

RETAILFOODGROUP^{LIMITED}

STRENGTH IN BRANDS



HALF YEAR RESULTS PRESENTATION - 1H12

About Retail Food Group Limited (ASX: RFG)



- ✓ RFG designs, develops and manages retail franchise systems and is the intellectual property owner and licensor of the following franchise systems:

- Donut King
- Michel's Patisserie
- Brumby's Bakery ⁽¹⁾
- bb's café and Esquires Coffee Houses



- ✓ RFG is also the roaster of proprietary coffee products in excess of 1,000 tonnes annually

- ✓ Agreement to acquire Pizza Capers Gourmet Kitchen announced 27 February 2012



- ✓ Franchise Outlets: 1,136 operating throughout 5 countries

- ✓ Market capitalisation: \$298m ⁽²⁾



- ✓ Enterprise value: \$377m ⁽²⁾

(1) Includes Brumby's GO! and Big Dad's Pies

(2) As at 29 February 2012

1H12 Results Summary



	Statutory Results			
	1H10	1H11	1H12	PCP %
Franchise Network Sales ⁽²⁾	\$321.2m	\$326.7m	\$344.2m	5.4%
Total Revenue ⁽³⁾	\$61.3m	\$60.3m	\$49.5m	(17.9%)
EBITDA	\$22.0m	\$22.6m	\$24.4m	8.0%
EBIT	\$21.5m	\$22.2m	\$24.0m	8.1%
NPAT	\$12.5m	\$13.6m	\$14.5m	6.7%
Basic EPS	12.4 cps	12.8 cps	\$13.4 cps	5.3%
Interim Dividend	5.25 cps	7.0 cps	8.5 cps	21.4%
Dividend Payout Ratio	55.1%	55.0%	63.0%	10.5%
Net Debt	\$77.1m	\$67.7m	\$69.2m	
Gearing Ratio	38.9%	31.1%	29.5%	
Interest Cover	5.86x	7.01x	7.03x	
Franchised Outlets	1,055	1,102	1,136	
New Outlets Commissioned	20	20	20	

Core Operations ⁽¹⁾		
1H11	1H12	PCP %
\$23.3m	\$25.1m	7.5%
\$22.9m	\$24.7m	7.9%
\$14.1m	\$15.0m	6.0%
13.2 cps	13.8 cps	4.6%

1.Results from 'Core Operations' exclude amounts recognised in the income statement relating to the pre-tax impact of:

- derivative financial instruments (interest rate swaps) (1H12: \$0.1m loss;1H11: \$0.9m loss); and,

- derivative financial instruments (foreign exchange forward contract) (1H12: \$nil; 1H11: \$0.1m gain)

- Corporate restructuring costs (1H12: \$0.5m; 1H11: \$nil)

2.Derived from financial information including franchisee-reported turnover and not subject to audit.

3.Excludes revenue derived from marketing activities (1H12: \$6.8m; 1H11: \$7.1m; 1H10: \$8.1m)

1H12 Highlights



- ✓ EBIT up 8.1% to \$24 million assisted by:
 - 6 months contribution from Esquires Coffee Houses,
 - modest positive AWS growth across all systems, and
 - 4 months contribution of the NZ based Evolution Coffee Roasters Group



- ✓ Business model withstanding retail challenges:
 - reported NPAT up 6.7% to \$14.5m, and
 - core NPAT up 6.0% to \$15.0m



- ✓ Gross Margin up from 66% to 84% reflects:
 - 85% completion of transition of Michel's franchisees from wholesale to traditional royalty model,
 - successful rollout of the bakery distribution model in NSW, Qld & Vic, and
 - 27% increase in higher margin wholesale coffee product revenues versus 1H11



- ✓ Franchise Revenue up 13.6% to \$38.3 million reflects:
 - implementation of 7% royalty on gross sales of transitioned Michel's franchisees; and
 - offsets programmed reduction in Michel's wholesale revenue



1H12 Highlights



- ✓ Strong balance sheet maintained:
 - cash to EBITDA conversion rate c.95%
 - strong cashflows supporting an increase in dividend of 21.4% to 8.5cps and an increase in the dividend payout ratio to 63%
 - debt reduced from \$85.6 million to \$79.6 million, facility headroom now > \$25m
 - acquisition cost of Evolution Coffee Roasters Group (\$3.2m) and training academy completed from cash reserves
- ✓ Earnings per share (EPS) for the half-year increase > 5% to 13.4 cents
- ✓ Operational indicators:
 - 20 new outlets commissioned in 1H12 per guidance
 - modest increases in weighted KPIs:
 - AWS (+1.7%)
 - ATV (+1.8%)
- ✓ Customer count increases in bb's café / Esquires Coffee Houses, Michel's and Brumby's
- ✓ Evolution Coffee Roasting Group fully integrated and increased:
 - coffee and allied product revenues
 - roasting capacity

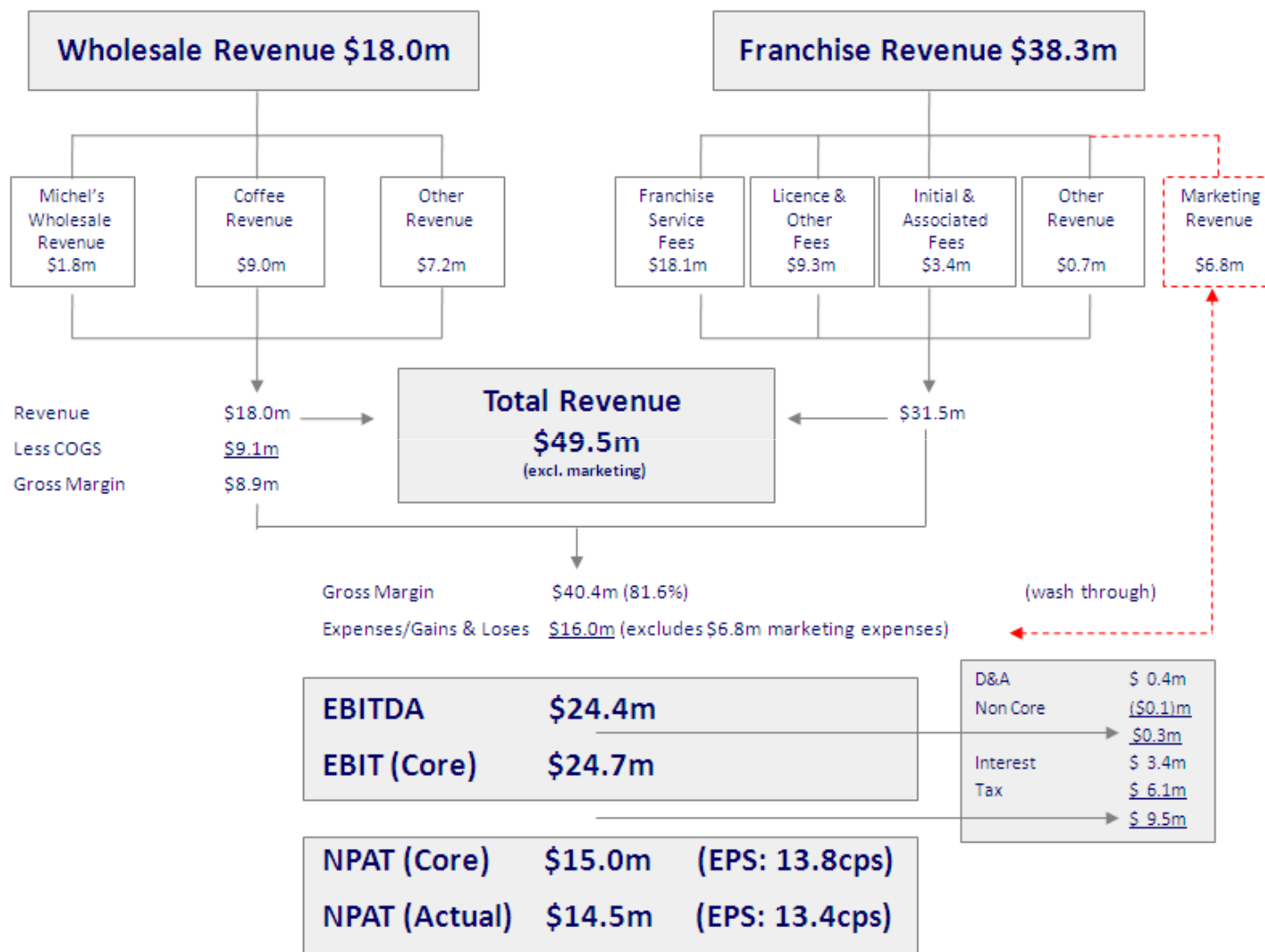
1H12 Financial Summary



	1H12 \$'m	1H11 \$'m
Revenue from franchising operations	38.4	33.7
Revenue from wholesale / retail operations	18.0	33.7
	56.4	67.4
Cost of sales	(9.1)	(22.6)
Gross margin	47.3	44.8
Gross margin %	83.9%	66.5%
Overhead expenses	(12.0)	(11.2)
Company store expenses	(3.9)	(3.2)
Marketing expenses	(6.8)	(7.1)
Other gains and losses	(0.2)	(0.7)
EBITDA	24.4	22.6
Depreciation	(0.4)	(0.4)
EBIT	24.0	22.2
Interest expense	(3.4)	(3.2)
EBT	20.6	19.0
Income tax expense	(6.1)	(5.4)
NPAT	14.5	13.6
Earnings per share	13.4 cps	12.8 cps
Dividends per share	8.5cps	7.0 cps

- ✓ Programmed reduction in wholesale revenue of \$15.7m reflects transition of Michel's franchisees to traditional royalty model
- ✓ Coffee revenues up 27% to \$9.0m
- ✓ Franchise, licensing & other fees up 17.5% to \$30.8m
- ✓ Record core EBIT of \$24.7m, an increase of 7.9% on pcg
- ✓ Record \$14.5m NPAT (6.7% increase on pcg)
- ✓ Record core NPAT of \$15.0m (6.0% increase on pcg) after adjusting for impacts of derivative financial instruments and restructuring costs
- ✓ Gross margin expansion to 83.9% reflects benefits of Michel's system conversion and related third party distribution program, as well as increasing contribution from coffee operations

1H12 Multiple Revenue Streams



1H12 Cashflow Performance



	1H12 \$'m	1H11 \$'m
Receipts from customers	59.8	74.8
Payments to suppliers and employees	(36.7)	(51.9)
Gross operating cash flows	23.1	22.9
EBITDA	24.4	22.6
Ratio of gross operating cash flows to EBITDA	94.7%	101.3%
Interest and other costs of finance paid	(3.4)	(2.7)
Income tax paid	(6.5)	(6.9)
Net operating cash inflows	13.1	13.3
Dividends paid	(8.1)	(5.6)
Debt reduction (net)	(6.0)	(9.0)
Acquisitions of business and intangibles	(3.2)	-
Acquisition of property & equipment	(0.2)	(3.0)
Net capital raising	(0.5)	0.8
Other cash activities	0.2	-
	(17.8)	(16.8)
Net (decrease) / increase in cash reserves	(4.7)	(3.5)
Cash reserves at half year end	10.5	9.6

- ✓ Exceptional cash inflows notwithstanding challenged retail environment
- ✓ Circa 95% (1H11: 101%) conversion of operating cash flow into EBITDA reflects:
 - longer payment arrangements inherited with NZ based Evolution Coffee Roasting Group customers, and
 - impact of bakery distribution program where RFG removed from transacting directly with franchisees
- ✓ Excess free cash used to fund:
 - voluntary debt reduction of \$6.0m
 - acquisition of Evolution Coffee Roasters Group
 - completion of fit out works at RFG's new national office, training, research and development facility
 - increased dividend

1H12 Financial Position



Assets:

	1H12 \$'000	FY11 \$'000
Cash reserves	10.5	15.2
Trade receivables	13.5	12.3
Financial assets	3.9	3.1
Inventories	2.5	2.4
Plant & equipment	7.9	7.9
Intangibles	218.3	215.7
Other	1.5	1.2
	258.1	257.8

Liabilities:

Trade payables	5.5	6.2
Provisions	1.8	2.0
Tax payable	4.2	4.6
Borrowings	79.6	85.6
Other (includes interest rate swaps)	3.2	2.5
	94.3	100.9

Equity:

Share capital	99.4	98.8
Reserves	(0.9)	(0.8)
Retained earnings	65.3	58.9
	163.8	156.9

- ✓ Increase in net assets by \$6.9m reflects reduced working capital requirements and well managed debt and equity structures
- ✓ Significant cash holdings, notwithstanding 1H12 voluntary debt reduction (\$6.0m), Evolution acquisition (\$3.0m) and increase in dividend payout ratio
- ✓ Trade debtors increase due to timing of half year licence fees
- ✓ Trade payables decrease consistent with transfer of wholesale bakery product invoicing to third parties
- ✓ Intangibles of \$218.3m, including franchise networks, brand names and trademarks, supported by valuations indicating significant 'headroom' using conservative forecasts

1H12 KPIs



System	Average Weekly Sales (AWS)			Average Transaction Values (ATV)		
	1H12	1H11	1H10	1H12	1H11	1H10
Donut King	9,972	9,853	9,716	5.37	5.25	5.08
<i>Growth v pcp</i>	1.2%	1.4%	0.7%	2.2%	3.4%	4.3%
Brumby's	13,983	13,766	13,731	6.00	5.94	5.85
<i>Growth v pcp</i>	1.6%	0.3%	1.1%	1.0%	1.6%	4.1%
Michel's	12,935	12,881	12,517	6.57	6.55	6.43
<i>Growth v pcp</i>	0.4%	2.9%	1.5%	0.3%	1.8%	0.2%
bb's café	11,983	11,715	11,408	7.70	7.59	7.37
<i>Growth v pcp</i>	2.3%	2.7%	0.2%	1.5%	3.0%	2.9%

- ✓ Modest but positive increases in KPIs:
 - weighted average AWS +1.7%
 - weighted average ATV +1.8%
 - AWS increase in all systems
 - ATV increase in all systems
- ✓ Retail conditions continue to deteriorate however less reliance on ATV to support AWS with customer count increases in bb's cafe/Esquires, Michel's and Brumby's and less than 1% decline in Donut King
- ✓ Marketing and innovation sustaining AWS in tough market and disappointing shopping centre performance

1H12 Outlet Population



Franchise System	Total Outlets	Australia	NZ	Other International
Donut King	362	343	2	17
bb's cafe / Esquires	100	35	65	-
Brumby's	343	327	15	1
Michel's	331	327	3	1
Total	1,136	1,032	85	19

- ✓ 20 new outlet commissionings consistent with guidance
- ✓ 32 outlet closures includes: 4 conversions, 2 disaster-related, 12 non-renewal (non agreement on renewal terms) , 2 redevelopment
 - only 12 closures as a result of franchisee related issues with 175 successful franchisee transactions approved (renewals, resale, new stores)
- ✓ Weighted average AWS of newly commissioned outlets represents 45% increase over that of closed outlets
- ✓ 2 bb's café outlet conversions to Esquires Coffee Houses

FY12 Marketing and Innovation

✓ FY12 Projects:



- Brand evolution progressing across all systems:
 - extended menus
 - re-invigorated product lines
 - store livery
 - enhancement in digital and social engagement
 - less reliance on enclosed shopping centre environment
- Flagship Australian Esquires outlet to launch in April 2012, positioned as:
 - sustainable, premium, technological coffee shop
 - built in IPADS, free Wi-Fi, digital community notice boards
 - coffee pre- text ordering, queue monitoring and social applications
- Esquires drive-through format to be commissioned mid 2012
- Big Dad's Pies online website delivery (scheduled March 2012)
- Increased focus on social and digital engagement platforms, LCD screens into all new outlets, enhanced websites and Facebook fans to increase from 65,000 (Donut King) and 45,000 (Brumby's)
- Michel's online ordering sales increase c.300% over pcp. Will be further driven by functionality onto mobile and self in-store ordering through QR codes

FY12 Marketing and Innovation (continued)



✓ 1H12 Achievements

- Donut King's Royal Bean Coffee offering enhanced, increasing coffee volumes by c.7%
- Launched national barista championship, 700 outlets participated increasing expertise and barista certification
- Successful launch of 14 new products into Michel's
- Michel's awarded coffee shop of the year by Morgan's Customer Satisfaction Poll
- EFTPOS conversion 88% complete (c. 1000 outlets)
- Successful pilot of part day offer in 40 Brumby's outlets to be extended



- "Pure Bake": Brumby's largest product category launch in 8 years
 - establishes Brumby's as the first bakery chain to launch "No Numbers", no colours or additives across 120 bread lines
 - is a long term innovation platform
 - increased volume 5.2% amongst 4 key sandwich loaves (white, wholemeal, wholemeal grain and 12 cereal)



1H12 Acquisition - Evolution Coffee Roasters Group (ECR)

✓ Settlement achieved September 2011:

- 2QFY12 operation equivalent to full year FY11
- 150 key accounts retained, 20 new customers added
- green bean purchases up 12.8% and on track to exceed 250 tonne pa
- supply of bb's café blend to NZ bb's café outlets commenced (formerly sourced via RFG's Sydney facility)
- chocolate formulations reconfigured in advance of chocolate powder supply to NZ bb's café outlets
- all key staff retained, integration of systems seamless
- RFG NZ HQ relocated to ECR premises in Auckland enabling further synergies



evolution
COFFEE ROASTERS

Roasted Addiction
COFFEE DEALERS



2H12 Acquisition – Pizza Capers (PC)

✓ Background:



- Pizza Capers (PC) is positioned:
 - in the Quick Service Restaurant (QSR) segment of Australian fast food market, and
 - in niche “gourmet pizza” as opposed to value end of the spectrum
- founded in Brisbane in 1996:
 - accelerated growth from 2005
 - approximately 18 outlets commissioned per year
- PC outlet growth profile:



	CY06	CY07	CY08	CY09	CY10	CY11	CY12F
Outlets	16	27	51	76	98	108	128
Growth		11	24	25	22	10	20
% Growth		69%	89%	49%	29%	10%	19%

2H12 Acquisition – Pizza Capers

✓ Background (continued):



- under RFG's stewardship PC will continue to be operated by founders Anthony Russo & Scott Geiszler
- traditional royalty based franchise model



- all outlets franchised (RFG acquiring no company operated stores)
- outlet population: 109 Australia (93 in Qld), 1 Singapore



- Head Office located at Darra outside of Brisbane in Qld
- franchisee metrics comparable with Donut King franchise system including ROI

✓ Consideration & Metrics:



- consideration based on pricing multiple of 7 times Pizza Capers' anticipated contribution of \$4.3m to RFG FY13 EBIT



- settlement in or about April 2012
- EPS accretive upon completion (c. 5%)
- exceptional outlet growth potential outside Qld

2H12 Integration – Pizza Capers and RFG

✓ Integrated outlook following transaction completion:



- 10% increase in outlet population to c. 1250 outlets
- positions RFG for the first time in QSR segment
- enhances acquisition opportunity
- increases international licensing options
- less reliance on enclosed shopping centre environments with c.350 RFG outlets located in external tenancies:
 - not subject to menu limitation and unacceptable rent escalation
 - greater attraction and site opportunities
 - co branding in neighbourhood centres and external tenancies
- meal part expertise
- introduction of Brand System Structure to facilitate acquisition and beyond

FY12 Outlook



- ✓ Previous guidance at AGM: c.10% full year core NPAT
- ✓ 1H12 new outlet growth +20, 2H12 new outlet target +20



- ✓ 2H12 outlet closures similar to 1H12
- ✓ Financial performance to continue:



- coffee revenues up, integration and 3rd party sales continuing
- bakery restructure efficiencies expected to continue
- moderate growth in KPIs expected to continue



- pipeline of franchise renewals and transfers indicate healthy core franchise systems



- ✓ Retail climate continues to deteriorate however Board remains comfortable with previous guidance

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