

RETAILFOODGROUP

STRENGTH IN BRANDS

24 October 2014

ACQUISITION OF GLORIA JEAN'S COFFEES

Highlights:

- Global intellectual property owner of “Gloria Jean’s Coffees” and “It’s a Grind” Brand Systems;
 - c.800 franchised outlets across c.40 countries (increasing RFG outlet population to c.2,400);
 - Domestic & USA franchised networks franchisor managed (c.445 outlets);
 - Two state-of-the-art coffee roasting facilities (Sydney & Los Angeles);
 - Significant roasting and wholesale coffee business (c.2.9m kg thru-put per annum);
 - Access to closed (patented) coffee capsule delivery system;
 - Strong foothold in fast growing ‘in home’ capsule market;
 - Consideration of \$163.5m & \$16.4m in milestone/earn-out payments;
 - FY16 underlying EBIT contribution of c.\$24m (excluding scale/leverage benefits);
 - EV/EBIT multiple range of c.6.2 to 6.6¹;
 - Transaction results in c.26% underlying EPS growth over FY14;
 - Revised FY15 guidance increased to c.36% over FY14 NPAT.
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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 Sale & Purchase Agreement² (SPA) to acquire the global business and intellectual property assets of Gloria Jean’s Coffees.

Founded in Chicago, USA, in 1979, and established in Australia pursuant to a Master Franchise arrangement in 1996, Gloria Jean’s Coffees has grown to become a leading international specialist coffee house franchise, with c.800 outlets established across 40 countries.

The transaction comprises a range of assets including;

- The global Intellectual Property rights to the Gloria Jeans Coffees & It’s a Grind Brand Systems;
- Franchisor in respect of 40 licenced international territories;
- Operational management of the Australian and USA regions;
- Wholesale coffee roasting operations in Australia and the USA; and
- All associated plant and equipment.

RFG CEO Tony Alford noted that the Gloria Jean’s Coffees business genuinely encompasses the “farm to cup” story, including direct farm sourcing of green beans which are then roasted within the group’s Australian and American roasting and packaging facilities, for distribution to the world-wide franchise network and third party customers.

¹ Based on Vendor full achievement of milestones and earn-out payments and underlying EBIT including synergies and integration benefits

² Subject to usual and ordinary completion terms for like transactions, excluding due diligence which has been satisfactorily undertaken



“Given close alignment between Gloria Jean’s Coffees’ activities and those of RFG, the business represents a target that has long been of interest to RFG”.

“Indeed, RFG is of the respectful opinion that no other retail food franchise acquisition opportunity in Australia presents the scale of immediate and longer term benefits, and in this respect is both unique and compelling”, he said.

The acquired business comprises four distinct functional groups:

- (1) Gloria Jean’s Coffees (GJC) domestic franchise operations presently comprising 358 outlets;
- (2) USA franchise operations (GJC and It’s A Grind) consisting of 87 outlets;
- (3) International franchise operations (GJC and It’s a Grind) comprising 40 licenced territories and c.360 outlets; and
- (4) A wholesale coffee business that operates two state-of-the-art coffee roasting facilities, and supplies domestic coffee machine equipment and coffee product to a growing ‘in-home’ coffee market.

“Gloria Jean’s Coffees genuinely transforms RFG into a global franchising powerhouse, driving outlet network population to c.2,400, and providing the Company with access to numerous international markets and new revenue platforms”, Mr Alford said.

“Whilst direct management of the Australian and USA operations will pass to RFG on SPA completion, the remainder of the international network is operated by independent third party master franchisees, deleveraging risk and facilitating expedited growth demonstrated by the international network having quadrupled in size during the past decade”.

Mr Alford also emphasised the opportunity provided by the acquired coffee roasting businesses, and their alignment with RFG’s existing wholesale coffee and allied beverage operations.

“RFG already maintains a significant wholesale coffee roasting business, whose through-put will increase three-fold to c.4.5m kilograms when combined with that of the target’s. As well, RFG’s Brand System coffee supply requirements will essentially be ‘future proofed’ by the addition of two supplementary roasting facilities that also afford a platform for export trade”, he said.

“The acquisition also offers access to the closed (patented) Caffitaly capsule delivery system, and a strong capsule distribution trade augmented by exclusive supply into a major national supermarket retailer. The Caffitaly system is currently represented by c.540,000 machines within the Australian market, but is factored to grow significantly given the increasing popularity of the ‘in home’ espresso coffee experience”.

With respect to transaction consideration, \$163.5m will be payable to the vendor in cash (\$153.5m) and RFG shares (\$10.0m) on SPA settlement, and up to a further \$16.4m conditional upon milestones and earn-out achievements.

The initial payment (\$163.5m) will be funded by a combination of cash/debt (as to 60%) and equity (as to 40%). The performance and milestone consideration (\$16.4m) payable over a two year period will be funded from cash flow.

In this respect, RFG has secured an increase to its NAB senior debt facility from \$135 to \$253m, with c.90% of debt having an extended maturity date to September 2017.

The foregoing will be supplemented by a \$55m capital raising, which shall take the form of a \$40m placement to institutional and sophisticated investors, supported by a Share Purchase Plan (SPP) to shareholders on the register as at 7.00pm on 23 October 2014.

The SPP will be at the same price as the placement, and under it, shareholders will be entitled to acquire shares in RFG up to the value of \$15,000, subject to the Board's discretion to scale back on a pro rata basis.

Further details regarding the SPP, including timetable, will be provided to shareholders shortly.

In the meantime, including the synergy, integration and divisional alignment benefits potentially available, the transaction EV/EBIT multiple will be within the range of 6.2 to 6.6.

Gloria Jean's Coffees Executive Chairman, Nabi Saleh, has committed to remain with the business for a minimum period of two years post completion, ensuring key commercial and stakeholder relationships are seamlessly transitioned.

Mr Saleh will be joined by the entirety of the Gloria Jean's Coffees' senior management team, who further bolster RFG's human resources complement, safeguarding integration of the business under the Company's stewardship.

Commenting on the transaction, Mr. Nabi Saleh said, "We have long known that Gloria Jean's Coffees has extraordinary potential for growth, but we couldn't have been more impressed by how quickly RFG recognised this potential. Their reputation as one of Australia's best food and beverage operators, deep expertise in building franchise businesses, and their proven commitment to successfully growing acquired brands, made RFG the ideal choice for the future success of our much-loved Gloria Jean's Coffees brand".

Settlement of the transaction is programed for December 2014.

Outlook:

Having regard to the matters raised above, and on the assumption that the transaction settles prior to the end of 1H15, RFG has provided revised NPAT guidance of c.\$50m, representing a c.36% increase over FY14.

The revised NPAT guidance distils to Earnings per Share (EPS) accretion of c.26% over FY14, which is consistent with RFG's long held mandate that acquisitions positively impact EPS in the immediate term.

KPMG Transaction Services and Norton Rose Fullbright Lawyers are advisors to RFG
Deloitte Corporate Finance is Lead Adviser to Gloria Jean's and Sparke Helmore is legal adviser

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.

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