



ASX/media release

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RFG BOOSTS PROFIT & DIVIDEND FOR SIXTH SUCCESSIVE YEAR

FY11 Highlights

- Record core NPAT result (\$27.9 million) despite 193 outlets being directly affected by natural disasters
- 15.4% increase in final dividend (to 7.5cps) and increased dividend payout ratio to 57.4%
- Gearing ratio reduction to 30.8% - the lowest since 2007 debt funded acquisitions
- Net cashflow conversion to EBITDA of 97.3%
- Gross margin expansion increase to 71.3% (from 63.9%) - due to Michel's wholesale model transition and increased coffee roasting
- 40 new outlets commissioned
- Completion of Esquires Coffee Houses acquisition – 47 outlets
- Positive AWS and ATV growth in all franchise systems
- Adjusted revenue growth⁽²⁾ accelerated due to conversion to royalty model of 82% of Michel's outlets (263 outlets)
- Commissioning of new National Headquarters and state-of-the-art franchisee training facility

Leading Australian retail food brand manager and franchisor, Retail Food Group Limited (RFG or the Company) today announced a 5.7% increase in core NPAT to \$27.9m and an increased final dividend of 7.5cps or 15.4%. Statutory NPAT rose 4.6% to \$27.2m.

The Company's NPAT represents the sixth successive year that RFG has delivered shareholders record annual profit growth, reflecting a cumulative average growth rate (CAGR) of 35.75% for NPAT and 24.18% for EPS since Listing in June 2006.

RFG CEO Tony Alford said, "The Company's performance is testament to the effectiveness of its business model and franchise systems as is amply demonstrated by its ability to drive enduring results notwithstanding the severely challenged retail environment which has prevailed throughout FY11. Indeed, but for the natural disasters in Australia and New Zealand in the early part of 2011 which impacted 193 franchised outlets - representing 17% of outlet population - RFG's core NPAT would have been in the order of 13% to 15% over the previous corresponding period".

Summary Financial Information	FY11	FY10	Change
Adjusted Revenue ⁽¹⁾	\$77.8m	\$66.6m	16.8%
EBIT	\$45.1m	\$43.8m	3.0%
NPAT (Core Operations ⁽²⁾)	\$27.9m	\$26.4m	5.7%
NPAT	\$27.2m	\$26.0m	4.6%
EPS (Core Operations)	26.0 cps	25.6 cps	1.6%
EPS (Basic)	25.4 cps	25.3 cps	0.4%
Final Dividend per Share (DPS)	7.5 cps	6.5 cps	15.4%
Franchised Outlets	1,148	1,122	+26 outlets
Net Debt ⁽³⁾	\$70.5m	\$72.9m	(3.3%)

RFG's continuing robust cash position has facilitated an increase in the Company's dividend payout ratio to 57.4% with the Board having today announced a final fully franked dividend of 7.5cps which together with the FY11 interim dividend represents a 23.4% increase over FY10.

The dividend payment date will be 6 October 2011 following a record date of 13 September 2011. The dividend will not be an eligible dividend for the purposes of the Company's DRP.

RFG Chairman John Cowley said, "the Board is optimistic that the recent diminution of RFG's share price will be temporary given it is neither reflective of the value position of the Company nor the sustained positive results delivered by a unique business model".

"Given the combination of the existent share price and a record cash position, the Board considers it both appropriate and in the interests of shareholders that the DRP be suspended at this juncture", he said.

RFG's NPAT was underpinned by increasingly diversified revenue sources, and enhanced franchise system revenues, derived from both acquisitive and organic outlet growth.

Mr Alford said, "notwithstanding the natural disasters and not insignificant retail headwinds, combined franchise system network sales increased \$10.5m over FY10 to \$651.1m while forty new outlets have been established, thus validating the continued relevancy of our franchise systems to the consumer as well as the new franchisee candidate market".

When coupled with the recent acquisition of the 47 outlet Esquires Coffee Houses, total outlet population under RFG's stewardship at 30 June increased to 1,148 stores.

The integration of the Esquires New Zealand network has already achieved practical completion and the Company is well advanced in terms of tailoring the Esquires offer to the Australian market, with the first Queensland Esquires outlet to be commissioned by November.

Mr Alford also noted that “the programmed conversion of Michel’s Patisserie outlets from the wholesale distribution model to a royalty model was nearing completion with approximately 82% of outlets now having transitioned”.

“The Michel’s franchise system has this year exceeded expectations, championed by a passionate and innovative marketing team who have driven hot beverage sales, refocused customer service and revitalised the Michel’s online ordering system including the ‘soft’ introduction of the ‘Create a Cake’ program in May 2011”.

RFG has continued to build upon and enhance its proprietary coffee business by increasing green bean roasting in FY11 by 10% to circa 780 tonnes. This asset class has been fortified by the recently announced acquisition of the Evolution Coffee Roasters Group (“Evolution”) which is scheduled for settlement in early September and provides further vertical and horizontal integration opportunity.

“Evolution is a retail brand owner and operator of a state-of-the-art coffee roasting facility in Auckland which manufactures and distributes 170 tonnes of premium coffee annually throughout New Zealand, Asia and the Middle East”, Mr Alford said.

“RFG’s core NPAT growth guidance for FY12 remains conservative at circa 10% given the economic outlook which we envisage will prevail over the next 12 months”, he said.

About Retail Food Group Limited

Retail Food Group is a leading Australian retail food brand manager, franchisor and wholesale coffee roaster. It is the franchisor and intellectual property owner of the Donut King, Michel’s Patisserie, Brumby’s Bakeries, bb’s café and Esquires Coffee Houses franchise systems comprising 1,148 outlets.

Franchise System	Total Outlets	Australia	New Zealand	Other International
Donut King	365	348	1	16
Brumby’s Bakeries	349	332	16	1
Michel’s Patisserie	332	328	4	-
bb's cafe / Esquires Coffee Houses	102	36	66	-
Total	1,148	1,044	87	17

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For further information, interviews or images contact:

Amy Lange, Retail Food Group, 07 55 092 314

- (1) Excludes revenue derived from;
 - a. marketing activities (FY11: \$15.7m; FY10: \$15.4m; FY09: \$12.6m; FY08: \$10.3m; FY07: \$6.2m; FY06: \$6.4m), and
 - b. the wholesale bakery supply to Michel’s Patisserie outlets which is transitioning from a wholesale supply and distribution model to a traditional royalty based model (FY11: \$32.2m; FY10: \$52.0m).
- (2) Results from ‘Core Operations’ exclude amounts recognised in the income statement relating to the pre-tax impact of:
 - a. derivative financial instruments (interest rate swaps) (FY11: \$1.0m loss; FY10: \$0.5m loss); and
 - b. derivative financial instruments (foreign exchange forward contract) (FY11: \$0.1m gain; FY10: \$nil).
- (3) Net debt equals total debt less cash and cash equivalents.