29 August 2017

FY17 Results & Restatement of Prior Years' Accounts

Key Matters

- FY17 underlying financial metrics[(1)]:
  - Revenue up 27.0% on prior corresponding period (PCP), to $349.3m.
  - EBITDA up 12.1% on PCP, to $123.5m.
  - NPAT up 14.0% on PCP, to $75.7m.
- Translated to:
  - EPS up 7.9% on PCP to 43.7cps[(1)].
  - FY17 Dividends of 29.75cps, an increase of 8.2% on PCP.
- Acquisition of Hudson Pacific Corporation (HPC) & Associated Foodservice (AFS):
  - Represents significant additional long-term growth platform, further diversifying earnings.
  - Transformed RFG into holistic food & beverage company.
- 81 international licensed territories (FY16: 69):
  - Complemented by 1H18 establishment of Middle East Hub joint ventures.
- Review of accounting treatment of certain items resulted in significant restatement of financial information for prior years' accounts[(2)].

Retail Food Group Limited (RFG, the Company or Group) today announced FY17 underlying NPAT of $75.7m, which reflected a 14.0% increase on PCP.

The Company's profit result was underpinned by a 12.1% increase in underlying Group EBITDA to $123.5m, derived from Revenues of $349.3m, which represented a 27.0% increase on PCP.

These results translated to underlying Earnings per Share growth of 7.9% on PCP, to 43.7cps.

The RFG Board today announced a final, fully franked dividend in respect of FY17 of 15 cents per share, which when combined with the Company's interim dividend, contributed to total dividends for the year of 29.75cps, an increase of 8.2% on PCP.

The FY17 final dividend will be paid on 17 October 2017 following a Record Date of 12 September 2017. The dividend will be eligible for the purposes of the Company's Dividend Reinvestment Plan[(3)].

International Operations:

RFG now enjoys a global network incorporating 81 international licensed territories, following the grant of 15 new international territory licenses since the conclusion of FY16.

RFG Managing Director Andre Nell noted that the Group's growing international network extends the Company's revenue streams, enhancing future growth opportunity.

"Global license activity not only provides immediate short term benefits on the grant of a new license, importantly, it also contributes to building recurrent revenue streams which increase as international territories grow their outlet footprint, providing a strong platform for increased royalty and product supply earnings," he said.

The Company's international platform was further enhanced in the 1H18 by RFG's entry into breakthrough joint venture arrangements with leading UAE based businesses, the Al Hathboor Group and HKO Group, to accelerate Brand System expansion within the Gulf region and establish a world class coffee enterprise focused on realising significant untapped coffee opportunities throughout the Middle East & North Africa (MENA) region.

Commercial Division:

The 1H17 acquisition of HPC led to establishment and resourcing of a dedicated Commercial Division focused on leveraging the opportunities afforded by the Company's national growth platform for coffee, dairy and bakery supply across retail and wholesale channels.

Commercial operations performed strongly during FY17, contributing $11.8m to underlying Group EBITDA for the period, assisted by a c.6% increase in Dairy Country annualized value-added cheese throughput to c.26.4m kg, and a c.16% increase in Bakery Fresh annualized bakery goods throughput to c.3.8m kg.

Coffee & Allied Beverage (C&AB):

The Company's C&AB operations contributed $42.7m to FY17 underlying Group EBITDA (FY16: $42m), with growth amongst Franchise Division coffee supply and commercial contracts offset by a reduction in lower margin supermarket capsule business. Annualized C&AB throughput of c.6.2m kg was consistent with PCP.

RFG's C&AB operations have been repositioned under the "Di Bella Coffee Co" brand to leverage the substantial market reputation and brand strength it enjoys across the coffee segment. The repositioning consolidates the entirety of RFG's domestic coffee operations under a single banner, whilst aligning it with the Group's broader international coffee strategy.

Franchise Division:

Franchise Division contribution to FY17 underlying Group EBITDA rose $1.4m, or 1.5%, on PCP , supported by strong performance amongst the Group's Coffee Retail operations, which grew underlying EBITDA by 9.0%.

Within Bakery Café, a strong performance from Donut King offset reduced performance amongst Michel's Patisserie, which was impacted by transition to instore customisation. As well, QSR Division performance was impacted by the regional alignment of Pizza Capers and promotion of Crust as the Group's representative national pizza brand.

Weighted Same Store Sales (SSS) and Average Transaction Values (ATV) grew 0.9% and 1.8% respectively, a credible result in a highly competitive retail market.

210 organic outlet commissionings were achieved during FY17.

Mergers & Acquisitions:

Following the FY17 acquisition of HPC and AFS, medium term M&A focus is aligned to the Commercial Division's Eastern Seaboard growth strategy to extend capability in alignment with the Group's franchise and wholesale networks.

Outlook & Guidance:

Focused on a Global 2020 strategy to leverage the Company's increasingly diversified business model and growing global platform, RFG remains optimistic in respect to future performance. This platform will be further enhanced via the commissioning of a whole of business program focused on transformational development of internal capability.

Looking forward, organic growth is anticipated across all divisions in FY18, largely driven by International, C&AB and Commercial performance, contributing to forecast FY18 underlying NPAT growth of c.6%[4].

Review of Accounting Treatment of Certain Items & Restatement of Financial Information for Prior Years' Accounts:

The Group conducted a detailed review of its accounting policies, and having regard to new guidance being released during the year on application of certain accounting standards.

Accounting policies reviewed were with respect to intangible assets, contingent consideration payments for acquisitions, and accounting for Brand System marketing funds, and as a consequence, the Group's accounts for each of the financial years ended prior to and 30 June 2015 (FY15) and the financial year ended 30 June 2016 (FY16) will be restated.

This review of the accounting treatment in those prior years has had no impact on the underlying performance of RFG for the financial year ended 30 June 2017 (FY17).

The accounting adjustments are more particularly detailed in the "RFG - FY17 Results Announcement Addendum" accompanying this release.

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(1) Refer FY17 Results Presentation for reconciliation to reported performance.

(2) As more particularly described herein, and in the Company's FY17 financial statements, including the Directors' Report forming part thereof.

(3) DRP Elections will close on the next business day following the Record Date (13 September 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.

(4) Excluding acquisition, integration & restructuring costs.

ENDS

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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 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 Company and Evolution Roasters brands. As well, RFG is an emerging leader in foodservice, dairy processing and wholesale bakery pursuits, operating the Hudson Pacific Foodservice, Associated Foodservice, Dairy Country and Bakery Fresh businesses. For more information about RFG visit: www.rfg.com.au

RFG – FY17 results announcement addendum

Review of accounting treatment of certain items and restatement of financial information for FY15 and FY16

Retail Food Group Limited (RFG, the Company or Group) advises that the Group conducted a detailed review of its accounting policies, and having regard to new guidance being released during the year on application of certain accounting standards.

Accounting policies reviewed were with respect to intangible assets, contingent consideration payments for acquisitions, and accounting for Brand System marketing funds, and as a consequence, the Group's accounts for the financial years ended prior to and including 30 June 2015 (FY15) and the financial year 30 June 2016 (FY16) will be restated.

This review of the accounting treatment in those prior years has had no impact on the underlying performance of RFG for the financial year ended 30 June 2017 (FY17).

Accounting policy considerations, adjustments & corrections for FY15 and FY16

- Following an agenda decision of the IFRS Interpretation Committee (IFRIC) made in November 2016 with respect to accounting for Intangible Assets, the Group has reviewed the tax effect accounting for its Brand System intangible assets (being indefinite life intangible assets). This has resulted in the recognition of deferred tax liabilities with respect to these intangibles, with the resultant uplift in goodwill recorded in the Group's statement of financial position as at 30 June 2015.
- The review conducted of the Group's accounting policies for intangible assets with the afore mentioned IFRIC decision determined the Group's Brand Systems represent an individual CGU (cash generating unit) for the purposes of impairment testing. Impairment testing has been conducted on a retrospective basis. As a result, it has been determined that certain individual Brand Systems were impaired in the financial years prior to and ended 30 June 2015.
- Certain contingent consideration payments for the Gloria Jean's Coffee acquisition that imply a service obligation by the vendor should have been recognised in the Group's profit or loss in FY15 and FY16 rather than recorded as goodwill.
- Following the write-down of advances to marketing funds announced on 21 June 2017, the Group conducted a further detailed review of its accounting policies with respect to franchise system marketing expenditure, and accounting for internally generated intangible assets, including research and development expenditure. As a result of this review, the Group has determined that the accounting for Brand System marketing expenditure will be incurred and recovered on an annual basis, with the revenue and expenditure associated with Brand System marketing activities presented net within the Group consolidated statement of profit or loss and other comprehensive income.
- The write-down of advances to marketing funds not recovered prior to and including FY15 and FY16 have been recognised in FY15 and FY16 respectively. The FY16 consolidated statement of profit or loss and other comprehensive income has been restated to present the revenue and expenditure associated with Brand System marketing activities on a net basis, and the write-downs attributable to the FY16 year.

It is important to note that the technical accounting changes for intangible assets do not impact on the cash flows of the business, or the manner in which the Group defines and operates its Brand Systems at the CGU and segment level. Indeed, the valuation of the Group's intangible assets, when viewed at the segment and Group level, comfortably exceeds the carrying value of those assets.

Restatement of financial information for FY15 and FY16

The following tables summarise the financial effect of these changes on the Group's accounts for FY15 and FY16.

Consolidated Statement of Financial Position	30-Jun-15 Reported	Deferred tax adjustment	Intangible asset impairment testing adjustment	Contingent consideration adjustment	De-recognition of Marketing Fund receivables	Total 2015 year adjustments	30-Jun-15 Restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Inventories	20,901	-	-	-	(448)	(448)	20,453
Other financial assets	29,586	-	-	-	(22,734)	(22,734)	6,852
Current tax assets	1,595	-	-	-	6,955	6,955	8,550
Deferred tax assets	8,664	-	(885)	-	-	(885)	7,779
Intangible assets	512,979	130,576	(46,489)	(2,965)	-	81,122	594,101
Total assets	680,048	130,576	(47,374)	(2,965)	(16,227)	64,010	744,058
Deferred tax liabilities	-	130,576	(14,668)	-	-	115,908	115,908
Other	34,024	-	-	(2,115)	-	(2,115)	31,909
Total liabilities	276,266	130,576	(14,668)	(2,115)	-	113,793	390,059
Net assets	403,782	-	(32,706)	(850)	(16,227)	(49,783)	353,999
Foreign currency translation reserve	1,276	-	(1,210)	-	-	(1,210)	66
Retained earnings	87,455	-	(31,496)	(850)	(16,227)	(48,573)	38,882
Total equity	403,782	-	(32,706)	(850)	(16,227)	(49,783)	353,999

Consolidated Statement of Financial Position	30-Jun-16 Reported	Intangible asset impairment testing adjustment	Contingent consideration adjustment	Trade receivables reclassification	De-recognition of Marketing Fund receivables	Total 2015 year adjustments carried forward	30-Jun-16 Restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other receivables	48,574	-	-	(4,133)	-	-	44,441
Inventories	16,103	-	-	-	-	(448)	15,655
Other financial assets	42,251	-	-	4,133	(8,436)	(22,734)	15,214
Current tax assets	-	-	-	-	(2,500)	6,955	4,455
Deferred tax assets	8,279	-	-	-	-	(885)	7,394
Property, plant and equipment	51,561	-	-	-	(455)	-	51,106
Intangible assets	514,402	-	-	-	-	81,122	595,524
Total assets	700,786	-	-	-	(11,391)	64,010	753,405
Trade and other payables	21,758	-	615	-	-	-	22,373
Current tax liabilities	5,167	-	-	-	(5,167)	-	-
Deferred tax liabilities	-	-	-	-	-	115,908	115,908
Other	29,892	-	1,500	-	-	(2,115)	29,277
Total liabilities	266,542	-	2,115	-	(5,167)	113,793	377,283
Net assets	434,244	-	(2,115)	-	(6,224)	(49,783)	376,122
Foreign currency translation reserve	1,925	780	-	-	-	(1,210)	1,495
Retained earnings	108,247	(780)	(2,115)	-	(6,224)	(48,573)	50,555
Total equity	434,244	-	(2,115)	-	(6,224)	(49,783)	376,122

Consolidated Statement of Profit or Loss and Other Comprehensive Income	30-Jun-16 Reported	Intangible asset impairment	Contingent consideration adjustment	De-recognition of Marketing Fund receivables	Marketing expenditure reclassification	30-Jun-16 Restated
	$'000	$'000	$'000	$'000	$'000	$'000
Continuing operations						
Revenue from sale of goods	169,269	-	-	-	(4,429)	164,840
Cost of sales	(106,280)	-	-	-	8,605	(97,675)
Other revenue	141,202	-	-	-	(30,945)	110,257
Other gains and losses	640	-	(1,500)	-	835	(25)
Marketing expenses	(28,224)	-	-	-	24,469	(3,755)
Occupancy expenses	(8,265)	-	-	-	670	(7,595)
Administration expenses	(20,992)	-	-	-	795	(20,197)
Other expenses	(7,799)	-	(615)	(8,891)	-	(17,305)
Profit before tax	87,589	-	(2,115)	(8,891)	-	76,583
Income tax expense	(26,287)	-	-	2,667	-	(23,620)
Profit for the period	61,302	-	(2,115)	(6,224)	-	52,963
Exchange differences on translation foreign operations	649	780	-	-	-	1,429
Other Comprehensive Income	649	780	-	-	-	1,429
Total comprehensive income	61,951	780	(2,115)	(6,224)	-	54,392
Earnings per share						
From continuing operations:						
Basic (cents per share)	37.4	-	(1.3)	(3.8)	-	32.3
Diluted (cents per share)	37.4	-	(1.3)	(3.8)	-	32.3

Consolidated Statement of Changes in Equity	Fully Paid Ordinary Shares	Other Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
Balance as at 30 June 2015 (Reported)	315,051	1,276	87,455	403,782
Total 2015 year adjustments	-	(1,210)	(48,573)	(49,783)
Balance as at 30 June 2015 (Restated)	315,051	66	38,882	353,999
Profit for the year ended 30 June 2016 (Reported)	-	-	61,302	61,302
De-recognition of Marketing Fund receivables	-	-	(6,224)	(6,224)
Contingent consideration adjustment	-	-	(2,115)	(2,115)
Profit for the year ended 30 June 2016 (Restated)	-	-	52,963	52,963
Net income recognised directly in equity	-	1,429	-	1,429
Intangible asset impairment adjustment	-	-	(780)	(780)
Issue of ordinary shares net of costs	9,021	-	-	9,021
Payment/Provision of dividends	-	-	(40,510)	(40,510)
Balance as at 30 June 2016 (Restated)	324,072	1,495	50,555	376,122