

RETAIL FOOD GROUP

1H14 Results Presentation



1H14 Summary



	Statutory Results					
	1H10	1H11	1H12	1H13	1H14	PCP %
Total Revenue ⁽¹⁾	\$61.3m	\$60.3m	\$49.5m	\$60.0m	\$64.6m	7.7%
EBIT	\$21.5m	\$22.2m	\$24.0m	\$25.2m	\$27.4m	8.7%
NPAT	\$12.5m	\$13.6m	\$14.5m	\$14.6m	\$17.3m	18.0%
Basic EPS	12.4 cps	12.8 cps	13.4 cps	12.5 cps	12.9 cps	3.2%
Interim Dividend	5.25 cps	7.0 cps	8.5 cps	9.5 cps	10.75 cps	13.2%
Dividend Payout Ratio	42.3%	54.7%	63.4%	76.0%	83.3%	
Net Debt	\$77.1m	\$67.7m	\$69.2m	\$86.7m	\$49.5m	
Gearing Ratio	38.9%	31.1%	29.5%	27.4%	14.1%	
Interest Cover	5.9x	7.0x	7.0x	6.7x	10.3x	
Cash Generating Units	4	4	5	7	7	
Franchised Outlets	1,055	1,095	1,126	1,391	1,401	

⁽¹⁾ Total Revenue excludes revenue derived from marketing activities (1H14: \$13.5m; 1H13: \$10.8m; 1H12: \$6.8m; 1H11: \$7.1m, 1H10: \$8.1m).

Retail Food Group Limited (ASX: RFG)



- ✓ RFG designs, develops and manages retail franchise systems and is the intellectual property owner and licensor of the following Brand Systems:



Non-QSR

- Donut King
- Michel's Patisserie
- Brumby's Bakery
- bb's café and Esquires Coffee Houses
- The Coffee Guy

QSR

- Crust Gourmet Pizza
- Pizza Capers



- ✓ RFG is also supplier and roaster of coffee and affiliated products. It roasts in excess of 1.42m kilograms annually, supplying both the Brand Systems and an expanding external customer base



- ✓ Franchise Outlets: 1,401 franchise outlets predominantly in Australia and New Zealand ⁽¹⁾

- ✓ ASX Index: ASX 200 (admitted Dec 2013)



- ✓ Market capitalisation: \$651m ⁽²⁾

- ✓ Enterprise value: \$701m ⁽²⁾



- ✓ Dividend Yield: 6.6% gross ⁽³⁾



(1) As at 31 December 2013

(2) As at 21 February 2014

(3) Based on FY14 interim & FY13 final dividends, and closing share price of \$4.52 as at 21 February 2014

1H14 Headlines



✓ Financial Headlines:

- NPAT: \$17.3m (up 18.0% on PCP)
- EPS: 12.9 cps (up 3.2% on PCP)
- Dividends: 10.75 cps (up 13.2% on PCP)
- Gross debt: \$62.9m with cash and facility headroom of \$85.5m
- Gearing: Conservative gearing ratio of 14.1% and interest coverage of 10.3 times
- Cash Flows: Net cash inflows from operating activities of \$13.5m (PCP: \$10.3m)



✓ Growth in earnings a product of a resilient business model fortified by astute acquisitions, comprising:

- Positive EBIT contributions from 1H13 acquisitions, principally Crust Gourmet Pizza Bar; and
- Earnings from existing Brand Systems & coffee roasting activities



✓ New outlet commissionings of 79, comprising:

- 49 QSR outlets; and
- 30 non-QSR outlets



1H14 Financial Highlights



- ✓ EBIT of \$27.4m represents 8.7% increase on PCP (\$25.2m)
 - EBITDA increase of 9.7% to \$28.1m (PCP: \$25.6m)



- ✓ NPAT of \$17.3 million represents 18.0% increase on PCP (\$14.6m)
 - Strong result given continued investment in organic growth



- ✓ Robust cash generation, with net cash inflows of \$13.5m contributing to:
 - Cash flow conversion to EBITDA ratio of 88.5%
 - Increased dividend payout ratio
 - \$7.5m in CAPEX investment (including QSR 400) to support future growth



- ✓ Fully franked 1H14 dividend of 10.75 cps (up 13.2% on PCP), representing:
 - 15th consecutive 6 monthly dividend increase
 - DRP reinstated, thus conserving liquidity for further growth opportunity



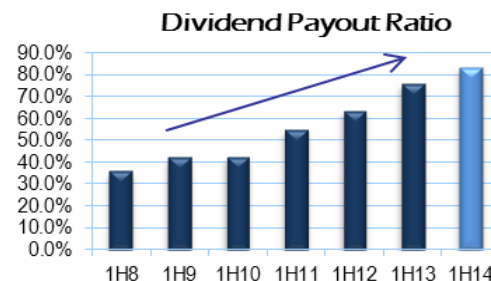
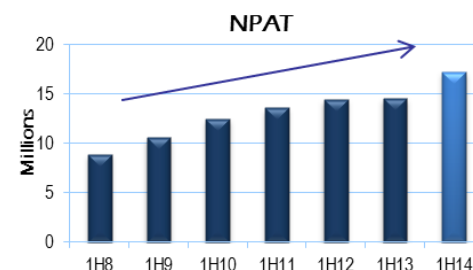
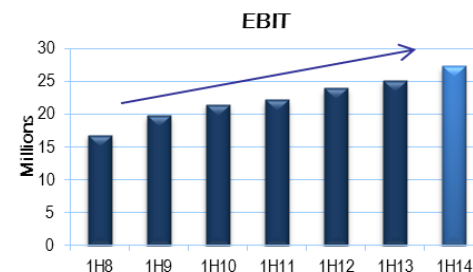
- ✓ Total Revenue increase of 7.7% to \$64.6m, including:
 - 9.8% or \$3.4m increase in Franchise Revenues



- ✓ Enhanced balance sheet:



- Debt Facility ⁽¹⁾:
 - Gross debt \$62.9m (\$50m fixed at <5% interest rate to March 2016)
 - Significant cash and debt facility headroom (\$85.5m) to support future acquisitions and growth initiatives
- Capital Raising ⁽²⁾ of \$58.3m via issue of 13.56m ordinary shares @ \$4.30
 - Placement: \$53m & SPP: \$5.3m



(1) Refer to Appendix 5 for debt facility details

(2) Refer to Appendix 6 for capital raising details



1 H 1 4 Brand System Review

1H14 Summary of Brand System Performance



1H14 Summary

Donut King

Brumby's Bakery

Michel's Patisserie

QSR

Other

GFR(\$m)⁽¹⁾

43.7

9.3

8.8

13.1

10.0

2.5

FSF (\$m)⁽¹⁾

23.5

5.4

5.4

5.1

6.4

1.2

EBITDA (\$m)⁽¹⁾

28.1

6.0

5.8

7.3

7.0

2.0

Group EBITDA Cont.

21.3%

20.6%

26.1%

24.9%

7.2%



NWS (\$m)

394.1

85.6

98.3

85.3

103.8

21.1

AWS Growth (on PCP)

0.8%

2.0%

1.6%

-0.8%

0.3%

2.0%

ATV Growth (on PCP)

3.0%

4.6%

3.7%

0.9%

2.9%

3.6%



GFR/NWS

11.1%

10.9%

8.9%

15.4%

9.6%

11.9%

FSF/NWS

6.0%

6.3%

5.4%

6.0%

6.2%

5.9%

FSF/GFR

53.8%

57.9%

61.3%

38.9%

64.2%

48.5%



Outlet Population

Australia

1,263

332

275

311

304

41

NZ

124

4

10

1

3

106

Other

14

6

1

2

5

0

Total

1,401

342

286

314

312

147

Corporate outlets

70

12

13

19

10

16



GFR = Gross Franchise Revenue (includes FSF & net coffee contribution)

FSF = Franchise Service Fee

NWS = Brand System Network Sales

AWS = Average Weekly Sales (QSR = Same Store Sales)

ATV = Average Transaction Value

QSR = Pizza Capers + Crust Gourmet Pizza

Other = Esquires (including bb's Coffee House café), The Coffee Guy & sundry



(1) Values are net of statutory consolidation adjustments

✓ EBITDA contributions of the respective Brand Systems vindication of RFG's multi-revenue strategy, and reinforces RFG's 'Strength in Brands' philosophy

✓ Increasing scale:

- Second largest Australian listed retail food retailer (by outlet numbers)
- Decreasing reliance on any one Brand System as evidenced by Group EBITDA contributions
- Increase in number and volume of revenue streams

1H14 Summary of Brand System Performance



- ✓ EBITDA contribution from QSR of \$7.0m now representing 24.9% of RFG Group EBITDA, notwithstanding QSR 400 start up costs



- ✓ Exemplary performance of the Crust Brand System achieving performance hurdles set at acquisition, triggering full payment of year 1 earn out to vendors



- ✓ Average realised Franchise Service Fee of 6% and a 300bps increase in Coffee gross margin contributed positively to 1H14 EBITDA growth



- ✓ 10 new Donut King outlet commissionings incorporating Evo format, allied with Brand System AWS growth of 2.0% and ATV growth of 4.6% providing positive early stage confirmation of the Project Evo platform



- ✓ Increased 1H14 EBITDA contribution of QSR & Coffee tempered by:
 - Michel's Brand System wholesale product subsidisation
 - Deferred new franchisee recruitment in Brumby's and Michel's pending Evo concept store commissioning (now attended)
 - Increased average number of Corporate outlets operated (including under QSR 400 project)



- ✓ Outlet Numbers:
 - 1H14 net growth of 27 outlets
 - 79 new outlets commissioned, comprising
 - 49 QSR outlets, representing significant traction in the QSR 400 project
 - 30 non-QSR outlets, including 17 Evo format outlets
 - 13 Non-Voluntary Company Stores returned to franchisee stewardship



- ✓ Brand System health:
 - 92 outlet re-sales approved
 - 48 franchisee renewals approved for average 5 year term

Operational Overview



- ✓ Significant traction in the QSR 400 project, with 49 outlets commissioned
 - Exceeded 1H14 initial program expectation of 30



- ✓ Project Evo pilot outlet commissioning completed; comprising:
 - Donut King (Traditional & Drive Thru)
 - Esquires (Traditional, Strip & "Hole in Wall")
 - Michel's (Traditional)
 - Brumby's (Traditional)



- ✓ Commissioned Yatala bakery and distribution facility
- ✓ Commissioned Commercial Drive (Southport) training and office facility



- ✓ Project Evo programmed refurbishments and backfill gained traction:
 - 71 refurbishments commissioned across Donut King, Michel's and Brumby's Brand Systems
 - 18 full format Evo store locations identified for commissioning in 2H14



- ✓ Gross margin on coffee sales increased 300bps, attributable to cost side savings from astute green bean purchasing and production automation



- ✓ Increased specialised training in field resources



- ✓ Aligned Non Voluntary & Voluntary Company Stores under Brand System stewardship

Crust Gourmet Pizza Bar



- ✓ 39% growth in online transactions on PCP continue to drive sales:
 - Represents 29% of total sales



- 9% higher ATV than Brand System ATV



- ✓ Delivery:
 - Delivery order increase of 6% on PCP



- Delivery sales increase of 9% on PCP

- 'Best Practice' driver education workshops and training implemented with workflow improvements to increase efficiencies



- ✓ Upper Crust 'Limited Time Offer' (LTO) Campaign:
 - Delivered 54% volume growth in the premium priced, gourmet category



- Exclusive Crust/MTV partnership reached over 4 million people during the campaign period (3 months)

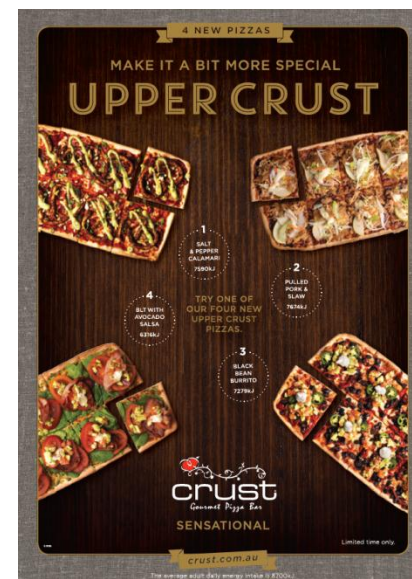


- 'Meet, Greet & Eat' launch events executed to drive awareness and VIPP recruitment for online ordering



- Large scale mobile sampling events hosted in iconic Sydney and Melbourne locations as an extension of 'The Bike' activation

- ✓ Increased resource investment to support:
 - New outlet growth
 - Operational performance initiatives



Pizza Capers



- ✓ Aggressive digital marketing campaigns resulted in:

- Increased online sales of 119% on PCP, representing 18% of Brand System sales
- Significant investment in digital advertising resulting in 5.2m impressions generating valuable brand exposure and sales traction
- Online ordering ATV increased by c. 4% (29% higher than Brand System ATV)



- ✓ Delivery:

- 23% increase on PCP due to extended operating hours and tightened turnaround times
- Contributing to ATV growth



- ✓ Introduction of "Summmmer Collection" LTO range with refreshed brand imagery



- ✓ Successful sponsorship negotiation of the Queensland Reds Rugby Union team as a Local Area Marketing platform in alignment with regional network expansion strategy



- ✓ Development of innovative collateral for national campaigns



- ✓ Assembled exceptional Brand System team:

- Experienced in national and international QSR systems - including pizza
- Operational focus and results driven



Donut King



- ✓ Proliferation of Evo concepts that meet consumer demand for customisation and rich brand engagement, through experiential retailing



- ✓ Evo outlets continue to outperform comparative stores (1H14):
 - New stores (neighbourhood and sub regional) avg. 25% above 'Comparative Store Set' (CSS) sales



- Refurbished stores: trending positively, averaging double digit growth



- ✓ Backfill of Evo concepts:
 - Digital Menu system: Phase 1 complete – 50 outlets



- ✓ Donut King's first drive thru outlet commissioned, showcasing Evo concepts such as:
 - Innovative store design
 - Focus on product customisation with digital, touch screen for customising orders
 - First outlet with dedicated children's playground
 - Interactive tablets on giant (donut shaped) tables
 - Seating capacity: 65 pax
 - 92 sqm footprint (excluding driveways and car parking)



- ✓ Launch of new Donut King branding and 'Make it Fun' positioning with Shaker Shots campaign



Michel's Patisserie



- ✓ Project Evolution successfully launched based on leading European patisserie trends, coffee and retail excellence



- ✓ First Evo outlet commissioned 1H14 in Lilydale, Victoria:

- Trial successfully completed
- Performance to date:
 - Sales trending c. 19% above national AWS
 - ATV trending c. 24% above national average
 - Consumer, franchisee and landlord endorsement



- ✓ Evo outlets continue to outperform CSS (1H14):

- New stores avg. c.11% above CSS sales
- Refurbished stores: sales trending @ +20% on pre-refurbishment levels



- ✓ Backfill of Evo concepts into existing network commenced including:

- In-store brand elements
- New patisserie product lines
- Merchandising components



- ✓ In store frozen bakery transition commenced in QLD



- ✓ Won Roy Morgan "Coffee Shop of the Year" (CY13) - for the third year in succession



Brumby's Bakery



- ✓ First Evo outlet commissioned December 2013 in Underwood QLD:



- Concept trialling for 3 month period
- Represents most significant transformation in Brand System's history to strengthen position as Australia's leading Bakery:



- Returning to authentic baker roots
- Imbue Australian heritage
- Enhance brand modernity
- Completely new store design and functionality
- Format designed to capitalise on strip sites and regional locations
- Introduce new and expanded menu
- Expansion into lucrative hot beverage segment



- ✓ Bread category initiatives resulting in:



- 4% sales increase on PCP
- Supported by the launch of Brumby's Bread Ambassador, Matthew Hayden





2H 14 Initiatives & Outlook

2H Initiatives – QSR Brand Systems



- ✓ QSR400:
 - Continuing to capitalise on strong new site pipeline
 - c. 40 outlets to be commissioned
 - Continued investment in franchise support initiatives



- ✓ Menu Innovation:
 - Pending launch of Crust's 'Premium Starters' category
 - Pizza Capers: relaunch of highly successful gourmet 'Inferno' product offer
 - Executes on initiatives which fortify market leading "Gourmet" position



- ✓ Enhance AWS by driving customer (new and returning) visitation and loyalty



- ✓ Digital Engagement:
 - Investment to further realise on-line and e-commerce engagement
 - Pizza Capers responsive mobile ordering App. launching in March
 - Crust continued focus on driving revenue through new augmented digital marketing solutions



- ✓ Experiential Retailing:
 - Crust Event Outlet: sampling opportunity (including Australian Grand Prix) to magnify purchase conversion



- ✓ Fortified state of the art National Office training facility with inclusion of on-site QSR training



2H Initiatives – Non QSR Brand Systems



- ✓ Project Evo new outlets and refurbishments c.80 across:

- Donut King
- Michel's Patisserie
- Brumby's Bakery



- ✓ Continued backfill of Evo elements into existing Brand System networks, including:

- Menu extension
- Product innovation
- Merchandising
- Equipment solutions



- ✓ Michel's in-store frozen bakery transition to be commissioned in VIC



- ✓ Digital Engagement:

- Donut King and Michel's digital menu panel roll out
- Donut King digital loyalty App. launch
- Brumby's Bakery introduction of digital merchandising elements



- ✓ Coffee Growth:

- Launch of Michel's Espresso coffee excellence
- Evo refurbishments to drive Donut King Royal Bean awareness



- ✓ Commission c.35 outlets:

- Donut King: 11
- Brumby's: 8
- Michel's: 8
- TCG: 8



2H Initiatives – Operational



- ✓ Commissioning of 2nd Australian coffee roasting facility at Yatala, QLD incorporating chocolate blending capability



- ✓ Commissioning of Australian wholesale coffee division:
 - Launch of RFG proprietary New Zealand brands Evil Child and Roasted Addiction into the Australian market
 - Dedicated coffee wholesale team to:
 - Drive 3rd party roasting contracts
 - Increase wholesale and retail customers



- ✓ Introduction of proprietary blends and hot beverages to Brumby's and OSR



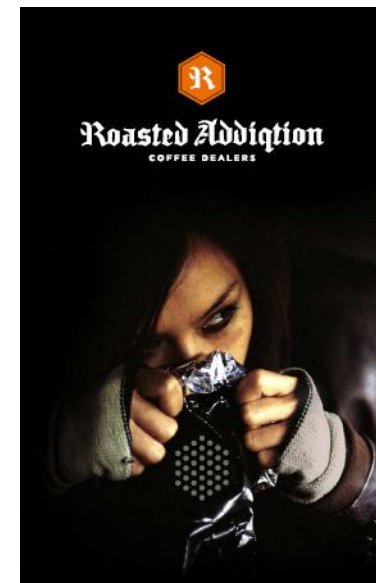
- ✓ Further retail performance optimisation through delivery of enhanced compliance and auditing program



- ✓ Fortified Strategy & New Business department resources to facilitate acquisition and growth opportunities



- ✓ Continued application of resources to embellish franchisee margin and outlet sales by:
 - Menu enhancement
 - Increasing ATV
 - Day part attraction
 - Increasing supplier leverage to:
 - Lower input prices
 - Ensure price and supply chain stability



Capital Management & Outlook



Capital Management



- ✓ Capital raising proceeds of \$58.3m (before costs) received in December 2013 used to pay down debt whilst organic growth opportunities are pursued and other investment opportunities assessed



- ✓ Acquisitive activity remains a central feature of RFG's strategic growth platform, and the Company remains motivated to pursue acquisition opportunities in respect of complementary businesses which are EPS accretive, capable of generating increased supply-side scale and enhance the number of Brand Systems and outlets under RFG stewardship



- ✓ Absent significant acquisition execution, all existing growth initiatives to be funded by cash and debt facilities



- ✓ Given the capital intensive nature of the Company's current outlet growth profile, together with ongoing investigation of numerous acquisitive opportunities, DRP reactivated



Outlook:



- ✓ Positioned for strong 2H performance:
 - Capitalise on 1H14 investment in growth
 - Tempered by continued ramp up of organic growth initiatives



- ✓ Premature to make any revision to full year guidance of circa 15% growth on FY13 NPAT



Appendices



Appendix 1 – Summary Financial Performance



Appendix 2 – Earnings Performance



Appendix 3 – Cash Flow Performance



Appendix 4 – Financial Position



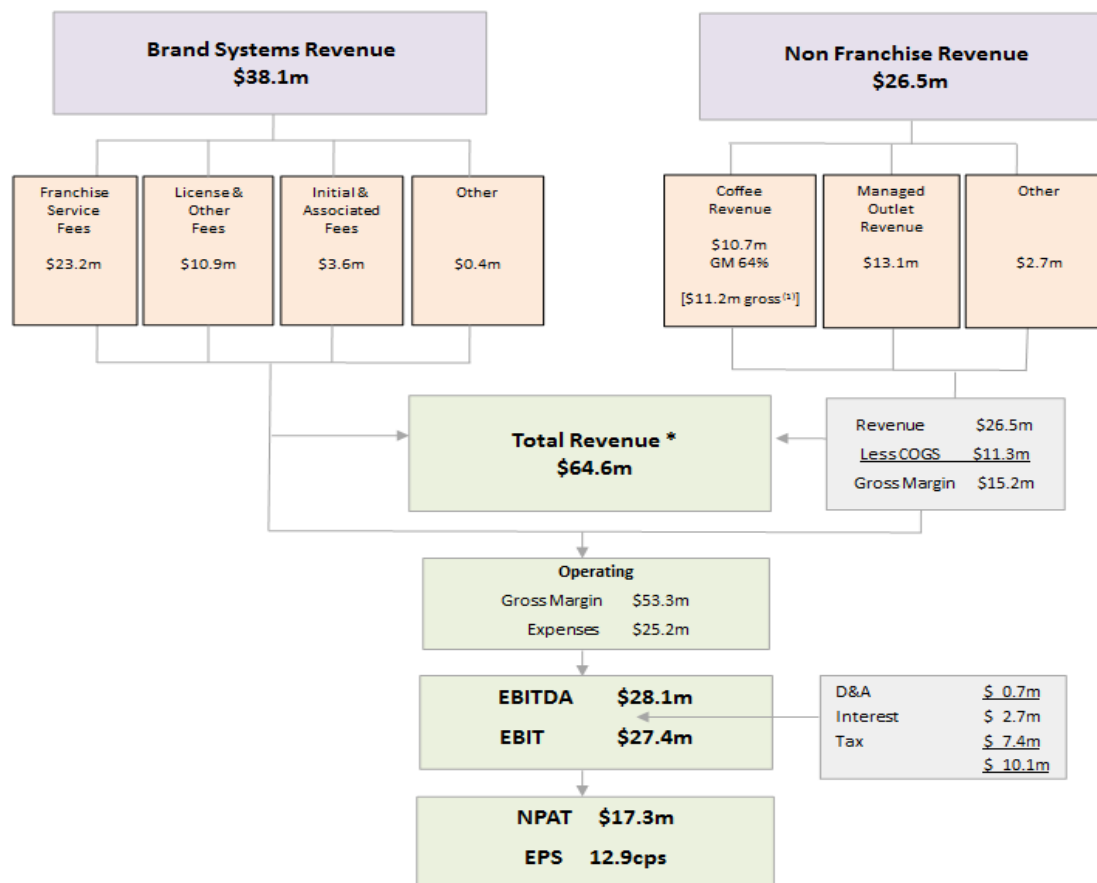
Appendix 5 – Debt Structure



Appendix 6 – Capital Management



Appendix 1 – Summary Financial Performance



*Excludes \$13.5m 'wash through' of marketing revenue/expense (1H13: \$10.8m)

⁽¹⁾ Pre eliminations on consolidation - Corporate outlet purchases

Appendix 2 – Earnings Performance



	1H14 \$'m	1H13 \$'m
Revenue from franchising operations	51.6	45.5
Revenue from wholesale / retail operations	26.5	25.3
Cost of sales	78.1	70.8
Gross margin	(11.3)	(14.2)
Gross margin %	66.8	56.6
Operating & Overhead expenses	85.5%	80.0%
Marketing expenses	(25.2)	(20.2)
EBITDA	(13.5)	(10.8)
Depreciation	28.1	25.6
EBIT	(0.7)	(0.4)
Interest expense	27.4	25.2
EBT	(2.7)	(4.4)
Income tax expense	24.7	20.8
NPAT	(7.4)	(6.2)
	17.3	14.6
Earnings per share		
Dividends per share	12.9 cps	12.5 cps
	10.75 cps	9.5 cps

- ✓ Franchise, licensing & other fees up 9.8% to \$38.1m, reflecting contribution of acquisitions completed during 1H13 and increase in initial franchise fees from new outlet commissionings
- ✓ Retail operation revenues up 46% to \$13.1m due to increased average number of NVCS and VCS operating during 1H14 (60) compared to PCP (38)
- ✓ Gross coffee revenues up 8.4% to \$11.2m, reflecting organic growth within existing Brand Systems as well as new wholesale coffee supply contracts
- ✓ Expense increase attributable to increase of corporate outlets, QSR 400 traction, business acquisitions and increased franchisee support initiatives during 1H13
- ✓ Decrease in interest expense a reflection of debt reduction (post capital raising) and reduced margin over BBSY
- ✓ Record Statutory NPAT of \$17.3m achieved, representing an 18% increase on PCP
- ✓ Strong earnings performance and operating cash flows support increasing dividend payout ratio

Appendix 3 – Cash Flow Performance



	1H14 \$'m	1H13 \$'m
Receipts from customers	82.9	71.8



Payments to suppliers and employees	(58.0)	(49.9)
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Gross operating cash flows	24.9	21.9
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EBITDA	28.1	25.6
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Ratio of gross operating cash flows to EBITDA	88.5%	85.5%
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Interest and other costs of finance paid	(3.3)	(3.5)
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Income tax paid	(8.1)	(8.1)
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Net operating cash inflows	13.5	10.3
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Dividends paid	(13.4)	(9.8)
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Debt reduction (net)	(46.0)	(11.0)
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Acquisitions of business and intangibles	(2.0)	(38.3)
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Acquisition of property, plant & equipment	(7.5)	(2.3)
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Net capital raising	56.7	52.3
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Funding Marketing Fund R&D initiatives	(5.3)	-
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Other cash activities	0.6	(0.8)
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Net (decrease) / increase in cash reserves	(3.4)	0.4
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Cash reserves at year end	13.4	13.2
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✓ Continuing strong cash flows – a feature of RFG's business model – supported by balanced investment and financing activities

✓ 88.5% conversion of operating cash flow into EBITDA reflects increased "real" cash earnings of the business

✓ Operating cash flows used to fund the increased short-term funding of Marketing & Innovation programs undertaken on behalf of respective Brand System marketing funds

✓ Excess free cash derived from operations and capital raising used to fund:

- net \$46m voluntary reduction in gross borrowings
- \$2m earn out payment to Crust vendors
- investment in property, plant & equipment to support OSR400 store growth, fit out of purpose built bakery & distribution facility in Yatala, QLD
- Long-term funding of Marketing R&D initiatives including Evo concepts
- Increased dividend payout ratio to 80.9% of FY13 reported NAPF

Appendix 4 – Financial Position



	1H14 \$'m	FY13 \$'m
Assets:		
Cash reserves	13.4	16.8
Trade receivables	21.1	19.0
Financial assets	16.6	12.7
Inventories	5.5	5.2
Plant & equipment	25.6	18.7
Intangibles	297.4	297.4
Other	2.6	1.6
	382.2	371.4
Liabilities:		
Trade payables	8.0	10.0
Provisions	1.8	3.9
Tax payable	4.2	4.8
Borrowings	62.9	108.9
Other (includes Crust earn out)	2.9	3.4
	79.8	131.0
Equity:		
Share capital	218.2	160.5
Reserves	0.3	-
Retained earnings	83.9	80.0
	302.4	240.5

✓ Working capital increases attributable to increased funding of marketing initiatives, seasonal increases in revenues and payment terms offered to franchisees on new store openings and franchise renewal

✓ Increase in Plant & Equipment reflects investment in QSR400 and Project Evo outlets as well as commissioning of bakery and distribution facilities in Yatala, QLD

✓ Borrowings of \$62.9m classified as non-current liability reflecting March 2016 maturity

✓ Gearing ratio of 15.5% is conservative and compliance with all lending covenants comfortably maintained

✓ Share capital increase of \$57.7m reflecting \$53m capital raising and \$5.3m SPP

Appendix 5 – Debt Structure



- ✓ Facility headroom (including cash) at 31 December 2013 of \$85.5m



- ✓ Gross debt of \$62.9m at 31 December 2013:
 - \$50m of debt subject to a fixed interest rate, with tenure extended to March 2016
 - \$12.9m of debt subject to variable interest rates
 - Allocation of debt between fixed and floating interest rates at the discretion of management, and in accordance with Board mandated interest rate risk policies



- ✓ Weighted average interest rate as at February 2014 is 5.65%, reducing to 4.8% in March 2014



- ✓ Compliance with all lending covenants as at 31 December 2013 comfortably maintained



- ✓ Total \$135m facility on interest only repayment terms, until facility expiration date of March 2016



(1) 15.5 % for Bank Covenant testing purposes

'NAB' Facility	1H14
Gross debt	\$62.9m
Interest expense	\$2.8m
Interest cover (times)	10.3x
Leverage ratio	0.98
Gearing ratio ⁽¹⁾ (net debt / (net debt + equity))	14.1%
Total Facility	\$135.0m

Appendix 6 – Capital Management



	Shares	Price	Proceeds/Value (\$m)
Shares on issue 1 st July 2013	130,277,856		
ESOP – exercise of options (October 2013)	103,334	2.43	0.25
Institutional/Sophisticated Investor Placement (November 2013)	12,325,582	4.30	53.0
SPP (December 2013)	1,238,210	4.30	5.32
FY13 Performance Shares issued to CEO (December 2013) (shareholder approved)	104,408	4.31	0.45
Shares 31 st December 2013	144,049,390		
Share Value ⁽¹⁾			\$59,025m

- ✓ Institutional placement considerably over subscribed
- ✓ Proceeds utilised to
 - Strengthen balance sheet
 - Increase cost and debt facility headroom
 - Assist in funding acquisition activity

(1) Before issue costs and associated expenses of \$1.3m

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