b>\$ 118,953</b>	<b>\$ 85,169</b>	<b>39.7 %</b>
Income tax expense	\$ (38,837)	\$ (48,136)	(19.3) %
<b>Net income</b>	<b>\$ 80,116</b>	<b>\$ 37,033</b>	<b>116.3 %</b>
Less: Net income attributable to non-controlling interests	\$ (220)	\$ (186)	18.3 %
<b>Net income attributable to Arcos Dorados Holdings Inc</b>	<b>\$ 79,896</b>	<b>\$ 36,847</b>	<b>116.8 %</b>

Set forth below is a summary of changes to our systemwide, Company-operated and franchised restaurant portfolios in 2019 and 2018.

<b>Systemwide Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Systemwide restaurants at beginning of period	2,223	2,188
Restaurant openings	90	70
Restaurant closings	(20)	(35)
Systemwide restaurants at end of period	2,293	2,223

<b>Company-Operated Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Company-operated restaurants at beginning of period	1,540	1,546
Restaurant openings	65	42
Restaurant closings	(17)	(28)
Net conversions of franchised restaurants to Company-operated restaurants	(8)	(20)
Company-operated restaurants at end of period	1,580	1,540

<b>Franchised Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Franchised restaurants at beginning of period	683	642
Restaurant openings	25	28
Restaurant closings	(3)	(7)
Net conversions of franchised restaurants to Company-operated restaurants	8	20
Franchised restaurants at end of period	713	683



## Revenues

	For the Years Ended December 31,		% Change
	2019	2018	
(in thousands of U.S. dollars)			
<b>Sales by Company-operated restaurants</b>			
Brazil	\$ 1,283,005	\$ 1,251,458	2.5 %
Caribbean division	\$ 390,589	\$ 467,352	(16.4) %
NOLAD	\$ 410,601	\$ 388,233	5.8 %
SLAD	\$ 728,092	\$ 825,566	(11.8) %
<b>Total</b>	<b>\$ 2,812,287</b>	<b>\$ 2,932,609</b>	<b>(4.1) %</b>
<b>Revenues from franchised restaurants</b>			
Brazil	\$ 102,561	\$ 93,995	9.1 %
Caribbean division	\$ 8,662	\$ 16,391	(47.2) %
NOLAD	\$ 20,665	\$ 18,615	11.0 %
SLAD	\$ 14,902	\$ 19,961	(25.3) %
<b>Total</b>	<b>\$ 146,790</b>	<b>\$ 148,962</b>	<b>(1.5) %</b>
<b>Total revenues</b>			
Brazil	\$ 1,385,566	\$ 1,345,453	3.0 %
Caribbean division	\$ 399,251	\$ 483,743	(17.5) %
NOLAD	\$ 431,266	\$ 406,848	6.0 %
SLAD	\$ 742,994	\$ 845,527	(12.1) %
<b>Total</b>	<b>\$ 2,959,077</b>	<b>\$ 3,081,571</b>	<b>(4.0) %</b>

### Sales by Company-operated Restaurants

Total sales by Company-operated restaurants decreased by \$120.3 million, or 4.1%, from \$2,932.6 million in 2018 to \$2,812.3 million in 2019. In Argentina, total sales by Company-operated restaurants decreased by \$93.7 million, mainly due to depreciation of the Argentine *peso*, against the U.S. dollar, which caused sales to decrease by \$291.1 million. This was partially offset by comparable sales growth of 38.7%, which caused sales in this market to increase by \$186.4 million, mostly due to price increase related to the hyperinflation, together with 1 net restaurant opening and 3 franchised restaurants converting into Company-operated restaurants since January 1, 2018 which increased sales by \$11.0 million. Additionally, the sharp currency depreciation in Venezuela caused a \$61.2 million net negative impact on sales by Company-operated restaurants in 2019 compared to 2018. Moreover, in the other markets, sales by Company-operated restaurants increased \$34.6 million mainly due to comparable sales growth of 6.8%, which caused sales to increase by \$159.7 million, coupled with 53 net restaurant openings since January 1, 2018, which caused sales to increase by \$31.1 million, partly offset by depreciation of currencies against the U.S. dollar, which caused sales to decrease by \$156.1 million.

In Brazil, sales by Company-operated restaurants increased by \$31.5 million, or 2.5%, to \$1,283.0 million. This was primarily a consequence of comparable sales growth of 9.5%, mainly driven by the increase in traffic, which caused sales to increase by \$116.4 million. Also, 56 net restaurants openings coupled with the conversion of 23 Company-operated restaurants into franchised restaurants since January 1, 2018, caused sales to increase by \$22.4 million. This was partially offset by the depreciation of the Brazilian *real* against the U.S. dollar, which caused sales to decrease by \$107.3 million.

In the Caribbean division, sales by Company-operated restaurants decreased by \$76.8 million, or 16.4%, to \$390.6 million. The hyperinflationary environment in Venezuela caused a \$61.2 million net negative impact on sales by Company-operated restaurants in 2019 compared to 2018. In the other markets of the Caribbean division, sales by Company-operated restaurants decreased by \$15.6 million mainly due to the depreciation of currencies against the U.S. dollar, which caused sales to decrease by \$17.6 million and the closing of 15 company operated restaurants. This was partly offset by the opening of 3 Company-operated restaurants, which led to a \$0.1 million increase in sales, and comparable sales growth of 0.5%, which caused sales to increase by \$1.9 million.

In NOLAD, sales by Company-operated restaurants increased by \$22.4 million, or 5.8%, to \$410.6 million. This was a consequence of comparable sales growth of 5.3%, driven by traffic increase, which contributed \$19.9 million to the increase in sales, and 9 net restaurant openings, partially offset by the conversion of 8 Company-operated restaurants into franchised restaurants since January 1, 2018, which contributed in \$4.5 million to sales. This was partially offset by the depreciation of local currencies, which had a negative impact of \$2.0 million in sales.

In SLAD, sales by Company-operated restaurants decreased by \$97.5 million, or 11.8%, to \$728.1 million. This was a consequence of the depreciation of currencies against the U.S. dollar, in particular the Argentine *peso*, which caused sales to decrease by \$320.3 million. This was partially offset by 25.1% growth in comparable sales, which caused sales to increase by \$207.8 million, driven by an increase in average check, mainly related with Argentine inflation. Additionally, the opening of 16 restaurants, together with the conversion of 3 franchised restaurants into Company-operated restaurants, partly offset by the closing of 7 restaurants, since January 1, 2018 contributed \$15.0 million to the increase in sales.

#### *Revenues from Franchised Restaurants*

Our total revenues from franchised restaurants decreased by \$2.2 million, or 1.5%, from \$149.0 million in 2018 to \$146.8 million in 2019. In Argentina, revenues from franchised restaurants decreased \$5.5 million mainly explained by the depreciation of the Argentine *peso* against the U.S. dollar that reduced revenues by \$7.7 million, along with the decrease in rental income as a percentage of sales which had a negative effect of \$1.8 million. This was partly offset by comparable sales growth of 33.1%, which caused revenues to increase \$4.0 million. Additionally, sharp currency depreciation in Venezuela caused a \$7.5 million net negative impact on revenues from franchised restaurants. These decreases were partly offset by an increase of revenues from franchised restaurants in other markets of \$10.8 million, mainly due to comparable sales growth of 8.3%, which caused revenues from franchised restaurants to increase by \$10.9 million. Additionally, the conversion of 38 Company-operated restaurants into franchised restaurants and the net opening of 31 franchised restaurants caused revenues to increase by \$7.4 million. Also, a slight increase in rent due to different conditions in new contracts caused an increase in revenues of \$1.9 million. These increases in our other markets were partly offset by the effect of currencies depreciation against the U.S. dollar which had a negative effect of \$9.4 million.

In Brazil, revenues from franchised restaurants increased by \$8.6 million, or 9.1%, to \$102.6 million primarily due to comparable sales growth of 9.8%, which increased revenues by \$9.7 million, the net opening of 38 franchised restaurants and the conversion of 23 Company-operated restaurants into franchised restaurants, since January 1, 2018, which caused revenues from franchised restaurants to increase in \$6.4 million along with the increase in rental income as a percentage of sales, which increased revenues by \$1.1 million. This was partially offset by the depreciation of the *real* against the U.S. dollar that decreased revenues by \$8.6 million.

In the Caribbean division, revenues from franchised restaurants decreased by \$7.7 million, or 47.2%, to \$8.7 million. The hyperinflationary environment in Venezuela caused a \$7.5 million net negative impact on revenues from franchised restaurants in 2019 compared to 2018. In Puerto Rico, the other market of the division with franchised restaurants, revenues decreased by \$0.2 million, mainly due to a decline in comparable sales growth of 1.4%, which caused revenues of franchised restaurants to decrease by \$0.1 million, coupled with the closing of 2 restaurants since January 1, 2018, with a negative impact in revenues of \$0.1 million.

In NOLAD, revenues from franchised restaurants increased by \$2.1 million, or 11.0%, to 20.7 million. This increase was a result of comparable sales growth of 4.3%, which resulted in a \$0.8 million increase in revenues, coupled with the conversion of 8 Company-operated restaurants into franchised restaurants and the net opening of 2 restaurants since January 1, 2018, which caused revenues to increase by \$0.7 million, coupled with increase in rental income as a percentage of sales, which increased revenues by \$0.6 million.

In SLAD, revenues from franchised restaurants decreased by \$5.1 million, or 25.3%, to \$14.9 million. This decrease is mainly explained by the depreciation of the currencies against the U.S. dollar, especially the Argentine *peso*, which represented a decrease in revenues of \$8.5 million. In addition, a decrease in rental income as a percentage of sales reduced revenues by \$1.5 million. This was partially offset by comparable sales growth of 26.4%, which resulted in a \$4.5 million increase in revenues, driven by an increase in average check strongly related with the inflation in Argentina, coupled with the net opening of 5 restaurants and the conversion of 3 franchised restaurants into Company-operated restaurants since January 1, 2018, which caused revenues to increase by \$0.4 million.

## ***Operating Costs and Expenses***

### *Food and Paper*

Our total food and paper costs decreased by \$22.9 million, or 2.2%, to \$1,007.6 million in 2019, as compared to 2018. As a percentage of our total sales by Company-operated restaurants, food and paper costs increased 0.7 percentage points to 35.8%, primarily as a result of product mix in Brazil and Argentina.

In Brazil, food and paper costs increased by \$33.0 million, to \$439.3 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 1.7 percentage points to 34.2%, primarily as a result of an unfavorable change in product mix, derived from promotional activities carried out with the goal of increasing traffic in response to the unfavorable macroeconomic conditions and strong competitive environment.

In the Caribbean division, food and paper costs decreased by \$30.7 million, or 18.1%, to \$139.5 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.7 percentage points to 35.7%, primarily due to the hyperinflationary environment and sharp currency depreciation in Venezuela.

In NOLAD, food and paper costs increased by \$7.3 million, or 4.8%, to \$158.4 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.3 percentage points to 38.6%, resulting primarily from higher price increases as compared to cost increases in every market of the division.

In SLAD, food and paper costs decreased by \$32.5 million, or 10.7%, to \$270.4 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 0.4 percentage points to 37.1%, mainly due to cost increases above price increases, related to the effect of the depreciation of the Argentine *peso* against the U.S. dollar in imported products coupled with product mix, also primarily in Argentina.

### *Payroll and Employee Benefits*

Our total payroll and employee benefits costs decreased by \$40.1 million, or 6.6%, to \$567.7 million in 2019, as compared to 2018. As a percentage of our total sales by Company-operated restaurants, payroll and employee benefits costs decreased 0.5 percentage points to 20.2%. The decrease is mostly attributable to higher productivity in Brazil, tax reform in Argentina and operational efficiencies in almost all markets.

In Brazil, payroll and employee benefits costs decreased by \$8.2 million, or 3.0%, to \$267.4 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased by 1.2 percentage points to 20.8%, mainly as a result of efficiencies in management payroll, coupled with higher productivity and lower labor contingencies.

In the Caribbean division, payroll and employee benefits costs decreased by \$4.1 million, or 4.6%, to \$84.2 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased by 2.7 percentage points to 21.6%, mainly due to lower income related to government benefits in Colombia and higher management salaries in Venezuela.

In NOLAD, payroll and employee benefits costs increased by \$2.5 million, or 3.9%, to \$66.3 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased by 0.2 percentage points to 16.2%, resulting primarily from higher price increases as compared to cost increases together with operational efficiencies, all in Mexico.

In SLAD, payroll and employee benefits costs decreased by \$30.3 million, or 16.9%, to \$149.6 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits decreased by 1.2 percentage points to 20.6% mainly as a result of tax benefits in Argentina and Uruguay.

*Occupancy and Other Operating Expenses*

Our total occupancy and other operating expenses decreased by \$3.9 million, or 0.5%, to \$799.6 million in 2019, as compared to 2018. As a percentage of our total sales by Company-operated restaurants, occupancy and other operating expenses increased 1.0 percentage points to 28.4%, mainly due to higher delivery costs and IT expenses in Brazil and Argentina. Additionally, there were higher depreciation and amortization expenses in Brazil.

In Brazil, occupancy and other operating expenses increased by \$16.2 million, or 4.8%, to \$352.9 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.6 percentage points to 27.5%, mainly due to higher delivery costs and IT expenses coupled with higher depreciation and amortization related to the 2017-2019 reinvestment plan and dessert center openings.

In the Caribbean division, occupancy and other operating expenses decreased by \$18.2 million, or 13.6%, to \$116.0 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased 1.0 percentage points to 29.7%, mainly due to higher utilities in Venezuela, Colombia and Puerto Rico, coupled with higher maintenance and repair costs in Venezuela and Colombia. In addition, higher depreciation and amortization expenses in Venezuela and Colombia also contributed, explained by lower sales in both countries. This was partially offset by lower insurance payments in Venezuela compared to 2018.

In NOLAD, occupancy and other operating expenses increased by \$8.4 million, or 6.8%, to \$133.0 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.3 percentage points to 32.4% due to higher delivery costs and IT expenses, partially offset by lower depreciation and amortization expenses in Mexico.

In SLAD, occupancy and other operating expenses decreased by \$18.0 million, or 8.2%, to \$201.9 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 1.1 to 27.7%, due to higher depreciation and amortization expenses in Argentina and Chile, coupled with higher delivery costs, utilities and IT expenses in Argentina.

*Royalty Fees*

Our total royalty fees decreased by \$2.5 million, or 1.6%, to \$155.4 million in 2019, as compared to 2018. As a percentage of sales, royalty fees increased by 0.1 percentage points to 5.5% due to lower growth support funding that McDonald's Corporation began providing in August 2017 and waiver of royalty fees in Venezuela.

In Brazil, royalty fees increased by \$0.5 million, or 0.8%, to \$67.2 million in 2019. As a percentage of sales, royalty fees remained almost flat.

In the Caribbean division, royalty fees increased by \$0.6 million, or 2.7%, to \$22.7 million in 2019, as compared to 2018. As a percentage of sales, royalty fees increased by 1.1 percentage points to 5.8%, due to waiver of royalty fees in Venezuela.

In NOLAD, royalty fees increased by \$1.4 million, or 6.2%, to \$24.1 million in 2019, as compared to 2018. As a percentage of sales, royalty fees increased by 0.1 percentage points to 5.9%, due to an increase in the sales subject to royalty fees.

In SLAD, royalty fees decreased by \$5.0 million, or 10.8%, to \$41.5 million in 2019, as compared to 2018. As a percentage of sales, royalty fees increased by 0.1 percentage points to 5.7%, as a result of lower growth support funding that McDonald's Corporation began providing in August 2017.

*Franchised Restaurants—Occupancy Expenses*

Occupancy expenses from franchised restaurants decreased by \$6.6 million or 9.8%, to \$61.3 million in 2019, as compared to 2018, mainly due to depreciation of currencies, mainly in Venezuela, Brazil and Argentina against the U.S. dollar. This was partially offset by higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants, the conversion of Company-operated restaurants into franchised restaurants and store openings.

In Brazil, occupancy expenses from franchised restaurants increased by \$2.8 million, or 6.2%, to \$47.2 million in 2019, as compared to 2018, primarily due to higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants, the conversion of Company-operated restaurants into franchised restaurants and store openings. This was partially offset by depreciation of the Brazilian *real* against de U.S. dollar.

In the Caribbean division, occupancy expenses from franchised restaurants decreased by \$10.3 million, or 94.6% to \$0.6 million, mainly explained by the reduction of the allowance for doubtful accounts, in Puerto Rico due to the executed agreement with certain Puerto Rican franchisees in the market, mentioned in “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Puerto Rican Franchisees.” Also, the depreciation of the Venezuelan *bolivar* against the U.S. dollar, partly offset by higher rent expenses for leased properties, as a consequence of the increase in sales from franchised restaurants, caused by the hyperinflation in Venezuela contributed to the reduction in occupancy expenses.

In NOLAD, occupancy expenses from franchised restaurants increased by \$0.8 million, or 9.7%, to \$9.3 million in 2019, as compared to 2018, mainly due to higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants and the conversion of Company-operated restaurants into franchised restaurants and stores openings.

In SLAD, occupancy expenses from franchised restaurants decreased by \$0.8 million, or 14.6%, to \$4.7 million in 2019, as compared to 2018, mainly due to the depreciation of the Argentinean *peso* against the U.S. dollar. This was partially offset by higher rent expenses for leased properties as a consequence of the increase in comparable sales from franchised restaurants.

Set forth below are the margins for our franchised restaurants in 2019, as compared to 2018. The margin for our franchised restaurants is expressed as a percentage and is equal to the difference between revenues from franchised restaurants and occupancy expenses from franchised restaurants, divided by revenues from franchised restaurants.

	For the Years Ended December 31,	
	2019	2018
Brazil	54.0 %	52.8 %
Caribbean Division	93.1 %	33.2 %
NOLAD	54.9 %	54.3 %
SLAD	68.4 %	72.3 %
<b>Total</b>	<b>58.3 %</b>	<b>54.4 %</b>

#### *General and Administrative Expenses*

General and administrative expenses decreased by \$16.8 million, or 7.3%, to \$212.5 million in 2019. This is explained primarily by the depreciation of currencies, especially the Argentine *peso* and the Brazilian *real*, that contributed \$40.4 million to the reduction in general and administrative expenses and a reduction of expenses in Venezuela of \$2.2 million as well as lower expenses in Brazil, NOLAD and other markets in the Caribbean of \$9.2 million, primarily due to the fact that we had no severance payments in 2019 as compared to 2018. These reductions were partially offset by an increase in general and administrative expenses in Argentina and corporate of \$36.1 million, mainly related to the hyperinflation in Argentina.

In Brazil, general and administrative expenses decreased by \$10.6 million, or 13.8%, to \$66.6 million in 2019, as compared to 2018. The decrease resulted from the depreciation of the Brazilian *real* against the U.S. dollar amounting to \$5.7 million, and lower other and outside services amounting to \$1.1 million as compared to 2018. In addition, we did not have any severance payments in 2019 as compared to \$5.2 million in severance payments in 2018. This was partially offset by higher occupancy expenses for an amount of \$1.3 million.

In the Caribbean division, general and administrative expenses decreased by \$6.7 million, or 20.7%, to \$25.8 million in 2019, as compared to 2018. The sharp currency depreciation in Venezuela caused general and administrative expenses to decrease by \$2.2 million. Moreover, in the other markets in this division, general and administrative expenses decreased by \$4.5 million as compared to 2018 mainly due to higher severance payment in 2018 of \$1.9 million coupled with a reduction in occupancy expenses, outside services, other expenses and travel for an amount of \$0.9 million and savings in payroll and variable compensation of \$0.8 million in 2019. In addition, the depreciation of various currencies against the U.S. dollar decreased general and administrative expenses by \$1.0 million.

In NOLAD, general and administrative expenses decreased by \$0.8 million, or 3.3%, to \$24.4 million in 2019, as compared to 2018. This decrease is a result of \$1.3 million lower severance payment than in 2018 and lower other expenses amounting to \$0.1 million. This was partially offset by higher payroll and bonuses amounting to \$0.6 million.

In SLAD, general and administrative expenses decreased by \$4.2 million, or 13.0%, to \$28.1 million in 2019, as compared to 2018. This decrease was mostly due to the depreciation of various currencies against the U.S. dollar, mainly the Argentine *peso*, amounting to \$8.7 million, lower severance payment than in 2018 for an amount of \$1.5 million and lower occupancy expenses amounting to \$0.8 million. This was partially offset by higher payroll, mainly as a result of inflation in Argentina, coupled with other variable compensation amounting to \$4.4 million and \$1.0 million, respectively. In addition, there were higher outside services and other expenses for an amount of \$1.5 million.

General and administrative expenses for Corporate and others increased by \$5.6 million, or 9.0%, to \$67.6 million in 2019, as compared to 2018. This increase was mostly due to higher payroll related to Argentina's inflation, as a portion of our corporate expenses are nominated in Argentine *pesos*, amounting to \$11.0 million, coupled with higher bonuses and other variable compensation provisions, for an amount of \$3.3 million. Additionally, higher outside services, occupancy, other and travel expenses for an amount of \$16.6 million also contributed. This was partially offset by the depreciation of currencies against the U.S. dollar, especially the Argentine *peso*, amounting to \$24.9 million and no severance payment in 2019 as compared to severance payments of \$0.4 million in 2018.

*Other Operating Income (Expense), net*

Other operating income (expense), net increased by \$66.1 million, to a gain of \$4.9 million in 2019 from a loss of \$61.1 million in 2018. This increase was primarily attributable to a lower inventory write down in Venezuela of approximately \$56.5 million and lower impairment of long-live assets of approximately \$9.6 million, both as compared to 2018.

*Operating Income*

	For the Years Ended December 31,		% Change
	2019	2018	
	(in thousands of U.S. dollars)		
Brazil	\$ 164,342	\$ 159,511	3.0 %
Caribbean division	\$ (1,101)	\$ (49,567)	97.8 %
NOLAD	\$ 16,539	\$ 7,726	114.1 %
SLAD	\$ 42,410	\$ 53,777	(21.1) %
Corporate and other and purchase price allocation	\$ (62,254)	\$ (47,989)	29.7 %
<b>Total</b>	<b>\$ 159,936</b>	<b>\$ 123,458</b>	<b>29.5 %</b>

Operating income increased by \$36.5 million, or 29.5%, to \$159.9 million in 2019, as compared to 2018, as a result of the foregoing.

*Net Interest Expense*

Net interest expense decreased by \$0.8 million, or 1.5%, to \$52.1 million in 2019, as compared to 2018. The decrease was primarily explained by lower interest expenses from the derivatives held by our Brazilian subsidiary, amounting to \$1.2 million.

### ***Gain (Loss) from Derivative Instruments***

Gain (loss) from derivative instruments increased by \$1.0 million to a gain of \$0.4 million in 2019, from a loss of \$0.6 million in 2018, attributable primarily to the results of derivatives that are not designated for hedge accounting.

### ***Foreign Currency Exchange Results***

Foreign currency exchange results decreased by \$2.1 million, from a gain of \$14.9 million in 2018 to a gain of \$12.8 million in 2019. The variation is primarily attributable to a loss of \$5.6 million related to a significant devaluation of the Venezuelan *bolivar* against U.S. dollars during 2018 in comparison with a lower devaluation in 2019, partially offset by a gain of \$3.7 million related to the impact of operating lease liabilities denominated in currencies other than their functional ones.

### ***Other Non-operating (Expenses) Income, Net***

Other non-operating (expenses) income, net decreased by \$2.4 million to a \$2.1 million loss in 2019, as compared to a \$0.3 million gain in 2018, primarily related to contingencies.

### ***Income Tax Expense***

Income tax expense decreased by \$9.3 million, from \$48.1 million in 2018 to \$38.8 million in 2019. The consolidated effective tax rate was 32.6% in 2019, as compared to 56.5% in 2018, primarily explained by Venezuela remeasurement and inflationary impacts (amounting to \$1.7 million) and income tax withholding on intercompany transactions (amounting to \$5.0 million); each representing a higher effective tax rate of 1.5% and 4.2% in 2019 with respect to the weighted-average statutory income tax rate, compared to a higher effective tax rate of 19.8% and 9.1% in 2018, respectively.

See Note 16 to our consolidated financial statements for additional information

### ***Net Income Attributable to Non-controlling Interests***

Net income attributable to non-controlling interests for 2019 remained unchanged from 2018.

### ***Net Income Attributable to Arcos Dorados Holdings Inc.***

As a result of the foregoing, net income attributable to Arcos Dorados Holdings Inc. increased by \$43.0 million, or 116.8% from \$36.8 million in 2018, to \$79.9 million in 2019.

## **Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

For a discussion of our results of operations for the year ended December 31, 2018 compared to the year ended December 31, 2017, please see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Year Ended December 31, 2018. Compared to Year Ended December 31, 2017” of our annual report on Form 20-F for the year ended December 31, 2018.

## **B. Liquidity and Capital Resources**

Our financial condition and liquidity are and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness and the interest we pay on this indebtedness;
- our dividend policy;
- changes in exchange rates which will impact our generation of cash flows from operations when measured in U.S. dollars; and
- our capital expenditure requirements.

We also expect our liquidity and capital resources in 2020 to be negatively impacted by the COVID-19 outbreak, the duration and scope of which are uncertain. In particular, we rely on short term funding from several uncommitted lines of credit, which we began to draw on in March 2020 to maintain our liquidity in the face of the COVID-19 pandemic and the related disruption to our business. We expect that we will need to continue drawing on such credit lines while the pandemic is ongoing. Any unavailability of such credit lines may also negatively impact our liquidity in 2020 and capital resources.

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimagining or upgrading restaurants during the applicable three-year period. See "Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures and Divestitures." In the event we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing reinvestment plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan. As a result of the business disruptions caused by COVID-19 outbreak, we have agreed with McDonald's to withdraw our previously-approved 2020-2022 restaurant opening plan and reinvestment plan and we do not expect to finalize a revised 2020-2022 plan at least until the COVID-19 outbreak is under control. If we are unable to meet our commitments under a future plan and we are unable to reach an agreement on revised terms of the restaurant opening plan and reinvestment plan or are otherwise unable to obtain a waiver from McDonald's, we will be in default under the terms of the MFAs.

Our management believes in our ability to obtain the sources of liquidity and capital resources that are necessary in this challenging economic environment and also believes that our liquidity and capital resources, including working capital, are adequate for our present requirements and business operations and will be adequate to satisfy our currently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so" and "—We use non-committed lines of credit to partially finance our working capital needs."

### *Overview*

Net cash provided by operations increased by \$43.8 million, from \$179.7 million in 2018 to \$223.5 million in 2019. Cash used in our investing activities was \$261.0 million in 2019, compared to \$163.8 million in 2018. Cash used in financing activities was \$29.6 million in 2019, compared to \$73.4 million in 2018. Cash used in financing activities was primarily used for the purchase of treasury stock amounting to \$14.0 million and the payments of dividends of \$22.4 million. This was partially offset by cash inflows of \$13.2 million from net short-term borrowings.

Net cash provided by operations decreased by \$75.4 million, from \$255.2 million in 2017 to \$179.7 million in 2018. Cash used in our investing activities was \$163.8 million in 2018, compared to \$124.5 million in 2017. Cash used in financing activities was \$73.4 million in 2018, compared to \$3.4 million in 2017. Cash used in financing activities was primarily used for the purchase of treasury stock amounting to \$46.0 million and the payments of dividends of \$20.9 million.

At December 31, 2019, our total financial debt was \$595.8 million, consisting of (i) \$626.8 million in long-term debt (of which \$346.5 million related to the 2023 notes, including the original issue discount, \$265.0 million related to 2027 notes, \$13.3 million in other long-term borrowings, and \$5.4 million in finance lease obligations, partially offset by \$3.4 million related to deferred financing costs) the amount of which was offset by \$44.3 million related to the fair market value of our outstanding derivative instruments and (ii) \$13.3 million in short-term debt.

At December 31, 2018, our total financial debt was \$589.8 million, consisting of (i) \$630.3 million in long-term debt (of which \$346.1 million related to the 2023 notes, including the original issue discount, \$265.0 million related to 2027 notes, \$16.7 million in other long-term borrowings, and \$6.5 million in capital lease obligations) the amount of which was offset by \$40.9 million related to the fair market value of our outstanding derivative instruments, (ii) \$4.0 million related to deferred financing costs and (iii) \$0.4 million in short-term debt.

Cash and cash equivalents were \$121.9 million at December 31, 2019 and \$197.3 million at December 31, 2018.



**Comparative Cash Flows**

The following table sets forth our cash flows for the periods indicated:

	<b>For the Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(in thousands of U.S. dollars)</b>		
Net cash provided by operating activities	\$ 223,481	\$ 179,731	\$ 255,170
Net cash used in investing activities	(260,991)	(163,784)	(124,480)
Net cash used in financing activities	(29,632)	(73,442)	(3,353)
Effect of exchange rate changes on cash and cash equivalents	(8,260)	(53,714)	(13,649)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(75,402)</b>	<b>(111,209)</b>	<b>113,688</b>

*Operating Activities*

	<b>For the Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(in thousands of U.S. dollars)</b>		
Net income attributable to Arcos Dorados Holdings Inc.	\$ 79,896	\$ 36,847	\$ 129,166
Non-cash charges and credits	117,498	121,448	60,926
Changes in assets and liabilities	26,087	21,436	65,078
<b>Net cash provided by operating activities</b>	<b>223,481</b>	<b>179,731</b>	<b>255,170</b>

For the year ended December 31, 2019, net cash provided by operating activities was \$223.5 million, compared to \$179.7 million in 2018. The \$43.8 million increase is attributable to the increase in net income and the positive change in assets and liabilities of \$47.7 million and a decrease of non-cash charges of \$4.0 million.

For the year ended December 31, 2018, net cash provided by operating activities was \$179.7 million, compared to \$255.2 million in 2017. The \$75.4 million decrease is attributable to the decrease in net income and a negative change in assets and liabilities of \$136.0 million and a positive change of non-cash charges of \$60.5 million.

*Investing Activities*

Investments in new restaurants and the modernization of existing restaurants are primarily concentrated in markets with opportunities for long-term growth and returns on investment above a pre-defined threshold that is significantly above our cost of capital. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market and are affected by foreign currency fluctuations. These costs, which include land, buildings and equipment, are managed through the use of optimally sized restaurants, construction and design efficiencies and the leveraging of best practices.

The following table presents our cash (used in) provided by investing activities by type:

	For the Years Ended December 31,		
	2019	2018	2017
	(in thousands of U.S. dollars)		
Property and equipment expenditures	\$ (265,235)	\$ (197,041)	\$ (174,766)
Purchases of restaurant businesses paid at acquisition date	(2,658)	—	(870)
Proceeds from sales of property and equipment and related advances	3,340	2,891	61,983
Proceeds from sales of restaurant businesses and related advances	4,818	10,158	10,407
Recovery (acquisitions) of short-term investments	—	19,588	(19,588)
Others, net	(1,256)	620	(1,646)
<b>Net cash used in investing activities</b>	<b>(260,991)</b>	<b>(163,784)</b>	<b>(124,480)</b>

The following table presents our property and equipment expenditures by type:

	For the Years Ended December 31,		
	2019	2018	2017
	(in thousands of U.S. dollars)		
New restaurants	\$ 88,427	\$ 55,982	\$ 41,557
Existing restaurants	149,681	107,202	105,396
Other(1)	27,127	33,857	27,813
<b>Total property and equipment expenditures</b>	<b>265,235</b>	<b>197,041</b>	<b>174,766</b>

(1) Primarily corporate equipment and other office expenditures.

In 2019, net cash used in investing activities was \$261.0 million, compared to \$163.8 million in 2018. This \$97.2 million increase was primarily attributable to an increase in property and equipment expenditures of \$68.2 million, the recovery of short-term investments in 2018 for \$19.6 million, a decrease in proceeds from sale of restaurant businesses and related advances of \$5.3 million, the purchases of restaurant businesses for \$2.7 million and a decrease in other investing activities of \$1.9 million. This was partially offset by the increase in proceeds from sales of property and equipment and related prepayments of \$0.4 million.

Property and equipment expenditures increased by \$68.2 million, from \$197.0 million in 2018 to \$265.2 million in 2019. The increase in property and equipment expenditures is explained by an increase in investment in new restaurants of \$32.4 million, as well as in existing restaurants of \$42.5 million, and a decrease in corporate equipment and other office expenditures of \$6.7 million. In 2019, we opened 90 restaurants and closed 20 restaurants.

Proceeds from sales of restaurant businesses and related advances decreased by \$5.3 million, mainly as a result of a lower rate of conversion of company-operated restaurants into franchised restaurants in 2019 compared with 2018.

In 2018, net cash used in investing activities was \$163.8 million, compared to \$124.5 million in 2017. This \$39.3 million increase was primarily attributable to an increase in property and equipment expenditures of \$22.3 million, a decrease in proceeds from sales of property and equipment and related advances of \$59.1 million, partially offset by the collection of short-term investments, made during 2017, amounting to \$39.2 million.

Property and equipment expenditures increased by \$22.3 million, from \$174.8 million in 2017 to \$197.0 million in 2018. The increase in property and equipment expenditures is explained by an increase in investment in new restaurants of \$14.4 million and an increase in investment in existing restaurants, \$13.9 million, partly offset by a decrease in corporate equipment and other office expenditures of \$6.0 million. In 2018, we opened 70 restaurants and closed 35 restaurants.

Proceeds from sales of property and equipment and related advances decreased by \$59.1 million to \$2.9 million in 2018, as compared to 2017, primarily as a consequence of a decrease in sales from the Company's asset monetization plan.

*Financing Activities*

	For the Years Ended December 31,		
	2019	2018	2017
	(in thousands of U.S. dollars)		
Repayment of 2016 Secured Loan Agreement	\$ —	\$ —	\$ (169,511)
Dividend payments to Arcos Dorados Holdings Inc. shareholders	(22,425)	(20,937)	—
Net payment of derivative instruments	—	—	(40,822)
Purchase of 2023 Notes	—	—	(48,885)
Issuance of 2027 Notes	—	—	265,000
Treasury stock purchases	(13,965)	(46,035)	—
Net short-term borrowings	13,159	—	—
Other financing activities	(6,401)	(6,470)	(9,135)
<b>Net cash used in financing activities</b>	<b>(29,632)</b>	<b>(73,442)</b>	<b>(3,353)</b>

Net cash used in financing activities was \$29.6 million in 2019, compared to \$73.4 million used in 2018. The \$43.8 million decrease in the amount of cash used in financing activities was primarily attributable to lower purchase of treasury stock amounting to \$32.1 million and issuance of short-term debt for \$13.2 million.

Net cash used in financing activities was \$73.4 million in 2018, compared to \$3.4 million used in 2017. The \$70.1 million increase in the amount of cash used in financing activities was primarily attributable to the purchase of treasury stock amounting to \$46.0 million and the payments of dividends of \$20.9 million.

*The 2016 Secured Loan Agreement*

On March 29, 2016, our Brazilian subsidiary, Arcos Dourados Comércio de Alimentos Ltda. (“Arcos Comércio”), entered into a secured loan agreement with Citibank N.A., Bank of America, N.A., Itau BBA International plc, JPMorgan Chase Bank, N.A. and Banco Santander (Brasil) S.A., Cayman Islands Branch, as initial lenders, under which Arcos Comércio received total proceeds of \$167.3 million (R\$613.9 million as of the signing date).

On April 11, 2017, we repaid the Secured Loan Agreement, plus accrued and unpaid interest and certain transaction costs for a total of \$169.7 million. In addition, on April 13, 2017 and April 17, 2017, we unwound the related derivative instruments for a total of R\$122.7 million. These payments were made using the proceeds of the offering of the 2027 notes. For more information on the 2027 notes, see “The 2027 Notes.”

*Revolving Credit Facilities*

We and Arcos Dorados B.V. entered into revolving credit facilities in order to borrow money from time to time to cover our working capital needs and for other lawful general corporate purposes. Interest on each loan under these facilities is payable on the date of any prepayment, at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date on which the applicable loan was made.

On August 3, 2011, our subsidiary, Arcos Dorados B.V., entered into a committed revolving credit facility with Bank of America, N.A., as lender, for \$50 million. We have renewed this loan annually since 2015, including most recently on August 2, 2019 for \$25 million maturing on August 2, 2020, with an annual interest rate equal to LIBOR plus 2.40%.

As a result of the Company’s decision to change the exchange rates used for remeasurement of its *bolivar*-denominated assets and liabilities and operating results in Venezuela, we were not in compliance with the indebtedness to EBITDA ratio under the revolving credit facility as of June 30, 2014. At such date our consolidated indebtedness to EBITDA ratio was 2.73. On July 28, 2014, we reached an agreement with Bank of America, N.A. to change the consolidated net indebtedness to EBITDA ratio from 2.5 to 1 to 3.0 to 1. We subsequently amended the ratios in 2015 and 2016. On August 1, 2016, we amended the revolving credit facility, which resulted in changes to our net indebtedness to EBITDA ratio. As of the last day of the fiscal quarter ended September 30, 2016 the ratio changed to 3.25 to 1, and as of the last day of the fiscal quarter ended December 31, 2016, the ratio changed to 3.0 to 1.

On November 10, 2016, Arcos Dorados B.V. entered into a revolving credit facility with JPMorgan Chase Bank, N.A. for up to \$25 million maturing on November 10, 2017. We renewed this revolving credit facility annually until its maturity in November 2019. On December 11, 2019, the Company entered into a substantially similar agreement with JPMorgan Chase Bank, N.A. for up to \$25 million maturing on December 11, 2020. Each loan made to Arcos Dorados B.V. or the Company, as applicable, under this agreement bears interest at an annual rate equal to LIBOR plus 2.25%.

The obligations of Arcos Dorados B.V. and the Company under both revolving credit facilities are jointly and severally guaranteed by certain of the Company's subsidiaries on an unconditional basis. Furthermore, both agreements include customary covenants including, among others, restrictions on the ability of Arcos Dorados B.V., the Company, the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; (vi) engage in transactions that violate certain anti-terrorism laws; and (vii) permit the consolidated net indebtedness to EBITDA ratio to be greater than 3.0 to 1. The revolving credit facilities provide for customary events of default, which, if any of them occurs, would permit or require the relevant lender to terminate its obligation to provide loans under the relevant revolving credit facility and/or to declare all sums outstanding under the loan documents immediately due and payable.

As of December 31, 2019, the net indebtedness to EBITDA ratios for us and for Arcos Dorados B.V. were 1.66 and 0.95, respectively, and as such we were in compliance with such ratios. We expect to be in compliance with such ratios in the first quarter of 2020. However, as a result of the COVID-19 pandemic, we likely will be unable to meet such ratios in subsequent quarters if current conditions persist or worsen. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so."

### *2023 Notes*

In September 2013, we issued senior notes for an aggregate principal amount of \$473.8 million under an indenture dated September 27, 2013, which we refer to as the 2023 notes. The total aggregate principal amount of the 2023 notes consists of \$375 million issued for cash and \$98.8 million issued in exchange for the 7.5% senior notes due 2019 issued by Arcos Dorados B.V. in October 2009 (the "2019 notes") that were properly tendered (and not validly withdrawn) pursuant to a tender offer, exchange offer and consent solicitation we launched in September 2013 (the "2013 Tender and Exchange Offer"). The 2023 notes mature on September 27, 2023 and bear interest of 6.625% per year. Interest is paid semiannually on March 27 and September 27. The proceeds from the issuance of the 2023 notes were used to pay the principal and premium on the 2019 notes in connection with the 2013 Tender and Exchange Offer, to repay certain of the short-term indebtedness we had with Banco Itaú BBA S.A., to unwind a cross-currency interest rate swap with Bank of America, N.A. and for general corporate purposes.

The 2023 notes are redeemable at our option at any time at the applicable redemption price set forth in the indenture.

The 2023 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2023 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors' existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors' existing and future secured indebtedness to the extent of the assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2023 notes limits our and our subsidiaries' ability to, among other things, (i) create certain liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2023 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2023 notes to be due and payable immediately.

On June 1, 2016, we launched a cash tender offer to purchase up to \$80 million of the outstanding 2023 Notes (the "2016 Tender Offer") at a redemption price equal to 98%, which expired on June 28, 2016. The holders who tendered their 2023 Notes prior to June 14, 2016 received a redemption price equal to 101%. As a result of the 2016 Tender Offer, we redeemed 16.89% of the outstanding principal amount of the 2023 notes. The total payment was \$80.8 million (including \$0.8 million of early tender payment) plus accrued and unpaid interest. The results related to the 2016 Tender Offer and the accelerated amortization of the related deferred financing cost were recognized as interest expense in the income statement.

On March 16, 2017, we announced the commencement of a second tender offer to purchase for cash up to \$80 million aggregate principal amount of the properly tendered (and not validly withdrawn) outstanding 2023 notes (the “2017 Tender Offer”). As a result of the early settlement of the 2017 Tender Offer, we repurchased \$45.3 million of the 2023 notes on April 5, 2017. The 2017 Tender Offer expired on April 12, 2017. As a result of the final settlement of the 2017 Tender Offer, we repurchased an additional \$0.4 million of the 2023 notes on April 19, 2017. As of December 31, 2019, \$348.1 million aggregate principal amount of the 2023 notes was outstanding.

The 2023 notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

We may issue additional 2023 notes from time to time pursuant to the indenture governing the 2023 notes.

#### *2027 Notes*

In April 2017, we issued senior notes for an aggregate principal amount of \$265.0 million under an indenture dated April 4, 2017, which we refer to as the 2027 notes. The 2027 notes mature on April 4, 2027 and bear interest of 5.875% per year. Interest is paid semiannually on April 4 and October 4, commencing on October 4, 2017. The proceeds from the issuance of the 2027 notes were used to repay the 2016 Secured Loan Agreement and unwind the related derivative instruments, to pay the principal and premium on the 2023 notes in connection with the 2017 Tender Offer and for general corporate purposes.

The 2027 notes are redeemable at our option under certain circumstances as set forth in the indenture at the applicable redemption prices set forth therein.

The 2027 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2027 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors’ existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors’ existing and future secured indebtedness to the extent of the assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2027 notes limits our and our subsidiaries’ ability to, among other things, (i) incur additional indebtedness; (ii) make certain restricted payments; (iii) create certain liens; (iv) enter into sale and lease-back transactions; and (v) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2027 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2027 notes to be due and payable immediately.

#### **C. Research and Development, Patents and Licenses, etc.**

We have not had significant research and development activities for the past three years because we rely primarily on McDonald’s research and development. McDonald’s operates research and development facilities in the United States, Europe and Asia, and independent suppliers also conduct research activities that benefit McDonald’s and us. Nevertheless, we have developed certain menu items, such as Almuerzos Colombianos in Colombia or McPicanha in Brazil, to better tailor our product offerings to local tastes and to provide our customers with additional food options.

#### **D. Trend Information**

Our business and results of operations have been impacted by increasingly negative macroeconomic and consumer trends in some of our main markets. We expect economic growth and consumption rates to decrease further in the near-term in 2020 as a result of the COVID-19 pandemic, which has caused us to close or reduce the operations of a significant percentage of our restaurants, led to a significant decline in sales and disrupted our supply chain. We expect these trends to continue until the COVID-19 pandemic is brought under control, which cannot be predicted at this time. We expect that these trends will lead to a significant decline in revenue and cash from operations beginning in mid-March 2020. Moreover, if the impacts of the COVID-19 pandemic become other than temporary, we may also need to consider it as an indicator of impairment in future quarters, which could further negatively impact our financial condition.

Moreover, in response to the COVID-19 pandemic and related disruption in regional and global economic activity, as of March 31, 2020 we had drawn \$136 million of short-term indebtedness from our lines of credit, including \$35 million from our committed revolving credit facilities, and we expect to continue to draw on our available lines as needed and until the COVID-19 pandemic is brought under control. As a result of the availability of our lines of credit and revolving credit facilities, we do not at this time expect an impact on our liquidity due to the availability of our lines of credit and revolving credit facilities. However, due to the negative impact of the COVID-19 pandemic on our results of operations since mid-March 2020, we may not meet our financial ratios under our lines of credit and revolving credit facilities in the future. While we expect to be in compliance with such ratios in the first quarter of 2020, we likely will be unable to meet such ratios in subsequent quarters if current conditions persist or worsen and will need to seek an amendment to our facilities or waivers from our lenders. If we are unable to obtain waivers for such non-compliance, we will be in default under our lines of credit and revolving credit facilities. In the case of our revolving credit facilities, any amounts drawn under such facilities may be declared immediately due and payable by the relevant lender, who may also terminate its obligation to provide loans under such agreements. In the case of the non-committed lines of credit, if we have previously drawn any amounts, then such amounts may be immediately due and payable to the relevant lender, subject to the terms of each non-committed line of credit. Any default under our lines of credit or revolving credit facilities and any inability to draw upon our non-committed lines of credit and revolving credit facilities in the future could have an adverse effect on our liquidity, working capital, financial condition and results of operations. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so” and “—We use non-committed lines of credit to partially finance our working capital needs.”

Our business and results of operations have also recently experienced the following trends, which we expect will continue in the near term:

- *Social upward mobility in Latin America and the Caribbean:* Historically, our sales have benefited, and we expect to continue to benefit, from our Territories’ population size, younger age profile and improving socio-economic conditions when compared to more developed markets. This has led to a modernization of consumption patterns and increased affordability of our products across socio-economic segments, leading to greater demand for our products. While consumer behavior will continue to be cyclical and dependent on macroeconomic activity, we expect to continue to benefit from this trend in the long term.
- *Nutrition & Healthier products:* Growing interest for products that are perceived to be healthy. Consumers are looking for more information regarding nutritional facts and demanding healthier products.
- *Product offerings:* Our beverages, core meals, desserts, breakfast, reduced calorie and sodium products, and value menu item offerings have been popular among customers and—combined with our revenue management—have helped us remain relevant with our customers.
- *Increased competition in some markets:* The popularity of the QSR concept in Latin America has attracted new competitors. Even though we have been able to protect our market share in many of these markets, we have seen a reduction in pricing flexibility and have increased the focus of our marketing efforts on value offerings.
- *Inflationary environment:* Over the last few years, we have been able through our revenue management strategy to partially mitigate cost increase tied to inflation. However, inflation has been, and will continue to be, an important factor affecting our results of operations, specifically impacting our labor costs, food and paper costs, occupancy and other operating expenses and general administrative expenses.
- *Increased volatility of foreign exchange rates and impact of currency controls:* Our results of operations have been impacted by increased volatility in foreign exchange rates in many of the Territories, particularly the significant devaluation of local currencies against the U.S. dollar. We expect that foreign exchange rates will continue to be an important factor affecting our foreign currency exchange results and the “Accumulated other comprehensive loss” component of shareholders’ equity and, consequently, our results of operations and financial condition.
- *Social unrest:* Towards the end of 2019, there was a significant uptick in social unrest in several countries in which we operate. There were large social protests against inequality in many of these countries, and certain of our properties were damaged. Although social unrest had generally calmed down by the end of 2019 and most of our losses were covered by our insurance, any continuation of or increase in social unrest in 2020 could lead to further damage to our properties, a decline in sales or otherwise negatively impact our results.

- *Environmental Consciousness*: Over the last few years, our customers have demonstrated a growing interest in sustainable practices, including as it relates to sourcing our ingredients and paper and packaging costs. In particular, movements such as the anti-plastic movement have gained momentum in recent years and caused us to make changes in the sourcing of our raw materials. We may need to make further changes in our supply chain and food and paper costs in the future in order to adequately respond to our customers' focus on sustainability.

#### E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### F. Tabular Disclosure of Contractual Obligations

The following table presents information relating to our contractual obligations as of December 31, 2019.

Contractual Obligations	Payment Due by Period						
	Total	2020	2021	2022	2023	2024	Thereafter
(in thousands of U.S. dollars)							
Finance lease obligations(1)	\$ 9,383	\$ 864	\$ 787	\$ 919	\$ 427	\$ 427	\$ 5,959
Operating lease obligations	\$ 1,660,260	149,369	140,667	133,459	128,213	124,138	984,414
Contractual purchase obligations(2)	\$ 108,821	61,057	19,728	14,958	8,406	2,336	2,336
2023 and 2027 notes(1)(3)	\$ 822,076	38,629	38,629	38,629	386,698	15,569	303,922
Other long-term borrowings(1)	\$ 16,384	3,930	3,653	3,390	3,126	2,285	—
Derivative instruments	\$ (44,321)	9,908	8,834	7,663	(46,442)	1,278	(25,562)
<b>Total</b>	<b>\$ 2,572,603</b>	<b>\$ 263,757</b>	<b>\$ 212,298</b>	<b>\$ 199,018</b>	<b>\$ 480,428</b>	<b>\$ 146,033</b>	<b>\$ 1,271,069</b>

(1) Includes interest payments.

(2) Includes automatic annual renewals, which contains only enforceable and legally binding unconditional obligations corresponding to prevailing agreements without considering future undefined renewals when the agreement is cancellable by us. This type of purchase obligation represents \$21.0 million of contractual obligations for 2020 only.

(3) Does not include the impact of the deferred financing costs and the net discount related to the issue of the 2023 notes.

The table set forth above excludes projected payments on our restaurant opening plans and reinvestment plans pursuant to the MFAs in respect of which we do not yet have any contractual commitments.

#### G. Safe Harbor

See "Forward-Looking Statements."

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. Directors and Senior Management

##### Board of Directors

Our Board of Directors currently consists of eleven members, five of whom are independent directors. In case of a tie vote by the Board of Directors, the Executive Chairman will have the deciding vote. Our memorandum and articles of association authorize us to have eight members, and the number of authorized members may be increased or decreased by a resolution of shareholders or by a resolution of directors.

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Pursuant to our articles of association, our Board of Directors is divided into three classes. There is no distinction in the voting or other powers and authorities of directors of different classes. The members of each class serve staggered, three-year terms. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of shareholders in the year in which their term expires. At our most recent annual general meeting of shareholders, held on April 22, 2019, our shareholders re-elected Mr. Hernández-Artigas and Mrs. Franqui to serve as Class II directors.

The classes are currently composed as follows:

- Mr. Woods Staton, Mr. Gutiérrez, Mr. Alonso and Mr. Francisco Staton are Class I directors, whose term will expire at the annual meeting of shareholders to be held in 2021;
- Mr. Hernández-Artigas, Mrs. Franqui, Mr. Rabach and Mrs. Presz Palmaka De Luca are Class II directors, whose term will expire at the annual meeting of shareholders to be held in 2022; and
- Mr. Chu, Mr. Vélez and Mr. Fernández are Class III directors, whose term will expire at the annual meeting of shareholders to be held in 2020.

Any additional directorships resulting from an increase in the number of directors and any directors elected to fill vacancies on the board will be distributed among the three classes so that, as nearly as possible, each class will consist of one third of our directors. This classification of our Board of Directors may have the effect of delaying or preventing changes in control of our company. Any director may be removed, with or without cause, by a resolution of shareholders or a resolution of directors. Our directors do not have a retirement age requirement under our memorandum and articles of association.

The following table presents the names of the members of our Board of Directors:

Name	Position	Age
Woods Staton	Executive Chairman	70
Marcelo Rabach(1)	CEO	50
Sergio Alonso(1)	Director	56
Annette Franqui	Director	58
Carlos Hernández-Artigas	Director	55
Michael Chu	Director	71
José Alberto Vélez	Director	70
José Fernández	Director	57
Ricardo Gutiérrez Muñoz	Director	76
Francisco Staton	Divisional President – Caribbean	39
Cristina Presz Palmaka De Luca	Director	52

- (1) Mr. Rabach was appointed as, and succeeded to the role of, Chief Executive Officer effective July 1, 2019. Mr. Alonso stepped down from his role as Chief Executive Officer effective as of the same date and remained a member of the Board of Directors.

The following is a brief summary of the business experience of our directors. Unless otherwise indicated, the current business addresses for our directors is Dr. Luis Bonavita 1294, Office 501, WTC Free Zone, Montevideo, Uruguay (CP 11300) and Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB).



*Woods Staton.* Mr. Staton is our Executive Chairman. He was our Chairman and Chief Executive Officer from 2007 through October 2015. Mr. Staton holds an MBA from the International Institute for Management Development (IMD) in Switzerland and a Bachelor's degree in economics from Emory University in Atlanta. As McDonald's joint venture partner, Mr. Staton opened the first McDonald's restaurant in Argentina in 1986 and later served as President of McDonald's South Latin American Division. He founded Arcos Dorados in 2007 when he led a consortium of investors in the purchase of McDonald's operations in Latin America. Mr. Staton is co-founder of Endeavor Argentina, an organization for promoting entrepreneurship. He is a member of the Latin America Advisory Board of Harvard Business School and is also a Board Member of the IMD Foundation in Lausanne, Switzerland. In addition, he serves as Chair of the Advisory Board of the Latin American Program at the Woodrow Wilson International Center for Scholars and is also on the Chairman's International Advisory Council of the Americas Society/Council of the Americas.

*Marcelo Rabach.* Mr. Rabach, 50, has been our Chief Executive Officer since July 2019. Prior to his appointment, he was the Chief Operating Officer from August 2015 to July 2019, Divisional President for NOLAD from 2013 to August 2015, Vice President of Operations Development since 2012 and Divisional President in Brazil since 2008. He graduated with a degree in Business Administration from Universidad Argentina de la Empresa in 2002. He began his career at McDonald's Argentina in 1990 and has over 20 years of line operations experience, starting as a crew employee and steadily advancing into larger operational roles. From 1999 until his appointment as McDonald's Chief Operating Officer in Venezuela in 2005, Mr. Rabach was responsible for the operations, real estate, construction, human resources, local store marketing, and training and franchising of a region within Argentina, holding the positions of Operations Manager and Operations Director. He was the Chief Operating Officer in Venezuela from 2005 until 2008.

*Sergio Alonso.* Mr. Alonso has been a member of our board of directors since 2010. Mr. Alonso was our Chief Executive Officer from 2015 to 2019 and was, prior to his appointment as such, our Chief Operating Officer from 2007 to 2015. Prior to that, he was McDonald's Divisional President in Brazil. He graduated with a degree in Accounting from Universidad de Buenos Aires in 1986. He began his career at McDonald's as Accounting Manager and subsequently moved to the operations area, eventually being promoted to Vice President of Operations in six years. From 1999 until 2003, Mr. Alonso was involved in the development of the Aroma Café brand in Argentina. In addition, in July 2017, Mr. Alonso was appointed as a member of the board of directors of Loma Negra Compañía Industrial Argentina S.A., a leading cement producer in Argentina.

*Annette Franqui.* Mrs. Franqui has been a member of our board of directors since 2007 and is a member of the Compensation and Nomination Committee. She graduated with a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania in 1984 and an MBA from the Stanford Graduate School of Business in 1986. She is also a Chartered Financial Analyst. Mrs. Franqui began her career in 1986 with J.P. Morgan and joined Goldman Sachs in 1989. In 1994, she returned to J.P. Morgan where she became a Managing Director and the Head of the Latin America Research Department. Mrs. Franqui joined Panamco in 2001 as Vice President of Corporate Finance and became the Chief Financial Officer in 2002. She is one of the founding partners of Forrester Capital and is a board member of many of its portfolio companies as well as of LatAm, LLC, and, on a volunteer basis, AARP.

*Carlos Hernández-Artigas.* Mr. Hernández-Artigas has been a member of our board of directors since 2007 and is Chairman of the Compensation and Nomination Committee. He graduated from the Escuela de Derecho at Universidad Panamericana, in 1987 and University of Texas at Austin, School of Law in 1988. He received an MBA from IPADE in Mexico City in 1996. Mr. Hernández-Artigas worked as a lawyer for several years in Mexico and as a foreign attorney in Dallas, Texas and New York. He served as the General Counsel, Chief Legal Officer and Secretary of Panamco for ten years. He is an advisor at Big Sur Partners in Miami, Florida and is currently a board member of MAC Hospitales in Mexico and board member of iinside, a technology company in Anaheim, California.

*Michael Chu.* Mr. Chu has been an independent member of our board of directors since April 2011 and is a member of our Audit Committee. He graduated with honors from Dartmouth College in 1968 and received an MBA with highest distinction from the Harvard Business School in 1976. From 1989 to 1993, Mr. Chu served as an executive and limited partner in the New York office of the private equity firm Kohlberg Kravis Roberts & Co. From 1993 to 2000, Mr. Chu was with ACCION International, a nonprofit corporation dedicated to microfinance, where he served as President and CEO and participated in the founding and governance of various banks in Latin America. Mr. Chu currently holds an appointment as Senior Lecturer at the Harvard Business School, where he is the Faculty Chair for Latin America, and is Managing Director and cofounder of the IGNA Fund, a venture capital firm dedicated to investing in commercial enterprises serving the emerging middle class and low-income populations in Mexico. He was a founding partner of, and continues to serve as Senior Advisor to, Pegasus Group, a private equity firm in Buenos Aires. He also serves on the board of Sealed Air Corporation (NYSE:SEE) and Takeoff Technologies, Inc, a private company in Boston, Massachusetts.

*José Alberto Vélez.* Mr. Vélez has been an independent member of our board of directors since June 2011 and is a member of our Audit Committee. Mr. Vélez received a Master of Science degree in Engineering from the University of California, Los Angeles, and a degree in Administrative Engineering from Universidad Nacional de Colombia. Mr. Vélez previously served as the CEO of Suramericana de Seguros, the leading insurance company in Colombia, and as the CEO of Inversura, a holding company that integrates the leading insurance and social security companies in Colombia. He was the Chief Executive Officer of Cementos Argos S.A. between 2003 and 2012. From 2012 until March 2016, he was the President of Grupo Argos, a holding group with investments in cement, energy and infrastructure concessions (roads and airports). He is currently a member of the Boards of Directors of Grupo Crystal and Grupo Daabon in Colombia. He also is Chairman of the Board of Trustees of the Universidad EAFIT. In addition, he is member of the Latin American Chapter of the Wilson Center in Washington D.C.

*José Fernández.* Mr. Fernandez has been a member of our board of directors since October 1, 2013 and is a member of the Compensation and Nomination Committee. Mr. Fernández was the Divisional President of operations for SLAD until 2013. Mr. Fernández is a Mechanical Engineer from Instituto Tecnológico Buenos Aires and began his career at McDonald's in 1986. He held the positions of Development Director, Development Vice President and Managing Director of McDonald's Argentina before becoming the Divisional President of operations of SLAD. In August 2019, Mr. Fernández was appointed as a member of the board of directors of Cencosud Shopping S.A. in Chile.

*Ricardo Gutiérrez Muñoz.* Mr. Gutiérrez Muñoz is an independent member of our board of directors since July 1, 2016 and is a member of our Audit Committee. He graduated with a Bachelor's Degree in Accounting from the Instituto Politécnico Nacional (Mexico City) and a Master's Degree in Financing from the Universidad Lasalle (Mexico City). He also pursued postgraduate studies in Mexico and in the USA. Mr. Gutiérrez Muñoz was CEO of Mexichem from 1994 to 2010. Before joining Mexichem, he was Vice-President of Empresas Lanzagorta, CEO and board member of Industrias Synkro and CFO of the Indetel/Alcatel Company. Currently he is the CEO of the CP Latina Company, a drilling Pemex contractor. In addition, he is also board member of Grupo Kaluz, Cinépolis (Organización Ramírez), Empresas ICA, Genommalab e Industria Mexicana del Aluminio (IMASA).

*Francisco Staton.* Mr. Francisco Staton has been a member of our board of directors since April 2018. Mr. Francisco Staton is Divisional President for the Caribbean. Prior to his appointment as such in 2019, he was Arcos Dorados' Managing Director for Colombia, Aruba, Curaçao and Trinidad & Tobago. He joined the Arcos Dorados executive team in 2013 as Senior Manager of Business Development for our NOLAD Division. Prior to serving as Senior Manager of Business Development for our NOLAD Division, he held different operating roles within the organization and also worked as a consultant at the Boston Consulting Group office in Buenos Aires. He completed his undergraduate studies at Princeton University in 2003, and subsequently earned an MBA from Columbia Business School in 2010. He has served on the board of Princeton in Latin America since 2015. Mr. Francisco Staton is the son of our Executive Chairman, Woods Staton.

*Cristina Presz Palmaka De Luca.* Ms. Palmaka has been an independent member of our board of directors since November 12, 2019. Ms. Palmaka has been the Managing Director and President of SAP Brazil since October 2013. Ms. Palmaka also sits on the advisory board of Eurofarma. Ms. Palmaka holds an accounting degree from Fundação Álvares Penteado (Brazil) and received her MBA from Fundação Getúlio Vargas (Brazil). She also holds a master's degree in International Business & Marketing from the University of Texas.

## **Executive Officers**

Our executive officers are responsible for the management and representation of our company. We have a strong centralized management team led by Mr. Marcelo Rabach, our CEO, with broad experience in development, revenue, supply chain management, operations, finance, marketing, legal affairs, human resources, communications and training. Most of our executive officers have worked in the food service industry for several years. Many of the members of the management team have a long history with McDonald's operations in Latin America and the Caribbean and with Mr. Rabach, as they have worked together as a team for many years. Our executive officers were appointed by our Board of Directors for an indefinite term.

The following table lists our current executive officers:

Name	Position	Initial Year of Appointment	At Arcos Dorados Since
Marcelo Rabach	Chief Executive Officer	2019	1990
Luis Raganato	Chief Operating Officer	2019	1991
Mariano Tannenbaum	Chief Financial Officer	2017	2008
Juan David Bastidas	Chief Legal Counsel	2010	2010
Paulo Camargo	Divisional President—Brazil	2015	2011
Alejandro Yapur	Divisional President—SLAD	2013	1986
Rogério Barreira	Divisional President—NOLAD	2015	1984
Francisco Staton	Divisional President—Caribbean	2019	2013
Sebastian Magnasco	Vice President of Development	2007	1994
Santiago Blanco	Chief Marketing and Digital Officer	2019	2019
Diego Benenson	Vice President of Human Resources	2014	2009
José Valledor Rojo	Vice President of Supply Chain	2015	1990
Marlene Fernandez del Granado	Vice President of Government Relations	2011	2009
David Grinberg	Vice President of Corporate Communications	2018	2010
Marco Córdón	Chief Transformation Officer	2019	2019
Daniel Schleiniger	Vice President of Investor Relations	2020	2020*

\* Mr. Schleiniger first joined Arcos in 2014 then left for 15 months in 2018 and rejoined Arcos in 2020.

The following is a brief summary of the business experience of our executive officers who are not also directors. Unless otherwise indicated, the current business addresses for our executive officers is Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB) and Dr. Luis Bonavita 1294, Office 501, WTC Free Zone, Montevideo, Uruguay.

*Luis Raganato.* Mr. Raganato, 49, has been our Chief Operating Officer since July 2019. Prior to his appointment as such, he was the Divisional President for the Caribbean, and before that, the General Director of Arcos Dorados in Peru. Mr. Raganato began his career at Arcos Dorados in 1991 as a Trainee in the Nuevocentro Shopping location in the province of Córdoba, Argentina and has held various positions in Operations Management over the years. Mr. Raganato holds a Bachelor’s degree in Business Administration from Instituto Aeronáutico de Argentina, a Master’s degree in Marketing and Business Development from Escuela Superior de Estudios de Marketing de Madrid and an MBA from Universidad de Piura, Peru.

*Mariano Tannenbaum.* Mr. Tannenbaum, 46, is our Chief Financial Officer. He joined Arcos Dorados in 2008 and has held several positions at the corporate level, with his last position being Senior Director of Corporate Finance. Previously, Mr. Tannenbaum had a long international career in Europe and the United States. He worked for the IFG Group in Switzerland, for Tyco International in Switzerland and Princeton, New Jersey and for Sabre Holdings in London. He began his career working for an economic consulting firm in Argentina as well as for the Argentine government, as part of the Ministry of Treasury and Public Finances. Mr. Tannenbaum has an economics degree from the Universidad de Buenos Aires, a Master’s in finance from the Universidad Torcuato Di Tella and an MBA with a concentration in finance from the London Business School.

*Juan David Bastidas.* Mr. Bastidas, 52, is our Chief Legal Counsel. He attended Universidad Pontificia Bolivariana in Colombia, where he received a Law Degree in 1989. He graduated in 1990 as a Business Law Specialist from the same university. He also pursued postgraduate studies in Business Administration at New York University, which he completed in 1994. He also graduated in 2000 from the International Business program at EAFIT University and from the Senior Management Program at Los Andes University, which he completed in 2009 in Colombia. He also attended the Executive Directors Training Program from IAE Business School in Argentina (2017). Mr. Bastidas worked from 1994 to 1995 as an international operations lawyer for Banco Industrial Colombiano (Bancolombia). He served as Chief Legal Counsel and Secretary of the board of directors of Interconexión Eléctrica S.A. E.S.P.–ISA from 1995 to 2010 before joining us in July 2010.

*Paulo Camargo.* Mr. Camargo, 51, was appointed Divisional President for Brazil in October 2015. Prior to Mr. Camargo's promotion, he served as Vice President of Operations for the Brazil Division for four years. Mr. Camargo has over 20 years of experience in the consumer, retail and services industry. He has worked for companies such as PepsiCo, FASA Corporation and Iron Mountain across a variety of geographies. Before joining Arcos Dorados in 2011, he was President of the Spain Division at Iron Mountain. Mr. Camargo holds a postgraduate degree in Business Administration from Mackenzie University in São Paulo, and also holds an MBA from Universidad Europea de Madrid.

*Alejandro Yapur.* Mr. Yapur, 51, was appointed Divisional President of SLAD in July 2013. He began his career in 1986 as a crew member at the first McDonald's restaurant in Argentina and had the opportunity to serve as Manager in the Marketing, Operations and Corporate Communications areas of Arcos Dorados in Argentina. In 2005 he was promoted to Managing Director of Uruguay and in 2007 became responsible for the Company's Chilean operations. In 2011, Mr. Yapur became Regional Managing Director for the Southern Cone Region (Argentina, Chile and Uruguay) until 2013 when he was promoted to his current position. He holds a Master's degree in Communications from Universidad Austral in Buenos Aires, Argentina. He has also received executive training from IAE Business School in Argentina, IPADE Business School in Mexico and IESE Business School in Spain. Mr. Yapur has also completed the Digital Business Management Program at the San Andres University in Buenos Aires.

*Rogério Barreira.* Mr. Barreira, 51, was appointed Divisional President for NOLAD in October 2015. Prior to Mr. Barreira's promotion, he served as Vice President of Operations for the Brazil Division for four years. Mr. Barreira has over 35 years of experience at Arcos Dorados, acting in different key positions role in Brazil. Mr. Barreira has a Master in Business Administration from Foundation Getulho Vargas in Brazil and also holds a degree in Marketing and Business Planning from Anhembi-Morumbi University in Brazil. He also received executive training from IAE Business School in Argentina, IPADE Business School in Mexico.

*Sebastian Magnasco.* Mr. Magnasco, 50, is our Vice President of Development and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with a degree in Engineering from Instituto Tecnológico Buenos Aires, in 1990. He began his career at McDonald's in 1994 and held the positions of Real Estate & Equipment Director of Argentina and IT, Real Estate and Equipment Director of Argentina until his appointment as Vice President of Development of SLAD in 2005.

*Santiago Blanco.* Mr. Blanco, 49, is our Chief Marketing and Digital Officer. He joined the company in 2019 and is responsible for designing and implementing the marketing and digital strategy. Prior to joining Arcos Dorados, he served as Chief Marketing, Digital & Communications Officer at ALSEA from 2017 to 2019. Mr. Blanco holds a Bachelor's degree in Marketing from the Instituto Tecnológico de Monterrey and an MBA from University of Texas at Austin.

*Diego Benenson.* Mr. Benenson, 53, is our Vice President for Human Resources. He joined the Company in June 2009. He has extensive experience as an executive of high responsibility in multinational companies. He has also served as a senior consultant to various large companies and NGOs and has teaching experience. Mr. Benenson graduated with a degree in psychology from Universidad John F. Kennedy and holds postgraduate degrees on strategic consultancy and organizational behavior from the Universidad de Buenos Aires. He also graduated from the Management Development Program at IAE Business School.

*José Valledor.* Mr. Valledor, 53, is our Vice President of Supply Chain. Prior to his appointment as such, he was Divisional President in Brazil. He joined us in 1990 as an assistant in the accounting department, and four years later he became Manager of that department. In 2005, he became Regional Operations Director, responsible for the markets of Uruguay, Paraguay and Argentina. Two years later, he became Argentina's General Director while continuing to supervise the market operations in Uruguay, Chile and Paraguay. Mr. Valledor Rojo has a degree in Business Administration and a postgraduate degree from the Instituto de Altos Estudios (IAE) in Buenos Aires, Argentina.

*Marlene Fernandez.* Ms. Fernandez, 58, is Corporate Vice President for Government Relations. Prior to joining Arcos Dorados in 2009, she served as an elected Member of the House of Representatives in Bolivia where she held various leadership positions, including Ambassador of Bolivia to the United States of America, Ambassador to the Organization of American States, Ambassador to the Government of Italy and Representative of Bolivia to different specialized agencies of the United Nations. She was also Bureau Chief and Main Political Correspondent for CNN Spanish in Washington, D.C. Ms. Fernandez holds a Master of Science in Broadcast Journalism from Boston University, graduated Summa Cum Laude from the Universidad Argentina John. F. Kennedy and has completed courses in Finance for Executives, Strategic Communications, Conflict Resolution and Negotiations in Conflict at Harvard University.

*David Grinberg.* Mr. Grinberg, 41, is our Vice President of Corporate Communications. Mr. Grinberg joined Arcos Dorados in 2010, after leading the Communications division at Samsung and serving as Sports Marketing Head and, later, as Corporate Communications Director, Brazil Division of Nike. Mr. Grinberg holds a Bachelor's Degree in Social Communication from FIAM and a Master's Degree in Corporate Communication & Public Affairs from the Cásper Libero Foundation.

*Marco Cerdón.* Mr. Cerdón, 51, was appointed as our Chief Technology Officer in October 2019. Mr. Cerdón has more than 30 years of experience in the restaurant industry, and held various leadership positions at McDonald's Mesoamerica, which covers Guatemala, El Salvador, Honduras and Nicaragua, between 1997 and 2019, including Operations Manager, Director of Operations and Vice President from 2013 to 2019. Mr. Cerdón holds a degree in Industrial engineering from the University of San Carlos de Guatemala and an MBA from Pontificia Universidad Católica de Chile.

*Daniel Schleiniger.* Mr. Schleiniger, 46, is our Vice President of Investor Relations. He joined Arcos Dorados in 2014 and, after leaving us for fifteen months to serve as Vice President of Investor Relations for BrightView Holdings, Inc., Mr. Schleiniger rejoined the Company in January 2020. Prior to joining Arcos Dorados, he worked at the Cisneros Group from 2000 to 2014, holding progressively more senior roles within investor relations, finance and treasury. Mr. Schleiniger's experience also includes equity research at Morgan Stanley corporate banking with Unibanco and consulting work for Wharton Econometric Forecasting Associates (WEFA) in Philadelphia. He holds a Bachelor of Science degree in chemistry as well as an MBA with a concentration in finance, both from the University of Delaware.

## **B. Compensation**

### **Long-term and Equity Incentive Plans**

#### *Equity Incentive Plans*

##### *The 2011 Plan*

In March 2011, we adopted an equity incentive plan (the "2011 Plan"), to attract and retain the most highly qualified and capable professionals and to promote the success of our business. The 2011 Plan is being used to reward certain employees for the success of our business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of share (also referred to as stock) options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by our Board.

The maximum number of shares that may be issued under the 2011 Plan is 5,238,235 Class A shares, equal to 2.5% of our total outstanding class A and class B shares immediately following our initial public offering on April 14, 2011. In 2018, 494,775 Class A shares were issued pursuant to the 2011 Plan.

We carried out a special grant of stock options and restricted share units in 2011 in connection with our initial public offering, which are fully vested. We also made recurring grants of stock options and restricted share units in each of the fiscal years from 2011 to 2019 (from 2015 to 2019 only restricted share units). Units granted from 2011 to 2014 are fully vested. Both types of these recurring annual awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries, except for the 2019 award which vests on May 10, 2020. In the event of death, disability or retirement of the employee, any unvested portion of the annual award will fully vest. For all grants, each stock option granted represents the right to acquire one Class A share at its a strike price equal to fair market value, while each restricted share unit represents the right to receive one Class A share when vested.

The following table shows unvested restricted share units as of December 31, 2019:

<b>Date of the grant</b>	<b>Restricted share units</b>
May 8, 2015	99,604
May 10, 2016	220,566
May 10, 2017	186,455
May 10, 2018	396,214
May 10, 2019	35,000

In addition, although all of the stock options issued under the 2011 Plan have vested, 247,440 stock options issued in 2013 and 2014 remain outstanding and unexercised.

We issued 470,558 Class A shares during 2019, of which 10,870 were related to the partial vesting of restricted share units issued in 2018.

We currently intend to make the 2020 annual grant under the 2011 Plan during the second quarter of 2020.

#### *Phantom RSU Award*

In May 2019, the Company implemented a new long-term incentive plan (the “Phantom RSU Plan”) to provide employees the opportunity to share in the success of the Company. Through this plan, the Company issues phantom restricted share units (“Phantom RSUs”). When vested, Phantom RSUs entitle the employee to a cash payment equal to the closing price of one Class A shares on the date of vesting, including any dividends declared and paid on the Class A shares, if any, since the grant date.

There are two types of Phantom RSUs. Type one Phantom RSUs vest over a requisite service period of five years as follows: 40% at the second anniversary of the date of grant and 20% at each of the following three years. Type two Phantom RSUs vest 100% on the fifth anniversary of the grant date. In the event of death, disability or retirement of the employee, any unvested portion of the annual amount will fully vest. The grant-date stock price of both types of grants was \$6.78. The Company recognizes compensation expense related to these benefits on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The total compensation cost as of December 31, 2019, relating to the Phantom RSUs amounted to \$2.2 million and is recorded under “General and administrative expenses” within the consolidated statement of income. The accrued liability is remeasured at the end of each reporting period until settlement.

The following table shows Phantom RSUs issued as of December 31, 2019:

<b>Date of the grant</b>	<b>Phantom RSU, Type 1</b>	<b>Phantom RSU, Type 2</b>
May 10, 2019	454,365	1,207,455

See Note 17 to our consolidated financial statements for additional information.

We intend to make an annual grant of Phantom RSUs in the second quarter of 2020.

### **Compensation of Directors and Officers**

#### *General*

The approximate aggregate annual total cash compensation for our executive officers in 2019, including to Mr. Alonso for his service as CEO until July 2019, was \$9.5 million. The approximate annual total cash compensation for our directors in 2019 was \$1.0 million. We also issued an aggregate of 35,000 RSUs to our directors in 2019.

We have not entered into any service contracts with our directors to provide for benefits upon termination of employment

### **C. Board Practices**

#### **Our Committees**

##### *Audit Committee*

Our audit committee consists of three directors, Mr. Chu (chairman of the committee), Mr. Vélez and Mr. Gutiérrez, who are independent within the meaning of the SEC and NYSE corporate governance rules applicable to foreign private issuers. Our Board of Directors has determined that Mr. Chu, Mr. Vélez and Mr. Gutiérrez are also “audit committee financial experts” as defined by the SEC.

The charter of the audit committee states that the purpose of the audit committee is to assist the Board of Directors in its oversight of:

- the integrity of our financial statements;

- the annual independent audit of our financial statements, the engagement of the independent auditor and the evaluation of the qualifications, independence and performance of our independent auditor;
- the performance of our internal audit function; and
- our compliance with legal and regulatory requirements.

#### ***Compensation and Nomination Committee***

Our compensation and nomination committee consists of Mr. Hernández-Artigas (chairman of the committee), Ms. Franqui and Mr. José Fernández. Pursuant to its charter, the compensation and nomination committee is responsible for, among other things:

- approving corporate goals and objectives relevant to compensation, evaluating the performance of executives in light of such goals and objectives and recommending compensation based on such evaluation, recommending any long-term incentive component of compensation and approving the compensation of our executive officers;
- reviewing and reporting to the board of directors on our management succession plan and on compensation for directors;
- evaluating our compensation and benefits policies;
- evaluating the structure of our board of directors;
- nominating candidates to executive positions and to the board of directors; and
- reporting to the board periodically.

#### **D. Employees**

Our employees are a crucial component of our customers' restaurant service experience. As such, we consistently train our employees to deliver fast and friendly service through a series of training programs. We support our McDonald's-based training programs with an extensive set of quality controls throughout production, processing and distribution and also in our restaurants, where we monitor restaurant managers' performance and use ongoing external customer satisfaction opportunity reports that analyze key operating indicators.

Our employees can be divided into three different categories: crew, restaurant managers and professional staff. Due to the different tasks of each of these categories of employees, turnover rates differ significantly. Crew turnover is considerably higher than turnover for managers and professional staff.

As of December 31, 2019, we had a total of approximately 80,855 employees in Company-operated restaurants and staff throughout the Territories. Of this number, 82% were crew, 15% were restaurant managers and the remainder were professional staff. Approximately 41% of our employees were located in Brazil.

We have various types of employment arrangements with our employees in Brazil. Some of our employees receive monthly wages whereas others are paid by the hour, and all of our employees have fixed work schedules due to a settlement signed with Labor Prosecutor Office of the State of Pernambuco. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation." Most of our employees in Brazil, in particular students and minors, work schedules of less than 180 hours per month. Brazilian law requires that employers provide a minimum monthly wage, which, in the case of employees who are paid by the hour, is prorated in terms of wages per hour.

The following table illustrates the distribution of our employees by division and employee category as of December 31, 2019.

Division	Crew	Restaurant Managers	Professional Staff	Total
Brazil	26,980	5,681	746	33,407
Caribbean division	8,189	1,430	418	10,037
NOLAD	8,186	2,099	479	10,764
SLAD	23,058	2,820	469	26,347
Corporate and other	-	-	300	300
<b>Total</b>	<b>66,413</b>	<b>12,030</b>	<b>2,412</b>	<b>80,855</b>

Restaurant managers are responsible for the daily management of our restaurants. As such, we have a comprehensive training program for them that is focused on customer management practices, food preparation and other operational procedures. Standards are taught and continuously reinforced through the use of such training programs. We also use performance measurements on a continual basis, both internally and externally in connection with all our restaurants. Our internal on-site visit restaurant operations improvement process evaluates operational standards, which are compared globally to assure continuous improvement. We also contract third parties, which we refer to as third-party shoppers, to visit our restaurants anonymously and report on our performance. Our external third-party shopper measurements and customer satisfaction opportunity reports help maintain our competitiveness. In addition, Hamburger University provides restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of our business. In 2019, approximately 17,723 people attended different courses or events, in person or online, organized by Hamburger University in areas such as restaurant and customer management, sales and accounting.

The role performed by our crew is of critical importance in our interactions with our customers. Employee relations are thus key to maintaining the level of motivation and enthusiasm on the part of our crew that help differentiate our restaurants from those of our competitors. We have been recognized by many independent organizations for being a “great place to work.”

Although we have unions in some of our most important markets, including Brazil, Argentina and Mexico, the unions only have an active role in our Brazil restaurants. In these markets, the restaurant industry is unionized by law. However, in Brazil every employee and company are necessarily represented by unions. Workers unions can negotiate directly with companies through Collective Bargaining Agreements, or CBAs, or with the company’s union through Collective Convention. Under Brazilian law, employees or groups of employees cannot opt-out of the terms under union agreements, which integrate the employment contract for all legal purposes. In Brazil, the CBA or the Collective Convention should provide, on a yearly basis, the salary adjustment to be afforded by all employees, and may also provide certain additional guarantees or rights, to be applicable to all employees, regardless of their unit or position in the company, during a certain term (maximum of two years). All collective agreements are mandatory in Brazil.

On November 11, 2017, an overhaul in the labor laws in Brazil (the “Labor Overhaul”) entered into effect and brought significant changes to labor relations and labor law itself. Prior to the Labor Overhaul, the Consolidated Labor Statutes governed labor relations in Brazil. The Labor Overhaul introduces and changes several articles of the Consolidated Labor Statutes aiming to give more flexibility and legal certainty to the legal framework around labor relations thus meeting current demands of modern society. Out of several changes made in the Labor Overhaul, the most relevant for us is a change providing that collective labor agreements (CBAs or Collective Convention) will now prevail over statutory law in certain circumstances, giving priority to what has been agreed over what has been legislated and providing greater autonomy to the parties.



**E. Share Ownership**

The following table presents the beneficial ownership of our shares owned by our directors and officers as of the date of this annual report. Other than those persons listed below, none of our directors or officers beneficially own any of our shares.

Shareholder	Class A Shares	Percentage of Outstanding Class A Shares <sup>(1)</sup>	Class B Shares	Percentage of Outstanding Class B Shares <sup>(1)</sup>	Total Economic Interest <sup>(1)</sup>	Total Voting Interest <sup>(1) (2)</sup>
Los Laureles Ltd. <sup>(3)(4)</sup>	—	—	80,000,000	100.00%	39.20%	76.33%
Woods Staton <sup>(4)</sup>	828,955	0.67%	—	—	0.41%	0.16%
Sergio Alonso	*	*	—	—	*	*
Annette Franqui	*	*	—	—	*	*
Carlos Hernández-Artigas	*	*	—	—	*	*
Juan David Bastidas	*	*	—	—	*	*
José Valledor Rojo	*	*	—	—	*	*
José Fernandez	*	*	—	—	*	*
Marcelo Rabach	*	*	—	—	*	*
Mariano Tannenbaum	*	*	—	—	*	*
Sebastian Magnasco	*	*	—	—	*	*
Diego Benenson	*	*	—	—	*	*
Marlene Fernandez	*	*	—	—	*	*
Luis Raganato	*	*	—	—	*	*
Rogério Barreira	*	*	—	—	*	*
Alejandro Yapur	*	*	—	—	*	*
Paulo Camargo	*	*	—	—	*	*
Dan Gertsacov <sup>(5)</sup>	*	*	—	—	*	*
Santiago Blanco	*	*	—	—	*	*
David Grinberg	*	*	—	—	*	*
Francisco Staton	*	*	—	—	*	*
Marco Córdón	*	*	—	—	*	*
Daniel Schleiniger	*	*	—	—	*	*

\* Each of these directors and officers beneficially owns less than 1% of the total number of outstanding class A shares.

- (1) Percentages are based on 124,070,029 Class A shares issued and outstanding as of the date of this annual report and exclude 7,993,602 Class A shares issued and held in treasury.
- (2) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.
- (3) Los Laureles Ltd. is beneficially owned by Mr. Woods Staton, our Executive Chairman. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.”
- (4) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Woods Staton beneficially owns 828,955 class A shares (includes 30,784 shares of common stock issuable upon exercise of stock options, 113,150 restricted share units that have vested or will vest within 60 days of this annual report and excludes 55,908 unvested restricted share units) directly, and indirectly through Chablais Investments S.A. (“Chablais”). Of these 828,955 class A shares, Chablais has pledged an aggregate of 684,971 shares for the benefit of JPMorgan Chase Bank, N.A., in connection with a financing transaction. On a combined basis, Mr. Woods Staton is the beneficial owner of an aggregate of 39.61% of the total economic interests of Arcos Dorados and 76.49% of its total voting interests. The address of Mr. Woods Staton is Mantua No. 6575 (esquina Potosí), Montevideo, Uruguay 11500. The address of Chablais is Level 1, Palm Grove House, Wickham’s Cay 1, Road Town, Tortola, BVI.
- (5) Resigned from his role effective March 1, 2019.

As of the date of this annual report, our 17 officers had been granted (i) a total of 978,325 restricted share units and 54,919 stock options at an exercise price of \$14.31 per share pursuant to the 2011 Plan. For more information, see “—B. Compensation—Long-term and Equity Incentive Plans” above. Our non-executive directors had been granted a total of 35,000 restricted share units, 66,888 stock options at an exercise price of \$14.31 and 176,768 options at an exercise price of \$8.58 per share pursuant to the 2011 Plan.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue a maximum of 420,000,000 class A shares, no par value per share, and 80,000,000 class B shares, no par value per share. Each of our class A shares entitles its holder to one vote. Each of our class B shares entitles its holder to five votes. Los Laureles Ltd., our controlling shareholder, owns 39.61% of our issued and outstanding share capital, and 76.49% of our voting power by virtue of its ownership of 100% of our class B shares. The following table presents the beneficial ownership of our shares as of the date of this annual report:

Shareholder	Class A Shares	% of Outstanding Class A Shares	Class B Shares <sup>(1)</sup>	% of Outstanding Class B Shares <sup>(1)</sup>	Total Economic Interest <sup>(1)</sup>	Total Voting Interest <sup>(1) (2)</sup>
Los Laureles Ltd. <sup>(3)(4)</sup>	—	—	80,000,000	100.0%	39.20%	76.33%
Woods Staton <sup>(4)</sup>	828,955	0.67%	—	—	0.41%	0.16%
William H. Gates III <sup>(5)</sup>	11,641,400	9.38%	—	—	5.70%	2.22%
Invesco Ltd. <sup>(6)</sup>	8,612,670	6.94%	—	—	4.22%	1.64%
TIAA-CREF Investment Management, LLC <sup>(7)</sup>	11,838,125	9.54%	—	—	5.80%	2.26%
Teachers Advisors, LLC <sup>(8)</sup>	8,722,405	7.03%	—	—	4.27%	1.66%
International Value Advisers, LLC <sup>(9)</sup>	2,379,000	1.92%	—	—	1.17%	0.45%
Public	80,047,474	64.52%	—	—	39.23%	15.27%
<b>Total<sup>(11)</sup></b>	<b>124,070,029</b>	<b>100.00%<sup>(10)</sup></b>	<b>80,000,000</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%<sup>(10)</sup></b>

(1) Percentages are based on 124,070,029 Class A shares issued and outstanding as of the date of this annual report and exclude 7,993,602 Class A shares issued and held in treasury.

(2) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.

(3) The address of Los Laureles Ltd. is 325 Waterfront Drive, Omar Hodge Building, 2nd Floor, Wickham’s Cay 1, Road Town, Tortola, British Virgin Islands. Los Laureles Ltd. is beneficially owned by Mr. Woods Staton, our Executive Chairman. Los Laureles Ltd. established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See “—Los Laureles Ltd.”

(4) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Woods Staton beneficially owns 828,955 class A shares (includes 30,784 shares of common stock issuable upon exercise of stock options, 113,150 restricted share units that have vested or will vest within 60 days of this annual report and excludes 55,908 unvested restricted share units) directly, and indirectly through Chablais Investments S.A. (“Chablais”). Of these 828,955 class A shares, Chablais has pledged an aggregate of 684,971 shares for the benefit of JPMorgan Chase Bank, N.A., in connection with a financing transaction. On a combined basis, Mr. Woods Staton is the beneficial owner of an aggregate of 39.61% of the total economic interests of Arcos Dorados and 76.49% of its total voting interests. The address of Mr. Woods Staton is Mantua No. 6575 (esquina Potosi), Montevideo, Uruguay 11500. The address of Chablais is Level 1, Palm Grove House, Wickham’s Cay 1, Road Town, Tortola, BVI.

(5) William H. Gates III (“Mr. Gates”) indirectly owns Class A shares through Cascade Investment, LLC (“Cascade”) and the Bill & Melinda Gates Foundation Trust (the “Trust”). Cascade, the Trust, Mr. Gates and Melinda French Gates (“Mrs. Gates”) filed with the SEC a Schedule 13G/A dated February 13, 2015. Based solely on the disclosure set forth in such Schedule 13G/A, (i) Cascade has sole voting power with respect to 8,580,900 class A shares and sole dispositive power with respect to 8,580,900 class A shares; (ii) the Trust has shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares; (iii) Mr. Gates has, through Cascade, sole voting power and sole dispositive power with respect to 8,580,900 class A shares and has, through the Trust, shared voting power and shared dispositive power with respect to 3,060,500 class A shares; and (iv) Mrs. Gates has, through the Trust, shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares. The address of Cascade Investment, LLC is 2365 Carillon Point, Kirkland, Washington 98033. The address of the Trust and Mrs. Gates is 500 Fifth Avenue North, Seattle, Washington 98119. The address of Mr. Gates is One Microsoft Way, Redmond, Washington 98052.

(6) Invesco Ltd. filed with the SEC a Schedule 13G/A dated February 11, 2020. Based solely on the disclosure set forth in such Schedule 13G/A, Invesco Ltd. has sole voting power with respect to 8,612,670 class A shares and sole dispositive power with respect to 8,612,670 class A shares. The address of Invesco Ltd. is 1555 Peachtree Street NE, Suite 1800, Atlanta, GA 30309.

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- (7) TIAA-CREF Investment Management, LLC filed with the SEC a Schedule 13G/A dated February 14, 2020. Based solely on the disclosure set forth in such Schedule 13G/A, TIAA-CREF Investment Management, LLC has sole voting power with respect to 11,814,337 class A shares and sole dispositive power with respect to 11,814,337 class A shares. In addition, an affiliate of TIAA-CREF Investment Management, LLC, Nuveen Asset Management, has sole voting power and sole dispositive power with respect to 13,788 class A shares. The address of TIAA-CREF Investment Management, LLC is 730 Third Avenue, New York, NY 10017-3206.
- (8) Teachers Advisors, LLC filed with the SEC a Schedule 13G/A dated February 14, 2020. Based solely on the disclosure set forth in such Schedule 13G/A, Teachers Advisors, LLC is the investment adviser to three registered investment companies and has sole voting power with respect to 8,722,405 class A shares and sole dispositive power with respect to 8,722,405 class A shares. The address of Teachers Advisors, LLC is 730 Third Avenue, New York, NY 10017-3206.
- (9) International Value Advisers, LLC filed with the SEC a Schedule 13G/A dated February 13, 2020. Based solely on the disclosure set forth in such Schedule 13G/A, International Value Advisers, LLC has sole voting power with respect to 2,210,768 class A shares and sole dispositive power with respect to 2,379,00 class A shares. The address of International Value Advisers, LLC is 717 Fifth Avenue, 10th Floor, New York, New York, 10022.
- (10) Numbers do not sum to 100% due to the effects of rounding.
- (11) Excludes 7,993,602 Class A shares issued and held in treasury.

As of April 24, 2020, there were 8 class A shareholders of record. We believe the number of beneficial owners is substantially greater than the number of record holders because a large portion of class A shares is held in “street name” by brokers.

### ***Los Laureles Ltd.***

Los Laureles Ltd. is our controlling shareholder and is beneficially owned by Mr. Woods Staton, our Executive Chairman. Los Laureles Ltd. currently owns 39.20% of the economic interests of Arcos Dorados and 76.33% of its voting interests. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. The voting trust exercises the vote of the class B shares through a voting committee, which consists of only Mr. Woods Staton. The decision of the voting committee must be approved by Los Laureles (PTC) Limited, a British Virgin Islands company that is a wholly owned subsidiary of Los Laureles Limited. Mr. Woods Staton is the sole director of Los Laureles (PTC) Limited. Without the consent of McDonald’s, Mr. Woods Staton may add any one or more of his descendants, certain other relatives, any board member of Arcos Dorados and the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados to the committee.

Following Mr. Woods Staton’s death or during Mr. Woods Staton’s incapacity, the voting committee will consist of (1) certain officers or directors of Arcos Dorados, (2) certain descendants of Mr. Woods Staton or their representatives, and (3) other persons appointed by Los Laureles (PTC) Limited, subject to McDonald’s consent if such person is not one of Mr. Woods Staton’s descendants and is not the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados. For the first five years from the date of the execution of the voting trust, the officers and directors of Arcos Dorados on the voting committee will have the tie-breaking vote (if any). Thereafter, Mr. Woods Staton’s descendants will have the tie-breaking vote.

### **B. Related Party Transactions**

Our Board of Directors has created and adopted a related party transactions policy for the purpose of assisting the Board of Directors in reviewing, approving and ratifying related party transactions. This Policy is intended to supplement, and not to supersede, our other policies that may be applicable to or involve transactions with related parties, such as our Standards of Business Conduct.

#### **Axionlog Split-off**

In March 2011, we effected a split-off of Axionlog (formerly known as Axis) to our principal shareholders. The split-off was effected through the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares). As consideration for the redemption, the Company transferred to its principal shareholders its equity interests in the operating subsidiaries of the Axionlog business totaling a net book value of \$15.4 million and an equity contribution that was made to the Axionlog holding company amounting to \$29.8 million. Following the split-off, Los Laureles Ltd. acquired the Axionlog shares held by Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates). The split-off of Axionlog did not have a material effect on our results of operations or financial condition.

In 2011, we entered into a master commercial agreement with Axionlog on arm’s-length terms pursuant to which Axionlog provides us with distribution inventory, storage (dry, frozen and chilled) and transportation services in Argentina,

Chile, Colombia, Ecuador, Mexico, Venezuela, Uruguay and Peru. Pricing under the agreement is determined pursuant to an agreed upon formula that is considered standard in the distribution services industry. Additionally, Axionlog must comply with McDonald's quality program, the Distributor Quality Management System (DQMP) and other supplier requirements to maintain its status as a McDonald's-approved supplier pursuant to the MFA. The pricing formula considers certain variables to determine the applicable fees, including (i) cost inputs (i.e., transportation expenses and salaries); (ii) time required for completion; (iii) storage requirements; (iv) merchandise volume; and (v) inflation and exchange rate adjustments. We use similar pricing formulas with our other distribution service providers in the territories not covered by Axionlog. Under the terms of the agreement, the pricing formula is reviewed on a yearly basis. During these reviews, we share information in order to find potential cost efficiencies and savings. In addition, we or Axionlog may request a renegotiation of the pricing formula in the event that, due to factors outside of our or their control, the formula is substantially altered based on changes to its variable inputs.

During 2019, we incurred \$38,658 million in total distribution fees payable to Axionlog, which accounted for approximately 4% of our total food and paper costs.

See Note 25 to our consolidated financial statements for details of the outstanding balances and transactions with related parties as of December 31, 2019 and 2018 and for the fiscal years ended December 31, 2019, 2018 and 2017.

#### **Employment of Francisco Staton**

Mr. Francisco Staton, Woods Staton's son, is Arcos Dorados' President of the Caribbean Division and a member of our board of directors. For his services as President of the Caribbean Division, Francisco Staton receives customary compensation and benefits commensurate with his level of responsibility within the Company. His compensation package is aligned with the compensation packages of similar positions in other companies in Colombia, according to external compensation surveys. Francisco Staton was appointed as a Board Member, Class I, at our Annual General (Shareholders) Meeting held on April 24, 2018.

#### **C. Interests of Experts and Counsel**

Not applicable.

### **ITEM 8. FINANCIAL INFORMATION**

#### **A. Consolidated Statements and Other Financial Information**

##### **Financial statements**

See "Item 18. Financial Statements," which contains our financial statements prepared in accordance with U.S. GAAP.

##### **Legal Proceedings**

###### ***Puerto Rican Franchisees***

In January 2007, several Puerto Rican franchisees filed a lawsuit against McDonald's Corporation and certain subsidiaries, which the Company purchased during the acquisition of the LatAm business (the "Puerto Rican franchisees lawsuit"). The lawsuit sought declaratory judgment and damages in the amount of \$66.7 million plus plaintiffs' attorney's fees in connection with the alleged breach by the Company of the Dealers' Act of Puerto Rico, which limited the grounds under which a principal may refuse to renew or terminate a distribution contract. The complaint also sought preliminary and permanent injunctions to restrict the Company from declining to renew the plaintiffs' agreements except for just cause, and to prohibit the Company from opening restaurants or kiosks within a three-mile radius of a franchisee's restaurant. In September 2008, the Company filed a counter-suit requesting the termination of the franchise agreements with these franchisees due to several material breaches. The case went to trial in the Court of First Instance in 2012 and at the end of 2014 the plaintiffs finalized their presentation of evidence. At that time, the Company filed a Motion of Non Suit seeking to dismiss the case. Although our assessment of the probability of loss was remote, on December 28, 2019 and March 31, 2020 we reached confidential settlement agreements with Puerto Rican franchisees finalizing all controversies and disputes among the parties. Because certain of these agreements were reached during the COVID-19 outbreak, we have been unable to file the final documentation to end the proceedings because the courts are closed in Puerto Rico. However, we will file such documentation and officially close these proceedings as soon as the courts reopen.

During 2014, another franchisee filed a complaint (the “related Puerto Rican franchisee lawsuit”) against us and McDonald’s USA, LLC (a wholly owned subsidiary of McDonald’s Corporation), asserting a very similar claim to the one filed in the Puerto Rican franchisees lawsuit. The claim sought declaratory judgment and damages in the amount of \$30 million plus plaintiff’s attorney’s fees. As of December 28, 2019, we reached a confidential settlement agreement with the Puerto Rican franchisee finalizing all controversies and dispute among us.

On March 26, 2010, we filed a collection claim against Puerto Rico Owner Operator’s Association (“PROA”), an association integrated by our franchisees that meets periodically to coordinate the development of promotional and marketing campaigns, for the reimbursement of the monetary contribution made during August 2007. On June 15, 2010, PROA, also known as the cooperative, filed a third party complaint and counterclaim (the “PROA claim”) against us and other third party defendants in the amount of \$31 million. On June 9, 2014, after several motions for summary judgment duly filed and opposed by the parties, the Court entered a “Partial Summary Judgment and Resolution” in favor of PROA, before initiating the discovery phase, that requires us to participate and contribute funds to the association. However, the Court did not specify any amount for which we should be held liable due to its preliminary and interlocutory nature and the lack of discovery conducted regarding the amounts claimed by the plaintiffs. By means of a Motion to Reconsider, we opposed such determination. In December 2018, the First Instance Court confirmed this determination, and we filed a Writ of Certiorari in the Court of Appeals. In July 2019, the Court of Appeals overturned the Court of First Instance’s summary judgment in favor of PROA. PROA filed an appeal of such determination with the Puerto Rico Supreme Court, which was denied by the Court and PROA filed a reconsideration which was also denied. Although our assessment of the probability of loss was remote, on December 28, 2019 and March 31, 2020 we reached confidential settlement agreements with Puerto Rican franchisees, sole members of PROA, finalizing all controversies and disputes among the parties. Because certain of these agreements were reached during the COVID-19 outbreak, we have been unable to file the final documentation to end the proceedings because the courts are closed in Puerto Rico. However, we will file such documentation and officially close these proceedings as soon as the courts reopen.

### ***Brazilian Labor Litigation***

In August 2012, the Labor Prosecutor’s Office of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) in Brazil filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) in order to (i) compel us to change the variable work schedule applicable to our 14 restaurants in Pernambuco, a state in northeastern Brazil, to a fixed work schedule, (ii) seek fines of R\$3,000 per employee per month for alleged noncompliance with labor laws related to, for example, overtime payment, breaks between workdays, night shift premiums, duration of breaks and weekly rest time, (iii) seek a penalty of R\$20,000 related to the non-exhibition of documentation relating to audit labor inspections and (iv) seek collective damages of R\$30,000,000 related to the variable work schedule practices in Pernambuco in recent years. In February 2013, the Labor Prosecutor’s Office of Pernambuco filed an additional petition seeking the extension of the original complaint throughout Brazil and increasing the amount of collective damages requested from R\$30,000,000 to R\$50,000,000. The Labor Prosecutor’s Office of the State of Pernambuco also added a demand that all employees should be allowed to bring their own meals for consumption during breaks in our restaurants.

We settled all of the pending claims with the Labor Prosecutor’s Office in March 2013, other than the claim to guarantee the payment of the minimum wage independently of working hours. In connection with the payment of the minimum wage, the Labor Court denied this plea.

In parallel with the judicial case, in December 2016, an administrative assessment of compliance with our 2013 settlement was initiated by a team composed of Labor Prosecutors. Additional audits of our compliance with the 2013 settlement were performed in relation to the period from March 2013 to March 2017, and we entered into a new settlement agreement in August 2018, which included paying a fine of R\$7 million that was already paid. Subsequent to this, the Labor Prosecutor began a new investigation of our compliance with the 2018 settlement, in relation to the period of April 2017 to July 2018. The Labor Prosecutor concluded its investigation in 2019 and alleged that we were not in compliance with the 2018 settlement and owed an additional R\$15.8 million in fines. We submitted a petition for review, including documentation defending our compliance with the settlement. In 2019, we entered into a new settlement with the Labor Prosecutor. As part of the settlement agreement, the additional fines previously imposed were waived and we agreed to use paper liners for one month on trays in our restaurants beginning in the second quarter of 2020 to further protect the health and safety of our employees.

*Sinthoresp – Brasilia*

On February 23, 2015, a coalition of labor unions filed a lawsuit against us, alleging that we have defaulted on our obligations to our employees with a variety of inadequate working conditions such as an unhealthy working environment, failure to pay the legal minimum wage or wages established through collective bargaining agreements, time-card fraud, failure to grant legally-mandated meal and rest periods and failure to pay corresponding overtime, among other claims.

The plaintiffs have requested an order requiring: (i) immediate rectification of the alleged practices; (ii) an injunction against opening any new restaurants until compliance with the labor practices is demonstrated; (iii) damages for pain and suffering equal to an amount between 1% and 30% of gross income; (iv) that the Economic Defense Administrative Council – CADE be placed on notice of these conditions; and (v) service of process to the Labor Prosecutor to require it to follow up on the lawsuit.

The lawsuit is currently before the 22<sup>nd</sup> DF Labor Court in Brasilia. On March 27, 2017, the Labor Court entered a judgment rejecting all claims made by the coalition of labor unions and affirmed that the coalition was not able to prove its allegations. The coalition filed an appeal against it, and the Regional Labor Court determined to reopen the discovery phase for the parties to take depositions of witnesses, after which the 22<sup>nd</sup> DF Labor Court in Brasilia (first instance) will judge the claim again. We presented an appeal against this decision that was denied, and the discovery phase was reopened. A new discovery hearing was scheduled for May 4, 2020.

*Complaint 0528900-98.2006.5.02.0080*

On December 13, 2006, a civil complaint was filed by the Labor Prosecutor’s Office in São Paulo, questioning our compliance with rules related to sanitary surveillance, workers’ health and safety, work ergonomics and working hours. After a preliminary injunction was granted for compliance with issues related to relevant rules cited in the complaint, an agreement (the “TAC”) was entered into between the Company and the Labor Prosecutor’s Office that provides for a daily fine of R\$5,000 for non-compliance with the TAC provisions. The full contents of the TAC were ratified by the Labor Court on March 16, 2007.

On October 18, 2010, we entered into a new agreement with the Labor Prosecutor’s Office in São Paulo, which maintained the previous commitments assumed by us in the TAC, but also included an obligation to annually pay R\$1,300,000 (as adjusted on a yearly basis from 2011 to 2019) towards the financing of campaigns against child labor and to make a one-time contribution in the amount of R\$1,500,000 to the São Paulo’s Medical University’s Foundation. Furthermore, according to the agreement, the company was required to file a schedule for the compliance with the obligations set forth in the TAC. The company has been in compliance with this agreement, and the final payment of the annual R\$1,300,000 obligatory contribution to help finance campaigns against child labor was made in 2019. While we have paid all fines due under the agreement, our agreement with the Labor Prosecutor’s Office remains in effect and we must continue to comply with the other requirements thereunder.

In parallel with the judicial lawsuit’s developments, the Labor Prosecutor’s Office initiated an administrative audit regarding the company’s compliance with the TAC. On November 2016, the Labor Prosecutor’s Office claimed that it had identified violations of the TAC and demanded R\$13 million in connection with such violations. On April 3, 2017, we submitted a petition and documents as evidence that we have complied with the settlement, rejecting the Labor Prosecutor’s claims. We attended a series of hearings with the Labor Prosecutor’s Office to discuss TAC compliance, Arcos’ petition, and the possibility of entering into a new settlement in order to reduce the previous commitments and the fines assumed by us. A new hearing is expected to be scheduled soon.

***Retained Lawsuits and Contingent Liabilities***

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. As of December 31, 2019 we maintained a provision for contingencies amounting to \$38.8 million (\$42.1 million as of December 31, 2018), which is disclosed net of judicial deposits amounting to \$12.7 million (\$13.6 million as of December 31, 2018) that we were required to make in connection with the proceedings. As of December 31, 2019, the net amount of \$26.2 million included \$24.1 million as a non-current liability. See Note 18 to our consolidated financial statements for more details.

Pursuant to the Acquisition, McDonald’s Corporation indemnifies us for certain Brazilian claims. As of December 31, 2019, the provision for contingencies included \$1.6 million (\$4.0 million as of December 31, 2018) related to Brazilian

claims that are covered by the indemnification agreement. As a result, we have recorded a non-current asset in respect of McDonald's Corporation's indemnity in our consolidated balance sheet.

Several of these proceedings have already been resolved successfully, either by a judicial decision or a cash settlement. The cash settlements were made pursuant to the reopening of a 2009 amnesty granted by the Brazilian federal government, in which McDonalds opted to participate. The amnesty was originally granted in 2009 as a way to reduce litigation with federal authorities and increase tax collection during the financial crisis. The amnesty allowed Brazilian taxpayers to settle federal tax debts under favorable conditions, including reduced penalties and interest and the ability to pay principal in up to 180 installments. In 2014, pursuant to an additional amnesty, such outstanding Brazilian federal tax debts were paid in full using mainly applicable tax loss carryforwards. The remaining retained proceedings are pending a final decision.

As of December 31, 2019, there are certain matters related to the interpretation of tax and labor law for which there is a possibility that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of \$210 million and \$227 million.

#### ***Other Proceedings***

In addition to the matters described above, we are from time to time subject to certain claims and party to certain legal proceedings incidental to the normal course of our business. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings and believe that liabilities related to such claims and proceedings should not have, in the aggregate, a material adverse effect on our business, financial condition, or results of operations. However, in light of the uncertainties involved in these claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us; as a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of our income for that period.

#### **Dividends and Dividend Policy**

Our Board of Directors considers the legal requirements with regard to our net income and retained earnings and our cash flow generation, targeted leverage ratios and debt covenant requirements in determining the amount of dividends to be paid, if any. Dividends may only be paid in accordance with the provisions of our memorandum and articles of association and Section 57 of the BVI Business Companies Act, 2004 (as amended) and after having fulfilled our capital expenditures program and after satisfying our indebtedness and liquidity thresholds, in that order. Pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company.

Since the Acquisition, we declared the following dividends (all dividends shown in the aggregate for all outstanding shares, other than per share figures):

- a \$10.2 million dividend paid on April 10, 2020 and dividends of \$0.03 per share to be paid on each of August 13, 2020 and December 10, 2020;
- a \$10.2 million dividend and two \$6.1 million dividends in 2019;
- a \$10.6 million and a \$10.4 million dividend in 2018;
- four \$12.5 million dividends in 2014;
- four \$12.5 million dividends in 2013;
- four \$12.5 million dividends in 2012;
- four \$12.5 million dividends in 2011; and
- a \$40 million dividend with respect to our results of operations for fiscal year 2009.

The amounts and dates of future dividend payments, if any, will be subject to, among other things, the discretion of our Board of Directors. Accordingly, there can be no assurance that any future distributions will be made, or, if made, as to the amount of such distributions.

**B. Significant Changes**

Except as otherwise disclosed in this annual report, we are not aware of any significant changes that have occurred since December 31, 2019.

**ITEM 9. THE OFFER AND LISTING**

**A. Offering and Listing Details**

See “—C. Markets.”

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our class A shares have been listed on the NYSE, since April 14, 2011 under the symbol “ARCO.”

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

**General**

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act.

Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges. Our registered office is at Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

The transfer agent and registrar for our class A and class B shares is Continental Stock Transfer & Trust Company, which maintains the share registrar for each class in New York, New York.

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue up to 420,000,000 class A shares and 80,000,000 class B shares. As of the date of this annual report, 124,070,029 class A shares and 80,000,000 class B shares are issued, fully paid and outstanding. In addition, 7,993,602 Class A shares are issued and being held in treasury.



The maximum number of shares that we are authorized to issue may be changed by resolution of shareholders amending our memorandum and articles of association. Shares may be issued from time to time only by resolution of shareholders.

Our class A shares are listed on the NYSE under the symbol “ARCO.”

The following is a summary of the material provisions of our memorandum and articles of association.

#### **Class A Shares**

Holders of our class A shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class A shares:

- each holder of class A shares is entitled to one vote per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class A shares vote together with holders of class B shares;
- there are no cumulative voting rights;
- the holders of our class A shares are entitled to dividends and other distributions, *pari passu* with our class B shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class A shares will be entitled to share ratably, *pari passu* with our class B shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities; and
- the holders of class A shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions.

#### **Class B Shares**

All of our class B shares are owned by Los Laureles Ltd. Holders of our class B shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class B shares:

- each holder of class B shares is entitled to five votes per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class B shares vote together with holders of class A shares;
- class B shares may not be listed on any U.S. or foreign national or regional securities exchange or market;
- there are no cumulative voting rights;
- the holders of our class B shares are entitled to dividends and other distributions, *pari passu* with our class A shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class B shares will be entitled to share ratably, *pari passu* with our class A shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities;

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- the holders of class B shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions;
- each class B share is convertible into one class A share at the option of the holder at any time, subject to the prior written approval of McDonald's; and
- each class B share will convert automatically into one class A share at such time as the holders of class B shares cease to hold, directly or indirectly, at least 20% of the aggregate number of outstanding class A and class B shares.

### **Limitation on Liability and Indemnification Matters**

Under British Virgin Islands law, each of our directors and officers, in performing his or her functions, is required to act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent director would exercise in comparable circumstances. Our memorandum and articles of association provide that, to the fullest extent permitted by British Virgin Islands law or any other applicable laws, our directors will not be personally liable to us or our shareholders for any acts or omissions in the performance of their duties. This limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

Our memorandum and articles of association provide that we shall indemnify any of our directors or anyone serving at our request as a director of another entity against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings or suits. We may pay any expenses, including legal fees, incurred by any such person in defending any legal, administrative or investigative proceedings in advance of the final disposition of the proceedings. If a person to be indemnified has been successful in defense of any proceedings referred to above, the director is entitled to be indemnified against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred by the director or officer in connection with the proceedings.

We may purchase and maintain insurance in relation to any of our directors, officers, employees, agents or liquidators against any liability asserted against them and incurred by them in that capacity, whether or not we have or would have had the power to indemnify them against the liability as provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

### **Shareholders' Meetings and Consents**

The following summarizes certain relevant provisions of British Virgin Islands law and our articles of association in relation to our shareholders' meetings:

- the directors of the Company may convene meetings of shareholders at such times and in such manner and places within or outside the British Virgin Islands as the directors consider necessary or desirable; provided that at least one meeting of shareholders be held each year;
- upon the written request of shareholders entitled to exercise 30 percent or more of the voting rights in respect of the matter for which the meeting is requested, the directors are required to convene a meeting of the shareholders. Any such request must state the proposed purpose of the meeting;
- the directors convening a meeting must give not less than ten days' notice of a meeting of shareholders to: (i) those shareholders whose names on the date the notice is given appear as shareholders in the register of members of our company and are entitled to vote at the meeting, and (ii) the other directors;

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- a meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90 percent of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a shareholder at the meeting shall constitute waiver in relation to all the shares that such shareholder holds;
- a shareholder may be represented at a meeting of shareholders by a proxy who may speak and vote on behalf of the shareholder;
- a meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 50 percent of the votes of the shares or class or series of shares entitled to vote on resolutions of shareholders to be considered at the meeting;
- if within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall be adjourned to the next business day in the jurisdiction in which the meeting was to have been held at the same time and place or to such other date, time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one third of the votes of the shares or each class or series of shares entitled to vote on the matters to be considered by the meeting, those present shall constitute a quorum, but otherwise the meeting shall be dissolved. Notice of the adjourned meeting need not be given if the date, time and place of such meeting are announced at the meeting at which the adjournment is taken;
- a resolution of shareholders is valid (i) if approved at a duly convened and constituted meeting of shareholders by the affirmative vote of a majority of the votes of the shares entitled to vote thereon which were present at the meeting and were voted, or (ii) if it is a resolution consented to in writing by a majority of the votes of shares entitled to vote thereon; and
- an action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing by a majority of the votes of shares entitled to vote thereon, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution.

### **Compensation of Directors**

The compensation of our directors is determined by our Board of Directors, and there is no requirement that a specified number or percentage of “independent” directors must approve any such determination.

### **Differences in Corporate Law**

We were incorporated under, and are governed by, the laws of the British Virgin Islands. The corporate statutes of the State of Delaware and the British Virgin Islands in many respects are similar, and the flexibility available under British Virgin Islands law has enabled us to adopt a memorandum of association and articles of association that will provide shareholders with rights that, except as described in this annual report, do not vary in any material respect from those they would enjoy if we were incorporated under the Delaware General Corporation Law, or Delaware corporate law. Set forth below is a summary of some of the differences between provisions of the BVI Act applicable to us and the laws applicable to companies incorporated in Delaware and their shareholders.

### ***Director's Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling stockholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

British Virgin Islands law provides that every director of a British Virgin Islands company, in exercising his powers or performing his duties, shall act honestly and in good faith and in what the director believes to be in the best interests of the company. Additionally, the director shall exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances, taking into account the nature of the company, the nature of the decision and the position of the director and his responsibilities. In addition, British Virgin Islands law provides that a director shall exercise his powers as a director for a proper purpose and shall not act, or agree to the company acting, in a manner that contravenes British Virgin Islands law or the memorandum association or articles of association of the company.

### ***Amendment of Governing Documents***

Under Delaware corporate law, with very limited exceptions, a vote of the shareholders is required to amend the certificate of incorporation. In addition, Delaware corporate law provides that shareholders have the right to amend the bylaws, and the certificate of incorporation also may confer on the directors the right to amend the bylaws. Our memorandum of association may only be amended by a resolution of shareholders, provided that any amendment of the provision related to the prohibition against listing our class B shares must be approved by not less than 50% of the votes of the class A shares entitled to vote that were present at the relevant meeting and voted. Our articles of association may also only be amended by a resolution of shareholders.

### ***Written Consent of Directors***

Under Delaware corporate law, directors may act by written consent only on the basis of a unanimous vote. Similarly, under our articles of association, a resolution of our directors in writing shall be valid only if consented to by all directors or by all members of a committee of directors, as the case may be.

### ***Written Consent of Shareholders***

Under Delaware corporate law, unless otherwise provided in the certificate of incorporation, any action to be taken at any annual or special meeting of shareholders of a corporation may be taken by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take that action at a meeting at which all shareholders entitled to vote were present and voted. As permitted by British Virgin Islands law, shareholders' consents need only a majority of shareholders signing to take effect. Our memorandum and articles of association provide that shareholders may approve corporate matters by way of a resolution consented to at a meeting of shareholders or in writing by a majority of shareholders entitled to vote thereon.

### ***Shareholder Proposals***

Under Delaware corporate law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our memorandum and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise at least 30% of the voting rights in respect of the matter for which the meeting is requested. Any such request must state the proposed purpose of the meeting.

### ***Sale of Assets***

Under Delaware corporate law, a vote of the shareholders is required to approve the sale of assets only when all or substantially all assets are being sold. In the British Virgin Islands, shareholder approval is required when more than 50% of the Company's total assets by value are being disposed of or sold if not made in the usual or regular course of the business carried out by the company. Under our memorandum and articles of association, the directors may by resolution of directors determine that any sale, transfer, lease, exchange or other disposition is in the usual or regular course of the business carried on by us and such determination is, in the absence of fraud, conclusive.

### ***Dissolution; Winding Up***

Under Delaware corporate law, unless the board of directors approves the proposal to dissolve, dissolution must be approved in writing by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware corporate law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. As permitted by British Virgin Islands law and our memorandum and articles of association, we may be voluntarily liquidated under Part XII of the BVI Act by resolution of directors and resolution of shareholders if we have no liabilities or we are able to pay our debts as they fall due.

### ***Redemption of Shares***

Under Delaware corporate law, any stock may be made subject to redemption by the corporation at its option, at the option of the holders of that stock or upon the happening of a specified event, provided shares with full voting power remain outstanding. The stock may be made redeemable for cash, property or rights, as specified in the certificate of incorporation or in the resolution of the board of directors providing for the issue of the stock. As permitted by British Virgin Islands law and our memorandum and articles of association, shares may be repurchased, redeemed or otherwise acquired by us. However, the consent of the shareholder whose shares are to be repurchased, redeemed or otherwise acquired must be obtained, except as described under “—Compulsory Acquisition” below. Moreover, our directors must determine that immediately following the redemption or repurchase we will be able to pay our debts as they become due and that the value of our assets will exceed our liabilities.

### ***Compulsory Acquisition***

Under Delaware General Corporation Law § 253, in a process known as a “short form” merger, a corporation that owns at least 90% of the outstanding shares of each class of stock of another corporation may either merge the other corporation into itself and assume all of its obligations or merge itself into the other corporation by executing, acknowledging and filing with the Delaware Secretary of State a certificate of such ownership and merger setting forth a copy of the resolution of its board of directors authorizing such merger. If the parent corporation is a Delaware corporation that is not the surviving corporation, the merger also must be approved by a majority of the outstanding stock of the parent corporation. If the parent corporation does not own all of the stock of the subsidiary corporation immediately prior to the merger, the minority shareholders of the subsidiary corporation party to the merger may have appraisal rights as set forth in § 262 of the Delaware General Corporation Law.

Under the BVI Act, subject to any limitations in a Company's memorandum or articles, members holding 90% of the votes of the outstanding shares entitled to vote, and members holding 90% of the votes of the outstanding shares of each class of shares entitled to vote, may give a written instruction to the company directing the company to redeem the shares held by the remaining members. Upon receipt of such written instruction, the company shall redeem the shares specified in the written instruction, irrespective of whether or not the shares are by their terms redeemable. The company shall give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected. A member whose shares are to be so redeemed is entitled to dissent from such redemption, and to be paid the fair value of his shares, as described under “—Shareholders' Rights under British Virgin Islands Law Generally” below.

### ***Variation of Rights of Shares***

Under Delaware corporate law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of that class, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law and our memorandum of association, we may vary the rights attached to any class of shares only with the consent in writing of holders of not less than 50% of the issued shares of that class and of holders of not less than 50% of the issued shares of any other class which may be adversely affected by such variation.

### ***Removal of Directors***

Under Delaware corporate law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Our memorandum and articles of association provide that directors may be removed at any time, with or without cause, by a resolution of shareholders or a resolution of directors.

In addition, directors are subject to rotational retirement every three years. The initial terms of office of the Class I, Class II and Class III directors have been staggered over a period of three years to ensure that all directors of the company do not face reelection in the same year.

### ***Mergers***

Under Delaware corporate law, one or more constituent corporations may merge into and become part of another constituent corporation in a process known as a merger. A Delaware corporation may merge with a foreign corporation as long as the law of the foreign jurisdiction permits such a merger. To effect a merger under Delaware General Corporation Law § 251, an agreement of merger must be properly adopted and the agreement of merger or a certificate of merger must be filed with the Delaware Secretary of State. In order to be properly adopted, the agreement of merger must be adopted by the board of directors of each constituent corporation by a resolution or unanimous written consent. In addition, the agreement of merger generally must be approved at a meeting of stockholders of each constituent corporation by a majority of the outstanding stock of the corporation entitled to vote, unless the certificate of incorporation provides for a supermajority vote. In general, the surviving corporation assumes all of the assets and liabilities of the disappearing corporation or corporations as a result of the merger.

Under the BVI Act, two or more BVI companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent BVI company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders. One or more BVI companies may also merge or consolidate with one or more companies incorporated under the laws of jurisdictions outside the BVI, if the merger or consolidation is permitted by the laws of the jurisdictions in which the companies incorporated outside the BVI are incorporated. In respect of such a merger or consolidation a BVI company is required to comply with the provisions of the BVI Act, and a company incorporated outside the BVI is required to comply with the laws of its jurisdiction of incorporation.

Shareholders of BVI companies not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum of association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

### ***Inspection of Books and Records***

Under Delaware corporate law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records. Under British Virgin Islands law, members of the general public, on payment of a nominal fee, can obtain copies of the public records of a company available at the office of the British Virgin Islands Registrar of Corporate Affairs which will include the company's certificate of incorporation, its memorandum and articles of association (with any amendments) and records of license fees paid to date, and will also disclose any articles of dissolution, articles of merger and a register of registered charges if such a register has been filed in respect of the company.

A member of a company is entitled, on giving written notice to the company, to inspect:

- (a) the memorandum and articles;
- (b) the register of members;
- (c) the register of directors; and
- (d) the minutes of meetings and resolutions of members and of those classes of members of which he is a member; and to make copies of or take extracts from the documents and records referred to in (a) to (d) above. Subject to the memorandum and articles, the directors may, if they are satisfied that it would be contrary to the company's interests to allow a member to inspect any document, or part of a document, specified in (b), (c) or (d) above, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

Where a company fails or refuses to permit a member to inspect a document or permits a member to inspect a document subject to limitations, that member may apply to the court for an order that he should be permitted to inspect the document or to inspect the document without limitation.

A company is required to keep at the office of its registered agent the memorandum and articles of the company; the register of members maintained or a copy of the register of members; the register of directors or a copy of the register of directors; and copies of all notices and other documents filed by the company in the previous ten years.

Where a company keeps a copy of the register of members or the register of directors at the office of its registered agent, it is required to notify any changes to the originals of such registers to the registered agent, in writing, within 15 days of any change; and to provide the registered agent with a written record of the physical address of the place or places at which the original register of members or the original register of directors is kept. Where the place at which the original register of members or the original register of directors is changed, the company is required to provide the registered agent with the physical address of the new location of the records within fourteen days of the change of location.

A company is also required to keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors determine, the minutes of meetings and resolutions of members and of classes of members; and the minutes of meetings and resolutions of directors and committees of directors. If such records are kept at a place other than at the office of the company's registered agent, the company is required to provide the registered agent with a written record of the physical address of the place or places at which the records are kept and to notify the registered agent, within 14 days, of the physical address of any new location where such records may be kept.

A company is further required to:

- (a) keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors may determine, the records and underlying documentation of the company;
- (b) retain the records and underlying documentation for a period of at least five years from the date: (i) of completion of the transaction to which the records and underlying documentation relate; or (ii) the company terminates the business relationship to which the records and underlying documentation relate; and
- (c) provide its registered agent without delay any records and underlying documentation in respect of the company that the registered agent requests pursuant to the entitlement of the company's registered agent to make such a request where the registered agent is required to do so by the British Virgin Islands Financial Services Commission or any other competent authority in the British Virgin Islands acting pursuant to the exercise of a power under an enactment.

The records and underlying documentation of the company are required to be in such form as:

- (a) are sufficient to show and explain the company's transactions; and
- (b) will, at any time, enable the financial position of the company to be determined with reasonable accuracy.

Where the records and underlying documentation of a company are kept at a place or places other than at the office of the company's registered agent, the company is required to provide the registered agent with a written:

- (a) record of the physical address of the place at which the records and underlying documentation are kept; and
- (b) record of the name of the person who maintains and controls the company's records and underlying documentation.

Where the place or places at which the records and underlying documentation of the company, or the name of the person who maintains and controls the company's records and underlying documentation, change, the company must within 14 days of the change, provide:

- (a) its registered agent with the physical address of the new location of the records and underlying documentation; or
- (b) the name of the new person who maintains and controls the company's records and underlying documentation.

For the foregoing purposes:

- (a) "business relationship" means a continuing arrangement between a company and one or more persons with whom the company engages in business, whether on a one-off, regular or habitual basis; and
- (b) "records and underlying documentation" includes accounts and records (such as invoices, contracts and similar documents) in relation to: (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

### ***Conflict of Interest***

Under Delaware corporate law, a contract between a corporation and a director or officer, or between a corporation and any other organization in which a director or officer has a financial interest, is not void as long as the material facts as to the director's or officer's relationship or interest are disclosed or known and either a majority of the disinterested directors authorizes the contract in good faith or the shareholders vote in good faith to approve the contract. Nor will any such contract be void if it is fair to the corporation when it is authorized, approved or ratified by the board of directors, a committee or the shareholders.

The BVI Act provides that a director shall, forthwith after becoming aware that he is interested in a transaction entered into or to be entered into by the company, disclose that interest to the board of directors of the company. The failure of a director to disclose that interest does not affect the validity of a transaction entered into by the director or the company, so long as the director's interest was disclosed to the board prior to the Company's entry into the transaction or was not required to be disclosed because the transaction is between the company and the director himself and is otherwise in the ordinary course of business and on usual terms and conditions. As permitted by British Virgin Islands law and our memorandum and articles of association, a director interested in a particular transaction may vote on it, attend meetings at which it is considered and sign documents on our behalf which relate to the transaction, provided that the disinterested directors consent.

### ***Transactions with Interested Shareholders***

Delaware corporate law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by that statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that the person becomes an interested shareholder. An interested shareholder generally is a person or group that owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which the shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.



British Virgin Islands law has no comparable provision. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although British Virgin Islands law does not regulate transactions between a company and its significant shareholders, it does provide that these transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

#### ***Independent Directors***

There are no provisions under Delaware corporate law or under the BVI Act that require a majority of our directors to be independent.

#### ***Cumulative Voting***

Under Delaware corporate law, cumulative voting for elections of directors is not permitted unless the Company's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions to cumulative voting under the laws of the British Virgin Islands, but our memorandum of association and articles of association do not provide for cumulative voting.

#### **Shareholders' Rights under British Virgin Islands Law Generally**

The BVI Act provides for remedies which may be available to shareholders. Where a company incorporated under the BVI Act or any of its directors engages in, or proposes to engage in, conduct that contravenes the BVI Act or the Company's memorandum and articles of association, the BVI courts can issue a restraining or compliance order. Shareholders cannot also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for members' remedies has also been incorporated into the BVI Act: where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminatory or unfairly prejudicial to him, he may apply to the court for an order based on such conduct.

Any shareholder of a company may apply to court for the appointment of a liquidator of the company and the court may appoint a liquidator of the company if it is of the opinion that it is just and equitable to do so.

The BVI Act provides that any shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following: (a) a merger, if the company is a constituent company, unless the company is the surviving company and the member continues to hold the same or similar shares; (b) a consolidation, if the company is a constituent company; (c) any sale, transfer, lease, exchange or other disposition of more than 50% in value of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including (i) a disposition pursuant to an order of the court having jurisdiction in the matter, (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the shareholders in accordance with their respective interest within one year after the date of disposition, or (iii) a transfer pursuant to the power of the directors to transfer assets for the protection thereof; (d) a redemption of 10% or fewer of the issued shares of the company required by the holders of 90% or more of the shares of the company pursuant to the terms of the BVI Act; and (e) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the British Virgin Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

#### **C. Material Contracts**

##### **The MFAs**

We received exclusive master franchising rights from McDonald's for the Territories on August 3, 2007 when Mr. Woods Staton, our Executive Chairman and controlling shareholder and our founding private equity shareholders purchased McDonald's LatAm business for \$698.1 million (including \$18.7 million of acquisition costs) and entered into the MFAs. Prior to the Acquisition, Mr. Woods Staton had been the joint venture partner of McDonald's Corporation in Argentina for over 20 years and had served as President of McDonald's South Latin American division since 2004.

McDonald's has a long-standing presence in Latin America and the Caribbean dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its footprint across the region as consumer markets and opportunities arose, opening its first restaurants in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010, June 3, 2011 and March 17, 2016, entered into by us, LatAm, LLC (the "Master Franchisee"), our former wholly owned subsidiary Arcos Dorados Coöperatieve U.A., Arcos Dorados B.V., certain subsidiaries of the Master Franchisee, Los Laureles, Ltd. and McDonald's. On March 21, 2018, Arcos Dorados Group B.V. (together with Arcos Dorados B.V. and us, the "Owner Entities") replaced Arcos Dorados Coöperatieve U.A. as party to the MFA. On August 3, 2007, our subsidiary Arcos Dourados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008.

The MFAs set forth McDonald's and our rights and obligations in respect of the ownership and operation of the McDonald's-branded restaurants located in the Territories. The MFAs do not include the following Latin American and Caribbean countries and territories, among others: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bolivia, the British Virgin Islands, the Cayman Islands, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guiana, Haiti, Honduras, Jamaica, Montserrat, Nicaragua, Paraguay, Suriname, St. Barthélemy, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Turks & Caicos Islands and the U.S. Virgin Islands, with the exception of St. Croix and St. Thomas.

The material provisions of the MFAs are set forth below.

#### *Term*

The initial term of the franchise granted pursuant to the MFAs is 20 years for all of the Territories other than French Guiana, Guadeloupe and Martinique. After the expiration of the initial term, McDonald's may grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years. The initial term of the franchise for French Guiana, Guadeloupe and Martinique was 10 years. Under the MFA, we had the right to extend the term of the MFA with respect to French Guiana, Guadeloupe and Martinique for an additional term of 10 years. On June 27, 2016, we exercised this right and McDonald's granted us an extension of the initial term for the franchises in French Guiana, Guadeloupe and Martinique for a period of 10 years, expiring August 2, 2027.

#### *Our Right to Own and Operate McDonald's-Branded Restaurants*

Under the MFAs, in the Territories, we have the exclusive right to (i) own and operate, directly or indirectly, McDonald's restaurants, (ii) license and grant franchises with respect to McDonald's-branded restaurants, (iii) adopt and use, and to grant the right and license to franchisees to adopt and use, the McDonald's operations system in our restaurants, (iv) advertise to the public that we are a franchisee of McDonald's, and (v) to use, and to sublicense to our franchisees the right to use the McDonald's intellectual property solely in connection with the development, ownership, operation, promotion and management of our restaurants, and to engage in related advertising, promotion and marketing programs and activities.

Under the MFAs, McDonald's cannot grant the rights described in clauses (i), (ii) and (iii) of the preceding paragraph to any other person while the MFAs are in effect. Notwithstanding the foregoing, McDonald's has reserved, with respect to the McDonald's restaurants located in the Territories, all rights not specifically granted to us, including the right, directly or indirectly, to (i) use and sublicense the McDonald's intellectual property for all other purposes and means of distribution, (ii) sell, promote or license the sale of products or services under the intellectual property and (iii) use the intellectual property in connection with all other activities not prohibited by the MFAs.

In addition, under the MFAs, McDonald's provides us with know-how and new developments, techniques and improvements in the areas of restaurant management, food preparation and service, and operations manuals that contain the standards and procedures necessary for the successful operation of McDonald's-branded restaurants.

#### *Franchise Fees*

Under the MFAs, we are responsible for the payment to McDonald's of initial franchise fees, continuing franchise fees and transfer fees.

The initial franchise fee is payable upon the opening of a new restaurant and the extension of the term of any existing franchise agreement. For Company-operated restaurants, the initial fee is based on the term remaining under the MFAs for the country in which the restaurant is located. For franchised restaurants, we receive an initial fee from the franchisee based on the term of the franchise agreement (generally 20 years), and pay 50% of this fee to McDonald's.

The continuing franchise fee is paid, with respect to each calendar month, to McDonald's in an amount generally equal to 7% of the U.S. dollar equivalent of the gross sales, as defined therein, of each of the McDonald's restaurants in the Territories for that calendar month, minus, as applicable, a brand building adjustment. During the first 10 years of the MFAs, the brand building adjustment is 2% of the gross sales, for a net continuing franchise fee payment of 5% of the gross sales. During years 11 through 15 of the MFAs, the brand building adjustment will be 1% of the gross sales, for a net continuing franchise fee payment of 6%; and the brand building adjustment will be 0% thereafter, for a net continuing franchise fee payment of 7% of the gross sales. In addition, on January 25, 2017, McDonald's Corporation agreed to provide growth support for the years 2017, 2018 and 2019. The impact of this support resulted in an effective royalty rate of 5.2% in 2017, 5.4% in 2018 and 5.5% in 2019. McDonald's Corporation had previously agreed to provide growth support for the years 2020, 2021 and 2022. However, due to the business disruptions caused by the COVID-19 outbreak, we have agreed with McDonald's to withdraw our previously-approved 2020-2022 restaurant opening plan and reinvestment plan. We do not expect to finalize a revised 2020-2022 plan at least until after the COVID-19 outbreak is under control. As a result, until we are able to finalize a revised 2020-2022 restaurant opening plan and reinvestment plan, we can make no assurances related to receiving growth support for 2020-2022.

We are responsible for collecting the continuing franchise fee from our franchisees and must pay that amount to McDonald's. In the event that a franchisee does not pay the full amount of the fee or any of our subsidiaries are unable to transfer funds to us due to currency restrictions or otherwise, we are responsible for any resulting shortfall. In connection with the COVID-19 pandemic, McDonald's has agreed to defer all franchise fee payments, whether they are related to company-operated or franchisee-operated restaurants, for March, April, May and June 2020 sales until 2021. If we are unable to pay such franchise fees when they are due, or we have further difficulty meeting our obligations in coming months and are unable to obtain a similar deferral, we will be in default under the MFAs. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements," "—Certain Factors Relating to Latin America and the Caribbean—We are subject to significant foreign currency exchange controls and depreciation in certain countries in which we operate" and "—Certain Factors Relating to Our Business—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so."

In the event of a voluntary or involuntary transfer of any of the McDonald's restaurants located in the Territories to a person other than a subsidiary of ours or an affiliate of one of our franchisees, we must charge a transfer fee of not less than \$10,000 and must pay to McDonald's an amount equal to 50% of the fee charged.

All payments to McDonald's must be made in U.S. dollars, but are based on local currency exchange rates at the time of payment.

#### *Material Breach*

A material breach under the MFAs would occur if we, or our subsidiaries that are a party to the MFAs, materially breached any of the representations or warranties or obligations under the MFAs (not cured within 30 days after receipt of notice thereof from McDonald's) relating to or otherwise in connection with any aspect of the master franchise business, the franchised restaurants or any other matter in or affecting any one or more Territories. The following events, among others, constitute a material breach under the MFAs: our noncompliance with anti-terrorism or anti-corruption policies and procedures required by applicable law; our bankruptcy, insolvency, voluntary filing or filing by any other person of a petition in commercial insolvency; our conviction or that of our subsidiaries, or of our or our subsidiaries' agents or employees for a crime or offense that is punishable by incarceration for more than one year or a felony, or a crime or offense or the indictment on charges thereof that, in the determination of McDonald's, is likely to adversely affect the reputation of such person, any franchised restaurant or McDonald's; the entry of any judgment against us or our subsidiaries in excess of \$1,000,000 that is not duly paid or otherwise discharged within 30 days (unless such judgment is being contested on appeal in good faith); our failure to maintain certain quarterly financial ratios and not cure any non-compliance within 30 days; our failure to achieve (a) at least 80% of the targeted openings during any one-calendar year of any restaurant opening plan; or (b) at least 90% of the targeted openings during the three-calendar year term of any restaurant opening plan; and our failure to comply with at least 80% of the funding requirements of any reinvestment plan with respect to any Territory for a period of one year.

*Business of the Company and the Other Owner Entities*

In addition to the payment of franchise fees described above, we and the other Owner Entities are subject to a variety of obligations and restrictions under the MFAs.

Under the MFAs, we cannot, directly or indirectly, enter into any other QSR business or any business other than the operation of McDonald's-branded restaurants in the Territories. Neither we nor any of the other Owner Entities can engage in a business other than holding, directly or indirectly, our equity interests. In addition, neither we nor any of the other Owner Entities can engage in any activity or participate in any business that competes with McDonald's business.

Under the MFAs, Los Laureles Ltd., a British Virgin Islands company beneficially owned by Mr. Woods Staton, our Executive Chairman and controlling shareholder, is required to own not less than 40% of our economic interests and 51% of our voting interests. The MFAs do provide an exception for any dilution following an initial public offering, so long as such dilution does not cause Los Laureles Ltd. to be diluted below 30% of our economic interests. Also, under the MFAs, we are required to own, directly or indirectly, 100% of the equity interests of our subsidiaries and cannot enter into any partnership, joint venture or similar arrangement without McDonald's consent. In addition, at least 50% of all McDonald's-branded restaurants in the Territories must be Company-operated restaurants.

*Real Estate*

Under the MFAs, we must own or lease the real estate property where all of our Company-operated restaurants are located. In addition, we cannot transfer or encumber a significant portion of the real estate properties that we own without McDonald's consent. Due to the geographic and commercial importance of certain restaurants, we may not sell certain "iconic" properties without the prior written consent of McDonald's. For certain of these selected properties, we have already perfected a first priority lien in favor of McDonald's.

Under the MFAs, no more than 50% of the total number of restaurants in each Territory, and no more than 10% of the total number of restaurants in all the Territories, can be located on real estate property that is owned, held or leased by our franchisees.

In addition, the MFA lists 25 restaurants that we are prohibited from selling or otherwise transferring without McDonald's consent.

*Transfer of Equity Interests or Significant Assets*

Under the MFAs, neither we nor any of the other Owner Entities can transfer or pledge the equity interests of any of our subsidiaries, or any significant portion of our assets, without McDonald's consent.

*Operational Control*

Under the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer and our chief operating officer.

In the event that McDonald's modifies its standards applicable to technology and related equipment, we must purchase any new or modified technology, software, hardware or equipment necessary to comply with the modified standards.

*Restaurant Opening Plan and Reinvestment Plan*

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimaging or upgrading restaurants during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan. We may also propose, subject to McDonald's prior written consent, amendments to any restaurant opening plan and/or reinvestment plan to adapt to changes in economic or political conditions.

In the event we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing

plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan.

*Advertising and Promotion Plan*

Under the MFAs, we must develop and implement a marketing plan with respect to each Territory that must be approved in advance by McDonald's. The MFAs require us to spend at least 5% of our gross sales on advertisement and promotion activities. In connection with the COVID-19 outbreak, we have agreed with McDonald's to reduce this spending requirement from 5% to 4% of our gross sales for the full year 2020. Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage in order to drive sales.

*Insurance*

Under the MFAs, we are required to acquire and maintain a variety of insurance policies with certain minimum coverage limits, including commercial general liability, workers compensation, "all risk" property and business interruption insurance, among others.

*Call Option Right and Security Interest in Equity Interests of the Company*

Under the MFAs, McDonald's has the right, or Call Option, to acquire our non-public shares or our interests in one or more Territories upon: (i) the expiration of the initial term of the MFAs on August 2, 2027 if the initial term is not extended, (ii) the occurrence of a material breach of the MFAs or (iii) during the period of 12 months following the earlier of (x) the 18th month anniversary of the death or permanent incapacity of Mr. Woods Staton or (y) the receipt by McDonald's of notice from Mr. Woods Staton's heirs that they have elected to have the period of 12 months commence as of the date specified in the notice. McDonald's generally has the right either to exercise the Call Option with respect to all of the Territories, or, in its sole discretion, with respect to the Territory or Territories identified by McDonald's as being affected by such material breach or to which such material breach may be attributable except upon the occurrence of an initial material breach relating to any Territory or Territories in which there are less than 100 restaurants in operation. In such case, McDonald's only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory or Territories. As of December 31, 2019, we had more than 100 restaurants in operation in each of Argentina, Brazil, Mexico and Venezuela. In Puerto Rico, we had 99 restaurants in operation, and no other Territory had more than 85 restaurants in operation.

If McDonald's exercises the Call Option upon the occurrence of the events described in clause (i) or (iii) of the preceding paragraph, it must pay a purchase price equal to 100% of the fair market value of our non-public shares. If the Call Option is exercised upon the occurrence of a material breach, however, the purchase price is reduced to 80% of the fair market value of all of our non-public shares or of all of the equity interests of the subsidiaries operating restaurants in the Territory related to such material breach, as applicable. The purchase price paid by McDonald's upon exercise of the Call Option is, in all events, reduced by the amount of debt and contingencies and increased by the amount of cash attributable to the entity whose equity interests are being acquired pursuant to the Call Option. In the event McDonald's were to exercise its right to acquire all of our non-public shares, McDonald's would become our controlling shareholder.

If McDonald's exercises the Call Option with respect to any of our subsidiaries (but not all of them) and the amount of debt and contingencies (minus cash) attributable to the equity interests of those subsidiaries is greater than the fair market value of those equity interests, we must, at our election, either (i) assume the debts and contingencies (minus cash) and deliver the equity interests to McDonald's free of any obligations with respect thereto or (ii) pay to McDonald's the absolute value of that amount. The fair market value of any of the equity interests is to be determined by internationally recognized investment banks without taking into consideration the debt, contingencies or cash attributable to the equity interests.

In order to secure McDonald's right to exercise the Call Option, McDonald's was granted a perfected security interest in the equity interests of the Master Franchisee, the Brazilian Master Franchisee and our subsidiaries other than our subsidiaries organized in Costa Rica, Mexico, French Guiana, Guadeloupe and Martinique. The equity interests of our subsidiaries organized in Costa Rica and Mexico were transferred to a trust for the benefit of McDonald's. McDonald's does not have a security interest in the equity interests of our subsidiaries organized in French Guiana, Guadeloupe and Martinique.

The equity interests were transferred to Citibank, N.A., acting as escrow agent. Subject to the terms of the Escrow Agreement and the Intercreditor Agreement, upon McDonald's exercise of the Call Option and its payment of the respective purchase price, the escrow agent must transfer the equity interests, free of any liens or encumbrances, to McDonald's.

*Limitations on Indebtedness*

Under the MFAs, we cannot incur any indebtedness secured by the collateral pledged by us and certain of our subsidiaries in connection with the letters of credit or amend or waive any of the terms related to the collateral, without McDonald's consent. The pledged collateral includes the equity interests of certain of our subsidiaries, certain of our rights under certain of the Acquisition documents, franchise document payment rights, and our intercompany debt and notes.

Under the MFAs, we must maintain a fixed charge coverage ratio (as defined therein) at least equal to 1.50 and a leverage ratio (as defined therein) not in excess of 4.25. If we are unable to comply with our original commitments under the MFA or to obtain a waiver for any non-compliance in the future, we could be in material breach. Our breach of the MFA would give McDonald's certain rights, including the ability to acquire all or portions of our business. See "—Material Breach." As of December 31, 2019, our Fixed Charge Coverage Ratio was 1.86 and our Leverage Ratio was 3.77.

**Arcos Dorados Financial Ratios under the MFA**

	Quarter ended				
	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Leverage Ratio	4.07	3.83	3.76	3.83	3.77
Fixed Charge Coverage Ratio	1.70	1.83	1.86	1.80	1.86

*Letters of Credit*

As security for the performance of our obligations under the MFAs, we have obtained (i) on August 3, 2007, an irrevocable standby letter of credit in favor of McDonald's in an amount of \$65.0 million and later reduced to \$45.0 million on October 30, 2015, issued by Credit Suisse acting as issuing bank through its Cayman Islands Branch, (ii) on May 9, 2011, an irrevocable standby letter of credit in favor of McDonald's in an amount of \$15.0 million, issued by Itaú Unibanco S.A. ("Itaú"), acting as issuing bank through its New York Branch, and (iii) on November 3, 2015, an irrevocable standby letter of credit in favor of McDonald's in an amount of \$20.0 million, issued by JPMorgan, acting as issuing bank through its New York Branch. The Credit Suisse, Itaú and JP Morgan letters of credit expire on November 10, 2022, April 24, 2021 and November 6, 2021, respectively, but we will be required by the MFAs to renew these letters of credit or obtain new standby letters of credit in the same amount.

The Credit Suisse letter of credit and reimbursement agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a partial Call Option, (v) our ability to guaranty obligations of our subsidiaries, and (vi) amendments to the credit agreement.

Credit Suisse, as issuing bank, has a security interest in certain of our rights under certain Acquisition documents, franchise document payment rights and our intercompany debt notes. In addition, our subsidiaries (other than those organized in Ecuador, French Guiana, Guadeloupe, Martinique and Peru, and certain subsidiaries organized in Argentina, Colombia and Mexico) guaranteed to Credit Suisse the full and prompt payment of our obligations under the Credit Suisse letter of credit and reimbursement agreement.

The letter of credit that we obtained from Itaú effectively replaced the cash collateral that we had previously pledged in favor of McDonald's in an amount of \$15.0 million. The Itaú continuing standby letter of credit agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a Call Option, and (v) permitting ourselves or any of our subsidiaries to become insolvent.

We delivered a promissory note to Itaú in an amount of \$15.0 million evidencing our obligations to Itaú under the continuing standby letter of credit agreement and a guarantee letter from our Brazilian subsidiary guaranteeing the full and punctual payment when due of our obligations and liabilities to Itaú in respect of the Itaú letter of credit and the continuing standby letter of credit agreement, including without limitation our reimbursement obligations for any payments made by Itaú under the letter of credit.

The letter of credit that we obtained from JPMorgan effectively replaced the \$20.0 million reduction in the Credit Suisse letter of credit.

The JPMorgan letter of credit is guaranteed by certain of our subsidiaries and contains a limited number of customary affirmative and negative covenants. These include limitations on (i) our leverage ratio, (ii) the dissolution, liquidation or winding-up of the applicant or a guarantor, (iii) a material breach or failure to comply with the MFA, and (iv) permitting the applicant or any guarantor to become insolvent.

Although we do not have any amounts outstanding under our letters of credit at this time, any default under the letters of credit would also result in a material breach of our obligations under the MFAs. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—The spread of COVID-19 has materially and adversely affected our business, results of operations and cash flows, and may continue to do so.”

#### *Termination*

The MFAs automatically terminate without the need for any party to it to take any further action if any type of insolvency or similar proceeding in respect of us or any of the other Owner Entities commences.

In the event of the occurrence of certain material breaches, such as if we fail to comply with the reinvestment plan or restaurant opening plan, McDonald’s has the right to terminate the MFAs.

Upon the termination of the MFAs, McDonald’s has the right to acquire all, but not less than all, of our equity interests at fair market value, which is to be calculated by internationally recognized investment banks selected by us and McDonald’s. The fair market value of our equity interests shall be calculated in U.S. dollars based on the amount that would be received for our equity interests in an arm’s-length transaction between a willing buyer and a willing seller, taking into account the benefits provided by the MFAs.

#### **The 2023 Notes and the 2027 Notes**

For a description of the 2023 notes and the 2027 notes, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.”

#### **The Revolving Credit Facilities**

For a description of the revolving credit facilities entered into by Arcos Dorados B.V. with Bank of America, N.A. and JP Morgan Chase Bank, N.A. see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Net Cash (used in) Financing Activities—Revolving Credit Facilities.”

#### **D. Exchange Controls**

There are currently no exchange control regulations in the BVI applicable to us or our shareholders. For information about any exchange controls or restrictions in Argentina, Brazil and Mexico, see “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls.”

#### **E. Taxation**

##### **British Virgin Islands Tax Considerations**

*The following summary contains a general description of certain British Virgin Islands tax consequences of the acquisition, ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to hold class A shares. The general summary is based upon the tax laws of the British Virgin Islands and regulations thereunder as of the date hereof, which are subject to change.*

We are not liable to pay any form of corporate taxation in the BVI and all dividends, interests, rents, royalties, compensations and other amounts paid by us to persons who are not persons resident in the BVI or providing services in the BVI are exempt from all forms of taxation in the BVI and any capital gains realized with respect to any shares, debt obligations, or other securities of ours by persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligation or other securities of ours.

Subject to the payment of stamp duty on the acquisition or certain leasing of property in the BVI by us (and in respect of certain transactions in respect of the shares, debt obligations or other securities of BVI incorporated companies owning land in the BVI), all instruments relating to transfers of property to or by us and all instruments relating to transactions in respect of the shares, debt obligations or other securities of ours and all instruments relating to other transactions relating to our business are exempt from payment of stamp duty in the BVI.

There are currently no withholding taxes or exchange control regulations in the BVI applicable to us or our shareholders who are not providing services in the BVI.

The BVI has signed an intergovernmental agreement to improve international tax compliance and the exchange of information with the United States (the “U.S. IGA”). The BVI has also signed, along with over 100 other countries, a multilateral competent authority agreement to implement the Organisation for Economic Co-Operation and Development (OECD) Standard for Automatic Exchange of Financial Account Information - Common Reporting Standard (the “CRS”).

Amendments made to the Mutual Legal Assistance (Tax Matters) Act, 2003 (as amended) (the “2003 Act”) and orders have been made pursuant to the 2003 Act to give effect to the terms of the U.S. IGA and the CRS (together “AEOI”) under BVI law (the “BVI Legislation”).

All BVI “Financial Institutions” are required to comply with the registration, due diligence and reporting requirements of the BVI Legislation which also implements the CRS, except to the extent that they can rely on an exemption that allows them to become a “Non-Reporting Financial Institution” (as defined in the relevant BVI Legislation).

We do not believe we are classified as a “Foreign Financial Institution” or “Financial Institution” within the meaning of AEOI and the BVI Legislation. However, if we were to determine that our classification has changed, we may request additional information from any shareholder and its beneficial owners to identify whether shares in the Company are held directly or indirectly by “Reportable Persons” (as defined by AEOI). Information in respect of Reportable Persons would be disclosed to the International Tax Authority (“ITA”) of the BVI. The ITA in turn is required under AEOI and BVI Legislation to disclose information in respect of Reportable Persons to the foreign fiscal authorities relevant to such Reportable Persons.

There is no income tax treaty currently in effect between the United States and the BVI.

#### **Material U.S. Federal Income Tax Considerations for U.S. Holders**

The following summary describes the material U.S. federal income tax consequences of the ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person’s decision to own such securities. This summary applies only to U.S. Holders (as defined below) that own class A shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder’s particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Internal Revenue Code of 1986, as amended, (the “Code”) known as the Medicare contribution tax, and tax consequences applicable to certain U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding class A shares as part of a hedge, “straddle,” wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the class A shares;
- persons whose “functional currency” for U.S. federal income tax purposes is not the U.S. dollar;
- tax exempt entities, including “individual retirement accounts” and “Roth IRAs”;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons that own or are deemed to own ten percent or more of our shares, by vote or by value;



- persons who acquired our class A shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding class A shares in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds class A shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding class A shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the class A shares.

This discussion is based upon the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof, changes to any of which may affect the tax consequences described herein—possibly with retroactive effect.

A “U.S. Holder” is a holder who, for U.S. federal income tax purposes, is a beneficial owner of class A shares that is:

- (1) a citizen or individual resident of the United States;
- (2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- (3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of class A shares in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company, as described below.

#### ***Taxation of Distributions***

Distributions paid on class A shares, other than certain pro rata distributions of class A shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be eligible for taxation as “qualified dividend income” and therefore may be taxable at rates applicable to long-term capital gains. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rates on dividends in their particular circumstances. The amount of the dividend will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s receipt of the dividend.

#### ***Sale or Other Taxable Disposition of Class A Shares***

For U.S. federal income tax purposes, gain or loss realized on the sale or other taxable disposition of class A shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder owned the class A shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder’s tax basis in the class A shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

#### ***Passive Foreign Investment Company Rules***

We believe that we were not a “passive foreign investment company” (a “PFIC”) for U.S. federal income tax purposes for our 2019 taxable year. However, because the application of the Treasury Regulations is not entirely clear and because PFIC status depends on the composition of a company’s income and assets and the market value of its assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. Holder owned class A shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of the class A shares would be allocated ratably over the U.S. Holder's holding period for the class A shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability for each taxable year. Further, to the extent that any distribution received by a U.S. Holder on its class A shares exceeds 125% of the average of the annual distributions on the class A shares received during the preceding three years or such U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain on the disposition of a share of a PFIC, described immediately above. If we were a PFIC, certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the class A shares that differ from the treatment set forth in this paragraph.

In addition, if we were a PFIC or, with respect to any U.S. Holder, were treated as a PFIC for the taxable year in which we paid a dividend or for the prior taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

If we are a PFIC for any taxable year during which a U.S. Holder owned our class A shares, the U.S. Holder will generally be required to file IRS Form 8621 (or any successor form) with their annual U.S. federal income tax returns, subject to certain exceptions.

#### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (and specified entities that are formed or availed of for purposes of holding certain foreign financial assets) may be required to report information relating to their ownership of stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in certain accounts maintained by a U.S. financial institution). U.S. Holders should consult their tax advisers regarding the effect, if any, of these reporting requirements on their ownership and disposition of class A shares.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. The SEC maintains an Internet website that contains reports and other information filed by us electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will send the transfer agent a copy of all notices of shareholders' meetings and other reports, communications and information that are made generally available to shareholders. The transfer agent has agreed to mail to all shareholders a notice containing the information (or a summary of the information) contained in any notice of a meeting of our shareholders received by the transfer agent and will make available to all shareholders such notices and all such other reports and communications received by the transfer agent.

#### **I. Subsidiary Information**

Not applicable.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Risk Management**

In the ordinary course of our business activities, we are exposed to various market risks that are beyond our control, including fluctuations in foreign exchange rates and the price of our primary supplies, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flows and profit. As a result of these market risks, we could suffer a loss due to adverse changes in foreign exchange rates and the price of commodities in the international markets. In addition, we are subject to equity price risk relating to our share-based compensation plans. Our policy with respect to these market risks is to assess the potential of experiencing losses and the consolidated impact thereof, and to mitigate these market risks. We do not enter into market risk sensitive instruments for trading or speculative purposes.

#### **Foreign Currency Exchange Rate Risk**

##### ***Foreign Currency Exchange Rate Risk in 2019***

We are exposed to foreign currency exchange rate risk primarily in connection with the fluctuation in the value of the local currencies of the countries in which we operate, primarily the Brazilian *real*, the Argentine *peso* and the Mexican *peso*, among others. We generate revenues and cash from our operations in local currencies while a significant portion of our long-term debt is denominated in U.S. dollars. An adverse change in foreign currency exchange rates would therefore affect the generation of cash flow from operations in U.S. dollars, which could negatively impact our ability to pay amounts owed in U.S. dollars. In order to partially mitigate the foreign exchange rate risk related to our long-term debt, we entered into certain derivative instruments. See Note 13 to our consolidated financial statements for more detail. Moreover, our continuing franchise fee payments to McDonald's pursuant to the MFAs must be translated into and paid in U.S. dollars using the exchange rate of the last business day of the month, payable on the seventh day subsequent to each month-end. As such, in the intervening period we are subject to foreign exchange risk.

While substantially all our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports are denominated in U.S. dollars. Therefore, we are exposed to foreign currency exchange risk related to imports. We have entered into various forward contracts to hedge a portion of the foreign exchange risk associated with the forecasted imports of certain countries. See Note 13 to our consolidated financial statements for more details. In addition, we attempt to minimize this risk also by entering into annual and semi-annual pricing arrangements with our main suppliers.

We are also exposed to foreign exchange risk related to U.S. dollar-denominated intercompany balances held by certain of our operating subsidiaries with our holding companies, and to foreign currency-denominated intercompany balances held by our holding companies with certain operating subsidiaries. Although these intercompany balances are eliminated through consolidation, a fluctuation in exchange rates could have a significant impact on our results through the recognition of foreign currency exchange losses in our consolidated income statement. To help mitigate some of these foreign currency exchange rate risks, we have entered into certain derivative instruments. See Note 13 to our consolidated financial statements for more details.

A depreciation of 10% in the value of the Brazilian *real* against the U.S. dollar would result in a net foreign exchange loss totaling \$4.5 million over (i) the cross-currency interest rate swap used to partially hedge the intercompany loan receivable of Arcos Dorados B.V. denominated in Brazilian *reais* (R\$115 million including accrued interest), (ii) the Brazilian *reais*-denominated intercompany net receivable held by our subsidiaries, Arcos Dorados B.V. and LatAm LLC (R\$46 million including accrued interest), and (iii) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of \$9.5 million as of December 31, 2019. In addition, since July 1, 2018, when the functional currency of our Argentine subsidiaries was changed to Brazilian *reais* as result of the highly inflationary environment in Argentina, an appreciation of the Argentine *peso* against the Brazilian *reais* would result in a foreign currency exchange loss as a result of remeasuring of our net monetary liability position denominated in Argentine *pesos*.

An appreciation of 10% in the value of the Mexican *peso* against the U.S. dollar would result in a foreign exchange loss of \$1.1 million, mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Mexico of \$9.8 million as of December 31, 2019.

An appreciation of 10% in the value of the Uruguayan *peso* against the U.S. dollar would result in a foreign exchange loss of \$6.2 million over the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiaries in Uruguay of \$56 million as of December 31, 2019.

An appreciation of 10% in the value of the Costa Rican *colones* against the U.S. dollar would result in a foreign exchange loss of \$5.8 million mainly related to the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiary in Costa Rica of \$52.4 million as of December 31, 2019.

An appreciation of 10% in the value of the European euro against the U.S. dollar would result in a foreign exchange loss of \$3.9 million mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of \$35 million as of December 31, 2019.

A depreciation of 10% in the value of the Colombian *peso* against the U.S. dollar would result in a foreign exchange loss of \$4.2 million mainly related to the outstanding U.S. dollar-denominated intercompany payable held by our subsidiary in Colombia of \$46 million as of December 31, 2019.

A depreciation of 10% in the value of the Peruvian *peso* against the U.S. dollar would result in a foreign exchange loss of \$1 million mainly related to the outstanding U.S. dollar-denominated intercompany payable held by our subsidiary in Peru of \$11.6 million as of December 31, 2019.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2019 since there are no other significant intercompany balances exposed to foreign exchange risk.

We are also exposed to foreign currency exchange risk related to the currency translation of our Venezuelan operations. A devaluation of the Venezuelan bolivar against the U.S. dollar would result in a foreign currency exchange loss as a result of remeasuring monetary balances denominated in Venezuelan bolívares. See Note 22 to our consolidated financial statements for details about exchange controls affecting our operations in Venezuela.

#### ***Summary of Foreign Currency Exchange Rate Risk in 2018***

A depreciation of 10% in the value of the Brazilian *real* against the U.S. dollar would result in a net foreign exchange loss totaling \$7.2 million over (i) the intercompany loan receivable of Arcos Dorados B.V. denominated in Brazilian *reais*, partially offset by the cross-currency interest rate swap (R\$964.2 million including accrued interest), (ii) the Brazilian *reais*-denominated intercompany net receivable held by our subsidiaries, Arcos Dorados B.V. and LatAm LLC (R\$1,223.0 million including), and (iii) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of \$7.6 million as of December 31, 2018. In addition, from July 1, 2018, when the functional currency of our Argentine subsidiaries was changed to Brazilian *reais* as result of the highly inflationary environment in Argentina, through the end of 2018, an appreciation of the Argentine *peso* against the Brazilian *reais* would result in a foreign currency exchange loss as a result of remeasuring of our net monetary liability position denominated in Argentine *pesos*.

An appreciation of 10% in the value of the Mexican *peso* against the U.S. dollar would result in a foreign exchange loss of \$2.0 million, mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Mexico of \$17.6 million as of December 31, 2018.

An appreciation of 10% in the value of the Uruguayan *peso* against the U.S. dollar would result in a foreign exchange loss of \$5.6 million over the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiaries in Uruguay of \$50.5 million as of December 31, 2018.

An appreciation of 10% in the value of the Costa Rican *colones* against the U.S. dollar would result in a foreign exchange loss of \$4.7 million mainly related to the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiary in Costa Rica of \$42.5 million as of December 31, 2018.

An appreciation of 10% in the value of the European euro against the U.S. dollar would result in a foreign exchange loss of \$3.3 million mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of \$29.3 million as of December 31, 2018.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2018 since there are no other significant intercompany balances exposed to foreign exchange risk.

We are also exposed to foreign currency exchange risk related to the currency translation of our Venezuelan operations. A depreciation of the Venezuelan bolívar against the U.S. dollar would result in a foreign currency exchange loss as a result of remeasuring monetary balances denominated in Venezuelan bolívares. See Note 22 to our consolidated financial statements for details about exchange controls affecting our operations in Venezuela.

### **Commodity Price Risk**

We purchase our primary supplies, including beef, chicken, buns, produce, cheese, dairy mixes and toppings pursuant to oral agreements with our approved suppliers at prices that are derived from international market prices, local conversion costs and local tariffs and taxes. We therefore carry market risk exposure to changes in commodity prices that have a direct impact on our costs. We do not enter into futures or options contracts to protect ourselves against changes in commodity prices, although we may do so in the future. We attempt to minimize this risk by entering into annual and semi-annual pricing arrangements with our main suppliers. This allows us to provide cost predictability while avoiding the costs related to the use of derivative instruments, which we may not be able to pass on to our customers due to the competitive nature of the QSR industry.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **A. Debt Securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### **C. Other Securities**

Not applicable.

### **D. American Depositary Shares**

Not applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

**A. Defaults**

No matters to report.

**B. Arrears and Delinquencies**

No matters to report.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**A. Material Modifications to Instruments**

None.

**B. Material Modifications to Rights**

None.

**C. Withdrawal or Substitution of Assets**

None.

**D. Change in Trustees or Paying Agents**

None.

**E. Use of Proceeds**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**A. Disclosure Controls and Procedures**

As of December 31, 2019, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019 in ensuring that information we are required to disclose in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**B. Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining an adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes, in accordance with generally accepted accounting principles. These include those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements, in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, projections of, and any evaluation of effectiveness of the internal controls in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have adapted our internal control over financial reporting based on the guidelines set by the Internal Control—Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), or COSO.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019, based on the guidelines set forth by the COSO.

Based on this assessment, management believes that, as of December 31, 2019, its internal control over financial reporting was effective based on those criteria.

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2019.

### **C. Attestation Report of the Registered Public Accounting Firm**

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2019, as stated in their report which appears below.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
**ARCOS DORADOS HOLDINGS INC.:**

### **Opinion on Internal Control over Financial Reporting**

We have audited Arcos Dorados Holdings Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Arcos Dorados Holdings Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”) and our report dated March 18, 2020 expressed an unqualified opinion thereon.

## **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Pistrelli, Henry Martin y Asociados S.R.L.

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PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.

Member of Ernst & Young Global

Buenos Aires, Argentina

March 18, 2020

## **D. Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 16. [RESERVED]**

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our audit committee consists of three directors, Mr. Chu, Mr. Vélez and Mr. Gutiérrez, who are independent within the meaning of the SEC and NYSE corporate governance rules applicable to foreign private issuers. Our Board of Directors has determined that Mr. Chu, Mr. Vélez and Mr. Gutiérrez are also "audit committee financial experts" as defined by the SEC.



**ITEM 16B. CODE OF ETHICS**

Our Board of Directors has approved and adopted our Standards of Business Conduct, which are a code of ethics that applies to all employees of Arcos Dorados, including executive officers, and to our board members. Our Standards of Business Conduct are an exhibit to this annual report.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table describes the amounts billed to us by the principal accountant, for audit and other services performed in fiscal years 2019 and 2018.

	2019	2018
	(in thousands of U.S. dollars)	
Audit fees	\$ 2,670	\$ 2,414
Audit-related fees	21	21
Tax fees	273	342
All other fees	22	36

**Audit Fees**

Audit fees are fees billed for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. It includes the audit of our annual consolidated financial statements, the reviews of our quarterly consolidated financial statements submitted on Form 6-K and other services that generally only the independent accountant reasonably can provide, such as comfort letters, statutory audits, attestation services, consents and assistance with and review of documents filed with the SEC.

**Audit-Related Fees**

Audit-related fees are fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements for fiscal years 2019 and 2018 and not reported under the previous category. These services would include, among others: employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

**Tax Fees**

Tax fees are fees billed for professional services for tax compliance, tax advice and tax planning.

**All Other Fees**

All other fees are fees not reported under other categories. This category mainly includes advisory services on process improvement related to diagnostics and recommendations.

**Pre-Approval Policies and Procedures**

Our audit committee charter requires the audit committee to pre-approve the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services. The audit committee may delegate its authority to pre-approve services to the Chair of the audit committee, provided that such designees present any such approvals to the full audit committee at the next audit committee meeting.

All of the audit fees, audit-related fees, tax fees and all other fees described in this Item 16C have been pre-approved by the audit committee in accordance with these pre-approval policies and procedures.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On May 22, 2018, our Board of Directors approved the adoption of a share repurchase program, pursuant to which the Company may repurchase from time to time up to \$60 million of issued and outstanding Class A shares of the Company (the “Repurchase Program”). The Repurchase Program expired on May 22, 2019. As of February 15, 2019, the Company had repurchased 7,993,602 Class A shares amounting to \$60 million.

<b>Month of repurchase</b>	<b>Total number of Class A shares purchased</b>	<b>Average price paid per Class A share</b>	<b>Total number of Class A shares purchased as part of publicly announced plans or program</b>	<b>Approximate dollar value of Class A shares that may be purchased under the program</b>
January, 2019	1,197,286	\$8.48	1,197,286	\$3,791,217
February, 2019	435,490	\$8.68	435,490	\$0
<b>Total at end of period</b>	<b>1,632,776</b>	<b>\$8.58</b>	<b>1,632,776</b>	<b>\$0</b>

(1) Amounts reflect commissions paid to the administrator of the repurchase program.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

None.

**ITEM 16G. CORPORATE GOVERNANCE**

Our class A shares are listed on the NYSE. We are therefore required to comply with certain of the NYSE’s corporate governance listing standards, or the NYSE Standards. As a foreign private issuer, we may follow our home country’s corporate governance practices in lieu of most of the NYSE Standards. Our corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain a NYSE listing and, in accordance with Section 303A.11 of the NYSE Listed Company Manual, a brief, general summary of those differences is provided as follows.

***Director independence***

The NYSE Standards require a majority of the membership of NYSE-listed company boards to be composed of independent directors. Neither British Virgin Islands law, the law of our country of incorporation, nor our memorandum and articles of association require a majority of our board to consist of independent directors. Our Board of Directors currently consists of eight members, three of whom are independent directors.

***Non-management directors’ executive sessions***

The NYSE Standards require non-management directors of NYSE-listed companies to meet at regularly scheduled executive sessions without management. Our memorandum and articles of association do not require our non-management directors to hold such meetings.

***Committee member composition***

The NYSE Standards require NYSE-listed companies to have a nominating/corporate governance committee and a compensation committee that are composed entirely of independent directors. British Virgin Islands law, the law of our country of incorporation, does not impose similar requirements. We do not have a nominating/corporate governance committee.

***Independence of the compensation and nomination committee and its advisers***

NYSE listing standards require that the board of directors of a listed company consider two factors (in addition to the existing general independence tests) in the evaluation of the independence of compensation committee members: (i) the source of compensation of the director, including any consulting, advisory or other compensatory fees paid by the listed company, and (ii) whether the director has an affiliate relationship with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company. In addition, before selecting or receiving advice from a compensation consultant or other adviser, the compensation committee of a listed company is required to take into consideration six specific factors, as well as all other factors relevant to an adviser's independence.

Foreign private issuers such as us are exempt from these requirements if home country practice is followed. British Virgin Islands law does not impose similar requirements.

***Miscellaneous***

In addition to the above differences, we are not required to: make our audit and compensation and nomination committees prepare a written charter that addresses either purposes and responsibilities or performance evaluations in a manner that would satisfy the NYSE's requirements; acquire shareholder approval of equity compensation plans in certain cases; or adopt and make publicly available corporate governance guidelines.

We were incorporated under, and are governed by, the laws of the British Virgin Islands. For a summary of some of the differences between provisions of the BVI Act applicable to us and the laws application to companies incorporated in Delaware and their shareholders, see "Item 10. Additional Information—B. Memorandum and Articles of Association—Differences in Corporate Law."

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of this item.

**ITEM 18. FINANCIAL STATEMENTS**

Financial Statements are filed as part of this annual report. See page F-1.

**ITEM 19. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
1.1	<a href="#">Memorandum and Articles of Association, incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
2.1	<a href="#">Indenture dated September 27, 2013 among Arcos Dorados Holdings Inc., as issuer, the Subsidiary Guarantors named therein, Citibank N.A., as trustee, registrar, paying agent and transfer agent, and Banque Internationale à Luxembourg Société Anonyme, as Luxembourg paying agent, incorporated herein by reference to Exhibit 2.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2013 filed with the SEC on April 28, 2014.</a>
2.2	<a href="#">Indenture dated April 4, 2017 among Arcos Dorados Holdings Inc., as issuer, the Subsidiary Guarantors named therein, and Citibank N.A., as trustee, registrar, paying agent and transfer agent, incorporated herein by reference to Exhibit 2.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 filed with the SEC on April 27, 2017.</a>
2.3*	<a href="#">Description of the Registrant's Capital Stock.</a>
3.1	<a href="#">Los Laureles Voting Trust, incorporated herein by reference to Exhibit 9.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.1	<a href="#">Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.2	<a href="#">Amendment No. 1 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.3	<a href="#">Second Amended and Restated Master Franchise Agreement for McDonald's Restaurants in Brazil, incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.4	<a href="#">Amendment No. 3 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in all the Territories, except Brazil dated March 17, 2016 incorporated herein by reference to Exhibit 4.4 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 filed with the SEC on April 29, 2016.</a>
4.5	<a href="#">Letter of Agreement dated as of July 31, 2014 among McDonald's Latin America and LatAm, LLC, incorporated herein by reference to Exhibit 4.4 to the Company's Annual Report on Form 20-F for the year ended December 31, 2014 filed with the SEC on April 29, 2015.</a>
4.6	<a href="#">Amended and Restated Escrow Agreement dated October 12, 2010 among McDonald's Latin America, LLC, LatAm, LLC, each of the Escrowed MF Subsidiaries, Arcos Dorados Restaurantes de Chile Ltda., Arcos Dorados B.V., Deutsche Bank Trust Company Americas, as collateral agent, and Citibank, N.A., as escrow agent, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.7	<a href="#">Letter of Credit Reimbursement Agreement dated August 3, 2007 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.8	<a href="#">Amendment to Letter of Credit Reimbursement Agreement dated November 3, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>

<b>Exhibit No.</b>	<b>Description</b>
4.9	<a href="#">Second Amendment to Letter of Credit Reimbursement Agreement dated December 10, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.10	<a href="#">Third Amendment to Letter of Credit Reimbursement Agreement dated July 8, 2009 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.11	<a href="#">Fourth Amendment to Letter of Credit Reimbursement Agreement dated April 23, 2010 between Arcos Dorados B.V. and Credit Suisse AG, Cayman Islands Branch, incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.12	<a href="#">ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between Morgan Stanley &amp; Co. International plc and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.13	<a href="#">ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.14	<a href="#">Credit Support Annex to the Schedule to the Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.15	<a href="#">Equity Incentive Plan, incorporated herein by reference to Exhibit 10.23 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.</a>
4.16	<a href="#">Amendment No. 2 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.17 to the Company's Registration Statement on Form F-1 (File No. 333-177210) filed with the SEC on October 7, 2011.</a>
4.17	<a href="#">ISDA Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.19 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.</a>
4.18	<a href="#">ISDA Schedule to the 2012 Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.20 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.</a>
4.19	<a href="#">Guarantee dated as of April 20, 2012 of Arcos Dourados Comercio de Alimentos Ltda. in favor of Bank of America, N.A. in connection with the ISDA Master Agreement and Schedule thereto, each dated as of April 20, 2012, and any confirmations thereunder, incorporated herein by reference to Exhibit 4.21 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.</a>
4.20	<a href="#">Confirmation dated June 8, 2012 between Arcos Dorados Holdings Inc. and Bank of America, N.A., incorporated herein by reference to Exhibit 4.22 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.</a>
4.21	<a href="#">Credit Agreement dated as of August 3, 2011 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.23 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.</a>
4.22	<a href="#">First Amendment to Credit Agreement dated as of August 3, 2012 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.24 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.</a>
4.23	<a href="#">Second Amendment to Credit Agreement dated as of August 2, 2013 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the year ended December 31, 2013 filed with the SEC on April 28, 2014.</a>
4.24	<a href="#">Third Amendment to Credit Agreement dated as of July 28, 2014 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.31 to the Company's Annual Report on Form 20-F for the year ended December 31, 2014 filed with the SEC on April 29, 2015.</a>

<b>Exhibit No.</b>	<b>Description</b>
4.25	<a href="#">Fourth Amendment to Credit Agreement dated as of July 30, 2015 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.25 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 filed with the SEC on April 29, 2016.</a>
4.26	<a href="#">Waiver and Fifth Amendment to Credit Agreement dated as of March 16, 2016 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 filed with the SEC on April 29, 2016.</a>
4.27	<a href="#">Sixth Amendment to Credit Agreement dated as of August 1, 2016 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.27 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 filed with the SEC on April 27, 2017.</a>
4.28	<a href="#">Seventh Amendment to Credit Agreement dated as of August 1, 2017 among Arcos Dorados B.V., as borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.28 to the Company's Annual Report on Form 20-F for the year ended December 31, 2017 filed with the SEC on April 27, 2018.</a>
4.29	<a href="#">Eighth Amendment to Credit Agreement dated as of August 3, 2018 among Arcos Dorados B.V., as borrower, as guarantors, and Bank of America, N.A., as lender, incorporated by reference to Exhibit 4.29 to the Company's Annual Report on Form 20-F for the year ended December 31, 2018 filed with the SEC on April 26, 2019.</a>
4.30*	<a href="#">Ninth Amendment to Credit Agreement dated as of August 2, 2019 among Arcos Dorados B.V., as borrower, as guarantors, and Bank of America, N.A., as lender.</a>
4.31*	<a href="#">Credit Agreement dated as of December 11, 2019 among Arcos Dorados Holdings Inc., as borrower, certain subsidiaries of the borrower, as guarantors and JPMorgan Chase Bank, N.A., as lender.</a>
4.32	<a href="#">Accession Agreement dated as of March 21, 2018 executed and delivered by Arcos Dorados Group B.V. pursuant to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants, dated November 10, 2008, incorporated by reference to Exhibit 4.33 to the Company's Annual Report on Form 20-F for the year ended December 31, 2018 filed with the SEC on April 26, 2019.</a>
8.1*	<a href="#">List of subsidiaries.</a>
11.1	<a href="#">Standards of Business Conduct of the Company, incorporated by reference to Exhibit 11.1 to the Company's Annual Report on Form 20-F for the year ended December 31, 2018 filed with the SEC on April 26, 2019.</a>
12.1*	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</a>
12.2*	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</a>
13.1*	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.</a>
13.2*	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.</a>
15.1*	<a href="#">Consent of Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst &amp; Young Global, independent registered public accounting firm.</a>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
104**	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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\* Filed with this Annual Report on Form 20-F.

\*\* In accordance with Rule 402 of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Arcos Dorados Holdings Inc.

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Chief Financial Officer

Date: April 29, 2020



## **Arcos Dorados Holdings Inc.**

### **Consolidated Financial Statements**

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

### **ARCOS DORADOS HOLDINGS INC.:**

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Arcos Dorados Holdings Inc. (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 18, 2020, expressed an unqualified opinion thereon.

#### **Adoption of New Accounting Standards**

As discussed in note 3 to the consolidated financial statements, the Company changed its method of accounting for leases. The Company adopted Accounting Standard Codification Topic 842, Leases (“ASC 842”), on January 1, 2019. As explained below, auditing the Company’s leases accounting method change was a critical audit matter.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the account or disclosure to which they relate.

***Adoption of New Lease Accounting Standard***

*Description of the Matter*

As explained above and in Note 3 to the consolidated financial statements, the Company adopted Accounting Standard Codification Topic 842, *Leases* (“ASC 842”), on January 1, 2019. The adoption of ASC 842 resulted in the recognition of right of use assets and lease liabilities for thousands of \$913,086 as of January 1, 2019. Management elected to adopt ASC 842 using the modified retrospective approach.

Certain aspects of adopting ASC 842 required management to exercise significant judgment. In particular, auditing management’s judgments involved in the determination of the lease term for a large volume of contracts in many jurisdictions and in estimating the incremental borrowing rate was complex and especially challenging.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the effectiveness of the Company’s internal controls around the implementation of the new guidance. For example, we tested controls over management’s review of the application of accounting policy elections to its portfolio of leases and over management’s review of the incremental borrowing rate (IBR) model.

To test the Company’s adoption of ASC 842, we performed audit procedures that included, among others, evaluating the completeness of the population of contracts that meet the definition of a lease under ASC 842, testing the assumptions made by management in determining the term of the contract based on the Company’s policy, and the accuracy of the Company’s calculations of right of use assets and lease liabilities. Additionally, we tested management’s model for estimating the IBRs, evaluating management’s methodology for developing the IBR and testing significant assumptions.

We also assessed the completeness of the related disclosures in Notes 3, 14 and 15 to the consolidated financial statements.

***Impairment of long-lived assets for markets with impairment indicators***

*Description of the Matter*

As of 31 December 2019, the carrying amount of long-lived assets is thousands of \$1,919,412, including PPE, Leases right of use assets, net, and intangible assets. As a result of its impairment assessment exercise, the Company recorded a loss of thousands of \$8,790, during 2019.

The Company operates in twenty countries in Latin America and the Caribbean with different economic and political circumstances. As explained in note 3 to the consolidated financial statements, management carries out an impairment assessment on long-lived assets annually that includes identifying the existence of impairment indicators at the country level. When impairment indicators are identified for any given country, an estimate of undiscounted future cash flows is prepared by the Company for each individual restaurant located in that country. The estimation of future cash flows requires management to make assumptions about the future business performance and other key inputs that entail significant judgments by management. These estimates can be significantly impacted by many factors, including changes in global and local business and economic conditions, operating costs, inflation, competition and consumer and demographic trends.

Auditing this area is especially challenging because the process of estimation of undiscounted future cash flows implies the determination of key assumptions that are complex and highly judgmental. The key assumptions used by management in the impairment calculation include country economic indicators projections of sales, margin growth rates, capital expenditures and useful lives of long-lived assets.

*How We Addressed the Matter in Our Audit*

We obtained an understanding and evaluated the design, and tested controls of the impairment calculation process. For example, we identified and tested the operating effectiveness of the Company’s controls around the consistency of the estimation model inputs with the accounting records and the evaluation of the key assumptions made by management.

To test management assessment of impairment of long lived assets our audit procedures included, amongst others, testing the macroeconomic variables used by management, such as inflation rates and GDP growth, assessing the consistency between the estimated cash flows in the model and the business plan approved by management, comparing the remaining life of fixed assets with the accounting records and the clerical accuracy of the computations. Additionally, we evaluated the valuation methods used by management, including the key assumptions used in determining the undiscounted future cash flows of each restaurant. We also involved our valuation services personnel to assist in evaluating the methodology and the key assumptions used in the future cash flows estimation by management. We also compared forecasts to business plans and previous forecasts of projected cash flows to actual results to assess management estimation process.

We also assessed the completeness of the related disclosures in Note 3 to the consolidated financial statements.

***Tax and labor contingencies***

*Description of the Matter*

The Company has operations in Brazil representing 47% of the revenues of the group for the year ended December 31, 2019 and maintains a provision for tax and labor contingencies in that country that represents a 71% of the provision for contingencies balance of the group as of December 31, 2019. As described in Note 18, the Company assesses the likelihood of any adverse judgments in labor claims or outcomes on its tax positions, including income tax and other taxes, based on the technical merits of a tax position derived from legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position or labor claim.

Auditing the measurement of tax and labor contingencies related to certain claims and transactions was challenging because their measurement is complex, highly judgmental, and is based on interpretations of tax laws, case-law and jurisprudence and requires estimating the future outcome of individual claims.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls around identification of matters, evaluation of tax and labor opinions, and tested management's review controls over the assumptions made in the estimation of provisions and related disclosures.

To test the labor and tax contingencies provision, our audit procedures included, amongst others, involving personnel with specialized knowledge to assess the technical merits of the Company's tax positions; assessing the Company's correspondence with the relevant tax authorities; evaluating third-party tax opinions obtained by the Company; separately corresponding with certain key external tax and legal advisors of the Company, inspecting the minutes of the meetings of the Audit Committee and Board of Directors; obtaining a confirmation letter from the group's chief legal counsel and evaluating the application of relevant tax law in the Company's determination of its provision. As part of our evaluation, we have considered historical information to assess the assumptions made by management in relation to the potential outcomes.

We also evaluated the completeness of Company's disclosures included in Note 18 to the consolidated financial statements in relation to these matters.

/s/ Pistrelli, Henry Martin y Asociados S.R.L.

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PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.

Member of Ernst & Young Global

We have served as the Company's auditor since 2007.

Buenos Aires, Argentina

March 18, 2020

except for Note 27.b, as to which the date is

April 29, 2020

**Arcos Dorados Holdings Inc.****Consolidated Statements of Income**

For the fiscal years ended December 31, 2019, 2018 and 2017

Amounts in thousands of US dollars, except for share data and as otherwise indicated

REVENUES	2019	2018	2017
Sales by Company-operated restaurants	\$ 2,812,287	\$ 2,932,609	\$ 3,162,256
Revenues from franchised restaurants	146,790	148,962	157,269
<b>Total revenues</b>	<b>2,959,077</b>	<b>3,081,571</b>	<b>3,319,525</b>
<b>OPERATING COSTS AND EXPENSES</b>			
Company-operated restaurant expenses:			
Food and paper	(1,007,584)	(1,030,499)	(1,110,240)
Payroll and employee benefits	(567,653)	(607,793)	(683,954)
Occupancy and other operating expenses	(799,633)	(803,539)	(842,519)
Royalty fees	(155,388)	(157,886)	(163,954)
Franchised restaurants – occupancy expenses	(61,278)	(67,927)	(69,836)
General and administrative expenses	(212,515)	(229,324)	(244,664)
Other operating income (expenses), net	4,910	(61,145)	68,577
<b>Total operating costs and expenses</b>	<b>(2,799,141)</b>	<b>(2,958,113)</b>	<b>(3,046,590)</b>
<b>Operating income</b>	<b>159,936</b>	<b>123,458</b>	<b>272,935</b>
Net interest expense	(52,079)	(52,868)	(68,357)
Gain (loss) from derivative instruments	439	(565)	(7,065)
Foreign currency exchange results	12,754	14,874	(14,265)
Other non-operating (expenses) income, net	(2,097)	270	(435)
<b>Income before income taxes</b>	<b>118,953</b>	<b>85,169</b>	<b>182,813</b>
Income tax expense	(38,837)	(48,136)	(53,314)
<b>Net income</b>	<b>80,116</b>	<b>37,033</b>	<b>129,499</b>
Less: Net income attributable to non-controlling interests	(220)	(186)	(333)
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 79,896</b>	<b>\$ 36,847</b>	<b>\$ 129,166</b>

**Earnings per share information:**

Basic net income per common share attributable to Arcos Dorados Holdings Inc.	\$ 0.39	\$ 0.18	\$ 0.61
Diluted net income per common share attributable to Arcos Dorados Holdings Inc.	0.39	0.18	0.61

See Notes to the Consolidated Financial Statements.

**Arcos Dorados Holdings Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
For the fiscal years ended December 31, 2019, 2018 and 2017  
Amounts in thousands of US dollars

	2019	2018	2017
<b>Net income</b>	<b>\$ 80,116</b>	<b>\$ 37,033</b>	<b>\$ 129,499</b>
<b>Other comprehensive income (loss), net of tax:</b>			
Foreign currency translation	(12,246)	(63,130)	4,783
Post-employment benefits (expenses):			
Loss recognized in accumulated other comprehensive loss	(55)	(418)	(938)
Reclassification of net loss to consolidated statement of income	864	494	386
Post-employment benefits (expenses) (net of deferred income taxes of \$42, \$122 and \$(272)).	809	76	(552)
Cash flow hedges:			
Net (loss) gain recognized in accumulated other comprehensive loss	(5,185)	13,888	6,462
Reclassification of net loss (gain) to consolidated statement of income	85	(23,887)	1,592
Cash flow hedges (net of deferred income taxes of \$1,290, \$4,062 and \$(3,938))	(5,100)	(9,999)	8,054
<b>Total other comprehensive (loss) income</b>	<b>(16,537)</b>	<b>(73,053)</b>	<b>12,285</b>
<b>Comprehensive income (loss)</b>	<b>63,579</b>	<b>(36,020)</b>	<b>141,784</b>
Less: Comprehensive income attributable to non-controlling interests	(142)	(52)	(316)
<b>Comprehensive income (loss) attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 63,437</b>	<b>\$ (36,072)</b>	<b>\$ 141,468</b>

See Notes to the Consolidated Financial Statements.

**Arcos Dorados Holdings Inc.****Consolidated Balance Sheet**

As of December 31, 2019 and 2018

Amounts in thousands of US dollars, except for share data and as otherwise indicated

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 121,880	\$ 197,282
Short-term investment	25	—
Accounts and notes receivable, net	99,862	84,287
Other receivables	28,174	25,350
Inventories	37,815	46,089
Prepaid expenses and other current assets	117,612	109,230
McDonald's Corporation's indemnification for contingencies	—	2,324
<b>Total current assets</b>	<b>405,368</b>	<b>464,562</b>
<b>Non-current assets</b>		
Miscellaneous	95,814	99,049
Collateral deposits	2,500	2,500
Property and equipment, net	960,986	856,192
Net intangible assets and goodwill	43,044	41,021
Deferred income taxes	68,368	58,334
Derivative instruments	57,828	54,735
McDonald's Corporation's indemnification for contingencies	1,612	1,646
Lease right of use asset, net	922,165	—
<b>Total non-current assets</b>	<b>2,152,317</b>	<b>1,113,477</b>
<b>Total assets</b>	<b>\$ 2,557,685</b>	<b>\$ 1,578,039</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 259,577	\$ 242,455
Royalties payable to McDonald's Corporation	17,132	14,576
Income taxes payable	61,982	53,843
Other taxes payable	61,823	61,006
Accrued payroll and other liabilities	86,379	94,166
Provision for contingencies	2,035	2,436
Interest payable	9,936	9,951
Short-term debt	13,296	356
Current portion of long-term debt	3,233	3,836
Derivative instruments	9,907	10,687
Operating lease liabilities	70,147	—
<b>Total current liabilities</b>	<b>595,447</b>	<b>493,312</b>
<b>Non-current liabilities</b>		
Accrued payroll and other liabilities	23,497	35,322
Provision for contingencies	24,123	26,073
Long-term debt, excluding current portion	623,575	626,424
Derivative instruments	3,598	3,192
Deferred income taxes	4,297	957
Operating lease liabilities	861,582	—
<b>Total non-current liabilities</b>	<b>1,540,672</b>	<b>691,968</b>
<b>Total liabilities</b>	<b>\$ 2,136,119</b>	<b>\$ 1,185,280</b>
<b>Equity</b>		
Class A shares of common stock	\$ 383,204	\$ 379,845
Class B shares of common stock	132,915	132,915
Additional paid-in capital	13,375	14,850



Retained earnings	471,149	413,074
Accumulated other comprehensive loss	(519,505)	(502,266)
Common stock in treasury	(60,000)	(46,035)
<b>Total Arcos Dorados Holdings Inc. shareholders' equity</b>	<b>421,138</b>	<b>392,383</b>
Non-controlling interests in subsidiaries	428	376
<b>Total equity</b>	<b>421,566</b>	<b>392,759</b>
<b>Total liabilities and equity</b>	<b>\$ 2,557,685</b>	<b>\$ 1,578,039</b>

See Notes to the Consolidated Financial Statements.

**Arcos Dorados Holdings Inc.**  
**Consolidated Statements of Cash Flows**  
For the fiscal years ended December 31, 2019, 2018 and 2017  
Amounts in thousands of US dollars

	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>			
Net income attributable to Arcos Dorados Holdings Inc.	\$ 79,896	\$ 36,847	\$ 129,166
Adjustments to reconcile net income attributable to Arcos Dorados Holdings Inc. to cash provided by operating activities:			
Non-cash charges and credits:			
Depreciation and amortization	123,218	105,800	99,382
(Gain) loss from derivative instruments	(439)	565	7,065
Amortization and accrual of letter of credit fees and deferred financing costs	3,190	3,189	3,433
Gain of property and equipment sales	(664)	(2,030)	(93,122)
Deferred income taxes	(7,974)	648	1,731
Foreign currency exchange results	(11,656)	(15,388)	20,366
Accrued net share-based compensation expense	4,060	2,638	4,216
Impairment of long-lived assets and goodwill	9,063	19,117	17,764
Write-offs of property and equipment	4,733	4,167	8,528
Gain on Sales of restaurants businesses	(5,078)	(6,154)	(14,742)
Others, net	(955)	8,896	6,305
Changes in assets and liabilities:			
Accounts payable	39,434	16,563	102,660
Accounts and notes receivable and other receivables	(27,988)	(35,770)	(50,211)
Inventories, prepaid and other assets	(21,802)	(12,074)	(53,466)
Income taxes payable	10,931	12,529	18,946
Other taxes payable	20,891	8,675	12,672
Interest payable	(14)	(35)	2,942
Accrued payroll and other liabilities and provision for contingencies	1,320	27,134	35,075
Others	3,315	4,414	(3,540)
<b>Net cash provided by operating activities</b>	<b>223,481</b>	<b>179,731</b>	<b>255,170</b>
<b>Investing activities</b>			
Property and equipment expenditures	(265,235)	(197,041)	(174,766)
Purchases of restaurant businesses paid at acquisition date	(2,658)	—	(870)
Proceeds from sales of property and equipment and related advances	3,340	2,891	61,983
Proceeds from sales of restaurant businesses and related advances	4,818	10,158	10,407
Recovery (acquisitions) of short-term investments	—	19,588	(19,588)
Other investing activity	(1,256)	620	(1,646)
<b>Net cash used in investing activities</b>	<b>(260,991)</b>	<b>(163,784)</b>	<b>(124,480)</b>
<b>Financing activities</b>			
Issuance of 2027 Notes	—	—	265,000
Repayment of secured loan agreement	—	—	(169,511)
Purchase of 2023 Notes	—	—	(48,885)
Net payment of derivative instruments	—	—	(40,822)
Dividend payments to Arcos Dorados Holdings Inc.'s shareholders	(22,425)	(20,937)	—
Net short-term borrowings	13,159	—	—
Treasury stock purchases	(13,965)	(46,035)	—
Other financing activities	(6,401)	(6,470)	(9,135)
<b>Net cash used in financing activities</b>	<b>(29,632)</b>	<b>(73,442)</b>	<b>(3,353)</b>
Effect of exchange rate changes on cash and cash equivalents	(8,260)	(53,714)	(13,649)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(75,402)</b>	<b>(111,209)</b>	<b>113,688</b>
Cash and cash equivalents at the beginning of the year	197,282	308,491	194,803
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 121,880</b>	<b>\$ 197,282</b>	<b>\$ 308,491</b>

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**Supplemental cash flow information:**

## Cash paid during the year for:

Interest	\$	52,458	\$	55,400	\$	53,206
Income tax		34,092		32,188		24,112

## Non-cash investing and financing activities:

Seller financing pending of payment and settlement of franchise receivables related to purchases of restaurant businesses		905		469		36
Exchange of assets		—		—		6,721

See Notes to the Consolidated Financial Statements.



partial vesting of outstanding restricted share units under the 2011 Equity Incentive Plan	470,558	3,359	—	—	(3,359)	—	—	—	—	—	—	—
Stock-based compensation related to the 2011 Equity Incentive Plan	—	—	—	—	1,884	—	—	—	—	1,884	—	1,884
Treasury stock purchases	—	—	—	—	—	—	—	(1,632,776)	(13,965)	(13,965)	—	(13,965)
Dividends to non- controlling interests	—	—	—	—	—	—	—	—	—	—	(90)	(90)
Adoption of ASU 2017- 12	—	—	—	—	—	780	(780)	—	—	—	—	—
<b>Balances at December 31, 2019</b>	<b><u>132,063,631</u></b>	<b><u>383,204</u></b>	<b><u>80,000,000</u></b>	<b><u>132,915</u></b>	<b><u>13,375</u></b>	<b><u>471,149</u></b>	<b><u>(519,505)</u></b>	<b><u>(7,993,602)</u></b>	<b><u>(60,000)</u></b>	<b><u>421,138</u></b>	<b><u>428</u></b>	<b><u>421,566</u></b>

See Notes to the Consolidated Financial Statements.

# Arcos Dorados Holdings Inc.

## Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 1. Organization and nature of business

Arcos Dorados Holdings Inc. (the “Company”) is a limited liability company organized and existing under the laws of the British Virgin Islands. The Company’s fiscal year ends on the last day of December. The Company has through its wholly-owned Company Arcos Dorados Group B.V., a 100% equity interest in Arcos Dorados B.V. (“ADBV”).

On August 3, 2007 the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement and Master Franchise Agreements (“MFAs”) with McDonald’s Corporation pursuant to which the Company completed the acquisition of the McDonald’s business in Latin America and the Caribbean (“LatAm business”). See Note 4 for details. Prior to this acquisition, the Company did not carry out operations. The Company’s rights to operate and franchise McDonald’s-branded restaurants in the Territories, and therefore the ability to conduct the business, derive exclusively from the rights granted by McDonald’s Corporation in the MFAs through 2027. The initial term of the MFA for French Guyana, Guadeloupe and Martinique was ten years through August 2, 2017 with an option to extend the agreement for these territories for an additional period of ten years, through August 2, 2027. On July 20, 2016, the Company has exercised its option to extend the MFA for these three territories.

The Company, through ADBV’s wholly-owned and majority owned subsidiaries, operates and franchises McDonald’s restaurants in the food service industry. The Company has operations in twenty territories as follows: Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curacao, Ecuador, French Guyana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas (USVI) and Venezuela. All restaurants are operated either by the Company’s subsidiaries or by independent entrepreneurs under the terms of sub-franchisee agreements (franchisees).

### 2. Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has elected to report its consolidated financial statements in United States dollars (“\$” or “US dollars”).

### 3. Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Company in the preparation of the consolidated financial statements.

#### Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### Foreign currency matters

The financial statements of the Company’s foreign operating subsidiaries are translated in accordance with guidance in ASC 830 Foreign Currency Matters. Except for the Company’s Venezuelan and Argentinian operations, the functional currencies of the Company’s foreign operating subsidiaries are the local currencies of the countries in which they conduct their operations. Therefore, assets and liabilities are translated into US dollars at the balance sheet date exchange rates, and revenues, expenses and cash flow are translated at average rates prevailing during the periods. Translation adjustments are included in the “Accumulated other comprehensive loss” component of shareholders’ equity. The Company includes foreign currency exchange

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

results related to monetary assets and liabilities transactions, including intercompany transactions, denominated in currencies other than its functional currencies in its statements of income.

##### Foreign currency matters (continued)

Since January 1, 2010 and July 1, 2018, Venezuela and Argentina, respectively, were considered to be highly inflationary, and as such, the financial statements of these subsidiaries are remeasured as if its functional currency was the reporting currency of the immediate parent company (US dollars for Venezuelan operation and Brazilian reais (“BRL”) for Argentinian operation). As a result, remeasurement gains and losses are recognized in earnings rather than in the cumulative translation adjustment, component of “Accumulated other comprehensive loss” within shareholders’ equity.

##### Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less, from the date of purchase, to be cash equivalents.

##### Revenue recognition

The Company’s revenues consist of sales by Company-operated restaurants and revenues from restaurants operated by franchisees. Sales by Company-operated restaurants are recognized at the point of sale. The Company presents sales net of sales tax and other sales-related taxes. Revenues from restaurants operated by franchisees include rental income, initial franchise fees and royalty income. Rental income is measured on a monthly basis based on the greater of a fixed rent, computed on a straight-line basis, or a certain percentage of gross sales reported by franchisees. Initial franchise fees represent the difference between the amount the Company collects from the franchisee and the amount the Company pays to McDonald’s Corporation upon the opening of a new restaurant. Royalty income represents the difference, if any, between the amount the Company collects from the franchisee and the amount the Company is required to pay to McDonald’s Corporation. Royalty income is recognized in the period earned.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASC 606), “Revenue Recognition - Revenue from Contracts with Customers”, which amends the guidance in former ASC 605, “Revenue Recognition”, and requires entities to recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted this new accounting standard using modified retrospective method and concluded that the sole source of revenue affected is the initial franchise fee. The Company’s previous accounting policy was to recognize it when a new restaurant opens or at the start of a new franchise term, however, in accordance with the new guidance, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement and should be treated as a single performance obligation. As such, initial franchise fees received are deferred over the term of the franchise agreement.

In accordance with the modified retrospective method, the Company recognized the cumulative effect of applying the new standard at the date of initial application with no restatement to the comparative information. Furthermore, the changes made to the consolidated balance sheet as of January 1, 2018 for the adoption of ASC 606 were as follows:

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 3. Summary of significant accounting policies (continued)

#### Revenue recognition (continued)

Balance Sheet	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Deferred income taxes	74,299	1,555	75,854
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accrued payroll and other liabilities	119,088	339	119,427
<b>Non-current liabilities</b>			
Accrued payroll and other liabilities	29,366	5,012	34,378
<b>EQUITY</b>			
Retained earnings	401,134	(3,796)	397,338

There are no expectations that the adoption of the new revenue standard will have a material impact within the net income on an ongoing basis. The disclosure of the impact of adoption on the consolidated balance sheet and income statements, as of December 31, 2018 and for the fiscal year ended December 31, 2018, is as follows:

Balance Sheet	As of December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Deferred income taxes	58,334	56,522	1,812
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accrued payroll and other liabilities	94,166	93,770	396
<b>Non-current liabilities</b>			
Accrued payroll and other liabilities	35,322	29,495	5,827
<b>EQUITY</b>			
Retained earnings	413,074	417,485	(4,411)
<b>For the fiscal year ended December 31, 2018</b>			
Income Statement	As Reported	Balances Without Adoption of ASC 606	Effect of Change
Revenues from franchised restaurants	148,962	149,834	(872)
Income tax expense	(48,136)	(48,393)	257



## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Accounts and notes receivable and allowance for doubtful accounts

Accounts receivable primarily consist of royalty and rent receivables due from franchisees and debit and credit card receivables. Accounts receivable are initially recorded at fair value and do not bear interest. Notes receivable relates to interest-bearing financing granted to certain franchisees in connection with the acquisition of equipment and third-party suppliers. The Company maintains an allowance for doubtful accounts in an amount that it considers sufficient to cover losses resulting from the inability of its franchisees to make required payments. In judging the adequacy of the allowance for doubtful accounts, the Company considers multiple factors including historical bad debt experience, the current economic environment and the aging of the receivables.

##### Other receivables

As of December 31, 2019, other receivables primarily consist of insurance claim receivables, value-added tax and other tax receivables, related party receivables, amounting to \$17,046. As of December 31, 2018, other receivables primarily consist of insurance claim receivables, related party receivables, value-added tax and other tax receivables, amounting to \$16,809.

Other receivables are reported at the amount expected to be collected.

##### Inventories

Inventories are stated at the lower of cost or market, with cost being determined on a first-in, first-out basis.

##### Property and equipment, net

Property and equipment are stated at cost, net of accumulated depreciation. Property costs include costs of land and building for both company-operated and franchise restaurants while equipment costs primarily relate to company-operated restaurants. Cost of property and equipment acquired from McDonald's Corporation (as part of the acquisition of LatAm business) was determined based on its estimated fair market value at the acquisition date, then partially reduced by the allocation of the negative goodwill that resulted from the purchase price allocation. Cost of property and equipment acquired or constructed after the acquisition of LatAm business in connection with the Company's restaurant reimaging and extension program is comprised of acquisition and construction costs and capitalized internal costs. Capitalized internal costs include payroll expenses related to employees fully dedicated to restaurant construction projects and related travel expenses. Capitalized payroll costs are allocated to each new restaurant location based on the actual time spent on each project. The Company commences capitalizing costs related to construction projects when it becomes probable that the project will be developed – when the site has been identified and the related profitability assessment has been approved. Maintenance and repairs are expensed as incurred. Accumulated depreciation is calculated using the straight-line method over the following estimated useful lives: buildings – up to 40 years; leasehold improvements – the lesser of useful lives of assets or lease terms which generally include renewal options; and equipment 3 to 10 years.

##### Intangible assets, net

Intangible assets include computer software costs, initial franchise fees, reacquired rights under franchise agreements, letter of credit fees and others.

The Company follows the provisions of ASC 350-40-30 within ASC 350 Intangibles, Subtopic 40 Internal Use Software which requires the capitalization of costs incurred in connection with developing or obtaining software for internal use. These costs are amortized over a period of three years on a straight-line basis.

The Company is required to pay to McDonald's Corporation an initial franchisee fee upon opening of a new restaurant. The initial franchise fee related to Company-operated restaurants is capitalized as an intangible asset and amortized on a straight-line basis over the term of the franchise.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Intangible assets, net (continued)

A reacquired franchise right is recognized as an intangible asset as part of the business combination in the acquisition of franchised restaurants apart from goodwill with an assigned amortizable life limited to the remaining contractual term (i.e., not including any renewal periods). The value assigned to the reacquired franchise right excludes any amounts recognized as a settlement gain or loss and is limited to the value associated with the remaining contractual term and operating conditions for the acquired restaurants. The reacquired franchise right is measured using a valuation technique that considers restaurant's cash flows after payment of an at-market royalty rate to the Company. The cash flows are projected for the remaining contractual term, regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Letter of credit fees are amortized on a straight-line basis over the term of the Letter of Credit.

##### Impairment and disposal of long-lived assets

In accordance with the guidance within ASC 360-10-35, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. For purposes of reviewing assets for potential impairment, assets are grouped at a country level for each of the operating markets. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, each restaurant's cash flows are not largely independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value considering its highest and best use, as determined by an estimate of discounted future cash flows or its market value.

The Company assessed all markets for impairment indicators during the fourth quarter of 2019, 2018 and 2017. In addition, during 2018, the Company performed impairment testings of its long-lived assets in Venezuela in previous quarters considering the operating losses incurred in this market as a consequence of currency exchange rate changes. As a result of those assessments, the Company concluded that the second step was required to be performed as a component of the impairment testing of its long-lived assets (including property and equipment, intangible assets with definite useful lives and lease right of use asset, net) on a per store basis, in: Curacao, Puerto Rico, Mexico, Peru, Aruba, USVI, Venezuela, and Colombia for the fiscal year ended December 31, 2019 and in Ecuador, Puerto Rico, Mexico, Peru, Aruba, USVI, Venezuela, Colombia and Trinidad and Tobago for the fiscal years ended December 31, 2018 and 2017.

As a result of the impairment testing the Company recorded the following impairment charges, for the markets indicated below, within Other operating income (expenses), net on the consolidated statements of income:

<b>Fiscal year</b>	<b>Markets</b>	<b>Total</b>
2019	Mexico, Puerto Rico, USVI, Peru, Aruba, Curacao, Colombia and Venezuela	\$ 8,790
2018	Mexico, Puerto Rico, USVI, Peru, Colombia, Venezuela and Trinidad and Tobago.	18,950
2017	Mexico, Puerto Rico, USVI, Peru, Ecuador, Colombia, Venezuela and Trinidad and Tobago	17,564

##### Goodwill

Goodwill represents the excess of cost over the estimated fair market value of net tangible assets and identifiable intangible assets acquired. In accordance with the guidance within ASC 350 Intangibles-Goodwill and Other, goodwill is stated at cost and reviewed for impairment on an annual basis. The annual impairment test is performed during the fourth quarter of the fiscal year and compares the fair value of each reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Goodwill (continued)

In assessing the recoverability of the goodwill, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are highly subjective judgments based on the Company's experience and knowledge of its operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends.

As a result of the analyses performed the Company recorded the following impairment charges, related to goodwill generated in the acquisition of franchised restaurants, for the markets indicated below within Other operating income (expenses), net on the consolidated statements of income:

Fiscal year	Markets	Total
2019	Ecuador	\$ 273
2018	Peru	167
2017	Mexico	200

##### Advertising costs

Advertising costs are expensed as incurred. Advertising expenses related to Company-operated restaurants were \$115,568, \$120,839 and \$130,277 in 2019, 2018 and 2017, respectively. Advertising expenses related to franchised operations do not affect the Company's expenses since these are recovered from franchisees. Advertising expenses related to franchised operations were \$43,039, \$43,940 and \$46,536 in 2019, 2018 and 2017, respectively.

##### Accounting for income taxes

The Company records deferred income taxes using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The guidance requires companies to set up a valuation allowance for that component of net deferred tax assets which does not meet the more likely than not criterion for realization.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company is regularly audited by tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, an uncertain tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may be recorded depending on management's assessment of how the tax position will ultimately be settled. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

##### Accounts payable outsourcing

The Company offers its suppliers access to an accounts payable services arrangement provided by third party financial institutions. This service allows the Company's suppliers to view its scheduled payments online, enabling them to better manage their cash flow and reduce payment processing costs. Independent of the Company, the financial institutions also allow suppliers to sell their receivables to the financial institutions in an arrangement separately negotiated by the supplier and the financial institution. The Company has no economic interest in the sale of these receivables and no direct relationship with the financial institutions concerning the sale of receivables. All of the Company's obligations, including amounts due, remain to the Company's suppliers as stated in the supplier agreements. As of December 31, 2019 and 2018, \$8,896 and \$4,014, respectively, of the Company's total accounts payable are available for this purpose and have been sold by suppliers to participating financial institutions.

## **Arcos Dorados Holdings Inc.**

### **Notes to the Consolidated Financial Statements**

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### **3. Summary of significant accounting policies (continued)**

##### Share-based compensation

The Company recognizes compensation expense as services required to earn the benefits are rendered. See Note 17 for details of the outstanding plans and the related accounting policies.

##### Derivative financial instruments

The Company utilizes certain hedge instruments to manage its interest rate and foreign currency rate exposures. The counterparties to these instruments generally are major financial institutions. The Company does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Company assumes the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Additionally, the fair value adjustments will affect either shareholders' equity as accumulated other comprehensive loss or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

##### Severance payments

Under certain laws and labor agreements of the countries in which the Company operates, the Company is required to make minimum severance payments to employees who are dismissed without cause and employees leaving its employment in certain other circumstances. The Company accrues severance costs if they relate to services already rendered, are related to rights that accumulate or vest, are probable of payment and can be reasonably estimated. Otherwise, severance payments are expensed as incurred.

##### Provision for contingencies

The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and the Company's lawyers' experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. See Note 18 for details.

##### Comprehensive income (loss)

Comprehensive income (loss) includes net income as currently reported under generally accepted accounting principles and also includes the impact of other events and circumstances from non-owner sources which are recorded as a separate component of shareholders' equity. The Company reports foreign currency translation gains and losses, unrealized results on cash flow hedges as well as unrecognized post-retirement benefits as components of comprehensive income (loss).

##### Sales of property and equipment and restaurant businesses

The Company recognizes the sale of property and equipment when: (a) the profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete, that is, the Company is not obliged to perform significant activities after the sale to earn the profit. The sale of restaurant businesses, related to the refranchising of company-operated restaurants, is recognized when the Company transfers substantially all of the risks and rewards of ownership.

In order to determine the gain or loss on the disposal, the goodwill associated with the sold of property and equipment and restaurant business, if any, is considered within the carrying value. The amount of goodwill to be included in that carrying amount is based on the relative fair value of the item to be disposed and the portion of the reporting unit that will be retained.

**Arcos Dorados Holdings Inc.****Notes to the Consolidated Financial Statements**

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

**3. Summary of significant accounting policies (continued)**Sales of property and equipment and restaurant businesses (continued)

During fiscal years 2019, 2018 and 2017, the Company recorded results from sales of property and equipment and restaurant businesses, amounting to \$6,415, \$8,184 and \$107,867, respectively, included within "Other operating income (expenses), net". The sales performed during fiscal year 2017 were primarily related to the redevelopment of certain real estate assets.

Recent accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842), which modifies lease accounting for lessees to increase transparency and comparability by recording a right-of-use asset and lease liability on their balance sheet for operating leases. Entities need to disclose qualitative and quantitative information about their leases, including characteristics and amounts recognized in the financial statements. This standard is effective for annual periods beginning after December 15, 2018, including interim periods.

The Company adopted ASU 2016-02 in its first quarter of 2019 utilizing the modified retrospective method, without restatement of comparative financial information periods, and applied the package of practical expedients permitted under the transition guidance within the standard which, among other things, allowed the Company to carry forward the historical lease classification. The adoption, and the ultimate effect on the consolidated financial statements, was based on an evaluation of the contract-specific facts and circumstances. The Company adoption of the standard resulted in the recognition of lease right-of-use assets and lease liabilities of \$913 million, as of January 1, 2019. The right-of-use assets and lease liabilities were recognized at the commencement date based on the present value of the remaining future minimum lease payments, which include options that are reasonably assured of being exercised. As the interest rate implicit in the Company's leases was not readily determinable, the Company utilizes its incremental borrowing rate to discount the lease payments.

Furthermore, the changes made to the consolidated balance sheet as of January 1, 2019 for the adoption of ASC 842 were as follows:

<b>Consolidated Balance Sheet</b>	<b>Balance at December 31, 2018</b>	<b>Adjustments Due to ASC 842</b>	<b>Balance at January 1, 2019</b>	
<b>ASSETS</b>				
<b>Non-current assets</b>				
Lease right of use asset, net	—	896,682	896,682	(i)
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Operating lease liabilities	—	72,272	72,272	(ii)
<b>Non-current liabilities</b>				
Accrued payroll and other liabilities	35,322	(16,404)	18,918	(iii)
Operating lease liabilities	—	840,814	840,814	(iv)

(i) Represents capitalization of operating lease right of use assets of \$913,086 net of the reclassification of straight-line rent accrual of \$16,404.

(ii) Represents recognition of current portion of operating lease liabilities.

(iii) Represents reclassification of straight-line rent accrual to lease right of use asset, net.

(iv) Represents recognition of non-current portion of operating lease liabilities.

**Arcos Dorados Holdings Inc.****Notes to the Consolidated Financial Statements**

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

**3. Summary of significant accounting policies (continued)**Recent accounting pronouncements (continued)

The standard did not have a significant impact on the Company's consolidated statements of income and cash flows, except for the exchange results related to lease liabilities denominated in other currencies than its functional one. The disclosure of the impact of adoption on the consolidated balance sheet and income statement, as of December 31, 2019 and for the fiscal year ended in December 31, 2019, are as follows:

<b>As of December 31, 2019</b>			
<b>Consolidated Balance Sheet</b>	<b>As Reported</b>	<b>Balances Without Adoption of ASC 842</b>	<b>Effect of Change</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Lease right of use asset, net	922,165	—	922,165
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Operating lease liabilities	70,147	—	70,147
<b>Non-current liabilities</b>			
Accrued payroll and other liabilities	23,497	41,084	(17,587)
Operating lease liabilities	861,582	—	861,582
<b>EQUITY</b>			
Retained earnings	471,149	467,560	3,589
Accumulated other comprehensive loss	(519,505)	(523,939)	4,434
<b>For the fiscal year ended December 31, 2019</b>			
<b>Consolidated Statement of Income</b>	<b>As Reported</b>	<b>Balances Without Adoption of ASC 842</b>	<b>Effect of Change</b>
Foreign currency exchange results	12,754	9,165	3,589

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 expanded components of fair value hedging, specifies the recognition and presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge ineffectiveness. The Company adopted the new standard during this year and applied the presentation and disclosure guidance on a prospective basis. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", that modifies the measurement and recognition of expected credit losses on financial assets. The Company will adopt this guidance effective January 1, 2020, prospectively. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

No other new accounting pronouncement issued or effective during the periods had or is expected to have a material impact on the Company's consolidated financial statements.

**Arcos Dorados Holdings Inc.****Notes to the Consolidated Financial Statements**

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

**4. Acquisition of businesses**LatAm Business

On August 3, 2007, the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement with McDonald's Corporation pursuant to which the Company completed the acquisition of the McDonald's business in Latin America and the Caribbean for a final purchase price of \$698,080.

The acquisition of the LatAm business was accounted for by the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. When the fair value of the net assets acquired exceeded the purchase price, the resulting negative goodwill was allocated to partially reduce the fair value of the non-current assets acquired on a pro-rata basis.

In connection with this transaction, ADBV and certain subsidiaries (the "MF subsidiaries") also entered into 20-year Master Franchise Agreements ("MFAs") with McDonald's Corporation which grants to the Company and its MF subsidiaries the following:

- i. The right to own and operate, directly or indirectly, franchised restaurants in each territory;
- ii. The right and license to grant sub franchises in each territory;
- iii. The right to adopt and use, and to grant the right and license to sub franchisees to adopt and use, the system in each territory;
- iv. The right to advertise to the public that it is a franchisee of McDonald's;
- v. The right and license to grant sub franchises and sublicenses of each of the foregoing rights and licenses to each MF subsidiary.

The Company is required to pay to McDonald's Corporation continuing franchise fees (Royalty fees) on a monthly basis. The amount to be paid during the first 10 years of the MFAs is equal to 5% of the US dollar equivalent of the gross product sales of each of the franchised restaurants. This percentage increases to 6% and 7% for the subsequent two 5-year periods of the agreement. Payment of monthly royalties is due on the seventh business day of the next calendar month.

Pursuant to the MFAs provisions, McDonald's Corporation has the right to (a) terminate the MFAs, or (b) exercise a call option over the Company's shares or any MF subsidiary, if the Company or any MF subsidiary (i) fails to comply with the McDonald's System (as defined in the MFAs), (ii) files for bankruptcy, (iii) defaults on its financial debt payments, (iv) substantially fails to achieve targeted openings and reinvestments requirements, or (v) upon the occurrence of any other event of default as defined in the MFAs.

Other acquisitions

During fiscal years 2019, 2018 and 2017, the Company acquired certain franchised restaurants in certain territories. Presented below is supplemental information about these acquisitions:

<b>Purchases of restaurant businesses:</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Property and equipment	\$ 1,471	\$ 413	\$ 429
Identifiable intangible assets	1,347	56	5,346
Goodwill	1,589	—	200
Assumed debt	(77)	—	—
Gain on purchase of franchised restaurants	(767)	—	(4,808)
<b>Purchase price</b>	<b>3,563</b>	<b>469</b>	<b>1,167</b>
Restaurants sold in exchange	—	—	(261)
Settlement of franchise receivables	(905)	(469)	(36)
<b>Net cash paid at acquisition date</b>	<b>\$ 2,658</b>	<b>\$ —</b>	<b>\$ 870</b>

**Arcos Dorados Holdings Inc.****Notes to the Consolidated Financial Statements**

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**5. Accounts and notes receivable, net**

Accounts and notes receivable, net consist of the following at year end:

	<b>2019</b>	<b>2018</b>
Receivables from franchisees	\$ 63,618	\$ 55,672
Debit and credit card receivables	43,741	40,474
Meal voucher receivables	13,017	10,565
Notes receivable	1,928	2,575
Allowance for doubtful accounts	(22,442)	(24,999)
	<b>\$ 99,862</b>	<b>\$ 84,287</b>

**6. Prepaid expenses and other current assets**

Prepaid expenses and other current assets consist of the following at year end:

	<b>2019</b>	<b>2018</b>
Prepaid taxes	\$ 73,932	\$ 74,538
Prepaid expenses	24,266	21,868
Promotion items and related advances	19,092	12,417
Others	322	407
	<b>\$ 117,612</b>	<b>\$ 109,230</b>

**7. Miscellaneous**

Miscellaneous consist of the following at year end:

	<b>2019</b>	<b>2018</b>
Judicial deposits	\$ 46,148	\$ 43,168
Tax credits	21,067	27,563
Prepaid property and equipment	7,770	9,775
Notes receivable	5,876	4,241
Rent deposits	3,196	2,908
Others	11,757	11,394
	<b>\$ 95,814</b>	<b>\$ 99,049</b>



## Arcos Dorados Holdings Inc.

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#### 8. Property and equipment, net

Property and equipment, net consist of the following at year-end:

	2019	2018
Land	\$ 146,517	\$ 142,262
Buildings and leasehold improvements	710,046	623,612
Equipment	784,181	673,117
<b>Total cost</b>	<b>1,640,744</b>	<b>1,438,991</b>
Total accumulated depreciation	(679,758)	(582,799)
	<b>\$ 960,986</b>	<b>\$ 856,192</b>

Total depreciation expense for fiscal years 2019, 2018 and 2017 amounted to \$111,638, \$94,490 and \$89,085, respectively.

#### 9. Net intangible assets and goodwill

Net intangible assets and goodwill consist of the following at year-end:

	2019	2018
<b>Net intangible assets (i)</b>		
Computer software cost	\$ 75,224	\$ 69,700
Initial franchise fees	16,146	14,614
Reacquired franchised rights	13,296	12,511
Letter of credit fees	940	940
Others	1,000	1,000
<b>Total cost</b>	<b>106,606</b>	<b>98,765</b>
Total accumulated amortization	(70,345)	(63,683)
<b>Subtotal</b>	<b>36,261</b>	<b>35,082</b>
<b>Goodwill (ii)</b>		
Brazil	4,124	4,280
Argentina	1,585	226
Chile	988	1,073
Colombia	86	87
Ecuador	—	273
<b>Subtotal</b>	<b>6,783</b>	<b>5,939</b>
	<b>\$ 43,044</b>	<b>\$ 41,021</b>

- (i) Total amortization expense for fiscal years 2019, 2018 and 2017 amounted to \$11,580, \$11,310 and \$10,297, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows: \$14,281 for 2020, \$11,262 for 2021; \$4,333 for 2022; \$1,352 for 2023; \$1,310 for 2024; and thereafter \$3,723.
- (ii) Related to the acquisition of franchised restaurants (Brazil, Argentina, Chile and Colombia) and non-controlling interests in subsidiaries (Ecuador and Chile).

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**10. Accrued payroll and other liabilities**

Accrued payroll and other liabilities consist of the following at year end:

	2019	2018
<b>Current:</b>		
Accrued payroll	\$ 77,087	\$ 77,286
Accrued expenses	6,586	10,330
Other liabilities	2,706	6,550
	<b>\$ 86,379</b>	<b>\$ 94,166</b>
<b>Non-current:</b>		
Phantom RSU award liability	\$ 2,102	\$ —
Deferred rent	—	16,404
Deferred revenues - Initial franchise fee	5,802	5,827
Deferred income	6,392	6,272
Security deposits	6,836	6,322
Other liabilities	2,365	497
	<b>\$ 23,497</b>	<b>\$ 35,322</b>

**11. Short-term debt**

Short-term debt consists of the following:

	2019	2018
Short-term bank loans (i)	10,794	—
Revolving Credit Facility (ii)	2,500	—
Bank overdrafts	2	356
	<b>\$ 13,296</b>	<b>\$ 356</b>

(i) Short-term bank loans

As of December 31, 2019, comprised two loans. In Brazil, granted by Banco Bradesco S.A, amounting to \$7,454, which matures in February 2020 and the interest rate is the Interbank Market reference interest rate (known in Brazil as “CDI” Certificados de Depósitos Interbancários) plus 0.67% per year. In Argentina, granted by Banco de la Ciudad de Buenos Aires, amounting to \$3,340 which matures in January 2020 and the interest rate is 54% per year.

(ii) Revolving credit facilities

The Company entered into revolving credit facilities in order to borrow money from time to time to cover its working capital needs and for other general corporate purposes.

On August 2, 2019, ADBV renewed its committed revolving credit facility with Bank of America, N.A. (BOFA), as lender, for up to \$25 million maturing on August 2, 2020. Each loan made to ADBV under this agreement will bear interest at an annual rate equal to LIBOR plus 2.40%.

In addition, on December 11, 2019, the Company entered into a revolving credit facility with JPMorgan Chase Bank, N.A (JPMorgan), for up to \$25 million maturing on December 11, 2020, with an annual interest rate equal to LIBOR plus 2.25%.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 11. Short-term debt (continued)

##### Revolving credit facilities (continued)

Interest on each loan will be payable at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date the loan is made. Principal is due upon maturity.

The obligations of the Company and ADBV under the revolving credit facilities are jointly and severally guaranteed by certain of the Company's subsidiaries on an unconditional basis. Furthermore, the agreements include customary covenants including, among others, restrictions on the ability of the Company, ADBV, the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; (vi) engage in transactions that violate certain anti-terrorism laws; and (vii) is required to comply with a consolidated net indebtedness to EBITDA ratio lower than 3.0 as of any last day of the fiscal quarter of the borrower. The revolving credit facilities provide for customary events of default, which, if any of them occurs, would permit or require the lender to terminate its obligation to provide loans under the revolving credit facilities and/or to declare all sums outstanding under the loan documents immediately due and payable.

As of December 31, 2019, the mentioned ratios were 0.95 and 1.66, for ADBV and the Company, respectively, and thus the Company is currently in compliance with the ratios requirements under both revolving credit facilities.

#### 12. Long-term debt

Long-term debt consists of the following at year-end:

	2019	2018
2027 Notes	\$ 265,000	\$ 265,000
2023 Notes	348,069	348,069
Finance lease obligations	5,419	6,503
Other long-term borrowings	13,284	16,676
<b>Subtotal</b>	<b>631,772</b>	<b>636,248</b>
Discount on 2023 Notes	(2,504)	(3,156)
Premium on 2023 Notes	937	1,187
Deferred financing costs	(3,397)	(4,019)
<b>Total</b>	<b>626,808</b>	<b>630,260</b>
Current portion of long-term debt	3,233	3,836
<b>Long-term debt, excluding current portion</b>	<b>\$ 623,575</b>	<b>\$ 626,424</b>

##### 2027 and 2023 Notes

The following table presents additional information related to the 2027 and 2023 Notes (the "Notes"):

	Annual interest rate	Currency	Principal as of December 31,		Maturity
			2019	2018	
2027 Notes	5.875%	USD	\$ 265,000	\$ 265,000	April 4, 2027
2023 Notes	6.625%	USD	348,069	348,069	September 27, 2023

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**12. Long-term debt (continued)**2027 and 2023 Notes (continued)

	<b>Interest Expense (i)</b>			<b>DFC Amortization (i)</b>			<b>Amortization of Discount, net (i)</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
2027 Notes	\$ 15,569	\$ 15,569	\$ 11,547	\$ 299	\$ 299	\$ 224	\$ —	\$ —	\$ —
2023 Notes	23,060	23,060	23,885	323	323	610	402	397	752

(i) These charges are included within "Net interest expense" in the consolidated statements of income.

On September 27, 2013, the Company issued senior notes for an aggregate principal amount of \$473.8 million, which are due in 2023 (the "2023 Notes"). Periodic payments of principal are not required and interest is paid semi-annually commencing on March 27, 2014. The Company incurred \$3,313 of financing costs related to the cash issuance of 2023 Notes, which were capitalized as deferred financing costs ("DFC") and are being amortized over the life of the notes.

On June 1, 2016, the Company launched a cash tender offer to purchase \$80,000 of its outstanding 2023 Notes, at a redemption price equal to 98%, which expired on June 28, 2016. The holders who tendered their 2023 Notes prior to June 14, received a redemption price equal to 101%. As a consequence of this transaction, the Company redeemed 16.90% of the outstanding principal. The total payment was \$80,800 (including \$800 of early tender payment) plus accrued and unpaid interest.

The results related to the cash tender offer and the accelerated amortization of the related DFC were recognized as interest expense within the consolidated statement of income.

Furthermore, on March 16, 2017, the Company launched another cash tender offer to purchase \$80,000 of its outstanding 2023 Notes, at a redemption price equal to 104%, which expired on April 12, 2017. The holders who tendered their 2023 Notes prior to March 29, 2017, received a redemption price equal to 107%. As a consequence of this transaction, the Company redeemed 11.6% of the outstanding principal. The total payment was \$48,885 (including \$3,187 of early tender payment) plus accrued and unpaid interest. The results related to the cash tender offer and the accelerated amortization of the related DFC were recognized as interest expense within the consolidated statement of income.

In April 2017, the Company issued senior notes for an aggregate principal amount of \$265 million, which are due in 2027 (the "2027 Notes"). Periodic payments of principal are not required and interest is paid semi-annually commencing on October 4, 2017. The proceeds from the issuance of the 2027 Notes were used to repay the Secured Loan Agreement, unwind the related derivative instruments (described in Note 13), pay the principal and premium on the 2023 Notes (in connection with the aforementioned tender offer) and for general purposes. The Company incurred \$3,001 of financing costs related to the issuance of 2027 Notes, which were capitalized as DFC and are being amortized over the life of the notes.

The Notes are redeemable, in whole or in part, at the option of the Company at any time at the applicable redemption price set forth in the indenture governing them. The Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the Company's subsidiaries. The Notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of the Company's and guarantors' existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of the Company's and guarantors' existing and future secured indebtedness to the extent of the value of the Company's assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of the Company's subsidiaries that are not guarantors.

The indenture governing the Notes limits the Company's and its subsidiaries' ability to, among other things, (i) create certain liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. In addition, the indenture governing the 2027 Notes, limits the Company's and its subsidiaries' ability to: incur in additional indebtedness and make certain restricted payments, including dividends. These covenants are subject to important qualifications and exceptions. The indenture governing the Notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding Notes to be due and payable immediately.

The 2023 Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

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**12. Long-term debt (continued)**Secured Loan Agreement

On March 29, 2016, the Company's Brazilian subsidiary signed a \$167,262 Secured Loan Agreement (the "Loan") with five off-shore lenders namely: Citibank N.A., Itaú BBA International plc, Santander (Brasil) S.A., Cayman Islands Branch, Bank of America N.A. and JP Morgan Chase Bank, N.A. Each loan under the agreement bore interest at the following annual interest rates:

Lender	Annual Interest Rate
Citibank N.A.	3M LIBOR + 2.439%
Itaú BBA International plc	5.26%
Banco Santander (Brasil) S.A., Cayman Islands Branch	4.7863%
Bank of America N.A.	3M LIBOR + 4.00%
JP Morgan Chase Bank, N.A.	3M LIBOR + 3.92%

In order to fully convert each loan of the agreement into BRL, the Brazilian subsidiary entered into five cross-currency interest rate swap agreements with the local subsidiaries of the same lenders. Consequently, the loans were fully converted into BRL amounting to BRL 613,850. Refer to Note 13 for more details.

Considering the cross-currency interest rate swap agreements, the final interest rate of the Loan was the Interbank Market reference interest rate (known in Brazil as "CDI") plus 4.50% per year. Interest payments were made quarterly, beginning June 2016 and principal payments were made semi-annually, beginning September 2017.

The Loan would have matured on March 30, 2020 and periodic payments of principal were required. Prepayments were allowed without penalty. On April 11, 2017, the Company repaid the Loan with a total payment of \$169.7 million including the outstanding principal, plus accrued and unpaid interest and certain transaction costs.

The Company incurred \$3,243 of financing costs related to the issuance of the Loan, which were capitalized as DFC and were amortized over the life of the Loan. As a consequence of the repayment, the remaining DFC were recognized as interest expense in the consolidated statement of income.

The following table presents information related to the Secured Loan Agreement:

Interest Expense (i) (ii)			DFC Amortization (ii)			Other Costs (ii) (iii)		
2019	2018	2017	2019	2018	2017	2019	2018	2017
\$ —	\$ —	\$ 2,570	\$ —	\$ —	\$ 3,251	\$ —	\$ —	\$ 2,249

- (i) This charge do not include the effect of the cross-currency interest rate swap agreements mentioned in Note 13, amounting to a loss of \$6,921, during fiscal year 2017. Including this effect the total interest cost amounts to \$9,491.
- (ii) This charge is included within "Net interest expense" in the consolidated statement of income.
- (iii) Transaction costs related to the repayment of the Loan.

Other required disclosure

## Arcos Dorados Holdings Inc.

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#### 12. Long-term debt (continued)

At December 31, 2019, future payments related to the Company's long-term debt are as follows:

	Principal	Interest	Total
2020	\$ 3,233	\$ 40,190	\$ 43,423
2021	3,173	39,896	43,069
2022	3,370	39,568	42,938
2023	350,959	39,292	390,251
2024	2,307	15,974	18,281
Thereafter	268,730	41,151	309,881
<b>Total payments</b>	<b>631,772</b>	<b>216,071</b>	<b>847,843</b>
Interest	—	(216,071)	(216,071)
Discount on 2023 Notes	(2,504)	—	(2,504)
Premium on 2023 Notes	937	—	937
Deferred financing cost	(3,397)	—	(3,397)
<b>Long-term debt</b>	<b>\$ 626,808</b>	<b>\$ —</b>	<b>\$ 626,808</b>

#### 13. Derivative instruments

The following table presents the fair values of derivative instruments included in the consolidated balance sheets as of December 31, 2019 and 2018:

Type of Derivative	Balance Sheets Location	Assets		Balance Sheets Location	Liabilities	
		2019	2018		2019	2018
<i>Derivatives designated as hedging instruments</i>						
<i>Cash Flow hedge</i>						
Forward contracts	Other receivables	\$ 259	\$ 628	Accrued payroll and other liabilities	\$ (532)	\$ (180)
Cross-currency interest rate swap	Derivative instruments	37,219	37,869	Derivative instruments	(8,179)	(8,728)
Call spread	Derivative instruments	20,609	16,867	Derivative instruments	—	—
Coupon-only swap	Derivative instruments	—	—	Derivative instruments	(5,326)	(5,152)
<b>Subtotal</b>		<b>58,087</b>	<b>55,364</b>		<b>(14,037)</b>	<b>(14,060)</b>
<i>Derivatives not designated as hedging instruments</i>						
Forward contracts	Other receivables	20	99	Accrued payroll and other liabilities	—	(144)
<b>Subtotal</b>		<b>20</b>	<b>99</b>		<b>—</b>	<b>(144)</b>
<b>Total derivative instruments</b>		<b>\$58,107</b>	<b>\$55,463</b>		<b>\$(14,037)</b>	<b>\$(14,204)</b>

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**13. Derivative instruments (continued)***Derivatives designated as hedging instruments**Cash flow hedge*Forward contracts

The Company has entered into various forward contracts in a few territories to hedge a portion of the foreign exchange risk associated with forecasted imports of goods. The effect of the hedges results in fixing the cost of goods acquired (i.e. the net settlement or collection adjusts the cost of inventory paid to the suppliers). As of December 31, 2019, the Company has forward contracts outstanding with a notional amount of \$25,700 that mature during 2020.

The Company made net collections (payments) totaling \$711, \$75 and \$(1,236) during fiscal years 2019, 2018 and 2017, respectively, as a result of the net settlements of these derivatives.

Cross-currency interest rate swap

The Company entered into three cross-currency interest rate swap agreements to hedge all the variability in a portion (73%) of the principal and interest collections of its BRL intercompany loan receivables with ADBV. The agreements were signed during November 2013 (amended in February 2017), June and July 2017. The following table presents information related to the terms of the agreements:

Bank	Payable			Receivable			Interest payment dates	Maturity
	Currency	Amount	Interest rate	Currency	Amount	Interest rate		
JP Morgan Chase Bank, N.A. (i)	BRL	108,000	13%	\$	35,400	4.38%	March 31/ September 30	September 2023
JP Morgan Chase Bank, N.A.	BRL	98,670	13%	\$	30,000	6.02%	March 31/ September 30	September 2023
Citibank N.A.	BRL	94,200	13%	\$	30,000	6.29%	March 31/ September 30	September 2023

- (i) During the fiscal year ended December 31, 2017, the agreement was amended twice: on February 9, 2017 and February 22, 2017. All the terms of the swap agreement match the terms of the BRL intercompany loan receivable. As a result of the amendments the Company paid \$2,689. According to ASC 815-30-40, the amount deferred in accumulated other comprehensive loss until the date of the last amendment, amounting to \$677 as of December 31, 2017, will be amortized to earnings as the originally hedged cash flows affects the statement of income.

During April 2017, the Company's Brazilian subsidiary entered into similar agreements in order to hedge all the variability in a portion (50%) of the principal and interest payable of intercompany loan payables nominated in US dollar.

The following table presents information related to the terms of the agreements:

Bank	Payable			Receivable			Interest payment dates	Maturity
	Currency	Amount	Interest rate	Currency	Amount	Interest rate		
BAML (i)	BRL	156,250	13.64%	\$	50,000	6.91%	March 31/ September 30	April 2027
Banco Santander S.A.	BRL	155,500	13.77%	\$	50,000	6.91%	June 30/ December 31	September 2023

- (i) Bank of America Merrill Lynch Banco Múltiplo S.A.

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**13. Derivative instruments (continued)***Derivatives designated as hedging instruments (continued)**Cash flow hedge (continued)*Cross-currency interest rate swap (continued)

The Company paid \$8,692, \$10,671 and \$6,163 of net interest during the fiscal years ended December 31, 2019, 2018 and 2017, respectively.

Call spread

During April 2017, the Company's Brazilian subsidiary entered into two call spread agreements in order to hedge the variability in a portion (50%) of the principal of intercompany loan payables nominated in US dollar. Call spread agreements consist of a combination of two call options: the Company bought an option to buy US dollar at a strike price equal to the BRL exchange rate at the date of the agreements, and wrote an option to buy US dollar at a higher strike price than the previous one. Both pair of options have the same notional amount and are based on the same underlying with the same maturity date.

The following table presents information related to the terms of the agreements:

Bank	Nominal Amount		Strike price		Maturity
	Currency	Amount	Call option written	Call option bought	
Citibank S.A.	\$	50,000	4.49	3.11	September 2023
JP Morgan S.A.	\$	50,000	5.20	3.13	April 2027

Coupon-only swap

During April 2017, the Company's Brazilian subsidiary entered into two coupon-only swap agreements in order to hedge the variability (50%) in the interest payable related to the intercompany loan aforementioned.

The following table presents information related to the terms of the agreements:

Bank	Payable			Receivable			Interest payment dates	Maturity
	Currency	Amount	Interest rate	Currency	Amount	Interest rate		
Citibank S.A.	BRL	155,500	11.08%	\$	50,000	6.91%	June 30/ December 31 March 31/ September	September 2023
JP Morgan S.A.	BRL	156,250	11.18%	\$	50,000	6.91%	30	April 2027

The Company paid \$2,036, \$2,900 and \$1,390 of net interest during the fiscal years ended December 31, 2019, 2018 and 2017, respectively, related to these agreements.



## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 13. Derivative instruments (continued)

##### *Derivatives designated as hedging instruments (continued)*

##### *Cash flow hedge (continued)*

##### Additional disclosures

The following table present the pretax amounts affecting income and other comprehensive income for the fiscal years ended December 31, 2019, 2018 and 2017 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)			(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion) (i)		
	2019	2018	2017	2019	2018	2017
Forward contracts	\$ (10)	\$ 731	\$ (1,344)	\$ (711)	\$ (75)	\$ 1,236
Cross-currency interest rate swaps	(8,506)	11,279	5,828	2,056	(18,888)	1,965
Call Spread	4,377	4,034	21,047	(3,561)	(15,421)	2,791
Coupon-only swap	(1,889)	1,864	(13,598)	1,860	2,415	(5,933)
<b>Total</b>	<b>\$ (6,028)</b>	<b>\$ 17,908</b>	<b>\$ 11,933</b>	<b>\$ (356)</b>	<b>\$ (31,969)</b>	<b>\$ 59</b>

- (i) The results recognized in income related to forward contracts were recorded as an adjustment to food and paper. The net gain (loss) recognized in income, related to cross-currency interest rate swaps is presented as follows:

Adjustment to:	2019	2018	2017
Foreign currency exchange results	\$ 6,346	\$ 28,588	\$ 7,532
Net interest expense	(8,402)	(9,700)	(9,497)
<b>Total</b>	<b>\$ (2,056)</b>	<b>\$ 18,888</b>	<b>\$ (1,965)</b>

The results recognized in income related to call spread agreements and coupon-only swap agreements were recorded as an adjustment to foreign currency exchange and interest expense, respectively.

##### Fair value hedge

##### Cross-currency interest rate swaps

On March 29, 2016, the Company entered into five cross-currency interest rate swap agreements to fully hedge the principal and interest cash flows of the Secured Loan Agreement described in Note 12, into BRL. The agreements were signed with the Brazilian subsidiaries of the banks participating in the secured loan. All the terms of the cross-currency interest rate swap agreements matched the terms of the Secured Loan Agreement. Pursuant to these agreements, the Company received interest in US dollar at an interest rate equal to the one it had to pay to the off-shore lenders over a notional amount of \$167.3 million and paid interest in BRL at CDI plus 4.50% per year, over a notional amount of BRL 613.9 million quarterly, beginning June 2016.

During April 2017, the Company unwound these agreements as a consequence of the repayment of the Secured Loan Agreement mentioned in Note 12. The total payment amounted to \$39.1 million (BRL122.7 million), including \$0.9 million of accrued and unpaid interest.

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**13. Derivative instruments (continued)***Derivatives designated as hedging instruments (continued)*

During fiscal year 2017, the accrued interest amounted to \$6,921. This charge do not include the effect of the Secured Loan Agreement mentioned in Note 12, amounting to a loss of \$2,570. Including this effect the total interest cost amounts to \$9,491.

These amounts were recorded within "Net interest expense" in the Company's consolidated statement of income. According to ASC 815-25-35, the change in the fair value of the hedging instrument and the change in the fair value of the hedged item shall be recognized in earnings. If those results are not perfectly offset, the difference shall be considered as hedge ineffectiveness.

The following table presents the pretax amounts affecting income for the fiscal year ended December 31, 2017:

Derivatives in Fair Value Hedging Relationships	Cross-currency swaps (i)
	2017
Loss recognized in Income on hedging derivatives	(9,599)
Gain recognized in Income on hedging items	4,118

- (i) The loss amounting to \$5,481 in 2017, related to the ineffective portion of derivatives, was recorded within "Gain (loss) from derivative instruments" in the Company's consolidated statement of income.

*Derivatives not designated as hedging instruments*

The Company enters into certain derivatives that are not designated for hedge accounting, therefore the changes in the fair value of these derivatives are recognized immediately in earnings, together with the gain or loss from the hedged balance sheet position within "Gain (loss) from derivative instruments".

The Company collected (paid) \$787, (\$81) and (\$1,156) during the fiscal years ended December 31, 2019, 2018 and 2017, respectively, related to those forward contracts.

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**14. Leases**

The Company leases locations through ground leases (the Company leases the land and owns the building) and through improved leases (the Company leases land and buildings). The operating leases are mainly related to restaurant and dessert center locations. The average of lease's terms is about 15 years and, in many cases, include renewal options provided by the agreement or government's regulations, as there are reasonably certain to be exercised. Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed the initial lease term, and the sales performance of the restaurant remains strong. Therefore, its associated payments are included in the measurement of the right-of-use asset and lease liability. Although, certain leases contain purchase options, is not reasonably certain that the Company will exercise them. In addition, many agreements include escalations amounts that vary by reporting unit, for example, including fixed-rent escalations, escalations based on an inflation index, and fair value adjustments. According to rental terms, the Company pays monthly rent based on the greater of a fixed rent or a certain percentage of the Company's gross sales. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. Furthermore, the Company is the lessee under non-cancelable leases covering certain offices and warehouses.

The Company has elected not to separate non-lease components from lease components in its lessee portfolio. For most locations, the Company is obliged for the related occupancy costs, such as maintenance.

In addition, in March 2010, the Company entered into an aircraft operating lease agreement for a term of 8 years, which provides for quarterly payments of \$690. The agreement includes a purchase option at the end of the lease term at fair market value and also an early purchase option at a fixed amount of \$26,685 at maturity of the 24<sup>th</sup> quarterly payment. On December 22, 2017, the Company signed an amendment, extending the term of the aircraft operating lease for an additional 10 years, with quarterly payments (retroactively effective as of December 5, 2017) of \$442. The Company was required to make a cash collateral deposit of \$2,500 under this agreement.

At December 31, 2019, future minimum payments required under existing operating leases are:

	<b>Restaurant</b>	<b>Other</b>	<b>Total (i)</b>
2020	\$ 143,982	\$ 5,387	\$ 149,369
2021	136,699	3,968	140,667
2022	130,637	2,822	133,459
2023	125,830	2,383	128,213
2024	121,880	2,258	124,138
Thereafter	976,397	8,017	984,414
<b>Total minimum payment</b>	<b>\$ 1,635,425</b>	<b>\$ 24,835</b>	<b>\$ 1,660,260</b>
Lease discount			(728,531)
<b>Operating lease liability</b>			<b>\$ 931,729</b>

- (i) The Company has certain leases subject to index adjustments. Historically, the Company has calculated and disclosed future minimum payments for these leases using the inflation index rate as of the end of the reporting period. As part of the adoption of ASC 842, the Company used the effective index rate at transition date in its disclosure and calculation of the lease liability. However, for leases entered into after January 1, 2019, the inflation index rate will be used to calculate the lease liability only when a lease modification occurs.

The Company maintains a few finance leases agreements, previously classified as capital leases. As of December 31, 2019 and 2018 the obligation amounts to \$5,419 and \$6,503 respectively, included within "Long-term debt" in the Consolidated Balance Sheet.

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**14. Leases (continued)**

The following table is a summary of the Company's components of lease cost for fiscal years 2019, 2018 and 2017:

<b>Lease Expense</b>	<b>Statements of Income Location</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Operating lease expense - Minimum rentals:</b>				
Company-operated restaurants	Occupancy and other operating expenses	\$ (104,236)	\$ (105,358)	\$ (107,006)
Franchised restaurants	Franchised restaurants - occupancy expenses	(34,727)	(30,970)	(31,490)
General and administrative	General and administrative expenses	(7,614)	(7,610)	(9,319)
<b>Subtotal</b>		<b>(146,577)</b>	<b>(143,938)</b>	<b>(147,815)</b>
<b>Variable lease expense - Contingent rentals based on sales:</b>				
Company-operated restaurants	Occupancy and other operating expenses	(29,562)	(33,921)	(41,499)
Franchised restaurants	Franchised restaurants - occupancy expenses	(12,878)	(14,595)	(23,221)
<b>Subtotal</b>		<b>(42,440)</b>	<b>(48,516)</b>	<b>(64,720)</b>
<b>Total lease expense</b>		<b>\$ (189,017)</b>	<b>\$ (192,454)</b>	<b>\$ (212,535)</b>

<b>Other information</b>	<b>2019</b>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 135,788
Right-of-use assets obtained in exchange for new lease liabilities	
Operating leases	118,285
Weighted-average remaining lease term (years)	
Operating leases	8
Weighted-average discount rate	
Operating leases	5%

**15. Franchise arrangements**

Individual franchise arrangements generally include a lease, a license and provide for payment of initial franchise fees, as well as continuing rent and service fees (royalties) to the Company based upon a percentage of sales with minimum rent payments. The company's franchisees are granted the right to operate a restaurant using the McDonald's system and, in most cases, the use of a restaurant facility, generally for a period of 20 years. At the end of the 20-year franchise arrangement, the

Company maintains control of the underlying real estate and building and can either enter into a new franchise arrangement with the existing franchisee or a different franchisee, or close the restaurant. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. Pursuant to the MFAs, the Company pays initial fees and continuing service fees for franchised restaurants to McDonald's Corporation. Therefore, the margin for franchised restaurants is primarily comprised of rental income net of occupancy expenses (depreciation for owned property and equipment and/or rental expense for leased properties).

At December 31, 2019 and 2018, net property and equipment under franchise arrangements totaled \$123,832 and \$124,039, respectively (including land for \$32,373 and \$34,109, respectively).

Revenues from franchised restaurants for fiscal years 2019, 2018 and 2017 consisted of:

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**15. Franchise arrangements (continued)**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Rent (i)	\$ 145,860	\$ 148,094	\$ 155,405
Initial fees (ii) (iii)	287	195	1,205
Royalty fees (iv)	643	673	659
<b>Total</b>	<b>\$ 146,790</b>	<b>\$ 148,962</b>	<b>\$ 157,269</b>

- (i) Includes rental income of own buildings and subleases. As of December 31, 2019 the subleases rental income amounted to \$114,459.
- (ii) Presented net of initial fees paid to McDonald's Corporation for \$1,456, \$1,323 and \$1,417 in 2019, 2018 and 2017, respectively.
- (iii) On January 1, 2018, the Company adopted ASC 606 "Revenue Recognition - Revenue from Contracts with Customers". As such, initial franchise fees received are deferred over the term of the franchise agreement. See Note 3 Revenue Recognition, for details.
- (iv) Presented net of royalties fees paid to McDonald's Corporation for \$57,709, \$57,733 and \$64,806 in 2019, 2018 and 2017, respectively.

At December 31, 2019, future minimum rent payments due to the Company under existing franchised agreements are:

	<b>Owned sites</b>	<b>Leased sites</b>	<b>Total</b>
2020	\$ 4,063	\$ 59,424	\$ 63,487
2021	3,220	54,161	57,381
2022	2,391	48,699	51,090
2023	2,154	41,998	44,152
2024	2,048	35,618	37,666
Thereafter	9,938	173,639	183,577
<b>Total</b>	<b>\$ 23,814</b>	<b>\$ 413,539</b>	<b>\$ 437,353</b>

**16. Income taxes**

The Company's operations are conducted by its foreign subsidiaries in Latin America and the Caribbean. The foreign subsidiaries are incorporated under the laws of their respective countries and as such the Company is taxed in such foreign countries.

Statutory tax rates in the countries in which the Company operates for fiscal years 2019, 2018 and 2017 were as follows:

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#### 16. Income taxes (continued)

	2019	2018	2017
Puerto Rico	18.5%	20.0%	20.0%
Curacao	22.0%	22.0%	35.0%
USVI	22.5%	22.5%	35.0%
Aruba	25.0%	25.0%	35.0%
Panamá, Uruguay, Trinidad and Tobago and Netherlands	25.0%	25.0%	25.0%
Ecuador	25.0%	28.0%	25.0%
Chile	27.0%	27.0%	25.5%
Peru	29.5%	29.5%	29.5%
Argentina	30.0%	30.0%	35.0%
Costa Rica and Mexico	30.0%	30.0%	30.0%
Martinique, French Guyana and Guadeloupe	31.0%	33.3%	35.0%
Colombia	33.0%	37.0%	40.0%
Brazil and Venezuela	34.0%	34.0%	34.0%

Income tax expense for fiscal years 2019, 2018 and 2017 consisted of the following:

	2019	2018	2017
Current income tax expense	\$ 46,811	\$ 47,488	\$ 51,215
Deferred income tax expense	(7,974)	648	2,099
<b>Income tax expense</b>	<b>\$ 38,837</b>	<b>\$ 48,136</b>	<b>\$ 53,314</b>

Income tax expense for fiscal years 2019, 2018 and 2017, differed from the amounts computed by applying the Company's weighted-average statutory income tax rate to pre-tax income as a result of the following:

	2019	2018	2017
Pre-tax income	\$ 118,953	\$ 85,169	\$ 182,813
Weighted-average statutory income tax rate (i)	36.6%	42.7%	35.5%
Income tax expense at weighted-average statutory tax rate on pre-tax income	43,488	36,354	64,901
<u>Permanent differences:</u>			
Change in valuation allowance (ii)	(24,864)	(24,307)	(21,241)
Expiration and changes in tax loss carryforwards (iii)	17,799	18,599	12,785
Venezuelan remeasurement and inflationary impacts (iv)	1,743	16,857	2,683
Non-taxable income and non-deductible expenses	7,667	8,406	10,157
Tax benefits	(9,667)	(11,403)	(10,744)
Income taxes withholdings on intercompany transactions (v)	5,005	7,723	6,804
Differences including exchange rate, inflation adjustment and filing differences	(2,647)	(2,815)	(11,909)
Alternative Taxes	658	(1,283)	156
Others	(345)	5	(278)
<b>Income tax expense</b>	<b>\$ 38,837</b>	<b>\$ 48,136</b>	<b>\$ 53,314</b>

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**16. Income taxes (continued)**

- (i) Weighted-average statutory income tax rate is calculated based on the aggregated amount of the income before taxes by country multiplied by the prevailing statutory income tax rate, divided by the consolidated income before taxes.
- (ii) Comprises net changes in valuation allowances for the year, mainly related to net operating losses.
- (iii) Expiration of loss tax carryforwards are mainly generated by holding legal entities and the Caribbean division.
- (iv) Comprises changes in valuation allowance during 2019, 2018 and 2017 for \$983, \$(304) and \$2,108, respectively.
- (v) Comprises income tax withheld on the payment of interest on intercompany loans.

The tax effects of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities at December 31, 2019 and 2018 are presented below:

	<b>2019</b>	<b>2018</b>
Tax loss carryforwards (i)	\$ 144,759	\$ 178,993
Purchase price allocation adjustment	15,158	17,006
Property and equipment, tax inflation	36,690	38,588
Other accrued payroll and other liabilities	33,065	30,300
Share-based compensation	2,062	2,591
Provision for contingencies	2,534	2,708
Other deferred tax assets (ii)	56,927	26,193
Other deferred tax liabilities (iii)	(32,280)	(7,979)
Property and equipment - difference in depreciation rates	(418)	(11,103)
Valuation allowance (iv)	(194,426)	(219,920)
<b>Net deferred tax asset</b>	<b>\$ 64,071</b>	<b>\$ 57,377</b>

- (i) As of December 31, 2019, the Company and its subsidiaries has accumulated net operating losses amounting to \$540,231. The Company has net operating losses amounting to \$192,736, expiring between 2020 and 2024. In addition, the Company has net operating losses amounting to \$122,109 expiring after 2024 and net operating losses amounting to \$225,386 that do not expire. Changes in tax loss carryforwards for the year relate to expiration of net operating losses (NOLs), mainly in holding legal entities and uses of NOLs, mainly in Brazil and Chile.
- (ii) Other deferred tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets for financial reporting purposes (accounting base) and the amounts used for income tax purposes (tax base). For the fiscal year ended December 31, 2019, this item includes: difference in depreciation of leases (related to differences between ASC842 and local tax regulation) for \$30,524 mainly in Brazil; provision for regular expenses for \$10,376 mainly Brazil, Mexico and Colombia; and bad debt reserve in Puerto Rico for \$4,218. For the fiscal year ended December 31, 2018 this item includes bad debt reserve in Puerto Rico for \$4,967, provision for regular expenses for \$10,458, mainly corresponding to Brazil, Mexico and Colombia; and foreign currency exchange differences in Argentina and Brazil for \$4,736.
- (iii) Primarily related to leases contracts (related to differences between ASC842 and local tax regulation) and accelerated depreciation of fixed assets.
- (iv) In assessing the realization of deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

The total amount of \$64,071 for the year ended December 31, 2019, is presented in the consolidated balance sheet as non-current asset and non-current liability amounting to \$68,368 and \$4,297, respectively.

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#### 16. Income taxes (continued)

The total amount of \$57,377 for the year ended December 31, 2018, is presented in the consolidated balance sheet as non-current asset and non-current liability amounting to \$58,334 and \$957, respectively.

Deferred income taxes have not been recorded for temporary differences related to investments in certain foreign subsidiaries. These temporary differences, comprise undistributed earnings considered permanently invested in subsidiaries amounted to \$188,232 at December 31, 2019. Determination of the deferred income tax liability on these unremitted earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

As of December 31, 2019, and 2018, the Company has not identified unrecognized tax benefits that would favorably affect the effective tax rate if resolved in the Company's favor.

The Company account for uncertain tax positions by determining the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. This determination requires the use of significant judgment in evaluating the tax positions and assessing the timing and amounts of deductible and taxable items. The Company is regularly under audit in multiple tax jurisdictions and is currently under examination in several jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities for years prior to 2013.

As of December 31, 2019, there are certain matters related to the interpretation of income tax laws which could be challenged by tax authorities in an amount of \$183 million, related to assessments for the fiscal years 2009 to 2014. No formal claim has been made for fiscal years within the statute of limitation by Tax authorities in any of the mentioned matters, however those years are still subject to audit and claims may be asserted in the future.

It is reasonably possible that, as a result of audit progression within the next 12 months, there may be new information that causes the Company to reassess the tax positions because the outcome of tax audits cannot be predicted with certainty. While the Company cannot estimate the impact that new information may have on their unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate as determined under ASC 740.

#### 17. Share-based compensation

##### 2011 Equity Incentive Plan

In March 2011, the Company adopted its Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of its business. This Plan is being used to reward certain employees for the success of the Company's business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of shares (also referred to as stock), options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by the Company's Board of Directors. The maximum number of shares that may be issued under the 2011 Plan is 2.5% of the Company's total outstanding class A and class B shares immediately following its initial public offering.

The Company made a special grant of stock options and restricted share units in 2011 in connection with its initial public offering, which are totally vested. The Company also made recurring grants of stock options and restricted share units in each of the fiscal years from 2011 to 2019 (from 2015 to 2019 only restricted share units). From 2011 to 2018, both types of these recurring annual awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. The 2019 award vests on May 10, 2020. However, in the event of death, disability or retirement of the employee, any unvested portion of the annual award will be fully vested. For all grants, each stock option granted represents the right to acquire a Class A share at its grant-date fair market value, while each restricted share unit represents the right to receive a Class A share when vested. The exercise right for the stock options is cumulative and, once such right becomes exercisable, it may be exercised in whole or in part during quarterly window periods until the date of termination, which occurs at the seventh anniversary of the grant date. The Company utilizes a Black-Scholes option-pricing model to estimate the value of stock options at the grant date. The value of restricted shares units is based on the quoted market price of the Company's class A shares at the grant date.



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**17. Share-based compensation (continued)**2011 Equity Incentive Plan (continued)

On June 28, 2016, 1,117,380 stock options were converted to a liability award maintaining the original conditions of the 2011 Plan. There were not incremental compensation costs resulting from the modification. The employees affected by this modification were 104. The accrued liability is remeasured on a monthly basis until settlement.

The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The Company recognized stock-based compensation expense related to this award in the amount of \$1,884, \$3,661 and \$3,267 during fiscal years 2019, 2018 and 2017, respectively. Stock-based compensation expense is included within “General and administrative expenses” in the consolidated statements of income.

The Company recognized \$(422), \$(175) and \$151 of related income tax (expense) benefit during fiscal years 2019, 2018 and 2017, respectively.

*Stock Options*

The following table summarizes the activity of stock options during fiscal years 2019, 2018 and 2017:

	Units	Weighted-average strike price	Weighted-average grant-date fair value
<b>Outstanding at December 31, 2016</b>	<b>776,475</b>	<b>15.55</b>	<b>4.46</b>
Expired (i)	(141,986)	21.20	5.28
<b>Outstanding at December 31, 2017</b>	<b>634,489</b>	<b>14.28</b>	<b>4.28</b>
Expired (i)	(143,416)	21.20	5.89
<b>Outstanding at December 31, 2018</b>	<b>491,073</b>	<b>12.26</b>	<b>3.81</b>
Expired (i)	(216,633)	14.35	5.13
<b>Outstanding at December 31, 2019</b>	<b>274,440</b>	<b>10.62</b>	<b>2.77</b>
<b>Exercisable at December 31, 2019</b>	<b>274,440</b>	<b>10.62</b>	<b>2.77</b>

(i) As of December 31, 2019, 2018 and 2017, additional paid-in capital included \$1,111, \$844 and \$750, respectively, related to expired stock options.

The following table provides a summary of outstanding stock options at December 31, 2019:

	<b>Vested (i)</b>
Number of units outstanding	274,440
Weighted-average grant-date fair market value per unit	2.77
Total grant-date fair value	760
Weighted-average accumulated percentage of service	100%
Stock-based compensation recognized in Additional paid-in capital	760

(i) Related to exercisable awards.

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**17. Share-based compensation (continued)***Restricted Share Units*

The following table summarizes the activity of restricted share units during fiscal years 2019, 2018 and 2017:

	Units	Weighted-average grant-date fair value
<b>Outstanding at December 31, 2016</b>	<b>1,780,997</b>	<b>6.07</b>
2017 annual grant	497,960	9.20
Partial vesting	(361,284)	7.65
Forfeitures	(180,828)	5.99
<b>Outstanding at December 31, 2017</b>	<b>1,736,845</b>	<b>6.65</b>
2018 annual grant	520,393	8.50
Partial vesting	(534,589)	6.01
Forfeitures	(117,600)	7.24
<b>Outstanding at December 31, 2018</b>	<b>1,605,049</b>	<b>7.41</b>
2019 annual grant	35,000	8.00
Partial vesting of 2014 grant	(38,222)	8.58
Partial vesting of 2015 grant	(115,634)	6.33
Partial vesting of 2016 grant	(134,501)	4.70
Partial vesting of 2017 grant	(174,232)	9.20
Forfeitures	(239,621)	7.74
<b>Outstanding at December 31, 2019</b>	<b>937,839</b>	<b>7.50</b>
<b>Exercisable at December 31, 2019</b>	<b>—</b>	<b>—</b>

The total fair value of restricted share units vested during 2019, 2018 and 2017 was \$3,295, \$3,214 and \$2,763, respectively. As of December 31, 2019 the Company issued 470,558 Class A shares, of which 10,870 are related to the 2018 partial vesting. Therefore, accumulated recorded compensation expense totaling \$3,359 was reclassified from “Additional paid-in capital” to “Common Stock” upon issuance. As of December 31, 2019, there were 3,154 and 2,901 Class A shares, amounting to \$18 and \$20, pending of issuance in connection with the partial vestings 2019 and 2018, respectively.

The following table provides a summary of outstanding restricted share units at December 31, 2019:

Number of units outstanding (i)	937,839
Weighted-average grant-date fair market value per unit	7.50
Total grant-date fair value	7,034
Weighted-average accumulated percentage of service	67.40%
Stock-based compensation recognized in Additional paid-in capital	4,741
Compensation expense not yet recognized (ii)	2,293

(i) Related to awards that will vest between fiscal years 2020 and 2023.

(ii) Expected to be recognized in a weighted-average period of 1.2 years.

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**17. Share-based compensation (continued)**Phantom RSU Award

In May 2019, the Company implemented a new long-term incentive plan (called Phantom RSU Award) to reward employees giving them the opportunity to share the success of the Company in the creation of value for its shareholders. In accordance with this plan, the Company granted units (called “Phantom RSU”) to certain employees, pursuant to which they are entitled to receive, when vested, a cash payment equal to the closing price of one Class A share on the respective day in which this benefit is due and the corresponding dividends per-share (if any) formally declared and paid during the service period.

The award has two types of grant. Phantom RSU type one has 465,202 units which vest over a requisite service period of five years as follows: 40% at the second anniversary of the date of grant and 20% at each of the following three years. The Company recognizes compensation expense related to these benefits on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Phantom RSU type two has 1,207,455 units which vest 100% at the fifth anniversary from the date of grant. The grant-date stock price of both types of grants was \$6.78.

The total compensation cost as of December 31, 2019, amounts to \$2,102 which has been recorded under “General and administrative expenses” within the consolidated statement of income. The accrued liability is remeasured at the end of each reporting period until settlement.

The following table summarizes the activity under the plan as of December 31, 2019:

	<b>Units</b>
Grant 2019	1,672,657
Forfeited	(10,837)
<b>Outstanding at December 31, 2019</b>	<b>1,661,820</b>

	<b>Total Non-vested (i)</b>
Number of units outstanding	1,661,820
Current share price	8.10
Total fair value of the plan	13,461
Weighted-average accumulated percentage of service	15.62%
Accrued liability (ii)	2,102
Compensation expense not yet recognized (iii)	11,359

- (i) Related to awards that will vest between May 2021 and May 2024.
- (ii) Presented within “Accrued payroll and other liabilities” in the Company’s non current liabilities balance sheet.
- (iii) Expected to be recognized in a weighted-average period of 3.97 years.

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#### 18. Commitments and contingencies

##### Commitments

The MFAs require the Company and its MF subsidiaries, among other obligations:

- (i) to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period and pay an initial franchise fee for each new restaurant opened;
- (ii) to pay monthly royalties commencing at a rate of approximately 5% of gross sales of the restaurants, during the first 10 years, substantially consistent with market. This percentage increases to 6% and 7% for the subsequent two 5-year periods of the agreement. Nevertheless, on occasions McDonald's provides the Company with support in order to encourage the Company growth plan;
- (iii) to commit to funding a specified Strategic Marketing Plan;
- (iv) to own (or lease) directly or indirectly, the fee simple interest in all real property on which any franchised restaurant is located; and
- (v) to maintain a minimum fixed charge coverage ratio (as defined therein) at least equal to 1.50 as well as a maximum leverage ratio (as defined therein) of 4.25.

If the Company would not be in compliance with these commitments under the MFA, it could be in material breach. A breach of the MFA would give McDonald's Corporation certain rights, including the ability to acquire all or portions of the business.

The following table summarize Company's ratios requirements for the three-month periods ended from March 31, 2019 to December 31, 2019, for which the Company is in compliance:

	<b>Fixed Charge Coverage Ratio</b>	<b>Leverage Ratio</b>
March 31, 2019	1.83	3.83
June 30, 2019	1.86	3.76
September 30, 2019	1.80	3.83
December 31, 2019	1.86	3.77

In addition, the Company maintains standby letters of credit with an aggregate drawing amount of \$80 million in favor of McDonald's Corporation as collateral for the obligations assumed under the MFAs. The letters of credit can be drawn if certain events occur, including the failure to pay royalties. No amounts have been drawn at the date of issuance of these financial statements.

## Arcos Dorados Holdings Inc.

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#### 18. Commitments and contingencies (continued)

##### Provision for contingencies

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. At December 31, 2019 and 2018, the Company maintains a provision for contingencies, net of judicial deposits, amounting to \$26,158 and \$28,509, respectively, presented as follow: \$2,035 and \$2,436 as a current liability and \$24,123 and \$26,073 as a non-current liability, respectively. The breakdown of the provision for contingencies is as follows:

Description	Balance at beginning of period	Accruals, net	Settlements	Reclassifications and increase of judicial deposits	Translation	Balance at end of period
<b>Year ended December 31, 2019:</b>						
Tax contingencies in Brazil (i)	\$ 9,497	\$ 1,455	\$ —	\$ —	\$ (357)	\$ 10,595
Labor contingencies in Brazil (ii)	21,108	12,916	(16,068)	—	(1,117)	16,839
Other (iii)	11,462	3,070	(1,700)	—	(1,428)	11,404
<b>Subtotal</b>	<b>42,067</b>	<b>17,441</b>	<b>(17,768)</b>	<b>—</b>	<b>(2,902)</b>	<b>38,838</b>
Judicial deposits (iv)	(13,558)	—	—	354	524	(12,680)
<b>Provision for contingencies</b>	<b>\$ 28,509</b>	<b>\$ 17,441</b>	<b>\$ (17,768)</b>	<b>\$ 354</b>	<b>\$ (2,378)</b>	<b>\$ 26,158</b>
<b>Year ended December 31, 2018:</b>						
Tax contingencies in Brazil (i)	\$ 9,324	\$ 1,805	\$ —	\$ —	\$ (1,632)	\$ 9,497
Labor contingencies in Brazil (ii)	21,061	20,785	(17,718)	—	(3,020)	21,108
Other (iii)	15,646	1,405	(1,984)	—	(3,605)	11,462
<b>Subtotal</b>	<b>46,031</b>	<b>23,995</b>	<b>(19,702)</b>	<b>—</b>	<b>(8,257)</b>	<b>42,067</b>
Judicial deposits (iv)	(18,075)	—	—	1,843	2,674	(13,558)
<b>Provision for contingencies</b>	<b>\$ 27,956</b>	<b>\$ 23,995</b>	<b>\$ (19,702)</b>	<b>\$ 1,843</b>	<b>\$ (5,583)</b>	<b>\$ 28,509</b>
<b>Year ended December 31, 2017:</b>						
Tax contingencies in Brazil (i)	\$ 13,312	\$ (2,599)	\$ (337)	\$ (667)	\$ (385)	\$ 9,324
Labor contingencies in Brazil (ii)	11,150	31,448	(21,130)	—	(407)	21,061
Other (iii)	12,222	7,150	(3,960)	17	217	15,646
<b>Subtotal</b>	<b>36,684</b>	<b>35,999</b>	<b>(25,427)</b>	<b>(650)</b>	<b>(575)</b>	<b>46,031</b>
Judicial deposits (iv)	(18,572)	161	—	(60)	396	(18,075)
<b>Provision for contingencies</b>	<b>\$ 18,112</b>	<b>\$ 36,160</b>	<b>\$ (25,427)</b>	<b>\$ (710)</b>	<b>\$ (179)</b>	<b>\$ 27,956</b>

(i) In 2019, 2018 and 2017, it includes mainly CIDE.

(ii) It primarily relates to dismissals in the normal course of business.

(iii) It relates to tax and labor contingencies in other countries and civil contingencies in all the countries.

(iv) It primarily relates to judicial deposits the Company was required to make in connection with the proceedings in Brazil.

As of December 31, 2019, there are certain matters related to the interpretation of tax, labor and civil laws for which there is a possibility that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of \$210 million and \$227 million.

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#### 18. Commitments and contingencies (continued)

##### Provision for contingencies (continued)

Additionally, there is a lawsuit filed by several Puerto Rican franchisees against McDonald's Corporation and certain subsidiaries purchased by the Company during the acquisition of the LatAm business ("the Puerto Rican franchisees lawsuit").

The claim seeks declaratory judgment and damages in the aggregate amount of \$66.7 million plus plaintiffs' attorney fees. At the end of 2014 the plaintiffs finalized their presentation of evidence whereas the Company has not started yet. At that time, the Company filed a Motion of Non Suit. As of today, the Company has not been notified of any resolution made by the Commissioner assigned to this case. The Company believes that the probability of a loss is remote. Nevertheless, during December 2019, some of the Puerto Rican franchisees reached a Confidential Settlement Agreement with the Company finalizing all controversies and disputes among such parties. As a consequence of this agreement, the aggregate amount will be reduced.

During 2014, another franchisee filed a complaint ("the related Puerto Rican franchisee lawsuit") against the Company and McDonald's USA, LLC (a wholly owned subsidiary of McDonald's Corporation), asserting a very similar claim to the one filed in the Puerto Rican franchisees lawsuit. The claim seeks declaratory judgment and damages in the amount of \$30 million plus plaintiffs' attorney fees. During December 2019, the franchisee reached a Confidential Settlement Agreement with the Company finalizing all controversies and disputes among them.

Furthermore, the Puerto Rico Owner Operator's Association ("PROA"), an association integrated by the Company's franchisees that meets periodically to coordinate the development of promotional and marketing campaigns (an association that at the time of the claim was formed solely by franchisees that are plaintiffs in the Puerto Rican franchisees lawsuit), filed a third party complaint and counterclaim ("the PROA claim") against the Company and other third party defendants, in the amount of \$31 million. On June 9, 2014, after several motions for summary judgment duly filed and opposed by the parties, the First Instance Court entered a "Partial Summary Judgment and Resolution" in favor of PROA, before initiating the discovery phase, finding that the Company must participate and contribute funds to the association. However, the Court did not specify any amount for which the Company should be held liable, due to its preliminary and interlocutory nature, and the lack of discovery conducted regarding the amounts claimed by the plaintiffs. By means of a Motion to Reconsider, the Company opposed such determination. In December 2018, the First Instance Court confirmed his determination and the Company filed a Certiorari in the Court of Appeals. In July 2019, the Court of Appeals issued Judgment revoking the Court of First Instance's summary judgment in favor of PROA. PROA filed in the Puerto Rico Supreme Court an appeal of such determination, which was denied by the Court and PROA filed a reconsideration.

The Company believes that the probability of a loss is remote, considering: (i) the obligation to contribute is not directed towards a cooperative, (ii) the franchise agreement does not contain a provision that makes it mandatory to participate in the cooperative, and (iii) PROA's by-laws state that participation in the cooperative is voluntary, among other arguments. Therefore, no provision has been recorded.

Pursuant to Section 9.3 of the Stock Purchase Agreement, McDonald's Corporation indemnifies the Company for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisees lawsuit. Pursuant to the MFA, the Company indemnifies McDonald's for PROA claim.

At December 31, 2019, the provision for contingencies includes \$1,612 (\$3,970 at December 31, 2018), related to Brazilian claims that are covered by the indemnification agreement. As a result, the Company has recorded a non-current asset in respect of McDonald's Corporation's indemnity in the consolidated balance sheet. The asset in respect of McDonald's Corporation's indemnity represents the amount of cash to be received as a result of settling certain Brazilian labor and tax contingencies.

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#### 19. Disclosures about fair value of financial instruments

As defined in ASC 820 Fair Value Measurement and Disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The transaction is based on a hypothetical transaction in the principal or most advantageous market considered from the perspective of the market participant that holds the asset or owes the liability. The valuation techniques that can be used under this guidance are the market approach, income approach or cost approach. The market approach uses prices and other information for market transactions involving identical or comparable assets or liabilities, such as matrix pricing. The income approach uses valuation techniques to convert future amounts to a single discounted present amount based on current market conditions about those future amounts, such as present value techniques, option pricing models (e.g. Black-Scholes model) and binomial models (e.g. Monte-Carlo model). The cost approach is based on current replacement cost to replace an asset.

The Company utilizes market data or assumptions that market participants who are independent, knowledgeable and willing and able to transact would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observance of those inputs. The guidance establishes a formal fair value hierarchy based on the inputs used to measure fair value. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements, and accordingly, level 1 measurement should be used whenever possible.

The three levels of the fair value hierarchy as defined by the guidance are as follows:

Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment. Examples include exchange-traded derivatives and listed equities that are actively traded.

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Financial instruments that are valued using models or other valuation methodologies are included. Models used should primarily be industry-standard models that consider various assumptions and economic measures, such as interest rates, yield curves, time value, volatilities, contract terms, current market prices, credit risk or other market-corroborated inputs. Examples include most over-the-counter derivatives (non-exchange traded), physical commodities, most structured notes and municipal and corporate bonds.

Level 3: Valuations utilizing significant unobservable inputs provides the least objective evidence of fair value and requires a significant degree of judgment. Inputs may be used with internally developed methodologies and should reflect an entity's assumptions using the best information available about the assumptions that market participants would use in pricing an asset or liability. Examples include certain corporate loans, real-estate and private equity investments and long-dated or complex over-the-counter derivatives.

Depending on the particular asset or liability, input availability can vary depending on factors such as product type, longevity of a product in the market and other particular transaction conditions. In some cases, certain inputs used to measure fair value may be categorized into different levels of the fair value hierarchy. For disclosure purposes under this guidance, the lowest level that contains significant inputs used in valuation should be chosen. Pursuant to ASC 820-10-50, the Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. The fair values of the Company's derivatives are valued based upon quotes obtained from counterparties to the agreements and are designated as Level 2.

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

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#### 19. Disclosures about fair value of financial instruments (continued)

	Quoted Prices in Active Markets For Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Balance as of December 31,	Balance as of December 31,
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Assets</b>								
Cash equivalents	\$ 49,038	\$ 118,948	\$ —	\$ —	\$ —	\$ —	\$ 49,038	\$ 118,948
Short-term Investments	25	—	—	—	—	—	25	—
Derivatives	—	—	58,107	55,463	—	—	58,107	55,463
<b>Total Assets</b>	<b>\$ 49,063</b>	<b>\$ 118,948</b>	<b>\$ 58,107</b>	<b>\$ 55,463</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 107,170</b>	<b>\$ 174,411</b>
<b>Liabilities</b>								
Derivatives	\$ —	—	14,037	\$ 14,203	\$ —	\$ —	14,037	14,203
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 14,037</b>	<b>\$ 14,203</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 14,037</b>	<b>\$ 14,203</b>

The derivative contracts were valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates that were observable for substantially the full term of the derivative contracts.

#### Certain financial assets and liabilities not measured at fair value

At December 31, 2019, the fair value of the Company's short-term and long-term debt was estimated at \$701,538, compared to a carrying amount of \$650,040. This fair value was estimated using various pricing models or discounted cash flow analysis that incorporated quoted market prices, and is similar to Level 2 within the valuation hierarchy. The carrying amount for notes receivable approximates fair value.

#### Non-financial assets and liabilities measured at fair value on a nonrecurring basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At December 31, 2019, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities, except for those required in connection with the impairment of long-lived assets and goodwill. Refer to Note 3 for more details, including inputs and valuation techniques used to measure fair value of these non-financial assets.

#### 20. Certain risks and concentrations

The Company's financial instruments that are exposed to concentration of credit risk primarily consist of cash and cash equivalents and accounts and notes receivable. Cash and cash equivalents are deposited with various creditworthy financial institutions, and therefore the Company believes it is not exposed to any significant credit risk related to cash and cash equivalents. Concentrations of credit risk with respect to accounts and notes receivable are generally limited due to the large number of franchisees comprising the Company's franchise base.

All the Company's operations are concentrated in Latin America and the Caribbean. As a result, the Company's financial condition and results of operations depend, to a significant extent, on macroeconomic and political conditions prevailing in the region. See Note 22 for additional information pertaining to the Company's Venezuelan operations.



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**21. Segment and geographic information**

The Company is required to report information about operating segments in annual financial statements and interim financial reports issued to shareholders in accordance with ASC 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. ASC 280 also requires disclosures about the Company's products and services, geographical areas and major customers.

As discussed in Note 1, the Company through its wholly-owned and majority-owned subsidiaries operates and franchises McDonald's restaurants in the food service industry. The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting. The Company manages its business as distinct geographic segments and its operations are divided into four geographical divisions, which are as follows: Brazil; the Caribbean division, consisting of Aruba, Curacao, Colombia, French Guyana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin America division ("NOLAD"), consisting of Costa Rica, Mexico and Panama; and the South Latin America division ("SLAD"), consisting of Argentina, Chile, Ecuador, Peru and Uruguay. The accounting policies of the segments are the same as those described in Note 3.

The following table presents information about profit or loss and assets for each reportable segment:

	<b>For the fiscal years ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>			
Brazil	\$ 1,385,566	\$ 1,345,453	\$ 1,496,573
Caribbean division	399,251	483,743	474,822
NOLAD	431,266	406,848	386,874
SLAD	742,994	845,527	961,256
<b>Total revenues</b>	<b>\$ 2,959,077</b>	<b>\$ 3,081,571</b>	<b>\$ 3,319,525</b>
<b>Adjusted EBITDA:</b>			
Brazil	\$ 227,844	\$ 218,391	\$ 218,172
Caribbean division	24,955	(8,281)	40,844
NOLAD	39,027	32,313	33,717
SLAD	63,120	73,670	87,083
<b>Total reportable segments</b>	<b>354,946</b>	<b>316,093</b>	<b>379,816</b>
Corporate and others (i)	(63,171)	(58,096)	(74,879)
<b>Total adjusted EBITDA</b>	<b>\$ 291,775</b>	<b>\$ 257,997</b>	<b>\$ 304,937</b>

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**21. Segment and geographic information (continued)**

	For the fiscal years ended December 31,		
	2019	2018	2017
<b>Adjusted EBITDA reconciliation:</b>			
<b>Total Adjusted EBITDA</b>	\$ 291,775	\$ 257,997	\$ 304,937
<b>(Less) Plus items excluded from computation that affect operating income:</b>			
Depreciation and amortization	(123,218)	(105,800)	(99,382)
Gains from sale or insurance recovery of property and equipment	5,175	4,973	95,081
Write-offs of property and equipment	(4,733)	(4,167)	(8,528)
Impairment of long-lived assets	(8,790)	(18,950)	(17,564)
Impairment of goodwill	(273)	(167)	(200)
Reorganization and optimization plan expenses	—	(11,003)	—
2008 Long-Term Incentive Plan incremental compensation from modification	—	575	(1,409)
<b>Operating income</b>	<b>159,936</b>	<b>123,458</b>	<b>272,935</b>
<b>(Less) Plus:</b>			
Net interest expense	(52,079)	(52,868)	(68,357)
Gain (loss) from derivative instruments	439	(565)	(7,065)
Foreign currency exchange results	12,754	14,874	(14,265)
Other non-operating (expenses) income, net	(2,097)	270	(435)
Income tax expense	(38,837)	(48,136)	(53,314)
Net income attributable to non-controlling interests	(220)	(186)	(333)
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 79,896</b>	<b>\$ 36,847</b>	<b>\$ 129,166</b>

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#### 21. Segment and geographic information (continued)

	For the fiscal years ended December 31,		
	2019	2018	2017
<b>Depreciation and amortization:</b>			
Brazil	\$ 63,467	\$ 52,632	\$ 52,442
Caribbean division	18,481	22,835	25,210
NOLAD	21,422	20,829	20,635
SLAD	20,713	19,293	15,292
<b>Total reportable segments</b>	<b>124,083</b>	<b>115,589</b>	<b>113,579</b>
Corporate and others (i)	4,894	5,696	5,978
Purchase price allocation (ii)	(5,759)	(15,485)	(20,175)
<b>Total depreciation and amortization</b>	<b>\$ 123,218</b>	<b>\$ 105,800</b>	<b>\$ 99,382</b>

<b>Property and equipment expenditures:</b>			
Brazil	\$ 146,322	\$ 100,926	\$ 91,769
Caribbean division	15,934	18,640	16,759
NOLAD	32,662	24,145	17,565
SLAD	70,280	53,300	48,621
Others	37	30	52
<b>Total property and equipment expenditures</b>	<b>\$ 265,235</b>	<b>\$ 197,041</b>	<b>\$ 174,766</b>

	As of December 31,	
	2019	2018
<b>Total assets:</b>		
Brazil	\$ 1,328,984	\$ 751,550
Caribbean division	429,170	303,467
NOLAD	458,235	247,697
SLAD	389,976	291,300
<b>Total reportable segments</b>	<b>2,606,365</b>	<b>1,594,014</b>
Corporate and others (i)	67,195	105,835
Purchase price allocation (ii)	(115,875)	(121,810)
<b>Total assets</b>	<b>\$ 2,557,685</b>	<b>\$ 1,578,039</b>

- (i) Primarily relates to corporate general and administrative expenses, corporate supply chain operations in Uruguay, and related assets. Corporate general and administrative expenses consist of corporate office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. As of December 31, 2019 and 2018, corporate assets primarily includes corporate cash and cash equivalents, lease right of use and derivatives.
- (ii) Relates to the purchase price allocation adjustment made at corporate level, which reduces the total assets and the corresponding depreciation and amortization.

The Company's revenues are derived from two sources: sales by Company-operated restaurants and revenues from restaurants operated by franchisees. All of the Company's revenues are derived from foreign operations.

Long-lived assets consisting of property and equipment totaled \$960,986 and \$856,192 at December 31, 2019 and 2018, respectively. All of the Company's long-lived assets are related to foreign operations.

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**22. Venezuelan operations**

The Company conducts business in Venezuela where currency restrictions exist, limiting the Company's ability to immediately access cash through repatriations at the government's official exchange rate. The Company's access to Venezuelan Bolivares (VEF or VES) held by its Venezuelan subsidiaries remains available for use within this jurisdiction and is not restricted. The official exchange rate is established by the Central Bank of Venezuela.

Since February 2013, the Venezuelan government has announced several changes in the currency exchange regulations. The last modification was in February 2018, when the Venezuelan government announced the unification of the formerly exchange rate systems into a sole foreign exchange mechanism called DICOM. The unified system operates through an auction mechanism. During 2018, the Company accessed to DICOM at an exchange rate greater than the one published by the governmental authorities. Considering that under ASC 830, foreign currency transactions are required to be remeasured at the applicable rate at which a particular transaction could be settled, each time the Company access to NEW DICOM at an exchange rate greater than the one published, this rate is considered for remeasurements purposes.

On August 20, 2018, the Government announced the removal of five zeros from the Venezuelan currency and renamed it as "Sovereign Bolivar" (VES). In addition, the new currency devaluated from 2.48 to 59.93 VES per US dollar. Since that moment, the Sovereign Bolivar has been depreciating its value against US dollar. As of December 31, 2019, the exchange rate was 44,080.58 VES per US dollar.

The consequence of several reassessment of the exchange rate used for remeasurement purposes, the Company recognized negative impacts within the Consolidated Statement of Income, mainly related to the write down of certain inventories due to the impact on their net recoverable value, impairment of long-lived assets and foreign currency exchange results. The following table summarizes the impacts during fiscal years 2019, 2018 and 2017:

	2019	2018	2017
<b>Write down of inventories (i)</b>	\$ (4,468)	\$ (61,007)	\$ (4,079)
<b>Impairment of long-lived assets (i)</b>	(2,123)	(12,089)	(8,563)
<b>Foreign currency exchange (loss) income (ii)</b>	(583)	5,061	(4,269)

(i) Presented within Other operating income (expenses), net.

(ii) Presented within Foreign currency exchange results.

Revenues and operating (loss) income of the Venezuelan operations were \$10,184 and \$(8,240), respectively, for fiscal year 2019; \$78,859 and \$(52,054), respectively, for fiscal year 2018; and \$101,477 and \$6,804, respectively, for fiscal year 2017.

As of December 31, 2019, the Company's local currency denominated net monetary position, which would be subject to remeasurement in the event of further changes in the exchange rate, was net asset \$0.2 million (including \$0.4 million of cash and cash equivalents). In addition, Venezuela's non-monetary assets were \$13.6 million (mainly fixed assets).

In addition to exchange controls, the Venezuelan market is subject to price controls. The Venezuelan government issued a regulation establishing a maximum profit margin for companies and maximum prices for certain goods and services. Although these regulations caused a delay in the pricing plan, the Company was able to increase prices during the fiscal year ended December 31, 2019.

The Company's Venezuelan operations, and the Company's ability to repatriate its earnings, continue to be negatively affected by these difficult conditions and would be further negatively affected by additional devaluations or the imposition of additional or more stringent controls on foreign currency exchange, pricing, payments, profits or imports or other governmental actions or continued or increased labor unrest. The Company continues to closely monitor developments in this dynamic environment, to assess evolving business risks and actively manage its operations in Venezuela.

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#### 23. Shareholders' equity

##### Authorized capital

The Company is authorized to issue a maximum of 500,000,000 shares, consisting of 420,000,000 Class A shares and 80,000,000 Class B shares of no par value each.

##### Issued and outstanding capital

At December 31, 2016, the Company had 210,711,224 shares issued and outstanding with no par value, consisting of 130,711,224 class A shares and 80,000,000 class B shares.

During fiscal years 2019, 2018 and 2017, the Company issued 470,558, 520,565 and 361,284 Class A shares, respectively, in connection with the partial vesting of restricted share units under the 2011 Equity Incentive Plan.

In addition, on May 22, 2018, the Board of Directors approved the adoption of a share repurchase program, pursuant to which the Company may repurchase from time to time up to \$60,000 of issued and outstanding Class A shares of no par value of the Company ("The Repurchase Program").

The Repurchase Program began on May 22, 2018 and would expire at the close of business on May 22, 2019. However, it could terminate prior to such date. As of February 15, 2019, the Company purchased 7,993,602 shares amounting to \$60,000. As a result the Repurchase Program concluded.

Therefore, at December 31, 2019, 2018 and 2017 the Company had 212,063,631; 211,593,073 and 211,072,508 shares issued with no par value, consisting of 132,063,631; 131,593,073 and 131,072,508 Class A shares, respectively, and 80,000,000 for Class B shares for each year.

##### Rights, privileges and obligations

Holders of Class A shares are entitled to one vote per share and holders of Class B shares are entitled to five votes per share. Except with respect to voting, the rights, privileges and obligations of the Class A shares and Class B shares are *pari passu* in all respects, including with respect to dividends and rights upon liquidation of the Company.

##### Distribution of dividends

The Company can only make distributions to the extent that immediately following the distribution, its assets exceed its liabilities and the Company is able to pay its debts as they become due.

On March 26, 2019, the Company approved a dividend distribution to all Class A and Class B shareholders of \$0.11 per share, to be paid in three installments, as follows: \$0.05 per share on April 12, 2019, \$0.03 per share on August 14, 2019 and \$0.03 per share on December 12, 2019, amounting to \$22,425.

##### Accumulated other comprehensive income (loss)

The following table sets forth information with respect to the components of "Accumulated other comprehensive income (loss)" as of December 31, 2019 and their related activity during the three-years in the period then ended:

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 23. Shareholders' equity (continued)

##### Accumulated other comprehensive income (loss) (continued)

	Foreign currency translation	Cash flow hedges	Post-employment benefits (i)	Total Accumulated other comprehensive loss
<b>Balances at December 31, 2016</b>	<b>\$ (441,081)</b>	<b>\$ 305</b>	<b>\$ (873)</b>	<b>\$ (441,649)</b>
Other comprehensive income (loss) before reclassifications	4,800	6,462	(938)	10,324
Net loss reclassified from accumulated other comprehensive loss to consolidated statement of income	—	1,592	386	1,978
Net current-period other comprehensive income (loss)	4,800	8,054	(552)	12,302
<b>Balances at December 31, 2017</b>	<b>(436,281)</b>	<b>8,359</b>	<b>(1,425)</b>	<b>(429,347)</b>
Other comprehensive (loss) income before reclassifications	(62,996)	13,888	(418)	(49,526)
Net (income) loss reclassified from accumulated other comprehensive income to consolidated statement of income	—	(23,887)	494	(23,393)
Net current-period other comprehensive (loss) income	(62,996)	(9,999)	76	(72,919)
<b>Balances at December 31, 2018</b>	<b>(499,277)</b>	<b>(1,640)</b>	<b>(1,349)</b>	<b>(502,266)</b>
Other comprehensive loss before reclassifications	(12,168)	(5,185)	(55)	(17,408)
Net loss reclassified from accumulated other comprehensive loss to consolidated statement income	—	85	864	949
Adoption of ASU 2017-12	—	(780)	—	(780)
Net current-period other comprehensive (loss) income	(12,168)	(5,880)	809	(17,239)
<b>Balances at December 31, 2019</b>	<b>\$ (511,445)</b>	<b>\$ (7,520)</b>	<b>\$ (540)</b>	<b>\$ (519,505)</b>

- (i) Mainly related to a post-employment benefit in Venezuela established by the Organic Law of Labor and Workers (known as "LOTTT", its Spanish acronym) in 2012. This benefit provides a payment of 30 days of salary per year of employment tenure based on the last wage earned to all workers who leave the job for any reason. The term of service to calculate the post-employment payment of active workers run retroactively since June 19, 1997. The Company obtains an actuarial valuation to measure the post-employment benefit obligation, using the projected unit credit actuarial method and measures this benefit in accordance with ASC 715-30, similar to pension benefit.

#### 24. Earnings per share

The Company is required to present basic earnings per share and diluted earnings per share in accordance with ASC 260. Earnings per share are based on the weighted average number of shares outstanding during the period after consideration of the dilutive effect, if any, for common stock equivalents, including stock options and restricted share units. Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding and dilutive securities outstanding during the period under the treasury method.

The following table sets forth the computation of basic and diluted net income per common share attributable to Arcos Dorados Holdings Inc. for all years presented:

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As of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015

Amounts in thousands of US dollars, except for share data and as otherwise indicated

**24. Earnings per share (continued)**

	<b>For the fiscal years ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net income attributable to Arcos Dorados Holdings Inc. available to common shareholders	\$ 79,896	\$ 36,847	\$ 129,166
Weighted-average number of common shares outstanding - Basic	204,003,977	209,136,832	210,935,685
Incremental shares from assumed exercise of stock options (i)	—	—	—
Incremental shares from vesting of restricted share units	664,375	983,634	1,060,726
Weighted-average number of common shares outstanding - Diluted	204,668,352	210,120,466	211,996,411
<b>Basic net income per common share attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 0.39</b>	<b>\$ 0.18</b>	<b>\$ 0.61</b>
<b>Diluted net income per common share attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 0.39</b>	<b>\$ 0.18</b>	<b>\$ 0.61</b>

- (i) Options to purchase shares of common stock were outstanding during fiscal years 2019, 2018 and 2017. See Note 17 for details. These options were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

**25. Related party transactions**

The Company has entered into a master commercial agreement on arm's length terms with Axionlog, a company under common control that operates the distribution centers in Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela (the "Axionlog Business"). Pursuant to this agreement Axionlog provides the Company distribution inventory, storage and transportation services in the countries in which it operates.

The following table summarizes the outstanding balances between the Company and the Axionlog Business as of December 31, 2019 and 2018:

	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
Accounts and notes receivable, net	\$ 177	\$ 860
Other receivables	2,201	1,676
Miscellaneous	3,719	2,963
Accounts payable	(8,747)	(14,984)

The following table summarizes the transactions between the Company and the Axionlog Business for the fiscal years ended December 31, 2019, 2018 and 2017:

	<b>Fiscal years ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Food and paper (i)	\$ (188,276)	\$ (177,356)	\$ (173,387)
Occupancy and other operating expenses	(7,252)	(5,322)	(4,281)

- (i) Includes \$38,658 of distribution fees and \$149,618 of suppliers purchases managed through the Axionlog Business for the fiscal year ended December 31, 2019; \$41,633 and \$135,723, respectively, for the fiscal year ended December 31, 2018; and \$48,773 and \$124,614, respectively, for the fiscal year ended December 31, 2017.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 25. Related party transactions (continued)

As of December 31, 2019 and 2018, the Company had other receivables totaling \$2,325 and \$2,692, respectively, and accounts payable with Lacoop, A.C. and Lacoop II, S.C. totaling \$nil and \$1,634, respectively.

#### 26. Valuation and qualifying accounts

The following table presents the information required by Rule 12-09 of Regulation S-X in regards to valuation and qualifying accounts for each of the periods presented:

Description	Balance at beginning of period	Additions (i)	Deductions (ii)	Translation	Balance at end of period
<b>Year ended December 31, 2019:</b>					
Deducted from assets accounts:					
Allowance for doubtful accounts (iii)	\$ 25,539	\$ 8,524	\$ (10,892)	\$ (95)	\$ 23,076
Valuation allowance on deferred tax assets	219,920	2,375	(26,252)	(1,617)	194,426
Reported as liabilities:					
Provision for contingencies	28,509	17,795	(17,768)	(2,378)	26,158
<b>Total</b>	<b>\$ 273,968</b>	<b>\$ 28,694</b>	<b>\$ (54,912)</b>	<b>\$ (4,090)</b>	<b>\$ 243,660</b>
<b>Year ended December 31, 2018:</b>					
Deducted from assets accounts:					
Allowance for doubtful accounts (iii)	\$ 21,467	\$ 6,064	\$ (1,860)	\$ (132)	\$ 25,539
Valuation allowance on deferred tax assets	271,651	13,107	(37,718)	(27,120)	219,920
Reported as liabilities:					
Provision for contingencies	27,956	25,838	(19,702)	(5,583)	28,509
<b>Total</b>	<b>\$ 321,074</b>	<b>\$ 45,009</b>	<b>\$ (59,280)</b>	<b>\$ (32,835)</b>	<b>\$ 273,968</b>
<b>Year ended December 31, 2017:</b>					
Deducted from assets accounts:					
Allowance for doubtful accounts (iii)	\$ 16,367	\$ 6,386	\$ (1,244)	\$ (42)	\$ 21,467
Valuation allowance on deferred tax assets	290,620	8,382	(27,515)	164	271,651
Reported as liabilities:					
Provision for contingencies	18,112	36,160	(26,137)	(179)	27,956
<b>Total</b>	<b>\$ 325,099</b>	<b>\$ 50,928</b>	<b>\$ (54,896)</b>	<b>\$ (57)</b>	<b>\$ 321,074</b>

- (i) Additions in valuation allowance on deferred tax assets are charged to income tax expense.

Additions in provision for contingencies are explained as follows:

Fiscal years 2019, 2018 and 2017 – Relate to the accrual of \$17,441, \$23,995 and \$36,160, respectively, and a reclassification of \$354 and \$1,843, during fiscal years 2019 and 2018, respectively. See Note 18 for details.

- (ii) Deductions in valuation allowance on deferred tax assets are charged to income tax expense.

Deductions in provision for contingencies are explained as follows:

Corresponds to the settlements and reclassifications amounting to \$17,768 and \$nil, respectively, during fiscal year 2019; \$19,702 and \$nil, respectively, during fiscal year 2018; and \$25,427 and \$710, respectively, during fiscal year 2017; as discussed in Note 18.



## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019

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#### 26. Valuation and qualifying accounts (continued)

- (iii) Presented in the consolidated balance sheet as follow: \$22,442 and \$24,999 at December 31, 2019 and 2018, respectively, within Accounts and notes receivable, net and \$634 and \$540 at December 31, 2019 and 2018, respectively, within Other receivables.

#### 27. Subsequent events

##### a. *Dividend distribution*

On March 03, 2020, the Company approved a dividend distribution to all Class A and Class B shareholders of \$0.11 per share to be paid in three installments, as follows: \$0.05 per share on April 10, 2020, \$0.03 per share on August 13, 2020, and \$0.03 per share on December 10, 2020.

##### b. *Effects of Covid-19 on operations*

In March 11, 2020, a novel virus known as COVID-19 was declared by the World Health Organization's (WHO) as a pandemic, resulting in federal, state and local governments mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. As a result, since mid-March 2020 the business operations of the Company were disrupted by the spread of the virus. The disruption has negatively impacted the Company and such impact could be material to our financial results, condition and outlook. The Company has experienced a decline in revenues as well as cash from operations. In addition, the Latin America markets may continue to experience adverse economic conditions, therefore could impact the Company business, financial conditions and results of operations. Consequently, several measures have been taking to mitigate the potential effects from the pandemic by preserving cash and reducing expenses, as well as capital expenditures and renegotiating terms and conditions with lessors and other suppliers.

As of March 31, 2020, the Company drew \$136 million in short-term debt to maintain liquidity and is expected to continue relying on short-term funding as long as COVID-19 pandemic is not brought under control. The Company expects to be in compliance with its financial ratios related with revolving credit facilities and Master Franchise Agreements by March 31, 2020, however due to the COVID-19 pandemic effects, compliance in the following periods may be affected in the future.

Moreover, if the impacts of the COVID-19 pandemic become other than temporary, the Company may also need to consider it as an indicator of impairment. The significance and duration of the disruption will continue to be closely monitored.

The Company believes in its ability to obtain the sources of liquidity and capital resources that are necessary in this challenging economic environment and also believe that its liquidity and capital resources, including working capital, are adequate for its present requirements and business operations and will be adequate to satisfy its currently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs.

## DESCRIPTION OF CAPITAL STOCK

*The following is a description of the capital stock of Arcos Dorados Holdings Inc. (the “Company,” “we,” “us,” “our” and “Arcos Dorados”). Such description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of our Articles of Association, which are incorporated by reference as an exhibit to the Annual Report on Form 20-F for the year ended December 31, 2019 of which this Exhibit is a part.*

### Shares

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act.

Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges. Our registered office is at Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

### Share Capital

Our share capital consists of two classes of common shares: class A shares and class B shares. As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue up to 420,000,000 class A shares and 80,000,000 class B shares, no par value each.

The maximum number of shares that we are authorized to issue may be changed by resolution of shareholders amending our memorandum and articles of association. Shares may be issued from time to time only by resolution of shareholders.

Our class A shares are listed on the NYSE under the symbol “ARCO.”

### Shareholders’ Rights

#### *Class A Shares*

Holders of our class A shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class A shares:

- each holder of class A shares is entitled to one vote per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class A shares vote together with holders of class B shares;

- there are no cumulative voting rights;
- the holders of our class A shares are entitled to dividends and other distributions, *pari passu* with our class B shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class A shares will be entitled to share ratably, *pari passu* with our class B shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities; and
- the holders of class A shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions.

### ***Class B Shares***

All of our class B shares are owned by Los Laureles Ltd. Holders of our class B shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class B shares:

- each holder of class B shares is entitled to five votes per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class B shares vote together with holders of class A shares;
- class B shares may not be listed on any U.S. or foreign national or regional securities exchange or market;
- there are no cumulative voting rights;
- the holders of our class B shares are entitled to dividends and other distributions, *pari passu* with our class A shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class B shares will be entitled to share ratably, *pari passu* with our class A shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities;

- the holders of class B shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions;
- each class B share is convertible into one class A share at the option of the holder at any time, subject to the prior written approval of McDonald's; and
- each class B share will convert automatically into one class A share at such time as the holders of class B shares cease to hold, directly or indirectly, at least 20% of the aggregate number of outstanding class A and class B shares.

### **Shareholders' Meetings and Consents**

The following summarizes certain relevant provisions of British Virgin Islands law and our articles of association in relation to our shareholders' meetings:

- the directors of the Company may convene meetings of shareholders at such times and in such manner and places within or outside the British Virgin Islands as the directors consider necessary or desirable; provided that at least one meeting of shareholders be held each year;
- upon the written request of shareholders entitled to exercise 30 percent or more of the voting rights in respect of the matter for which the meeting is requested, the directors are required to convene a meeting of the shareholders. Any such request must state the proposed purpose of the meeting;
- the directors convening a meeting must give not less than ten days' notice of a meeting of shareholders to: (i) those shareholders whose names on the date the notice is given appear as shareholders in the register of members of our company and are entitled to vote at the meeting, and (ii) the other directors;
- a meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90 percent of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a shareholder at the meeting shall constitute waiver in relation to all the shares that such shareholder holds;
- a shareholder may be represented at a meeting of shareholders by a proxy who may speak and vote on behalf of the shareholder;
- a meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 50 percent of the votes of the shares or class or series of shares entitled to vote on resolutions of shareholders to be considered at the meeting;

- if within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall be adjourned to the next business day in the jurisdiction in which the meeting was to have been held at the same time and place or to such other date, time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one third of the votes of the shares or each class or series of shares entitled to vote on the matters to be considered by the meeting, those present shall constitute a quorum, but otherwise the meeting shall be dissolved. Notice of the adjourned meeting need not be given if the date, time and place of such meeting are announced at the meeting at which the adjournment is taken;
- a resolution of shareholders is valid (i) if approved at a duly convened and constituted meeting of shareholders by the affirmative vote of a majority of the votes of the shares entitled to vote thereon which were present at the meeting and were voted, or (ii) if it is a resolution consented to in writing by a majority of the votes of shares entitled to vote thereon; and
- an action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing by a majority of the votes of shares entitled to vote thereon, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution.

### **Differences in Corporate Law**

We were incorporated under, and are governed by, the laws of the British Virgin Islands. The corporate statutes of the State of Delaware and the British Virgin Islands in many respects are similar, and the flexibility available under British Virgin Islands law has enabled us to adopt a memorandum of association and articles of association that will provide shareholders with rights that, except as described in this annual report, do not vary in any material respect from those they would enjoy if we were incorporated under the Delaware General Corporation Law, or Delaware corporate law. Set forth below is a summary of some of the differences between provisions of the BVI Act applicable to us and the laws applicable to companies incorporated in Delaware and their shareholders.

#### ***Amendment of Governing Documents***

Under Delaware corporate law, with very limited exceptions, a vote of the shareholders is required to amend the certificate of incorporation. In addition, Delaware corporate law provides that shareholders have the right to amend the bylaws, and the certificate of incorporation also may confer on the directors the right to amend the bylaws. Our memorandum of association may only be amended by a resolution of shareholders, provided that any amendment of the provision related to the prohibition against listing our class B shares must be approved by not less than 50% of the votes of the class A shares entitled to vote that were present at the relevant meeting and voted. Our articles of association may also only be amended by a resolution of shareholders.

### ***Written Consent of Shareholders***

Under Delaware corporate law, unless otherwise provided in the certificate of incorporation, any action to be taken at any annual or special meeting of shareholders of a corporation may be taken by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take that action at a meeting at which all shareholders entitled to vote were present and voted. As permitted by British Virgin Islands law, shareholders' consents need only a majority of shareholders signing to take effect. Our memorandum and articles of association provide that shareholders may approve corporate matters by way of a resolution consented to at a meeting of shareholders or in writing by a majority of shareholders entitled to vote thereon.

### ***Shareholder Proposals***

Under Delaware corporate law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our memorandum and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise at least 30% of the voting rights in respect of the matter for which the meeting is requested. Any such request must state the proposed purpose of the meeting.

### ***Sale of Assets***

Under Delaware corporate law, a vote of the shareholders is required to approve the sale of assets only when all or substantially all assets are being sold. In the British Virgin Islands, shareholder approval is required when more than 50% of the Company's total assets by value are being disposed of or sold if not made in the usual or regular course of the business carried out by the company. Under our memorandum and articles of association, the directors may by resolution of directors determine that any sale, transfer, lease, exchange or other disposition is in the usual or regular course of the business carried on by us and such determination is, in the absence of fraud, conclusive.

### ***Dissolution; Winding Up***

Under Delaware corporate law, unless the board of directors approves the proposal to dissolve, dissolution must be approved in writing by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware corporate law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. As permitted by British Virgin Islands law and our memorandum and articles of association, we may be voluntarily liquidated under Part XII of the BVI Act by resolution of directors and resolution of shareholders if we have no liabilities or we are able to pay our debts as they fall due.

### ***Redemption of Shares***

Under Delaware corporate law, any stock may be made subject to redemption by the corporation at its option, at the option of the holders of that stock or upon the happening of a specified event, provided shares with full voting power remain outstanding. The stock may be made redeemable for cash, property or rights, as specified in the certificate of incorporation or in the resolution of the board of directors providing for the issue of the stock. As permitted by British Virgin Islands law and our memorandum and articles of association, shares may be repurchased, redeemed or otherwise acquired by us. However, the consent of the shareholder whose shares are to be repurchased, redeemed or otherwise acquired must be obtained, except as described under “—Compulsory Acquisition” below. Moreover, our directors must determine that immediately following the redemption or repurchase we will be able to pay our debts as they become due and that the value of our assets will exceed our liabilities.

### ***Compulsory Acquisition***

Under Delaware General Corporation Law § 253, in a process known as a “short form” merger, a corporation that owns at least 90% of the outstanding shares of each class of stock of another corporation may either merge the other corporation into itself and assume all of its obligations or merge itself into the other corporation by executing, acknowledging and filing with the Delaware Secretary of State a certificate of such ownership and merger setting forth a copy of the resolution of its board of directors authorizing such merger. If the parent corporation is a Delaware corporation that is not the surviving corporation, the merger also must be approved by a majority of the outstanding stock of the parent corporation. If the parent corporation does not own all of the stock of the subsidiary corporation immediately prior to the merger, the minority shareholders of the subsidiary corporation party to the merger may have appraisal rights as set forth in § 262 of the Delaware General Corporation Law.

Under the BVI Act, subject to any limitations in a Company’s memorandum or articles, members holding 90% of the votes of the outstanding shares entitled to vote, and members holding 90% of the votes of the outstanding shares of each class of shares entitled to vote, may give a written instruction to the company directing the company to redeem the shares held by the remaining members. Upon receipt of such written instruction, the company shall redeem the shares specified in the written instruction, irrespective of whether or not the shares are by their terms redeemable. The company shall give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected. A member whose shares are to be so redeemed is entitled to dissent from such redemption, and to be paid the fair value of his shares, as described under “—Shareholders’ Rights under British Virgin Islands Law Generally” below.

### ***Variation of Rights of Shares***

Under Delaware corporate law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of that class, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law and our memorandum of association, we may vary the rights attached to any class of shares only with the consent in writing of holders of not less than 50% of the issued shares of that class and of holders of not less than 50% of the issued shares of any other class which may be adversely affected by such variation.

### ***Removal of Directors***

Under Delaware corporate law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Our memorandum and articles of association provide that directors may be removed at any time, with or without cause, by a resolution of shareholders or a resolution of directors.

In addition, directors are subject to rotational retirement every three years. The initial terms of office of the Class I, Class II and Class III directors have been staggered over a period of three years to ensure that all directors of the company do not face reelection in the same year.

### ***Mergers***

Under Delaware corporate law, one or more constituent corporations may merge into and become part of another constituent corporation in a process known as a merger. A Delaware corporation may merge with a foreign corporation as long as the law of the foreign jurisdiction permits such a merger. To effect a merger under Delaware General Corporation Law § 251, an agreement of merger must be properly adopted and the agreement of merger or a certificate of merger must be filed with the Delaware Secretary of State. In order to be properly adopted, the agreement of merger must be adopted by the board of directors of each constituent corporation by a resolution or unanimous written consent. In addition, the agreement of merger generally must be approved at a meeting of stockholders of each constituent corporation by a majority of the outstanding stock of the corporation entitled to vote, unless the certificate of incorporation provides for a supermajority vote. In general, the surviving corporation assumes all of the assets and liabilities of the disappearing corporation or corporations as a result of the merger.



Under the BVI Act, two or more BVI companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent BVI company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders. One or more BVI companies may also merge or consolidate with one or more companies incorporated under the laws of jurisdictions outside the BVI, if the merger or consolidation is permitted by the laws of the jurisdictions in which the companies incorporated outside the BVI are incorporated. In respect of such a merger or consolidation a BVI company is required to comply with the provisions of the BVI Act, and a company incorporated outside the BVI is required to comply with the laws of its jurisdiction of incorporation.

Shareholders of BVI companies not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum of association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

### ***Inspection of Books and Records***

Under Delaware corporate law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records. Under British Virgin Islands law, members of the general public, on payment of a nominal fee, can obtain copies of the public records of a company available at the office of the British Virgin Islands Registrar of Corporate Affairs which will include the company's certificate of incorporation, its memorandum and articles of association (with any amendments) and records of license fees paid to date, and will also disclose any articles of dissolution, articles of merger and a register of registered charges if such a register has been filed in respect of the company.

A member of a company is entitled, on giving written notice to the company, to inspect:

- (a) the memorandum and articles;
- (b) the register of members;
- (c) the register of directors; and
- (d) the minutes of meetings and resolutions of members and of those classes of members of which he is a member; and to make copies of or take extracts from the documents and records referred to in (a) to (d) above. Subject to the memorandum and articles, the directors may, if they are satisfied that it would be contrary to the company's interests to allow a member to inspect any document, or part of a document, specified in (b), (c) or (d) above, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

Where a company fails or refuses to permit a member to inspect a document or permits a member to inspect a document subject to limitations, that member may apply to the court for an order that he should be permitted to inspect the document or to inspect the document without limitation.

A company is required to keep at the office of its registered agent the memorandum and articles of the company; the register of members maintained or a copy of the register of members; the register of directors or a copy of the register of directors; and copies of all notices and other documents filed by the company in the previous ten years.

Where a company keeps a copy of the register of members or the register of directors at the office of its registered agent, it is required to notify any changes to the originals of such registers to the registered agent, in writing, within 15 days of any change; and to provide the registered agent with a written record of the physical address of the place or places at which the original register of members or the original register of directors is kept. Where the place at which the original register of members or the original register of directors is changed, the company is required to provide the registered agent with the physical address of the new location of the records within fourteen days of the change of location.

A company is also required to keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors determine, the minutes of meetings and resolutions of members and of classes of members; and the minutes of meetings and resolutions of directors and committees of directors. If such records are kept at a place other than at the office of the company's registered agent, the company is required to provide the registered agent with a written record of the physical address of the place or places at which the records are kept and to notify the registered agent, within 14 days, of the physical address of any new location where such records may be kept.

A company is further required to:

- (a) keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors may determine, the records and underlying documentation of the company;
- (b) retain the records and underlying documentation for a period of at least five years from the date: (i) of completion of the transaction to which the records and underlying documentation relate; or (ii) the company terminates the business relationship to which the records and underlying documentation relate; and
- (c) provide its registered agent without delay any records and underlying documentation in respect of the company that the registered agent requests pursuant to the entitlement of the company's registered agent to make such a request where the registered agent is required to do so by the British Virgin Islands Financial Services Commission or any other competent authority in the British Virgin Islands acting pursuant to the exercise of a power under an enactment.

The records and underlying documentation of the company are required to be in such form as:

- (a) are sufficient to show and explain the company's transactions; and
- (b) will, at any time, enable the financial position of the company to be determined with reasonable accuracy.

Where the records and underlying documentation of a company are kept at a place or places other than at the office of the company's registered agent, the company is required to provide the registered agent with a written:

- (a) record of the physical address of the place at which the records and underlying documentation are kept; and
- (b) record of the name of the person who maintains and controls the company's records and underlying documentation.

Where the place or places at which the records and underlying documentation of the company, or the name of the person who maintains and controls the company's records and underlying documentation, change, the company must within 14 days of the change, provide:

- (a) its registered agent with the physical address of the new location of the records and underlying documentation; or
- (b) the name of the new person who maintains and controls the company's records and underlying documentation.

For the foregoing purposes:

- (a) "business relationship" means a continuing arrangement between a company and one or more persons with whom the company engages in business, whether on a one-off, regular or habitual basis; and
- (b) "records and underlying documentation" includes accounts and records (such as invoices, contracts and similar documents) in relation to: (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

### ***Cumulative Voting***

Under Delaware corporate law, cumulative voting for elections of directors is not permitted unless the Company's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions to cumulative voting under the laws of the British Virgin Islands, but our memorandum of association and articles of association do not provide for cumulative voting.

## **Shareholders' Rights under British Virgin Islands Law Generally**

The BVI Act provides for remedies which may be available to shareholders. Where a company incorporated under the BVI Act or any of its directors engages in, or proposes to engage in, conduct that contravenes the BVI Act or the Company's memorandum and articles of association, the BVI courts can issue a restraining or compliance order. Shareholders cannot also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for members' remedies has also been incorporated into the BVI Act: where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminatory or unfairly prejudicial to him, he may apply to the court for an order based on such conduct.

Any shareholder of a company may apply to court for the appointment of a liquidator of the company and the court may appoint a liquidator of the company if it is of the opinion that it is just and equitable to do so.

The BVI Act provides that any shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following: (a) a merger, if the company is a constituent company, unless the company is the surviving company and the member continues to hold the same or similar shares; (b) a consolidation, if the company is a constituent company; (c) any sale, transfer, lease, exchange or other disposition of more than 50% in value of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including (i) a disposition pursuant to an order of the court having jurisdiction in the matter, (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the shareholders in accordance with their respective interest within one year after the date of disposition, or (iii) a transfer pursuant to the power of the directors to transfer assets for the protection thereof; (d) a redemption of 10% or fewer of the issued shares of the company required by the holders of 90% or more of the shares of the company pursuant to the terms of the BVI Act; and (e) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the British Virgin Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

## NINTH AMENDMENT TO CREDIT AGREEMENT

THIS NINTH AMENDMENT TO CREDIT AGREEMENT is made and dated as of August 2, 2019 (the "Amendment") among ARCOS DORADOS B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) organized under the laws of The Netherlands with seat in Amsterdam (the "Borrower"), certain subsidiaries of the Borrower as guarantors (the "Guarantors"), and BANK OF AMERICA, N.A., as lender (the "Lender") and amends that certain Credit Agreement dated as of August 3, 2011 (as the same has been amended prior to the date hereof and may be further amended or modified from time to time, the "Credit Agreement").

### R E C I T A L S

WHEREAS, the Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement in certain respects as set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. Terms. All terms used herein shall have the same meanings as in the Credit Agreement unless otherwise defined herein.
2. Amendment. Upon the occurrence of the Amendment Effective Date (defined below), Section 1.1 of the Credit Agreement is hereby amended by amending and restating the definition therein of "Maturity Date" in its entirety to read as follow:

“Maturity Date” means August 2, 2020.

3. Representations and Warranties. As of the date hereof, the Borrower, and as of the Amendment Effective Date, the Borrower and each Guarantor, hereby represents and warrants to the Lender that after giving effect to this Amendment:

3.1 Authorization; Enforceable Obligations; No Contravention. The execution, delivery and performance of this Amendment by the Loan Parties have been duly authorized by all necessary action, and this Amendment is a legal, valid and binding obligation of the Loan Parties party hereto, enforceable in accordance with its terms, except as enforceability may be limited by applicable Debtor Relief Laws. The execution, delivery and performance of this Amendment (i) are not in contravention of law or of the terms of any Loan Party's organizational documents, and (ii) will not result in the breach of or constitute a default under, or result in the creation of a Lien or require a payment to be made under any indenture, agreement or undertaking to which the Borrower or any Guarantor is a party or by which it or its property may be bound or affected, except in the case referred to in this clause (ii), to the extent that such breach, default, Lien or payment would not reasonably be expected to have a Material Adverse Effect.

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3.2 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority, including the Central Bank of Brazil, or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or any Guarantor of this Amendment, which has not been duly obtained, except for the filing of the Minutes of the Quotaholders' Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*).

3.3 Beneficial Ownership. As of the Amendment Effective Date, the information included in the Beneficial Ownership Certification is true and correct in all respects.

3.4 Incorporation of Certain Representations. After giving effect to the terms of this Amendment, the representations and warranties of the Borrower and the Guarantors set forth in Article III of the Credit Agreement (except as to such representations and warranties made as of an earlier specified date which are true and correct as of the date made) are true and correct as of the date hereof, (A) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, in all respects (as so qualified), or (B) if any such representation and warranty is not so qualified, in all material respects; *provided*, that for purposes of this Section 3.3, the representations and warranties of the Borrower contemplated in Section 3.1 of the Credit Agreement shall be deemed to refer to the last day of the period covered by the most recent financial statements furnished to the Lender under the Credit Agreement; *provided further* that the representation and warranty set forth in Section 3.16 of the Credit Agreement is made hereby with respect to the period of four (4) fiscal quarters ended on March 31, 2019.

3.5 Default. Both before and after giving effect to this Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing.

4. Conditions, Effectiveness. This Amendment shall become effective as of the date (the "Amendment Effective Date") on which each of the following conditions shall have been satisfied:

(a) The Lender shall have received this Amendment duly executed and delivered on behalf of the Borrower and each Guarantor.

(b) the Borrower and each Guarantor shall have delivered evidence that the process agent, National Registered Agents Inc., with offices currently located at 111 Eighth Avenue, New York, NY 10011, shall have accepted appointment to receive service of process on the Borrower and such Guarantor, in form and substance reasonably satisfactory to the Lender up to a date six months after the Maturity Date (as amended hereby).

(c) The Borrower shall have paid on or before the Amendment Effective Date all fees and other amounts due and payable by the Borrower to the Lender (including fees and expenses of counsel to lender) in accordance with the Credit Agreement (as amended hereby) to the extent invoiced to the Borrower prior to the Amendment Effective Date.

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(d) All consents, licenses and approvals required in connection with the execution, delivery and performance by the Loan Parties of this Amendment shall have been received by the Loan Parties.

(e) Upon the reasonable request of the Lender prior to the Amendment Effective Date, the Borrower shall have provided Lender the documentation and other information so requested in connection with applicable “know your customer” and anti-money-laundering rules and regulations, including the PATRIOT Act, in each case at least three days prior to the Amendment Effective Date.

(a) At least three days prior to the Amendment Effective Date, if Borrower qualifies as a “legal entity customer” under the Beneficial Ownership Regulation, it shall deliver a Beneficial Ownership Certification.

5. Miscellaneous.

5.1 Effectiveness of the Credit Agreement and other Loan Documents. Except as hereby expressly amended, the Credit Agreement, the Note, the Fee Letter and each Subsidiary Joinder Agreement (if any), shall each remain in full force and effect, are hereby ratified and confirmed in all respects on and as of the date hereof, and each Loan Party hereby reaffirms its obligations thereunder.

5.2 Post Amendment Effective Date Covenants.

(a) Within twenty-one calendar days after the Amendment Effective Date, Arcos Dourados Comércio de Alimentos Ltda. shall file the Minutes of the Quotaholders’ Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*).

(b) The Loan Parties shall furnish the Lender with true and correct copies of such resolutions and powers of attorney authorizing the Amendment as the Lender may reasonably request within twenty-one calendar days of the Amendment Effective Date.

(c) Failure by any Loan Party to perform the covenants set forth in this Section 5.2 shall result in automatic termination of this Amendment and shall render this Amendment null and void and without any effect.

5.3 Loan Document. This Amendment is a Loan Document.

5.4 Counterparts. This Amendment may be executed in any number of counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

5.5 Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

5.6 Jurisdiction. Section 9.10 of the Credit Agreement shall apply *mutatis mutandis* to this Amendment.

[Remainder of Page Intentionally Left Blank.]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

ARCOS DORADOS B.V.,  
as Borrower

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact

ARCOS DOURADOS COMERCIO DE ALIMENTOS, LTDA., as a Guarantor

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact

ADCR INMOBILIARIA S.A., as a Guarantor

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact

ARCOS DORADOS COSTA RICA ADCR, S.A., as a Guarantor

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact

*Ninth Amendment Signature Page*

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ARCOS DORADOS PANAMÁ S.A., as a Guarantor

By: /s/ Máximo Ayerza

Name: Máximo Ayerza

Title: Attorney-in-fact

SISTEMAS MCOPCO PANAMÁ, S.A., as a Guarantor

By: /s/ Máximo Ayerza

Name: Máximo Ayerza

Title: Attorney-in-fact

ARCOS DORADOS HOLDINGS INC., as a Guarantor

By: /s/ Máximo Ayerza

Name: Máximo Ayerza

Title: Attorney-in-fact

LENDER:

BANK OF AMERICA, N.A.,  
as Lender

By: /s/ Gonzalo Isaacs

Name: Gonzalo Isaacs

Title: Managing Director

U.S.\$25,000,000

CREDIT AGREEMENT

dated as of December 11, 2019

among

ARCOS DORADOS HOLDINGS INC.,  
as Borrower

CERTAIN SUBSIDIARIES OF THE BORROWER,  
as Guarantors

and

JPMORGAN CHASE BANK, N.A.,  
as Lender

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CREDIT AGREEMENT, dated as of December 11, 2019 (the “Agreement”), among ARCOS DORADOS HOLDINGS INC., a company incorporated under the laws of the British Virgin Islands (the “Borrower”), (b) CERTAIN SUBSIDIARIES OF THE BORROWER, as Guarantors (as defined below), and JPMORGAN CHASE BANK, N.A., as lender (the “Lender”).

WITNESSETH:

WHEREAS, the Lender has agreed to make available to the Borrower a revolving credit facility on the terms and subject to the conditions contained in this Agreement;

WHEREAS, each Guarantor will benefit from the extension of credit to the Borrower by the Lender;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows.

ARTICLE I

DEFINITIONS

Section 1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

“Additional Guarantor” means each Subsidiary of the Borrower that becomes, at any time after the Closing Date, an additional Guarantor hereunder pursuant to Section 5.5.

“Affiliate” of any Person, means any Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise.

“Aggregate Commitment Amount” means U.S.\$25,000,000.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or any of its Subsidiaries from time to time concerning or relating to bribery or corruption.

“Applicable Law” means, as to any Person, all applicable constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rules and regulations of any Governmental Authority binding upon such Person or to which such a Person is subject.

“Applicable Margin” means a rate *per annum* equal to 2.25%.

“Availability Period” the period commencing on and including the Closing Date and ending on the Commitment Termination Date.



“Base Rate” means a variable rate *per annum* equal to, for any day, the greatest of (a) the Prime Rate in effect on such day, (b) the NYFRB Rate in effect on such day plus ½ of 1% and (c) the LIBO Rate for a one month interest period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%. Any change in the Base Rate due to a change in the Prime Rate, the NYFRB Rate or the LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the NYFRB Rate or the LIBO Rate, respectively.

“Board” means the Board of Governors of the Federal Reserve System, together with any successor.

“Borrowing” means a borrowing of Loans made by the Lender pursuant to Section 2.1.

“Borrowing Date” means a Business Day within the Availability Period specified in a Borrowing Notice as the date on which the Borrower shall make a Borrowing hereunder.

“Borrowing Notice” is defined in Section 2.2(a).

“Brazilian Guarantor” means each Guarantor organized under the laws of the Federative Republic of Brazil.

“Brazilian Master Franchisee” means Arcos Dourados Comercio de Alimentos Ltda., or any successor to its rights and obligations under the Second Amended and Restated Master Franchise Agreement, dated as of November 10, 2008 (as the same may be amended, restated, supplemented or otherwise modified from time to time), among McDonald’s Latin America and Arcos Dourados Comércio de Alimentos Ltda.

“Breakage Costs” means any loss or expense incurred by the Lender, which shall consist of losses or expenses incurred in liquidating or employing deposits from third parties (but excluding loss of margin for the remaining portion of any Interest Period after the date of the event that gave rise to such loss or expense) as a result of (a) any payment or prepayment of any Loan accruing interest at the LIBO Rate on a day other than the last day of the Interest Period therefor (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise) or (b) any failure by the Borrower to prepay or borrow any Loan accruing interest at the LIBO Rate on a date or in the amount notified by the Borrower. For purposes of calculating Breakage Costs, each Loan shall be deemed to have been funded at the LIBO Rate applicable to such Loan by a matching deposit or other borrowing in the interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Loan was in fact so funded. A certificate of the Lender setting forth in reasonable detail its calculation of such losses or expenses incurred shall be conclusive absent manifest error.

“Business Day” means any day, other than a Saturday or Sunday, on which (a) banking institutions in the State of New York are open for general business, and (b) when used in connection with the determination of the LIBO Rate, dealings in U.S. dollar deposits are carried out between banks in the London inter-bank market.

“Capital Lease Obligations” of any Person, means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

“Capital Stock” means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated and whether or not voting) of equity of such Person, including each class of Common Stock, Preferred Stock, limited liability interests or partnership interests, but excluding any debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

(a) the Permitted Holders cease to be the “beneficial owners” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of 30.0% of the voting power of the Voting Stock of the Borrower, the Brazilian Master Franchisee or the Master Franchisee;

(b) individuals appointed by the Permitted Holders cease for any reason to constitute a majority of the members of the Board of Directors of the Borrower, the Brazilian Master Franchisee or the Master Franchisee;

(c) the sale, conveyance, assignment, transfer, lease or other disposition of all or substantially all of the assets of the Borrower, the Brazilian Master Franchisee or the Master Franchisee, determined on a Consolidated basis, to any “person” (as defined in Sections 13d and 14d under the Exchange Act), whether or not otherwise in compliance with this Agreement, other than a Permitted Holder; or

(d) the approval by the holders of Capital Stock of the Borrower, the Brazilian Master Franchisee or the Master Franchisee of any plan or proposal for the liquidation or dissolution of any such Person, whether or not otherwise in compliance with this Agreement.

“Change in Law” means, with respect to the Lender, the adoption of, or change in, any law, rule, regulation, policy, guideline or directive (whether or not having the force of law) or any change in the interpretation or application thereof by any Governmental Authority having jurisdiction over the Lender, in each case after the date hereof; provided, that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Closing Date” is defined in Section 4.1.

“Code” means the Internal Revenue Code of 1986, as amended.

“Combined/Consolidated Basis” means, when used with respect to the determination of any amount, that such amount is to be determined by combining the relevant amount determined with respect to the Guarantors within a certain Territory and the Consolidated Subsidiaries of such Guarantors operating within the same Territory (but excluding in any event any Non-Guarantor Subsidiary of any such Guarantor that does not have operations within the same Territory) on a Consolidated basis, all in accordance with GAAP.

“Commitment” means the Lender’s obligation to make Loans to the Borrower in an aggregate principal amount not to exceed, at any time, the Aggregate Commitment Amount as in effect at such time.

“Commitment Fee” is defined in Section 2.7.

“Commitment Termination Date” shall mean the earliest of (a) the date which is one Business Day prior to the Maturity Date and (b) the date on which the Commitments are terminated pursuant to the last paragraph of Section 7.1.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Closing Date or issued after the Closing Date, and includes, without limitation, all series and classes of such common equity interests.

“Consolidated” refers to the consolidation of accounts of a Person and its Subsidiaries in accordance with GAAP.

“Consolidated EBITDA” means, with respect to any Person for any period, Consolidated Net Income for such Person for such period, plus the following (without duplication) to the extent deducted or added in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense for such Person for such period;
  - (2) Consolidated Income Tax Expense for such Person for such period;
  - (3) Consolidated Non-cash Charges for such Person for such period;
  - (4) any non-operating and/or non-recurring charges, expenses or losses of such Person and its Subsidiaries for such period;
- and
- (5) the amount of loss on any sale of accounts receivables and related assets to a Securitization Subsidiary in connection with a Permitted Receivables Financing;

less (x) all non-cash credits and gains increasing Consolidated Net Income for such Person for such period, (y) all cash payments made by such Person and its Subsidiaries during such period relating to non-cash charges that were added back in determining Consolidated EBITDA in any prior period and (z) non-operating and/or non-recurring income or gains (less all fees and expenses related thereto) increasing Consolidated Net Income of such Person and its Subsidiaries for such period.

Notwithstanding the foregoing, the items specified in clauses (1) and (3) above for any Subsidiary will be added to Consolidated Net Income in calculating Consolidated EBITDA for any period:

- (a) in proportion to the percentage of the total Capital Stock of such Subsidiary held directly or indirectly by such Person at the date of determination; and
- (b) to the extent that a corresponding amount would be permitted at the date of determination to be distributed to such Person by such Subsidiary pursuant to its charter and bylaws (*estatutos sociales*) and each law, regulation, agreement or judgment applicable to such distribution.

“Consolidated Income Tax Expense” means, with respect to any Person for any period, the provision for federal, state, local and any other income taxes payable by such Person and its Subsidiaries for such period as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Indebtedness” means, as of any date of determination, all Indebtedness (including the Loans) of a Person and its Subsidiaries determined on a Consolidated basis.

“Consolidated Interest Expense” means, with respect to any Person for any period, the sum (without duplication) determined on a Consolidated basis in accordance with GAAP of:

(1) the aggregate of cash and non-cash interest expense of such Person and its Subsidiaries for such period determined on a Consolidated basis in accordance with GAAP, including, without limitation, the following (whether or not interest expense in accordance with GAAP):

- (a) any amortization or accretion of debt discount or any interest paid on Indebtedness of such Person and its Subsidiaries in the form of additional Indebtedness;
- (b) any amortization of deferred financing costs;
- (c) the net costs under Hedging Obligations (including amortization of fees) in respect of Indebtedness or that are otherwise treated as interest expense or equivalent under GAAP; provided that if Hedging Obligations result in net benefits rather than costs, such benefits will be credited to reduce Consolidated Interest Expense unless, pursuant to GAAP, such net benefits are otherwise reflected in Consolidated Net Income;
- (d) all capitalized interest;

- (e) the interest portion of any deferred payment obligation;
  - (f) any premiums, fees, discounts, expenses and losses on the sale of accounts receivable (and any amortization thereof) payable by the Borrower or any Subsidiary in connection with a Permitted Receivables Financing;
  - (g) commissions, discounts and other fees and charges Incurred in respect of letters of credit or bankers' acceptances; and
  - (h) any interest expense on Indebtedness of another Person that is guaranteed by such Person or one of its Subsidiaries or secured by a Lien on the assets of such Person or one of its Subsidiaries, whether or not such Guarantee or Lien is called upon; and
- (2) the interest component of Capital Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Subsidiaries during such period.

“Consolidated Net Income” means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries (after deducting (or adding) the portion of such net income (or loss) attributable to minority interests in Subsidiaries of such Person) for such period on a Consolidated basis, determined in accordance with GAAP; provided that there will be excluded therefrom to the extent reflected in such aggregate net income (loss):

- (1) net after-tax gains or losses from asset sale transactions or abandonments or reserves relating thereto;
- (2) net after-tax items classified as extraordinary, special (reflected as a separate line item on a consolidated income statement prepared in accordance with GAAP) gains or losses or income or expense or charge including, without limitation, any severance expense, and fees, expenses or charges related to any offering of Capital Stock of such Person, any Investment, asset acquisition or Indebtedness;
- (3) the net income (or loss) of any other Person (other than such Person and any Subsidiary of such Person); except that such Person's equity in the net income of any such other Person will be included up to the aggregate amount of cash actually distributed by such other Person during such period to such Person or a Subsidiary of such Person as a dividend or other distribution; and except further that such Person's equity in the net loss of any other Person will be included to the extent such loss has been funded with cash from such Person or a Subsidiary of such Person;
- (4) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time following the Closing Date;
- (5) any gain (or loss) from foreign exchange translation or change in net monetary position;

(6) any net gain or loss (after any offset) resulting in such period from Hedging Obligations entered into for bona fide hedging purposes and not for speculative purposes; provided that the net effect on income or loss (including in any prior periods) will be included upon any termination or early extinguishment of such Hedging Obligations, other than any Hedging Obligations with respect to Indebtedness (that is not itself a Hedging Obligation) and that are extinguished concurrently with the termination or other prepayment of such Indebtedness; and

(7) the cumulative effect of changes in accounting principles.

“Consolidated Net Indebtedness” means, with respect to any Person as of any date of determination, an amount equal to Consolidated Indebtedness minus cash and cash equivalents and consolidated marketable securities recorded as current assets (except for any Capital Stock in any Person) in all cases determined in accordance with GAAP and as set forth in the most recent consolidated balance sheet of such Person and its Subsidiaries.

“Consolidated Net Indebtedness to EBITDA Ratio” means, at any date of determination, the ratio (expressed as a decimal) of: (a) Consolidated Net Indebtedness of the Borrower as at such date divided by (b) Consolidated EBITDA of the Borrower for the four (4) most recent fiscal quarters ending on or before such date.

“Consolidated Non-cash Charges” means, with respect to any Person for any period, the aggregate depreciation, amortization and other non-cash expenses or losses of such Person and its Subsidiaries for such period, determined on a Consolidated basis in accordance with GAAP (excluding any such charge which constitutes an accrual of or a reserve for cash charges for any future period or the amortization of a prepaid cash expense paid in a prior period).

“Consolidated Total Assets” means, as of any date of determination, the total assets shown on the Consolidated balance sheet of the Borrower and its Subsidiaries as of the most recent date for which such a balance sheet is available, determined on a Consolidated basis in accordance with GAAP, calculated on a *pro forma* basis to give effect to any acquisition or disposition of companies, divisions, lines of business or operations by the Borrower and its Subsidiaries subsequent to such date and on or prior to the date of determination.

“Consolidated Net Worth” means, for any period, for the Borrower and its Subsidiaries on a Consolidated basis, the total shareholder’s equity (or total assets minus total liabilities) which would appear as such on the Consolidated balance sheet of the Borrower and its Subsidiaries on a Consolidated basis, as determined in accordance with GAAP.

“Contingent Obligation” means, as to any Person, (without duplication): (a) a guarantee, an indemnity obligation in respect of a guarantee or performance bond (including a *fianza*), an endorsement or an *aval*, (b) a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, any Indebtedness, other obligations, net worth, working capital or earnings of any Person, (c) an agreement to purchase, sell or lease (as lessee or lessor) Property or services, primarily in each case for the purpose of enabling a debtor to make payment of its obligations, or (d) an agreement to assure a creditor against loss; *in each case* including causing a bank or other Person to issue a letter of credit or other similar instrument for the benefit of any Person, but excluding endorsement for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation of any Person shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined in good faith.

“Contributing Subsidiary” is defined in Section 5.5(b).

“CS L/C Documents” means the CS Letter of Credit, the CS Letter of Credit Agreement, the CS L/C Security Documents and each other agreement, instrument or document delivered in connection with the foregoing, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“CS L/C Security Documents” means the security agreement dated as of August 3, 2007 made by the Subsidiaries of the Borrower party thereto and the pledge agreement dated as of August 3, 2007 made by the Subsidiaries of the Borrower party thereto, in each case to secure the obligations under the CS Letter of Credit Agreement.

“CS Letter of Credit” means the irrevocable standby letter of credit issued on August 3, 2007, for the account of the Borrower and the subsidiary guarantors identified thereto, for the benefit of McDonald’s Latin America, pursuant to the CS Letter of Credit Agreement.

“CS Letter of Credit Agreement” means the Letter of Credit Reimbursement Agreement, dated as of August 3, 2007, between the Borrower and Credit Suisse, Cayman Islands Branch, as issuing bank.

“Costa Rican Guarantor” means each Guarantor organized under the laws of Costa Rica.

“Debtor Relief Laws” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, *recuperação judicial*, *regime de administração especial temporária*, *concurso mercantil*, *quiebra* or similar debtor relief laws of the United States of America, the British Virgin Islands, Mexico, Costa Rica, Panama, Brazil, and/or any other jurisdictions applicable to the Borrower or any Guarantor from time to time in effect affecting the rights of creditors generally.

“Default” means any event or condition that, with the giving of any notice, the passage of time, or both, would result in an Event of Default.

“Disqualified Capital Stock” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof

“Dollars” and “U.S.\$” means the lawful currency of the United States.

“Environmental Laws” means any and all Brazilian, U.S., state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any Hazardous Materials into the environment.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Event of Default” means any of the events specified in Article VII; provided that any requirement set forth therein for the giving of notice, the lapse of time, or both, has been satisfied.

“Exchange Act” means the Securities Exchange Act of 1934.

“Excluded Subsidiary” means any Subsidiary of the Borrower that is prevented or prohibited from becoming a Guarantor under local laws or pursuant to its organizational documents or due the existence of minority shareholders.



“Excluded Taxes” means any of the following Taxes imposed on or with respect to the Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, or required to be withheld or deducted from any such payment: (a) Taxes imposed on or measured by its overall net income (however denominated), and branch profits and franchise taxes, in each case, (i) imposed by the jurisdiction (or any political subdivision thereof) under the Applicable Law of which such recipient is organized, is doing business, is considered a resident for tax purposes, or in which its principal office is located or, in which its applicable lending office is located; (ii) imposed as the result of any other present or former connection between the Lender and the jurisdiction imposing such Tax (other than connections arising from such Lender having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document); (b) withholding Taxes to the extent attributable to the Lender’s failure to provide to the Borrower, at the time or times required by Applicable Law such properly completed and executed documentation reasonably requested by the Borrower as the Lender is legally entitled to provide and will permit such payments to be made without withholding or at a reduced rate of withholding, as applicable; and (c) any U.S. federal withholding Taxes imposed under FATCA.

“Fair Market Value” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) which could be negotiated in an arm’s-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction; *provided* that the Fair Market Value of any such asset or assets will be determined conclusively by the Board of Directors of the Borrower acting in good faith, and will be evidenced by a board resolution.

“FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b)(1) of the Code and any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement, treaty or convention among Governmental Authorities and implementing such Sections of the Code.

“Federal Funds Effective Rate” means, for any day, the rate calculated by the NYFRB based on such day’s federal funds transactions by depository institutions, as determined in such manner as shall be set forth on the Federal Reserve Bank of New York’s website from time to time, and published on the next succeeding Business Day by the NYFRB as the effective federal funds rate.

“Fee Letter” means that certain fee letter dated as of the date hereof between the Borrower and the Lender.

“Financial Officer” of any Person means the chief financial officer, principal accounting officer, treasurer, assistant treasurer or controller of such Person.

“Franchise Documents” means the Master Franchise Agreements and any other documents pursuant to which the Borrower or any of its Subsidiaries has acquired the right to operate any franchised restaurant in Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curacao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, Venezuela and the U.S. Virgin Islands of St. Thomas and St. Croix, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“GAAP” means the generally accepted accounting principles in the United States of America, as in effect from time to time, consistently applied throughout the periods involved.

“Governmental Authority” means, as applicable, the government of Brazil, Mexico, Costa Rica, Panama, the British Virgin Islands, the United States, any other nation, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantor” means Arcos Dourados Comércio de Alimentos Ltda., ADCR Inmobiliaria S.A., Arcos Dorados Costa Rica ADCR, S.A., Arcos Dorados Panamá, S.A., Sistemas MCopco Panamá, S.A. Inc. and each Additional Guarantor.

“Guaranty” means the guarantee by the Guarantors pursuant to Article VIII.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Hedging Obligations” means the obligations of any Person pursuant to (i) any interest rate protection agreement, including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements and/or other types of hedging agreements designed to hedge interest rate risk of such Person, (ii) any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed to hedge foreign currency risk of such Person, or (iii) any commodity swap agreement, commodity cap agreement, commodity collar agreement, commodity or raw material futures contract or any other agreement as to which such Person is a party designed to manage commodity risk of such Person.

“Impacted Interest Period” is defined in the definition of “LIBO Rate.”

“Indebtedness” means, for any Person (without duplication):

- (a) the principal amount (or, if less, the accreted value) of all obligations for borrowed money,

(b) obligations evidenced by bonds, debentures, notes or similar instruments (other than rental obligations under operating leases, whether or not evidenced by notes),

(c) obligations of such Person issued or assumed as the deferred purchase price of Property or services and obligations under any title retention agreement (excluding trade accounts payable in the ordinary course of business),

(d) reimbursement obligations in respect of letters of credit, banker's acceptances or similar credit transactions (except to the extent they relate to trade payables in the ordinary course of business and such obligation is satisfied within twenty (20) Business Days of incurrence),

(e) indebtedness (excluding prepaid interest thereon) secured by any Lien on any Property of such Person, whether or not such liabilities have been assumed by such Person (the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such Property and the amount of the indebtedness so secured),

(f) Capital Lease Obligations,

(g) net obligations under Hedging Obligations of such Person (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time),

(h) all liabilities recorded on the balance sheet of such Person in connection with a sale or other disposition of accounts receivable and related assets;

(i) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any; *provided that*

(i) if the Disqualified Capital Stock does not have a fixed repurchase price, such maximum fixed repurchase price will be calculated in accordance with the terms of the Disqualified Capital Stock as if the Disqualified Capital Stock were purchased on any date on which Indebtedness will be required to be determined hereunder; and

(ii) if the maximum fixed repurchase price is based upon, or measured by, the fair market value of the Disqualified Capital Stock, the fair market value will be the Fair Market Value thereof;

(j) the amount of all Permitted Receivables Financings of such Person; and

(k) Contingent Obligations relating to any of the foregoing Indebtedness.

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingency obligations at such date.

“Indemnified Taxes” means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

“Interest Payment Date” means, for each Loan, the last day of each Interest Period applicable to such Loan.

“Interest Period” means, with respect to each Loan, initially the period commencing on (and including) the date such Loan is made and ending (but excluding, for purposes of calculating interest) on the numerically corresponding day three calendar months (or, solely for purposes of computing the Base Rate by reference to the LIBO Rate, one calendar month) thereafter, and thereafter, each period commencing on (and including) the last day of the immediately preceding Interest Period applicable to such Loan and ending (but excluding, for purposes of calculating interest) on the numerically corresponding day three calendar months (or, solely for purposes of computing the Base Rate by reference to the LIBO Rate, one calendar month) thereafter; provided that (a) if any Interest Period would otherwise end on a day which is not a Business Day, that Interest Period shall be extended to the next succeeding Business Day, unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Business Day; (b) any Interest Period that would otherwise extend beyond the Maturity Date shall end on the Maturity Date; and (c) any Interest Period that begins on the last day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period.

“Interpolated Rate” means, at any time, for any Interest Period, the rate *per annum* (rounded to the same number of decimal places as the LIBO Screen Rate) determined by the Lender (which determination shall be conclusive and binding absent manifest error) to be equal to the rate that results from interpolating on a linear basis between: (a) the LIBO Screen Rate for the longest period for which the LIBO Screen Rate is available for Dollars) that is shorter than the Impacted Interest Period; and (b) the LIBO Screen Rate for the shortest period (for which that LIBO Screen Rate is available for Dollars) that exceeds the Impacted Interest Period, in each case, at such time.

“Investment” means, with respect to any Person, any: (1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Contingent Obligation) to any other Person (other than advances or extensions of credit to customers in the ordinary course of business); (2) capital contribution (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) to any other Person; or (3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person.

“LIBO Rate” means, with respect to any Interest Period, the London interbank offered rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for Dollars) for a period equal in length to such Interest Period as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate (or, in the event such rate does not appear on a Reuters page or screen, on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate from time to time as selected by the Lender in its reasonable discretion; in each case the “LIBO Screen Rate”) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period; provided that if the LIBO Screen Rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement; provided further that if the Screen Rate shall not be available at such time for such Interest Period (an “Impacted Interest Period”) with respect to Dollars then the LIBO Rate shall be the Interpolated Rate; provided that if any Interpolated Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement. If Screen Rates shall not be available for any Interest Period, the related Loan shall bear interest as set forth in Section 2.9.

The LIBO Rate is intended to represent the rate at which contributing banks may obtain short-term borrowings from each other in the London interbank market. In July 2017, the U.K. Financial Conduct Authority announced that, after the end of 2021, it would no longer persuade or compel contributing banks to make rate submissions to the ICE Benchmark Administration (together with any successor to the ICE Benchmark Administrator, the “IBA”) for purposes of the IBA setting the LIBO Rate. As a result, it is possible that commencing in 2022, the LIBO Rate may no longer be available or deemed an appropriate reference rate upon which to determine the interest rate for loans bearing interest on the basis of the LIBO Rate. In light of this eventuality, public and private sector industry initiatives are currently underway to identify new or alternative reference rates to be used in place of the LIBO Rate. In the event the LIBO Rate is no longer available (or in certain other circumstances), each Loan shall bear interest at the Base Rate.

“LIBO Screen Rate” is defined in the definition of “LIBO Rate.”

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing); provided that in no event shall an operating lease be deemed to constitute a Lien.

“Loan” is defined in Section 2.1.

“Loan Documents” means, collectively, this Agreement, the Note, the Fee Letter and each Subsidiary Joinder Agreement (if any).

“Loan Parties” means the Borrower and the Guarantors.

“Master Franchise Agreements” means the Amended and Restated Master Franchise Agreement, dated as of November 10, 2008 (as the same may be amended, restated, supplemented or otherwise modified from time to time), among McDonald’s Latin America, the Borrower and the other parties thereto, and the Second Amended and Restated Master Franchise Agreement, dated as of November 10, 2008 (as the same may be amended, restated, supplemented or otherwise modified from time to time), among McDonald’s Latin America and Arcos Dourados Comércio de Alimentos Ltda.

“Master Franchisee” means LatAm, LLC, or any successor to its rights and obligations under the Amended and Restated Master Franchise Agreement, dated as of November 10, 2008 (as the same may be amended, restated, supplemented or otherwise modified from time to time), among McDonald’s Latin America, the Borrower and the other parties thereto.

“Material Adverse Effect” means a material adverse effect on (a) the business, properties, operations or financial condition of the Borrower and its Subsidiaries, taken as a whole, (b) the ability of the Loan Parties, taken as a whole, to pay or perform their respective obligations, liabilities and indebtedness under the Loan Documents as such payment or performance becomes due in accordance with the terms thereof, (c) the rights and remedies of the Lender under any Loan Document or the validity, legality, binding effect or enforceability thereof.

“Material Subsidiary” means, at any time, any Guarantor and any other Subsidiary of the Borrower that (a) represents 10% or more of Consolidated EBITDA of the Borrower for the four fiscal quarters most recently ended at the time of determination, or (b) holds assets representing 10% or more of Consolidated Total Assets. As of the Closing Date (determined based on the financial condition and results of operations as of and for the period of four (4) fiscal quarters ended on June 30, 2019), the Material Subsidiaries are as set forth on Schedule 1.1.

“Maturity Date” means December 11, 2020.

“McDonald’s Mortgage” means any mortgages granted in favor of McDonald’s Latin America on Secured Restricted Real Estate, in each case securing obligations owing to McDonald’s Latin America under the Master Franchise Agreement in an aggregate amount not to exceed the undrawn portion of the Letter of Credit on the date of termination thereof.

“McDonald’s Security Documents” means the McDonald’s U.S. Stock Pledge Agreement, dated as of August 3, 2008, made by the Borrower and the other parties thereto in favor of McDonald’s Latin America, the McDonald’s Foreign Pledge Agreements and the McDonald’s Deposit Pledge Agreement and any other agreement, instrument or document under which any Lien is granted to secure obligations under the Franchise Documents, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Non-Guarantor Subsidiary” means, as of any time of determination, each Subsidiary of the Borrower that is not a Guarantor at such time.

“Note” means each promissory note executed by the Borrower in favor of the Lender, substantially in the form of Exhibit B.

“NYFRB” means the Federal Reserve Bank of New York.

“NYFRB Rate” means, for any day, the greater of (a) the Federal Funds Effective Rate in effect on such day and (b) the Overnight Bank Funding Rate in effect on such day (or for any day that is not a Business Day, for the immediately preceding Business Day); provided that if none of such rates are published for any day that is a Business Day, the term “NYFRB Rate” means the rate for a federal funds transaction quoted at 11:00 a.m. on such day received to Lender from a Federal funds broker of recognized standing selected by it; provided, further, that if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower and the Guarantors arising under any Loan Document or otherwise with respect to any Loan, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against the Borrower, any Guarantor or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed or allowable claims in such proceeding.

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or any other similar Taxes, charges or levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery, registration or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“Overnight Bank Funding Rate” means, for any day, the rate comprised of both overnight federal funds and overnight Eurodollar borrowings by U.S.-managed banking offices of depository institutions, as such composite rate shall be determined by the NYFRB as set forth on the Federal Reserve Bank of New York’s website from time to time, and published on the next succeeding Business Day by the NYFRB as an overnight bank funding rate.

“Panamanian Guarantor” means each Guarantor organized under the laws of Panama.

“Permitted Holders” means (a) any Person that is an Affiliate of the Borrower prior to an event giving rise to a Change of Control (and not established as an Affiliate in order to effect what would otherwise be a Change of Control), (b) Woods W. Staton and any Related Party of Woods W. Staton and (c) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned directly or indirectly 51% or more by Persons specified in clause (b).

“Permitted Receivables Financing” means any receivables financing facility or arrangement pursuant to which a Securitization Subsidiary purchases or otherwise acquires accounts receivable of the Borrower or any Subsidiary and enters into a third party financing thereof on terms that the Board of Directors of the Borrower or such Subsidiary has concluded are customary and market terms fair to such Person.

“Person” means an individual, partnership, corporation, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“Preferred Stock” means, with respect to any Person, any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

“Prime Rate” means the rate of interest last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. or if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519) (Selected Interest Rates) as the “bank prime loan” rate or, if such rate is no longer quoted therein, any similar rate quoted therein (as determined by Lender) or any similar release by the Federal Reserve Board (as determined by Lender). Each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Property” shall mean any right or interest in or to property, assets, rights or revenues of any kind whatsoever, whether real, personal or mixed, whether existing or future and whether tangible or intangible, including intellectual property.

“Regulation U” means Regulation U (12 C.F.R. Part 221) of the Board, as the same may be modified and supplemented and in effect from time to time.

“Regulation X” means Regulation X (12 C.F.R. Part 224) of the Board, as the same may be modified and supplemented and in effect from time to time.

“Related Party” means, with respect to any Person, (1) any Subsidiary, spouse, descendant or other immediate family member (which includes any child, stepchild, parent, stepparent, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law) (in the case of an individual), of such Person, (2) any estate, trust, corporation, partnership or other entity, the beneficiaries and stockholders, partners or owners of which consist solely of one or more Permitted Holders referred to in clause (1) of the definition thereof and /or such other Persons referred to in the immediately preceding clause (1), or (3) any executor, administrator, trustee, manager, director or other similar fiduciary of any Person referred to in the immediately preceding clause (2), acting solely in such capacity.

“Sanctioned Country” means, at any time, a country, region or territory which is itself the subject to or target of any Sanctions.

“Sanctioned Person” means, at any time, any individuals or entities (a) listed in any Sanctions-related list of designated individuals or entities maintained by Sanctions Authority, (b) operating, organized or resident in a Sanctioned Country, or (c) owned or controlled by one or more of any such individuals or entities as described in the foregoing clauses (a) and (b), or (d) otherwise the subject of any Sanctions.



“Sanctions” means all economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, or the United Nations Security Council, the European Union, any European Union member state, or Her Majesty’s Treasury of the United Kingdom or other relevant sanctions authority (collectively, “Sanctions Authorities”).

“Securitization Subsidiary” means (a) a Subsidiary that is designated a “Securitization Subsidiary” by the Board of Directors of the Borrower, (b) that does not engage in, and whose charter prohibits it from engaging in, any activities other than Permitted Receivables Financings and any activity necessary, incidental or related thereto, (c) no portion of the Indebtedness or any other obligation, contingent or otherwise, of which is guaranteed by the Borrower or any Material Subsidiary, is recourse to or obligates the Borrower or any Material Subsidiary of the Borrower in any way, subjects any property or asset of the Borrower or any Material Subsidiary of the Company, directly or indirectly, contingently or otherwise, to the satisfaction thereof and (d) with respect to which neither the Borrower nor any Material Subsidiary has any obligation to maintain or preserve its financial condition or cause it to achieve certain levels of operating results other than, in respect of clauses (c) and (d), pursuant to customary representations, warranties, covenants and indemnities entered into in connection with a Permitted Receivables Financing.

“Subsidiary” means, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock of each class or other interests having ordinary voting power (other than stock or other interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are, at the time owned, or the management of which is otherwise controlled by, such Person or by one or more Subsidiaries of such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower

“Subsidiary Joinder Agreement” means each agreement executed by an Additional Guarantor in the form of Exhibit E.

“Taxes” means any and all present or future taxes, duties, levies, imposts, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, whether computed on a separate, consolidated, unitary, combined or other basis and any and all liabilities (including interest, fines, penalties or additions to tax) with respect to the foregoing.

“Territory” means, with respect to any Guarantor and any Subsidiary of any Guarantor, the country in which such Guarantor or such Subsidiary is organized and has its primary operations.

“United States” means the United States of America.

“Venezuelan Subsidiary” means any direct or indirect Subsidiary of the Borrower that generates more than 50% of its revenues or holds more than 50% of its total assets in Venezuela.

“Voting Stock” means Capital Stock in any Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or individuals performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

Section 1.2Rules of Construction.

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined.

Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and Properties, including cash, securities, accounts and contract rights.

(b) In this Agreement and each other Loan Document, unless the context clearly requires otherwise (or such other Loan Document clearly provides otherwise), (i) “amend” shall mean “amend, restate, amend and restate, supplement or modify;” and “amended,” “amending” and “amendment” shall have meanings correlative to the foregoing; (ii) in the computation of periods of time from a specified date to a later specified date, “from” shall mean “from and including,” “to” and “until” shall mean “to but excluding,” and “through” shall mean “to and including;” (iii) “hereof,” “herein” and “hereunder” (and similar terms) in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Loan Document; and (iv) references to “the date hereof” shall mean the date first set forth above.

(c) In this Agreement unless the context clearly requires otherwise, any reference to (i) an Exhibit or Schedule is to an Exhibit or Schedule, as the case may be, attached to this Agreement and constituting a part hereof, and (ii) a Section or other subsection is to a Section or such other subsection of this Agreement.

(d) Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP; *provided* that, if the Borrower notifies the Lender that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision, regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

(e) For purposes of Section 5.5(a) and Section 6.6, the definitions of Consolidated Net Indebtedness, Consolidated EBITDA and Consolidated Net Indebtedness to EBITDA Ratio will be calculated after giving effect on a pro forma basis in good faith for the period of such calculation for the following:

(i) the incurrence, repayment or redemption of any Indebtedness (including acquired Indebtedness) of such Person or any of its Subsidiaries, and the application of the proceeds thereof, including the incurrence of any Indebtedness (including acquired Indebtedness), and the application of the proceeds thereof, giving rise to the need to make such determination, occurring during such four-quarter period or at any time subsequent to the last day of such four-quarter period and prior to or on such date of determination, to the extent, in the case of an incurrence, such Indebtedness is outstanding on the date of determination, as if such incurrence, and the application of the proceeds thereof, repayment or redemption occurred on the first day of such four-quarter period; and

(ii) any asset sale transaction or asset acquisition by such Person or any of its Subsidiaries, including any asset sale or asset acquisition giving rise to the need to make such determination, occurring during the four-quarter period or at any time subsequent to the last day of the four-quarter period and prior to or on such date of determination, as if such asset sale transaction or asset acquisition occurred on the first day of the four-quarter period.

For purposes of making such pro forma computation, the amount of Indebtedness under any revolving credit facility will be computed based on:

(A) the average daily balance of such Indebtedness during such four-quarter period; or

(B) if such facility was created after the end of such four-quarter period, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation,

in each case giving pro forma effect to any borrowings related to any transaction referred to in clause (ii) of this Section 1.2(e).

## ARTICLE II

### LOANS

Section 2.1 Loans. Subject to the terms and conditions set forth herein, the Lender agrees to make loans (each such loan, a “Loan”) to the Borrower from time to time, on any Business Day during the Availability Period, subject to Section 2.2, in an aggregate amount not to exceed, at any time outstanding, the Aggregate Commitment Amount. Within the limits of the Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.1, repay and reborrow under this Section 2.1.

#### Section 2.2 Borrowing.

(a) To request a Borrowing, the Borrower shall give the Lender an irrevocable notice substantially in the form of Exhibit A (the “Borrowing Notice”) signed by the Borrower and appropriately completed, not later than by 11:00 a.m. (New York City time) three Business Days prior to the date the Borrowing is desired. The initial borrowing shall be in a principal amount of at least U.S.\$100,000.

(b) Upon satisfaction of the applicable conditions set forth in Section 4.2, the Lender shall make the amount of the requested Loan available to the Borrower in immediately available funds on the Borrowing Date specified in the Borrowing Notice.

Section 2.3 Termination of Commitment. The Commitment shall automatically terminate at 5:00 p.m. (New York City time) on the Commitment Termination Date.

Section 2.4 Repayment of the Loans. The Borrower hereby unconditionally promises to pay to the Lender on the Maturity Date the aggregate principal amount of all Loans outstanding on such date.

#### Section 2.5 Optional Prepayment; Mandatory Prepayment.

(a) The Borrower shall have the right, upon three Business Days’ irrevocable notice to the Lender, to prepay on any Business Day, without premium or penalty, all or any portion of the Loans then outstanding. Prepayments must be accompanied by a payment of all accrued and unpaid interest on the amount so prepaid through the date of prepayment.

(b) If on any Business Day for any reason the total outstanding principal amount of the Loans at any time exceeds the Aggregate Commitment Amount then in effect, the Borrower shall immediately prepay Loans in an aggregate amount equal to such excess.

(c) Each payment pursuant to this Section 2.5 shall be accompanied by accrued interest to such date on the amount prepaid and any additional amounts required to be paid pursuant to Section 2.15.

#### Section 2.6 Interest Rates and Interest Payment Dates.

(a) Except as set forth in clause (b) below or in Section 2.9 or 2.11, each Loan shall bear interest on the unpaid principal amount thereof, for the period from (and including) the day such Loan is made to, but excluding, the day such Loan is paid at a rate *per annum* equal to the LIBO Rate determined for the Interest Period then in effect, plus the Applicable Margin. Accrued (and theretofore unpaid) interest on each Loan shall be payable (i) in arrears on each Interest Payment Date, (ii) on the date of any prepayment (on the amount prepaid) and (iii) at maturity (whether at stated maturity, by acceleration or otherwise) and, after such maturity, on demand.

(b) During the continuance of any Event of Default, (i) all principal of any Loan shall bear interest, payable on demand, for each day until paid at a rate *per annum* equal to the rate that is 2% in excess of the interest rate then applicable to the Loan, and at any time following the termination of the Interest Period then in effect such rate shall be equal to 2% plus the Base Rate plus 1.50% determined from time to time and (ii) to the extent permitted by Applicable Law, any overdue interest or other amounts owing hereunder shall bear interest, payable on demand, for each day until paid at a rate *per annum* equal to 2% plus the Base Rate plus 1.50% determined from time to time. Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) All computations of interest for Loans determined by reference to the Base Rate shall be made on the basis of a year of 365 days or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed.

(d) Each determination by the Lender of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error. The Lender shall, at the request of the Borrower, deliver to the Borrower a statement showing the quotations used by the Lender in determining the LIBO Rate or the Base Rate, as applicable.

Section 2.7 Commitment Fee. The Borrower agrees to pay to the Lender on the last day of each March, June, September and December, commencing with December 31, 2019, and on the Commitment Termination Date, a commitment fee (the "Commitment Fee"), at a rate of 0.75% *per annum* on the average daily amount of the unutilized portion of the Commitment of the fiscal quarter of the Borrower ended on such day. The phrase "unutilized portion of the Commitment" as used in the preceding sentence means, as of any day, the positive difference between (a) the amount of the Commitment, and (b) the outstanding principal amount of the Loans. The Commitment Fee shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Commitment Fee due to the Lender shall commence to accrue on the Closing Date, shall be payable in arrears and shall cease to accrue on the date on which the Commitment shall be terminated or terminates as provided herein.

Section 2.8 Note.

(a) The obligation of the Borrower to repay the aggregate principal balance of all Loans hereunder outstanding at any one time shall, if requested by the Lender, be evidenced by one or more Notes, as such Note(s) may be modified or amended from time to time. Promptly upon such request, the Borrower shall execute and deliver such Note(s) to the Lender.

(b) The payment of any part of the principal of the Note shall discharge the obligation of the Borrower under this Agreement to pay principal of the Loans evidenced by the Note *pro tanto*, and the payment of any principal of a Loan in accordance with the terms hereof shall discharge the obligations of the Borrower under the Note *pro tanto*.

(c) In the event of any inconsistency between this Agreement and the Note with respect to the calculation of interest or any other amount due hereunder, this Agreement shall prevail.

Section 2.9 Inability to Determine Interest Rate. If, prior to the commencement of any Interest Period, the Lender determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the LIBO Rate for such Interest Period or that the LIBO Rate for such Interest Period will not adequately and fairly reflect the cost of the Lender of making or maintaining the Loans for such Interest Period, then the Lender shall give notice thereof to the Borrower by telephone or telecopy as practicable thereafter and each Loan shall bear interest at a rate *per annum* equal to the Base Rate plus the Applicable Margin for such Interest Period and each subsequent Interest Period until the Lender notifies the Borrower that the circumstances giving rise to such notice no longer exist.

Section 2.10 Payments Generally. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Lender, at the Lender's office in Dollars and in immediately available funds not later than 4:00 p.m. (New York time) on the date specified herein. If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, except that if such payment is due on the Maturity Date and such date is not a Business Day, payment shall be made on the next preceding Business Day, and such extension or reduction of time shall be reflected on computing interest or fees, as the case may be.

Section 2.11 Illegality. If any Change in Law makes it unlawful, or any Governmental Authority of competent jurisdiction has asserted that it is unlawful, for the Lender or its applicable lending office to make, maintain or fund the Loans, or to determine or charge interest rates based upon the LIBO Rate, or any Governmental Authority has imposed material restrictions on the authority of the Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by the Lender to the Borrower, (i) any obligation of the Lender to make or continue Loans at the LIBO Rate shall be suspended, and (ii) if such notice asserts the illegality of the Lender making or maintaining Loans the interest rate on which is determined by reference to the LIBO Rate component of the Base Rate, the interest rate on which the Loans shall, if necessary to avoid such illegality, be determined by the Lender without reference to the LIBO Rate component of the Base Rate, in each case until the Lender notifies the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (x) all Loans shall commence to bear interest at the Base Rate (which shall, if necessary to avoid such illegality, be determined by the Lender without reference to the LIBO Rate component of the Base Rate) plus 1.50%, either on the last day of the Interest Period therefor, if the Lender may lawfully continue to maintain the Loans bearing interest at the LIBO Rate to such day, or immediately, if the Lender may not lawfully continue to maintain such Loans bearing interest at the LIBO Rate and (y) if such notice asserts the illegality of the Lender determining or charging interest rates based upon the LIBO Rate, the Lender shall, during the period of such suspension, compute the Base Rate without reference to the LIBO Rate component thereof until the Borrower is advised in writing by the Lender that it is no longer illegal for the Lender to determine or charge interest rates based upon the LIBO Rate. Upon any such conversion of Loans from bearing interest at the LIBO Rate to the Base Rate, the Borrower shall pay to the Lender all accrued and unpaid interest on the amount so converted.

Section 2.12 Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower or any Guarantor hereunder or under any other Loan Document shall, to the extent permitted by Applicable Law, be made free and clear of and without deduction or withholding for any Taxes. If, however, Applicable Law requires the Borrower or any Guarantor to withhold or deduct any Tax, such Tax shall be withheld or deducted in accordance with such Applicable Law as determined by the Borrower or such Guarantor.

(b) If the Borrower or any Guarantor shall be required by Applicable Law to withhold or deduct any Taxes from any payment, then (i) the Borrower or such Guarantor shall withhold or make such deductions as are determined by the Borrower or such Guarantor to be required, (ii) the Borrower or such Guarantor shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with Applicable Law, and (iii) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the Borrower or such Guarantor shall be increased by such additional amounts as necessary so that after any such required withholding or the making of all such required deductions (including withholding or deductions applicable to additional sums payable under this Section 2.12) the Lender receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(c) Without limiting the provisions of clause (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with Applicable Law.

(d) Without limiting the provisions of clause (a), (b) or (c) above, the Borrower shall, and does hereby indemnify the Lender, and shall make payment in respect thereof, within ten days after written demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributed to amounts payable under this Section 2.12) withheld or deducted by the Borrower or any Guarantor or paid by the Lender, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of any such payment or liability delivered to the Borrower by the Lender shall be conclusive absent manifest error.

(e) Within 30 calendar days, upon request by the Lender, after any payment of Taxes by the Borrower to a Governmental Authority as provided in this Section 2.12, the Borrower shall deliver to the Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment or any other evidence available that is reasonably satisfactory to the Lender.

(f) If the Lender is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document, it shall deliver to the Borrower, at the time or times reasonably requested by the Borrower, such properly completed and executed documentation reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, the Lender, if reasonably requested by the Borrower, shall deliver such other documentation reasonably requested by the Borrower as will enable the Borrower to determine whether or not the Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.



(g) If the Lender determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 2.12 (including the payment of additional amounts pursuant to this Section 2.12), it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made under this Section 2.12 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of the Lender and without interest (other than any interest paid by the relevant taxation authority with respect to such refund). Upon the request of the Lender, the Borrower shall repay to the Lender the amount paid over pursuant to this Section 2.12(f) (plus any penalties, interest or other charges imposed by the relevant taxation authority) in the event that the Lender is required to repay such refund to such taxation authority. Notwithstanding anything to the contrary in this Section 2.12(g), in no event will the Lender be required to pay any amount to the Borrower pursuant to this Section 2.12(g) the payment of which would place the Lender in a less favorable net after-Tax position than the Lender would have been in if the indemnification payments or additional amounts giving rise to such refund had never been paid. This paragraph shall not be construed to require the Lender to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the Borrower.

Section 2.13 Requirements of Law.

(a) In the event that any Change in Law or compliance by the Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority occurring after the date hereof:

(i) does or shall impose, modify or hold applicable any reserve, special deposit or similar requirement against assets held by, or deposits or other liabilities in or for the account of, advances or loans by, or other credit extended by, any office of the Lender which are not otherwise included in the determination of the LIBO Rate; or

(ii) does or shall impose on the Lender or the London interbank market any other condition affecting this Agreement or the Loans;

and the result of any of the foregoing is to increase the cost to the Lender or its lending office of making or maintaining advances or extensions of credit or to reduce any amount received or receivable hereunder, whether of principal, interest or otherwise (other than an increase in cost or reduction in amount attributable to Taxes, as to which Section 2.12 shall govern), in each case, in respect of the Loans, then, in any such case, the Borrower shall pay the Lender, within 30 days from demand, such additional amount or amounts as will compensate it for such additional cost incurred or reduction suffered.

(b) If the Lender reasonably determines in good faith that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on the Lender's capital or on the capital of the Lender's holding company, if any, as a consequence of this Agreement, the Commitment or the Loans to a level below that which the Lender or the Lender's holding company could have achieved but for such Change in Law (taking into consideration the Lender's policies and the policies of the Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to the Lender such additional amount or amounts as will compensate the Lender or the Lender's holding company for any such reduction suffered.

(c) A certificate of the Lender setting forth in reasonable detail the basis for the calculation of the amount or amounts necessary to compensate the Lender or its holding company, as the case may be, as specified in clauses (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay the Lender the amount shown as due on any such certificate within 30 days after receipt thereof. Failure or delay on the part of the Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of the Lender's right to demand such compensation; provided, however, that the Borrower shall not be required to compensate the Lender pursuant to this Section 2.13 for any increased cost incurred more than 180 days before it notifies the Borrower of the Change in Law giving rise to such increased cost and of its intention to claim compensation therefore. However, if the Change in Law giving rise to such increased cost or reduction is retroactive, then the 180-day period referred to above will be extended to include the period of retroactive effect thereof.

Section 2.14 Mitigation Obligations. If the Lender requests compensation under Section 2.13, or requires the Borrower or any Guarantor to pay any Indemnified Taxes or additional amounts to the Lender or any Governmental Authority for the account of the Lender pursuant to Section 2.12, then the Lender shall (at the request of the Borrower or the Guarantor) use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of the Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.12 or Section 2.13, as the case may be, in the future, and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to the Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by the Lender in connection with any such designation or assignment.

Section 2.15 Breakage Costs. The Borrower agrees to reimburse the Lender for any Breakage Costs. The Borrower shall pay the Lender the amount shown as due on any certificate delivered by the Lender to the Borrower setting forth in reasonable detail Breakage Costs incurred within 30 days after receipt thereof.

Section 2.16 Survival. The provisions of Sections 2.11, 2.12, 2.13 and 2.15 shall survive termination of the Commitment and the repayment of all Obligations hereunder.

## REPRESENTATIONS AND WARRANTIES

The Borrower and each Guarantor hereby represent and warrant to the Lender as of the Closing Date and on each Borrowing Date, that:

Section 3.1 Financial Condition; No Material Adverse Effect. ((1) The audited Consolidated balance sheets of the Borrower and its Subsidiaries as at December 31, 2018, including the related schedules and notes thereto, and the unaudited Consolidated balance sheets of the Borrower and its Subsidiaries as at June 30, 2019, including the related schedules and notes thereto, in each case, present fairly the financial condition of the Borrower and its Subsidiaries as of the end of such fiscal year and fiscal quarter, respectively, and results of their operations and the changes in their undistributed net assets for the fiscal year and fiscal quarter, respectively, then ended.

(b) Since December 31, 2018, there has been no event or circumstance that has had or would reasonably be expected to have a Material Adverse Effect.

Section 3.2 Existence and Qualification; Power. The Borrower and each Material Subsidiary (a) is duly organized or formed, validly existing and, as applicable, in good standing under the laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, and (c) is duly qualified and is licensed and, as applicable, in good standing under the laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license; except in each case referred to in clause (a) but only with respect to any Material Subsidiary that is not a Guarantor, (b)(i) or (c), to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect.

Section 3.3 Authorization; Enforceable Obligations; No Contravention. The execution, delivery and performance of this Agreement and the other Loan Documents by the Loan Parties have been duly authorized by all necessary action, and this Agreement is and the other Loan Documents, when executed, will be legal, valid and binding obligations of the Loan Parties party thereto, enforceable in accordance with their respective terms, except as enforceability may be limited by applicable Debtor Relief Laws. The execution, delivery and performance of this Agreement and the other Loan Documents (i) are not in contravention of law or of the terms of any Loan Party's organizational documents, and (ii) will not result in the breach of or constitute a default under, or result in the creation of a Lien or require a payment to be made under any indenture, agreement or undertaking to which the Borrower or any Guarantor is a party or by which it or its property may be bound or affected, except in the case referred to in this clause (ii), to the extent that such breach, default, Lien or payment would not reasonably be expected to have a Material Adverse Effect.

Section 3.4 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority, including the Central Bank of Brazil, or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or any Guarantor of this Agreement or any other Loan Document, which has not been duly obtained, except for, with respect to the Brazilian Guarantor, the notarization and consularization of this Agreement, the translation of this Agreement into Portuguese by a certified public translator and the filing of such translated and notarized and consularized Agreement with the relevant Registry of Titles and Documents in Brazil which shall be completed within twenty (20) days after the date on which the Borrower has received the original signature pages from each of the counterparties to this Agreement.

Section 3.5 No Material Litigation. Except as set forth on Schedule 3.5, there is no action, suit, investigation or proceeding at law or in equity or by or before any governmental instrumentality or agency or arbitral body pending, or, to the knowledge of the Borrower or any Guarantor, threatened by or against the Borrower or any of its Material Subsidiaries or affecting the Borrower or any of its Material Subsidiaries or any Properties or rights of the Borrower or any of its Material Subsidiaries, which, if adversely determined, would reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

Section 3.6 Taxes. The Borrower and each of its Material Subsidiaries has filed or caused to be filed all federal and state and local tax returns which are required to be filed by it, except where the failure to file such tax returns would not reasonably be expected to result in a Material Adverse Effect, and, except for (i) taxes and assessments being contested in good faith by appropriate proceedings diligently conducted and against which adequate reserves have been established in accordance with GAAP or (ii) taxes the payment of which would not reasonably be expected to result in a Material Adverse Effect, have paid or caused to be paid all taxes as shown on said returns or on any assessment received by it, to the extent that such taxes have become due.

Section 3.7 Compliance with Laws. The Borrower and each of its Material Subsidiaries are in compliance in all material respects with the requirements of all laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except (i) in such instances in which such requirement of law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (ii) where the failure to be in compliance would not reasonably be expected to result in a Material Adverse Effect.

Section 3.8 Intellectual Property; Licenses, Etc. The Borrower and each of its Material Subsidiaries own, or possess the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights that are reasonably necessary for the operation of their respective businesses, without conflict in any material respects with the rights of any other Person. To the best knowledge of the Borrower and each Guarantor, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Borrower or any of its Material Subsidiaries infringes upon any rights held by any other Person, except for any such infringement which, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrower or any Guarantor, threatened, which, either individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

Section 3.9 Ranking. The payment obligations in respect of the Loans will constitute unsecured, direct and unconditional obligations of the Borrower and the Guarantors, and shall rank at least *pari passu* with all other existing and future unsecured, unsubordinated indebtedness of the Borrower and the Guarantors, except for any obligations that have priority under applicable laws.

Section 3.10 Full Disclosure. The reports, financial statements, certificates and other information furnished by or on behalf of the Loan Parties to the Lender in connection with the negotiation of this Agreement or delivered hereunder, taken as a whole, do not contain any untrue statement of a material fact or omits a material fact necessary to make the statement made not misleading; provided that, with respect to projected financial information, the Borrower and each Guarantor represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

Section 3.11 Form of Documents. Each of the Loan Documents to which any Loan Party is a party is in proper legal form under the laws of the jurisdiction in which such Loan Party is organized for the enforcement thereof against such Loan Party under such laws; *provided* that, in the event of enforcement of any of the Loan Documents, including this Agreement, against any Guarantor, a translation of that document into the official language of the court presiding over such proceedings, prepared by a court-approved translator or other official translator may be required, in respect of which such Guarantor would have the opportunity to review and comment, and proceedings would thereafter be based upon the agreed upon translation.

Section 3.12 Environmental Matters. Except for matters that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect: (a) the properties presently owned, leased or operated by the Loan Parties and their Subsidiaries are in compliance with all Environmental Laws; (b) none of the Loan Parties nor any of their Subsidiaries has received any written complaint or notice of violation or liability under Environmental Laws with regard to any Loan Party or any Subsidiary thereof; (c) there are no administrative actions or judicial proceedings pending under any Environmental Law against any Loan Party or any Subsidiary thereof, and (d) none of the Loan Parties nor any of their Subsidiaries is subject to any Environmental Liability applicable to it.

Section 3.13 Use of Proceeds. The Borrower will use the proceeds of the Loans for working capital and other lawful general corporate purposes. No proceeds of the Loans will be used for any purpose which violates or is inconsistent with the provisions of Regulation U or Regulation X.

Section 3.14 Investment Company Act. No Loan Party is required to register as an “investment company” as defined in the Investment Company Act of 1940, as amended.

Section 3.15 Anti-Corruption Law and Sanctions. The Borrower has implemented and maintains in effect policies and procedures reasonably designed to promote compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and none of (i) the Borrower, any Subsidiary thereof or, any of their respective directors, officers or employees, or (ii) to the knowledge of the Borrower, any agent of the Borrower or any Subsidiary of the Borrower that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person..

Section 3.16 Consolidated EBITDA of Guarantors. As of the Closing Date, the Consolidated EBITDA of the Guarantors party to this Agreement (calculated on a Combined/Consolidated Basis) for the period of four (4) fiscal quarters ended on June 30, 2019 represents at least 80% of Consolidated EBITDA of the Borrower for such period. No Subsidiary of any Guarantor included in the calculation of the Consolidated EBITDA of the Guarantors within any one Territory determined on a Combined/Consolidated Basis for such period accounts for 2% or more of the Consolidated EBITDA of the Guarantors within such Territory (calculated on a Combined/Consolidated Basis) for such period.

## ARTICLE IV

### CONDITIONS PRECEDENT

Section 4.1 Conditions to Closing. This Agreement and the obligations of the Lender to make Loans hereunder shall become effective on such date the Lender shall have received each of the following documents and the following conditions shall have been satisfied on or prior to such date (such date, the “Closing Date”), each of which shall be reasonably satisfactory to the Lender in form and substance (or such condition shall have been waived in writing by the Lender):

(a) the Lender shall have received each Loan Document (other than any Guaranty Joinder Agreement) duly executed and delivered on behalf of the Borrower and each Guarantor, as applicable;

(b) incumbency certificates evidencing the identity, authority and capacity of each officer of the Borrower and each Guarantor authorized to act on behalf of such Person in connection with this Agreement and the other Loan Documents to which such Person is a party;

(c) favorable opinions of (i) in-house special New York counsel to the Loan Parties, (ii) in-house Brazilian counsel to Arcos Dourados Comércio de Alimentos Ltda. and (iii) Maples & Calder, British Virgin Islands counsel to the Borrower, in each case substantially in the form attached hereto as Exhibits D-1, D-2, and D-3 respectively;

(d) a certificate signed by the chief financial or accounting officer of the Borrower (A) confirming (1) that no Default or Event of Default shall have occurred and be continuing, (2) that the representations and warranties of the Loan Parties set out in the Loan Documents shall be (x) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, true and correct (as so qualified) on and as of the Closing Date, or (y) if any such representation and warranty is not so qualified, true and correct in all material respects on and as of the Closing Date and (B) accompanied by true and correct copies of organizational documents, resolutions and powers of attorney of each Loan Party and its legal representatives;

(e) the Borrower and each Guarantor shall have delivered evidence that a process agent shall have accepted appointment to receive service of process on the Borrower and such Guarantor, in form and substance reasonably satisfactory to the Lender; and

(f) the Borrower shall have paid all fees and other amounts due and payable on or before the Closing Date by the Borrower to the Lender (including fees and expenses of counsel to the Lender) to the extent invoiced to the Borrower prior to the Closing Date.

The Lender shall notify the Borrower of the Closing Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lender to make Loans hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived in writing by the Lender) at or prior to 2:00 p.m., New York time, on the date that is five (5) days after the date hereof (and, in the event such conditions are not so satisfied or waived, the Commitment shall terminate at such time).

Section 4.2 Conditions to each Borrowing. The obligation of the Lender to make a Loan is subject to the satisfaction, unless waived in writing by the Lender, of the further conditions precedent that:

(a) the Closing Date shall have occurred;

(b) the Lender shall have received a Borrowing Notice in accordance with Section 2.2;

(c) the representations and warranties of the Loan Parties set out in the Loan Documents shall be (A) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, true and correct (as so qualified) on and as of the Borrowing Date, or (B) if any such representation and warranty is not so qualified, true and correct in all material respects on and as of the Borrowing Date; provided, that for purposes of this Section 4.2(c), the representation and warranty of the Borrower contemplated in Section 3.1(a) shall be deemed to refer to the last day of the period covered by the most recent financial statements furnished to the Lender hereunder;

(d) the sum of the outstanding principal amount of the Loans plus the amount of the requested Loan shall be equal to or less than the Aggregate Commitment Amount; and

(e) immediately prior and after the borrowing of the Loan on the Borrowing Date, no Default or Event of Default shall have occurred and be continuing.

## ARTICLE V

### AFFIRMATIVE COVENANTS

Until the Commitments have been terminated and all Obligations of the Borrower under the Loan Documents have been paid in full:

Section 5.1 Financial Statements and Other Information. The Borrower shall furnish to the Lender:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, a Consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such fiscal year and the related Consolidated statements of income, changes in shareholders' equity, and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all prepared in accordance with GAAP applied on a consistent basis and certified by independent public accountants of nationally recognized standing;

(b) as soon as available and in any event within 90 days after the end of each of the first three quarters of each fiscal year of the Borrower, a Consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such quarter and the related Consolidated statement of income for such quarter and for the portion of the Borrower's fiscal year then ended, and the related Consolidated statements of cash flows and changes in shareholders' equity for the portion of the fiscal year then ended, in each case setting forth in comparative form, as applicable, the figures for the corresponding quarter and the corresponding portion of the Borrower's previous fiscal year, all in reasonable detail and duly certified (subject to normal year-end adjustments and the absence of footnotes) by the chief financial officer of the Borrower as having been prepared in accordance with GAAP applied on a consistent basis;



(c) concurrently with the delivery of the financial information pursuant to clauses (a) and (b) above, a compliance certificate substantially in form of Exhibit C hereto, executed by the chief financial or accounting officer of the Borrower, (i) certifying to the best of his knowledge, that no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, specifying the details thereof and any action taken or proposed to be taken with respect thereto and (ii) showing compliance with Sections 5.5 and 6.6;

(d) promptly upon the Borrower's or any Guarantor's obtaining knowledge of any Default or Event of Default, a certificate of the chief financial officer of the Borrower setting forth the details thereof;

(e) promptly upon any Loan Party entering into any Indebtedness in excess of the equivalent of U.S.\$40,000,000, copies of the transaction documents related to such Indebtedness;

(f) from time to time such additional information regarding the financial condition or business of the Borrower and the Material Subsidiaries as the Lender may reasonably request; provided that the Borrower shall not be required to provide pursuant to this Section 5.1(f) any information that (x) is subject to attorney-client or similar privilege or constitutes attorney work product, (y) is a confidential or proprietary trade secret or (z) is commercially strategic information (as determined in good faith by the Borrower); and

(g) within five Business Days from any Loan Party's obtaining knowledge thereof, notice of (i) any breach or non-performance of, or any default under, a contractual obligation of the Borrower or any Material Subsidiary thereof; (ii) the commencement of, or any material development in, any dispute, litigation, investigation, proceeding or suspension between the Borrower or any Material Subsidiary thereof and any Governmental Authority, including relating to tax events and liabilities; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Material Subsidiary thereof, including pursuant to any applicable Environmental Laws, in each case, only if such event or development has resulted or would reasonably be expected to result in a Material Adverse Effect.

Each notice pursuant to Section 5.1(d) or (g) shall be accompanied by a statement of the chief financial officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower and/or the applicable Subsidiary has taken and proposes to take with respect thereto and, if applicable, shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

Documents required to be delivered pursuant to Section 5.1(a) or 5.1(b) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto, on the Borrower's Web site on the Internet at the website address provided to the Lender pursuant to Section 9.4, or (ii) on which such documents are posted on the Guarantor's behalf on an Internet or intranet website, if any, to which the Lender has access (whether a commercial, third-party website or whether sponsored by the Lender); provided that the Borrower shall notify the Lender (by telecopier or electronic mail) of the posting of any such documents.

Section 5.2 Other Affirmative Covenants. Each Loan Party shall (and the Borrower shall cause each Material Subsidiary to):

(a) (i) preserve, renew and maintain in full force and effect its legal existence and good standing under the laws of the jurisdiction of its organization, (ii) take all reasonable action to maintain all material rights, privileges, permits and licenses and necessary or desirable in the ordinary course of its business, and (iii) preserve or renew those registered patents, trademarks, trade names and service marks reasonably necessary in the ordinary course of its business, in each case, except in the case of any Loan Party, unless such failure to preserve, renew or maintain would not reasonably be expected to result in a Material Adverse Effect;

(b) comply with the requirements of all applicable laws, rules, regulations, and orders of Governmental Authorities unless such failure to comply would not reasonably be expected to result in a Material Adverse Effect;

(c) pay and discharge when due all obligations including taxes, assessments, and governmental charges or levies imposed on it or on its income or profits or any of its property, except for any such tax, assessment, charge, or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained and unless any such failure to pay or discharge would not reasonably be expected to result in a Material Adverse Effect;

(d) maintain all of its material properties owned or used in its business in good working order and condition ordinary wear and tear excepted, except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect;

(e) maintain insurance in such amounts, with such deductibles, and against such risks as is customary for similarly situated businesses, except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect;

(f) maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP shall be made of all material financial transactions and material matters involving its assets and business and the assets and businesses of its respective Subsidiaries;

(g) following the occurrence and during the continuance of any Event of Default, permit representatives of the Lender, during normal business hours, to examine, copy, and make extracts from its books and records, to inspect its properties, and to discuss its business and affairs and the business and affairs of its Subsidiaries with its officers and directors; provided that the Borrower shall not be required to provide pursuant to this Section 5.2(g) any information that (x) is subject to attorney-client or similar privilege or constitutes attorney work product, (y) is a confidential or proprietary trade secret or (z) is commercially strategic information (as determined in good faith by the Borrower).

Section 5.3 Use of Proceeds. The Borrower shall use proceeds of the Loan solely for working capital and other general corporate purposes and not use such Loan proceeds for any purpose which violates or is inconsistent with the provisions of Regulation U or Regulation X.

Section 5.4 Rank of Obligations. Each Loan Party shall cause the payment obligations in respect of outstanding amounts under this Agreement and the other Loan Documents to rank at least *pari passu* with all other existing and future unsecured indebtedness of each Loan Party and to constitute direct, unconditional and unsubordinated obligations of each Loan Party, except for any obligations that have priority under applicable laws.

Section 5.5 Subsidiaries.

(a) If as of the last day of any fiscal quarter of the Borrower (for purposes of this Section 5.5, the “reference date”), the Consolidated EBITDA of the Guarantors party to this Agreement (calculated on a Combined/Consolidated Basis) as of the reference date for the period of four (4) fiscal quarters preceding such reference date (for purposes of this Section 5.5, the “reference period”), represents less than 80% of Consolidated EBITDA of the Borrower for the reference period, the Borrower shall, at its sole cost and expense, within thirty (30) days following the earliest of the date when financial statements (a) are actually delivered (or otherwise made available) with respect to such fiscal quarter or (b) required to be delivered pursuant to Section 5.1(a) or (b) with respect to such fiscal quarter, cause one or more Subsidiaries to become party to this Agreement as a Guarantor by (i) executing a Subsidiary Joinder Agreement and (ii) delivering (A) an incumbency certificate evidencing the identity, authority and capacity of each officer of such Subsidiary authorized to act on behalf of such Person in connection with this Agreement, (B) true, correct and complete copies of organizational documents, resolutions and powers of attorney of such Subsidiary and its legal representatives, (C) evidence of acceptance of appointment of a process agent to receive service of process for such Subsidiary in form and substance satisfactory to the Lender and (D) in the case of any such Subsidiary organized under the laws of Mexico, a power of attorney for lawsuits and collections granted by such Subsidiary, certified by a Mexican notary public, in form and substance reasonably satisfactory to the Lender, appointing such process agent to act as such on behalf of such Subsidiary, such that the Consolidated EBITDA of Guarantors party to this Agreement (including such new Guarantor(s) on a pro forma basis) (in each case, calculated on a Combined/Consolidated Basis) represents 80% or more of Consolidated EBITDA of the Borrower for the reference period.

(b) If as of any reference date, (i) the portion of the Consolidated EBITDA of any Guarantor party to this Agreement (calculated on a Combined/Consolidated Basis) for the period of four (4) fiscal quarters preceding such reference date attributable to any Non-Guarantor Subsidiary of such Guarantor with operations within the same Territory as such Guarantor (such Subsidiary, a “Contributing Subsidiary”) represents 2% or more of the Consolidated EBITDA of the Guarantors within such Territory (calculated on a Combined/Consolidated Basis), and (ii) the Consolidated EBITDA of the Guarantors party to this Agreement (calculated on a Combined/Consolidated Basis) as of the reference date for such reference period would represent less than 80% of Consolidated EBITDA of the Borrower for the reference period if the relevant amounts attributable to such Contributing Subsidiary included in the Consolidated EBITDA of the Guarantors within its Territory (calculated on a Combined/Consolidated Basis) were to be excluded from the calculation of Consolidated EBITDA from the Guarantors within such Territory (on a Combined/Consolidated Basis), the Borrower shall, at its sole cost and expense, within thirty (30) days following the earliest of the date when financial statements (a) are actually delivered (or otherwise made available) with respect to such fiscal quarter or (b) required to be delivered pursuant to Section 5.1(a) or (b) with respect to such fiscal quarter, cause each such Contributing Subsidiary (or, if such Contributing Subsidiary is an Excluded Subsidiary, one or more other Subsidiaries for which the portion of Consolidated EBITDA of the Borrower attributable to such Subsidiary or Subsidiaries for the applicable reference period represented at least the same percentage of the Consolidated EBITDA of the Borrower as the percentage represented by the portion attributable to any such Contributing Subsidiary), to become party to this Agreement as a Guarantor by (i) executing a Subsidiary Joinder Agreement and (ii) delivering (A) an incumbency certificate evidencing the identity, authority and capacity of each officer of such Subsidiary authorized to act on behalf of such Person in connection with this Agreement, (B) true, correct and complete copies of organizational documents, resolutions and powers of attorney of such Subsidiary and its legal representatives, (C) evidence of acceptance of appointment of a process agent to receive service of process for such Subsidiary in form and substance satisfactory to the Lender and (D) in the case of any such Subsidiary organized under the laws of Mexico, a power of attorney for lawsuits and collections granted by such Subsidiary, certified by a Mexican notary public, in form and substance reasonably satisfactory to the Lender, appointing such process agent to act as such on behalf of such Subsidiary.

(c) The Borrower may, at its sole cost and expense, at any time and from time to time, cause any Subsidiary of the Borrower to become an Additional Guarantor by executing and delivering to the Lender (i) a duly executed Subsidiary Joinder Agreement and (ii) (A) an incumbency certificate evidencing the identity, authority and capacity of each officer of such Subsidiary authorized to act on behalf of such Person in connection with this Agreement, (B) true, correct and complete copies of organizational documents, resolutions and powers of attorney of such Subsidiary and its legal representatives, (C) evidence of acceptance of appointment of a process agent to receive service of process for such Subsidiary in form and substance satisfactory to the Lender and (D) in the case of any such Subsidiary organized under the laws of Mexico, a power of attorney for lawsuits and collections granted by such Subsidiary, certified by a Mexican notary public, in form and substance reasonably satisfactory to the Lender, appointing such process agent to act as such on behalf of such Subsidiary.

Section 5.6 Anti-Corruption and Sanctions.

(a) The Borrower shall maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and its and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

(b) The Borrower shall not use, and shall procure that its Subsidiaries and its or their respective directors, officers, employees and agents shall not use, the proceeds of any Loan: (i) in any manner that would result in violation of any Anti-Corruption Laws, or (ii) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, except to the extent permitted for an individual or entity required to comply with Sanctions.

ARTICLE VI

NEGATIVE COVENANTS

So long as the Lender shall have any Commitment hereunder, or any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, no Loan Party shall (and the Borrower will not permit any Material Subsidiary to):

Section 6.1 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, or assign any accounts or other right to receive income, other than:

(a) Liens pursuant to any Loan Document;

(b) Liens for Taxes not yet due or which are being contested in good faith and by appropriate proceedings, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(c) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 90 days or which are being contested in good faith and by appropriate proceedings, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(d) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith;

(e) Liens incurred or deposits made to secure the performance of tenders, bids, leases, trade contracts and leases (other than indebtedness), statutory obligations, surety and

appeal bonds, customs duties, performance bonds, government performance and return-of-money bonds and other obligations of a like nature incurred in the ordinary course of business;

(f) encumbrances, ground leases, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including, without limitation, minor defects or irregularities in title and similar encumbrances) as to the use of real properties or liens incidental to the conduct of the business of the applicable Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(g) Liens securing any judgments for the payment of money not constituting an Event of Default so long as any such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceeding may be initiated has not expired; or

(h) (i) licenses, sublicenses, leases or subleases granted by the Borrower, any Guarantor or any Material Subsidiary to other Persons not materially interfering with the conduct of the business of such Borrower, Guarantor or Material Subsidiary and (ii) any interest or title of a lessor, sublessor or licensor under any lease or license agreement permitted by the Agreement to which the applicable Person is a party;

(i) Liens upon specific items of inventory or other goods and proceeds of the applicable Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(j) Liens on patents, trademarks, service marks, trade names, copyrights, technology, know-how and processes to the extent such Liens arise from the granting of license to use such patents, trademarks, service marks, trade names, copyrights, technology, know-how and processes to the applicable Person in the ordinary course of business of such Person or its Subsidiaries;

(k) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;

(l) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the applicable person, including rights of offset and set-off;

(m) deposits in the ordinary course of business securing liability for reimbursement obligations of insurance carriers providing insurance to the applicable Person and any Liens thereon;

(n) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository institution;

(o) Liens securing the obligations of the applicable Person pursuant to Hedging Obligations;

(p) Liens securing any Indebtedness which is incurred to refinance any Indebtedness which has been secured by a Lien permitted under this Section 6.1 not incurred pursuant to clause (s) or (u) hereof; provided that such new Liens:

(i) are no less favorable to the Lender and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being refinanced; and

(ii) do not extend to any property or assets other than the property or assets securing the Indebtedness refinanced by such refinancing Indebtedness;

(q) Liens securing Indebtedness or other obligations of a Material Subsidiary owing to the Borrower, any Guarantor or another Material Subsidiary and permitted to be incurred under this Agreement;

(r) Liens securing acquired Indebtedness not incurred in connection with, or in anticipation or contemplation of, the relevant merger, consolidation or amalgamation; provided that (i) such Liens secured such acquired Indebtedness at the time of and prior to the incurrence of such acquired Indebtedness by the applicable Person and were not granted in connection with, or in anticipation of the incurrence of such acquired Indebtedness by such Person, and (ii) such Liens do not extend to or cover any property of the applicable Person other than the property that secured the acquired Indebtedness prior to the time such Indebtedness became acquired Indebtedness of such Person and are no more favorable to the lienholders than the Liens securing the acquired Indebtedness prior to the incurrence of such acquired Indebtedness by such Person;

(s) purchase money Liens securing purchase money Indebtedness or Capital Lease Obligations incurred to finance the acquisition or leasing of property of the applicable Person used in the business of the Borrower and its Subsidiaries; provided that (i) the related purchase money Indebtedness does not exceed the cost of such property and will not be secured by any property of the applicable Person other than the property so acquired and (ii) the Lien securing such Indebtedness will be created within 365 days of such acquisition;

(t) Liens arising under any Permitted Receivables Financing;

(u) Liens securing an amount of Indebtedness outstanding at any one time not to exceed the greater of (i) U.S.\$50,000,000 (or the equivalent in other currencies) or (ii) 7.5% of Consolidated Total Assets;

- (v) Liens on the Capital Stock of any Subsidiary (other than any Material Subsidiary);
- (w) Liens under the CS L/C Documents;
- (x) Liens in favor of McDonald's Latin America created pursuant to the McDonald's Security Documents and the McDonald's Mortgages;
- (y) the interest of McDonald's Latin America, as franchisor under the Franchise Documents; or
- (z) Liens existing on the Closing Date and any extension, renewal or replacement thereof, other than Liens pursuant to any Loan Document.

Section 6.2 Fundamental Changes.

- (a) Enter into any merger, consolidation or amalgamation in which (i) the Borrower or a Guarantor is not the surviving entity, or (ii) if any Guarantor merges with the Borrower, the Borrower is not the surviving entity, or (iii) any Person merges, consolidates or amalgamates with and into any Guarantor and (except as set forth in the preceding clause (a)(ii)) the surviving entity is not a Guarantor or does not become an Additional Guarantor in accordance with the provisions of Section 5.5(b).
- (b) Enter into any merger, consolidation or amalgamation of the Borrower whereby the Borrower's Consolidated Net Worth less its tangible assets immediately after giving effect to any such transaction would be less than the Borrower's Consolidated Net Worth less its tangible assets immediately prior to any such transaction.
- (c) Sell, assign, lease, transfer or otherwise dispose of all or substantially all of the Borrower's or any Guarantor's business or Property, other than any sale, assignment, lease, transfer or other disposition of Property (i) by the Borrower to (A) any Guarantor or (B) or any other Person that substantially concurrently with such sale, assignment, lease, transfer or other disposition of the business or Property of a Guarantor shall become an Additional Guarantor in accordance with the provisions of Section 5.5(b) or (ii) by any Guarantor of its business or Property to (A) any other Guarantor, (B) the Borrower, or (C) any other Person that substantially concurrently with such sale, assignment, lease, transfer or other disposition of the business or Property of a Guarantor shall become an Additional Guarantor in accordance with the provisions of Section 5.5(b); provided that any sale, assignment, lease, transfer or other disposition of all or substantially all of the Borrower's or any Guarantor's business or Property to any Subsidiary that is not a Guarantor that is immediately followed as part of a series of related transactions by another sale, assignment, lease, transfer or other disposition of such business or Property to a Guarantor or another Person that substantially concurrently shall become a Guarantor shall not constitute a breach of this Section 6.2(c).



Section 6.3 Affiliate Transactions. Enter into any transaction with (i) any of its Affiliates or (ii) any other Person holding more than 20% or more of any of the Borrower's Capital Stock, unless:

(a) the terms of such transaction are no less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Borrower;

(b) in the event that such transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of U.S.\$15,000,000 (or the equivalent in other currencies), the terms of such transaction will be set forth in an officers' certificate delivered to the Lender stating that such transaction complies with clause (a) above; and

(c) in the event that such transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of U.S.\$20,000,000 (or the equivalent in other currencies), the terms of such transaction will be approved by a majority of the members of the Borrower's Board of Directors (including a majority of the disinterested members thereof), the approval to be evidenced by a board resolution stating that the Board of Directors of the Borrower has determined that such transaction complies with clause (a) above;

provided that the provisions of this Section 6.3 shall not apply to:

(iii) transactions with or among the Borrower and any Subsidiary or between or among Subsidiaries;

(iv) reasonable fees and compensation paid to, and any indemnity provided on behalf of, officers, directors and employees of the Borrower or any Subsidiary;

(v) transactions undertaken pursuant to the terms of any agreement or arrangement to which the Borrower or any of its Subsidiaries is a party as of or on the Closing Date, as these agreements or arrangements may be amended, modified, supplemented, extended, renewed or replaced from time to time; provided that any future amendment, modification, supplement, extension, renewal or replacement entered into after the Closing Date will be permitted to the extent that its terms are not more materially disadvantageous to the Lender than the terms of the agreements or arrangements in effect on the Closing Date;

(vi) the entering into of a customary agreement providing registration rights to the shareholders of the Borrower and the performance of such agreements;

(vii) transactions or payments, including grants of securities, stock options and similar rights, pursuant to any employee, officer or director compensation or benefit plans or arrangements entered into in the ordinary course of business or approved by the Borrower's Board of Directors in good faith;

(viii) any employment agreements entered into by the Borrower or any of its Subsidiaries in the ordinary course of business;

(ix) dividends or distributions payable in Capital Stock of the Borrower; dividends or distributions payable to the Borrower and/or a Subsidiary; or dividends, distributions or returns of capital made on a pro rata basis to the Borrower and its Subsidiaries, on the one hand, and minority holders of Capital Stock of a Subsidiary, on the other hand (or on a less than pro rata basis to any minority holder);

(x) sales of accounts receivable, or participations therein, or any related transaction, in connection with any receivables financing;

(xi) loans and advances to officers, directors and employees of the Borrower or any Material Subsidiary in the ordinary course of business and not exceeding U.S.\$10,000,000 (or the equivalent in other currencies) outstanding at any one time; and

(xii) Investments by the Borrower or any of its Subsidiaries, in an aggregate amount at the time of such Investment not to exceed the greater of U.S.\$30,000,000 and 2.5% of Consolidated Total Assets of the Borrower at the time of Investment (or the equivalent in other currencies), outstanding at any one time (with the fair market value of each such Investment being measured at the time made and without giving effect to subsequent changes in value).

Section 6.4 Lines of Businesses. Engage in any line of business substantially different from those lines of business conducted by the Borrower and its Material Subsidiaries on the date hereof or any business substantially related or incidental thereto.

Section 6.5 Consolidated Net Indebtedness to EBITDA Ratio. Permit the Consolidated Net Indebtedness to EBITDA Ratio, as of the last day of any fiscal quarter of the Borrower, to equal or exceed 3.0 to 1.0, as of the last day of the fiscal quarter.

## ARTICLE VII

### EVENTS OF DEFAULT

Section 7.1 Events of Default. Upon the occurrence and during the continuance of any of the following events:

(a) the Borrower shall fail to (i) pay any principal or any portion thereof, of any Loan when due in accordance with the terms hereof or (ii) pay any interest, fee or any other amount, or any portion thereof, payable under any Loan Document within five (5) days after any such amount becomes due in accordance with the terms thereof; or

(b) any representation, warranty or certification made or deemed made by any Loan Party in any Loan Document, or in any report, certificate, financial statement or other

document furnished pursuant to or in connection with any Loan Document (or any amendment or modification hereof or thereof or waiver thereunder), shall prove to have been incorrect or misleading in any material respect on or as of the date made or deemed made; or

(c) the Borrower shall default in the observance or performance of any agreement contained in Section 5.1(a), (b), (c) or (d) or Article VI of this Agreement; or

(d) any Loan Party shall default in the observance or performance of any other covenant or agreement contained in any Loan Document (other than those specified in clause (a) or (c) of this Section 7.1) and such default shall continue unremedied for a period of 30 days after the Borrower's receipt of written notice of such default from the Lender; or

(e) (A) the Borrower or any of its Material Subsidiaries (excluding, if applicable, any Venezuelan Subsidiaries) (i) fails to make any payment in respect of any Indebtedness (other than Indebtedness hereunder) or guaranty obligation having an aggregate principal amount (including amounts owing to all creditors under any combined or syndicated credit arrangement) in excess of U.S.\$40,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise), beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created, or (ii) fails to observe or perform any other agreement or condition relating to any such Indebtedness or guaranty obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such guaranty obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such guaranty obligation to become payable or cash collateral in respect thereof to be demanded; provided that this clause (ii) shall not apply to Indebtedness that is required to be repaid or redeemed as a result of the voluntary sale or transfer of property or assets unless such Indebtedness is not paid within the time period provided for such repayment or redemption in, or such repayment or redemption requirement is not waived in accordance with the terms of, the documentation governing such Indebtedness; or (B) any Venezuelan Subsidiary (i) fails to make any payment in respect of any Indebtedness (other than Indebtedness hereunder) or guaranty obligation having an aggregate principal amount (including amounts owing to all creditors under any combined or syndicated credit arrangement) in excess of U.S.\$50,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise), beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created, or (ii) fails to observe or perform any other agreement or condition relating to any such Indebtedness or guaranty obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such guaranty obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or become due or to be repurchased, prepaid, defeased or

redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such guaranty obligation to become payable or cash collateral in respect thereof to be demanded; provided that this clause (ii) shall not apply to Indebtedness that is required to be repaid or redeemed as a result of the voluntary sale or transfer of property or assets unless such Indebtedness is not paid within the time period provided for such repayment or redemption in, or such repayment or redemption requirement is not waived in accordance with the terms of, the documentation governing such Indebtedness; or (C) the Borrower, any Guarantor or any Material Subsidiary (i) fails to make any payment in respect of any Indebtedness (other than Indebtedness hereunder) or guaranty obligation owing to the Lender or any of its Affiliates in excess of U.S.\$2,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise), beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created, or (ii) fails to observe or perform any other agreement or condition relating to any such Indebtedness or guaranty obligation or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such guaranty obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such guaranty obligation to become payable or cash collateral in respect thereof to be demanded; provided that this clause (ii) shall not apply to Indebtedness that is required to be repaid or redeemed as a result of the voluntary sale or transfer of property or assets unless such Indebtedness is not paid within the time period provided for such repayment or redemption in, or such repayment or redemption requirement is not waived in accordance with the terms of, the documentation governing such Indebtedness; provided further that this Section 7.1(e)(C) shall not apply in respect of any Lender other than JP Morgan Chase Bank, N.A. and its Affiliates (including, for the avoidance of doubt, any Person (other than JP Morgan Chase Bank, N.A. and its Affiliates) that becomes a Lender in accordance with Section 9.5); or

(f) (i) any Loan Party is unable or admits in writing its inability or fails generally to pay its debts as they become due; or (ii) the Borrower or any Material Subsidiary institutes or consents to the institution of any proceeding under Debtor Relief Laws, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or (iii) any receiver, trustee, custodian, conservator, liquidator, rehabilitator, *conciliador* or similar officer is appointed with respect to the Borrower or any Material Subsidiary or their respective Property without the application or consent of the Borrower or such Material Subsidiary (as applicable) and the appointment continues undischarged or unstayed for 60 calendar days; or (iv) any proceeding under Debtor Relief Laws relating to the Borrower or any Material Subsidiary or to all or any material part of its property is instituted without the consent of the Borrower or such Material Subsidiary (as applicable) and continues undismissed or unstayed for 60 calendar days, or an order for relief is entered in any such proceeding; or

(g) (i) one or more final non-appealable, judgments or orders against the Borrower or any Material Subsidiary (excluding, if applicable, any Venezuelan Subsidiary) is entered for the payment of money in an aggregate amount (as to all such judgments) in excess of U.S.\$40,000,000 (determined in each case net of recoveries from insurance companies not contesting coverage) or (ii) one or more final non-appealable, judgments or orders against any Venezuelan Subsidiary is entered for the payment of money in an aggregate amount (as to all such judgments) in excess of U.S.\$50,000,000 (determined in each case net of recoveries from insurance companies not contesting coverage), and, in each case, such judgment or order remains unsatisfied without procurement of a stay of execution within 60 calendar days after the date of entry of judgment; or

(h) a Change of Control shall occur; or

(i) any Loan Document, at any time after its execution and delivery and for any reason other than the agreement of the Lender or satisfaction in full of the Obligations hereunder, ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, illegal, invalid or unenforceable in any respect; provided that it shall not be an Event of Default under this Section 7.1(i) if any Guaranty by any Venezuelan Subsidiary is held to be null and void, illegal, invalid or unenforceable in a judicial proceeding or ceases for any reason to be in full force and effect as a result of a change in law in Venezuela after the date of this Agreement; or any Loan Party denies that it has any or further liability or obligation under any Loan Document (other than by reason of the satisfaction in full of the Obligations hereunder); or any Loan Party challenges the validity of or purports to revoke, terminate or rescind any Loan Document.

Upon the occurrence of an Event of Default, the Lender may declare the Commitment to be terminated, whereupon the Commitment shall be terminated, and/or declare all sums outstanding hereunder and under the other Loan Documents, including all interest thereon, to be immediately due and payable, whereupon the same shall become and be immediately due and payable, all without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor, or other notices or demands of any kind or character, all of which are hereby expressly waived; provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to any Loan Party under any Debtor Relief Law, the Commitment shall automatically terminate, and all sums outstanding hereunder and under each other Loan Document, including all interest thereon, shall become and be immediately due and payable, all without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor, or other notices or demands of any kind or character, all of which are hereby expressly waived.

## ARTICLE VIII

### GUARANTY

#### Section 8.1 Guaranty.

(a) For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Guarantor hereby, jointly and severally, as primary obligor and not merely as surety, unconditionally guarantees the full and punctual payment (whether at stated maturity, upon acceleration or otherwise) of the payment Obligations (howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due) under the Loan Documents. Upon the failure by the Borrower to pay punctually any of its Obligations, the Guarantors (jointly and severally) shall immediately pay the amount not so paid. The obligations of the Guarantors under this Article shall constitute a guaranty of payment and not merely a guaranty of collection.

(b) All payments by any Guarantor under this Article shall be payable in the manner required for payments by the Borrower under Section 2.10 and (ii) the obligation to pay interest at the rates set forth in Section 2.6(b).

Section 8.2 Guaranty Unconditional. The obligations of the Guarantors under this Article shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by any reason, including: any extension, renewal, settlement, compromise, waiver or release in respect of any Obligation(s) and/or the Commitment under the Loan Documents, by operation of law or otherwise,

(a) any modification or amendment of or supplement to this Agreement or any other Loan Document,

(b) any change in the existence, structure or ownership of the Borrower or any other Credit Party, or any event described in Section 7.1(f) with respect to any Person,

(c) the existence of any claim, set-off or other rights that a Guarantor may have at any time against the Borrower, any other Loan Party, the Lender or any other Person, whether in connection herewith or any unrelated transactions,

(d) any invalidity, irregularity or unenforceability relating to or against the Borrower or any other Loan Party for any reason of any Loan Document, or any provision of Applicable Law purporting to prohibit the payment by the Borrower or any other Loan Party of any of the Obligations, or

(e) any other act or omission to act or delay of any kind by the Borrower and/or any other Loan Party, the Lender or any other Person or any other circumstance whatsoever that might, but for the provisions of this paragraph, constitute a legal or equitable discharge of

(or defense against) the Obligations and the Guarantors' obligations under this Article other than prior payment of the Obligations.

Section 8.3 Discharge only upon Payment in Full; Reinstatement in Certain Circumstances. The Guarantors' obligations hereunder shall remain in full force and effect until all of the payment Obligations shall have been paid in full and all of the Commitments shall have terminated. If at any time any payment made under this Agreement or any other Loan Document is rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy or reorganization of a Loan Party or any other Person or otherwise, then the Guarantors' obligations hereunder with respect to such payment shall be reinstated at such time as though such payment had been due but not made at such time and each Guarantor hereby expressly waives the benefit of any statute of limitations or prescriptive term affecting the Guarantor's liability in respect thereof.

Section 8.4 Waivers by the Guarantors.

(a) Each Guarantor hereby irrevocably and unconditionally waives, to the fullest extent permitted by Applicable Law: (i) notice of acceptance of the Guaranty provided in this Article and notice of any liability to which this Guaranty may apply, (ii) all notices that may be required by Applicable Law or otherwise to preserve intact any rights of the Lender against the Borrower and/or any other Guarantor, including any demand, presentment, protest, proof of notice of non-payment, notice of any failure on the part of the Borrower and/or any other Guarantor to perform and comply with any covenant, agreement, term, condition or provision of any agreement and any other notice to any other party that may be liable in respect of the Obligations guaranteed hereby (including the Borrower, any other Guarantor and any other guarantor thereof from time to time) except any of the foregoing as may be expressly required hereunder, (iii) any right to proceed against the Borrower, proceed against or exhaust any security for the Obligations, or pursue any other remedy in the power of the Lender whatsoever and (iv) any requirement that the Lender exhaust any right, power, privilege or remedy, or mitigate any damages resulting from a default, under any Loan Document, or proceed to take any action against a Loan Party or any other Person under or in respect of any Loan Document or otherwise, or protect, secure, perfect or ensure any Lien on any collateral.

(b) If, and to the extent that, Brazilian law shall be deemed to apply to any or all of any Brazilian Guarantor's obligations hereunder, for those purposes:

(i) each Brazilian Guarantor agrees that its obligations to make payment hereunder shall be deemed to be a first demand obligation (*garantia exigível à primeira demanda*) to fulfill and comply with, as a joint and several responsibility (*responsabilidade solidária*), all of the outstanding obligations assumed by the Borrower under the Agreement, in the capacity of a "*FIADOR E PRINCIPAL PAGADOR, solidariamente responsável*" with the Borrower, in connection therewith. In addition, for such purposes, each Brazilian Guarantor hereby expressly (A) waives and renounces the benefit of order (*benefício de ordem*) of demanding and rights provided by the Brazilian Civil Code (Law 10,406/02), specifically in accordance with Articles 827 et seq. of the Brazilian Civil Code and (ii) recognizes that this Guaranty shall not be considered as a

limited instrument of guarantee, for the purposes of Article 822 of the Brazilian Civil Code; and

(ii) each Brazilian Guarantor expressly waives the benefits set forth in Articles 364, 366, 821, 827, 830, 831, 834, 835, 836, 837, 838 and 839 of the Brazilian Civil Code and Articles 130 and 794 of the Brazilian Code of Civil Procedure.

(c) Each Mexican Guarantor hereby waives, to the extent applicable, any rights to the benefits of *orden, excusión, división, quita* and *espera* arising from Articles 2814, 2815, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2826, 2837, 2839, 2840, 2845, 2846, 2847 and any other related or applicable Articles that are not explicitly set forth herein because of the Subsidiary Guarantor's knowledge thereof, of the *Código Civil Federal* of Mexico and the *Código Civil* of each State of the Mexican Republic and for Mexico City.

Section 8.5 Subrogation. Upon a Guarantor's making payment with respect to any obligation under this Article, such Guarantor shall be subrogated to the rights of the payee against the Borrower (or the other obligor) with respect to such obligation; provided, that such Guarantor shall not enforce any payment by way of subrogation, indemnity or otherwise, or exercise any other right, against the Borrower (or such other obligor) so long as any Obligations (other than on-going but not yet incurred indemnity obligations) remain unpaid and/or the Commitment remains outstanding.

Section 8.6 Stay of Acceleration. If acceleration of the time for payment of any Obligations is stayed due to any event described in Section 7.1(f), then all such amounts otherwise subject to acceleration under this Agreement shall nonetheless be payable by the Guarantors hereunder.

## ARTICLE IX

### MISCELLANEOUS

Section 9.1 Right of Set-Off. Without limiting any of the obligations of any Loan Party or the rights of the Lender hereunder, if any Loan Party shall fail to pay when due (whether at stated maturity, by acceleration or otherwise), by the expiration of the grace period provided by Section 7.1(a) (if any), any amount payable by it hereunder, then (to the extent not in violation of applicable law) the Lender may, without prior notice to any Loan Party (which notice is expressly waived by it to the fullest extent permitted by applicable law), set off and apply against such amount any and all general deposits (time or demand, provisional or final, in any currency, matured or unmatured) at any time held or any other debt owing by the Lender or any of its Affiliates (in each case, including any branch or agency thereof) to or for the credit or account of any Loan Party. The Lender shall promptly provide notice of any such set-off by it to the Borrower; provided, that failure by the Lender to provide such notice shall not give any Loan Party any cause of action or right to damages or affect the validity of such set-off and application.



Section 9.2 New York Time. All references herein and in the other Loan Documents to any time of day shall mean the local (standard or daylight, as in effect) time of New York, New York unless otherwise expressly provided herein or therein.

Section 9.3 Amendments; Waivers. No amendment or waiver of any provision of this Agreement or of any other Loan Document and no consent by the Lender to any departure therefrom by any Loan Party shall be effective unless such amendment, waiver or consent shall be in writing and signed by a duly authorized officer of the Lender and the Borrower or the applicable Loan Party, as the case may be, and any such amendment, waiver or consent shall then be effective only for the period and on the conditions and for the specific instance specified in such writing. No failure or delay by the Lender in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other rights, power or privilege. The remedies provided for herein are cumulative and not exclusive of any remedies provided by law.

Section 9.4 Notices.

(a) Except as otherwise expressly provided herein, notices and other communications to each party provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed or sent by telecopy to the address provided from time to time by such party. Any such notice or other communication sent by overnight courier service, mail or telecopy shall be effective on the earlier of actual receipt and (i) if sent by overnight courier service, the scheduled delivery date, (ii) if sent by mail, the fourth Business Day after deposit in the U.S. mail first class postage prepaid, and (iii) if sent by telecopy, when transmission in legible form is complete. All notices and other communications sent by the other means listed in the first sentence of this Paragraph shall be effective upon receipt. Notwithstanding anything to the contrary contained herein, all notices (by whatever means) to the Lender pursuant to Section 2.2 shall be effective only upon receipt. Any notice or other communication permitted to be given, made or confirmed by telephone hereunder shall be given, made or confirmed by means of a telephone call to the intended recipient at the number specified in writing by such Person for such purpose, it being understood and agreed that a voicemail message shall in no event be effective as a notice, communication or confirmation hereunder.

(b) The Lender shall be entitled to rely and act upon any notices (including telephonic notices of borrowings and continuations) purportedly given by or on behalf of a Loan Party even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify each Indemnitee from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of any Loan Party. All telephonic notices to and other communications may be recorded and each party hereby consents to such recording.

Section 9.5 Successors and Assigns. This Agreement shall inure to the benefit of the parties hereto and their respective successors and assigns, except that no Loan Party may assign its rights and obligations hereunder. The Lender may at any time (i) assign all or any part of its rights and obligations hereunder to any other Person, with the Borrower's prior written consent, (it being understood that the Lender shall not be entitled to the benefits of Section 2.12 after the effective date of the assignment except to the extent that the Lender's rights under Section 2.12 arise from facts and circumstances occurring prior to the effective date of the assignment which consent shall be deemed granted if the Borrower fails to respond to a written request for its consent within three (3) Business Days (provided that such consent (x) shall not be unreasonably withheld or delayed and (y) shall not be required with respect to (A) any assignment to an Affiliate of the Lender, or (B) any assignment made following the occurrence and during the continuance of any Event of Default) and, provided further, that if such assignment constitutes the first loan extended by such person to the Borrower under this Agreement, the amount assigned must be at least U.S.\$100,000, and (ii) grant to any other Person participating interests in all or any part of its rights and obligations hereunder in the case of this clause (ii) without notice to, or consent of, the Borrower or any other Loan Party. Upon the sale by the Lender of a participation to any third party, (1) the Lender's obligations under this Agreement shall remain unchanged, (2) the Lender shall remain solely responsible to the Loan Parties for the performance of such obligations and (3) the Loan Parties shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under the Loan Documents. Any agreement or instrument pursuant to which the Lender sells such a participation shall provide that the Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement without obtaining the consent of the participant; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification that shall (a) extend the Commitment Termination Date or increase the Aggregate Commitment Amount, (b) postpone any date fixed by this Agreement for any payment of principal, interest, fees or other amounts due to the Lender hereunder, (c) reduce the principal of, or the rate of interest specified herein on, any Loan or any fees or other amounts payable hereunder or (d) release any Guarantor or amend, modify or waive the provisions of Section 5.5 or Article VII if the effect of any such release, amendment, modification or waiver would be to release all or a substantial portion of the Guaranty. The Loan Parties agree to execute any documents reasonably requested by the Lender in connection with any such assignment. All information provided by or on behalf of any Loan Party to the Lender or its Affiliates may be furnished by the Lender to its Affiliates and to any actual or proposed assignee or participant, subject to Section 9.16 below. In no case shall the Loan Parties be responsible for any direct or indirect increases in costs, Taxes or other expenses caused by assignments or the grant of participations to third parties as provided in this Section 9.5 in excess of those which would have been payable had there been no assignment or participation except: (i) if such assignment was made or participation sold following the occurrence and during the continuance of any Event of Default, or (ii) to the extent of Taxes resulting from a Change in Law that occurs after the assignment or the grant of participation.

Section 9.6 Reimbursement of Costs and Expenses. The Borrower shall pay the Lender, on demand, all reasonable and documented out-of-pocket expenses (including the reasonable fees and disbursement of one external legal counsel in each relevant jurisdiction) incurred by the Lender in connection with the preparation, execution, delivery, administration, modification, amendment and enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, any Loan Document or any other instruments or agreements executed in connection herewith. The agreements in this Section 9.6 shall survive the termination of the Commitment and the repayment, satisfaction or discharge of all the other obligations and liabilities of the Borrower under the Loan Documents. All amounts due under this Section 9.6 shall be payable promptly and in any event within ten (10) days after demand therefor.

Section 9.7 Indemnification. Without duplication of Section 2.12(d) (which shall solely govern with respect to Taxes other than any Taxes that represent losses or damages arising from any non-Tax claim), the Borrower shall indemnify and hold harmless the Lender, its affiliates, and their respective partners, directors, officers, employees, agents and advisors (collectively the “Indemnitees”) against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of external counsel for any Indemnatee (limited, so long as there is no conflict of interest between or among any Indemnitees, to the fees, charges and disbursements of one external counsel for all Indemnitees in each relevant jurisdiction)), incurred by any Indemnatee or asserted against any Indemnatee by any third party or by the Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, or the consummation of the transactions contemplated hereby or thereby, (ii) the Loans or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any Material Subsidiary, or any Environmental Liability related in any way to the Borrower or any Material Subsidiary or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower, and regardless of whether any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses (i) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnatee or (ii) result from a claim brought by the Borrower or any other Loan Party against an Indemnatee for breach in bad faith of such Indemnatee’s obligations hereunder or under any other Loan Document if the Borrower or such Loan Party has obtained a final non-appealable judgment in its favor in respect of such claim as determined by a court of competent jurisdiction. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnatee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, the Loan or the use of the proceeds thereof. No Indemnatee shall be liable for any

damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence, bad faith or willful misconduct of such Indemnitee as determined by a final and nonappealable judgment of a court of competent jurisdiction. The agreements in this Section 9.7 shall survive the termination of the Commitment and the repayment, satisfaction or discharge of all the other obligations and liabilities of the Borrower under the Loan Documents. All amounts due under this Section 9.7 shall be payable within ten (10) days after demand therefor.

Section 9.8 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (i) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (ii) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 9.9 Counterparts. This Agreement may be executed in one or more counterparts, and each counterpart, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same instrument.

Section 9.10 Governing Law; Jurisdiction. THIS AGREEMENT IS GOVERNED BY, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT AND EACH STATE COURT IN THE CITY OF NEW YORK AND ANY APPELLATE COURT FROM ANY THEREOF AND ANY COURT IN ITS RESPECTIVE DOMICILE, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT. EACH LOAN PARTY IRREVOCABLY CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO THE BORROWER AT ITS ADDRESS SET FORTH BENEATH ITS SIGNATURE HERETO. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

Section 9.11 Jury Trial Waiver. EACH PARTY HERETO WAIVES ITS RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

Section 9.12 Process Agent Appointment. FOR THE PURPOSE OF PROCEEDINGS IN THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (IN EACH CASE LOCATED IN THE BOROUGH OF MANHATTAN IN NEW YORK CITY), THE BORROWER AND EACH GUARANTOR HEREBY IRREVOCABLY DESIGNATES AS OF THE DATE HEREOF NATIONAL REGISTERED AGENTS, INC. (THE “AGENT”) WITH OFFICES CURRENTLY LOCATED AT 28 LIBERTY STREET, NEW YORK, NY 10005, AS ITS AGENT FOR SERVICE OF PROCESS. IN THE EVENT THAT SUCH AGENT OR ANY SUCCESSOR SHALL CEASE TO BE LOCATED IN THE BOROUGH OF MANHATTAN, EACH LOAN PARTY SHALL PROMPTLY AND IRREVOCABLY BEFORE THE RELOCATION OF SUCH AGENT FOR SERVICE OF PROCESS, IF PRACTICABLE, OR PROMPTLY THEREAFTER DESIGNATE A SUCCESSOR AGENT, WHICH SUCCESSOR AGENT SHALL BE LOCATED IN THE BOROUGH OF MANHATTAN, AND NOTIFY THE LENDER THEREOF, TO ACCEPT ON ITS BEHALF SERVICE OF ANY AND ALL PROCESS OR OTHER DOCUMENTS WHICH MAY BE SERVED IN ANY ACTION OR PROCEEDING IN ANY OF SUCH COURTS AND FURTHER AGREES THAT SERVICE UPON SUCH AGENT SHALL CONSTITUTE VALID AND EFFECTIVE SERVICE UPON SUCH LOAN PARTY AND THAT FAILURE OF ANY SUCH AGENT TO GIVE ANY NOTICE OF SUCH SERVICE TO SUCH GUARANTOR SHALL NOT AFFECT THE VALIDITY OF SUCH SERVICE OR ANY JUDGMENT RENDERED IN ANY ACTION OR PROCEEDING BASED THEREON. EACH OF THE PARTIES HERETO AGREES THAT SERVICE OF ANY AND ALL SUCH PROCESS OR OTHER DOCUMENTS ON SUCH PERSON MAY ALSO BE EFFECTED BY REGISTERED MAIL TO ITS ADDRESS AS PROVIDED PURSUANT TO SECTION 9.4. WITH RESPECT TO EACH LOAN PARTY, SERVICE OF ANY AND ALL SUCH PROCESS OR OTHER DOCUMENTS TO THE AGENT OR SUCH OTHER AGENT FOR SERVICE OF PROCESS DESIGNATED BY SUCH LOAN PARTY IN ACCORDANCE WITH THIS AGREEMENT SHALL CONSTITUTE VALID AND EFFECTIVE SERVICE ONLY IF MADE IN PERSON TO THE AGENT OR SUCH OTHER AGENT FOR SERVICE OF PROCESS.

Section 9.13 Waiver of Immunity. To the extent that any Loan Party has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its assets, such Loan Party each hereby irrevocably waives such immunity in respect of its obligations under this Agreement and the other Loan Documents. The foregoing waiver is intended to be effective to the fullest extent now or hereafter permitted by applicable law.

Section 9.14 USA PATRIOT Act. The Lender hereby notifies each Loan Party that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow the Lender to identify each Loan Party in accordance with the Act. Each Loan Party shall, promptly following a request by the Lender, provide all documentation and other information that the Lender requests in order to comply with its ongoing obligations under applicable "know your customer" an anti-money laundering rules and regulations, including the Act

Section 9.15 Judgment Currency. All payments made under this Agreement and any notes shall be made in Dollars, the "Agreement Currency"), and, if for any reason any payment made hereunder or under any Loan Document is made in a currency (the "Other Currency") other than the applicable Agreement Currency, then to the extent that the payment actually received by the Lender, when converted into the applicable Agreement Currency at the Rate of Exchange (as defined below) on the date of payment (or, if conversion on such date is not practicable, as soon thereafter as it is practicable for the Lender to purchase the applicable Agreement Currency) falls short of the amount due under the terms of this Agreement or any Loan Document, the Borrower shall, as a separate and independent obligation of the Borrower, indemnify the Lender and hold the Lender harmless from and against the amount of such shortfall. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Lender, the Lender agrees to repay such excess to the Borrower. As used in this Paragraph, the term "Rate of Exchange" means the rate at which the Lender is able on the relevant date in accordance with normal banking procedures to purchase the applicable Agreement Currency with the Other Currency and shall include any premiums and out-of-pocket costs of exchange payable in connection with the purchase of or conversion into, the applicable Agreement Currency.

Section 9.16 Confidentiality. The Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and its and its Affiliates' respective partners, directors, officers, employees, agents, trustees, advisors and representatives, including accountants and legal counsel (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners) in connection with any examination of the Lender provided that the Lender shall, unless prohibited by any requirement of law, notify the Borrower of any disclosure pursuant to this clause (b) as far in advance as is reasonably practicable under such circumstances, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to the extent reasonably required (determined solely in the judgment of the Lender) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (e) subject to an agreement containing provisions substantially the same as those of this Section for the benefit of the Borrower, to (i) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Agreement or (ii) any actual or

prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (f) with the consent of the Borrower, (g) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Lender or any of its Affiliates on a nonconfidential basis from a source other than the Borrower or (h) to any other party hereto. For the purposes of this Section, “Information” means all information (x) received from the Borrower or any other Loan Party relating to the Borrower or any other Loan Party or its business or (y) obtained by the Lender based on a review of the books and records of the Borrower or any of its Subsidiaries, other than any such information that is available to the Lender on a nonconfidential basis prior to disclosure by the Borrower or any other Loan Party or is independently developed by the Lender without reference to the Information; provided that, in the case of information received from the Borrower or any other Loan Party after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. The provisions of this Section 9.16 shall expire on the date that is the earlier of the Maturity Date or December 11, 2022.

Section 9.17 Entire Agreement. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

*[remainder of page intentionally left blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

ARCOS DORADOS HOLDINGS INC.,  
as Borrower

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact

ARCOS DOURADOS COMERCIO DE ALIMENTOS, LTDA., as a Guarantor

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact

ADCR INMOBILIARIA S.A., as a Guarantor

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact

ARCOS DORADOS COSTA RICA ADCR, S.A., as a Guarantor

By: /s/ Máximo Ayerza  
Name: Máximo Ayerza  
Title: Attorney-in-fact



ARCOS DORADOS PANAMÁ S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-fact

SISTEMAS MCOPCO PANAMÁ, S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-fact

LENDER:

JPMORGAN CHASE BANK, N.A.,  
as Lender

By: /s/ Christophe Vohmann  
Name: Christophe Vohmann  
Title: Executive Director

**1.1.1.1.1. Schedule 1.1**

**Material Subsidiaries**

Arcos Dorados Argentina S.A.

Arcos Dourados Comércio de Alimentos Ltda.

**Material Litigation**

**1.1.1.1.2.1.EXHIBIT A**

**FORM OF BORROWING NOTICE**

Date: \_\_, \_\_

To: JPMorgan Chase Bank, N.A., as Lender

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of December 11, 2019 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Arcos Dorados Holdings Inc., a company incorporated under the laws of the British Virgin Islands (the "Borrower"), certain Subsidiaries of the Borrower, as Guarantors, and JPMorgan Chase Bank, N.A. (the "Lender").

The undersigned hereby requests a Borrowing of Loans as follows:

1. On\_\_ (a Business Day).
2. In the amount of U.S.\$\_\_. The undersigned hereby certifies that:
  - a. The Borrowing requested herein complies with Section 2.1 of the Agreement.

b. The representations and warranties of the Loan Parties set out in the Loan Documents are (A) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, true and correct (as so qualified) on and as of the date of the Borrowing, or (B) if any such representation and warranty is not so qualified, true and correct in all material respects on and as of the date of the Borrowing; provided, that the representation and warranty of the Borrower contemplated in Section 3.1(a) of the Agreement shall be deemed to refer to the last day of the period covered by the most recent financial statements furnished to the Lender under the Agreement.

c. Immediately prior and after the borrowing of the Loan on the date of the Borrowing requested hereby, no Default or Event of Default shall have occurred and be continuing.

d. The sum of the outstanding principal amount of the Loans plus the amount of the Loan requested hereby is equal to or less than the Aggregate Commitment Amount.

ARCOS DORADOS HOLDINGS INC.

By: \_\_ Name: \_\_ Title: Authorized Signatory

FORM OF NOTE

\_\_\_\_ [ ], 20\_\_

FOR VALUE RECEIVED, the undersigned (the "Borrower"), hereby promises to pay to JPMORGAN CHASE BANK, N.A. or registered assigns (the "Lender"), on the Maturity Date (or such earlier date as the Loans may become due pursuant to the terms of the Agreement referred to below) in accordance with the provisions of the Agreement the principal amount of twenty five million (U.S.\$25,000,000), or such lesser principal amount of Loans due and payable by the Borrower to the Lender on the Maturity Date (or such earlier date as the Loans may become due pursuant to the terms of the Agreement) under that certain Credit Agreement, dated as of December 11, 2019 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among the Borrower, certain Subsidiaries of the Borrower, as Guarantors, and the Lender.

The Borrower promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All payments of principal and interest shall be made to the Lender in Dollars in immediately available funds at the Lender's office pursuant to Section 2.10 of the Agreement. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Note is the Note referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. This Note is also entitled to the benefits of the Guaranty. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

ARCOS DORADOS HOLDINGS INC.

By: \_\_ Name: \_\_ Title: Authorized Signatory



**1.1.1.1.3.LOANS AND PAYMENTS WITH RESPECT THERETO**

<b>Date</b>	<b>Amount of Loan Made</b>	<b>End of Interest Period</b>	<b>Amount of Principal or Interest Paid This Date</b>	<b>Outstanding Principal Balance This Date</b>	<b>Notation Made By</b>
-------------	--------------------------------	---------------------------------------	---	--	-----------------------------

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Financial Statement Date:\_\_\_,

To: JPMorgan Chase Bank, N.A., as Lender Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of December 11, 2019 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Arcos Dorados Holdings Inc., a company incorporated under the laws of the British Virgin Islands (the "Borrower"), certain Subsidiaries of the Borrower, as Guarantors, and JPMorgan Chase Bank, N.A. (the "Lender").

The undersigned Chief Financial Officer hereby certifies (in its capacity as an officer of the Borrower and not in his/her personal capacity) as of the date hereof that he/she is the \_\_\_

\_\_\_of the Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to the Lender on the behalf of the Borrower, and that:

*[Use following paragraph 1 for fiscal **year-end** financial statements]*

1. The Borrower has delivered the year-end audited financial statements required by Section 5.1(a) of the Agreement for the fiscal year of the Borrower ended as of the above date certified by independent public accountants of nationally recognized standing.

*[Use following paragraph 1 for fiscal **quarter-end** financial statements]*

1. The Borrower has delivered the unaudited financial statements required by Section 5.1(b) of the Agreement for the fiscal quarter of the Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries in accordance with GAAP applied on a consistent basis as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

2. A review of the activities of the Borrower during such fiscal period has been made by, or under the supervision of, the undersigned with a view to determining whether during such fiscal period the Borrower performed and observed all its Obligations under the Loan Documents, and

**1.1.1.3.2.[select one:]**



**1.1.1.1.4. [to the best knowledge of the undersigned, no Default or Event of Default has occurred and is continuing.]**

**1.1.1.1.4.1.--or--**

**[to the best knowledge of the undersigned, the following is a list of Defaults and/or Events of Default that have occurred and are continuing and their nature and status:]**

3. The calculations set forth on Schedule 1 attached hereto are true and accurate on and as of the date of this Certificate.

*IN WITNESS WHEREOF*, the undersigned has executed this Certificate as of

—→—

**1.1.1.1.5. *ARCOS DORADOS HOLDINGS INC.***

By: \_\_ Name: \_\_ Title: \_\_

For the Quarter/Year ended\_\_ (“Statement Date”, and the period of four fiscal quarters ended on such date, the “Statement Period”)

**1.1.1.1.6.SCHEDULE 1**

to the Compliance Certificate

(U.S.\$ in 000’s)

**I. Section 5.5 – Guarantors’ Share of Consolidated EBITDA.**

A. Consolidated EBITDA of the Borrower for Statement Period:

- |     |   |          |
|-----|---|----------|
| 1.  | Consolidated Net Income of the Borrower during Statement Period:  | U.S.\$__ |
| 2.  | Consolidated Interest Expense of the Borrower during Statement Period:  | U.S.\$__ |
| 3.  | Consolidated Income Tax Expense of the Borrower during Statement Period:  | U.S.\$__ |
| 4.  | Consolidated Non-cash Charges of the Borrower during Statement Period:  | U.S.\$__ |
| 5.  | any non-operating and/or non-recurring charges, expenses or losses of the Borrower and its Subsidiaries during Statement Period:  | U.S.\$__ |
| 6.  | the amount of loss on any sale of accounts receivables and related assets to a Securitization Subsidiary in connection with a Permitted Receivables Financing:  | U.S.\$__ |
| 7.  | all non-cash credits and gains increasing Consolidated Net Income for the Borrower during Statement Period:   | U.S.\$__ |
| 8.  | all cash payments made the Borrower and its Subsidiaries during Statement Period relating to non-cash charges that were added back in determining Consolidated EBITDA in any prior period:                                | U.S.\$__ |
| 9.  | non-operating and/or non-recurring income or gains (less all fees and expenses related thereto) increasing Consolidated Net Income of the Borrower and its Subsidiaries during Statement Period:                          | U.S.\$__ |
| 10. | Consolidated EBITDA (Line I.A.1 <u>plus</u> Line I.A.2 <u>plus</u> Line I.A.3 <u>plus</u> Line I.A.4 <u>plus</u> Line I.A.5 <u>plus</u> Line I.A.6 <u>less</u> Line I.A.7 <u>less</u> Line I.A.8 <u>less</u> Line I.A.9): | U.S.\$__ |

B. Consolidated EBITDA attributable to Guarantors:

1. portion of Consolidated EBITDA attributable to the Guarantors within the Territory of Brazil on a Combined/Consolidated Basis U.S.\$\_\_

2. portion of Consolidated EBITDA attributable to the Guarantors within the Territory of Costa Rica on a Panama on a Combined/Consolidated Basis U.S.\$\_\_

3. portion of Consolidated EBITDA attributable to the Guarantors within the Territory of Panama on a Panama on a Combined/Consolidated Basis U.S.\$\_\_

[4.] [portion of Consolidated EBITDA attributable to the Guarantors U.S.\$\_\_\_\_\_

[5]. Consolidated EBITDA (Line I.B.1 plus Line I.B.2 plus Line I.B.3 [plus Line I.B.4]1): U.S.\$\_\_

C. Guarantors' share of Consolidated EBITDA (Line I.B.[5] divided by Line I.A.10): \_\_%

*Minimum permitted: 80%*

II. **Section 6.6 – Consolidated Net Indebtedness to EBITDA Ratio.**

A. Consolidated Net Indebtedness of Borrower as at Statement Date:

1.	Consolidated Indebtedness:	U.S.\$__
2.	cash and cash equivalents and consolidated marketable securities recorded as current assets (except for any Capital Stock in any Person):	U.S.\$__
3.	Consolidated Net Indebtedness (Line II.A.1 <u>less</u> Line II.A.2):	U.S.\$__
B.	Consolidated EBITDA for Statement Period (from Line I.A.10):	U.S.\$__
C.	Consolidated Net Indebtedness to EBITDA Ratio (Line II.A.3 – I.A.10):	
	<i>Maximum permitted:</i>	
	<i>As of the last day of fiscal quarter ended [September 30, 20__]:</i>	<i>3.25 to 1.0</i>
	<i>As of the last day of fiscal quarter ended [December 31, 20__] and the last day of each fiscal quarter thereafter:</i>	<i>3.0 to 1.0</i>

\_\_\_\_\_ 1 Include if there are any Additional Guarantors and insert additional lines as necessary.

**FORM OF  
SUBSIDIARY JOINDER AGREEMENT**

SUBSIDIARY JOINDER AGREEMENT (this “Agreement”) dated as of \_\_, \_\_, by \_\_, a \_\_ [corporation] (the “Additional Guarantor”), in favor of JPMorgan Chase Bank, N.A., as Lender (the “Lender”). Unless otherwise defined herein, capitalized terms used herein and defined in that certain Credit Agreement, dated as of December 11, 2019 (as amended, restated, extended, supplemented or otherwise modified from time to time, the “Credit Agreement,” the terms defined therein being used herein as therein defined), among Arcos Dorados Holdings Inc., a company incorporated under the laws of the British Virgin Islands (the “Borrower”), certain Subsidiaries of the Borrower, as Guarantors, and the Lender, are used herein as therein defined and the rules of construction set forth in Section 1.2 thereof shall apply hereto.

WHEREAS, the Borrower has entered into the Credit Agreement providing for the making of Loans,

WHEREAS, in connection with the Credit Agreement, certain of the Borrower’s Subsidiaries have entered into (or are required to enter into) the Credit Agreement as Guarantors thereunder,

WHEREAS, pursuant to Section 5.5 of the Credit Agreement, the Borrower [is required to][may] cause one or more additional Subsidiaries to become a party to the Credit Agreement as Guarantors, and

WHEREAS, the Additional Guarantor desires to execute and deliver this Agreement in order to become a party to the Credit Agreement pursuant to Section 5.5 of the Credit Agreement,

NOW, THEREFORE, IT IS AGREED as follows:

SECTION 1. Joinder.

(a) By executing and delivering this Agreement, the Additional Guarantor hereby becomes a party to the Credit Agreement as a “Guarantor” thereunder, expressly assumes all obligations and liabilities of a “Guarantor” thereunder and ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Credit Agreement.

(b) Without limiting the generality of the terms of paragraph (a), the Additional Guarantor hereby unconditionally and irrevocably guarantees the prompt payment and performance of the Obligations in full when due (whether at stated maturity, upon acceleration or otherwise), and agrees that if the Borrower fails to pay any Obligation when due, it will forthwith, on written demand, pay the amount not so



paid at the place and in the manner specified in the Credit Agreement, including, in particular, in accordance with Section 2.12 of the Credit Agreement (and without duplication of any amount thereof previously paid by any other Guarantor thereunder and not rescinded or refunded), and that in the case of any extension of time of payment or renewal of any of the Obligations, the same will be promptly paid in full when due (whether at extended maturity, upon acceleration or otherwise) in accordance with the terms of such extension or renewal. The Additional Guarantor further agrees that its guarantee hereunder and under the Credit Agreement constitutes a guarantee of payment when due and not of collection and that the obligations of the Guarantors under the Credit Agreement shall be joint and several. The Additional Guarantor hereby acknowledges that it has received a copy of the Credit Agreement, as it may have been amended or supplemented from time to time.

(c) The Additional Guarantor hereby makes each of the representations and warranties contained in Article III of the Credit Agreement on the date hereof as if such representations and warranties were made as of the date hereof, after giving effect to this Agreement.

(d) The Additional Guarantor hereby waives acceptance by the Lender of the Guaranty by the Additional Guarantor upon the execution of this Agreement by the Additional Guarantor.

SECTION 2. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures were upon the same agreement.

SECTION 3. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF NEW YORK (NOT INCLUDING SUCH STATE'S CONFLICT OF LAWS PROVISIONS OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be duly executed and delivered as of the date first above written.

[ADDITIONAL GUARANTOR]

By: \_\_\_ Name: \_\_\_ Title:\_\_\_

Address:



ACKNOWLEDGED:

JPMORGAN CHASE BANK, N.A., as the Lender

By: Name: \_\_ Title: \_\_

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Subsidiaries of Registrant

<b>Name</b>	<b>Place of Incorporation</b>
Adcon S.A.	Argentina
Administrative Development Company	Delaware
Aduy S.A.	Uruguay
Alimentos Arcos Dorados de Venezuela C.A.	Venezuela
Alimentos Latinoamericanos Venezuela ALV, C.A.	Venezuela
Arcgold del Ecuador, S.A.	Ecuador
Arcos del Sur, S.R.L.	Uruguay
Arcos Dorados Argentina S.A.	Argentina
Arcos Dorados Aruba N.V.	Aruba
Arcos Dorados B.V.	Netherlands
Arcos Dorados Caribbean Development Corp.	Delaware
Arcos Dorados Colombia S.A.S	Colombia
Arcos Dorados Costa Rica ADCR, S.A.	Costa Rica
ADCR Inmobiliaria, S.A.	Costa Rica
Arcos Dorados Curacao, N.V.	Curacao
Arcos Dorados Development B.V.	Netherlands
Arcos Dorados French Guiana	French Guiana
Arcos Dorados Group B.V.	Curacao
Arcos Dorados Guadeloupe	Guadeloupe
Arcos Dorados Martinique	Martinique
Arcos Dorados Panama, S.A.	Panama
Arcos Dorados Puerto Rico, LLC	Puerto Rico
Arcos Dorados Restaurantes de Chile, Ltda.	Chile
Arcos de Valparaiso SpA	Chile
Arcos Dorados Trinidad Limited	Trinidad and Tobago
Arcos Dorados USVI, Inc.(St. Croix)	USVI
Arcos Dourados Comercio de Alimentos Ltda.	Brazil
Arcos Dourados Restaurantes Ltda.	Brazil
Arcos SerCal Inmobiliaria, S. de R.L. de C.V.	Mexico
Restaurantes ADMX, S. de R.L. de C.V.	Mexico
Arcos Dorados BraPa S.A.	Panama
Compañía de Inversiones Inmobiliarias S.A.	Argentina
Complejo Agropecuario Carnico (Carnicos), C.A.	Venezuela
Arcos Dorados Uruguay S.A.	Uruguay
Gerencia Operativa ARC, C.A.	Venezuela
Compañía Operativa de Alimentos COR, C.A.	Venezuela
Golden Arch Development LLC	Delaware
LatAm, LLC	Delaware
Logistics and Manufacturing LOMA Co.	Delaware
Management Operations Company	Delaware
Operaciones Arcos Dorados de Perú, S.A.	Peru
Restaurant Realty of Mexico, Inc.	Delaware
Sistemas Central America, S.A.	Panama
Sistemas McOpCo Panama, S.A.	Panama
Arcos Dorados Latam LLC	Delaware
Arcos SEM Panama SA	Panama
Arcos Dorados Paisas S.A.S.	Colombia
Arcos Mendocinos S.A.	Argentina

## CERTIFICATION

I, Marcelo Rabach, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
    - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 29, 2020

/s/ Marcelo Rabach

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Name: Marcelo Rabach

Title: Chief Executive Officer

## CERTIFICATION

I, Mariano Tannenbaum, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 29, 2020

/s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Chief Financial Officer

**CERTIFICATION**

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2019 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. Marcelo Rabach, the Chief Executive Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 29, 2020

/s/ Marcelo Rabach

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Name: Marcelo Rabach

Title: Chief Executive Officer

**CERTIFICATION**

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2019 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. Mariano Tannenbaum, the Chief Financial Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 29, 2020

/s/ Mariano Tannenbaum

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Name: Mariano Tannenbaum

Title: Chief Financial Officer



**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statement:

- (1) Registration Statement (Form S-8 No. 333-173496) pertaining to the Equity Incentive Plan of Arcos Dorados Holdings Inc;

of our reports dated March 18, 2020 (except Note 27.b, as to which the date is April 29, 2020), with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting of Arcos Dorados Holdings Inc., included in this Annual Report (Form 20-F) for the year ended December 31, 2019.

Buenos Aires, Argentina  
April 29, 2020

/s/ Pistrelli, Henry Martin y Asociados S.R.L.

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PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.

Member of Ernst & Young Global