

### **h3: Cooking growth or grilling it?**

by

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### **h3: Cooking growth or grilling it?**

In the end of 2015, Albano Homem de Melo, António Cunha Araújo and Miguel van Uden, h3's founders, sat in the meeting room of h3's office and looked back at the incredible journey they had embarked in. The launch of their gourmet burger restaurant, h3, was a success and was now one of the largest retail businesses in Portugal with more than 60 restaurants in two different countries.

The concept consisted in selling 200 grams' gourmet burgers with a special home made sauce, accompanied by Thai rice and freshly cut French fries, served in a hot porcelain plate and metal cutlery, at an affordable price. It made them look like a sophisticated yet reachable restaurant among the other offers. The little premium paid for the gourmet side of the business was worth every penny from the customer's perspective. The unique approach followed differentiated it from the remaining restaurants in the shopping mall's food court.

h3 created a new segment within the fast food industry, which they proudly named "not so fast food". They were able to sell proper, high quality food within the same time frame as other "fast food" restaurants, which used frozen products with low quality standards. Through this innovative venture and by being located in strategic areas with high inflow of people, the gourmet burger restaurant was able to grow from a sales volume of €700,000 in 2007 to € 20,742,914 in just 8 years.

Although the company experienced exponential growth from 2007 until 2010, it stagnated in the upcoming years. The failure in the international expansions to Spain and Poland, and having tapped

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João Lopes Raimundo (MSc Finance '17) developed this case under the supervision of Prof Paulo Soares de Pinho. It was written solely as a basis for class discussion rather than to use a source of primary data or to illustrate either effective or ineffective management handling.

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the whole market in Portugal led to an average growth rate of only 4.29% from 2010 until 2015. The founders had now to come up with a strategy to stimulate growth, should they diversify within the Portuguese market or attempt another international expansion?

#### **Starting Out: Café 3**

In March 2007, three childhood friends were sitting down contemplating what they had just created. Albano Homem de Melo, António Cunha Araujo and Miguel van Uden, had just fulfilled their dream by opening Café 3 in Forum Tivoli located in one of the most prestigious streets in the center of Lisbon, Avenida da Liberdade, where all the finest brands, such as, Louis Vuitton and Tiffany's had their stores. The concept behind Café 3 was a place for people to have quality food at an affordable price, but, most importantly, serve the food within the correct time frame to fit a business persons' lunch. Café 3 provided their clients with a broad menu choice prepared by Chef Victor Lourenço, which owned a minority share of the business.

After a couple of months Miguel, who quit his job as a real estate consultant to dedicate himself entirely to the restaurant, realized that the idea they so much dreamed about was not working. The busy streets of Avenida da Liberdade did not prove to be enough for Café 3 to succeed. The sales volume was not sufficient to make it a sustainable business. Although the restaurant had a good flow of people at lunch time, during dinner it was mostly empty. As the stores closed around 7:30pm, people would go home and the streets would become uninhabited, usual customers of high-end luxury stores in Avenida de Liberdade would look for more sophisticated dinner places in Lisbon.

Albano, António and Miguel got together to decide the future of their adventure. Although Café 3 had not been the success they were expecting, the three friends knew that the food they were serving was good, mainly the hamburgers with a gourmet touch called "Hamburgueses", and that the three of them possessed the drive and commitment needed to thrive in this journey. The founders were left with two alternatives on top of the table. The first one was to perform a total makeover of the current restaurant and shape it to their clients needs. The second was to think of a completely new idea within the food industry. The idea of abandoning the possibility of becoming successful entrepreneurs within the retail industry was not an option.

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#### **The Opportunity: h3 Hamburger Gourmet**

After failing to implement Café 3 restaurant among Portuguese consumers, the three founders asked themselves the most relevant question:

“Where are the people?”

They realized that the concept created could not thrive in such a prestigious location, such as, Avenida da Liberdade, the target customer for the restaurant was not the one found there. Instead, shopping malls were a growing market in Portugal and had a high inflow of people at all times, the variety of food provided in them still had room for improvement. With the experience acquired from Café 3 and acknowledging that they had a high quality product they could offer their clients at a low price and serving it fast, they came up with an idea to open a restaurant in a food court. A food court is an open space within a shopping mall where there are multiple restaurants with a common dinner area. Albano, who oversaw communications and quality management, had a vision of the food court as being a whole menu, every restaurant displayed was a different item on the menu. Therefore, the team decided to reduce Café 3's menu to a single product, gourmet burgers. The burgers were the most successful product in their previous restaurant and Chef Lourenço was able to prepare them in a particular way that made them unique. The idea of sticking to one product had as an objective to be recognized as the place to go if you wanted a good quality burger. The restaurant was given the name h3.<sup>1</sup>

The idea made sense in each of the founder's brains, but they had to test whether their target customers would like it. Unlike the first restaurant they launched, the team spent a year performing market research, counting the number of people entering and exiting the food court in Amoreiras shopping mall, analyzing the supply chain management of each of the restaurants and identifying key factors to achieve success among consumers.

The idea consisted in selling 200 grams' gourmet burgers with a special homemade sauce accompanied by Thai rice and freshly cut French fries and a drink at an affordable price.

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<sup>1</sup> The “h” stands for “hamburgueria”, which means burger restaurant in English, while the 3 stands for the number of founders

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While typical burger restaurants, such as, McDonalds, were selling burgers in disposable boxes with frozen 100 grams' buns, frozen French fries and industrial sauces, h3 differentiated by offering its clients a fresh 200 grams' gourmet burger served in a hot porcelain plate with fine cutlery. To guarantee the highest quality, the restaurant would have fresh products delivered to the restaurant on a daily basis.

Besides the premium quality h3 focused their efforts in achieving an out-of-the-ordinary service quality. Employees would be entitled with a sole task, which would make part of an assembly line, while the customer would only be facing the cashier. The team calculated a maximum of 20 seconds to deliver the burger to the customer from the moment it was ordered.

#### **The Founders**

“All our decisions have always been unanimous and we are still the same old friends. The three of us being so different helps us to complement each other”

Miguel van Uden, h3 founder

Albano, António and Miguel, have known each other since they were small kids playing around in the streets of Lisbon. Although, all of them followed different career paths, they always had a common dream, to start their own business. Albano studied law at the Universidade Lusíada de Lisboa, but never became a lawyer. Although, he was not top of his class, Albano never failed a course and his passion for cooking and the entrepreneurial spirit were factors, which led him to leave a job in the publishing industry, where he gained various awards for his creativeness and start h3. Albano is in charge of marketing, advertisement and communications at the company.

António, also, studied law at Universidade Lusíada de Lisboa, but unlike Albano, he became a lawyer until 2007, when he left his position as a manager at Cosmic Chilli, to dedicate 100% of his time to h3. He is responsible for the legal, financial and expansion departments.

Miguel finished university in the Escola de Comércio de Lisboa to become a merchandising supervisor for EMIP, where he later ended up doing account management for Gillette, Nestle and Nutrinvest. Miguel went on to become a real estate consultant for Cushman and Wakefield. In

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2007, he joined h3 to lead the human resources and operations department.

The three friends come from different backgrounds, but those differences were essential to complement each others weaknesses and see the business from different perspectives.

#### **Financing the idea**

The accumulated losses inherited by the failure of Café 3 created harder financing conditions for the founders. By the end of 2006, Café 3 had a negative value of equity and total debt over €245,000. With a debt-to-assets ratio of 140% and discouraging numbers the company found itself in a hard situation. The founders got together to decide the future of the company. The three of them were married with children and as they grew older, so did their responsibilities, the possibility to take risks was diminishing. Even so, they decided to put together all of their life savings and quit their jobs to open the gourmet burger restaurant. In 2007 they increased the capital of the firm by combining all of their savings, which amounted to €81,211.<sup>2</sup>

The founders knew that for the retail startup to work, they should not own the spaces used for the restaurants. Instead they should opt for renting, enabling them to save upfront capital expenditures. Rent was going to be a significant cost for the company, h3 wanted to be placed in the best shopping malls with the most exposed location and highest flow of people, which meant they were going to pay for very high rents for the premium locations they were placed in. In the majority of shopping malls rent would be paid based on a variable fee dependent on the sales volume of the company, typically, between 8% and 12% of annual sales. Then there was a fixed fee for the cleaning services and other small costs.<sup>3</sup>

#### **The Success**

“The incredible responsiveness of the target market to our product was something we were not expecting.”

António Cunha Araujo, Founder

On the 7th of July 2007 the first h3 restaurant opened in Monumental shopping mall, the gourmet

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<sup>2</sup> Data provided by h3

<sup>3</sup> Case writer analysis

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burgers menu started selling, on average, for €6.50 with French fries and Thai rice along with a homemade sauce, fresh natural juice or any kind of soda.<sup>4</sup> h3 resembled typical Portuguese consumption patterns that permitted customers to embrace their roots and feel like they were eating their every day meal at home, which proved to attract customers right from the beginning.

On the opening month h3 beat their sales estimates by the thousands. The initial estimates were to sell around 100 burgers a day, but after two weeks they were selling around 600 burgers a day. The Portuguese press was impressed and positive coverage was only improving h3's reputation and confidence among consumers. The concept of "not so fast food" was missing in Portugal and clients were very receptive about it. The partners rejected the idea that "fast food" had to be an unhealthy and low quality product, they considered their gourmet burgers to be "not so fast food", because the serving time was the same as any fast food restaurant, but the quality was undeniably better. Due to the fast growing nature of the business, they soon realized that scalability was key to be able to tap the whole market, keep up with demand and to avoid any entries from competitors. In September 2007, they opened another h3 restaurant in Amoreiras Plaza. By the end of 2007 h3 reached a sales volume of € 697,877, had 2 restaurants in two trendy and buzzing areas in Lisbon, Saldanha and Amoreiras, and employed 15 people.

The rising success of the "not so fast food" restaurant caught the management team by surprise. The team had to plan the opening of 6 additional stores in 2008 to be able to scale the business according to market needs. The financing of a fast growing business with a large need of expansion capital could not be supported only by the cash flows generated by the firm, further possibilities had to be analyzed. Either the founders would dilute their ownership share selling a percentage of the firm at the current valuation and finance the expansion with equity. Another option would be through debt financing. A third and final option would be to start a franchising system.

After discussing the situation, the founders decided that allowing an institutional investor or individual to enter into the equity of the firm was out of question. They did not want to dilute any of their equity and wanted to keep full control of the company's future decisions. Furthermore,

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<sup>4</sup> In 2015 the cheapest burger menu cost €6.95 (Grilled Burger) and the most expensive cost €10.50 (French Burger)

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expanding solely through debt posed a lot of risks to the firm. An early-stage venture would have an immense difficulty to have unsecured bank loans approved, due to the high risk of default and lack of track record. With many companies showing interest in franchising h3, the final decision was to create a franchising system that would be run by one franchising company, from Coimbra until the far north end of the country. Everything south of Coimbra would be financed through cash flows generated by the main firm, Café 3 - Restauração, with a mixture of capital leasing and financial debt. The company chosen to operate the franchising had to have a proven franchising record and experience in the retail business. “Franchising h3” was the chosen company, an entity created by an experienced business man with the sole purpose to create h3 franchises.

#### **Growing through franchising**

Through the new franchising system, h3 ended up having two different types of restaurant distributed in different geographic areas across the country. From the center upwards h3 only had franchises, while the restaurants in the south were totally owned by h3’s holding company Café 3.

In the end of 2009, there were 17 restaurants wholly-owned by h3. The average total investment to open a new h3 restaurant is around € 280,000 with an annual sales volume of around € 800,000. The majority of the initial investment would go into the inventory required to open the store, such as, the grill, which was specifically designed by h3 to efficiently cook the hamburgers to perfection. The remaining investment would go into capital leasing (rent), personnel costs and raw materials. The COGS to Sales ratio was around 29%, which was in line with h3’s closest competitor in the food court, McDonalds (28%). h3 has an excellent relation with its meat supplier, P Carnes, based on trust and friendship, this relationship allowed for h3 to negotiate its payment to suppliers to 60 days. The high quality of the food h3 provides to its clients comes from the freshness of its products. It takes, on average, 7 to 8 days for an h3 restaurants to fully empty its stocks without ever incurring the risk of running out of stock.<sup>5</sup>

h3’s franchising system worked the same way as any other franchising. The franchisee had to pay a signing fee, which was composed of a fixed fee a priori and another fixed fee for any other opened

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<sup>5</sup> Information provided by h3’s financial department

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stores. The average franchisee signing fee is around €40,000.<sup>6</sup> The company, also, charges a percentage of the total annual sales, which is divided into 5% royalties and 3% marketing fee. h3 obliged the franchising company to have the know-how and would help with procurement to ensure the franchising would work and look exactly the same as an owned restaurant.

#### **Ensuring consistency**

The franchising restaurants brought an additional problem to h3 and its founders. One of the grounding pillars of h3 was its strict inventory and supply chain management to minimize costs and quickly serve its clients.

Passing these values on to the new franchising system proved to be a difficult task. As the number of store grew, so did the struggle for homogeneity and standardization of the restaurants across the country. The solution came through the creation of a grill school ran by Chef Lourenço, the inventor of the famous gourmet burgers. He taught h3 employers' and franchisees how to prepare exactly the same burger in the different restaurants across the country.

By the end of 2008, the company reached a sales volume of €2,857,753 and grew 309% when compared to the year 2007. The Portuguese economic recession did not seem to have a negative effect on the company's sales. Even with the troubling market conditions, h3 had to expand to keep up with the demand and growing sales.

Between 2009 and 2010, the gourmet burger restaurant would keep on impressively growing. In 2009, the company reached sales of €9,254,740 and EBITDA of €1,292,486, which grew 351% from its previous year. By the end of 2010, the company had a total of 33 restaurants, including an expansion to Madeira and Azores. António Cunha Araujo, which was in charge of expansion, reached the end of 2010 with a dilemma. Portugal was a small country and h3 was allocated in almost all of the relevant shopping malls in the country, if the calculations were correct, growth would stagnate for the upcoming years, unless the company would expand abroad.

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<sup>6</sup> Case writer analysis

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In the end of 2010, the company had a free cash flow of €1,486,029, there was enough money to pursue an international expansion. The company could either distribute dividends for the shareholders or reinvest the money into the firm to stimulate growth. António's appetite for risk and the enthusiasm of one day seeing h3 as a worldwide burger chain, led him, together with the remaining partners of h3, to expand abroad.

#### **First Expansion: Poland**

“The only word I can use to describe our expansion to Poland is: amateurish”

Nuno van Uden, Press and Public Relations

With the success of h3 being spread all over the country, opportunities to expand came flying in. Albano, António and Miguel knew that it was time for their company to stretch their operations into international territory and started meeting with people who could help them do it correctly.

It was in a sunny afternoon in August 2010 when three freshly graduated consultants tried to persuade the three partners to tackle the Polish market. In 2010 Poland was evolving at an economic growth rate of 3.70%, it was a developing country with circa 40 million citizens and found itself in a politically stable situation. The numerous shopping malls with food courts tactically positioned over the different cities in the country made it a suitable candidate for an h3 restaurant to be opened. The idea was for the gourmet burger company to enter the market via a joint venture with the consultants where h3 would own a minority share of 40%, the remaining share would be for the consultants. In case of failure, risk would be reduced. António saw this as a unique opportunity to enter a country where the fast food industry was still falling behind, but had a large growth potential.

Without performing any further market research besides the one provided by the consultants, h3 decided to follow their advice and pursue this opportunity. The drive and commitment from the young consultants and the challenging conditions led them to open an h3 restaurant in Warsaw, the Polish capital, on the 10<sup>th</sup> of January 2011. The restaurant was located in a central shopping mall called Galeria Mokotow.

h3's management team proceeded with the expansion without taking any further measures to

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guarantee its success. Before taking care of logistical matters, such as, finding a supplier for the fresh products, the company had already entered into a contract for the rent. After signing the contract, they realized that the majority of the products would have to be shipped in from Portugal as the quality of the products in Poland was not identical to the one in Portugal. The meat was vacuum sealed and sent from Portugal. A warehouse was purposely bought to store the meat. An external company was hired to ensure that the fresh products would travel according to h3's quality standards. It was of the utmost importance that the quality in Poland was identical to the one in Portugal, that is why Polish employees were sent to Portugal to learn the correct way to operate the restaurant and prepare the different dishes.

After a few months in the Polish capital, António started noticing that this new adventure was not working out. The restaurant was not having the impact that the consultants had estimated. In their first month, the restaurant sold, on average, around 120 meals a day, when in Portugal the daily average in the first months was around 600 meals a day. The main reason was that the Polish market was completely different from the Portuguese. The average Polish consumer did not eat at specific hours of the day, unlike the Portuguese that have a rush hour from 12.30 to 14.30. They would come in at any time of the day to have lunch, which did not suit the company's business model. h3's business model was built to cope with rush hours to serve burgers within 30 seconds. In a rush hour you can calculate when the clients are coming and how many are in the queue and start grilling the burger 5 minutes before serving time. In 'non rush hour' it takes between 8 and 10 minutes to serve the burger, losing the competitive edge over other fast food restaurants.

“There would be days' people would come into the restaurant at 10.30am asking if they could eat and other people coming in at 16.30.”

Nuno van Uden, Press and Public Relations

The culture and eating habits were different and so was the way that the food court worked. The food court in Poland was designed for a lower income class than in Portugal. People would go for the cheapest option available on the food court, McDonald's had just entered the market, which did not help at all as it was h3's neighbor. A menu at McDonald's would start from around 12.99 PLN, around €3.00, while the cheapest menu on h3 would cost 24.90 PLN or €5.77. Instead of increasing prices, due to significantly higher costs, h3 opted to maintain the same price and have

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smaller margins.

Another reason behind the failure was that next to the food court there would always be a place with traditional restaurants where people would actually sit down, order their meal and enjoy it in a more civilized way. The people attending those restaurants were the ones that h3 wanted to target. The lack of market research and exceeding confidence in the young consultants, led h3 to incur major losses in their first internationalization.

By the end of 2011, h3 had a negative net income of €248 250 in h3 Poland.<sup>7</sup>

#### **Lesson Learned: Franchise**

The three founders learned their lesson in Poland and promised themselves to be more careful in the future when considering expansion. After Poland some guidance rules were defined to follow when opening a new restaurant or expanding into another country.

It was decided that further expansions would only be pursued using a franchising system similar to the one in Portugal. By opting for this business model, h3 would be able to expand the brand more rapidly than they could through the use of their own money or investors'. The company would then make money through fees and royalties charged to the franchisee.

#### **Second Expansion: Spain**

Although h3 did not thrive at an international level with the Polish experience, domestically the company was still a massive success. Proposals of various companies and individuals to partner up with the gourmet burger restaurant were received on a daily basis. People wanted to open h3's everywhere around the world. Antonio's goal as head of expansion was to determine which opportunities were worth pursuing.

In early 2011 the founders met with Grupo Vips in Lisbon, the largest franchiser group in Spain. It was founded in 1969 and is one of the leading multi-brand and multi-format groups in the food

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<sup>7</sup> Information provided by h3

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service and retail sector in Spain. Their portfolio includes restaurants, cafeterias and shops. Major franchisors include Starbucks, TGI Fridays and Ginos Ristorante. The group recorded a net loss of €24,000,000 in 2011, due to the decreasing buying power in the average Spanish consumer and the spending in their expansion projects.

The meeting was a success and h3 saw this as the perfect opportunity to expand to Spain, a country with similar culture and eating habits. After all, Grupo Vips met all of the criteria that h3 was looking for in a franchisor. On the 13<sup>th</sup> of September 2011, h3 opened its first restaurant in Kinopolis, a shopping center just outside Madrid. The success of the first restaurant, which recorded, on average, monthly sales of €42 250, led Grupo VIPS to open another restaurant in Madrid on the 2<sup>nd</sup> of April 2012. Even though, both restaurants were not in central locations, a survey showed that h3 was the most liked restaurants out of all Grupo VIPS franchisees. In the second half of 2012, 50% of Grupo VIPS was acquired by an American private equity, which decided that it made no sense for the group to have 2 burger restaurant chains.<sup>8</sup> As a result, Grupo VIPS did not extend their franchising contract with h3, closing the 2 restaurants in January 2013. h3 did not record any losses in this expansion, due to the franchising system that drastically reduced the risk of the operation. The only costs incurred were from procurement.

#### **Third Expansion: Brazil**

“The size of Brazil made us realize that the way we operated in Portugal could not be replicated in Brazil.”

Albano Homem de Melo, Founder

In the end of 2011, the company led its final and third expansion of the year, after entering the Polish and Spanish markets, h3’ management saw Brazil as a valuable target for the restaurant’s expansion strategy. Brazil looked like the perfect place to go, due to its similarities and origins in the Portuguese market.

h3 entered the Brazilian market by partnering up with a local investment firm, together they founded h3 Brazil, which they owned 51%. On the 26<sup>th</sup> of November 2011, the first restaurant

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<sup>8</sup> Information provided by h3

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opened in a shopping mall in São Paulo. The restaurant was a local success, which led to the planning of additional restaurants in São Paulo, Salvador and Recife. The company decided to expand internally through a mix of wholly-owned restaurants and by using a franchising system similar to the one used in Portugal. From the start, the team noticed different consumption patterns, while in Portugal everyone ordered the burger on the plate, in Brazil everyone preferred it with bread.

The management team decided to send Brazilian personnel from Portugal to teach the local workforce in Brazil. The Portuguese restaurants had a majority of Brazilian staff, which were looking forward to go back to Brazil, h3 saw in this opportunity a win-win situation. Firstly, the experienced Brazilians working in Portugal had the know-how to teach the Brazilian staff. Second, they would be happy to go back to their home country.

After a couple of months h3 started having problems with the Brazilian staff wanting to go back to Portugal, they were not pleased with the living conditions in Brazil. While in Portugal it would take them 45 minutes to get to work, in Brazil, they would need 4 to 5 hours and the living conditions were far worse.

By the end of 2013, the management team had opened more restaurants across 3 different cities. Due to the size of Brazil and different eating habits in different geographic areas of the country, h3 was having standardization problems and operational efficiency was proving to be hard to maintain. The team had to send more personnel to Brazil to control the restaurants, although they were a success, for them to strive on the long-term the level of the restaurants had to improve. These problems were seen as a drawback from the quick expansion pursued in a small amount of time and were hindering the company.

“The expansion to Brazil was a success, but the local regulations, legal and other cost structures made it take triple the time it was supposed.”

Albano Homem de Melo, Founder

In addition, the devaluation of the local currency over the years, the Brazilian Real, and the worrying state of the local economy was not making things easier. In December 2013, 1€ was

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worth 3.25 BRL against the entry value of 2011 of 2.41 BRL.<sup>9</sup>

#### **Future**

In 2015, h3 recorded a sales volume of €20,720,914 and EBITDA of €2,154,318. The small Café 3 in Avenida da Liberdade had come a long way to become one of the largest Portuguese restaurant chains and, undoubtedly, the most successful of the 21<sup>st</sup> century. The three founders Albano, António and Miguel had achieved their childhood dream of becoming successful entrepreneurs, but the question lies now, what comes next? With a stagnating growth level in the Portuguese market and an ongoing operation in Brazil, what options of innovation and diversification are there for the gourmet burger chain to stimulate the exponential growth it experienced in their early days. Should they diversify and open traditional restaurants or should they try expanding into another country with the acquired experience of their previous failures?

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<sup>9</sup> In December 2011 the Exchange rate was 1 EUR/2.41 BRL

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Exhibit 1. Food court from Amoreiras shopping mall.



Exhibit 2. Typical h3 restaurant.



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Exhibit 3. Different varieties of an h3 gourmet burger.



Exhibit 4. h3's menu.

**PURA CARNE BOVINA**  
**200 GRAMAS**  
**NO PÃO OU NO PRATO?**

 <b>GRELHADO</b> €6.25 Pão com mais molho de brinde. Mais alface, tomate, cebola roxa, azeitona e maionese H3. €6.95	 <b>COM MOLHO</b> €6.50 Molho de queijo, molho do Chef. €7.15	 <b>CHAMPIGNON</b> €7.20 Molho de cogumelos frescos. €7.85
 <b>TUGA</b> €7.20 A portuguesa com ovo no ovo. €7.85	 <b>MED</b> €7.20 Queijo, tomate seco, molho de carne molida curada, queijo e brinde. €7.85	 <b>LEGUMES</b> €7.60 Legumes grelhados, maionese e cebola roxa. €7.95
 <b>CHEESE</b> €7.60 Queijo de queijo, cebola, azeitona e maionese de especiarias antigas. €7.95	 <b>BENEDICT</b> €7.75 Espalme de azeitona, molho de azeitona e ovo cozido. €8.15	 <b>FRENCH</b> €9.90 Escabele de file de galo, molho de azeitona e maionese de especiarias antigas. €10.50

**BATATAS OU ARROZ INCLuíDOS**  
**NO PÃO + 1 ACOMPANHAMENTO • NO PRATO + 2 ACOMPANHAMENTOS**  
**EXTRAS SALADA H3 (ALFACE, RÚCULA, TOMATE E CEBOLA ROXA) OU ESPARREGADO H3**

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#### Exhibit 5. Location of h3 restaurants in Portugal.

##### Norte

Dolce Vita Porto  
Palácio do Gelo  
NorteShopping  
The Style Outlets

MAR Shopping  
8ª Avenida  
Braga Parque  
GuimarãesShopping

ArrábidaShopping  
El Corte Inglés Gaia  
Parque Nascente

Forum Coimbra  
Campus São João  
Dolce Vita Coimbra

##### Centro

Dolce Vita Monumental  
LoureShopping  
Dolce Vita Tejo  
CascaisShopping  
El Corte Inglés Lisboa  
Alegro Alfragide

Forum Almada  
Saldanha Residence  
Forum Montijo  
W Shopping  
Tivoli Forum  
Alvalade

Dolce Vita Miraflores  
Oeiras Parque  
Colombo  
Central Park  
Parque das Nações  
Amoreiras

Strada  
Spacio Shopping  
Campo Pequeno  
LeiriaShopping  
Rio Sul Shopping  
Alegro Setúbal

##### Sul

Portimão

Forum Algarve

AlgarveShopping

##### Ilhas

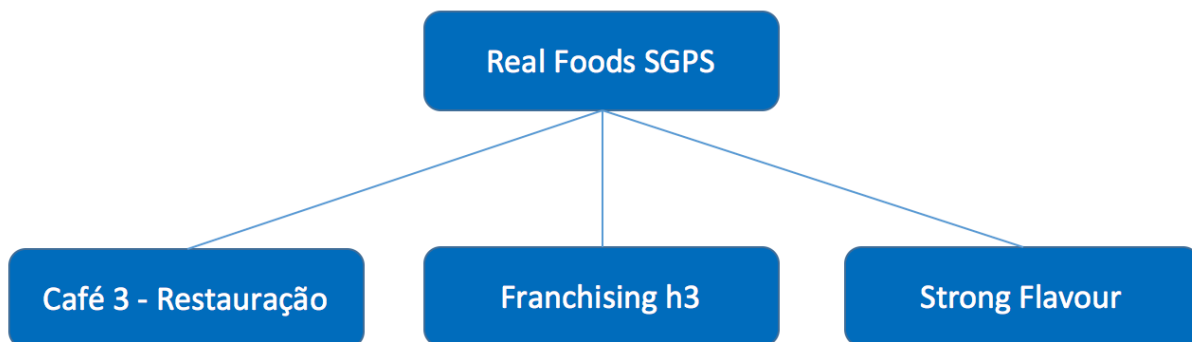
MadeiraShopping

Parque Atlântico

Dolce Vita Funchal

Forum Madeira

#### Exhibit 6. Distribution of the different companies, which compose h3.



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#### **Exhibit 7.** Document with rules to become an h3 franchisee.

- h3 is only available to franchise master-country and not single restaurants.
- The applicant must have the following characteristics:
  1. Established company and operating in the franchising market;
  2. Profound knowledge of the market;
  3. Own a structured, capable and available team to embrace the project;
  4. Successful track-record in the retail sector, preferably in fast food;
  5. Established distribution network
  6. Identifies itself with the business, principles and values of the brand;
  7. Passion for good food, people, versatility and creativity;
  8. Dynamic, innovative, ambitious, teamwork and organizational skills, responsible;
  9. Easiness in social and commercial relationships;
  10. Values a transparent commercial structure;
  11. Financial capability and compatible investment with the necessities of the business, specially during growth periods;
  12. Financial suitability;

Further more, in a first phase of the project it is necessary that the applicants send:

- A draft of the plan with potential locations;
- Expansion plan in the targeted market;
- Brief socioeconomic analysis of the targeted market;
- Competition analysis in the shopping malls where restaurants are to opened;

After the initial stage, we will keep in contact and schedule meetings to inform of the financial demands, adjust the market offering and analyse the viability of the franchising.

### h3: Cooking growth or grilling it?

**Exhibit 8.** Historical non-consolidated financial information for Café 3, 2006-2015 (in €).

	EUR									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Sales</b>	307 985	697 877	2 857 753	9 254 740	15 962 441	17 616 368	17 593 031	17 803 816	18 407 170	20 742 914
<b>Sales Growth</b>		126,59%	309,49%	223,85%	72,48%	10,36%	-0,13%	1,20%	3,39%	12,69%
<b>COGS</b>	103 371	214 945	925 327	2 956 903	4 892 551	5 443 920	5 443 920	5 235 936	5 676 270	6 050 428
<b>Gross Profit</b>	204 614	482 932	1 932 426	6 297 837	11 069 890	12 172 448	12 149 111	12 567 880	12 730 900	19 403 463
<b>Operating Costs</b>	134 220	290 157	1 271 134	4 072 332	6 270 947	6 947 488	6 774 568	6 691 244	7 077 030	8 084 886
<b>Wages</b>	103 421	220 369	985 359	3 146 858	4 674 703	5 185 851	5 015 265	4 910 862	5 236 313	6 010 595
<b>Rent</b>	30 799	69 788	285 775	925 474	1 596 244	1 761 637	1 759 303	1 780 382	1 840 717	2 074 291
<b>Other</b>	102 700	187 031	553 086	1 633 393	3 939 907	4 951 103	5 159 635	5 384 454	4 851 373	9 979 126
<b>Operating Income/EBIT</b>	-32 305	5 744	108 206	592 112	859 036	273 857	214 908	492 182	802 497	1 339 451
<b>Financial Income</b>		1	2 076	3 863	3 007	1 918				
<b>Financial Loss</b>	7 332	10 130	47 009	100 942	62 786	135 719	142 103	114 734	103 302	70 970
<b>Interest Income, net</b>	-7 332	-10 129	-44 933	-97 079	-59 779	-133 801	-142 103	-114 734	-103 302	-70 970
<b>Income before income taxes and extraordinary items</b>	-39 637	-4 385	63 273	495 033	799 257	140 056	72 805	377 448	699 195	1 268 481
<b>Provision for income taxes</b>	42	44	7 981	125 495	243 085	51 527	50 224	84 264	193 467	306 773
<b>Income before income extraordinary items</b>	-39 679	-4 429	55 292	369 538	556 172	88 529	22 581	293 184	505 728	961 708
<b>Extraordinary Gains</b>	290	1	40 304	3 655						
<b>Extraordinary Loss</b>	635	803	7 079	79 628						
<b>Extraordinary Gains, net</b>	-345	-802	33 225	-75 973	0	0	0	0	0	0
<b>Net Income</b>	<b>-40 024</b>	<b>-5 231</b>	<b>88 517</b>	<b>293 565</b>	<b>556 172</b>	<b>88 529</b>	<b>22 581</b>	<b>293 184</b>	<b>505 728</b>	<b>961 708</b>
<b>NI Growth</b>		-86,93%	-1792,16%	231,65%	89,45%	-84,08%	-74,49%	1198,37%	72,50%	90,16%
<b>COGS</b>	103 371	214 945	925 327	2 956 903	4 892 551	5 443 920	5 443 920	5 235 936	5 676 270	6 050 428
<b>Personnel Costs</b>	103 421	220 369	985 359	3 146 858	4 674 703	5 185 851	5 015 265	4 910 862	5 236 313	6 010 595
<b>Ammortization</b>	31 005	62 829	178 199	700 374	929 857	1 136 457	1 145 909	1 119 588	1 330 523	814 867
<b>Interest</b>	8 332	10 130	47 009	100 942	62 786	135 719	142 221	114 769		70 982
<b>Cash Flows</b>	-9 019	57 598	266 716	993 939	1 486 029	1 224 986	1 168 490	1 412 772	1 836 251	1 776 575
<b>Gross Value Added</b>										
<b>EBIT</b>	-32 305	5 744	108 206	592 112	859 036	273 857	214 908	492 182	802 497	1 339 451
<b>EBITDA</b>	-1 300	68 573	286 405	1 292 486	1 788 893	1 410 314	1 360 817	1 611 770	2 133 020	2 154 318
<b>EBITDA Growth</b>		5175%	318%	351%	38%	-21%	-4%	18%	32%	1%
<b>COGS to Sales Ratio</b>	33,56%	30,80%	32,38%	31,95%	30,65%	30,90%	30,94%	29,41%	30,84%	29,17%
<b>Cost per Employee</b>	14 774	14 691	12 017	12 537	10 207	11 397	10 277	10 231	9 843	9 870
<b>Number of Employees</b>	7	15	82	251	458	455	488	480	532	609

### h3: Cooking growth or grilling it?

#### Exhibit 9. Historical non-consolidated financial information for Café 3, 2006-2015 (in €).<sup>10</sup>

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EUR										
<b>Fixed Assets</b>	<b>145 898</b>	<b>287 499</b>	<b>888 935</b>	<b>3 215 698</b>	<b>3 651 987</b>	<b>4 477 028</b>	<b>3 496 815</b>	<b>4 048 508</b>	<b>3 640 347</b>	<b>2 975 521</b>
Intangible Fixed Assets		22 459	103 129	795 803	716 903	862 643	644 722	413 556	356 254	248 334
Tangible Fixed Assets	145 898	265 040	785 806	2 419 895	2 929 084	3 608 385	2 843 593	3 619 045	3 268 174	2 705 650
Other Fixed Assets					6 000	6 000	8 500	15 907	15 919	21 537
<b>Current Assets</b>	<b>29 275</b>	<b>60 083</b>	<b>516 972</b>	<b>787 674</b>	<b>1 972 633</b>	<b>2 561 776</b>	<b>3 271 954</b>	<b>2 529 957</b>	<b>3 288 455</b>	<b>5 554 920</b>
Cash	1 508	2 875	45 560	76 353	261 909	72 399	69 557	90 540	104 832	112 745
Accounts Receivable	26 685	26 276	41 174	153 480	1 336 020	2 144 350	2 884 799	2 137 055	2 899 198	5 194 714
Other	1 082	30 932	430 238	557 841	374 704	345 027	317 598	302 362	284 425	247 461
Bank deposits	167	27 660	341 133	363 427	374 704	345 027	317 598	302 362	284 425	247 461
<b>Total Assets</b>	<b>175173</b>	<b>347582</b>	<b>1405907</b>	<b>4003372</b>	<b>5624620</b>	<b>7038804</b>	<b>6768769</b>	<b>6578465</b>	<b>6928802</b>	<b>8530441</b>
<b>Equity</b>	<b>-69 851</b>	<b>6 129</b>	<b>88 436</b>	<b>669 001</b>	<b>886 153</b>	<b>949 682</b>	<b>947 263</b>	<b>1 240 447</b>	<b>1 696 175</b>	<b>2 627 883</b>
Capital	5 000	5 000	150 000	150 000	150 000	150 000	150 000	150 000	150 000	150 000
Other	-74 851	1 129	-61 564	519 001	736 153	799 682	797 263	1 090 447	1 546 175	2 477 883
<b>Total Equity</b>	<b>-69 851</b>	<b>6 129</b>	<b>88 436</b>	<b>669 001</b>	<b>886 153</b>	<b>949 682</b>	<b>947 263</b>	<b>1 240 447</b>	<b>1 696 175</b>	<b>2 627 883</b>
<b>Debt</b>										
Long-Term Debt	0	78 316	580 688	1 346 460	1 199 807	1 978 368	1 303 135	2 012 512	1 551 570	1 243 520
Accounts Payable		78 316	580 688	1 346 460	1 199 807	1 978 368	1 303 135	2 012 512	1 551 570	1 243 520
Other Provisions										
Short-Term Debt	245 024	263 136	736 783	1 987 912	3 538 659	4 110 753	4 518 371	3 325 506	3 681 059	4 659 038
Financial debt	8 802	655	68 442	267 495	955 832	1 157 979	1 318 757	613 328	649 674	360 080
Other accounts payable	202 181	166 323	257 192	614 683	1 634 586	1 830 421	1 897 960	1 164 327	1 362 500	2 484 824
Other debt	34 041	96 158	411 149	1 105 734	948 241	1 122 353	1 301 654	1 547 851	1 668 885	1 814 134
<b>Total Debt</b>	<b>245024</b>	<b>341452</b>	<b>1317471</b>	<b>3334372</b>	<b>4738466</b>	<b>6089121</b>	<b>5821506</b>	<b>5338018</b>	<b>5232629</b>	<b>5902558</b>
<b>Total Debt and Equity</b>	<b>175173</b>	<b>347581</b>	<b>1405907</b>	<b>4003373</b>	<b>5624619</b>	<b>7038803</b>	<b>6768769</b>	<b>6578465</b>	<b>6928804</b>	<b>8530441</b>
	0	0	0	0	0	0	0	0	0	0
<b>Net Working Capital</b>	<b>-173 988</b>	<b>-137 172</b>	<b>-170 458</b>	<b>-384 850</b>	<b>-36 657</b>	<b>386 328</b>	<b>1 056 396</b>	<b>1 063 268</b>	<b>1 641 530</b>	<b>2 822 635</b>
Number of Employees	7	15	82	251	458	455	488	480	532	609

#### Exhibit 10. Number of restaurants.

Wholly-owned restaurants: Café 3									
Year	2015	2014	2013	2012	2011	2010	2009	2008	2007
# of Restaurants	32	33	29	27	27	23	17	6	2

Franchising: FH3									
Year	2015	2014	2013	2012	2011	2010	2009	2008	2007
# of Restaurants	14	13	13	12	11	10	4	2	0

Total Portugal									
Year	2015	2014	2013	2012	2011	2010	2009	2008	2007
# of Restaurants	46	46	42	39	38	33	21	8	2

<sup>10</sup> Accounts receivable is very high, because we are looking at non-consolidated information. According to h3, the reason for these values is that it is money that is due to receive from franchisees.