



ASX/media release

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Update: Pizza Businesses

Leading Australian retail food brand manager and franchisor, Retail Food Group Limited (RFG or the Company), today provided the following update:

Crust Gourmet Pizza Bars:

In August 2012 RFG announced its entry into a conditional Sale & Purchase Agreement (SPA) to acquire the Crust Gourmet Pizza Bars ('Crust') franchise system.

The SPA was conditional upon RFG satisfaction with its due diligence enquiries and provided for consideration equivalent to 7x Crust FY13 adjusted EBIT paid in two tranches as follows:

- On settlement: \$21m cash and RFG ordinary shares to the value of \$3m; and
- Approximately 12 months from settlement: an amount representing the difference between 7x Crust FY13 adjusted EBIT less the \$24m forming part of the purchase price paid in the initial tranche noted above (the second tranche to be paid in cash or cash and scrip at RFG's election).

Subsequent to extensive due diligence, RFG has obtained further comfort regarding Crust's anticipated FY13, FY14 and FY15 earnings contribution and resolved on a position that amendment to the original SPA terms was in the best interests of all stakeholders.

Following engagement with the Crust vendors, agreement has now been reached whereby the terms of the SPA are varied in order to provide for a fixed consideration of \$41m.

Furthermore, but subject to the Crust business under RFG stewardship meeting certain performance hurdles relevant to the 24 months following completion, the vendors are entitled to additional payments to a maximum \$4m.

Other salient terms of the revised agreement contemplate:

- settlement on or before 30 October 2012;
- payment of the fixed sum consideration (\$41m) in two tranches as follows:
 - \$25m on settlement in the form of \$22m cash and RFG ordinary shares to the value of \$3m; and
 - \$16m in December 2012 in the form of \$12m cash and RFG ordinary shares to the value of \$4m;
- removal of the original earn-out provisions;

- the appointment of Crust CEO Michael Logos as RFG’s QSR Divisional director (having responsibility for management of both the Crust and Pizza Capers Gourmet Kitchen franchise systems); and the
- immediate integration of the Crust system within RFG’s existing brand structure post completion.

RFG CEO Tony Alford said, “the Company’s due diligence enquiries have not only provided further comfort regarding future Crust contribution to RFG earnings, they have validated our initial interest and motivation for the transaction itself”.

“The revised SPA terms provide certainty to all stakeholders whilst also reaffirming RFG’s basic acquisitive prerequisites that all target businesses are Earnings Per Share (EPS) accretive and provide a sustainable platform for earnings growth”.

“Acquisition of the Crust system positions the Company as the genuine market leader in the gourmet pizza QSR segment with a combined population of circa 240 outlets”, he said.

Crust CEO Michael Logos said, “the revised transaction terms validate our own views regarding the vitality and prospects of the Crust system whilst also ensuring the alignment of RFG and vendor objectives”.

“Importantly, the amendments allow Crust management to apply a long term focus to the future of the system without further distraction. We are looking forward to partnering with a growing public company with proven expertise in the retail food franchising industry”, he said.

Pizza Capers Gourmet Kitchen:

Whereas RFG’s focus on the Pizza Capers Brand System has been unavoidably diverted as a consequence of the Crust transaction, Pizza Capers continues to perform well post acquisition with the brand on track to achieve new outlet growth of 20 during CY12.

Mr Alford indicated that, “given the certainty now achieved in connection with the Crust acquisition, the Company is no longer constricted in the execution of its growth strategy for the Pizza Capers Brand System”.

“Importantly, it has become increasingly apparent to the Company over the course of recent months that there exists considerable scope for the independent proliferation of both the Crust and Pizza Capers networks, and furthermore, significant additional growth potential for the Pizza Capers brand”, he said.

Combined Crust & Pizza Capers Earnings Contribution:

As a consequence of the revised Crust SPA, on completion the Company will be in a position to immediately access the integration benefits and other synergies which flow from the alignment of Pizza Capers and Crust (contrary to what would have been the position had the Crust transaction proceeded under the original SPA terms which incorporated an FY13 earn-out on the basis of independent management and operation).

Given the Company’s refocus on exploiting the aforesaid growth opportunities and synergies, RFG anticipates certain one off expenses in FY13, including human resource restructure, office relocations and alignment of franchise service and operational capabilities.

Excluding the foregoing expenses, and taking account of the one month delay to the Crust settlement, the Company anticipates an FY13 EBIT contribution of circa \$8.2m from its two gourmet pizza Brand Systems, which represents a circa 10% increase on previous guidance.

Additional Pizza Acquisition:

RFG yesterday entered into an Asset Purchase Agreement (APA) by which it will acquire four ACT domiciled pizza and pasta outlets. Three of the outlets are vendor operated with the remainder subject to a franchise arrangement.

Each of the outlets will be converted to the Pizza Capers Brand System following completion.

The APA is subject to due diligence with settlement anticipated on 1 November 2012.

Acquisitive Activity:

Whilst RFG continues to take a conservative and measured approach, acquisitive activity remains a core component of the RFG growth platform.

“Having completed circa 10 acquisitions since Listing in June 2006, the Company maintains a well-defined due diligence protocol and new business integration expertise. We continue to engage with a number of parties in that respect and will keep the market informed as to developments”, Mr Alford said.

About Retail Food Group Limited:

Retail Food Group is a leading Australian retail food brand manager, franchisor and wholesale coffee roaster. It is the franchisor and intellectual property owner of the Donut King, Michel’s Patisserie, Brumby’s Bakery, bb’s café, Pizza Capers Gourmet Kitchen and Esquires Coffee Houses franchise systems and roasts over one million kilograms annually of proprietary coffee products via the Evolution Coffee Roasters Group, Caffè Coffee and Barista’s Choice coffee brands.

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