



ASX/media release

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RFG INCREASES PROFIT & DIVIDEND

1H12 Highlights

- 6.7% increase in 1H12 NPAT to \$14.5m (1H11: \$13.6m)
- 21.4% increase in interim dividend (to 8.5 cps)
- Increased dividend payout ratio to 63% (1H11: 55%)
- Gearing ratio reduction to 29.5% - lowest since 2007 debt funded acquisitions
- Continuing strong net cash flow conversion to EBITDA of circa 94%
- Gross margin expansion to 83.9% (pcp: 66.4%)
- 20 new outlets commissioned consistent with guidance
- Rapid and successful integration of NZ based Evolution Coffee Roasters Group (acquired Sep 2011)
- Positive weighted AWS and ATV growth in all franchise systems

Leading Australian retail food brand manager and franchisor, Retail Food Group Limited (RFG or the Company), today reported a 6.7% increase in first half Net Profit After Tax (NPAT) to \$14.5m (1H11: \$13.6m).

Core EBIT increased 7.9% to \$24.7m (1H11: \$22.9m) which translated to a 6.0% increase in Core NPAT to \$15.0m (1H11: \$14.1m).

RFG Chairman Bruce Hancox said, “the Company’s astute management of a robust and unique business model continues to leverage tangible results for all stakeholders.”

“Given the lingering effects of last year’s natural disasters and the structural challenges which are now readily apparent within the traditional retail marketplace, RFG’s results are all the more pleasing”, he said.

Summary Financial Information	1H12	1H11	% Change
Network Sales ⁽¹⁾	\$344.2m	\$326.7m	5.4%
Revenue ⁽²⁾	\$49.5m	\$60.3m	(17.9%)
EBIT	\$24.0m	\$22.2m	8.1%
NPAT	\$14.5m	\$13.6m	6.7%
NPAT (Core Operations) ⁽³⁾	\$15.0m	\$14.1m	6.0%
EPS (Basic)	13.4 cps	12.8 cps	5.3%
Dividend per Share (DPS)	8.50 cps	7.00 cps	21.4%
Total Outlets	1,136	1,102	3.1%

(1) Network Sales are franchisee-reported sales and coffee sales. Franchisee-reported sales are not subject to audit;

(2) Excludes revenue derived from marketing activities (1H12: \$6.8m; 1H11: \$7.1m);

(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) (1H12: \$0.1m loss; 1H11: \$0.9m loss); (b) derivative financial instruments (foreign exchange forward contract) (1H12: \$nil; 1H11: \$0.1m gain); and (c) corporate restructuring costs attributable to office closures and employee redundancy payments (1H12: \$0.5m; 1H11:\$nil)

RFG has maintained a strong cash position and exceptional net cash inflows which has facilitated the Board approving an interim dividend of 8.5 cents per share, an increase of 1.5 cents per share over pcp (or 21.4%).

Mr Hancox noted that, "as was indicated in RFG's May 2006 Prospectus, subject to prevailing business performance and financial conditions, RFG's policy is to distribute between 50% and 70% of reported NPAT in the form of dividends".

"Consistent with that policy and the continued growth of the Company, shareholders are now enjoying an increase in the Company's dividend payout ratio to in excess of 63%", he said.

The interim dividend is fully franked and will be paid on 4 April 2012 following a record date of 21 March 2012.

RFG CEO Tony Alford said, "RFG's 1H12 performance was commendable given the continuation of difficult retailing conditions and in this respect there is no confidence of immediate respite".

"During FY11 and 1H12 the Company has been motivated to focus on those business drivers at outlet level within our control so as to assist franchisee performance and maximise franchisee return, and this thematic will prevail in 2H12".

"This focus, supported by the execution of strong marketing programs and product innovation, has resulted in a continued positive trend in Franchisee weighted average weekly sales (AWS) and average transaction value (ATV) of 2.3% and 2.4% respectively", he said.

"An excellent example of such innovation was the November release of the Brumby's Bakeries 'Pure Bake', or no numbers/no additives bread range which has supported AWS and generated significant interest in the brand across various media".

Consistent with RFG's strategy to transition Michel's Patisserie from a wholesale distribution model to a traditional royalty model, total revenue for the Company reduced by 17.9% (compared to pcp).

"Approximately 85% of Michel's Patisserie franchisees have now completed the transition which, when coupled with the implementation of the third party bakery distribution model, has increased RFG's gross margin from 66% to 84%", Mr Alford said.

Twenty new outlets were commissioned during 1H12.

Whilst this growth was consistent with the Company's guidance, organic growth continued to be hindered by stagnant lessor development activity, an absence of premium site opportunities and continuing negative sentiment towards retail and property values which impacts prospective franchisees' ability to secure necessary finance.

Whereas the preponderance of many in the Lessor community is to continue to price rentals either inconsistent with outlet performance metrics or converse to their own shopping centre's performance, RFG is embarking on a number of initiatives which will ultimately reduce organic growth reliance on enclosed shopping centre tenancies.

Mr Alford said, "of particular note, the Esquires Coffee Houses (Esquires) system was introduced to the Australian market in November 2011 following conversion of an existing bb's cafe franchised outlet. RFG is currently in the process of commissioning an Esquires flagship outlet in Mosman, Sydney which will commence trade in 2H12 and provide further momentum for the brand within Australia. This outlet will be the forerunner to the commissioning of up to five Esquires drive through format outlets in the next 12 months".

Insofar as the Company's coffee operations were concerned, the September 2011 acquisition of Evolution Coffee Roasters Group had been seamlessly integrated and facilitated immediate access to a range of exciting new coffee products, a New Zealand based state-of-the-art coffee roasting facility and a customer base ranging from cafes to supermarkets.

Mr Alford said, "the acquisition of Evolution has significantly expanded the Group's coffee operations with RFG now roasting in excess of one million tonnes annually of proprietary coffee and associated products from its Australian and New Zealand coffee manufacturing plants. When coupled with organic growth within RFG's Australian coffee operations, Evolution has contributed to a 27% increase in coffee revenues over the previous corresponding period".

"The acquisition has also enabled the relocation of the Company's New Zealand National Office to the Evolution premises thus driving further efficiencies at a corporate level", he said.

RFG's strong cash flow and balance sheet provides ongoing opportunity to support organic outlet growth including via acquisition activity.

The Company has over the past 12 months been presented with a greater number of retail food franchise acquisition proposals than in any previous period.

In evaluating acquisition opportunity, Mr Alford said, "RFG will refrain from pursuing acquisitions where the transaction metrics do not accord with RFG's requirements that the target contribute positively to EPS, or in the alternative, demonstrate sufficient potential for tangible growth capable of providing long term sustainable value for shareholders".

In this respect, RFG has this day announced its entry into a conditional Share Sale & Purchase Agreement to acquire the 110 outlet strong Pizza Capers Gourmet Kitchen franchise system (Pizza Capers).

The Pizza Capers system is illustrative of RFG's focus to acquire complementary brands that generate both immediate and long term value for shareholders with the transaction:

- being immediately EPS accretive; and the target
- embodied with strong branding and an innovative product offering;
- demonstrating scope for sustainable organic outlet growth;
- directed by a competent management team; and
- capable of seamless integration amongst RFG's existing corporate and franchise system servicing structure.

FY12 Guidance:

As indicated during the Company's 2011 Annual General Meeting, retail conditions continue to be severely challenged and have weakened further since RFG first gave FY12 guidance in August 2011.

Forecasting future performance in such a climate remains problematic.

Whereas the said deterioration does impact RFG performance, the Company presently remains comfortable with previous guidance of circa 10% core NPAT growth over FY11.

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 and roasts over one million tonnes annually of proprietary coffee products via the Evolution Coffee Roasters Group, Caffee Coffee and Barista's Choice coffee brands.

As at 31 December 2011, there were a total of 1,136 franchised outlets under RFG stewardship comprising:

Franchise System	Total Outlets	Australia	New Zealand	Other International
Donut King	362	343	2	17
bb's cafe	50	34	16	-
Brumby's Bakeries (including Big Dad's Pies)	343	327	15	1
Michel's Patisserie	331	327	3	1
Esquires Coffee Houses	50	1	49	-
Total	1,136	1,032	85	19

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