



To Koykan shareholders:

The last 1½ years have been quite an adventure. We've successfully closed €1.2M equity financing round, launched our first Koykan franchise-ready store in Croatia, secured locations for another three, opened our daughter company in Germany, and, just recently, signed first area development franchise contract for three stores in Prague.

An even bigger adventure awaits us in the next 18 months. We plan to grow our sales from a cumulative €1.8M over the past 1½ years to an estimated €6M in the upcoming 18 months. We are working to build at least 6 new corporate stores and to assist our franchise partners in opening 4-5 Koykan stores across the CEE region. Despite the challenging macro-economic conditions in Germany, we are committed to opening our first DACH store in Munich, breaking the ice for our West European expansion. We will finalize our franchise model and set up the necessary logistics to drive faster franchise sales, reducing our capital requirements and exponentially increasing the number of our stores across the European continent over the next five years. And last but not least, we will continue to leverage IT to standardize, automate, and digitalize our business, making it more competitive in the market.

We are working to build a restaurant chain that serves millions of customers, leaving them hungry for more. The European food market is rapidly transforming and embracing fast-casual restaurant chains. If we execute our business plan well, we will be part of this significant transformation happening across Europe and broader.

We know that the opportunities ahead are even greater than those behind us, but with them come increased risks and stakes. We've built a great product, and now we're focused on building a great company (which is much, much harder). It will take a lot of hard work and smart choices to build a team that will take our company to the next level. Some of the choices will be bold and brave, some will be painful and not expected, but we hope many of them will help us win the battles we are fighting. Certainly, we will face numerous mistakes as we move forward.

## *Reflecting on the Past 18 Months*

By obsessing over our menu and store concept, we have been able to create a truly outstanding product.

- Sales of our redesigned pilot store in Zagreb have grown by over 300% and have been steadily performing ever since we opened the store in November 2023.
- High customer traffic allowed us and our strategic equipment partner, Gastro Tim, to refine the final versions of both: our kitchen production line and customer-facing counter.
- Our significant brand uplift has secured a pipeline of prime locations that we have successfully signed in Croatia. Koykan is expanding not only in Zagreb with a refurbished location in the city center, scheduled for early September 2024, but also in the cities of Split and Zadar, where we have secured two prime locations for our company-owned stores and plan to open both by the end of the current year.
- There is still plenty of work to be done, but Koykan has officially become a franchise, and we have established most of the crucial elements needed to start growing our franchise network. These include the franchise agreement, fully developed franchise financials, territory and location mind maps, franchise partner selection process, site construction & CAPEX guide, and franchise store launch and opening processes.
- We invested significant effort into Koykan's first franchise setup and successfully secured our first area development contract with a franchise partner in the Czech Republic. Tom, welcome to the team, we are proud to have you as a partner! We are now focused on working with Tom to secure the first of the three planned locations for our very first franchise store.
- We have rolled out 8 of the 41 strategic IT projects and technologies designed to help us compete against larger and financially stronger competitors.
- Together with our marketing agency partner, Bruketa&Zinic&Grey, we successfully transitioned our brand positioning and developed a fresh, modern, and engaging visual identity for Koykan. This included brand positioning, company's mission & vision statements, our manifesto with 10 principles we embrace, visual identity, a brand book, a franchise sales concept, and visuals for food and menu communication.
- Our second brand, the business-cantine food concept Chill Cantina, has successfully opened its third store at Algebra, one of the largest private universities in CEE.
- As part of a consortium, we have applied for EU funding (total of €3.5M) for an Industry 4.0 project. If our application is accepted, we can expect a significant sum in grant funds to enhance our production line with IoT, Big Data, and AI capabilities.
- The Koykan brand is currently protected by trademark registrations and WIPO procedures in the following regions and countries: the EU, United Kingdom, USA, Canada, Bosnia and Herzegovina, Serbia, and Turkey. Some of these registrations have been finalized and approved, while others are still in progress.

To achieve current and future growth, we have invested money, time and energy in the expansion of our teams and infrastructure. Here are some highlights of operations:

- Our management and operations team has grown from 4 to 14 full-time members, bringing onboard expertise in finance, sales, project management, IT, HR, and marketing. Investing in a professional management team remains our priority and focus for the next period. While we plan to expand the team modestly (with only up to 3 new hires over the next 18 months), our main goal is to elevate the existing team to a fully operational level, ensuring a constant results-driven performance.
- We have hired and trained our store buildup and expansion team for the CEE region, empowering our operational capabilities for store openings across our five focus countries (Czechia, Slovakia, Hungary, Slovenia, and Croatia). This operational unit will also assist in establishing our first stores in Germany and Austria, completing our focus market of a total of seven countries.
- We successfully split our Culinary Centers in Zagreb, allowing our brands, Koykan and Chill Cantina, to operate independently in terms of food production. This move has facilitated our further expansion and provided additional capacity to meet upcoming sales demands.
- We fully redesigned our financial reporting, enabling us to follow business results based on single-unit economics. Our holding's finances were consolidated and streamlined, allowing us to better understand and track cash flow, food costs, operating expenses, and capital expenditures. This was likely one of the most demanding projects we finalized during the first half of 2024.

The competitive landscape in the European QSR sector is continuing to evolve, with many existing brands moving towards fast yet healthy food offerings. These brands are investing significant resources and energy to improve their brand images and boost sales. Currently, we are neither financially nor operationally strong enough to compete with such players on a broader scale. Therefore, we need to pick our battles wisely and focus on extending our position in seven key countries where we are extensively researching market and penetration possibilities.

Although we see substantial opportunities in the region we are targeting, this strategy is not without risks. We will require additional investments and well played management execution to navigate the currently unfavorable macroeconomic conditions and compete against larger, established food franchise leaders.

*Franchise, franchise, franchise...*

We believe that the long-term measure of our business success will be in franchising. Roughly a year ago, we decided not only to pursue the opening of our own corporate stores but also to build a system designed for franchising. This decision indeed slowed down the opening dynamics of our stores. However, it has positioned us on the franchising map, allowing us to compete for less risky and less capital-demanding opportunities. We have

built a franchising system that will provide long-term benefits from a business model that is capital-efficient and consistently generates positive cash flow.

Since we do not need to build many physical stores or extensively ramp up our operational teams, our franchise model allows us to focus on what truly matters in the long term: being fair, maintaining consistent quality, earning trust, and reliably meeting customer expectations. We recognize that with the franchise model come obligations, and we must obsess over two types of customers. On one hand, we have direct restaurant clients who perceive the Koykan brand as one entity. On the other hand, we have franchise partners who are, together with us, building our core business.

### *Our customers*

We are nowhere near our goal to earn trust and reliably meet our customers' expectations. This is our mission, and we intend to build the world's most trustworthy food QSR company. We know our customers want quality food at fair prices. They are smart and follow plain logic. Our customers choose Koykan for quickly served, fresh, high-quality, delicious, healthy, and affordable food in a welcoming setting with environment-friendly packaging. We constantly work on these basic elements of our business, and I come to work every day in fear that we are not fast or eager enough to execute on those. We are halfway there, and we owe our customers more.

Our customers come to our stores, entrusting their healthy eating habits to us and relying on our food and hygiene standards. They are our best brand ambassadors and the ones we owe our full dedication. Whether a customer receives poor service in one of our corporate stores or in one of our future franchise stores, we have great obligations towards them to improve and maintain our high standards of quality and service. We live daily by our 10 principles, our company vision and mission to ensure their trust and loyalty.

If the last 18 months were all about defining our relationship with our customers, the next 18 months will be all about implementing our vision, mission, and the 10 principles we embrace into the soul and body of our daily business life. Customers will be loyal to us as long as they receive the expected service and high-quality food. This is my main and most important personal obligation to fulfill as the CEO of the company.

### *Innovation*

We need to always strive for improvement, try new things, and be innovative in everything we do. Pioneering is becoming a core part of our company, and this adventurous spirit is crucial for our success. Our projects during the last period clearly demonstrate this dedication:

- Our Menu Video Wall and food presentation are a frequent topic of conversation, even among competitors like McDonald's local store management.

- We embarked on our franchise journey despite a lack of know-how in Europe, engaging in a David vs. Goliath battle against much stronger, primarily American multinational brands.
- Our top-notch, lego-like kitchen production and counter lines are becoming crucial expansion tools, both technologically and financially. These standardized kitchen and counter elements can be reused in any setup.
- Our investment in IT setups and our ongoing digital improvement journey is already paying off and will benefit us even more in the future (although we will need to continue investing heavily in this area).

### *Long term and focus*

During the last period, we have invested significantly in enhancing our brand appeal, developing our products, refining the technical concept of our production line, and establishing our infrastructure and franchise setup. We will continue to invest heavily in the franchise business and growth to capitalize on our modern and fresh business model. We believe that the true measure of our franchise business cannot be assessed in the short term; rather, it will become evident over several years. This success will be a direct result of our ability to penetrate multiple markets in the coming years and solidify our menu, technical, and franchise models.

The franchise business is a compound model that requires a balanced mix of corporate and franchise partner stores to drive our economic model. This balance translates directly into higher revenue and profitability, faster capital turnover, and, consequently, stronger returns on invested capital.

Due to our long-term focus, we will occasionally choose to swim against the mainstream and pursue strategies that our competitors might view differently. In that spirit, we would like to share with you, our shareholders, some of the long-term decisions and focused areas we will be working on in the coming period. We hope these align with your investment strategy and the value we aim to create over the long term.

We will continue to invest in and focus on our five pillars of development: profitability, standardization, automation, digitalization, and expansion.

- We will invest over €1M in several new corporate stores in the CEE region to ensure our core business achieves a secure and positive EBITDA and Cash Flow. With our DSCR (debt service coverage ratio) over 2, we are confident this investment will facilitate future rapid expansion and support further development investments.
- We will continue to make significant investments in the long-term potential of our franchise business, rather than focusing on short-term opportunistic profitability by over-expanding our corporate store network.
- We will continue to invest in and develop our financial hygiene and analytical tools for KPI measurement of our projects. This will enable us to distinguish what works

from what doesn't. We will expand fields with positive ROI while learning from our mistakes in less successful areas.

- As a rule, we will prioritize long-term financial health and value creation over short-term financial reporting aesthetics.
- Every six months, I will share information with you about our strategic decisions (within the limits of my current position) so that you can proactively evaluate our investments and the long-term path we are taking.
- We will strive to balance growth and profitability, while being mindful of debt versus equity financing. At this moment, we are prioritizing growth through debt financing. We believe that establishing a strong business foundation and achieving a positive cash flow will open doors for a future equity financing, further business expansion, scaling to the next level, and long-term profitability.
- In the upcoming period, we will establish an ESOP plan, recognizing that our current team and future key hires are integral to our success. Our company is increasingly able to attract and retain a professional and motivated management team, and the best partner is an owner of the company.

Some bold moves have already been made, and bigger investments will be executed in the next phase of our growth. While some may turn out to be mistakes, we hope that many will contribute to our growth and accelerate our expansion.

### *The road ahead*

We know that next 18 months of the development of our company is going to be the hardest so far. We are still in a very early stage of our development and we learn day by day how to build missing elements of our broader strategy. Balancing a big chunk of daily operational work with well placed strategic retreats is proving to be a successful results-delivery model.

Our mid-term goal remains to build a €100M company by leveraging franchise partners and deploying our own capital to establish a top-tier QSR chain in the EU and beyond. This will require continuous investment in logistics, operations, and franchise modeling to earn the trust of both our direct customers and our franchise partners. The challenge we will face in the next 18 months will not be in proving the viability of our single-unit economics but rather in prioritizing our investments and balancing development with financial stability.

In the areas of cash flow, investments, and financial hygiene, we plan to issue up to €2M in company bonds and other debt financial products. This will fund the construction of 6+ new corporate stores and accelerate our franchise sales. While this level of investment carries some risks, we believe it offers the best strategy for short-term controlled growth and provides the least risky long-term value to our shareholders.

Although we strongly believe that the overall QSR, and especially the fast-casual opportunity, is immense in the EU today, we have decided to spend the next 18 months



building a solid foundation and preparing our business for aggressive expansion in the years to come. One of our top priorities is to build a management team capable of delivering operational excellence and high efficiency in optimizing our existing CEE business. Domagoj, COO and co-founder of Koykan is certainly ready to lead this challenge.

We are certain our customers are smart and aware of their desires. We owe them fresh, high-quality, delicious, healthy, and affordable food. To ensure fairness, maintain our consistent quality, and reliably meet their expectations, we recognize the importance of our culinary center model in the midst of our expansion and quality control. Therefore, not only have we decided to invest further in production, logistics, and systems infrastructure, but we will also fully digitize our vendor, supply chain, stock, and inventory management systems, as well as our online ordering for franchise partners and company-owned stores.

German expansion has been and remains one of our primary focus areas. Despite a challenging economic environment in the country, we are committed to proceeding with our initial plans to expand into Western European markets. The search for our first flagship store location in Germany has intensified in recent months. Working closely with our partner and territory development agency StarDev, we face a significant task ahead of us.

### *Towards Tomorrow*

Koykan is now a larger and better-organized company than it was 18 months ago, but we remain fragile and recognize there is much more to learn. Over the next 18 months, we face several significant challenges as we lay the groundwork for future expansion: the necessity for a substantial debt financing round to support ongoing large-scale investments in our corporate owned stores; execution risks associated with a management team that still lacks a broader tenure; know-how gaps in our expertise in building the franchise model; and operational growth challenges both in our culinary center and in the German market. It is crucial that we maintain a sense of urgency in managing our cash flow and delivering results, as any financial misstep or delay in launching new stores could have a detrimental compound effect on our growth.

It's all about focusing on short-term execution while keeping our long-term vision of building a restaurant chain that serves millions of customers, leaving them hungry for more. We trust that Koykan remains the type of company you want to be invested in.

Boro  
Koykan CEO