



## The small company specialists

# COMPANY INFORMATION

Coffee Republic PLC (LSE:CFE)

Info sheet compiled March 2007

Company Eye Ranking

17/50

### EDITOR'S NOTE

Coffee Republic is a leading coffee shop operator in the UK with about 45 espresso bars. The company has shuttered several locations and is converting the remainder of its chain into US-style deli outlets, citing weak coffee sales.

The company has had a number of false starts and is still loss making. However recent news of a shareholder revolt against the present management could send the company along a new path. In our opinion investing in Coffee Republic is high risk with potential rewards.

### 1 YEAR CHART



### FUNDAMENTALS

Company Name	Coffee Republic PLC
Current Price	3.24
Status	AIM
Market Cap	17.59 m.
Shares in Issue	542.77 m.
Price-to-Book Ratio	25.4
Activities	Independent coffee and deli bar operator
Sector	Food & Drug Retailers
Corporate advisor	Seymour Pierce
Registrar	Capita Registrars

### HISTORY

Coffee Republic was formed in 1995 by Bobby and Sahar Hashemi, a brother and sister team. Coffee Republic has grown to be one of the best known and largest independent espresso bar brands in the UK, with bars all across the UK from Manchester to

Brighton and Birmingham to Bluewater. In the summer of 2005 Coffee Republic launched its franchise concept, and was able to draw upon a well of interest from investors.

### THE BUSINESS

Coffee Republic is the publicly listed company that 10 years ago created one of the UK's original international style espresso bar chains. The Company now offer hands-on franchises, operating one or more locations, as well as management franchise opportunities for regional development franchisees, responsible for the development of a large area of the UK.

The introduction of the new Deli format totally sets Coffee Republic apart from other coffee bars, cafés and restaurants. Best of all, converted units have

seen an average turnover increase of more than 25 per cent. The deli bars offer the same great coffee on which The Company built its business - now however Coffee Republic also offer fresh food, including made-on-demand hot and cold sandwiches as well as great soups and salads all served in a fast and furious environment.

The Company still has a very limited number of existing bars available to be converted to Deli format before being The Company hand them over as an up and running business to the franchisee. The company believes this offer is unique and most of



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the new franchises opened this year have been conversions.  
By investing in fully staffed and equipped existing

units with proven high levels of turnover, new franchisees can be up and running quicker than the six to nine months common with 'green field' sites.

### ACTIVITIES

Coffee Republic's concept is based on serving a selection of espresso-based quality beverages at affordable prices in convenient locations. Coffee Republic offers not just cappuccino and espresso, but a menu of espresso-based drinks which give the customer a choice of milk type, cup size, strength, decaffeinated coffee and extras such as flavoured syrups, ice or whipped cream. As a complement to its coffee, Coffee Republic also serves teas, fruit juices, a range of US style pastries and sandwiches. A range of freshly roasted coffees, packaged snacks, mugs, T-shirts and baseball caps is sold in each store  
During the fiscal year ended March 30, 2003, the company

was engaged in an estate rationalization program, wherein 35 bars out of 107 were disposed of to achieve a targeted 50 core continuing bars. Coffee Republic has 22 non - core bars remaining, 12 of which are under offer or have been exchanged. Subsequent to fiscal year-end, it developed two deli bars patterned after a United States-style deli format. The first trial, in Baker Street, London, opened in April 2003, and the second one opened in Exchange Square in the City of London in August under the Republic Deli brand name. The Company's Republic Deli offers a range of fresh-made and made-to-order sandwiches, including hot breakfasts and lunches, in addition to the Coffee Republic coffee for both eat-in or take-out.

### FRANCHISING

The Company began the process of building the franchising support infrastructure in March. The initial focus has been on franchising existing bars and in November 2005 The Company completed its first franchise. Since then The Company has completed another 3 franchises, bringing the total to 4 at the end of the calendar year.  
Starting in the New Year Coffee Republic Plc will look to open new franchised bars. Clearly with new sites there will be a longer lead time as both franchisees and new sites are selected. Nevertheless The Company anticipate taking the significant step of opening its first new site for 4 years in 2006.  
The estate has not changed since the year end and remains at 46 bars, split between those bars most suited to franchising and those to be retained as owned and operated bars. It is important to retain a central core of bars as owner operated bars to remain close to the operation of the business and to test new ideas. Coffee Republic will continue to closely monitor the portfolio and may re-allocate bars between the two categories but at present the Company anticipate retaining 10 to 15 bars and franchising a majority of the others. In the same vein,

if a bar does not fit with company's strategy The Company will look to dispose of it and currently have a few such bars on the market.  
The deli model is performing strongly and will continue to evolve. The number of bars converted into delis now stands at nine, four of which are franchises. The results demonstrate the continuing improvement in the underlying performance of the business. The encouraging progress of its franchising efforts to date, together with the strong pipeline and interest in franchising the Coffee Republic brand demonstrates that the next phase of its turnaround strategy is starting to gain momentum and deliver results.  
In 2006 The company signed its first International Master Franchise, Bulgaria. This marks a new phase in the revitalisation of the Coffee Republic brand. The Master Franchisee is Property Links International Ltd B.G. a related company of its Devon and Cornwall RDF.  
In March 2007 The company announced that agreement has been reached with Ada Kahve Gida Sanayi ve Ticaret Limited Sirketi for the Coffee Republic Deli franchise rights for Turkey.

### DIRECTORS

**Bobby Hashemi**  
Bobby (aged 41) co-founder of the Group joined as

Managing Director in October 1997. Bobby stepped down as Chief Executive in April 2001 returning as



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Executive Chairman in April 2002. Prior to establishing Coffee Republic, Bobby worked in mergers and acquisitions for Lehman Brothers, an investment bank in New York. In October 2006 Bobby Hashemi stands down as Executive Chairman.

### Nicholas Jeffrey

Nicholas (aged 63) continued as the Non-executive Director having been appointed in February 1998. He is also Chairman of the Audit and Remuneration Committees. Nicholas was Chief Executive and then Chairman of the furniture retail chain Cantors plc before its merger with Harveys Furnishings plc. After Harveys was sold to Homestyle Furnishing plc, Nicholas retired as a Non-executive Director. He is also a Non-executive Director of Mountain Warehouse Ltd and FMG plc. Nicholas contributes valuable knowledge of the retailing industry.

**Peter John Freeman Breach** (aged 64) is also currently a director of Hawksworth Securities Plc, Ringable Limited, Principality Holdings Limited, Delode Limited, Pathred Limited, Mauretania Estates Limited, Great Western Arena PLC, Stockmead Limited, Farthingford Properties Limited, Surthurst Limited, Nicolglan Limited and Redland High School for Girls (The). He has held the following directorships during the past five years: Armpep Plc, Thomas Silvey Limited, West Dock Estate Company Limited, J.H. Varasseur & Company Limited, Major Holdings and Development Limited and Viners Plc. As part of a rescue package, Mr Breach was

appointed a director of Viners Plc in 1981. It was later discovered that the audited accounts of a foreign subsidiary had previously been overstated and the company's creditors appointed a receiver in 1982. His shareholding in Coffee Republic is 11.67%.

**Steven George Bartlett** (aged 41) is also currently a director of Plymouth Land Limited, GBCO Management Limited, GBCO Trading Limited, Subway (Mutley Plain) Limited and Steve Bartlett Enterprises Limited, The Million Pound Share Club Limited and Sutton Land & Property Limited, Plymouth Breweries Limited and C.P. Moxon Limited. He has held the following directorships during the past five years: Mutley Plain Trading Co. Limited, 52B Mutley Plain Limited, 71 Mutley Plain Limited, 102 Tavistock Place Limited, Urban Housing Limited, Costcutters (Plymouth) Limited, Get Stuffed Limited, 69 Mutley Plain Limited and 5 Percy Terrace Management Company Limited. His shareholding in Coffee Republic is 13.65%.

### Simon Drysdale

Simon (aged 38) joined the Group as Finance Director in August 2003. He spent 12 years with Ernst & Young before joining NeuVoice Limited, a technology company, as Chief Financial Officer in May 2000. Simon is responsible for all aspects of finance in the group and leasehold property.

## DEVELOPMENT HIGHLIGHTS

Coffee Republic has achieved the following milestones in developing the business

### 1997

"Best Cappuccino" in London by *The Independent*

### 1999

\* Voted as one of the "top ten Coffee Bars in London" by the *Evening Standard*

\* One of six brands that represent "New Britain" in a market study published by *The Financial Times*.

## RSI - 14



## VOLATILITY





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## SHAREHOLDINGS

	Number	%
Plymouth Land Limited	70,000,000	13.65
Surthurst Limited	56,500,000	13.55
Peter John Freeman Breach		11.67
M & G Investment Management	23,600,000	5.52
Deutsche Bank	25,500,000	4.53
Goldman Sachs Securities (Nominees) Limited	17,750,000	4.15

	Number	%
Barclayshare Nominees Limited	17,136,399	4.01
TD Waterhouse Nominee (Europe) Limited	15,564,033	3.64
James Capel (Nominees) Limited	15,520,975	3.63

## FINANCIAL HISTORY

### Profit and loss account 6 months to 24<sup>th</sup> September 2006

£000	Six months to 24th Sept 2006	Year to 26th March 2006
Turnover	5,378	14,914
Cost of sales	(6,026)	(15,454)
Gross Loss	(648)	(540)
Administrative expenses	(250)	(510)
Operating loss	(898)	(1,050)
Loss on disposal of fixed assets	(281)	(157)
Loss on ordinary activities	(1,179)	(1,207)
Interest payable and similar charges	(104)	(269)
Interest receivable	14	30
Loss on ordinary activities before and after taxation	(1,269)	(1,446)
Loss per ordinary share Basic and diluted	(0.25)p	(0.33)p

### Balance Sheet as at 24<sup>th</sup> September 2006

£000	As at 24th Sept 2006	As at 26th March 2006
Intangible assets	121	133
Tangible assets	3,384	4,367
Fixed assets	3,505	4,500
Stocks	70	77
Debtors	732	1,225
Cash at bank and in hand	52	128
Current assets	854	1,430
Creditors: amounts falling due within one year	(2,513)	(2,943)
Net current liabilities	(1,659)	(1,513)
Total assets less current liabilities	1,846	2,987
Creditors: amounts falling due after more than one year	(2,408)	(2,140)
Provision for liabilities and charges	(157)	(308)
Net (Liabilities)/assets	(719)	539
Capital and Reserves	-	-
Called up share capital	513	513
Share premium	4,616	4,616
Share Option Reserve	25	-
Profit and loss account	(5,873)	(4,590)
Shareholders' (Deficit)/funds -	(719)	539

## STRATEGY

The strategy continues to be the roll out of the deli concept mainly through franchising. The Company has so far experienced strong market interest for

franchising the Coffee Republic brand, and are encouraged by the volume and quality of its pipeline of prospective franchisees.



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## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this

document. In particular: the value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered. The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

## CONTACT

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109-123 Clifton Street  
London,  
EC2A 4LD  
United Kingdom

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	20
Customers	29
Low cost	10
Management	9
- corporate governance	
- quality	
- shareholding	
Product	20
Sector	23
<b>Financial evaluation</b>	
Early and profitable exit potential	
Financial strength	
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	25
Risk	10
<b>Overall average rating</b>	<b>17</b>



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### FURTHER INFORMATION ABOUT THE RANKING

#### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's

value chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### Competition

How intense is the competition and are there barriers to entry?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

#### Sector

Is the company in an attractive sector that is profitable and adds value?

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