



ASX/media release

17 February 2010

1H10 PROFIT INCREASE 18% TO \$12.5M

Leading Australian retail food brand manager and franchisor Retail Food Group Limited (ASX:RFG) today announced a 1H10 NPAT result of \$12.5 million, an increase of \$1.9 million (or 18.3%) on 1H09 delivering a 15.9% increase in EPS to 12.4 cents per share.

Highlights

Summary Financial Information	1H10	1H09	% Change
Revenue ^{(1) (2)}	\$61.3m	\$60.4m	1.5%
EBIT	\$21.5m	\$19.8m	8.6%
NPAT	\$12.5m	\$10.6m	18.3%
NPAT (Core Operations) ⁽³⁾	\$12.6m	\$11.1m	13.5%
EPS (Basic) ⁽⁴⁾	12.4 cps	10.7 cps	15.9%
Dividend per Share (DPS)	5.25 cps	4.50 cps	16.7%

- 45% growth in net cash inflow from operating activities to \$13.8 million
- CODB (cost of doing business) reduction of 16% (or \$4.9m) compared to 1H09
- Gross margin increase of 1.7% to 57.8% ⁽¹⁾
- Core debt reduced by further \$10.0 million in 1H10
- Net Debt reduction of \$30.7 million over a 12 month period to \$77.1 million at 31 December 2009.
- 20 new outlets commissioned
- Weighted Average Weekly Sales increase of 3.5% on FY09
- Completed Acquisition of Brumby's Bakeries master licence territories of New Zealand, Western Australia, North Queensland and Northern Territory and DCM Coffee & Donuts
- Transition to Royalty Model delivers additional margin to Michel Patisserie franchisees

The Company's record 1H NPAT result, its 4th consecutive since Listing in 2006, was underpinned by a broadened revenue base, enhanced licence fee revenues and significant reductions in operating expenses.

RFG Chairman John Cowley said, "The Company has once again delivered an exceptional result for all stakeholders, reflecting its position as a resilient and innovative market leader in the retail food franchising industry".

“RFG enjoys a focused executive team coupled with a diversified revenue base that provides a strong platform for further growth and shareholder value”, Mr Cowley said

Given the Company’s strong performance and robust cash position, the Board announced a fully franked interim dividend of 5.25 cents per share, to be paid on 8 April 2010 following a record date of 23 March 2010.

The dividend reflects a 16.7% increase on the pcp and will constitute an eligible dividend for the purposes of the Company’s Dividend Reinvestment Plan.

RFG CEO Tony Alford added that “RFG Franchisee reported network sales was wholly maintained and supported by growth in weighted average weekly sales and transaction values of 3.5% and 3.8% over FY09. This was despite the programmed reduction in franchise outlet population (as a consequence of legacy outlet closures in the Michel’s Patisserie and Brumby’s Bakeries systems) and a challenging retail environment (including subdued shopping centre foot traffic flows and flagging economic stimulus)”.

“Decreased revenues attributable to the strategic disposition of the Company’s Central Manufacturing Facility in January 2009 and the Michel’s Patisserie royalty transition, of which over 160 outlets are now taking part, have been completely offset by increased licence and franchise service fee revenues, allied with a 16% reduction in operating expenses”, he said.

“RFG is confident of liberating further efficiencies from its business model supported by innovative new product development and enhanced supply side relationships. By way of example, Donut King has witnessed an 8.9% growth in coffee sales following introduction of the Royal Bean coffee blend”.

Mr Alford said, “Organic outlet growth remains tempered by depressed shopping centre development leading to reduced site opportunities together with a tightening of the franchisee candidate market and bank lending practices”.

“That said, the Company achieved its forecast organic outlet growth target for the period of 20 outlets and remains focused on supplementing its total outlet population by the pursuit of non-traditional sites and acquisitive conversion opportunities such as the DCM Donuts, Coffee & Muffins system recently purchased and now in the process of being assimilated into the Donut King network”, Mr Alford said.

“Of particular importance, RFG’s continued focus on disciplined initiatives which drive enhanced net operating cash flows not only facilitates increasing net debt reduction but provides for a corresponding enhancement in dividends as well as an elevation of the Company’s dividend payout ratio”, Mr Alford said.

“The Company will continue to apply its significant net free cash flows to the further reduction of debt in order that it can in the medium term responsibly liberalise and normalize its payout ratio with a target in excess of 60%”, he said.

Guidance

Notwithstanding the exceptional 2H09 NPAT result where RFG achieved an unusually strong 54% of full year performance, the Company anticipates that FY10 core NPAT will still be within the range of 10% – 15% increase on FY09, inclusive of a part year contribution of those recently announced 2H10 acquisitions.

(1) Excludes revenue derived from marketing activities (1H09: \$6.9 million; 1H10: \$8.1 million).
(2) During FY09, the Group disposed of its Central Manufacturing Facility (CMF) which contributed \$3.1 million to total revenue during 1H09. The Group also commenced transition of the Michel’s Patisserie franchise system from a wholesale margin model to a traditional royalty based model in FY09, which results in reduced total sales of \$6.2 million in 1H10 when compared to 1H09.
(3) Results from “core operations” excludes amounts recognised in the income statement relating to the impact of derivative financial instruments (interest rate swaps) (1H10: \$0.1 million loss; 1H09: \$0.5 million loss).
(4) Based upon weighted average number of shares on issue (1H09: 98.7 million; 1H10: 101.3 million).

About Retail Food Group Limited

Retail Food Group is a leading Australian retail food brand manager and franchisor. It is the franchisor and intellectual property owner of the Donut King, Michel's Patisserie, Brumby's Bakeries and bb's café franchise systems.

As at 31 December 2009, there were a total of 4 franchise systems and 1,055 franchised outlets under RFG's stewardship comprising:

Franchise System	Total Outlets	Australia	New Zealand	China
Donut King	327	320	-	7
bb's cafe	60	39	21	-
Brumby's Bakeries	331	312	19	-
Michel's Patisserie	337	332	5	-
Total	1,055	1,003	45	7

ENDS

For further information, interviews or images contact:

Amy Lange, Retail Food Group, 07 55 092 314

