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RETAIL FOOD GROUP BAKES UP RECORD PROFIT & DIVIDEND

FY12 Highlights

- Record core NPAT result (\$30.3m) and EPS (28.0cps) despite depressed retail conditions
- 20% increase in final dividend (to 9cps) and increased dividend payout ratio to 66.3%
- Gross margin expansion increase to 80.2% (from 71.3%)
- 39 new outlets commissioned
- Completion of Pizza Capers Gourmet Kitchen (April 2012) and Evolution Coffee Roasters (September 2011) acquisitions
- Positive weighted AWS and ATV growth in all franchise systems⁽¹⁾
- Adjusted revenue⁽²⁾ growth accelerated due to conversion to royalty model of Michel's outlets, wholesale coffee sales and reinvigoration of corporate retailing division
- Esquires Coffee Houses system successfully established in Australia
- Wholesale coffee businesses now roasting over 1,000 tonnes of green beans annually
- Successful implementation of efficiency programs and major organisational restructure

Leading Australian retail food brand manager, franchisor and wholesale coffee roaster, Retail Food Group Limited (RFG or the Company) today announced an FY12 core NPAT result of \$30.3m, an increase of 8.9% on the previous year. Statutory NPAT rose 4.9% to \$28.5m.

The Company's record NPAT follows seven successive years of annual profit growth and reflects a statutory cumulative annual growth rate (CAGR) of 30% for NPAT and 20.6% for EPS since Listing in June 2006.

RFG CEO Tony Alford advised that, "astute management of the Company's robust and diversified business model, underpinned by a 31% increase in wholesale coffee revenues together with enhanced franchise system revenues, has delivered tangible results for shareholders".

"RFG's performance has also fostered continuing improved outcomes for our franchisee community. As an example, direct support afforded to our franchisee network and brand systems has increased by approximately \$4.1m over FY11, amply demonstrating the effectiveness of the Company's business model and the 'strength in brands' generated by it".

"Given retail trading conditions continue to be challenged by deflated consumer confidence, consumption and enlivened household savings, a situation compounded by increased operational costs at outlet level, we are particularly buoyed by these results", he said.

Summary Financial Information	FY12	FY11	Change
Adjusted Revenue ⁽²⁾	\$100.6m	\$77.8m	29.3%
EBIT	\$47.5m	\$45.1m	5.3%
NPAT (Core Operations ⁽³⁾)	\$30.3m	\$27.9m	8.9%
NPAT	\$28.5m	\$27.2m	4.9%
EPS (Core Operations)	28.0cps	26.0cps	7.7%
EPS (Basic)	26.4cps	25.4 cps	4%
Final Dividend per Share (DPS)	9.0cps	7.5 cps	20%
Total Interim & Final Dividend per Share	17.5cps	14.5cps	21%
Franchised Outlets	1,251	1,148	+103 outlets

As a consequence of the Company's record profit result, prudent debt management and continuing robust cash position, shareholders will be paid a final fully franked dividend of 9cps, up 20% on the previous corresponding period (PCP). The dividend will be paid on 11 October 2012 following a record date of 13 September 2012.

RFG Chairman Bruce Hancox said, "when combined with the interim dividend paid in April 2012, the Company's full year dividend of 17.5cps reflects a payout ratio of 66.3%, an increase of 21% over FY11 and consistent with the Board's intent to maintain a payout ratio in the order of 65% during periods of acquisitive growth".

"In terms of that growth, April's acquisition of the Pizza Capers Gourmet Kitchen franchise system, now bolstered by today's announcement that RFG has contracted to purchase the 119 outlet Crust Gourmet Pizza Bar system, has facilitated RFG's entry into the traditional Australian QSR segment and positions it as the market leader in the gourmet QSR pizza market".

"Not only do these acquisitions provide multiple synergistic opportunities for RFG's existing business operations, they broaden the Company's exposure to all day trading parts whilst extending RFG's complement of retail brands from impulse, treat and staple offers with lower to mid-sized average transaction values (ATV) to high ATV lunch and evening meal time opportunities", he said.

The Company's coffee operations were also significantly expanded by acquisition following the addition of Evolution Coffee Roasters Group to the Company's suite of businesses in September 2011. This roasting capacity has contributed to a 31% increase in coffee revenues (over PCP) with RFG now roasting in excess of 1,000 tonnes annually of green beans and wholesaling various coffee products amongst its existing franchise networks and a growing external customer base.

"These transactions execute on the Company's strategy to identify acquisitive targets that complement existing business operations, are capable of vertical or horizontal integration and which generate both immediate and long term value for shareholders", Mr Hancox said.

Thirty nine new outlets were commissioned during FY12, and together with the addition of the Pizza Capers Gourmet Kitchen brand system, the number of outlets under RFG stewardship increased by 103 to 1,251 outlets (or 9%) across six brand systems.

RFG CEO Tony Alford said, “organic growth continues to be hindered by a constricted franchisee candidate market, an absence of premium site opportunities, tighter lending requirements amongst financiers and subdued lessor development activity albeit we are witnessing some change in the later with a growing development pipeline for both greenfield and existing centre refurbishment works”.

At a franchise network level, excluding the Michel’s Patisserie Queensland population which has been subject to unique but temporary supply side challenges⁽¹⁾, all systems generated positive average weekly sales (AWS) and average transaction value (ATV) growth albeit modest and in line with management expectations having regard to the prevailing retail climate”.

“We remain focused on the organic growth of AWS, ATV and new outlets in each brand system and have redoubled our efforts on the development and execution of strong marketing programs, product innovation and brand reinvigoration strategies targeted at fortifying sales by the application of extended menu offers, enhanced customer engagement and the migration of outlets from shopping centre centric locations challenged by escalating rental demands and depressed consumer visitation cycles”, he said.

“Examples of these activities include the recent introduction of savoury products within the Donut King system and the programmed Australian rollout of the Esquires Coffee Houses system into non-traditional trading environments including drive-through sites”.

Insofar as the Esquires system is concerned, three outlets are now operating in Australia with a further six outlets scheduled for establishment during the remainder of FY13.

“Pleasingly, the first Australian Esquires outlet represented a conversion from the bb’s café system consistent with the Company’s vision to consolidate the group’s café offer under a single banner. Four outlets across the Australian and New Zealand networks have now converted to the Esquires system”, Mr Alford said.

FY12 also witnessed the successful implementation of significant organisational restructure.

“The restructure formed part of an ongoing effectiveness and efficiency program instigated in late 2011 for the purposes of maximising franchise system performance, liberating further operating efficiencies and continuing the seamless integration of acquired business assets”, Mr Alford said.

“Whilst these activities have resulted in certain one off costs which have impacted FY12 profit, the delivery of a brand system structure will ultimately deliver tangible efficiencies as well as positively impacting franchisee service delivery and corporate responsiveness. We remain focused on increasing productivity and efficiencies, implementing enhanced performance activation programs and liberation of further positive supply side outcomes amongst all facets of RFG operations”, Mr Alford said.

RFG Chairman Bruce Hancox gave thanks to the hard work and focus applied by the Company’s staff and valued franchisee fraternity and which have contributed to RFG’s impressive FY12 result.

“Whilst the Board remains of the firm view that the Company has constructed a concrete platform for sustained growth and long term shareholder satisfaction, current trading conditions, consumer sentiment and supply side initiatives rendered it premature at this stage to provide FY13 guidance notwithstanding RFG’s confident outlook and anticipation of future growth”, 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 Bakery, bb's café, Pizza Capers Gourmet Kitchen and Esquires Coffee Houses franchise systems and roasts over one million kilograms annually of proprietary coffee products via the Evolution Coffee Roasters Group, Caffè Coffee and Barista's Choice coffee brands.

As at 30 June 2012, there were a total of 1,251 franchised outlets under RFG stewardship comprising:

Franchise System	Total Outlets	Australia	New Zealand	Other International
Donut King	364	345	2	17
Brumby's Bakery	336	320	15	1
Michel's Patisserie	332	329	2	1
bb's cafe / Esquires Coffee Houses	101	37	64	-
Pizza Capers	118	117	-	1
Total	1,251	1148	83	20

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For further information, interviews or images contact:

Tracey Catterall, Retail Food Group, 07 55 092 340

(1) Australia only & excluding Michel's Patisserie Queensland outlets subject to product supply challenges arising from third party supplier failure.

(2) Excludes revenue derived from;

- marketing activities (FY12: \$14.5m; FY11: \$15.7m; FY10: \$15.4m; FY09: \$12.6m; FY08: \$10.3m), and
- sales revenue derived from the wholesale bakery supply to Michel's Patisserie outlets which are transitioning from a wholesale supply and distribution model to a traditional royalty based model (FY12: \$1.3m; FY11: \$2.2m)

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

- Supply chain initiatives - administration of failed supplier operations (FY12: \$1.7m FY11: nil)
- Corporate restructuring and redundancy costs (FY12: \$0.7m FY11: nil)
- Loss on cash flow hedges (interest rate swaps) (FY12: \$0.2m FY11: \$1.0m)
- Gain on foreign exchange forward contract (FY12: nil FY11: (\$0.1))