CoreLife EATERY – DYNAMIC PRIVATELY HELD “UP AND COMER” - A SPECIAL COMPANY

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MANAGEMENT

Larry Wilson, Chairman and CEO, has a background in retail and restaurants, as a concept creator, franchisee, and franchisor. Several decades ago, Wilson co-founded Video King, building it into a regional chain of 36 locations. He became a franchisee of Moe’s Southwest Grill in 2005, where he was “Rookie Franchisee of the Year”, then “Franchisee of the Year” in 2014, growing to 21 Moe’s today. Mr. Wilson also owns and operates 11 Hoopla Frozen Yogurt stores in NY and PA.

Wilson and other “co-founder” Todd Mansfield conceived a healthy eating concept that could compete outside the major urban centers and bring clean and healthy food to more communities across the country.   In 2016 they were joined by Jeffery Coghlan (Chief Admin Officer) and Scott Davis (President and Chief Concept Officer).

Davis had been Chief Concept Officer for Panera Bread for twenty years from inception, overseeing all menu development, restaurant design and sustainability efforts. A case can be made that there was no single individual more responsible for the evolution and success of Panera than Davis. Mansfield has a 30-year long background in creative approaches to wellness, nutrition, physical therapy, and development of corporate culture that supports success in these areas, as well as community and philanthropic involvement. Mansfield has also been a franchisee of Moe’s and Hoopla. Administrative control has been led, since inception in early 2016, by Jeffrey Coghlan (Chief Administrative Officer),with 46 years of experience within the restaurant industry. Coghlan became a Wendy’s franchisee in 1969, is a Moe’s franchisee and a Harley Davidson dealer. His involvement in ministry, philanthropy and community involvement complements the similar dedication of Wilson, Davis and Mansfield. Mr. Coghlan has been supported, since inception, by Chief Financial Officer, Christopher Heiermann, who also serves as CFO for Southwest Grill of New York (Moe’s).

THE CONCEPT

CoreLife, based in Binghamton, NY, as envisioned by Wilson and Mansfield, and developed since by the team including Davis, is building a Lifestyle Brand from the inside out, considering that CoreLife Eatery embodies an intersection between “we are what we eat” and “find what works for you". As they further describe their objective: "Food determines how you feel, how you look, and most importantly, how you perform." While every food company would embrace these values, we've seen no other restaurant company that has created a menu of so many "good for you" items that also have eye and taste appeal. No doubt Scott Davis was instrumental in creating Panera's "clean food" emphasis but he has, in comparison, far outdone himself with CoreLife's approach. We haven't seen everything out there, of course, but compared to concepts like Dig In (recently renamed "Dig", now financed by Danny Meyer and no doubt doing very well), CoreLife takes a back seat to nobody. The ingredients, the suggested combinations, the photography, the service approach, and the overall price/value perception seem uniquely appealing to diners that are increasingly interested in taking care of themselves, especially if it can be done without sacrifice. This fast-casual concept provides assembly line style build-your-own bowls and plates. There are small bowls, popular for lunch, larger Greens & Grains Bowls, Broth Bowls, and entrée Plates. 60% of volume is at lunch, 40% dinner. 60% of sales is to women, 40% to men.

HISTORICAL GROWTH

2016 – Company units went from 0 – 8, there were no franchised locations opened.

2017 – Company units went from 8 -18, there were 5 franchised units opened, from 8 to 23 in total.

2018 – Company units went from 18 -27, franchised units from 5 – 22, 23 to 49 in total.

2019 – Currently around 57 locations in total. The largest states are: NY (17), OH (10), IL (5), IN (5), MI (5), PA (5) and UT (4). The company estimates that there will be approximately 63 locations at 12/31/19.

UNIT LEVEL ECONOMICS

The average store size started at nearly 4000 square feet but has been reduced to approximately 3000-3500 sq ft. The cost of developing a location ranges from $770,000 to $1,059,000, including working capital of $25-60k, pre-opening advertising, $28-30k, training, $15-25k, and franchise fee, $30-35k. Ongoing royalty is 5% plus up to 3.5% (currently at 2%) in the "brand fund" which covers marketing expenses. Multiple unit development franchise deals have a variety of modifications to single unit arrangements (not including the 5% royalty or advertising requirement). Considering the rapid growth of units as described above, no doubt combined with concept evolution and opening inefficiencies, we consider the cost controls as described below as fairly impressive. The Company makes no representations in this regard but we wouldn't be surprised if both CGS and Labor can be reduced at least modestly as a percentage of sales. We also consider it impressive that only 2% of sales has been spent on advertising at company stores so word of mouth has clearly been a source of sales strength. According to the Franchise Disclosure Document, the eight company stores that were opened for two full calendar years ending 12/31/2018 had average unit volumes of $1,699,927. Cost of Goods was 33.7% and labor cost was 26.5%. The eighteen company stores that were open for a full calendar year in 2018 averaged $1,480,701, had Cost of Goods of 33.5% and Labor expense of 27.6%. Comp sales are not quoted since so few locations have an 18 month history. In terms of return on investment for company stores, based on about 60% spent on prime costs, we estimate that at least 15% of sales is being generated as store level EBITDA. If we use the $1.7M as a "working" sales target, 15% EBITDA would be $255k or 27.9% on an average cash investment of $914k. Franchisees would obviously, after royalties, be generating less, but, considering how young this concept is, how much operating efficiency has yet to be gained, how much contribution has yet to be generated from delivery, mobile app, and loyalty program, CoreLife is off to a more than promising start. It is not surprising, therefore, that there is substantial interest from potential franchisees, who have joined those already started with further interest.

THE FUTURE

CoreLife has grown quickly from 2016 through 2018, and 2019 Is no exception. At the same time, management is experienced and well aware of the pitfalls of growth that is too rapid. They do not seem driven by the need to beat the competition to this market or that. The concept seems to us to be "leading edge" relative to their fast casual segment. It is "defensible", in that it is complex enough to be difficult to copy (as was Panera) yet (apparently) "simple" enough to be franchiseable and that seems to be validated by the initial franchise partners.

SUMMARY

We're happy to have met this management team at a recent industry conference, glad to have visited locations on Long Island, Indianapolis and Vestal (near Syracuse). Even my wife, who has been "force fed" at a very large number of emerging concepts over the years, really liked this one. We look forward to following the progress of this young but capably driven leading edge concept. We urge our readers to visit their website to get a fuller picture of the stores, the menu, and the appeal.

Roger Lipton