

RETAILFOODGROUP

STRENGTH IN BRANDS

25 November 2014

ACQUISITION OF DI BELLA COFFEE

Highlights:

- Global intellectual property owner of “Di Bella Coffee” specialty coffee group;
- 30% increase in roasting and wholesale coffee business;
- Strong presence in commercial coffee sales channel and established foothold in international markets;
- Access to boutique coffee based products “Coffee Kick” and “Torq” concentrate;
- Senior management (including founder) transitioning to Retail Food Group;
- Immediately EPS accretive with a forecast c.\$6m contribution to EBIT in FY16;
- EV/EBIT multiple range 5.2 to 6.0 (depending upon earn-out achievement).

Australia’s largest multi-brand retail food franchisor and leading wholesale coffee roaster, Retail Food Group Limited (RFG or the Company) today announced its entry into a Share Purchase Agreement (SPA) to acquire the global business and intellectual property assets of the Di Bella Coffee Group (Di Bella Coffee).

Background to Di Bella

Founded in Brisbane in 2002 by leading coffee entrepreneur Phillip Di Bella, Di Bella Coffee has become one of Australia’s largest speciality coffee roasters, establishing a well-earned reputation as a commercial channel focused business (retail, wholesale, motel, hotel, convention, airlines etc), driven by a dedication to delivering consistent high quality fresh coffee.

Di Bella Coffee has demonstrated enormous potential for continued organic growth both nationally and internationally, with distribution arrangements having been established for the New Zealand, Asian and Indian markets in recent years.

The acquired business includes:

- The global intellectual property of Di Bella Coffee, a specialist roaster with unique blends and channels to market;
- A significant roasting and wholesale coffee business with annualised throughput of c. 1.4m kg, established distribution channels across the Eastern seaboard, Western Australia and internationally; and channels to market comprising:
 - Commercial c.70%; and
 - Contract Retail c.30%.
- Additional boutique coffee based products:
 - Coffee Kick (a ready-to-drink cold brew ‘coffee in a can’ innovation); and
 - Torq (an all-natural liquid instant coffee concentrate); and
- An established and growing online retail channel.



The Acquisition

The Di Bella Group increases RFG coffee throughput by approximately 30% to c. 5.9m kg (including the Gloria Jean's Group).

RFG CEO Tony Alford noted that the transaction satisfies RFG's key acquisitive criteria in that Di Bella Coffee is immediately Earnings per Share (EPS) accretive, generates increased supply-side scale and vertical integration opportunity, and significantly enhances RFG's coffee and allied beverage throughput.

"In addition to these attributes, Di Bella Coffee complements and extends the Company's existing market penetration by providing the Group with a reputable specialist coffee brand to grow scale amongst each of its coffee and allied beverage distribution channels including franchisee, contract roasting, commercial and the rapidly growing 'in home' capsule opportunity inherent in the Gloria Jean's Coffees acquisition, due for imminent settlement", Mr Alford said.

Importantly, Phillip Di Bella will join RFG on a full time basis, where he will continue to not only nurture and grow the Di Bella Coffee business, but also undertake an increasingly important role within RFG's Coffee & Beverage Management (CBM) division.

"Not only will Mr Di Bella's retention facilitate seamless transition of the business, it affords RFG another layer of "coffee" expertise in addition to that garnered as a consequence of the Gloria Jean's Group acquisition. There is no question that Phillip's passion for coffee excellence, industry experience and business knowledge, will further advance RFG's coffee management team", Mr Alford said.

Di Bella Coffee Managing Director Phillip Di Bella said, "Di Bella has been built on the vision to provide 'the ultimate coffee experience', and this vision will be enhanced by leveraging RFG's scale of operations and significant resources".

"I am extremely excited by the opportunities the transaction brings to Di Bella Coffee. The systems, processes and support structures to be brought to the business via its integration with RFG will allow consolidation of existing domestic opportunities, whilst also allowing greater focus on expanding the Di Bella Coffee brands internationally", he said.

The Acquisition Metrics

- (1) On settlement: \$30m comprising \$27.4m cash and RFG ordinary shares to the value of \$2.6m (capable of substitution with cash at RFG discretion); plus
- (2) Up to \$17.3m in milestone and earn-out performance based payments;
- (3) FY15 EBIT⁽¹⁾ contribution (assuming 31st January 2015 settlement): c.\$2.0m;
- (4) FY16 EBIT⁽¹⁾ contribution: c.\$6.0m;
- (5) FY16 EV/EBIT multiple range: 5.2 to 6.0 (depending upon earn-out performance).

In addition RFG advises that:

- (6) The SPA is subject to RFG satisfactorily completing its due diligence inquiries, along with other usual and ordinary conditions;
- (7) Is programmed for completion on or before 31 January 2015;
- (8) The consideration payable will be settled from the Company's cash and debt facilities; and
- (9) The acquisition will increase Net Debt to c.\$210m comfortably within the Company's EBITDA Leverage Ratio (2.5x) on a full year run rate basis.

About Retail Food Group Limited:

RFG owns the Donut King, Brumby's Bakery, Michel's Patisserie, bb's café, Esquires, The Coffee Guy, Café2U, 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, Caffe Coffee, Roasted Addition and Barista's Choice coffee brands. On 24 October 2014 the Company announced its entry into a Share Purchase Agreement to acquire Gloria Jean's Coffees, with settlement of that transaction scheduled for December 2014.

ENDS

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Notes:

- (1) Underlying and excluding:
 - a. transaction costs and integration expenses, and
 - b. synergy and integration benefits.