



RETAILFOODGROUP
STRENGTH IN BRANDS

25 February 2016

Global Platform Drives Record Performance

1H16 Highlights:

- Commissioned 2,500th outlet
- Record:
 - New outlet commissionings of 142 (PCP: 75)
 - \$53.5m EBITDA reflecting 36.4% increase on PCP (1H15: \$39.3m)⁽¹⁾
 - \$32.1m NPAT reflecting 27.1% increase on PCP (1H15: \$25.3m)⁽¹⁾
 - Basic EPS of 19.6cps, a 15.3% uplift on PCP (1H15: 17.0cps)⁽¹⁾
 - Interim dividend to 13.0cps constitutes 19th consecutive dividend increase
- EBITDA conversion to cash flow ratio increased to 90.4% (1H15: 75.6%)
- 6 Master Franchise Agreements granted resulting in net growth to 63 international licensed territories (PCP: 58)
- Weighted domestic Coffee Systems SSS & ATV growth of 2.4% and 2.9% respectively
- Commissioning of inaugural powders manufacturing facility
- \$300m bi-lateral senior debt facility established with 5 year term
- Appointment of two additional experienced Non-Executive Directors

Exemplary organic growth, continued liberation of acquisition synergies and diversified revenue driving initiatives have delivered Retail Food Group Limited (RFG, the Company or Group) record 1H16 underlying Net Profit After Tax (NPAT) of \$32.1m, an increase of 27.1% over the previous corresponding period (PCP).

The performance was underpinned by record 1H16 EBITDA of \$53.5m, representing a 36.4% increase on PCP, and demonstrating the potential inherent in the Group's unique business model, myriad organic growth initiatives and proven acquisition strategy.

RFG Chairman Colin Archer said the Company's impressive track record of performance, investment in growth and strong shareholder rewards since Listing in 2006 distilled to successful execution of the Group's long held strategy to consolidate and lead within the franchise and coffee sectors.

"In terms of network scale and penetration, RFG has now surpassed the 2,500 outlet milestone, has Brand Systems licensed across 63 international territories, and has exponentially increased the global opportunities now available to the Company from both franchise and supply-side standpoints. RFG is now indisputably a leader in its industry, not just domestically, but across the globe," he said.

(1) Underlying results – refer 1H16 Results Presentation for reconciliation to reported performance

1H16 Summary of Results	Reported			Underlying ⁽²⁾		
	1H15	1H16	Change	1H15	1H16	Change
Revenue ⁽³⁾	\$78.0	\$148.3m	↑ 90.2%			
EBITDA	\$34.5m	\$49.2m	↑ 42.7%	\$39.3m	\$53.5m	↑ 36.4%
NPAT	\$21.5m	\$28.9m	↑ 34.4%	\$25.3m	\$32.1m	↑ 27.1%
EPS (Basic)	14.5 cps	17.6 cps	↑ 21.4%	17.0 cps	19.6 cps	↑ 15.3%
Interim Dividend per Share (DPS)	11.5 cps	13.0 cps	↑ 13.0%			
New Outlet Commissionings	75	142	↑ 67			
• Domestic	57	69	↑ 12			
• International	18	73	↑ 55			

(2) For full analysis of 1H16 underlying and reported results refer 1H16 results presentation

(3) Revenue excludes revenue associated with marketing pursuits (marketing contributions paid to Brand System marketing funds)

1H16 performance translated to record shareholder outcomes, with basic Earnings per Share growing 15.3% to 19.6cps, and the Board announcing an interim fully franked dividend of 13.0cps (PCP: 11.5cps).

Balancing shareholder rewards with investment in the organic and acquisitive growth opportunities presently available to the Company, the interim dividend reflects a moderated dividend payout ratio of 66.3%.

“The Company is pleased to continue its tradition of rewarding shareholders, delivering its 19th consecutive dividend increase via an interim dividend of 13.0cps, a notable increase of 13.0% over 1H15,” said Mr Archer.

Business Performance:

RFG Managing Director Tony Alford noted that 1H16 was the first period subsequent to FY15 acquisitive activity in which the Company was able to focus its entire energies and resources on realising the resultant unparalleled growth opportunities presented by the enhanced revenue generating platforms, enlarged scale and international penetration now possessed by the Group.

“RFG’s 1H16 performance bears testimony to the complementary nature of FY15’s acquisitive program, with the Group enjoying synergistic benefits across its traditional business as well as acquired assets,” he said.

“Those benefits were not only evident in terms of EBITDA and NPAT performance, but as importantly, the Company’s EBITDA conversion to cash flow ratio of 90.4% (PCP: 75.6%) marked a return to historic norms which translated to net operating cash inflows of \$28.9m, an 88% increase on PCP”.

The performance of FY15 acquired assets, namely those originating from the acquisition of Cafe2U, Gloria Jean’s Coffees Group and Di Bella Coffee, continue to exceed Management expectations.

“Collectively, these assets contributed \$22.7m, or 42.4%, of 1H16 Group EBITDA, and remain on track to comfortably achieve a circa \$35m contribution to FY16 Group EBITDA as guided,” said Mr Alford.

Brand System Performance:

During 1H16 RFG commissioned a record 142 outlets across its domestic and international networks, exceeding internal budget by 27 outlets.

Mr Alford said the record growth demonstrates the continuing relevance of RFG's Brand Systems within the competitive franchise market, supported by previously untapped global opportunities as the Group continued its expansion of international franchise operations.

"The Company's new outlet growth over the first half is a remarkable outcome, with 69 domestic outlet commissionings up 12 on 1H15, and 73 international outlet commissionings representing an increase of 55 above 1H15," said Mr Alford.

"In addition to record organic net outlet growth of 63, RFG achieved a milestone with the commissioning of its 2,500th outlet, a momentous occasion when placed in perspective of the Company's portfolio of 327 outlets at Listing in 2006".

Brand Systems performed to internal management forecast, and in particular, each of the Company's Brand Systems operating within the coffee sector performed strongly in 1H16, resulting in weighted SSS and ATV increases of 2.4% and 2.9% over PCP for those systems.

Whilst achieving significant expansion of its franchise network, RFG has also reduced the number of corporate stores under its stewardship by more than 60% to 33 at the end of the 1H.

"Significantly reducing the number of corporate outlets within its portfolio to less than 1.5% of its global network, the Company has honoured its commitment to redeploy liberated resources to other revenue priorities," said Mr Alford.

Commenting upon domestic EBITDA Contribution per Outlet (CPO) for the half, Mr Alford noted the increased performance was most pronounced in those Brand Systems which were impacted by the Group's network consolidation initiatives.

"Pleasingly, across 1H16 each Brand System achieved or exceeded forecast EBITDA CPO, and given the infancy of the Brand System alignment and resource prioritisation initiatives, these results augur well for the medium to longer term," he said.

"Most notably, EBITDA CPO increased 7.5% and 7.0% for Traditional and QSR Brand Systems respectively, validating the rectitude in RFG's strategy to consolidate underperforming outlets".

Commercial Operations:

RFG's Commercial Division recorded strong growth, including coffee and allied beverage throughput of 3.04m kg (PCP: 1.04m kg) and an EBITDA contribution of \$20.2m (PCP: \$8.4m), following consolidation of both RFG's and Gloria Jean's Coffees Group's domestic roasting operations into a single facility based in Castle Hill, Sydney.

"The Company's Commercial operations will continue to flourish as the business' vertical integration model stimulates increased growth in coffee and allied beverage throughput, complementary to the Group's continued domestic and international expansion".

International Operations:

Contributing circa 17% (or \$9.0m) to 1H16 Group EBITDA, RFG's international performance was driven by the commissioning of a record 73 new outlets, 13 in excess of budget, and the grant of six new Master Franchises bringing the Group's tally of international licensed territories to 63.

"RFG's international operations are delivering the Company a multi-faceted platform for relatively low risk, sustainable growth," Mr Alford said. "Significant opportunity for penetration of new markets remains, with the Company focused on extending its presence within India, Asia, Europe, the Middle East and the USA. In that respect, RFG continues to engage with a number of interested parties and is confident of realising new Master Franchise Partner relationships in the near term".

Capital Management:

RFG has completed the extension and increase of its present Senior Debt Facilities via a bi-lateral banking arrangement with the NAB and Westpac Bank.

Representing a conservative gearing ratio of 31.9% and supported by strong interest coverage of 10x and headroom of circa \$106 million⁽⁴⁾, Mr Alford said the increase in the Company's senior debt facilities is commensurate with and aligned to the growth and prospects of the business.

"In addition, the amended and restated facilities provide increased facility limit, structured tenure over five years, ongoing security and further flexibility, particularly in terms of accommodating the Company's increasing roasting, warehousing and international operations," he said.

Outlook:

With increasingly diverse global operations, strong growth-driving initiatives across all business units, and several new revenue streams being pursued, RFG retains a positive outlook for FY16 and beyond.

RFG maintains its guidance for FY16 of underlying NPAT growth of c.20%.

(4) Includes undrawn banking facilities and cash balance

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For further information, interviews or images contact:

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About [Retail Food Group Limited](#):

RFG owns the Donut King, Brumby's Bakery, Michel's Patisserie, bb's Café, Esquires, Gloria Jean's Coffees, It's A Grind, The Coffee Guy, Café2U, Pizza Capers Gourmet Kitchen and Crust Gourmet Pizza Bar franchise systems. In addition, the Company is a significant wholesale coffee roaster supplying existing Brand Systems and third party accounts under the Di Bella Coffee, Evolution Coffee Roasters Group and Roasting Australia coffee manufacturing brands.