

# Retail Food Group Limited AGM 2011

## Chairman's Address 25 November 2011

(SLIDE 1 – TITLE)



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### SLIDE 2 – INTRODUCTION

My appointment as Chairman of the Board in September this year gave pause for reflection not only on recent events and Company performance, but also on RFG and the journey it embarked upon a little over five short years ago.

As you are aware, the Company was admitted to the Official List of the ASX in June 2006.

A relative unknown outside of the retail food franchising industry at the time, RFG's Prospectus and oversubscribed initial public offer signaled the potential for growth which was to ultimately follow.

The passage of time, together with the tumultuous events which have occurred, and continue to occur, amongst world financial markets and within our communities, tend to obscure the very real achievements which this Company has attained and the varied challenges it has successfully confronted.

### SLIDE 3 – NATURAL DISASTERS

Amongst these events were the recent natural disasters that devastated parts of Australia and New Zealand earlier this year.

The following, I believe, gives some perspective and insight into their effect:

*"It was just so quick. The water had such force that it took everything with it. It was surreal. Everything is destroyed. We will have to start again from scratch".*

These words were uttered by a franchisee who had literally seen her store washed away before her eyes by a 'tsunami' of water that had rushed through Toowoomba two days previously.

She had only acquired the store a mere five weeks prior to that devastating event.

Whilst it would have been easy to give up in those circumstances, I am pleased to confirm that the same franchisee re-opened for trade earlier this month.

### SLIDE 4 – UNIQUE CHALLENGES:

As a resident of Sydney, I was not directly affected by the series of natural disasters which have defined 2011. It is therefore difficult to appreciate the devastation wrought on so many of our fellow Australians and their New Zealand cousins.

Whilst the flood waters may have receded and the cyclones passed, many of our franchisees and the communities they live and work in continue to suffer the passing effects of these calamitous events. This is no less the case in Christchurch where, for example, we have witnessed insurers still unwilling to commit to reinstatement works many months following the catastrophic earthquake that rocked the city.

Well over 100 outlets were directly affected by the natural disasters I have just alluded to. Many others were indirectly affected whether by way of stock shortages or staff absences.

When coupled with an increasingly volatile economic environment which has been more pronounced within the retail sector, 2011 will be remembered by RFG as a year bloated with unique challenges at many different levels.

#### **SLIDE 5 – SATISFYING RESULTS:**

As a company, RFG is immensely proud of the manner in which its staff, franchisee community and key suppliers have responded to those challenges.

Their efforts against this backdrop resulted in the delivery to shareholders of a sixth successive annual record net profit after tax of \$27.2 million which set the platform for a 23.4% increase in combined full year dividends paid.

This achievement should not be dismissed lightly.

To the contrary, this achievement evidences the commitment, passion and aspiration for success held by so many within the 'RFG community'.

#### **SLIDE 6 – BUILDING A SUCCESS STORY:**

As I mentioned previously, I've reflected upon RFG's journey since its admission to the Official List of the ASX in June 2006.

Market capitalization on quotation was \$71.5 million and total outlet population stood at roughly 332 stores amongst two franchise systems spread across Australia and New Zealand.

In five years, the Company has grown its businesses to incorporate over 1,100 outlets established across five countries with a further international master licence signed and set to facilitate additional growth in Indonesia. Six successful franchise system concepts now sit under RFG's wing.

During this period franchise network sales have increased by over 350 percent, growing from \$143 million during FY06 to \$651 million during FY11.

Shareholders have also been rewarded for their support of the Company and have witnessed an EPS cumulative annual growth rate of 24.3% over the past six years. Dividends have also risen from nil in FY06 to 14.5 cps fully franked for FY11.

## **SLIDE 7 – RFG’S UNIQUE BUSINESS MODEL:**

Retail Food Group Limited has truly delivered on the commitments made to the market on quotation.

It now stands tall amongst Australasia’s premier retail food franchisors and is one of a select few international franchisors who operate multi-franchise system models of such scale.

Franchising, and our franchisee community, is the bedrock upon which this success is built.

Whilst RFG has, and will continue, to establish company owned outlets when the case demands, franchising continues to represent the most appropriate model for the energetic and sustainable development of our existing outlet networks.

This is particularly the case during a volatile economic environment where, rather than being at the mercy of challenged retail conditions or having to respond to them by expense rationalization and restructure which have potential long term deleterious effect, RFG has been able to focus its resources on the provision of better margins for its franchisee community, robust rental negotiations, lower wage structures and increased management and training resources.

Furthermore, and unique amongst its present and past ASX listed peers, RFG owns the retail food brands upon which its business is founded. It is therefore not beholden to offshore licensors and is very much in control of its own destiny.

## **SLIDE 8 – THE OAKS BID:**

Before I close this afternoon, I would like to briefly discuss RFG’s takeover bid for Oaks Hotels & Resorts Limited which was both made and withdrawn in May this year.

At the outset, and even with the benefit of hindsight, RFG remains of the firm view that its intention to acquire Oaks was commercially prudent and the strategy sound.

As a Company, we do not opine to the view that RFG’s core competency is limited only to retail food franchising, but rather, is attuned to licensing system development, enhancement and management of which franchising is but one facet.

Notwithstanding the superficial ‘left of field’ appearance of the transaction, the Oaks business model fell comfortably within the parameters of RFG’s core competencies and significant opportunity for integration synergy was apparent.

When coupled with the financial metrics of the transaction (which included an EV/EBITDA multiple relative to RFG’s offer of circa 5x), recent Oaks performance and growth potential, the opportunity to bring to bear RFG’s expertise to further develop and de-risk the Oaks model and the scope for further diversification of RFG’s revenue and risk profile, the business case for the acquisition was compelling.

## **SLIDE 9 – LESSONS LEARNED:**

Whilst at first glance RFG's bid may have appeared clumsy, I can assure you it was not.

To the contrary, the transaction was the subject of widespread investigation and modelling. Extensive independent advice was also obtained not only in terms of the legal and financial aspects of the transaction, but also at a corporate level including likely market sentiment. That advice confirmed that the transaction would have broad support.

That said, it is appreciated that RFG's bid for Oaks and the uncertainty surrounding it was the subject of considerable adverse commentary, much of which was unfortunately uniformed and incorrect, and that market sentiment to the transaction, whilst supportive in many respects, was in reality proportionately more critical of the transaction.

The uncertainty I refer to was directly consequential upon the Company's inability to appropriately brief the market due to a range of factors not least of which included strict obligations of confidentiality, the competitive nature of the process and RFG's bargaining position.

Subsequent to making its bid for Oaks, RFG has sought to engage with the market in respect to the transaction. The constructive opinion, advices and counsel of our stakeholders continue to be encouraged, welcomed and heeded.

Ultimately, the outcome of that engagement, and the Oaks experience as a whole, can be summarized as follows:

- RFG will avoid transactions of like strategic, logistic and regulatory difficulty which prevent or severely restrict its ability to fully engage with relevant stakeholders and the market; and that
- market sentiment is such that RFG is viewed as a specialist company in the retail, food and franchising sector and that ventures beyond this skill set should be embarked upon only following appropriate stakeholder consultation.

## **SLIDE 10 – THE FUTURE:**

Throughout its brief history, RFG has achieved positive shareholder outcomes via the implementation of a measured approach to organic development and acquisitive activity.

Its recent performances demonstrate the strength of the Company's business model and its capacity to produce results even in the most challenging trading environments.

RFG's board, executive management and staff hold a passion for the business that is surpassed only by the Company's franchisee community.

I conclude simply by saying that RFG is very much positioned to replicate its past successes and to deliver shareholders ongoing and enhanced positive outcomes well into the future.

In terms of corporate oversight, I confirm that RFG will appoint an additional non-executive director to replace outgoing director Mr John Cowley and in order to preserve a majority of independent directors on the Board. We will keep the market updated regarding this matter.

In the meantime, I would like to take this opportunity to thank management and staff on the Company's exceptional FY11 performance and future prospects.

I would also like to thank our shareholder community for their continuing support and commitment to RFG's proven business model.

By no means least, I would also like to thank each of our franchisees for the dedication they have shown to both their businesses and the brands under which they operate. As I mentioned earlier, each of them are collectively the bedrock upon which RFG's success is based.

I would now like to ask Managing Director and CEO, Tony Alford, to speak to you in more detail concerning the Company's past performance and plans for the future.

**ENDS**

RETAILFOODGROUP  
**RFG**  
STRENGTH IN BRANDS



**CHAIRMAN'S ADDRESS**  
2011



## Introduction

- Listed in June 2006
- RFG was then a relative unknown outside of the retail food franchising industry
- Time, together with recent tumultuous events, tends to obscure achievements and challenges successfully confronted



## Natural Disasters



“It was just so quick. The water had such force that it took everything with it. It was surreal. Everything is destroyed. We will have to start again from scratch”



## Unique Challenges

- Whilst flood waters may have receded, many of our franchisees and the communities they live and work in continue to suffer passing affects
- Well over 100 outlets were directly affected by natural disasters. Many more were indirectly affected
- 2011 was truly a year bloated with unique and diverse challenges

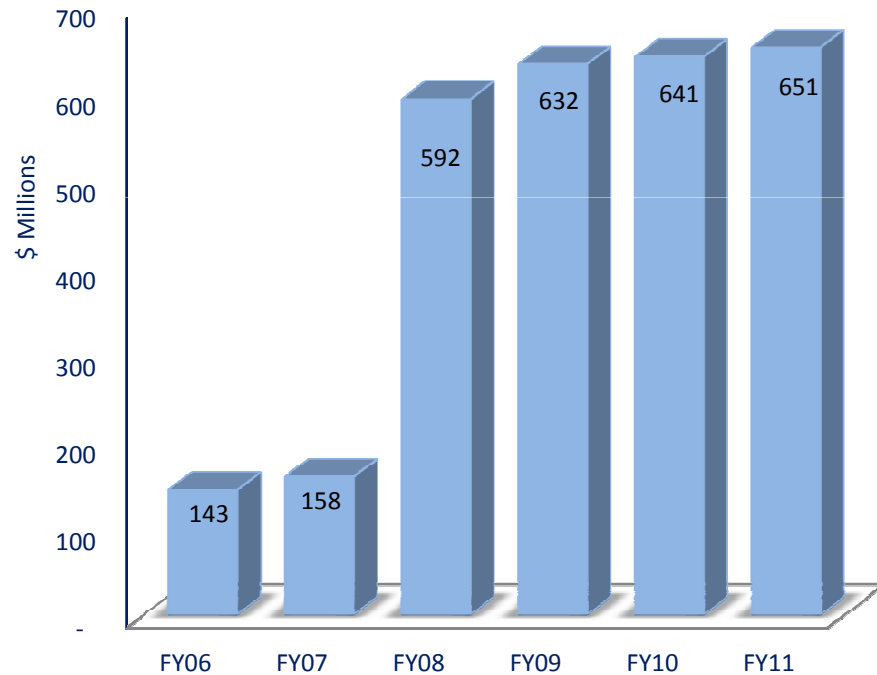


## Satisfying Results

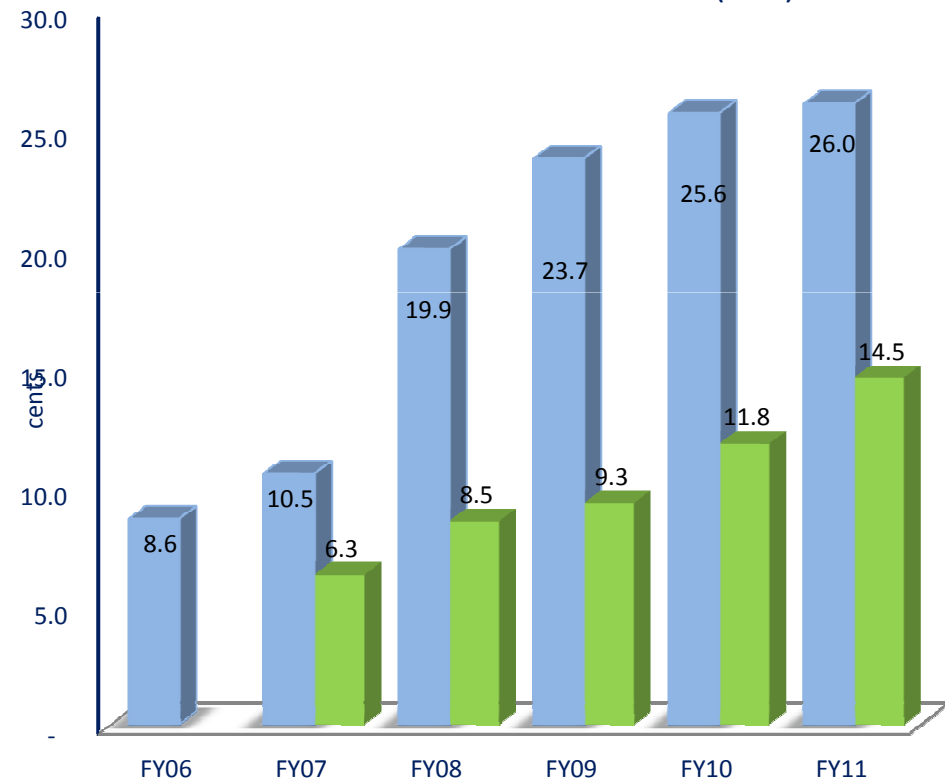
- RFG proud of its response to 2011 challenges
- 6<sup>th</sup> successive record NPAT result of \$27.2m; which
- set the platform for a 23.4% increase in combined full year dividends paid

# Building A Success Story

Network Sales



Basic EPS & Dividends Per Share (DPS)





## RFG's Unique Business Model

- RFG now amongst Australasia's premier retail food franchisors and is one of a select few who operate multi-franchise system models of such scale
- Franchising continues to represent the most appropriate model for energetic & sustainable network growth
- RFG owns its intellectual property and controls its own destiny



## The Oaks Bid

- RFG remains of the view that its intention to acquire Oaks was commercially prudent and strategically sound
- RFG core competency not limited to food franchising
- Business case for acquisition was compelling (including EV/EBITDA multiple relative to RFG's offer of circa 5x)

## Lessons Learned

- Uncertainty surrounding the Oaks bid was directly consequential upon an inability to appropriately brief the market
- RFG has sought to engage with the market and seek opinion, advice & counsel from key stakeholders
- RFG will avoid transactions of like strategic, logistic and regulatory difficulty which prevent or severely restrict engagement with relevant stakeholders/the market
- RFG viewed as a retail, food & franchising specialist and ventures beyond this skill set should be embarked upon only following stakeholder consultation



## The Future

- RFG has achieved positive shareholder outcomes via implementation of a measured approach to organic development & acquisitive activity
- Recent performance demonstrates strength of RFG's business model
- RFG's board, management, staff & franchisees have a passion for the business & its franchise systems
- RFG is very much positioned to replicate past success and deliver ongoing & enhanced positive outcomes