

RETAILFOODGROUP

STRENGTH IN BRANDS

25 February 2015

Transformative Acquisitions, Record Profit & Dividend

1H15 Highlights:

- Completion of Gloria Jean's Coffees Group and Café2U acquisitions
- Entry into SPA to acquire Di Bella Coffee (now settled)
- Increased network population by +1,042 outlets across +40 countries
- 39.7% increase in 1H15 EBITDA to \$39.3m⁽¹⁾ (1H14: \$28.1m)
- 46.4% increase in 1H15 NPAT to \$25.3m⁽¹⁾ (1H14: \$17.3m)
- 31.8% increase in EPS to 17.0 cents per share⁽¹⁾ (1H14: 12.9cps)
- 7.0% increase in interim dividend to 11.5 cents per share (1H14: 10.75cps)
- Joint Venture established to exploit Gloria Jean's Coffees in Chinese market
- Further QSR400 and Project EVO traction
- SSS and ATV growth across all Brand Systems
- Increased debt facility to \$253m with extended maturity
- Significantly over-subscribed \$55m capital raising (\$40m placement/\$15m SPP)
- Increased FY15 underlying NPAT guidance to \$55m (from \$50m)

⁽¹⁾ Excludes acquisition transaction, integration and associated expenses

Strategic acquisitions in 1H15 have transformed Retail Food Group Limited (RFG, Group or the Company) into a franchising and coffee leader in Australia, and established a platform for low risk sustainable growth internationally.

The Company achieved record 1H15 underlying Net Profit After Tax (NPAT) of \$25.3m, an increase of 46.4% over the previous corresponding period, and delivered a 31.8% increase in underlying EPS.

RFG Chairman Colin Archer noted that the Group's 1H15 achievements represented the successful execution of the Company's evolution strategy, designed to enhance the scale and nature of RFG's activities, and afforded a multitude of new opportunities for delivery of superior outcomes to all stakeholders.

"The acquisition of Café2U and Gloria Jean's Coffees Group, supported by sustained organic growth amongst the Company's existing Brand Systems, has driven network population to 2,476 outlets across 45 international territories".

"In terms of network scale and penetration, the Company's 1H15 activities represent a revolution for shareholders and franchisees, providing immediate access to international markets and increased supply chain capability".

"In addition, RFG's acquisition of Di Bella Coffee complements the acquisitions of Café2U and the Gloria Jean's Coffees Group, whilst advancing RFG's strategy to penetrate the whole spectrum of coffee markets including: within the franchise system; 'in home'; contract roasting; and specialty coffee markets", he said.



1H15 Summary of Results	Reported			Underlying ⁽²⁾		
	1H15	1H14	Change	1H15	1H14	Change
Revenue ⁽³⁾	\$78.0	\$64.6m	↑ 20.7%			
EBITDA	\$34.5m	\$28.1m	↑ 22.5%	\$39.3m	\$28.1m	↑ 39.7%
NPAT	\$21.5m	\$17.3m	↑ 24.4%	\$25.3m	\$17.3m	↑ 46.4%
EPS (Basic)	14.5 cps	12.9 cps	↑ 12.4%	17.0 cps	12.9 cps	↑ 31.8%
Interim Dividend per Share (DPS)	11.5 cps	10.75 cps	↑ 7.0%			
Franchised Outlets	2,476	1,401	↑ 1,075			

² For analysis of 1H15 Underlying and Reported Results refer 1H15 Results Presentation

³ Revenue excludes revenue associated with marketing pursuits

The RFG Board today announced a 7.0% increase (over PCP) in the interim dividend, to 11.5 cents per share, fully franked. The dividend will be paid on 9 April 2015 following a Record Date of 20 March 2015. The dividend represents a c.67% dividend payout ratio.

RFG CEO Tony Alford noted, “the payout ratio appropriately balances shareholder rewards with the organic and acquisitive growth investment opportunities presently available to the Company. The distribution represents the 17th consecutive bi-annual dividend increase and contributes to a Total Shareholder Return for the six months to 31 December 2014 of 30.5%, pre-tax.”

Furthermore, the RFG Board has resolved that the interim dividend will constitute an eligible dividend for the purposes of the Company’s Dividend Reinvestment Plan (DRP). DRP elections will close on the next business day following the Record Date (23 March 2015), 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.

Brand System Operational Performance

The Company organically established 75 outlets across the portfolio (28 net of closure), and each of the Company’s Brand Systems enjoyed positive Same Store Sales (SSS) and Average Transaction Value (ATV) growth, during 1H15.

SSS and ATV growth was particularly pleasing amongst the Company’s traditional Brand Systems, where strong promotional activity, performance driven operational initiatives and continued Project EVO traction contributed to an average 12.6% increase in Brand System EBITDA.

Mr Alford said, “a 23.3% increase in Donut King Brand System EBITDA was an exemplary result given it is the oldest of the Brand Systems under RFG stewardship”.

“Further, a 4.6% Average Weekly Sales (AWS) increase amongst the Michel’s Patisserie Queensland network represented the first return to positive AWS growth for that territory since 1H12, testament that the National Bakery Solution and Project Evolution initiatives have placed the Brand System on a positive growth trajectory”.

Under Project Evo, 194 outlets have now been established or refurbished, ensuring the Company's traditional Brand Systems remain both consumer relevant and capable of demonstrating immediate and enduring growth.

Momentum generated by the Company's QSR400 initiative also remained strong, with 354 outlets now established, supported by 22 new commissionings during the period.

Coffee

The recent acquisition of Café2U, the Gloria Jean's Coffees Group and Di Bella Coffee have:

- More than tripled the Company's contract roasting business;
- Increased annualised coffee throughput by c.269% to 5.9m kilograms (previously 1.6m kgs);
- Diversified coffee sales such that 44% is outside the Group's Brand Systems (previously 18%);
- Facilitated entry into the burgeoning 'in home' capsule market; and
- Provided immediate scale within the specialty coffee market.

"Coffee and allied products remain a significant opportunity to be exploited, particularly in terms of enhanced international penetration and the establishment of a more robust service platform to better leverage the scale afforded by the Company's growing third party wholesale customer base", Mr Alford said.

2H15 and Outlook

During 1H15, RFG generated significant momentum and again demonstrated the adaptable nature of its business model. As a result, the Company is strongly positioned to exploit the opportunities and initiatives now available to it, despite continued retail headwinds including sustained poor domestic consumer sentiment levels.

RFG remains motivated to pursue additional businesses which meet its core investment criteria of being immediately EPS accretive, capable of generating supply-side scale and/or vertical integration opportunity, and/or which enhance the number of Brand Systems and outlets under the Company's stewardship.

The Company maintains a buoyant outlook in terms of FY15 and beyond.

Having regard to the recent addition of Di Bella Coffee to the Company's portfolio, together with 1H15 acquisition traction and integration, RFG has increased FY15 underlying NPAT guidance to \$55m (from \$50m). This represents a c.49% increase on FY14 performance, and equates to underlying FY15 EPS growth of c.35%⁽⁴⁾ over FY14.

⁽⁴⁾ Including notional dilution from the April 2015 DRP but excluding any other capital management strategies employed prior to 30 June 2015

About Retail Food Group Limited

RFG owns the Donut King, Brumby's Bakery, Michel's Patisserie, bb's Café, Gloria Jean's Coffees, It's A Grind, The Coffee Guy, Café2U, Esquires, 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, Caffe Coffee, Roasted Addiqtion, Café Palazzo, Roasting Australia and Barista's Choice coffee brands.

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