



ASX/media release

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RFG SUPPLEMENTS RECORD PROFIT WITH ACQUISITIONS

FY14 Highlights:

- 15.2% increase in NPAT to \$36.9m (FY13: \$32.0m)
- 9.8% increase in final dividend to 11.25 cents per share (FY13: 10.25cps)
- 10.4% increase in full year dividend to 22.0 cents per share (FY13: 19.75cps)
- FY14 Total Shareholder Return of 22.8% (pre-tax)¹
- Record 150 new outlets commissioned
- Weighted AWS & ATV growth of 1.9% and 4.5% above PCP
- Projects QSR400 and EVO growth momentum
- Admission to S&P/ASX200 Index in December 2013

Acquisitions:

- Entry into SPA to acquire 236 outlet Cafe2U mobile coffee Brand System
 - Entry into conditional SPA to acquire 70 outlet La Porchetta casual dining Brand System
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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 FY14 Net Profit After Tax (NPAT) of \$36.9m, an increase of 15.2% over FY13 (\$32.0m) which contributed to an NPAT cumulative average growth rate (CAGR) of 25.5% since Listing on the ASX in June 2006.

The Company's impressive profit performance, consistent with guidance, was the product of a 9.8% increase in EBITDA to \$59.1m (FY13: \$53.8m), also a record for RFG.

RFG Chairman Colin Archer indicated that RFG's FY14 performance was driven by the successful implementation of previous strategic decisions which are now bearing significant fruit notwithstanding that the Company continues to trade within a challenging retail environment.

"Of particular note, the Company's resolve to enter the Quick Service Restaurant (QSR) segment via acquisition of the Pizza Capers and Crust Brand Systems has proven a masterstroke, with QSR contribution to Group EBITDA now representing 22.7%, or \$13.5m. Importantly, neither Brand System has reached maturity, thereby affording the Company significant potential for new outlet growth which is presently being driven by RFG's Project QSR400 initiative".

"The Company's resolve to embark upon a structural enhancement of its traditional Brand Systems via the Project EVO initiative, has also delivered significant rewards which are providing optimism for renewed customer engagement and reinvigoration of enhanced outlet proliferation".

"Importantly, both the QSR400 and Project EVO initiatives form a bedrock for organic growth which will contribute to Group earnings for many years", he said.

¹ Based on FY14 interim dividend of 10.75cps & FY14 final dividend of 11.25cps

Summary Financial Information	FY14	FY13	Change
Underlying Revenue ²	\$128.8m	\$117.0m	↑ 10.1%
EBITDA	\$59.1m	\$53.8m	↑ 9.8%
NPAT	\$36.9m	\$32.0m	↑ 15.2%
EPS (Basic)	26.5cps	26.0cps	↑ 1.9%
Final Dividend per Share (DPS)	11.25cps	10.25cps	↑ 9.8%
Total Interim & Final Dividend per Share	22.00cps	19.75cps	↑ 11.4%
Franchised Outlets	1,434	1,374	↑ 60 Outlets

Given the Company's record profit result, the RFG Board today announced a final, fully franked dividend in respect to FY14 of 11.25 cents per share. The dividend will be paid on 10 October 2014 following a Record Date of 15 September 2014, and will be eligible for the purposes of the Company's Dividend Reinvestment Plan (DRP).

When combined with the Company's FY14 interim dividend (of 10.75 cents per share paid in April 2014), RFG's total dividends (interim and final) of 22.00 cents per share represents an 11.4% increase over FY13, and contributed to FY14 Total Shareholder Return (TSR) of 22.8% (pre-tax).

RFG CEO Tony Alford noted that organic growth of 150 new outlets in FY14, represented both record QSR and traditional outlet growth of 85 and 65 (respectively).

"Project QSR400 has garnered significant traction and fast-tracked pizza outlet proliferation throughout the Australian market. Importantly, the project continues to generate significant interest amongst potential franchisee candidates, with FY14 lead generation exceeding 400 enquiries", he said.

"Organic outlet growth amongst the Company's remaining Brand Systems was also robust, notwithstanding the programmed suspension of new outlet commissionings amongst the Michel's Patisserie and Brumby's Bakery Brand Systems pending full implementation of Project EVO initiatives".

"With respect to Project EVO, results to date have been both promising and as well, a vindication of the Company's decision to embark on the EVO journey. Donut King Average Weekly Sales (AWS) amongst new EVO outlets is tracking at 13.3% above the comparative store set. A similar outcome applies within the Michel's Brand System, with AWS amongst those outlets tracking at 11.4% above the comparative store set, and refurbished outlets trending at 10.4% above pre-refurbishment levels".

"These are exceptional results achieved in a challenged retail environment and are testimonial to management's initiatives and dedication to ensuring the Company's traditional Brand Systems remain attractive, modern concepts well able to satisfy customer demand, and importantly, demonstrate immediate and enduring growth", he said.

² Excludes revenue associated with marketing pursuits including revenue derived from marketing activities (FY14: \$34.1m/FY13: \$24.0m) and revenue derived from warehousing & distribution activities (FY14: \$5.5m/FY13 & prior: Nil)

Mr Alford also noted that coffee now represents a central platform of the Company's business, with a 6.5% increase in gross coffee revenues achieved in FY14 (to \$21m).

RFG remains focused on leveraging its coffee expertise to harness the significant growth opportunity afforded by renewed third party interest, which has been driven by the introduction of a dedicated wholesale coffee team, and is supported by: (a) the recent commissioning of a second Australian roasting facility to accommodate additional scale; and (b) introduction of coffee products to the Company's Brumby's and QSR Brand Systems.

In terms of the Michel's Brand System, transition to the National Bakery Solution has entered its final phase, with commencement of the freezer rollout amongst the Queensland network taking place in 2H14. The national roll-out will be staggered by State with an expedited completion target of 1H16, at which time daily delivery will convert to bi-weekly supply, alleviating margin and product outage pressures.

"Importantly, the Michel's freezer rollout is being facilitated by way of rental arrangement under which RFG has financed initial capital costs in order to expedite traction and project completion. This initiative represents a putative step toward leveraging the Company's existing outlet network to create a new business unit focused on equipment, store build and refurbishment financing", Mr Alford said.

"Franchisee financing initiatives represent an enormous untapped opportunity for the Group, with circa \$40m of financial services opportunity potentially available. Not only does such a program afford direct revenue opportunity to RFG, but it facilitates outlet proliferation and refurbishment to EVO standard, creating indirect rewards for the Company and its franchisees", he said.

Acquisitions:

Contemporaneous with the release of its FY14 results, RFG announced its entry into Share Purchase Agreements (SPAs) to acquire the 236 outlet Cafe2U mobile coffee franchised Brand System, and 70 outlet La Porchetta casual dining franchised Brand System.

Each acquisition is immediately EPS accretive with the combined investment totalling c.\$31m.

Mr Alford noted that, "these transactions represent the culmination of significant and wide-ranging acquisitive opportunity investigation and due diligence activity undertaken over the course of the past 18 months, and demonstrate RFG's commitment to supplementing organic growth via acquisition of quality complementary Brand Systems capable of generating enhanced earnings and increased scale".

Both transactions will be funded from cash reserves and the Company's existing debt facility headroom, and represent a combined out-year EV/EBITDA multiple of c.5x (gross of integration and acquisition costs).

Upon settlement of both transactions, RFG outlet population will increase by c.20% to 1,750.

Cafe2U:

Whereas RFG has satisfactorily completed its due diligence investigations, the SPA remains subject to usual and ordinary conditions, with completion due in mid-September 2014.

Established in Sydney in 2000, Cafe2U is the world's largest mobile coffee franchise concept comprising approximately 236 franchised units operating in Australia (157 units), New Zealand (11 units), Great Britain (62 units), the USA (5 units) and South Africa (1 unit).

The acquisition complements RFG's November 2012 acquisition of The Coffee Guy Brand System, positioning the Company as clear market leader within the mobile coffee segment in Australia and New Zealand with a combined population of 175 units and 66 units respectively.

Mr Alford noted that the transaction consolidates another impressive retail coffee system under the Company's umbrella, delivering further strategic benefits which include immediate scale in the Australian market, manufacturing and coffee roasting synergies, and expanded penetration in key offshore markets.

"The transaction validates the position expressed to the market in 2012 that mobile coffee represents an industry segment ripe for consolidation, and possessing of genuine opportunity for international exploitation".

"Whilst RFG's intention is to retain and develop the individual identities of both the Cafe2U and The Coffee Guy Brand Systems, the acquisition generates significant synergistic opportunities. These include realisation of the enhanced roasting capacity afforded by the Company's recently established Yatala roasting facility, potential for collaboration across a range of areas including marketing, research and development, and other direct benefits that will enable accelerated growth of RFG's coffee business", he said.

Cafe2U Managing Director, Derek Black, will remain with the business post completion, and will continue to direct the business under the oversight of RFG's National Office.

La Porchetta:

The La Porchetta transaction is subject to RFG completing due diligence investigations, with the SPA also subject to usual and ordinary conditions with a completion timeframe of late October 2014.

Established in Carlton, Victoria in 1985, La Porchetta is Australia's largest family-orientated Italian themed casual dining restaurant franchise system. La Porchetta operates 70 fully franchised restaurants in Australia and New Zealand (predominantly Australia – 62 outlets).

The acquisition of La Porchetta represents a further strategic expansion by RFG into the casual dining segment following its successful acquisition of Pizza Capers and Crust Gourmet Pizza in 2012.

RFG CEO Tony Alford said, 'the very successful entry of RFG into the QSR category, and the commendable performance of Pizza Capers and Crust Gourmet Pizza over the past two years, is now augmented through the La Porchetta transaction, further consolidating the Company's position as a genuine retail food leader in Australia and New Zealand with strong platforms and iconic Brand Systems across light meals, treat, specialist coffee, QSR and now Casual Dining".

"As a casual dining family restaurant concept, La Porchetta represents even greater diversification of our Brand System stable, whilst simultaneously delivering upon a number of the Company's other key acquisitive requirements, namely (a) the acquisition is immediately EPS accretive; (b) delivers scale and supply side synergies; and (c) further reduces RFG's reliance upon shopping centres for outlet growth", he said.

La Porchetta CEO Sara Pantaleo will remain with the business post completion, and will continue to lead the Brand System Team.

Due diligence in relation to the acquisition has commenced. RFG will advise the market once this, and other transaction conditions, have been satisfied.

Outlook:

Whereas the retail environment continues to be influenced by intense competition and a cautious consumer, given the various growth levers at the Company's disposal, RFG has confidence in achieving c.15% underlying NPAT growth over PCP in respect of FY15.

Additionally, in circumstances where both the Cafe2U and La Porchetta acquisitions are settled prior to the end of October 2014 (which is presently envisaged), FY15 NPAT accretion will be a further 5% over PCP (prior to transaction and integration expenses).

RFG Chairman Colin Archer noted that the Company was blessed with a passionate and hard-working staffing complement and franchisee community, and thanked them for their contribution to RFG's exceptional FY14 result.

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 franchise systems. In addition, the Company is a significant wholesale coffee roaster supplying existing Brand Systems and third party accounts under the Evolution Coffee Roasters Group, Caffè Coffee, Roasted Addition and Barista's Choice coffee brands.

For further information, interviews or images contact:

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