

28 February 2014

RFG CELEBRATES 1400 OUTLET MILESTONE WITH RECORD PROFIT

1H14 Highlights:

- 1H14 record new outlet growth of 79 (closing 1H14 total outlet population: 1,401)
 - 8% increase in Revenue to \$64.6m (1H13: \$60.0m)
 - 9% increase in EBIT to \$27.4m (1H13: \$25.2m)
 - 18% increase in 1H14 NPAT to \$17.3m (1H13: \$14.6m)
 - 3.2% increase in EPS to 12.9cps (1H13: 12.5cps) after dilution from \$58.3m capital raising
 - 13% increase in interim dividend to 10.75 cents per share (1H13: 9.5cps)
 - QSR contribution to Group earnings of \$7m (24.9% of Group EBITDA), validating acquisitive strategy
 - 12.6% increase in EBITDA from coffee (to \$6.6m), supported by a 300bps margin improvement
 - 31% increase in cash inflows from operating activities to \$13.5m (1H13: \$10.3m)
 - Significant traction in Project QSR400 rollout (49 outlets)
 - Donut King Drive Thru, Michel's Patisserie & Brumby's Bakery EVO outlets mandated
 - Commissioning of Yatala Bakery & Distribution Facility and Commercial Drive property
 - Extension of \$135m debt facility to March 2016
 - \$46m voluntary debt repayment reducing gross debt to \$62.9m
 - c.\$85m facility & cash headroom
 - Admission to S&P/ASX200 in December 2013
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Australia's largest multi-brand retail food franchisor and leading wholesale coffee roaster, Retail Food Group Limited (RFG or the Company) today announced a record 1H14 Net Profit After Tax (NPAT) of \$17.3m, reflecting an 18% increase on the prior corresponding period (1H13: \$14.6m).

RFG Chairman Colin Archer noted the Company's 1H14 performance once again validated the strategic growth platforms established in prior periods, whilst lending further credence to RFG's 'strength in brands' mantra.

"Demonstrating the prescient nature of RFG's entry into the gourmet pizza segment, 1H14 QSR Brand System EBITDA of \$7m represented 24.9% of Group EBITDA. This compares favourably to the combined out year contribution of both QSR Brand Systems in an amount of \$9.6m at the time of the Crust acquisition in October 2012."

"There exists considerable scope for RFG to further drive performance from the Crust and Pizza Capers Brand Systems, as well as continuing reinvigoration of the Company's traditional franchise networks via Project EVO traction, and a growing wholesale coffee business".

"The solid foundations laid for the Company, notwithstanding ongoing retail uncertainty and the differential growth maturity profiles of the Brand Systems, continues to position RFG as a proven performer well able to deliver all stakeholders superior outcomes on a sustainable basis", he said.

Summary Financial Information	1H14	1H13	Change
Total Revenue ¹	\$64.6m	\$60.0m	↑ 7.7%
EBITDA	\$28.1m	\$25.6m	↑ 9.7%
EBIT	\$27.4m	\$25.2m	↑ 8.7%
NPAT	\$17.3m	\$14.6m	↑ 18.0%
EPS (Basic)	12.9 cps	12.5 cps	↑ 3.2%
Dividend per Share (DPS)	10.75 cps	9.5 cps	↑ 1.25 cps

¹ Total Revenue excludes revenue derived from marketing activities (1H14: \$13.5m; 1H13: \$10.8m)

Having regard to the Company's record 1H14 profits, the RFG Board today announced a 13% increase in the interim dividend of 10.75 cents per share, fully-franked. The dividend will be paid on 9 April 2014 following a Record Date of 21 March 2014 and will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan ('DRP').

The Board has resolved to reactivate the Company's DRP to preserve cash resources due to the number of organic and acquisitive opportunities presented by the market. Consistent with the Company's DRP Rules, the Board has directed that all prior nominations concerning DRP participation will, effective immediately, take effect as if there had been no prior suspension of the DRP.

Outlet Growth

The Company achieved a significant milestone during the 1H, with outlet count surpassing 1,400 assisted by record organic growth of 79 outlets, the significance of which is evidenced by new outlet growth of 45 in the PCP. This equates to net store growth of 27 in the half, with the group continuing its strategy of migrating its exposure outside of shopping centres.

Project QSR400 has witnessed a greater degree of success than initially envisaged, with 1H14 outlet commitments of 49 surpassing initial program expectations of 30 for the period. Of these outlets, 33 have, or are in the process of being, transferred from corporate management to franchisee stewardship.

RFG CEO Tony Alford said, "importantly, Project QSR400 has maintained RFG organic outlet growth momentum during a period wherein new outlet commissionings amongst traditional Brand Systems has been interrupted by the pilot and commissioning of the numerous Project EVO platforms which necessitated the CY13 deferment of Michel's and Brumby's outlet commissionings".

"That said, 1H14 non-QSR outlet commissionings of 30 represented 83% of the entire FY13 total of 36 outlets, indicating the Company is well positioned in terms of its full year new outlet guidance of 70 which will be further facilitated by all Brand Systems having now commissioned their respective Project Evolution platforms. In that respect, circa 110 outlets have undergone or are presently programmed to undergo EVO revitalisation", he said.

Outlet Performance

The Company's Brand Systems exhibited positive weighted Average Weekly Sales (AWS) and Average Transaction Value (ATV) growth of 0.8% and 3.0% respectively, driven by a continued investment and focus on product innovation, innovative marketing activity and backfill of Project EVO initiatives.

The Donut King Brand System continues to enjoy the benefits of early Project EVO implementation, with credible AWS and ATV growth of 2.0% and 4.6% complemented by 10 new outlet commissionings. Pleasingly, the inaugural Donut King Drive Thru outlet was established earlier this month, providing the Brand System with a renewed impetus and access to new markets.

The Michel's and Brumby's EVO concept outlets were established respectively in July and December 2013.

Early stage results from Michel's outlets are trending towards double digit AWS growth and increased ATV traction when compared to the traditional Michel's model.

Brumby's recent EVO implementation has been supported by new product development and targeted promotional activity incorporating brand ambassador and Australian sporting hero, Matthew Hayden.

"The Brumby's EVO platform represents the most impressive EVO application for the Company's Brand Systems, and whilst it is premature to provide instructive analysis, the menu innovation and range extension, including hot beverages, has been well received. In the meantime, AWS and ATV growth within the Brand System, driven by an increase in bread category sales of 4.2% over PCP, evidence a growing consumer attraction to the speciality bread market", Mr Alford said.

Coffee Update

The Company's wholesale coffee and roasting operations continue to represent a significant profit driver and platform for enhanced growth.

During 1H14, RFG's gross coffee revenues increased 8.4% on PCP to \$11.2m, resulting in a 12.6% increase in EBITDA contribution to \$6.6m principally driven by increased Donut King coffee sales and enhanced third party wholesale activity. Additional growth opportunity amongst the Company's coffee businesses will be harnessed via the impending launch of the Company's second Australian roasting facility, in Yatala (Qld), the recent introduction of a dedicated Australian wholesale coffee sales team, and penetration of the hot beverage opportunity within all Brand Systems under the Company's stewardship.

Acquisitive Growth

Acquisitive activity remains a central pillar of RFG's strategic growth platform, and consistent with prior advice to the market, the Company is engaged in and continues to investigate a number of potential acquisitions against the backdrop of a market which is presenting an increasing number of value accretive opportunities.

Mr Alford said, "RFG remains motivated to pursue acquisition opportunities in respect of complementary businesses which are EPS accretive, capable of generating increased supply-side scale and enhance the number of Brand Systems and outlets under RFG stewardship".

Outlook

RFG has achieved significant momentum during 1H14, with 2H14 projected increases in revenue and earnings tempered by ongoing investment in numerous organic growth platforms. Whereas the platforms and initiatives commissioned to date underpin both a sustainable and profitable business model, it is premature to make any revision to the Company's full year guidance of circa 15% growth on FY13 NPAT.

RFG Chairman Colin Archer extended the Board's thanks and appreciation to the Company's staff, management and franchisee community whose hard work and dedication to their respective businesses contributed to RFG's outstanding 1H14 results.

About Retail Food Group Limited:

RFG owns the Donut King, Brumby's Bakery, Michel's Patisserie, bb's café, Esquires Coffee, The Coffee Guy, Pizza Capers Gourmet Kitchen and Crust Gourmet Pizza franchise systems. In addition, the Company roasts more than 1.42m kilograms of coffee annually through the Evolution Coffee Roasters Group, Caffè Coffee and Barista's Choice coffee brands.

For further information, interviews or images contact:

Amy Smith, Retail Food Group Brand PR & Communications Executive, Retail Food Group Limited
Tel: (07) 5609 8235 Mob: 0400 137 704