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1H17 Evolution Drives 17% Profit Growth

1H17 Highlights:

- Completion of transformative Hudson Pacific Corporation (HPC) acquisition
 - Represents long term growth platform, further diversifying earnings levers
 - Drives evolution of RFG into genuine full service food & beverage company
- Strong statutory performance:
 - \$56.6m EBITDA reflecting 15.9% increase on PCP (1H16: \$48.9m)
 - \$33.5m NPAT reflecting 17.3% increase on PCP (1H16: \$28.5m)
 - Basic EPS of 19.6cps, a 12.0% increase on PCP (1H16: 17.5cps)
- Interim dividend of 14.75cps (1H16: 13.00cps) constitutes 21st consecutive dividend increase
- 78 international licensed territories following 1H17 grant of 9 new licences
- 138 new outlet commissionings extends global footprint to 2,556 outlets
- \$40m extension to Senior Debt Facility increases headroom to c.\$120m
- FY17 guidance of c.20% underlying NPAT growth maintained⁽¹⁾

An opportunity rich strategic acquisition, coupled with the successful implementation of organic growth initiatives, have delivered Retail Food Group Limited (RFG, the Company or Group) 1H17 Net Profit After Tax (NPAT) of \$33.5m, an increase of 17.3% over the previous corresponding period (PCP).

RFG Chairman, Colin Archer, noted that 1H17 results demonstrated the Company's proven credentials in connection with the identification and execution of transformative acquisitive growth, whilst simultaneously investing in organic growth initiatives that position the Company for sustainable long term success.

"The acquisition of Hudson Pacific Corporation, completed in September 2016, heralded the further evolution of RFG into a genuine full service food and beverage company, possessed of a diversified and global operating platform which offers an abundance of opportunity and scope for lasting shareholder rewards", he said.

1H17 Summary of Results	Reported			Underlying ⁽³⁾		
	1H16	1H17	Change	1H16	1H17	Change
Revenue ⁽⁴⁾	\$148.3m	\$161.9m	↑ 9.2%			
EBITDA	\$48.9m	\$56.6m	↑ 15.9%	\$53.5m	\$60.5m	↑ 13.0%
NPAT	\$28.5m	\$33.5m	↑ 17.3%	\$32.1m	\$36.2m	↑ 12.7%
EPS (Basic)	17.5 cps	19.6 cps	↑ 12.0%	19.6 cps	21.2 cps	↑ 8.3%
Interim Dividend per Share (DPS)	13.00 cps	14.75 cps	↑ 13.5%			
New Outlet Commissionings	142	138				
International Licensed Territories	63	78				

Having regard to the acquisitive influence on the Company's 1H17 performance, on an underlying basis⁽²⁾, 1H17 NPAT grew 12.7% to \$36.2m, and was the product of an increasingly diversified earnings base, with 1H17 underlying EBITDA growth of 13.0% on PCP (to \$60.5m), translating to underlying EPS of 21.2cps, an increase of 8.3% on 1H16.

In view of the Company's 1H17 performance, the Board today announced an interim fully franked dividend of 14.75cps (PCP 13.00cps), to be paid 10 April 2017 following a Record Date of 20 March 2017. The dividend will be eligible for the purposes of the Company's Dividend Reinvestment Plan⁽⁵⁾.

"The Company's 1H17 interim dividend reflects a balanced payout ratio of 69.5%, which supports both shareholder returns and the organic and acquisitive growth opportunities available to the Company. Reflecting the strength of RFG's business model, the 1H17 dividend represents the 21st consecutive occasion on which the Company has increased its distribution of profits to members," Mr Archer said.

Business Update:

Managing Director, Andre Nell, noted the most pleasing aspect of the Company's performance was the continued diversification of the Group's earnings base, best illustrated by 1H17 Divisional EBITDA performance, where contributions from international operations, coffee supply and commercial operations generated 56% of underlying Group EBITDA.

"Having pursued an organic and acquisitive strategy which focused on building sustainable earnings, vertical integration capability, increased scale and the development of new channels to market, RFG is the steward of a multi-faceted and global growth platform that not only moderates risk, but enhances the Company's ability to capitalise on new opportunities whilst supporting existing business units."

"As well, each of the Company's core Divisions enjoyed enhanced 1H17 earnings, with the performance of RFG's international franchising operations, with underlying EBITDA growth of 13.3% to 10.1m, of particular note," he said.

Franchising Operations:

Supported by a growing complement of engaged Master Franchise Partners, innovative recruitment activity and an enduring franchise offer, RFG commissioned 138 new outlets across its domestic and international networks, closing the 1H17 with a global footprint of 2,556 outlets. A 19% increase in renewals approved by the Group (118 vs PCP:99) also demonstrated robust appetite for the Company's Brand Systems within the domestic Franchise Partner community.

Operationally, weighted Same Store Sales (SSS) and Average Transaction Value (ATV) growth of 1.4% and 2.0% reflected a credible result within a highly competitive retail market.

“A significant focus for the Company has been the fortification of key business drivers to realise lasting positive change. Leveraging cutting-edge technology, strategic third party collaborations and a strong motivation to innovate across product, store design and promotional platforms, the Company has implemented a number of initiatives programmed to drive CY17 performance.”

“An initiative that the Company is particularly excited is the in-store customisation options being applied to the Michel’s Patisserie Brand System. Establishing a unique and scalable point of difference, the 1H17 launch of in-store image printers will be supported later this year by an innovative 3D Chocolate Printer, which will put world first technology into the hands of our Franchise Partners, reinventing the celebration cake category,” Mr Nell said.

International:

During the 1H17, RFG granted an additional 9 licences, increasing its network of international licensed territories to 78 across 10 Brand Systems.

“International franchising operations have become a key ingredient of the Company’s success, driving growth across an increasingly diverse network of territories. Despite encouraging traction to date, the global exploitation of the Group’s Brand Systems remains a relative untapped opportunity which is being vigorously pursued,” he said.

“The Company is in advanced negotiations for the entry of various Brand Systems into new markets, together with implementation of the Group’s international roasting hub model.”

Coffee & Allied Beverage:

RFG’s Coffee & Allied Beverage Division achieved a number of milestones throughout the 1H17. These included a c.6.4% increase in coffee contribution to 1H17 underlying Group EBITDA (to \$21.5m), together with notable industry recognition at the prestigious 2016 Golden Bean Awards, including Di Bella Coffee’s crowning as 2016 Overall Champion.

“The steward of extensive roasting infrastructure and a global supply chain, matched with considerable expertise and extensive relationships throughout the industry, RFG is well positioned to further leverage its coffee business to grow additional earnings.”

“A strategic long term driver of growth within the coffee space is the leveraging of new foodservice channels for penetration of RFG’s coffee and allied beverage products. Initiatives to realise this opportunity are underway, with bespoke foodservice offers focused on that market,” Mr Nell said.

Commercial Division:

Facilitating the addition of a new growth pillar to the Group’s business model, the HPC acquisition further enhanced the diversification of RFG’s earnings base, contributing \$3.7m (or 6.1%) to 1H17 underlying Group EBITDA.

Allied to the establishment and resourcing of a dedicated Commercial Division conceived to extract the substantial opportunity resulting from HPC's alignment within the Group, integration of the HPC assets and operations is well advanced and proceeding to plan.

M&A Activity:

Having realised a significant strategic acquisition during the 1H17, RFG remains well placed to achieve additional acquisitive growth having regard to the opportunities available to the Group.

Mr Nell noted that RFG continues to maintain a prudent and measured approach to M&A activity, with a near term focus on specific franchise, foodservice and coffee and allied beverage opportunities. The Company remains engaged with a number of third parties concerning multiple EPS accretive potential transactions, and will keep the market informed of developments.

Outlook & Guidance:

Having generated considerable momentum during the 1H17, and aided by an increasingly diverse and global business model which offers significant opportunity, RFG retains a positive FY17 outlook.

Consequently, the Group affirms FY17 underlying NPAT guidance of c.20% growth⁽²⁾.

(1) Excluding acquisition & integrations costs.

(2) Refer 1H17 Results Presentation for reconciliation to reported performance.

(3) For full analysis of 1H17 underlying & reported results refer 1H17 Results Presentation.

(4) Revenue excludes revenues associated with Brand System marketing pursuits.

(5) DRP elections will close on the next business day following the Record Date (21 March 2017), and the DRP price will reflect a 2.5% discount to the VWAP of RFG ordinary shares for the 5 trading days preceding and inclusive of the Record Date, and the 5 trading days following the Record Date. The Company may undertake a DRP Shortfall Placement to support capital management initiatives during a period of intensive growth.

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For further information, interviews or images contact:

Annie Lyon, Corporate Communications Manager, Retail Food Group Limited, 0431 306 727 or annie.lyon@rfg.com.au

About Retail Food Group Limited:

RFG is a global food and beverage company headquartered in Australia. The Company is owner of the iconic 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 and Crust Gourmet Pizza Bar Brand Systems, and 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. As well, RFG is a leader in foodservice, dairy processing and wholesale bakery pursuits, operating the Hudson Pacific Foodservice, Dairy Country and Bakery Fresh businesses.

For more information about RFG visit: www.rfg.com.au