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FY14 GROWTH PLATFORM & STRATEGIC INITIATIVES

Key Elements of FY14 Strategy:

- Project QSR400
 - Project Evolution (EVO)
 - Coffee & Allied Beverages Strategy
 - Acquisitive Activity
 - Properties & Training
 - Capital Management & Outlook
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Australia's largest multi-brand food franchisor and leading wholesale coffee roaster, Retail Food Group Limited (RFG or the Company), today provided an insight and update concerning key elements of its FY14 growth strategy.

Whereas FY13 was a year of consolidation in respect of recent acquisitions (including Pizza Capers, Crust Gourmet Pizza and The Coffee Guy), as well as continuation of Brand System structural enhancement, FY14 will be characterised by the delivery of enhanced stakeholder outcomes built upon the growth platforms laid in the prior period.

Quick Service Restaurants (QSR) – Project QSR400:

RFG's entry into the QSR market via the CY12 acquisitions of Pizza Capers and Crust Gourmet Pizza provided the Company with an immediate national footprint and market leadership in the niche gourmet pizza QSR segment.

RFG CEO Tony Alford noted that, "collectively, RFG's QSR Brand Systems are the dominant players in the gourmet pizza segment and provide a unique and compelling opportunity for the Company to leverage economies of scale, its franchise expertise and diverse resources for the benefit of shareholders and franchisees".

"In order to take advantage of this opportunity, RFG has embarked upon an accelerated outlet growth strategy termed 'Project QSR400'".

"The label assigned to this initiative represents a portend of RFG's strategic objective – to facilitate enhanced outlet growth, via both franchised and corporate retail stewardship, to fortify the Company's position as market leader in the gourmet pizza segment", Mr Alford said.

Following exceptional organic growth performance in FY13, which resulted in the establishment of 37 new outlets and a QSR population increase of circa 16% (bringing RFG's combined QSR footprint to 270 as at 30 June 2013), the Company identified in excess of 100 additional territories for potential establishment of gourmet pizza outlets.

Project QSR400 seeks to capitalize on this irreplaceable opportunity by expediting FY14 outlet commissionings within these territories via:

- Incentivised initial franchise fee arrangements and or financial accommodation to approved franchise applicants;
- Stimulation of MSO (Multi-Site Owner) franchisee initiatives;
- Initial direct investment in voluntary corporate owned and operated outlets, pending subsequent franchising of same; and
- 'Bolt on' acquisitive activity.

Mr Alford advised that, "Project QSR400 is now well advanced with approximately 65 new sites under active consideration and or management. Of these sites, 26 are subject to formal offer, a further 13 are committed and 10 are in the construction phase".

The Company is confident of increasing its QSR footprint by 70 outlets to circa 340 by the end of FY14, and ultimately, extending that footprint to circa 400 outlets by 3Q15. At this juncture, the new outlet growth profile will be relatively even as between Pizza Capers and Crust commissionings. Furthermore, as a consequence of the segmentation strategy developed by the Company, minimal direct competition amongst outlets is anticipated.

Over the Project's lifespan, the Company forecasts a gross investment of circa \$18m with a net investment peak of circa \$12m (in 1Q15). The gross investment includes a provision (in an amount of \$3m) which accounts for the normal 18 month outlet maturity profile of those outlets, which will be operated under RFG stewardship.

The gross investment quantum represents circa \$140k per outlet commissioned and compares favourably with the per outlet acquisition investment of both Pizza Capers (c.\$270k) and Crust (c.\$370k)⁽¹⁾.

"Whereas this program of direct investment in organic growth represents a departure from the Company's traditional 'franchise only' strategy, the tangible medium and longer term benefits are demonstrably apparent and evidence a superior use of capital, as opposed to embarking on further QSR acquisition activity of significant scale, and or commissioning retail outlets only after franchisee recruitment".

Ultimately, the Project QSR400 initiative will deliver approximately 130 outlets within new markets and generate additional franchise system revenues and long term royalty income which may not otherwise be available to the Group", Mr Alford said.

Project Evolution (EVO):

The Company's Project Evolution (or EVO) initiative achieved considerable traction during FY13 and will provide a strong platform for Brand System growth this financial year.

Esquires, Donut King and Michel's Patisserie Project Evolution retail outlet concepts have now been commissioned with Brumby's Bakery and Brumby's Go! scheduled for completion during FY14.

(1) Donut King (DK)

The first Donut King 'store of the future' was commissioned in December 2012.

The EVO concept has now been incorporated within five Donut King outlets, three of which were new outlet commissionings and the remaining being refurbishments.

Average Weekly Sales (AWS) in respect of the new franchised operations are in excess of 60% above the national Brand System average, with refurbished outlets trending c.16% above pre-refurbishment AWS.

Where commercially appropriate, certain of the EVO concepts had also been (and continue to be) back-filled into the remaining Brand System network, contributing to Donut King's FY13 respective AWS and ATV growth of 4.4% and 6.5% over PCP.

With the initial trial and testing phases completed, RFG will now commission all new Donut King outlets and refurbishments utilising the Project Evo blueprint.

During FY14, RFG anticipates commissioning c.22 new Donut King outlets and will attend approximately 18 refurbishments to the EVO standard.

Applicable EVO initiatives will continue to be backfilled into the existing franchise network, including extension of savoury items, enhanced brand and digital platforms and cold beverage line extensions.

Given Donut King now has the ability to be destination driven, the Brand System will also launch its first pilot drive-thru concept. Scheduled to open in 3Q14, the pilot outlet will feature a drive-thru, 'play park' and extended menu.

(2) Esquires

Esquires' evolution has likewise enjoyed similar success, with AWS amongst converted outlets performing well in excess of redundant formats.

EVO has also facilitated the introduction of the model into 2 drive-thru and 1 'hole in the wall' locations, where the coffee convenience market is evidencing positive growth.

FY14 will witness the final re-articulation of the Brand System, and as a consequence, the Company will redouble its efforts at converting remaining bb's Café outlets to Esquires. This conversion activity will be complemented by a forecast 6 new outlet openings in FY14.

(3) Michel's Patisserie (MP)

Michel's Patisserie launched its concept 'store of the future' at Stockland Lilydale, in Victoria, on 31 July 2013. Customer sentiment has been overwhelmingly positive.

The first 3 weeks' trade have been exceptional with retail sales having exceeded expectations by a considerable margin. AWS presently trends at a remarkable 65% above the national MP FY13 AWS and 85% above the FY13 AWS of the 'Top 10' Michel's outlets which trade within a comparable sub-regional shopping centre.

The Lilydale outlet represents the culmination of three years' dedicated resources, product and design R&D, as well as exhaustive market research.

Significantly, the outlet showcases the majority of the Project EVO initiatives, including the 'frozen model' which underpins the Michel's National Bakery Solution.

Mr Alford noted that, "whilst it is premature to make firm assessments of future performance, RFG is confident that the Lilydale outlet will settle at approximately 40% above the national Michel's FY13 AWS and circa 55% above the FY13 sales of the 'Top 10' Michel's outlets presently operating within comparable sub-regional shopping centres. Furthermore, the Lilydale outlet provides a model well able to penetrate non-traditional strip locations".

Whereas the Michel's Brand System new outlet growth in FY13 was subdued, principally as a consequence of bakery supply challenges and the imminent introduction of the EVO platform, FY14 new outlet commissionings are budgeted at 14 and will be supplemented by further outlet traction in FY15.

In addition, over the next 18 months, Michel's outlet refurbishment to the EVO standard will represent approximately 25% of the Brand System.

FY14 will also witness EVO initiatives backfilled into the national Michel's network, which is anticipated to drive both AWS and ATV growth as experienced in the Donut King Brand System.

(4) Brumby's Bakery

Initial EVO phases applicable to the Brumby's Bakery Brand System are nearing completion, with the traditional Brumby's 'store of the future' scheduled for commissioning in December 2013 and the Brumby's Go! EVO outlet programmed for June 2014.

Pending EVO implementation, the Brumby's Brand System will continue to be driven by new product development, enhanced 'above the line' marketing initiatives, renewed focus on operational excellence and the September 2013 unveiling of an iconic 'brand ambassador' aligned with Brumby's values and ethos.

Notwithstanding the mid to late year commissioning of the Brumby's EVO 'stores of the future', new outlet openings are presently forecast at 14, with refurbishment traction being gained in FY15.

(5) QSR

The Project EVO initiative is presently scheduled for application to the Pizza Capers Brand System during the latter part of CY14 with re-articulation of the Crust Brand System planned for 2H15.

(6) Franchisee Financial Accommodation

Having substantially completed the Project EVO initiatives in respect of three of the four non QSR Brand Systems, and Brumby's programmed to be completed this financial year, RFG is motivated to accelerate EVO conversion and new outlet growth.

In this respect, and as detailed during the Company's 2012 AGM, RFG will provide financial and other accommodations to franchisees to facilitate the reinvigoration process.

The Company presently anticipates a gross investment quantum of c.\$12m over the next 18 months, to assist in the Project EVO platform conversion, new outlet development and franchisee transition to the Michel's National Bakery Solution.

The commercial terms attached to the funding will be franchisee specific and may comprise (either in isolation or combination):

- Suspension of initial franchise or other fees;
- Traditional funding repayable with interest;
- Traditional funding with reduced repayment obligation subject to achievement of pre-determined franchisee performance benchmarks; and
- Increase in franchise service fees over the life of franchise grant periods.

Consistent with its Project QSR400 investment, RFG considers the Project EVO funding initiatives to be a superior utilisation of Company resources which will ultimately procure enhanced outlet growth, franchise revenues and stakeholder outcomes not otherwise achievable within a comparable time frame.

Coffee & Allied Beverages Strategy:

RFG remains focused on establishing a second coffee roasting facility within the Yatala complex (refer below) in order to increase roasting capacity, underwrite existing operations and further leverage the Group's growing coffee business.

In respect of FY13 coffee roasting, Gross Profit increased 13% over PCP to \$12.6m while EBITDA from coffee activities increased by 7.4% to \$11.4m over PCP.

More significantly, testimony of coffee's escalating importance to the Company is underscored by the fact that, in FY13, coffee contribution to Group EBITDA was circa 21%.

"Notwithstanding this excellent growth, RFG considers that coffee remains a relatively unexploited opportunity with meaningful scope to leverage RFG's coffee expertise, roasting capacity and distribution networks to drive segmentation strategies incorporating boutique roasting blends, convenience driven channels, vertical integration of allied products and an expanded third party wholesale customer base", Mr Alford said.

The Coffee Guy Brand System, recently introduced to the Australian market, represents one element of RFG's coffee strategy and facilitates entry into new markets which maximises wholesale supply opportunities and fortifies performance via a dedicated vertical integration strategy, similar to the Group's other Brand Systems.

In FY14, this activity will be supported by renewed focus on:

- Advancing the Company's third party wholesale coffee supply business (domestically and abroad);
- Enhancing Brand System coffee expertise via improved training modules and delivery techniques;
- Repositioning RFG and its Brand Systems as coffee 'experts';
- Vertical integration of new and existing products (including domestic introduction of RFG's New Zealand domiciled Evil Child drinking chocolate, powders and syrups); and
- Development or acquisition of new businesses/brands which complement RFG's growing coffee business and provide opportunity to optimise existing scale.

Acquisitive Activity:

Commencing in 1H12, RFG has executed upon four strategic acquisition transactions with a total investment quantum of c.\$82m, namely:

1. Evolution Coffee Roasters;
2. Pizza Capers;
3. Crust Gourmet Pizza; and
4. The Coffee Guy.

Whereas the Board has mandated a conservative and measured approach, acquisition opportunity continues to represent a significant component of the RFG growth platform.

“There remains a plethora of acquisitive opportunity within both the franchise industry and markets allied to RFG’s existing business operations, in particular concerning coffee assets and other businesses capable of vertical integration”, Mr Alford said.

“During the course of CY13, the Company has undertaken extensive due diligence inquiry in relation to no less than four acquisitive or significant growth opportunities, together with investigation of numerous other businesses”.

“Whereas these investigations have not translated into formal transactions, RFG remains focused on growing its operations via acquisition and will continue to seek out complementary businesses capable of increasing RFG earnings, driving supply-side business scale or enhancing, both in terms of quantum and menu offer relevance, the number of franchise Brand Systems and outlets under our stewardship”, Mr Alford said.

RFG is presently engaged in identifying and investigating a number of acquisition opportunities.

Property & Training:

During FY13, the Company concluded strategic investments in a number of properties, with the fitout and commissioning of new facilities therein scheduled for completion in 1H14.

(1) Commercial Drive, Ashmore (Qld)

Site handover for 18 Commercial Drive is anticipated during September 2013, providing much needed scope to accommodate future acquisitive growth, whilst allowing relocation of personnel and Brand System support functions following the FY13 integration of QSR Brand System staff at the Group’s Southport National Office.

Importantly, the Commercial Drive property enables the Company to attend further expansion of its state-of-the-art National Training Academy, situated at RFG National Office, to:

- House dedicated pizza training facilities (the first of their kind for both Pizza Capers and Crust) which will support Project QSR400 growth initiatives and increasing QSR training demands;
- Enable expansion of coffee focused training capabilities (including dedicated The Coffee Guy training amenities), incorporating up to 20 espresso coffee machines (from 10 currently); and
- Facilitate improved training competencies amongst key Project EVO initiatives and menu innovations (including Michel’s Patisserie frozen model product finishing).

(2) Residential Accommodation, Southport (Qld)

In order to support anticipated training growth, including refresher training modules amongst the Company’s existing franchisee community, during 3Q13, RFG acquired four (4) one and two bedroom apartments in Southport, on Queensland’s Gold Coast.

Located less than five minutes’ drive from RFG National Office, these apartments were acquired via mortgagee sale for an average price of \$183,500, representing a discount of circa 30-40% from (non-distressed) current market rates, and were paid from existing cash reserves.

Whilst the Company is able to negotiate competitive rates with local accommodation providers, travel and accommodation expense represent a significant cost burden to RFG and its franchisees and serve as an unnecessary disincentive for franchised outlet operators to attend ‘refresher’ and other voluntary training activity.

Mr Alford noted that average trainee accommodation costs range from \$136-\$152 per night (non-peak periods) and, over the course of a five week training course, can become quite expensive. During FY13, RFG staff and franchisees experienced in excess of 1,300 staff and franchisee room nights on the Gold Coast.

“Not only do the units afford RFG the opportunity to provide franchisees with flexible training solutions and discounted accommodation, they also provide considerable scope for the Company to reduce its annual corporate travel costs whilst accessing accommodation during peak times, when hotel rooms are both scarce and overly expensive”, he said.

(3) Octal Street, Yatala (Qld)

RFG’s remaining FY13 property acquisition is situated in Yatala, within the Brisbane/Gold Coast corridor.

The Yatala property, whose fitout is scheduled for completion in 2Q14, satisfies a number of key strategic priorities by enabling the Company to:

- Further develop and centralise the Michel’s Patisserie supply chain (including implementation of the National Bakery Solution within Queensland);
- Establish a superior product innovation centre and test kitchen, facilitating menu diversification and product margin enhancement programs;
- Commission a second Australian coffee roaster, which provides scope for enhanced roasting capacity whilst de-risking existing wholesale operations (presently serviced by a single roaster situated in Granville, NSW);
- Ensure an exceptional coffee offer at retail level by combining bean production with specialised Barista training; and
- Take advantage of significant distribution advantages via market segmentation.

Capital Management:

Mr Alford noted that, given the Company’s strong net free cash flow generation, supported by a robust share price, cash resources and Senior Debt Facility headroom (of circa \$40m), RFG had a number of potential capital management alternatives at its disposal.

“That said, absent execution of acquisition opportunity of significant scale, the Company presently intends to fund all growth initiatives detailed herein from cash reserves and existing debt facilities”.

“Consistent with our corporate governance obligations, we will keep the market advised of any developments concerning acquisitive activity, and as a consequence, any revision of the funding position currently taken by the Company”, Mr Alford said.

Conclusion & Outlook:

Mr Alford noted that FY14 remained a challenging and unpredictable period for the Company given ongoing economic and retail trading headwinds, continued Michel’s bakery challenges, and RFG’s short term departure from its ‘franchise only’ model (in the form of those initiatives implemented to drive new outlet growth, including Project QSR400).

“However, RFG has established a number of growth platforms in FY13 which will be activated and commercially exploited during FY14”.

“These platforms, and the opportunities they afford the Company, further reinforce the propriety of our ‘strength in brands’ mantra and support RFG’s strategic resolve to grow via a multi-Brand System strategy supplemented by complementary wholesaling operations”.

“Given the foregoing, we consider that the Company’s Statutory NPAT growth in respect of FY14 will be circa 15% and, consistent with FY13, will be moderately skewed towards the 2H”.

“The Company will provide an update concerning FY14 outlook, together with Project QSR400 traction, when publishing its 1H14 results”, Mr Alford said.

About Retail Food Group Limited:

RFG owns the Donut King, Brumby’s Bakery, Michel’s Patisserie, bb’s Café, Esquires, The Coffee Guy, Pizza Capers Gourmet Kitchen and Crust Gourmet Pizza Brand Systems. In addition, the Company roasts more than 1.35m kilograms of coffee annually through the Evolution Coffee Roasters Group, Caffè Coffee and Barista’s Choice coffee brands.

ENDS

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⁽¹⁾ Per outlet investment: Calculated by reference to respective Crust and Pizza Capers asset acquisition pricing divided by the operating outlets at time of transaction completion.