



ASX/media release

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RECORD PROFIT, DIVIDEND & NEW BANKING FACILITIES

Leading Australian retail food brand manager and franchisor Retail Food Group Limited (ASX: RFG) today reported a 10.6% increase in full year net profit after tax (NPAT) to \$26.0m (FY09: \$23.5m) delivering a 37% increase in the final dividend to 6.5cps.

NPAT from “Core Operations” increased by 12.4% to \$26.4m and represented an 8.5% increase in earnings per share (EPS).

Highlights:

Summary Financial Information	FY10	FY09	Change
Adjusted Revenue ^{(1) (2)}	\$118.6m	\$114.0m	4.0%
EBIT	\$43.8m	\$40.3m	8.7%
NPAT (Core Operations) ⁽³⁾	\$26.4m	\$23.4m	12.8%
NPAT	\$26.0m	\$23.5m	10.6%
EPS (Core Operations) ⁽³⁾	25.6 cps	23.6 cps	8.5%
EPS (Basic)	25.3 cps	23.7 cps	6.8%
Final Dividend per Share (DPS)	6.5 cps	4.75 cps	37.0%
Franchised Outlets ⁽⁴⁾	1,122	1,063	+59 outlets
Net Debt ⁽⁵⁾	\$72.9m	\$90.6m	(19.5%)

- 26% growth in net cash inflow from operating activities to \$29.2m
- FY10 net debt reduction of \$17.7m to \$72.9m, after \$11.5m of franchise system acquisitions
- CODB (cost of doing business) reduction of 23% (or \$7.3m) compared to FY09
- Gross margin increase of 3.1% to 63.9%
- net outlet increase of 59
- Weighted Average Weekly Sales increase of 1.55% on FY09
- Completed acquisition of Brumby’s Bakeries master licence territories of New Zealand, Western Australia, North Queensland and Northern Territory
- Completed acquisition of DCM Coffee & Donuts and Big Dad’s Pies franchise systems
- Royalty model delivering enhanced gross profit margin to Michel’s Patisserie franchisees
- Concluded new 3 year debt facility to 2013

The Company's record NPAT result follows 5 successive years of annual profit growth and was underpinned by a broadened revenue base, enhanced licence fee revenues and significant liberation of operating expenses.

Given the Company's strong performance and robust cash position, the Board today announced a 37% increase in fully franked final dividend to 6.5 cents per share (FY09: 4.75cps), to be paid on 7 October 2010 following a record date of 14 September 2010. The dividend will constitute an eligible dividend for the purposes of the Company's Dividend Reinvestment Plan.

The combined interim and final dividend of 11.75cps represents a 27% increase on the previous corresponding period (FY09: 9.25cps) and supports the Company's strategic policy of progressively increasing the dividend payout ratio.

RFG Chairman John Cowley today said, "the Company's outstanding results have been delivered notwithstanding difficult trading conditions and are testament to the resilience of RFG's franchise business model, innovative product offering, strong management and compliment of resourceful franchisees".

"The underlying strength of the Company is best demonstrated by RFG's five year NPAT and EPS cumulative average growth rates (CAGR) of 50.2% and 38.9% respectively", Mr Cowley said.

RFG CEO Tony Alford added, "franchisee reported network sales, up \$8.6m despite a challenging retail environment and the programmed rationalisation of poor performing outlets, were supported by a 1.6% increase in weighted average weekly sales together with a 3.2% increase in weighted average transaction values".

"The Company has significantly reduced its costs of doing business without impacting upon franchisee service delivery, personnel complement or ability to convert value accretive opportunities into tangible and positive outcomes for all stakeholders.

"Of particular note, the Company has continued to build upon and enhance its proprietary coffee business", Mr Alford said, "this revenue opportunity is thus far relatively untapped with the Company having throughout FY10 completed the commissioning of enhanced coffee blends to all its franchise systems and is now in the final stages of implementing a roll-out of proprietary packaged coffee products for sale in non-traditional markets including wholesale channels".

The programmed transition of Michel's Patisserie franchisees to the royalty model remains on schedule with the number of participating outlets now exceeding 200.

"Collectively the enhanced coffee blends and transition of Michel's Patisserie franchisees to the royalty model has not only positively impacted franchisee outcomes but resulted in a 3.1% increase in Company gross margin to 63.9%." Mr. Alford said.

"Organic outlet growth, whilst supplemented by acquisitive activity, continues to be impacted by a contraction in the new franchisee candidate market, high national employment levels, curtailed bank lending practices and depressed shopping centre development that has lead to reduced site opportunities".

Mr Alford said, "pleasingly, RFG has continued the generation of significant net free cash flows which were applied to increase the dividend payout ratio, invest \$11.5 million in franchise system acquisitions and attend further voluntary reduction of debt. As at 30 June 2010 net debt stood at \$72.9m, a reduction of 19.5%, or \$17.7m, over the previous corresponding period".

"We believe RFG is distinguishable from many of its industry peers by its ability, year on year, to deliver robust and enduring outcomes notwithstanding extremely challenging retail conditions and diverse market influences", Mr Alford said, "management has single-mindedly focused on those metrics under its influence and control, fortifying a foundation for ongoing success and long term stakeholder satisfaction".

New Banking Facility

RFG also announced today the appointment of the National Australia Bank (NAB) as its future debt facility provider.

The facility incorporates a three year term, with a compelling step down margin to 1.50% over BBSY. The refinance of existing facilities is anticipated to occur prior to 31 August 2010.

Mr Alford said, "RFG's resolve to refinance with NAB follows evaluation of a number of very strong submissions received in connection with RFG's debt facility. Not only does this transaction provide certainty to the Company's shareholders, given the maturation of existing facilities on 5 December 2010, it aligns RFG with a robust banking partner that will facilitate continued benefits flowing from improved margins generated by a lower debt profile".

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, bb's café and Big Dad's Pies franchise systems.

As at 30 June 2010, there were a total of 5 franchise systems and 1,122 franchised outlets under RFG's stewardship comprising:

Franchise System	Total Outlets	Australia	New Zealand	China
Donut King (<i>incl. 22 DCM outlets</i>)	358	348	-	10
bb's cafe	60	38	22	-
Brumby's Bakeries	330	312	18	-
Michel's Patisserie	337	332	5	-
Big Dad's Pies	37	37	-	-
Total	1,122	1,067	45	10

ENDS

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(1) Excludes revenue derived from marketing activities (FY10: \$15.4m; FY09: \$12.6m).

(2) Adjusted Revenue is presented for FY09 which normalises the reported FY09 Total Revenue by excluding:

- sales revenue of \$3.1m derived by the CMF, prior to its disposal in January 2009; and
- sales revenue of \$13.4m derived from the wholesale bakery supply to Michel's Patisserie outlets in FY09, which transitioned (during FY10) from the wholesale supply and distribution model to the traditional royalty based model.

(3) Results from 'Core Operations' excludes amounts recognised in the income statement relating to the pre-tax impact of:

- derivative financial instruments (interest rate swaps) (FY10: \$0.5m loss; FY09: \$1.0m loss). Interest rate swaps were designated as hedges in July 2008 reducing ongoing volatility in the income statement; and
- non-recurring gain on disposal of Central Manufacturing Facility (CMF) (FY10: \$nil; FY09: \$1.1m gain).

(4) During FY10, the Group acquired the DCM Coffee & Donuts (23 franchised outlets at control date) and Big Dad's Pies (37 franchised outlets at control date) franchise systems.

(5) Net debt equals total debt less cash and cash equivalents.

