

23 December 2009

## ACQUISITION UPDATE, DEBT & 1H10 GUIDANCE

### ACQUISITION OF BIG DAD'S PIES:

Leading Australian retail food brand manager and franchisor Retail Food Group Limited (ASX:RFG) today announced that it has reached agreement (subject to normal contractual terms and finalisation of due diligence enquiries) to acquire the Big Dad's Pies franchise system.

Big Dad's Pies brings to four the number of acquisition transactions announced by the Company in the past month.

Retail Food Group CEO Tony Alford said that, "the Big Dad's Pies franchise system comprises 37 South East Queensland based outlets renowned for their specialty pies produced fresh daily. The menu offer is complemented by various other quality products synergistic with those of the Company's existing Brumby's Bakeries franchise system.

"Big Dad's Pies will be aligned to, and be developed under the umbrella of, the Brumby's system and represents a further opportunity to add a successful, value accretive business capable of providing additional scale, revenues, synergies and intellectual property expansion to the Company's retail food franchise system portfolio", Mr Alford said.

"The acquisition will also enable RFG to avail itself of additional opportunities given the Big Dad's Pies outlet network is principally situated in strip and other locations that differ from the predominant shopping centre environments of the Company's existing franchise systems", he said, "this opportunity is consistent with the Company's endeavours to proliferate its franchise systems in non-traditional site locations given the tempering of new shopping centre development and consequential reduction of prime site opportunities therein".

The acquisition metrics of the transaction remain commercially sensitive and premature disclosure may prejudice other negotiations in which the Company is presently engaged. Notwithstanding this, the Company confirms that the acquisition:

- is EPS accretive (consistent with RFG's acquisition philosophy);
- is scheduled to complete prior to the 28<sup>th</sup> February 2010; and
- consideration will be wholly funded from cash reserves with no requirement for a capital raising.

### DUE DILIGENCE:

On 27 November 2009, RFG advised that it had entered into conditional agreements to acquire the DCM Coffee & Donuts franchise system, the Brumby's North Queensland and Brumby's New Zealand master franchise territories.

The Company announced today that it had satisfactorily completed its due diligence inquiries so far as the DCM Coffee & Donuts franchise system was concerned, while due diligence investigations in respect of the Brumby's North Queensland and Brumby's New Zealand master franchise territory acquisitions continues.

The acquisition agreement with respect to DCM Coffee & Donuts is now unconditional and settlement is due to be effected on or before the 3<sup>rd</sup> week in January 2010.

"Whilst the four acquisitive transactions announced by the Company over the past month are individually small, together they represent an immediate 2H10 EBIT contribution for RFG and importantly for the Company, a further platform for additional scale and increased shareholder value", Mr Alford said.

#### **DEBT:**

As indicated during its 27 November 2009 AGM, the Company's existing debt facilities mature in December 2010.

RFG CEO Tony Alford said, "whilst discussions with the major financial institutions have provided significant comfort with respect to the extension or refinance of the Company's core debt facilities, and RFG has seriously considered availing itself of numerous offers of extended finance facilities made previously, the Company has resolved that refinance of its existing facility will be comfortably deferred to the new year".

The foregoing position:

- is consistent with the Company's stated capital management policies;
- will maintain ongoing existing favourable loan terms (including margins) during the immediate term; which allows
- RFG to focus on the continued reduction of debt which will enable the Company to partake of improving margins anticipated as a result of reducing debt levels and any easing of pressures on bank lending margins.

Mr Alford said, "the Company's free cash generation remains strong and RFG is confident that net debt will be reduced below \$80m by the 31<sup>st</sup> December 2009, which will represent an \$11m reduction in the 1H".

#### **1H10 GUIDANCE:**

RFG today reaffirmed that, based on year to date unaudited management accounts, 1H10 NPAT from core operations will be in the range of 10% to 15% over that reported in 1H09 (being \$11.05m).

The Company has also achieved its 1H10 organic new outlet growth guidance of 20 outlets.

RFG anticipates release of its 1H10 results in late February 2010 and at that time will provide further details regarding the four acquisitions referred to above.

#### **ENDS**

**For further information, interviews or images contact:**

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