FINANCING EXPONENTIAL GROWTH AT H3

EXHIBITS

João Ricardo Ferreira Hipólito da Silva | #326

A Project carried out on the Finance course, under the supervision of:

Prof. Paulo Soares de Pinho

JANUARY 2012
Exhibit 1 – Founders’ Academic and Work Experience

MIGUEL VAN UDEN

Academic Background

- Trade Technician – Escola de Comércio de Lisboa

Professional Background

- EMIP – Advertising and Publicity
  o Merchandising Supervisor (1994-1996)
  o Account Manager (1996-1999)
- Cushman & Wakefield – Real Estate Consultancy
  o Industrial Department (1999-2004)
- Café 3 (2004-Present)

ANTÓNIO ARAÚJO

Academic Background

- Law Undergraduate – Faculdade de Direito da Universidade Lusíada

Professional Background

- Nuno Matos e Nelson Rocha – Law firm
  o Law internship (1998-2001)
- Individual Law practitioner (2001-2007)
- Cosmic Chilli – Event Planning and Promotion
  o Partner and Manager (2003-2008)
- Café 3 (2004-Present)

ALBANO HOMEM DE MELO

Academic Background

- Law Undergraduate – Faculdade de Direito da Universidade de Lisboa
Financing exponential growth at H3

*Professional Background*

- EPG/TBWA  
  o Copy Writer (1993)
- Young & Rubicam Portugal  
  o Creative Director (1997)
- EPG/TBWA  
  o Creative Director (1998)
- Young & Rubicam Portugal  
  o President (2001-2006)
- BBDO  
  o Creative Director and Administrator (2006)
- Café 3 (2004-Present)

*Awards*

- 300 Awards in national and international festivals in creativity and advertising
Exhibit 2 – H3 Menu

OUR ONE AND ONLY STARTER
h3 croquettes 1.95 €
3 with yogurt sauce

HAMBURGERS ON A PLATE
200g, served with chips and that too

h3 grilled
pork beef 5.50 €
5.95 €

h3 with sauce
with h3 sauce 5.50 €
5.95 €

h3 champignon
with mushroom sauce 6.00 €
6.50 €

h3 tuga
portuguese style with a fried egg on top 6.00 €
6.50 €

h3 benedict
with sautéed spinachs, sauce hollandaise
and a poached egg 6.50 €
6.95 €

h3 cheese
with cheese, onion, ketchup and
crunchy mustard mayonnaise 6.50 €
6.95 €

h3 french
foie gras, onion, ketcup and
reduction of Port wine 9.00 €
9.50 €

A HAMBURGER ON BREAD
200g, served with a small portion of chips

h3 super bread 5.50 €

GRAND FINAL: 4 h3 DESSERTS

h3 chocolate coulant 2.75 €
served with ice cream

h3 profiteroles 1.95 €
served with powdered sugar
or chocolate sauce

holiday ●● 2.75 €
everyday ● 1.95 €

h3 BEVERAGES lemonade and ice tea 1.00 €

---

1 This menu refers to the final of 2010 when a starter and four desserts were added to the menu to anticipate its expansion plans.
### Exhibit 3 – Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>- €</td>
<td>22.459,30 €</td>
<td>103.129,25 €</td>
<td>795.802,84 €</td>
<td>716.902,98 €</td>
</tr>
<tr>
<td>Tangible Assets</td>
<td>145.897,95 €</td>
<td>265.039,56 €</td>
<td>785.805,85 €</td>
<td>2.419.895,34 €</td>
<td>2.929.084,08 €</td>
</tr>
<tr>
<td>Financial Participations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6.000,00 €</td>
</tr>
<tr>
<td>Inventories</td>
<td>1.507,92 €</td>
<td>2.875,36 €</td>
<td>45.560,20 €</td>
<td>76.353,31 €</td>
<td>261.908,52 €</td>
</tr>
<tr>
<td><strong>Third Party Debts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account Receivable</td>
<td>-</td>
<td>-</td>
<td>276,71 €</td>
<td>58.122,95 €</td>
<td>780.156,30 €</td>
</tr>
<tr>
<td>Advances to suppliers</td>
<td>374,24 €</td>
<td>8.001,91 €</td>
<td>-</td>
<td>31.699,14 €</td>
<td>11.603,09 €</td>
</tr>
<tr>
<td>Shareholders</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>242.038,22 €</td>
</tr>
<tr>
<td>State and other public bodies</td>
<td>25.651,66 €</td>
<td>17.380,11 €</td>
<td>5.602,52 €</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other debtors</td>
<td>659,09 €</td>
<td>894,00 €</td>
<td>35.294,34 €</td>
<td>63.658,12 €</td>
<td>56.557,73 €</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>- €</td>
<td>27.574,89 €</td>
<td>318.274,68 €</td>
<td>233.439,11 €</td>
<td>374.704,32 €</td>
</tr>
<tr>
<td>Cash</td>
<td>167,48 €</td>
<td>84,73 €</td>
<td>22.858,03 €</td>
<td>129.988,07 €</td>
<td>245.664,28 €</td>
</tr>
<tr>
<td>Accrued income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred costs</td>
<td>914,28 €</td>
<td>3.272,28 €</td>
<td>38.317,95 €</td>
<td>171.565,87 €</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>175.172,62 €</td>
<td>347.582,14 €</td>
<td>1.405.906,64 €</td>
<td>4.003.372,36 €</td>
<td>5.624.619,52 €</td>
</tr>
</tbody>
</table>

| **Equity**           |       |       |       |       |       |
| Capital              | 5.000,00 € | 5.000,00 € | 150.000,00 € | 150.000,00 € | 150.000,00 € |
| Supplementary Capital| 70.000,00 € | 151.211,04 € | -     | 286.000,00 € | 286.000,00 € |
| Legal Reserves       | -     | -     | -     | -     | 15.001,14 €  |
| Retained Earnings    | -104.828,01 € | -144.850,74 € | -150.081,63 € | -61.563,86 € | - €    |
| Net Income           | - 40.022,73 € | - 5.230,89 € | 88.517,77 € | 294.565,00 € | 556.171,36 € |
| Interim dividends    | -     | -     | -     | -     | -121.019,11 € |
| **Total Equity**     | - 69.850,74 € | 6.129,41 € | 88.436,14 € | 669.001,14 € | 1.007.172,50 € |

| **Debt**             |       |       |       |       |       |
| Long-term Debt       |       |       |       |       |       |
| Loans                | -     | -     | 261.148,90 € | 542.776,07 € | 550.580,51 € |
| Fixed Asset suppliers| 4.331,50 € | 78.315,93 € | 319.538,71 € | 803.683,65 € | 649.226,68 € |
| Short-term Debt      |       |       |       |       |       |
| Loans                | 8.801,92 € | 655,38 € | 68.441,59 € | 267.494,52 € | 425.583,10 € |
| Account Payable      | 31.405,98 € | 49.117,60 € | 257.191,96 € | 614.682,61 € | 1.634.585,96 € |
| Other shareholders   | 170.774,59 € | 117.205,79 € | -     | -     | -     |
| Fixed Asset suppliers| 12.707,73 € | 31.149,15 € | 152.198,35 € | 390.996,87 € | 530.248,81 € |
| State and other public bodies | 1.644,88 € | 9.795,79 € | 108.576,33 € | 330.112,56 € | 357.503,75 € |
| Other debtors and creditors | 1.248,87 € | 2.681,50 € | 11.345,94 € | 11.634,83 € | 590.737,32 € |
| Accrued Costs        | 14.107,89 € | 52.531,59 € | 139.028,72 € | 372.990,11 € | -     |
| **Total Debt**       | 245.023,36 € | 341.452,73 € | 1.317.470,50 € | 3.334.371,22 € | 4.738.466,13 € |

| **Total Debt and Equity** | 175.172,62 € | 347.582,14 € | 1.405.906,64 € | 4.003.372,36 € | 5.624.619,52 € |

*Source: H3’s Financial Statements*
### Exhibit 4 – *Income Statement*

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>214,945,17 €</td>
<td>925,326,50 €</td>
<td>2,956,903,44 €</td>
<td>4,892,550,65 €</td>
</tr>
<tr>
<td>Supplies and External Services</td>
<td>188,032,02 €</td>
<td>617,475,11 €</td>
<td>1,886,975,16 €</td>
<td>5,322,065,88 €</td>
</tr>
<tr>
<td>Employee Costs</td>
<td>220,368,83 €</td>
<td>985,358,51 €</td>
<td>3,146,858,27 €</td>
<td>4,674,703,42 €</td>
</tr>
<tr>
<td>Amortization / Depreciation</td>
<td>62,828,66 €</td>
<td>178,199,44 €</td>
<td>700,374,37 €</td>
<td>929,857,43 €</td>
</tr>
<tr>
<td>Taxes</td>
<td>1,636,08 €</td>
<td>4,889,75 €</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Operating Costs</td>
<td>4,321,50 €</td>
<td>38,297,25 €</td>
<td>123,150,97 €</td>
<td>34,410,48 €</td>
</tr>
<tr>
<td>Interest Payable</td>
<td>10,130,42 €</td>
<td>47,009,21 €</td>
<td>43,524,52 €</td>
<td>62,786,44 €</td>
</tr>
<tr>
<td>Extraordinary Expenses</td>
<td>803,17 €</td>
<td>7,078,94 €</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>43,90 €</td>
<td>7,980,50 €</td>
<td>125,494,72 €</td>
<td>243,084,86 €</td>
</tr>
<tr>
<td>Net Profit</td>
<td>- 5,230,89 €</td>
<td>88,517,77 €</td>
<td>294,565,00 €</td>
<td>556,171,36 €</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>697,878,86 €</td>
<td>2,900,132,98 €</td>
<td>9,277,846,45 €</td>
<td>16,715,630,52 €</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Income</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Services</td>
<td>697,876,71 €</td>
<td>2,857,752,55 €</td>
<td>9,254,740,00 €</td>
<td>15,962,440,50 €</td>
</tr>
<tr>
<td>Subsidies</td>
<td>-</td>
<td>-</td>
<td>14,587,97 €</td>
<td>24,598,52 €</td>
</tr>
<tr>
<td>Other Interest</td>
<td>1,02 €</td>
<td>2,076,05 €</td>
<td>1,531,58 €</td>
<td>3,006,97 €</td>
</tr>
<tr>
<td>Other Extraordinary Income</td>
<td>1,13 €</td>
<td>40,304,38 €</td>
<td>6,986,90 €</td>
<td>725,584,53 €</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>697,878,86 €</td>
<td>2,900,132,98 €</td>
<td>9,277,846,45 €</td>
<td>16,715,630,52 €</td>
</tr>
</tbody>
</table>

*Source: H3’s Financial Statements*
### Exhibit 5 – *List of Stores by opening date*

**2007 – 2 New Stores**

| h3 DV Monumental | h3 Amoreiras Plaza |

**2008 – 6 New Stores**

| h3 Forum Almada | h3 LoureShopping |
| h3 DV Mirafores | h3 DV Antas *(franchising)* |
| h3 Odivelas | h3 IKEA Porto *(franchising)* |

**2009 – 13 New Stores**

| h3 Arrábida Shopping *(franchising)* | h3 Portimão |
| h3 Saldanha Residence | h3 Forum Algarve |
| h3 Oeiras | h3 Colombo |
| h3 Spacio Olivais | h3 Campo Pequeno |
| h3 DV Tejo | h3 Cascais Shopping |
| h3 Forum Montijo | h3 W Shopping |
| h3 Coimbra *(franchising)* | |

**2010 – 12 New Stores**

| h3 Viseu Palácio do Gelo *(franchising)* | h3 Campus S. João *(franchising)* |
| h3 Algarve Shopping | h3 ECI Lisboa |
| h3 S. J. Madeira *(franchising)* | h3 Norte Shopping *(franchising)* |
| h3 Central Park | h3 Shopping Braga Parque *(franchising)* |
| h3 Leiria Shopping | h3 Tivoli |
| h3 ECI Gaia Porto *(franchising)* | h3 Madeira Shopping *(franchising)* |
Exhibit 6 – H3 landmarks’ timeline

- **16/09/2008**
  - First H3 Franchise Opens in *DV Antas* Shopping Mall

- **20/10/2009**
  - 20th H3 Restaurant opens at *Cascais*

- **07/07/2010**
  - H3’s 3rd Anniversary
  - 4.543.125 hamburguers sold

- **20/08/2010**
  - 30th H3 Restaurant opens at *Norte Shopping*

- **26/02/2009**
  - 10th H3 Restaurant opens at *Saldanha Residence Shopping Mall*

- **20/10/2009**
  - 20th H3 Restaurant opens at *Cascais*

- **07/07/2010**
  - H3’s 3rd Anniversary
  - 4.543.125 hamburguers sold

- **15/03/2004**
  - Café 3 is founded

- **2004**
  - (…)

- **2007**
  - First H3 Restaurant Opens in *Monumental Shopping Mall* 07/07/2007

- **2008**
  - (…)

- **2009**
  - (…)

- **2010**
  - (…)

- **2011**
  - (…)

Financing exponential growth at H3
Exhibit 7 – Excerpts from H3’s media presentation

One day we will be the world’s biggest burger chain

keep it simple
keep it fresh
simple recipes, simple products, good food. True?

business///
we deliver

- low food cost
- simple operation
- easily reproduced

- fast service
  (more sales per hour than average)
- facilitated negotiations
- unique experience
Exhibit TN1 – The Entrepreneurial Process

The Entrepreneurial Process

H3’s business model could be approached in various ways. The purpose of this work is to illustrate how H3 approached its resources’ gathering throughout the company lifecycle until the end of 2010.

This case-study covers the purely financial moves to endow the company with the resources needed to pursue its activity but also how building correctly the operations might be a powerful financing tool through negative working capital requirements and how this is used to take advantage of the opportunities H3 faces in the national and international markets.

---

2 LEACH and MELICHER – Entrepreneurial Finance (4th Edition 2009) – South-western, 4-8
## SWOT Analysis

### STRENGTHS
- Food quality compared to the average of the segment
- Fast service with the assembly line approach
- Short-term financing arising from the tight inventory management
- Commitment of the founders and their expertise
- Using an already tested product (at Café 3) and accepted by the public
- First mover advantage on the premium fast-food segment in Portugal

### WEAKNESSES
- High price for a fast-food chain
- Limited approach to the market (food-court only)
- No experience in designing control systems for a franchising model
- Mono-product approach limits the capability to attract different client segments

### OPPORTUNITIES
- Captivate clients that typically do not search for fast food
- Take advantage of the strongly implemented "food court" market in Portugal
- Pursue foreign ventures with the secured partners in fast-growing (Poland and Brazil) and adjacent (Spain) markets
- Increase the self-financing importance through enhanced bargaining power with suppliers as the company grows

### THREATS
- Portuguese market is limited to around 50 restaurants with the original approach
- The global economic crisis which impacts the food consumption
- Imitators arising given the non-proprietary characteristics of the product
- Domestic and foreign markets not perceiving the quality of the product to compensate for the premium price
- Eroding the supply chain financing in foreign markets
- Problems related to scale and heterogeneity
## Exhibit TN3 – Cash Flow Statement

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clients</td>
<td>697,876,71 €</td>
<td>2,857,475,84 €</td>
<td>9,196,893,76 €</td>
<td>15,240,407,15 €</td>
</tr>
<tr>
<td>Other Gains</td>
<td>56,279,92 €</td>
<td>246,024,08 €</td>
<td>482,963,90 €</td>
<td>983,686,62 €</td>
</tr>
<tr>
<td>Accrued Income</td>
<td>- €</td>
<td>- €</td>
<td>27,939,50 €</td>
<td>22,847,61 €</td>
</tr>
<tr>
<td><strong>Operating Sources</strong></td>
<td>754,156,63 €</td>
<td>3,103,499,92 €</td>
<td>9,707,797,16 €</td>
<td>16,246,941,38 €</td>
</tr>
<tr>
<td>COGS</td>
<td>394,260,68 €</td>
<td>1,369,410,18 €</td>
<td>4,548,880,20 €</td>
<td>9,360,172,34 €</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>224,690,33 €</td>
<td>1,023,655,76 €</td>
<td>3,270,009,24 €</td>
<td>4,709,113,90 €</td>
</tr>
<tr>
<td>Other expenses</td>
<td>4,841,15 €</td>
<td>54,994,86 €</td>
<td>258,742,64 €</td>
<td>317,183,27 €</td>
</tr>
<tr>
<td>Accrued Income</td>
<td>- €</td>
<td>50,787,11 €</td>
<td>- €</td>
<td>- €</td>
</tr>
<tr>
<td><strong>Operating Uses</strong></td>
<td>623,792,16 €</td>
<td>2,498,847,91 €</td>
<td>8,077,632,08 €</td>
<td>14,386,461,38 €</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt to financial institutions</td>
<td>- €</td>
<td>328,935,11 €</td>
<td>480,680,10 €</td>
<td>165,893,02 €</td>
</tr>
<tr>
<td>Fixed assets suppliers</td>
<td>92,425,85 €</td>
<td>362,271,98 €</td>
<td>722,943,46 €</td>
<td>- €</td>
</tr>
<tr>
<td>Supplementary capital</td>
<td>81,211,04 €</td>
<td>- €</td>
<td>286,000,00 €</td>
<td>- €</td>
</tr>
<tr>
<td>Capital</td>
<td>- €</td>
<td>145,000,00 €</td>
<td>- €</td>
<td>- €</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
<td>233,001,14 €</td>
</tr>
<tr>
<td>Legal reserves</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
<td>15,001,14 €</td>
</tr>
<tr>
<td>Other Debtors</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
<td>7,101,39 €</td>
</tr>
<tr>
<td><strong>Financing Sources</strong></td>
<td>173,636,89 €</td>
<td>836,207,09 €</td>
<td>1,489,623,56 €</td>
<td>- 45,006,59 €</td>
</tr>
<tr>
<td>Fixed assets suppliers</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
<td>15,205,03 €</td>
</tr>
<tr>
<td>Debt to financial institutions</td>
<td>8,146,54 €</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
</tr>
<tr>
<td>Supplementary capital</td>
<td>151,211,04 €</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
</tr>
<tr>
<td>Interim dividends</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
<td>363,057,33 €</td>
</tr>
<tr>
<td>Debt to other shareholders</td>
<td>53,568,80 €</td>
<td>117,205,79 €</td>
<td>- €</td>
<td>- €</td>
</tr>
<tr>
<td>Other debtors</td>
<td>234,91 €</td>
<td>34,400,34 €</td>
<td>28,363,78 €</td>
<td>- €</td>
</tr>
<tr>
<td><strong>Financing Uses</strong></td>
<td>61,950,25 €</td>
<td>302,817,17 €</td>
<td>28,363,78 €</td>
<td>378,262,36 €</td>
</tr>
<tr>
<td><strong>Investing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Received</td>
<td>1,02 €</td>
<td>2,076,05 €</td>
<td>1,531,58 €</td>
<td>3,006,97 €</td>
</tr>
<tr>
<td><strong>Investing Sources</strong></td>
<td>1,02 €</td>
<td>2,076,05 €</td>
<td>1,531,58 €</td>
<td>3,006,97 €</td>
</tr>
<tr>
<td>Investment in fixed assets</td>
<td>204,429,57 €</td>
<td>779,635,68 €</td>
<td>3,027,137,45 €</td>
<td>1,360,146,31 €</td>
</tr>
<tr>
<td>Investment in financial participations</td>
<td>- €</td>
<td>- €</td>
<td>- €</td>
<td>6,000,00 €</td>
</tr>
<tr>
<td>Interest paid</td>
<td>10,130,42 €</td>
<td>47,009,21 €</td>
<td>43,524,52 €</td>
<td>62,786,44 €</td>
</tr>
<tr>
<td><strong>Investing Uses</strong></td>
<td>214,559,99 €</td>
<td>826,644,89 €</td>
<td>3,070,661,97 €</td>
<td>1,428,932,75 €</td>
</tr>
</tbody>
</table>

### Total Cash-flow from:

<table>
<thead>
<tr>
<th></th>
<th>Operations</th>
<th>Investment</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Sources</strong></td>
<td>130,364,47 €</td>
<td>- 214,558,97 €</td>
<td>111,686,64 €</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td>927,794,54 €</td>
<td>900,302,40 €</td>
<td>27,492,14 €</td>
</tr>
<tr>
<td><strong>Cash variation</strong></td>
<td>27,492,14 €</td>
<td>313,473,09 €</td>
<td>22,294,47 €</td>
</tr>
</tbody>
</table>

João Hipólito da Silva | #326