

Retail Food Group Limited

AGM 2010



Managing Director & CEO's Address

30 November 2010

[SLIDE 1 – Title]

[Slide 2 – Introduction]

Thank you Mr. Chairman.

Good afternoon ladies and gentlemen, it is a privilege to be addressing the 2010 Annual General Meeting, Retail Food Group's fifth since Listing in June 2006.

[Slide 3 – FY10 Results Tabulation]

As our Chairman has indicated, and similar to last financial year, FY10 has been commercially challenging with no respite from an uncertain retail environment amply evidenced by nervous consumers who continue to display both caution and conservatism.

Whereas the issues affecting consumers and retail in FY10 were discernibly different from those factors prevailing in FY09, they were no less challenging. For example in October 2009, the prospect of multiple consecutive interest rate rises would not have exercised the minds of many consumers.

Given the dislocation of consumer confidence and discretionary spending, it is trite to acknowledge that very few enterprises are totally insulated from the economic headwind of the past 30 months.

RFG has been similarly impacted by these challenging economic conditions, however FY10 represented the fifth consecutive year in which record outcomes were achieved by the Company and enjoyed by its shareholders.

[Slide 4 – FY10 Creating Strong Momentum]

Notwithstanding the prevailing adverse retail conditions "Creating Strong Momentum" was adopted as the Company's descriptor of the 2010 financial year as it represents RFG's operational and management philosophies in two important respects;

1. strategies that have supported growth over many years continue to be valid, relevant and capable of adaptation in the present environment, and
2. the absolute imperative to constantly reinvigorate, regenerate and develop novel strategies that nurture and protect our franchisee community and the Company's other assets.

The Company's unwavering commitment to investment in innovation and its execution upon enhanced strategy in challenging and erratic economic environments will ultimately manifest itself in superior outcomes when less volatility prevails.

Later in this presentation we will discuss certain of those initiatives commissioned (or to be commissioned) in FY11 that not only support our franchisees today but will be commercially beneficial well into the future.

[Slides 5 - FY10 Financial Performance]

The Company's exceptional performance and growth in all key performance metrics has been generated from a robust business model, resilient franchise systems and business drivers which have remained relevant during this period of sustained volatility.

FY10 EBIT (\$44.3 million from Core Operations) and Core NPAT of \$26.4 million, represented respective increases of 10.5% and 12.8% over FY09.

This growth was attributable to;

- a. ongoing liberation and realisation of acquisition synergies,
- b. increasing gross margin from 60.8% to 63.9% (wholesale and franchise revenue combined),
- c. contribution from the Brumby's Bakeries acquired master licence territories of WA, NT, North Queensland and New Zealand,
- d. synergies and additional revenues resulting from the Big Dad's Pies and DCM Coffee & Muffin acquisitions,
- e. increased coffee demand,
- f. improved leveraging of supplier relationship and licencing opportunities, and
- g. lower interest expense.

The performance of the Company was particularly satisfying given the significant additional resource investment in supporting our franchisee community via an increase in;

- h. service and support networks,
- i. operational staffing complement,
- j. training and educational programs,
- k. research & development activities, and
- l. menu innovation.

EPS of 25.3cents, represents an increase of 6.8% over the previous corresponding period. Significantly, EPS from Core Operations increased 200 basis points to 25.6cents or 8.5% over FY09.

The strong performance of the Company's business drivers were complemented by a 26.2% increase in net operating cashflow to \$29.2 million and supported;

- a final dividend of 6.5cps fully franked (up 37% on the pcg); and
- full year dividend of 11.25cps (up 27% on the pcg).

The Company's business model generates strong, consistent and recurrent cash flows, is allied with low capital expenditure necessary to maintain revenue streams, and thus not only provides the opportunity to increase the dividend payout ratio but as well to attend significant discretionary debt facility reductions and a continued enhancement of interest cover.

In this respect RFG achieved a net debt reduction of \$17.7 million to \$72.9 million at the close of the 2010 financial year.

As has been previously advised to the Market, the expiring CBA debt facility was refinanced with the NAB in August 2010 resulting in a new three year \$85 million facility on terms and conditions most satisfactory to the Company. The relationship with the NAB also extends to superior transactional banking metrics and franchisee banking initiatives.

[Slide 6 – FY10 Operational Highlights]

As indicated earlier in this Address, RFG devoted increased resources to the development and enhancement of those franchise systems under its stewardship by supporting positive individual franchisee outcomes via both traditional servicing platforms as well as counter cyclical initiatives including;

- substantially increased training & education,
- significant R&D investment, and
- engagement of additional training and task specific operational service staff.

Those additional resources assisted in the continued growth of our franchise systems throughout FY10 evidenced by;

- Network sales in Australia and New Zealand of \$640 million,
- Franchisee Weighted Average Weekly Sales (AWS) increase of 1.6%, supported by
- Franchisee Weighted Average Transaction Value (ATV) of 3.2%.

Given the majority of franchisees operate within shopping centres, the ATV increase fortified our franchisees against further decrease in shopping foot centre traffic.

Also supporting AWS throughout FY10 were system specific menu driven initiatives as well as the reinvigoration of the coffee offer in all franchise systems complemented by extensive marketing support and barista training certification.

FY10 Outlet growth of 97 was achieved through;

- Acquisition opportunity – 60 (comprising the DCM and BDP systems), and
- Organic Growth – 37 (including 19 Donut Kings, 10 Brumby's and 7 Michel's)

[Slide 7 – FY10 – Franchise System Population]

For the second year organic growth was challenged by stagnant lessor development activity and an absence of premium site opportunities.

Organic growth was however supported by franchise system modification which enabled proliferation of non traditional site opportunities as well as international outlet growth and licencing.

Net outlet growth of 58 increased total outlet population to 1,122 at the close of the 2010 financial year, comprising;

- Donut King: 358 outlets (including DCM),
- Michel's Patisserie: 337 outlets (over 200 having converted to the royalty model),
- Brumby's Bakeries: 367 outlets (including BDP), and
- bb's café: 60 outlets.

[Slide 8 – FY11 Strategy & Focus]

The Managing Director's Report contained within the 2010 Annual Report clearly articulates those strategies and initiatives which were employed in FY10 and those we will execute upon in the current financial year to drive positive outcomes for both RFG and its franchisee community.

RFG is well advanced in the development and execution of its FY11 initiatives.

During the 2009 AGM Meeting, we advised that the Company would embark upon FY10 in the knowledge that RFG had to date 'weathered the storm' – albeit remaining respectful of the fact that the "storm" had by no means passed.

Unfortunately this statement was prophetic and the sentiment conveyed is equally relevant given the FY11 YTD experience thus far encountered.

As stated earlier in this Address, there exists a considerable degree of uncertainty which continues to negatively impact on consumer mindset and ultimately retailing consistency and experiences.

The consequence of this economic malaise is that retail conditions for the next twelve months are anticipated to be no worse than experienced during the corresponding FY09 and FY10 periods.

That said, there is no compelling evidence or confidence that retail performance will tangibly improve in the short to medium term.

Obviously the interface between the Company's economic outcomes and consumer sentiment is via our franchisee community and during FY11 RFG will continue to invest significant resources in supporting our franchisees during this stressful period.

In this respect, while Company profitability and exceptional performance remains the Board's guiding principle, franchisee health and wellbeing must remain of critical import particularly in the present economic environment.

[Slide 9 – FY11 Growth Opportunities]

RFG shareholders and other stakeholders need no further reminders of the parlous retail environment as there exists copious commentary, informed and otherwise on the topic.

What we seek to reinforce to our shareholders today is that RFG is succinctly aware of the prevailing environment and continues to diligently and conservatively navigate its way through this transient phase and in so doing position the Company and its franchisees to excel when the environment is conducive to and indeed experiences less capricious retailing conditions.

Granted, retail consumers are very unnerved and whereas there does not exist contra evidence that would indicate an imminent change in this mindset, there are other factors which are suggestive of a positive momentum towards the latter part of FY11 and beyond.

So far as RFG is concerned, the single most significant event is a refreshing preparedness of lessors to recommence investment in new shopping centre development, refurbishments, extensions and generally reinvigorate tired retail assets, many of which have been neglected over a three year period or longer.

Other positive indications which auger well for RFG and its franchisees moving forward include:

- destination retailers no longer experiencing negative growth;
- shopping centre traffic decline has stabilized and in many instances is displaying positive growth (albeit small);
- rebounding movement in customer frequency and spend from GFC lows;
- franchisee inquiry rate increasing;
- new franchisee interest presently at the highest level this year;
- sale of existing outlets to new franchisees is increasing with respect to;
 - frequency, and
 - value
- increasing activity with respect to multi-owners migrating to second (and subsequent outlets) including via cross franchise system ownership;

- less reliance on ATV increase to sustain AWS growth;
- quality of international licensing inquiry increasing ;
- financial institutions funding and supporting franchisee business growth; and
- increased acquisition opportunity.

In any event, RFG maintains and continually enhances its arsenal of opportunities and initiatives to sustain and enhance stakeholder outcomes.

These have been enunciated in previous presentations as well as the 2010 Annual Report.

[Slide 10 – FY11 YTD Accomplishments]

(1) FY11 Initiatives

We have previously detailed in this Address the resolve of RFG to increase resources which support our franchisee community and drive positive outcomes.

The application of these increased resources culminate in programs which are designed to benefit franchisees (and by extension) RFG well into the future.

In the 1H11 YTD, RFG has executed upon a number of these initiatives, examples of which include;

- July 2010: Introduction of Regional Marketing to complement National campaigns and initiatives - tailoring marketing campaigns to suit local markets across all franchise systems. Marketing now consists of a two tier approach, national and regional marketing.
- August 2010: HeartKids launched across Australia and New Zealand. RFG's first six-brand alignment with the goal to raising \$1 million over a 12-month period.
- September 2010: launched Australian "first to market" sandwich concept range "le baguette", to expand lunch-time offering.
- September, 2010: pilot of digital loyalty cards to enhance customer service experience and increase visitation frequency – ultimately to be introduced to all RFG franchise systems.
- October 2010: launched "Barista's Choice" premium coffee blend into the foodservice market.
- November 2010: launched Michel's Patisserie Online (ordering) website.
- November 2010: launched first of premium cake range into Michel's.

[Slide 11 – FY11 Actions – In Progress]

In addition to those initiatives attended thus far, the Company has completed a number of further programs which will be commissioned in the 1H, including:

- December 2010: programmed commissioning of the first “full frozen dough model” under the Brumby’s Express Model - to proliferate non - traditional site opportunity and increase brand recognition.
- December 2010: programmed pilot of latest technology digital screens – providing real time access to change menu options to day-parts, particular outlet requirements including weather, shopping centre promotions, celebration events etc.
- December 2010: programmed Donut King pilot of an Australian “first to market” innovative lunch time extension (both savory and sweet).

[Slide 12 – FY11 Other Initiatives]

As a Franchisor and steward of multiple franchise systems, RFG will further the execution of a number of additional initiatives during FY11;

- a dedicated team within National Office has been charged with responsibility of managing every aspect of the conversion program with respect to Big Dad’s Pies, DCM Coffee and Muffins and other retail outlets desirous of converting to one of the company’s franchise systems;
- progress the conversion of DCM outlets to Donut King, which has been delayed due to non traditional site lessor related issues. Four sites are presently in the process of conversion and once completed a further four will be undertaken;
- complete the alignment of Big Dad’s Pies as a sub brand of Brumby’s Bakeries including menu adoption, revised livery and marketing plan. Similar to the Michel’s model conversion, the voluntary uptake will ramp up considerably once the results of the alignment are tangible;
- consistent with the BDP re-alignment, proliferate BDP outlets outside of SE Queensland;
- continuation of the outlet revitalization program which resulted in approximately 100 outlets undergoing refurbishment and or conversion in FY10;
- complete the new Training and R &D Facility which will;
 - be approximately four times the size of the present facility;
 - include a dedicated kitchen for each franchise system;
 - encompass a specialist coffee training facility; and
 - be complimented with a dedicated R&D area.

[Slide 13 – FY11 YTD Franchise System Metrics]

(2) Franchise Systems Metrics – AWS & ATV

Testimony to the effectiveness of those initiatives already presided over thus far in FY11 is the pleasing year to date results in which franchisees have enjoyed solid trade without margin erosion.

In terms of Franchise System metrics, October year to date results evidence increases in;

- (Franchisee reported) Network Sales - 3.05% (versus 1% pcp);
- weighted AWS – 3.47% (versus 2% pcp); and
- weighted ATV – 1.97% (versus 3% pcp).

Of note is the fact that for the first time in three years ATV increase has been less than the AWS increase which suggests;

- less reliance on ATV to sustain AWS growth, and
- shopping centre traffic decline being arrested.

The full year trend in respect of each of these metrics should become apparent after completion of the Christmas trading and school holiday period.

[Slide 14 – FY11 YTD Outlet Growth]

(3) Franchise Systems Metrics – Outlet Growth

As a consequence of the dearth in traditional shopping centre new site opportunity RFG modified its new outlet growth strategy to include the pursuit of non-traditional site opportunities and growth supplementation from acquisitive outlet conversion opportunities.

The Company's present FY11 organic outlet growth target remains at 40 outlets of which approximately 50% will be commissioned in 1H11.

The Company continues investigation and due diligence inquiry with respect to franchise system acquisition. Indeed acquisition opportunity brought about by vendor initiation has never been stronger.

Small acquisitions such as those undertaken in FY10 (DBP and DCM) are not only EPS accretive based upon their individual contribution to earnings, but more significantly provide greater scale opportunity so far as input supplier leverage is concerned.

Further, small system acquisitions facilitate the objective of increasing the commonality of products and suppliers across the totality of our franchise systems, and this process has a positive duality of outcomes;

- a. for RFG – to increase revenue and EBIT contribution from supplier relationships, and
- b. for our franchisee community – maintenance and or reduction of cost inputs to preserve margins.

To this last point, of particular relevance is that the four largest product/commodity inputs into our franchise systems - being green beans, flour, sugar and packaged beverages - offer further scalability as volumes increase. Each product input is extensively utilised in RFG's present suite of franchise systems as well as those currently being investigated.

The Board is hopeful of making a further announcement regarding acquisition activity in the near term.

[Slide 15 – 1H11 Guidance]

1H11 Guidance

RFG is confident that 1H11 NPAT from Core Operations will be in the range of 10% - 15% over that reported in 1H10 (being \$12.50 million).

Given the continuation of a volatile retailing environment and in particular how same may impact the Christmas and New Year trading period, it is imprudent to provide full year guidance at this juncture.

The Company will provide an insight into anticipated full year performance and franchisee metrics during the Company's 1H11 results presentation.

[Slide 16 – Closing & Thank You]

During FY10, RFG has once again demonstrated an ability to generate positive stakeholder outcomes while investing resources into initiatives which will benefit our shareholders and franchisee community well into the future.

The programmed commissioning of the Olympic Circuit National Office and Training Facility in 2H11, will herald a further opportunity to strengthen franchisee service relationships, enhance RFG personnel team morale and efficiency while providing ample size to accommodate acquisition opportunity.

In closing the writer would echo the comments of our Chairman in expressing thanks and appreciation to an outstanding franchisee community and exceptional RFG management and staff who have delivered admirable results in challenging conditions.

On behalf of the Board and management of RFG, your attendance here this day is acknowledged with thanks and appreciation.

AJ (Tony) Alford
Managing Director & CEO
Retail Food Group Limited



MANAGING DIRECTOR'S ADDRESS

Mr A J (Tony) Alford
Chief Executive Officer
and Managing Director

30 NOVEMBER 2010

Introduction



- FY10
 - Financial Summary
 - “Creating Strong Momentum”
 - Financial Highlights
 - Operational Highlights
- FY11
 - Strategy & Focus
 - Growth Opportunities
 - Accomplishments & Actions
 - Franchise System Metrics
 - 1H11 Guidance
- Closing & Thank You



FY10 Financial Summary

	Statutory Results						Core Operations ⁽¹⁾		
	FY06	FY07	FY08	FY09	FY10	PCP %	FY09	FY10	PCP %
Franchise Network Sales ⁽²⁾	\$143.1m	\$158.2m	\$592.0m	\$632.0m	\$640.6m	1.4%			
Total Revenue ⁽³⁾	\$20.5m	\$23.6m	\$114.1m	\$130.5m	\$118.6m	(9.1%)	\$130.5m	\$118.6m	(9.1%)
Adjusted Revenue ⁽⁴⁾				\$114.0m	\$118.6m	4.0%			
EBIT	\$9.8m	\$12.2m	\$34.4m	\$40.3m	\$43.8m	8.7%	\$40.1m	\$44.3m	10.5%
NPAT	\$5.9m	\$7.5m	\$17.6m	\$23.5m	\$26.0m	10.6%	\$23.4m	\$26.4m	12.8%
Basic EPS	8.6 cps	10.5 cps	19.9 cps	23.7 cps	25.3 cps	6.8%	23.6 cps	25.6 cps	8.5%
Dividend (paid and payable)	n/a	6.25 cps	8.5 cps	9.25 cps	11.75 cps	27.0%			
Franchised Outlets	332	360	1,052	1,063	1,122	5.6%			
New Outlets ⁽⁵⁾	27	37	742	59	97				

- (1) Results from 'Core Operations' excludes amounts recognised in the income statement relating to pre-tax impact of:
- derivative financial instruments (interest rate swaps) (FY10: \$0.5m loss; FY09: \$1.0m loss). Interest rate swaps were designated as hedges in July 2008 reducing ongoing volatility in the income statement; and
 - non-recurring gain on disposal of Central Manufacturing Facility (CMF) (FY10: \$nil; FY09: \$1.1m gain).
- (2) Derived from financial information including franchisee-reported turnover and not subject to audit.
- (3) Excludes revenue derived from marketing activities (FY10: \$15.4m; FY09: \$12.6m; FY08: \$10.3m; FY07: \$6.2m; FY06: \$6.4m).
- (4) Adjusted Revenue is presented for FY09 which normalises reported FY09 Total Revenue by excluding:
- sales revenue of \$3.1m derived by the CMF, prior to its disposal in January 2009; and
 - sales revenue of \$13.4m derived from the wholesale bakery supply to Michel's Patisserie outlets in FY09, which transitioned (during FY10) from the wholesale supply and distribution model to the traditional royalty based model.
- (5) During FY10, RFG acquired the DCM Coffee & Donuts (23 franchised outlets at control date) and Big Dad's Pies (37 franchised outlets at control date) franchise systems.

FY10 “Creating Strong Momentum “

- “Creating Strong Momentum”
 - represents RFG’s operational and management philosophies
 - strategies which have historically proven to support growth continue to be relevant in the present environment
 - imperative to constantly commission initiatives which nurture and protect franchisees and other assets



FY10 Financial Highlights



- Core NPAT: \$26.4m (↑ 12.8%)
- Core EPS: 25.6 cps (↑ 8.5%)
- Dividends: 11.75 cps (↑ 27.0%) increasing payout ratio to 53%
- Cash flow: \$29.2m (↑ 26.2%) equivalent to 98.2% conversion of EBITDA
- Net debt: \$72.9m (↓ 19.5%) after investing \$11.5m in franchise system acquisitions
- Refinance of \$85m senior debt facility completed in September 2010
 - 3 year term, step down pricing targets
 - structure allows for voluntary repayment of debt
 - superior merchant price offering and funding arrangements for new and existing RFG franchisees

FY10 Operational Highlights



- Franchised outlet network sales ↑ \$8.6m to \$640.0m
- Franchisee Weighted Average Weekly Sales (AWS) ↑ 1.6%,
- Franchisee Weighted Average Transaction Values (ATV) ↑ 3.2%
- FY10 total outlet growth of 97 (60 by acquisition, 37 by organic commissioning)
- Further expansion in China (10 outlets) and other international regions
- Acquisition of 4 Brumby's Bakeries master franchise territories and two further small franchise systems
- Coffee roasting operations enhancing quality with Michel's rated "Best Tasting Coffee Franchise" by Choice Magazine (July 2010)
- Successful conversion of over 200 Michel's franchisees to royalty-based model and rollout of QLD bakery-to-franchisee distribution

FY10 Franchise System Population

- Franchise System Outlet Population

Donut King (including DCM)	358	
Michel's Patisserie		337
Brumby's Bakeries (including BDP)	367	
bb's café		60
Total	1,122	

- Franchise System Geographic Distribution

Australia		1,067
New Zealand	45	
China	10	
Total	1,122	



FY11 Strategy & Focus

- Building on the successful strategies implemented in FY10



Franchisee	Franchisor	Corporate
1. Driving franchisee performance	1. Key supplier relationships	1. Continued debt reduction
2. Sustaining and enhancing AWS and ATV	2. Rationalization and development of national supply contracts	2. Increase dividend payout ratio
3. Enhancing product quality	3. Alternative outlet growth strategies	3. Pursuit of synergies from multi system ownership
4. Developing & refining menu offerings	4. Standardized Point of Sale (POS) technologies	4. Lower CODB
5. Enhancing unique value perception and memorable experience	5. Transition of Michel's franchisees to royalty model & Direct –to-Outlet supply	5. Developing additional revenue streams and decreasing reliance on any one revenue driver
6. Increasing information and tools (RIOT) training	6. Enhancement of Brumby's Go!, Brumby's Express and BDP concepts	6. Proliferating international licenses and outlets
7. Increasing Barista contact and training	7. Completion of legacy outlet rationalization program	7. EPS accretive acquisitions
8. Enhancing franchisee gross margins	8. Quadruple training facility size and obtain RTO certification	8. New national office
9. Maintaining / improving sales to rent ratios	9. Increase operational service personnel	

FY11 Growth Opportunities



- Introduction of new products and menu innovation
 - integration of DCM Coffee & Donuts into Donut King
 - Development of Big Dad's Pies within Brumby's Bakeries system
- New store organic growth, non-traditional site opportunities
- Regional frozen product distribution opportunities
- Michel's Patisserie model transition continues
- Development of RFG's additional proprietary coffee blend, Barista's Choice through wholesale channel
- Further development of international licensing opportunities
- Acquisition opportunity – investigation and where appropriate execution

FY11 YTD Accomplishments



- Regional marketing to complement National campaigns



- HeartKids launched



- First to market - "le baguette" menu offer



- Digital loyalty cards

- "Barista's Choice" premium coffee blend



- Michel's Patisserie Online (internet-based ordering)



- Michel's premium cake range

FY11 Actions – In Progress



- Commissioning of “full frozen dough model” - Brumby's Express
 - to proliferate non traditional sites
 - Increased brand and system recognition
- Real time changeable digital screens
- Donut King first to market lunch time extension (savoury and sweet)

FY11 Other Initiatives



- Dedicated team to manage outlet conversion opportunities
- Conversion of DCM to Donut King
- Alignment of Big Dad's Pies as a sub system of Brumby's Bakeries
- Finalise introduction of designated Brumby's Bakeries products into Big Dad's Pies
- Proliferation of Big Dad's Pies outside of SE Queensland
- Outlet reinvigoration & refurbishment
- Completion of new Franchisee Training and R &D Facility

FY11 YTD Franchise System Metrics



- October YTD Consolidated Australian outlet metrics:
 - Franchisee reported network sales ↑ 3.05%
 - Franchisee Weighted Average Weekly Sales (AWS) ↑ 3.47%,
 - Franchisee Weighted Average Transaction Values (ATVs) ↑ 1.97%
- Michel's Patisserie, Donut King and bb's Café all exhibiting solid AWS growth
- Brumby's Bakeries also reporting positive AWS metrics (highest average AWS of all systems)
- Full year metric trend influence by Christmas trading and school holiday period
- Continuing cautious outlook regarding shopping centre foot traffic flows

FY11 YTD Outlet Growth



- FY11 organic growth target of 40 outlets, c.20 in 1H11
 - shopping centre net outlet growth tempered by deficiency in development activity and premium site opportunity
 - non-traditional sites opportunities expanding
 - Opportunity for both internal cross-brand conversions and acquisitive conversions being aggressively pursued
- China and other international licensed territories expanding, with move to sub-franchising
- Further organic outlet growth likely to be supplemented via acquisitive activity
- RFG continues to investigate, evaluate and pursue franchising system opportunities that are value accretive and capable of providing additional scale, synergies and intellectual property expansion

1H11 Guidance



- 1 H11 Core NPAT guidance:
 - Growth of 10-15% on Core NPAT reported in 1H10 (\$12.5 million)
 - Christmas / New Year Trading remains critical to outlook
- FY11 full year outlook:
 - Update will follow release of 1H11 results
 - Together with further franchisee metrics
- Caution should be exercised in extrapolating 1H11 to estimate FY11 NPAT due to impact of Nov-Dec Christmas and school holiday trading period

Closing and Thank You



- Retail Food Group continues to demonstrate an exceptional underlying business model that delivers solid, consistent and sustainable revenue, earnings and returns to its shareholders and stakeholders
- Thank you for your continuing support of the Company