



RETAILFOODGROUP
STRENGTH IN BRANDS

25 August 2016

Acquisition of Hudson Pacific Corporation (HPC)

Highlights:

- Completes evolution of RFG into genuine full service food & beverage company;
 - Compelling transaction which satisfies each of RFG's core acquisitive investment criteria;
 - Results in consolidated RFG/HPC distribution value >\$300m
 - Pro Forma FY16 HPC revenue of c.\$139m⁽⁵⁾;
 - Significant benefit to RFG and existing franchisee/wholesale customer networks;
 - +2,000 HPC customers provides opportunity for rapid penetration of RFG Coffee & Allied Beverage product;
 - Significant vertical integration opportunity complementing existing pursuits;
 - Delivers significant expertise in import/export and commodities trading aligned with RFG's global footprint;
 - Immediately EPS accretive (out-year⁽¹⁾ +10%), with forecast c.\$11m contribution to FY17 Group EBITDA⁽²⁾;
 - Out-year EV/EBITDA multiple of c.5.7x⁽²⁾;
 - Wholly funded by existing cash/debt & RFG vendor scrip allocation;
 - Vendor & senior management committed long term & aligned with RFG vision.
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Retail Food Group Limited (RFG, the Company or Group) today announced its entry into a Share Purchase Agreement (SPA) to acquire the business and operations of Hudson Pacific Corporation (Hudson Pacific or HPC).

Incorporating a leading Victorian procurement, warehousing and distribution business, a state-of-the-art dairy value-add facility, and a central bakery manufacturing chilled/frozen product, the acquisition marks the formal entry of RFG into third party full service food and beverage operations, substantially increasing the present scale of foodservice activities undertaken by the Group in support of its franchise community.

RFG Managing Director Andre Nell noted that, following integration of the Cafe2U, Di Bella Coffee and Gloria Jean's Coffees Groups during FY16, the Company is now ideally positioned for its next M&A opportunity.

"The Hudson Pacific acquisition, which will be immediately EPS accretive, is unique in that it satisfies each of RFG's core investment criteria. With each HPC division complementing RFG's existing operations, the transaction offers revenue diversification and vertical integration opportunity, generates significant scale, and importantly, will provide meaningful benefit to the Company's existing franchisee community and wholesale customers", he said.

Founded in Victoria in 1985, HPC has grown to become a leading integrated procurement, warehousing, manufacturing and distribution business comprising the following complementary functional business units:

1. Hudson Pacific Food Service: An established independent foodservice business with 30+ years' experience offering 4,000+ frozen, chilled and ambient product SKUs;
2. Dairy Country: Australia's largest independent cheese value-adding enterprise, focusing on high volume contract conversion, packing and processing; and
3. Bakery Fresh: Victorian based manufacturer specialising in chilled/frozen bakery products.

RFG and HPC have enjoyed a strong relationship for c.20 years, with the later providing products and services to the Company's franchise community. Post-acquisition, each of the HPC divisions will benefit from the opportunity to service c.5,500 franchisees and wholesale customers, contributing to combined FY16 pro forma Group revenues of c.\$414m⁽⁶⁾, an increase of c.\$139m.

"RFG's alignment with HPC offers a circa 50% increase in combined pro forma Group revenues with immediate access to a 2000+ customer network for rapid penetration of the Group's Coffee & Allied Beverage products, and as well, delivers procurement expertise and scale that will see the Group's total distribution value exceed \$300m", he said.

Mr Nell also emphasised that the transaction offered tangible benefit to RFG's franchise community and existing wholesale customer base.

"The acquisition will enable RFG to leverage HPC's procurement, manufacturing and distribution scale to grow both franchisee margin and menu offer, while the establishment of a dedicated procurement and sourcing division will provide a competitive advantage to both franchisees and wholesale customers", he said.

Importantly, HPC founder and managing director Ken Skoullou, together with HPC CEO Frank Karkalas, have committed to join RFG on a full time basis to both nurture and grow the HPC business, and to undertake increasingly important leadership functions within the consolidated Group's commercial operations.

"The retention of Ken and Frank not only facilitates a seamless transition of business stewardship, but affords industry leading expertise in connection with procurement, warehousing, distribution, manufacturing, and import/export activities", Mr Nell said.

HPC founder Ken Skoullou said, "I am extremely excited by the extraordinary opportunities the transaction delivers to both HPC and RFG, and am impressed by how quickly RFG has recognised the potential value inherent in aligning our two businesses. Having maintained a strong business relationship with RFG for 20 years, I am looking forward to joining the Company and delivering upon the multitude of strategic benefits identified during our engagement to date".

HPC CEO Frank Karkalas added that, "the formal alignment of the two enterprises provides a kaleidoscope of synergy and opportunity, where the consolidated group can generate earnings far greater than the sum of the parts".

Acquisition Metrics:

1. Transaction Pricing of \$88m, comprising \$55m cash and c.\$33m RFG scrip⁽³⁾;
2. FY17 EBITDA contribution (assuming late September 2016 settlement) of c.\$11m⁽³⁾;
3. Out-year pro forma EBITDA of c.\$15.5m⁽²⁾;
4. Out-year acquisition EV/EBITDA multiple c.5.7x⁽²⁾;
5. Out-year EPS accretion +10%⁽⁴⁾.

In addition, RFG advises that:

6. The SPA is subject to RFG satisfactory confirmatory due diligence investigations, along with other usual and ordinary conditions;
7. Is programmed for completion in late September 2016;
8. The present cash and facility headroom of RFG (c.\$110m) comfortably accommodates the cash portion of the Transaction Pricing; and
9. The out-year Gearing Ratio (Net Debt/Net Debt + Equity) of c. 30% is consistent with the Company's present gearing, and comfortably remains within all other lending covenants.

Notes:

- (1) The 12 month period from Transaction completion
- (2) Underlying gross of acquisition & integration costs
- (3) Subject to final adjustments
- (4) Calculated by reference to RFG FY16 underlying EPS and without regard to acquisition and integrations costs
- (5) FY16 Pro Forma (unaudited) revenue in respect of HPC
- (6) Based on FY16 RFG Revenue + FY16 Pro Forma (unaudited) revenue in respect of HPC

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About [Retail Food Group Limited](#):

RFG owns 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 Gourmet Kitchen and Crust Gourmet Pizza Bar franchise systems. In addition, the Company 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.