



# ASX/media release

26 March 2012

## **UPDATE: DEBT FACILITY & ORGANISATIONAL RESTRUCTURE**

Leading Australian retail food brand manager and franchisor, Retail Food Group Limited (RFG or the Company), today provided the following Update.

### **Acquisition Opportunity**

During the 2011 AGM Presentation, the Company advised that:

- a plethora of acquisition and other growth opportunities continue to present themselves; and
- such opportunity, where meritorious, was being actively investigated.

This opportunity has more recently resulted in acquisition of the Evolution Coffee Roasters Group in September 2011, and the conditional agreement to acquire the Pizza Capers Gourmet Kitchen franchise system (announced on the 28<sup>th</sup> February 2012).

While the Company continues to take a conservative and measured approach, acquisitions will continue to be a significant component of the RFG growth platform and ultimately will result in both increased outlets as well as the number of franchise systems under the Company's stewardship.

Such that RFG remains at the forefront of franchising best practice and is otherwise appropriately positioned to partake of ongoing acquisition opportunity, enhanced organic growth and development of its franchise systems, the Company has concluded the following initiatives:

### **Reset of Banking Facility**

As a feature of its capital management platform, RFG announces that it has resolved terms to increase facility quantum and extend the present maturity date of the Company's debt facilities with the National Australia Bank.

The revised facility terms include:

- increase in Senior Debt Revolving Facility from \$95m to \$135m;
- extension of present maturity date from September 2013 to 30 September 2014;
- increased flexibility, including:
  - voluntary debt retirement and redraw;
  - increased leverage covenant ceiling to 2.50x (from 2.0x); and
  - remaining covenants (Interest Cover and Gearing) unchanged.

Facility headroom (including cash) subsequent to the programmed settlement of the Pizza Capers transaction will remain circa \$30 million.

RFG CEO Tony Alford said, “the Company was delighted to further its banking relationship with the NAB and secure its future financing requirements at such an early juncture”.

“Not only will the increased facility assist in funding of the Pizza Capers acquisition, it provides sufficient headroom to position RFG for future acquisitive activity whilst providing shareholders with the comfort of an extended facility maturation date to September 2014”, he said.

### **Organisational Restructure**

RFG also announced it had completed the design and commissioning of a significant organisational restructure directed at facilitating enhanced franchise system servicing, performance and growth, liberation of further operating efficiencies and the continuing seamless integration of acquired business assets.

RFG Chairman Bruce Hancox indicated that, “six months ago the Company commenced a process of significant organisational reflection to determine whether it was best positioned to most effectively service its franchise community and maximise individual franchisee as well as franchise system performance”.

“The review arose as part of RFG’s continuous improvement program and is targeted at enhanced harmonisation and service delivery post franchise system acquisition. Whereas all retailers are operating within a challenging environment and many are downsizing and or attending structural transformation, RFG is fortifying itself for further growth”, he said.

Since its inception in 1989, RFG has adopted a structure predicated upon the establishment and resourcing of particular departments which service and support all franchise systems and their respective franchisees (Departmental structure). Examples include the Marketing Services Department, Legal Services Department, Franchise Services Department and Project Management Department.

The review identified that, as those franchise systems under the Company’s stewardship have increased (from 332 outlets amongst two franchise systems to in excess of 1,100 outlets amongst five franchise systems), the Departmental framework had similarly expanded to accommodate the increased scale, however in so doing, was becoming less agile and capable of optimising the unique opportunities available within each franchise system.

Following completion of the aforesaid review, including engagement with its franchisee community, the Company resolved to migrate its present operational and service resources from a Departmental configuration to an arrangement whereby independent structural, operational and management frameworks are established and driven in respect of each individual franchise system (Brand System structure).

The Brand System structure involves:

- disbanding (or significantly downsizing) a number of existing Departments and integrating those functions into a dedicated structure established in respect to each individual franchise system;
- allocation and alignment of resources to each franchise system rather than the resourcing of distinct Departments;
- appointment of a Managing Director (or Chief Franchise System Officer dependent upon franchise network size) to each Brand System; and
- re-assignment of personnel from Departmental to Brand System responsibility.

RFG CEO Tony Alford said, “the incumbent Departmental structure has served RFG and its franchise systems remarkably well for in excess of 20 years. It has facilitated the realisation of tangible organic and acquisition growth, synergistic benefits, timely integration and expense liberation whilst driving a cumulative annual growth rate of circa 36% in NPAT over the past six years”.

“That said, the RFG Board, staff and the franchisee community are unified in the expectation that the Brand System structure will further enhance outcomes for all stakeholders, more appropriately foster individual franchise system growth opportunity and most importantly augment the alignment of corporate and Brand System objectives. The Brand System structure also better facilitates and accommodates the integration of newly acquired systems with immediate application to the Pizza Capers transaction a case in point”.

“This devolution of authority and refocus of personnel within individual Brand Systems will also serve to increase responsiveness, and represents an organisational model best positioned to improve franchise system service, increasing outlet performance, and ultimately, franchisee outcomes”, he said.

## **Personnel**

The Company advises that the following personnel changes have occurred as a consequence of the Brand System structure:

- RFG’s existing Chief Operating Officer, Mr Gary Best, has been appointed Managing Director of the Donut King Brand System. Mr Best joined RFG in 1996 as Chief Financial Officer and in 2000 was appointed Chief Operating Officer. He is one of RFG’s most knowledgeable personnel in respect of both the Company and its original Brand System – Donut King;
- RFG’s existing National Manager – Franchised Operations, Mr Deane Priest, has been appointed Managing Director of the Brumby’s Bakery Brand System. Mr Priest joined the RFG team in 2007 following the Company’s acquisition of Brumby’s and has served in a senior management capacity since that time. In the seven years prior to this, Deane served as the Qld State Operations Manager for the Brumby’s system and was a member of the brand’s Leadership Group;
- Mr Chris Szysz has been appointed Managing Director of the Michel’s Patisserie Brand System. Mr Szysz has excelled in all positions previously held within RFG since his recruitment in 2006 as a Business Development Manager. In January 2008, Chris was promoted to the position of National Operations Manager - Donut King. Most recently, Chris held the position of National Operations Manager - Michel’s Patisserie;
- RFG has recruited Mr Denis Roche to the role of Chief Franchise System Officer for the bb’s cafe and Esquires Coffee Houses franchise systems. Mr Roche commenced his career with McDonalds and invested over 20 years with that organisation holding various positions including operations, training and franchisee consultant capacities. Immediately prior to his appointment with RFG, Denis completed a five year tenure with Gloria Jeans Coffees where he was the Regional Operations Manager for Qld and Far Northern NSW. Denis brings to RFG a wealth of franchise experience as well as coffee expertise;
- Mr Anthony Russo has agreed to accept the position of Managing Director of the Pizza Capers Brand System upon transaction settlement. Anthony and Scott Geiszler, co-founders of Pizza Capers in 1996, have both agreed to remain with the business post settlement;
- RFG’s New Zealand operations will continue to be supervised by NZ General Manager Graeme Doughty. Graeme joined RFG in June 2011, having previously held General Manager or equivalent

senior positions in New Zealand based businesses including Pizza Haven, Planet Burger and The Fire Place;

- RFG Corporate Counsel and Executive Director Mr Nigel Nixon has been appointed to the Chief Operating Officer vacancy arising upon Mr Best's transition to Managing Director of the Donut King Brand System. Nigel shall resign his position as Executive Director following the Company's appointment of a third independent director (anticipated in the near term) to fill the vacancy left upon retirement of former Chairman John Cowley in November 2011;
- Mr Nixon will be assisted in the discharge of the COO and Corporate Counsel functions by Company Secretary and Legal Counsel, Mark Connors, who was last year appointed Deputy Chief Operating Officer;
- Tracey Catterall has been appointed to the newly created position of Marketing and Innovations Director. Ms Catterall commenced employment with RFG in 2007 as Brand Manager – Donut King and was promoted to the Chief Marketing Officer position in January 2010. Prior to joining RFG Tracey held senior marketing and brand manager positions with Walt Disney Television (Australia & New Zealand), Nickelodeon and Nick Tunes in London and McDonald's Australia.

***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 Bakery, bb's café and Esquires Coffee Houses franchise systems and roasts over one million kilograms annually of proprietary coffee products via the Evolution Coffee Roasters Group, Caffe 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 Bakery	343	327	15	1
Michel's Patisserie	331	327	3	1
Esquires Coffee Houses	50	1	49	-
<b>Total</b>	<b>1,136</b>	<b>1,032</b>	<b>85</b>	<b>19</b>

**ENDS**

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