



21 June 2017

## FY17 Update

Retail Food Group Limited (RFG, the Company or Group) advises the following:

### Trading Update:

RFG now anticipates FY17 underlying NPAT growth of c.15% above prior corresponding period (PCP)<sup>(1)</sup>, which translates to FY17 underlying Earnings per Share (EPS) growth of c.8% on PCP, and an expected increased fully franked final FY17 dividend.

International operations have continued to enjoy organic growth in FY17, albeit impacted by timing in connection with the conversion of significant new Master Franchise Agreement (MFA) opportunity which will now be concluded in FY18. The Company remains positive regarding its international MFA growth given the number of licensing matters presently being negotiated, noting that licensed territories have increased from 46 to 80 in less than three years, including the important 2H17 grant of a Gloria Jean's Coffees MFA for the United Kingdom.

Commercial operations, including the Hudson Pacific Corporation acquired in 1H17, are performing in line with expectation. Consistent with its strategy to grow foodservice distribution capability on the Eastern Seaboard, the Group completed the bolt-on acquisition of Melbourne based Associated Food Service (AFS) in May 2017.

The Coffee & Allied Beverage Division is also performing to expectation, with growth in commercial coffee contracts offset by a reduction in the lower margin supermarket capsule business.

Overall, domestic franchising in FY17 is trading in line with FY16, with growth across most Brand Systems offsetting a decline for Michel's Patisserie, which has been impacted by third party supply chain issues experienced in transitioning the network operating model to instore customisation.

Placed in perspective, Michel's Patisserie's contribution to Group EBITDA is c.12%, with overall domestic franchise contribution to FY17 Group EBITDA anticipated to be c.44%, underlying the growing diversity of the Company's business model.

### Marketing Fund Advances:

Recoverability of advances made by the Group to the Michel's Patisserie and Pizza Capers Marketing Funds had been reassessed, and a c.\$22m non-cash write-down will be recorded in FY17 Results (as a non-core expense).

The key factors in taking this decision are that:

- The Michel's Patisserie Marketing Fund balance includes a significant investment by the Company in the National Bakery Solution, which while now complete and operational, services a reduced number of outlets. As a consequence of the lower outlet population, full recoverability of the Group's advances is no longer certain and in any event would not be recouped in accordance with original assumptions. Whereas completion of instore

customisation transition provides the Company with a high degree of comfort regarding longer term franchisee profitability and reinvigorated outlet growth, it was nevertheless considered prudent to reduce the quantum otherwise repayable by the Marketing Fund, thus ensuring adequate resources to invest in marketing of the Brand System over the medium term.

- The QSR Divisional strategy, implemented in FY16, incorporating Pizza Capers' regional alignment (principally to Qld, Northern NSW and WA) and promotion of Crust Gourmet Pizza as the Group's representative national QSR pizza brand, has resulted in a reduced Pizza Capers' outlet population. As detailed in connection with the Michel's Patisserie Marketing Fund, the Company has reduced the quantum of advances otherwise repayable to ensure appropriate funding is available to invest in medium term marketing initiatives.

Marketing Fund advances amongst the Company's other Brand Systems, of c.\$9m, will be recovered in the ordinary course of business.

#### **Executive Changes:**

RFG Managing Director, Andre Nell, will assume the Company's CEO function given current CEO Gary Alford's decision to retire from the Company later this calendar year, following two decades' distinguished service.

Consistent with the Group's focus on driving international growth, the Company is pleased to announce the promotion of Mike Gilbert to Chief Executive – International.

#### **Outlook:**

RFG remains optimistic regarding its future performance, given the Company's increasingly diversified business model, which affords continuing opportunities for growth.

In respect to FY18, the Company anticipates organic growth to continue, largely driven by its International, Commercial and Coffee & Allied Beverages divisions, with domestic franchising expected to achieve modest growth, particularly having regard to the initiatives applied to the QSR Division and Michel's Patisserie Brand System.

The Company also continues to enjoy a strong relationship with its bankers, with facility headroom of c.\$80m, and a conservative leverage ratio of c.2x, providing ample funding for non-organic growth initiatives.

(1) Down from the previously advised c.20%. Excludes acquisition, integration & restructure costs, and the non-cash impact of Brand System Marketing Fund write-downs detailed herein

#### **ENDS**

For further information, interviews or images contact:

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#### **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, Bakery Fresh, and Associated Food Service businesses.

For more information about RFG visit: [www.rfg.com.au](http://www.rfg.com.au)