RETAILFOODGROUP
STRENGTH IN BRANDS

26 November 2015

Trading Update & Initiatives

Australia's leading multi-food franchise operator Retail Food Group Limited (RFG, the Company or Group) today held its Annual General Meeting where it provided 1H16 Guidance, confirmed FY16 Outlook, presented a Trading Update, and detailed several key growth initiatives having application both domestically and internationally.

RFG Managing Director Tony Alford noted FY15 was a momentous period for the Company, with successful acquisitive activity delivering immediate earnings growth and a plethora of new opportunities to the Group.

The Company delivered record results for FY15, with an underlying NPAT increase of 49.3% to $55.1m translating into a 34.3% increase in underlying EPS to 35.6cps, and a record fully franked dividend of 23.25cps.

"Notwithstanding the successful execution of an ambitious development program throughout the entirety of FY15, there remains a vast array of opportunity within reach for the Company".

"It is not RFG's intention to remain idle in the face of such opportunity, and as such, the Company is in pursuit of additional revenue drivers able to deliver enhanced and sustainable shareholder outcomes which underpin long term growth," Mr Alford said.

Caffitaly Professional System:

Already the predominant supplier of the Caffitaly closed capsule system into the Australian and New Zealand (ANZ) domestic markets, RFG has this month entered into an exclusive machinery and capsule supply agreement for the patented Caffitaly 'Professional Program' capsule delivery system in respect of the same territories.

Facilitating entry into the emerging commercial capsule and capsule machine market, RFG will be the sole supply and service provider of the system in ANZ.

RFG forecasts the program will deliver c.25,000 units into circulation within two years of distribution commencing in February 2016, generating forecast annualised capsule throughput at maturity of between 100m and 150m units, with potential clientele including hotels, conference centres, sporting clubs and the myriad of small businesses operating across the region.

International Coffee Expansion & Allied Beverage Production:

RFG today announced a suite of initiatives in relation to its coffee and allied beverage pursuits to facilitate continued expansion within the $8.8b global coffee and allied beverage market.

The Company confirmed plans to commission up to three international coffee roasting facilities and distribution hubs in CY16 to service its growing international franchise and licence partners, as well as increasing its wholesale customer base.

The new facilities will complement RFG's existing facilities in Australia, New Zealand and North America.

Prioritising the lucrative North American market, the Group's Los Angeles coffee roasting facility has been re-faced as Di Bella Coffee, with proliferation of the specialty coffee brand across the region already commenced via appointment of a sales and distribution team together with development of new coffee blends more suited to the American palate.

All of the new Di Bella Coffee blends were awarded accolades at the recent inaugural North American Golden Bean Coffee Roasters Competition, reaffirming the market entry strategy of RFG's Specialty Coffee Division lead by Phillip Di Bella.

Furthermore, the Company today announced the successful pilot and commencement of commercial production from its new powder lines at its Yatala facility.

Representing a new business venture which demonstrates the vertical integration growth opportunities available to the Group, Phase 1 production comprising an initial annualised throughput of c.500,000kg of chocolate powders will be complemented by the introduction of white powder and syrup lines in CY16.

Global Headquarters:

Further reflecting a period of significant operational expansion across both its coffee and franchise business units, RFG has today announced the entry into contracts (subject to normal terms and due diligence) to acquire adjoining Gold Coast properties which will ultimately serve as the Group's global headquarters.

The properties, comprising c.24,000m^2 of land including c.9,500m^2 under roof, will house the Company's growing human resources complement, warehousing and manufacturing infrastructure.

Property acquisition, substantial refurbishment and renovation costs will be offset by disposition of Gold Coast properties presently owned by the Group, resulting in an estimated net additional investment of c.$5m over a five year period.

Gloria Jean's Coffees Drive Thru:

Following the successful pilot of the Gloria Jean's Coffees drive thru model in three locations across Queensland and New South Wales, RFG has resolved to formally commission this significant growth platform nationally.

Aligned with third party development activity associated with travel centre and convenience retail hubs, a dedicated internal team is presently evaluating in excess of 50 sites.

Given the quality site opportunity and significant franchisee candidate interest, RFG anticipates having committed to c.25 drive thru sites by the end of CY16.

Capital Management:

To accommodate the Company's growth aspirations, RFG has agreed terms to secure an extension and increase of its present Senior Debt Facilities via a bi-lateral banking arrangement between NAB, RFG's existing bankers, and the Westpac Bank.

The new 'stepped' $300m bi-lateral facility represents an increase of c.$75m to present 2 year facilities, with an extended maturity to December 2020, affording the Group structured tenure over five years, ongoing security and increased flexibility.

Covenants and terms of the new senior debt facilities are substantially similar to those enjoyed under the expiring facilities.

Trading Update:

RFG today announced a strong start to FY16, with year to date performance either meeting or exceeding internal budgets.

New outlet growth in particular has exceeded expectations, both domestically and internationally. Based on current performance, RFG has today advised new outlet commissionings will result in a record 1H16 new outlet growth of c.140, exceeding budget by c.25 outlets (or 22%) and representing a remarkable 70% of the Company's entire FY15 organic outlet commissionings.

International outlet growth, which will represent approximately 50% of 1H16 commissionings, is presently tracking c.20% ahead of budget, underpinned by continued traction within the Malaysian, Turkish and Chinese licensed territories.

Domestic new outlet growth presently exceeds budget by 10, with strong Gloria Jean's Coffees and QSR Brand System commissionings.

Mr Alford said, "insofar as new outlet organic growth is concerned, the Company remains comfortably on track to achieve FY16 guidance of 250, and will provide a further update at the time of 1H16 Results publication."

The Company's Traditional and Coffee Retail Brand Systems have maintained the positive momentum generated during FY15, with FY16YTD Australian weighted SSS tracking at 2.3% and 2.1% respectively.

"Innovative promotional activity, menu refinement, Project EVO and National Bakery Solution traction, and a focus on the accelerated delivery of sales driving initiatives continue to drive Brand System performance despite a challenging retail environment and increased competitor activity which is particularly apparent within the QSR Division, where YTD SSS had declined by 0.9%".

"Rather than duplicate the ultimately destructive and unsustainable discounting activity occurring within the pizza segment, RFG's QSR Division remains focused on quality products, exceptional service and a retail pricing structure which not only recognises the gourmet nature of the menu on offer, but derives a sustainable margin to franchisees. This commitment has facilitated QSR Division Average Transaction Value growth of c.5.5% over the past 20 weeks, and will be supported by the recent introduction of reinvigorated menus across both the Pizza Capers and Crust Brand Systems", Mr Alford said.

The performance of the Group's Commercial operations, which includes coffee and allied beverage pursuits, is tracking to budget and will be fortified in the 2H16 by the commissioning of initiatives announced today.

Outlook:

RFG maintains a buoyant outlook in respect of FY16.

Underpinned by the Group's financial year to date performance, along with the additional growth initiatives announced today, RFG is on track to achieve 1H16 underlying NPAT[(1)] growth of c.25%. On a 'like for like' basis, the PCP increase will be c.35%[(2)].

The Company has also reaffirmed FY16 Guidance of c.20% underlying NPAT[(3)] growth on FY15 and, given the previously announced positive 2H16 earnings skew, will provide further commentary in this respect at the 1H16 Results publication.

Note 1: 1H15 Underlying NPAT: $25.3m - refer Appendix 2 of 1H15 Results Presentation, published 25 February 2015, for details

Note 2: 1H15 Like for Like NPAT ($23.3m) adjusts for the China Joint Venture licence fee revenue and accounting policy adoption – refer Appendix 2 of 1H15 Results Presentation, published 25 February 2015, for details

Note 3: FY15 Underlying NPAT: $55.1 - refer Appendix 1 of FY15 Results Presentation, published 27 August 2015, for details

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. For more information about RFG visit www.rfg.com.au.

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For further information, interviews or images contact:
Amy Smith, PR Manager, Retail Food Group Limited, 0400 137 704 or amy.smith@rfg.com.au