



# ASX/media release

17 February 2011

## RECORD INTERIM PROFIT & DIVIDEND

Leading Australian retail food brand manager and franchisor Retail Food Group Limited (ASX:RFG) today reported a 9% increase in its first half net profit after tax (NPAT) to \$13.6 million (1H10:\$12.5 million) and increased its interim dividend by 33% to 7.0 cents per share.

NPAT from Core Operations increased by 12.6% to \$14.1 million, consistent with guidance.

### Highlights

Summary Financial Information	1H11	1H10	% Change
Revenue <sup>(1)</sup>	\$60.3m	\$61.3m	(1.6%)
Adjusted Revenue <sup>(2)</sup>	\$38.6m	\$32.7m	18.0%
EBIT	\$22.2m	\$21.5m	3.3%
NPAT	\$13.6m	\$12.5m	8.9%
NPAT (Core Operations) <sup>(3)</sup>	\$14.1m	\$12.6m	12.6%
EPS (Basic)	12.8 cps	12.4 cps	3.2%
Dividend per Share (DPS)	7.00 cps	5.25 cps	33.3%

- Increased dividend payout ratio to 55.2%
- Gearing ratio reduction to 31.1% - lowest since 2007 debt funded acquisitions
- Record net cash flow conversion to EBITDA of 101.3%
- Gross margin expansion to 66.5% (pcp: 62.6%)
- 20 new outlets commissioned
- Rapid and successful integration of FY10 acquisitions<sup>(4)</sup>
- All franchise systems achieved positive Average Weekly Sales (AWS) and Average Transaction Value (ATV) growth
- Adjusted Revenue<sup>(2)</sup> growth accelerated due to greater than forecast conversion of Michel's Patisserie outlets to royalty model (234 completed)
- Completed acquisition of new National Headquarters
- Acquisition of Esquires Coffee Houses New Zealand master franchise business (46 outlets) together with associated New Zealand and Australian intellectual property rights

Increased revenues generated from franchising operations underpinned RFG's 5<sup>th</sup> consecutive record first half NPAT. That revenue was augmented by contributions from those franchise systems acquired in 2H10<sup>(4)</sup>, further transitioning of Michel's Patisserie outlets to the traditional franchise royalty model and increased Average Weekly Sales (AWS) across all networks.

Given the Company's continuing robust performance and exceptional net cash inflow, the Board today announced a fully franked interim dividend of 7 cents per share, to be paid on 6 April 2011 following a record date of 23 March 2011.

The dividend reflects a 33.3% increase over 1H10 and will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan.

RFG Chairman John Cowley said, "This result is particularly satisfying given difficult retailing conditions which continue to suppress franchisee network sales and organic franchise system expansion".

"RFG remains acutely focussed on those business drivers which generate maximum return at both corporate and franchisee level. We have a tried and tested platform for further growth and maximisation of shareholder value", he said.

RFG CEO Tony Alford added that, "total franchisee network sales of \$327 million were supported by marketing initiatives which fortified weighted Average Weekly Sales and Average Transaction Values of 2.3% and 2.4% respectively over 1H10".

"The underlying strength of the Company's franchise systems manifests itself in strong diverse revenue streams and each remains positioned to increase growth once retail returns to normality", he said.

New outlet growth of 20, whilst consistent with guidance was restrained by depressed shopping centre development, a tightening of franchisee applicants, and constricted bank lending.

"In 1H11, the optimisation of RFG's revenue drivers was challenged by depressed shopping centre foot traffic, subdued consumer spending, burdensome labour laws, and more recently the impact of significant environmental events", Mr Alford said.

RFG recently increased its outlet population growth by acquiring the Esquires Coffee Houses franchise system, contributing a further 46 franchised outlets under the RFG umbrella. Importantly the acquisition facilitates the realignment of bb's café with a strongly branded system likely to generate additional outlet and sales growth.

"Significantly, the Company refinanced its debt facilities with the National Australia Bank during 1H11. The new three year \$95 million facility incorporates considerable flexibility, simple covenants and a very low margin", Mr Alford said.

## **FY11 Guidance**

Given recent serious environmental events, the full impact of which cannot as yet be fully assessed, it remains difficult for the Company to accurately forecast full year guidance.

After taking into consideration the probable financial disruption of these devastating events and RFG's priority commitment to its franchisee community, present estimates indicate an increase in core FY11 NPAT over FY10 (being \$26.4 million) of between 5% - 10%.

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(1) Excludes revenue derived from marketing activities (1H11: \$7.1m; 1H10: \$8.1m);

(2) Adjusted Revenue excludes sales revenue derived from wholesale bakery supply to Michel's Patisserie outlets which is transitioning from a wholesale supply and distribution model (1H11: \$21.7m; 1H10: \$28.6m);

(3) Results from "core operations" excludes amounts recognised in the income statement relating to the pre-tax impact of (a) derivative financial instruments (interest rate swaps) (1H11: \$0.9m loss; 1H10: \$0.1m loss); and (b) derivative financial instruments (foreign exchange forward contract) (1H11: \$0.1m gain; 1H10: \$nil);

(4) The following businesses were acquired during 2H10: DCM Coffee & Donuts, Big Dad's Pies and the Brumby's Bakeries master franchise businesses for the territories of Western Australia, the Northern Territory, New Zealand and North Queensland.

## About Retail Food Group Limited

Retail Food Group is a leading Australian retail food brand manager and franchisor. It is the franchisor and intellectual property owner of the Donut King, Michel's Patisserie, Brumby's Bakeries, Esquires Coffee Houses and bb's café franchise systems.

As at 31 December 2010, there were a total of 4 franchise systems and 1,102 franchised outlets\* under RFG's stewardship comprising:

Franchise System	Total Outlets	Australia	New Zealand	China
Donut King	356	346	-	10
bb's cafe	58	37	21	-
Brumby's Bakeries (including Bid Dad's Pies)	354	337	17	-
Michel's Patisserie	334	330	4	-
<b>Total</b>	<b>1,102</b>	<b>1,050</b>	<b>42</b>	<b>10</b>

\* Net of acquisition of the 46 outlet Esquires Coffee Houses system which settled in 2H11

### ENDS

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