Analyst
Chami Ratnapala 612 8224 2845
Associate Analyst
Connor Eldridge 612 8224 2893

Authorisation
Chris Savage 612 8224 2835

Retail Food Group (RFG)

Growth back on the menu

Recommendation
Buy (Initiation)
Price
$0.05
Target (12 months)
$0.13 (Initiation)

GICS Sector

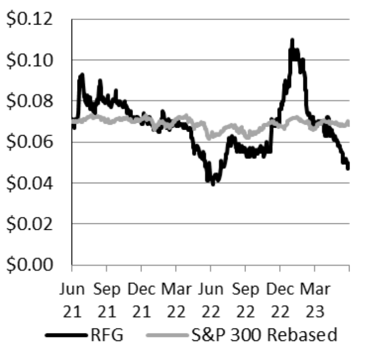
Hotels Restaurants and Leisure

Expected Return	
Capital growth	**>100%**
Dividend yield	**0%**
Total expected return	**>100%**
Company Data & Ratios	
Enterprise value	**$119.3m**
Market cap	**$114.7m**
Issued capital	**2,439.5m**
Free float	**72%**
Avg. daily val. (52wk)	**$280.9k**
12 month price range	**$0.039 to $0.11**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.06	0.07	0.04
Absolute (%)	-21.31	-33.33	9.09
Rel market (%)	-19.48	-36.67	-1.40

Absolute Price



SOURCE: IRESS

Moving from turnaround to 'growth' phase

We initiate coverage of Retail Food Group (RFG) with a Buy rating at a $0.13/share Price Target. As Australia's largest multi-brand retail food franchise owner in Quick service restaurants (QSR) and Coffee, the company franchises and operates stores in mass brands, Donut King & Gloria Jeans and other mid-market brands such as Crust Pizza in ANZ, US and EMEA. Trading at 4.6x FY24e P/E (BPe), the valuation looks undemanding given that RFG has undergone significant change over the past 5 years in a well progressed turnaround to move to a growth phase.

Capital light opportunities to lift group earnings by ~10% p.a

While RFG expects to return to net growth in its overall store count in FY24, we think that other growth initiatives such as add-on revenues from QSR stores and the ramp up in organic growth planned for the US market would drive further growth over the next few years. Led by the current management team in a well flagged progression plan (Matthew Marshall appointed CEO), these capital light opportunities will see RFG growing earnings at a faster rate over the medium to longer term while improving free cash conversion. We forecast Underlying EBITDA to grow at 11% p.a over the next 5 years driven by these initiatives. Post its recent trading update, RFG expects to deliver towards the lower end of the $26-29m Underlying EBITDA guidance for FY23e given the 2H macro headwinds and cycling of COVID comps in few major categories.

Investment View: PT $0.13, Initiate with BUY

We initiate coverage with a Buy rating and PT of $0.13 based on a blend of P/E (10.5x target multiple on a blended FY24/25e basis) and DCF (WACC ~12%, TGR ~3%) methodologies. In the currently emerging slower consumer spending environment, we think RFG could remain resilient considering the lower average transaction value (ATV below $9 ex-Pizza), which is well evident in the 2H to-date update with all brands seeing growth in ATVs and the opportunities that we identify to improve pricing. We also see lower execution risk in the store roll out with a strong management team and growing support from stakeholders post the settlement of ACCC proceedings.

Earnings Forecast

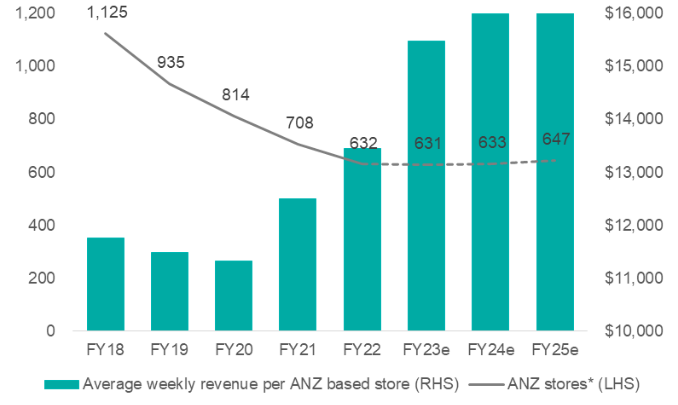
Year end	2022a	2023e	2024e	2025e
Sales (underlying, A$m)	90.0	103.1	112.0	119.2
EBITDA (underlying) (A$m)	21.5	26.8	29.4	32.9
NPAT (underlying) (A$m)	18.5	23.1	25.2	28.6
EPS underlying (cps)	0.9	0.9	1.0	1.2
NPAT (reported) (A$m)	5.3	6.1	25.2	28.6
EPS reported (cps)	0.2	0.3	1.0	1.2
EPS underlying growth (%)	-14.1%	8.9%	8.8%	13.7%
P/E (on underlying EPS) (x)	5.4	5.0	4.6	4.0
EV/EBITDA (x)	5.5	4.4	4.0	3.6
EV/EBIT (x)	5.9	4.7	4.2	3.8
Dividend (¢ps)	-	-	-	-
Gross cash conversion*	71.7%	-27.0%	85.3%	112.7%
ROE (%)	10.1%	10.6%	10.4%	10.6%

*OCF TO UNDERLYING EBITDA | SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

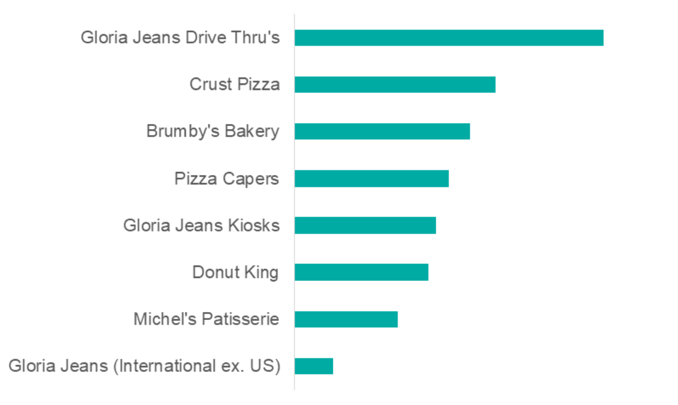
Investment Thesis in Charts

Figure 1 - Figure 2 – Growth in Average revenue per store



*ANZ BASED STORES EXCLUDING MOBILE COFFEE VANS | SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Figure 3 – Average weekly network sales by brand

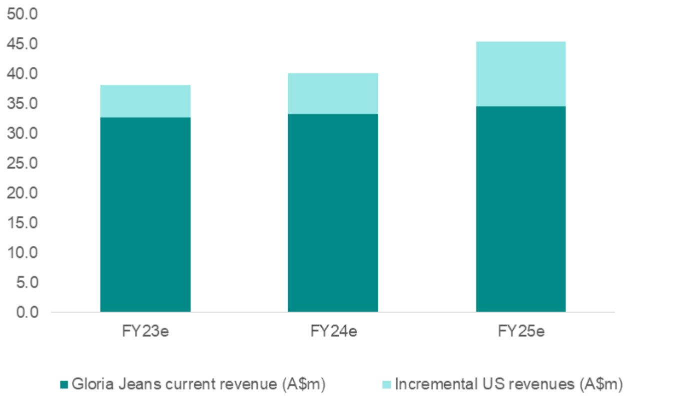


SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Figure 4 – RFG EBITDA growth by brand

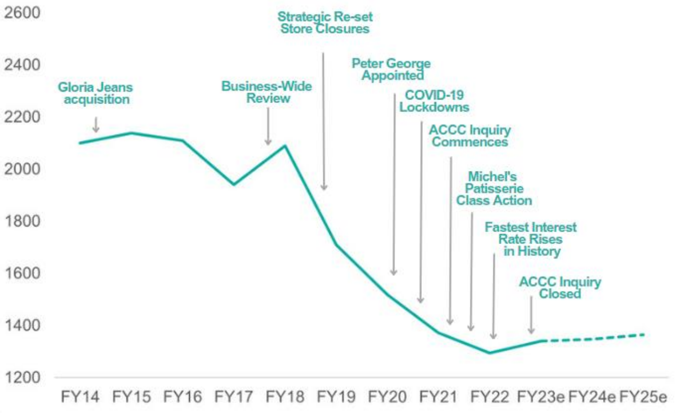
SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 5 - BPe incremental growth in Gloria Jeans revenue ($m)



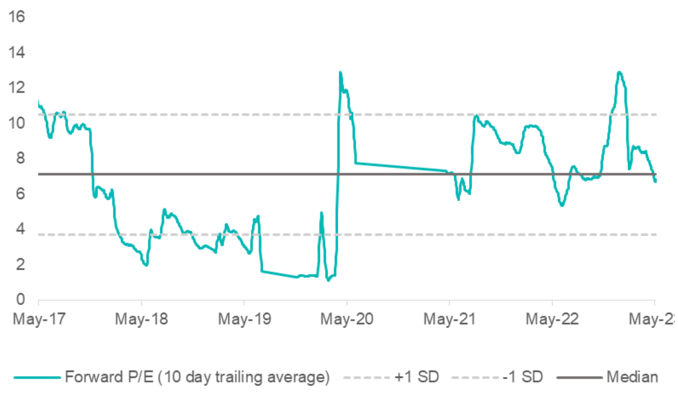
SOURCE: SOURCE: BLOOMBERG, COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Figure 6 – Re-sizing of the Group store network



SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES

Figure 7 – P/E (forward basis*, 10-day trailing average) (+/- 1 SD)



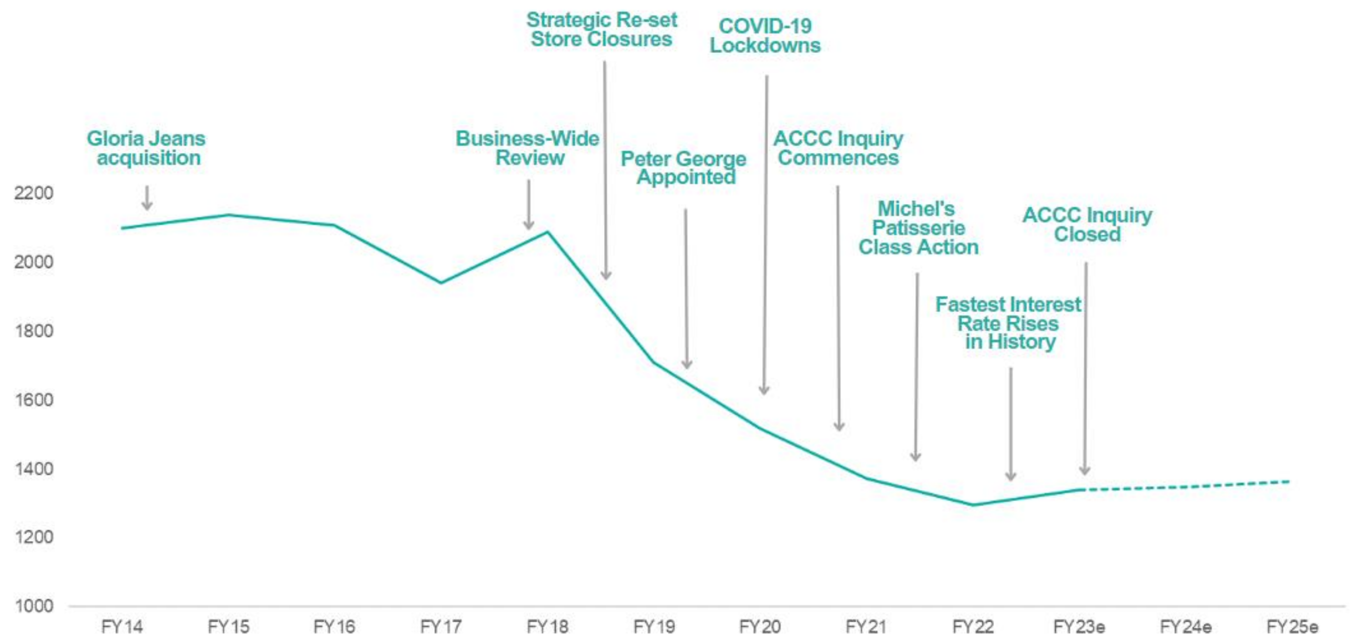
*CONSENSUS BASED | SOURCE: BLOOMBERG, BELL POTTER SECURITIES

Key Investment Themes

1. Well progressed turnaround plan to drive growth in a better quality portfolio

Store network decline strategic. Retail Food Group (RFG) has undergone significant change over the past 5 years since the commencement of the Business wide review in FY18, rapidly closing stores of various brands across the group as they have continued to weather the impacts of COVID-19, ACCC proceedings and Class Action. While the store network has been re-sized by ~40% following ~800 store closures during FY19-21 (BPe), a large portion of the store closures has been driven by its strategic re-set during FY18-19. The challenging environment in our view, has served as an opportunity to distinguish the robust, enduring brands and store locations from those with inherent weaknesses. This has led to the closure of several stores and even entire brands that have underperformed or fail to meet certain return thresholds. Moving forward, RFG are focusing on three key brands; Gloria Jeans, Donut King and Crust Pizza.

Figure 8 – Re-sizing of the Group store network

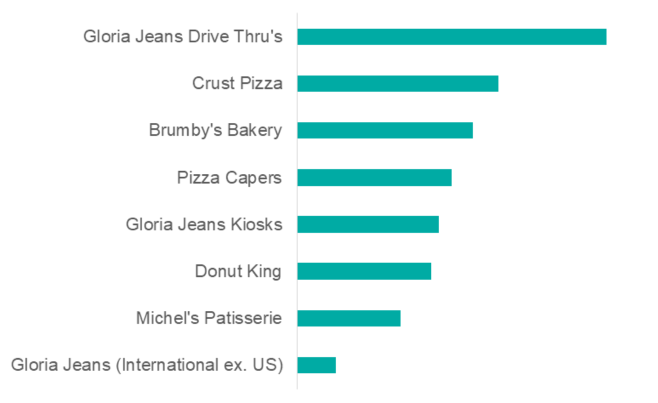


SOURCE: COMPANY WEBSITES, COMPANY REPORTS, BELL POTTER ESTIMATES

Quality over quantity. While RFG have become smaller, they have also become stronger and more refined as underperforming and unsustainable store locations/stores have been sold/closed. Underperforming non-core brands have either been sold, marketed for sale, or restructured for efficiency and as a result, the group’s average revenue per store is growing. We forecast network expansion to be driven by the 3 core brands which contribute ~85% of group EBITDA (FY23e, BPe). The remaining tier 2 brands such as Brumby’s Bakery and Pizza Capers will be less expansionary in terms of store numbers, but will continue to contribute consistent and resilient earnings to the group (BPe Brumby’s contribution to FY23e group EBITDA ~11%). Further, we believe management to have a decreasing focus on the tier 3 brands, such as Di Bella Coffee and Michel’s Patisserie.

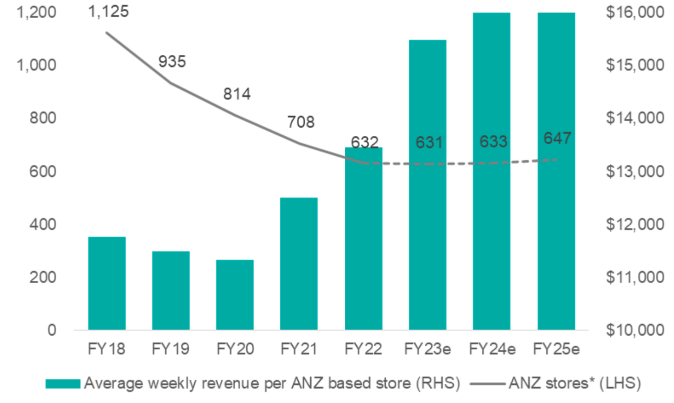
Network Sales per store to be driven by Core Brands. We think the business can be grown as the core brands (Donut King, Gloria Jeans, Crust Pizza) expand their store counts, considering their relatively outsized impacts on group revenue. For instance, some of the best performing Gloria Jeans Drive Thru outlets can generate higher weekly network sales than 10 Michel's patisserie stores combined (BPe). Given the diverse nature of RFG and their current transitional phase, we consider 'Network-Sales per store' as a key driver of medium to longer term growth. As the group adds more high-sales stores and phases out low-sales stores, we anticipate this metric to improve.

Figure 9 – Average weekly network sales by brand



SOURCE: COMPANY WEBSITES, COMPANY REPORTS, BELL POTTER ESTIMATES

Figure 10 – Growth in Average revenue per store



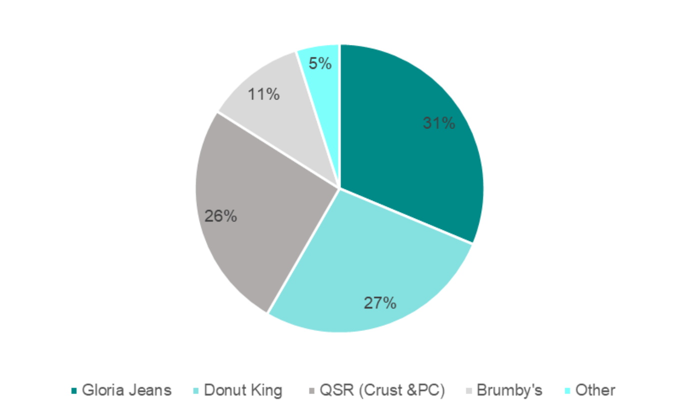
*ANZ BASED STORES EXCLUDING MOBILE COFFEE VANS | SOURCE: COMPANY REPORTS, BELL POTTER ESTIMATES

Rigorous franchisee selection. RFG has emerged from its past missteps of aggressive expansion with a renewed focus on prudent growth and due diligence. They currently have a rigorous vetting process for potential franchisees, filtering out nearly one-third of applicants in initial screenings and accepting 10-20% into the network. This stringent selection process focuses on proven businesspeople as well as multi-site operators who can demonstrate resilient and efficient management across locations. At present, the network boasts 72 multi-site operators with only 3 of them operating across more than 1 brand. This focus on multi-site operators not only strengthens the health and growth potential of RFG but also reinforces the idea of prioritising the calibre of new stores over their count, however with minimum concentration risk (highest single exposure at ~8 stores). The proof of this turnaround is evident in the progress RFG management has made with banks on new lending arrangements to RFG franchisees for the 3 core brands. This renewed access to capital will aid franchisee ability to expand responsibly and successful transformation of RFG.

2. New growth opportunities to lift group earnings by 10% per annum over 5 years

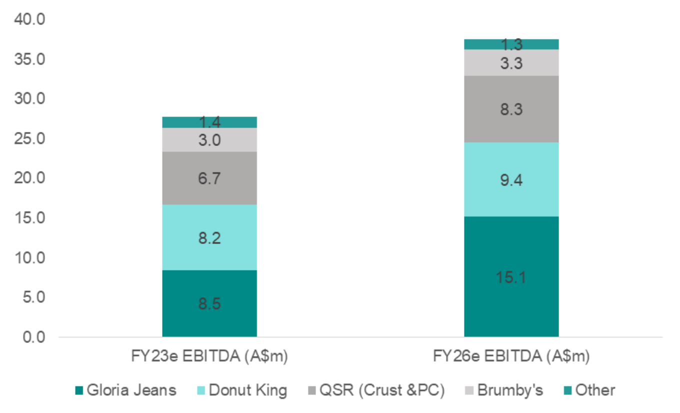
Organic & partnership driven growth. While RFG expects to return to net growth in its overall store count in FY24, we think that other growth initiatives such as add-on revenues from existing stores, the ramp up in organic growth planned for the US market and inorganic joint venture opportunities with new markets entrants would drive further growth over the next few years. Led by the current management team, these capital light opportunities will see RFG moving from turnaround phase to growth mode. We believe that the three core brands, Gloria Jeans, Donut King and Crust Pizza within QSR to be the key contributors to the lift in group earnings.

Figure 11 – Group EBITDA breakdown by brand (FY23e)



SOURCE: BELL POTTER SECURITIES ESTIMATES

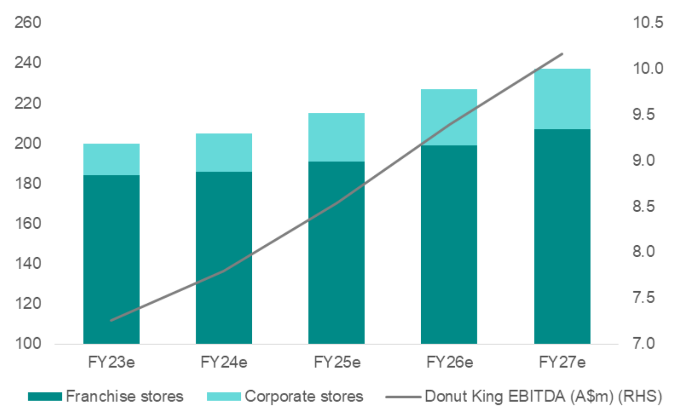
Figure 12 – RFG EBITDA growth by brand



SOURCE: BELL POTTER SECURITIES ESTIMATES

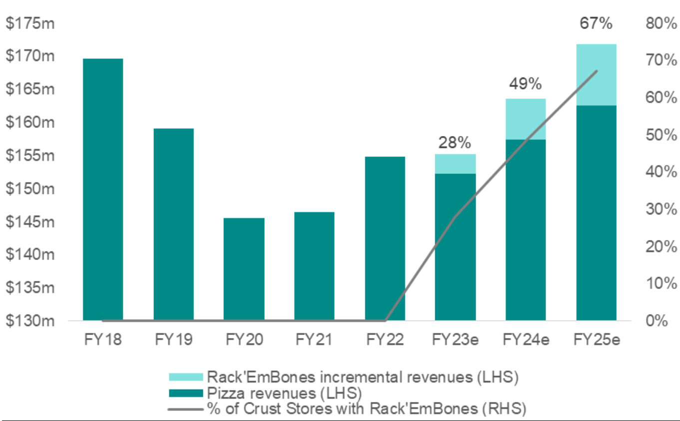
Domestic expansion in Donut King. We think RFG's domestic Donut King brand should see healthy growth coming through over the next few years led by corporate stores as flagged at the recent equity raising. Having raised $6.5m for growth opportunities, we think a sizable contribution will go towards growing the corporate owned stores which would drive the Donut King brand expansion over the next 5-7 years. We forecast ~9% EBITDA growth for the banner over the next 3 years assisted by the outperformance of corporate stores which we think would be ~15% of Donut King stores.

Figure 13 – BPe Donut King store mix & EBITDA growth



SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 14 – Uplift in QSR driven by Ribs* virtual brand extension

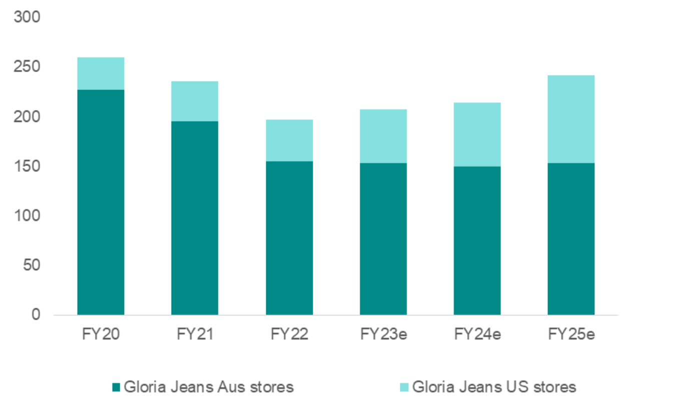


*RACK 'EM BONES BBQ RIBS | SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Adjacent revenue opportunities in QSR. Within the QSR division, RFG has recently introduced a virtual brand extension of "Rack 'em Bones BBQ Ribs". Crust Franchisees have the opportunity to add a second stream of sales by offering ribs products under an entirely different brand name, yet operating from the same pizza kitchen in their Crust store. Rack 'em Bones BBQ Ribs is currently operating in 38 Crust Stores, which we forecast to grow above 100 stores in the next 24 months as more franchisees adopt this business model. Early data is showing an average uplift in store sales of 10%. We think this add-on sales could drive revenue and EBITDA growth for the QSR division of 5-7% over the mid-term.

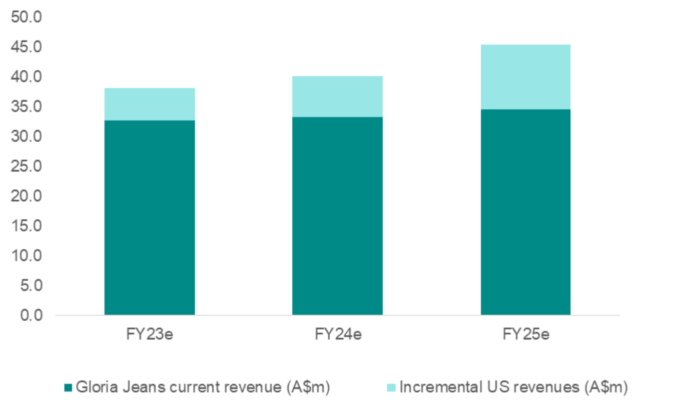
US rollout targeting 140+ stores in the mid-term. We think the Gloria Jeans rollout will add a further ~100 stores to the existing US store network of 42 stores over the mid-term. The company expects this opportunity to be between A$5-6m in EBITDA while our FY26e US stores estimates of ~140 sees a ~$6m incremental EBITDA opportunity. We see our Gloria Jeans EBITDA growing at 20% per annum over the next 3 years (FY23-26e). As the largest profit generating brand within the RFG portfolio, we expect the US store opportunity to be a material contributor to our sales/EBITDA forecasts over the medium term.

Figure 15 – Gloria Jeans expansion in stores



SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Figure 16 – BPe incremental growth in Gloria Jeans revenue ($m)



*CURRENT REVENUE IS THE TOTAL OF DOMESTIC & INTERNATIONAL STORES | SOURCE: BELL POTTER SECURITIES ESTIMATES

Risks

Slowdown in consumer spending

- RFG's product portfolio is mainly food and beverage which are somewhat of discretionary nature. This sees exposure to consumer sentiment & spend risk, although RFG's portfolio is well diversified across all segments of the market including affordable (donuts) to premium (pizza) products.

Supply Chain Issues

- Risks to RFG include compromised food safety and quality that could harm consumer trust and result in legal penalties. Interruptions in coffee roasting operations may disrupt sales and strain relationships with franchisees.

Consumer Behaviour Shift

- While RFG's diverse brands offer some protection from changes in consumer taste, significant shifts like those during the COVID-19 pandemic could require substantial investment to adapt. This might strain the company's resources and financial stability.

Competition

- RFG faces stiff competition from other food and beverage businesses, potentially leading to reduced market share and profitability if the company fails to stay ahead with innovation, quality, and pricing.

Reputational Damage

- Given the high media attention on RFG, any missteps like incorrect wage payments or underreporting can result in heavy media scrutiny, causing damage to the brand's reputation, customer trust, and ultimately impacting the bottom line.

Quality of Personnel

- The competence and effectiveness of personnel managing both corporate and franchise stores directly influence operational efficiency, customer satisfaction, and brand perception. Inadequate training or low staff morale can impact service quality and business performance.

Interest Rates & Inflation

- Further increases in interest rates could inflate RFG's borrowing costs. Sustained inflation could increase COGS for franchisees, threatening the attractiveness of the business model. Alternatively, if RFG absorbs these costs, it could erode their margins. Inflationary pressures also encompass increasing wages and rental costs, potentially harming profitability.

International Operations

- While RFG primarily operates in Australia, international ventures expose it to risks such as enforcing contracts, legal and regulatory changes, foreign exchange rate fluctuations, and political or social instability. These uncertainties can negatively impact operations and profitability in those markets.

Company Overview

Business Model - Majority franchisee retailing

Franchising model. The group holds exclusive rights to a portfolio of brands, including Donut King, Gloria Jeans, Crust Pizza, Brumby's Pizza, Pizza Capers and others. As part of this franchising business model, aspiring entrepreneurs express their interest in partnership with the group, who in turn shortlists potential franchisees based on their merits. On average, the timeline to acquire an RFG franchise will take approximately three months to complete, during which period, applications are reviewed by internal Brand Management, Legal, Finance, Sales & Leasing and Learning & Development departments.

Fit-out costs & running the franchise. Subsequently, a collaborative strategy session is held between the group and the potential franchisee, addressing an array of factors, most notably the prospective store location. Once the franchise agreement is in place, the franchisee operates the store with a significant degree of autonomy, mirroring the operational freedom of an independent business entity. Responsibilities include financing the store's interior setup, hiring and management of personnel, and the overall day-to-day store operations.

Revenue model. The appeal of this franchise model lies in the comprehensive package provided by the group. The franchisees gain access to well-established branding, strategic marketing, low-cost ingredients, and ready-made products from the group, among other advantages. In reciprocation, franchisees commit to paying a predetermined fraction of their store sales to RFG as a franchise royalty fee. This fee can fluctuate based on the store and brand but on average is 7% of network sales for ANZ & US markets and 3% for rest of the international markets which operate under a master franchising agreement. There is also a 3% and 1% marketing fund fee respectively fee for ANZ/US and international markets, which is utilised towards branding and marketing.

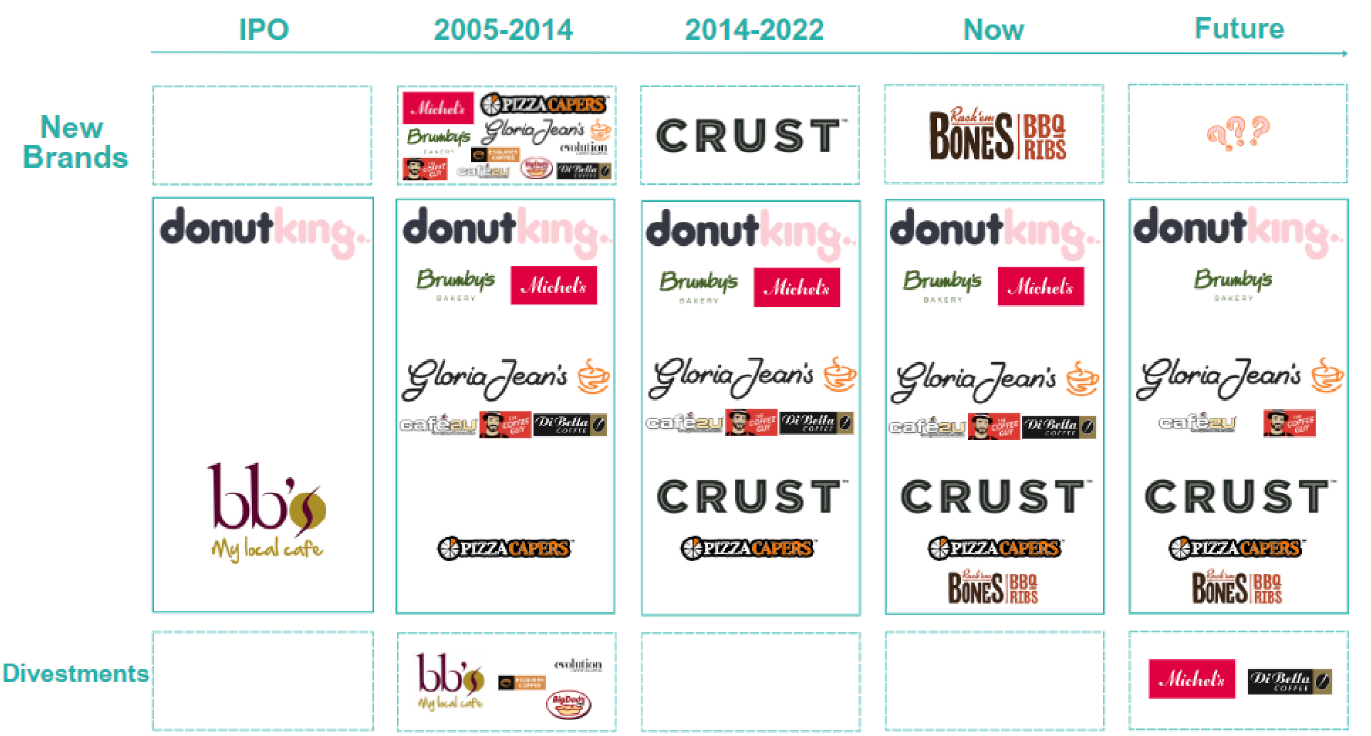
Historical Overview – From reputational hurdles to rebuilding brands

Acquisition led growth in the first 10-15 years. Established in 1989, RFG was incorporated in 2003 as a holding company for several fast-growing brand systems. The company expanded aggressively via acquisition led growth of various brands like Brumby's Bakery (2007), Pizza Capers (2012), Crust Gourmet Pizza (2012), Di Bella Coffee (2014) and Gloria Jeans (2014).

Legal battles in the past 5 years. However in 2018, RFG came under scrutiny by the Australian Competition and Consumer Commission (ACCC) for alleged breaches of the Australian Consumer Law, the franchising code of conduct, and the Competition and Consumer Act. The investigation commenced in 2020 which revealed that RFG had sold loss-making corporate stores to franchisees without adequately disclosing their financial status. Additionally, funds from a marketing-only fund, contributed by franchisees, were used for non-marketing purposes.

Regaining franchisee vote of confidence. As part of the resolution, RFG agreed to make payments to affected franchisees and waive historical debts relating to the purchases of certain corporate stores. RFG paid $5m to franchisees of Michel's Patisserie stores who had contributed to the franchise's marketing fund between July 2012 and June 2017. The settlement amounted to ~$10m in payments and debt waivers, but nevertheless, the impact of these legal proceedings on franchisee sentiment has dampened the growth of the group. The new succeeding management team led by Executive Chairman and former CEO Peter George faced significant challenges in rebuilding trust with dissatisfied franchise owners and attracting new ones, however over the past 4-5 years RFG has continued to overcome these hurdles to regain franchisee vote of confidence and stability.

Figure 17 – Brand consolidation over the years



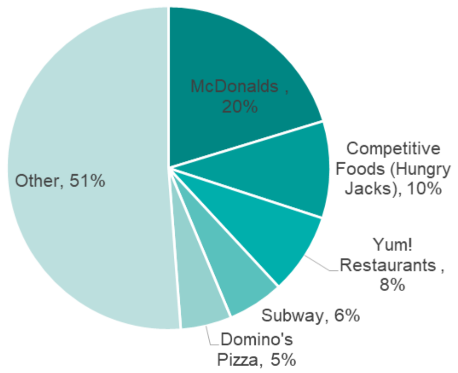
SOURCE: COMPANY WEBSITES, COMPANY REPORTS, BELL POTTER SECURITIES

Industry Overview

QSR Industry

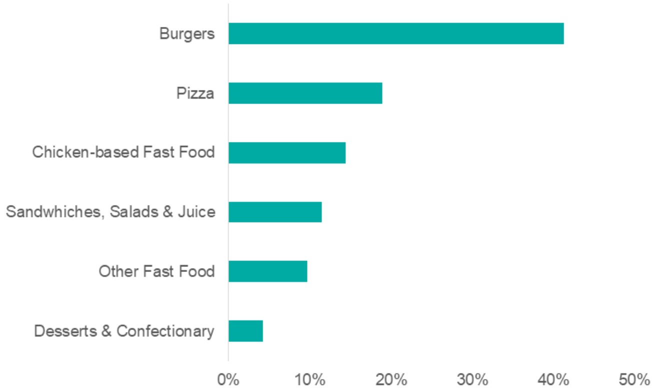
Slicing out in a large market. The Quick Service Restaurant (QSR) Industry is a rapidly growing segment of the Australian foodservice Industry, driven by changing consumer preferences and lifestyles. QSRs offer a convenient and affordable option for busy consumers who seek quick and easy meals. This segment includes popular chains like McDonalds, KFC, Hungry Jacks, Subway and Dominos, which offer a variety of fast-food options ranging from burgers and fries to pizzas and sandwiches. The QSR industry in Australia is highly competitive, with players constantly innovating to stay ahead of the game. The Australian QSR Industry is worth $21b (2022), while expected to grow ~1% over the next 5 years and employs ~2% of the Australian workforce (IBIS, GeoTech Information Services).

Figure 18 – Australian QSR market share by player



SOURCE: GEOTECH INFORMATION SERVICES

Figure 19 – Breakdown in Australian QSR segment

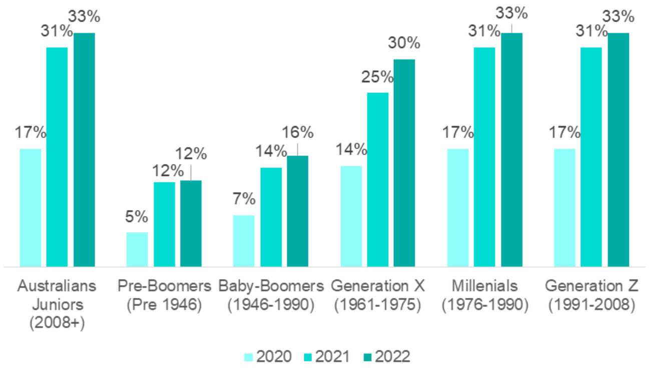


SOURCE: GEOTECH INFORMATION SERVICES

COVID turning the game to contact-less. The COVID-19 pandemic had a significant impact on the QSR Industry in Australia, as restrictions and lockdown measures led to reduced foot traffic and the closure of dine-in services. However, the crisis also accelerated certain structural trends that were already emerging within the industry, such as the shift to online ordering, delivery services and drive-thru facilities. A survey by McKinsey & Company in 2020 found that US consumers expected to continue using contactless options even after the pandemic, with 75% noting that they planned to continue using curb side pickup and 60% noting that they would continue using delivery services. While QSR chains have swiftly adapted operations to cater to these changing preferences, the larger players (shown above) have had an advantage over the smaller players due to their ability to invest heavily into digital platforms and expand delivery capabilities.

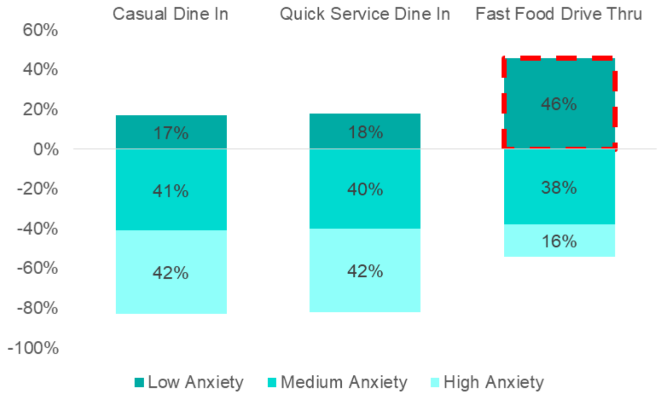
US QSR industry growing strongly. In the United States, the QSR market more than doubled during the COVID-19 pandemic (8% per annum prior to this). We believe contactless preferences will remain an irreversible trend on a global basis, driven by a drastic change in consumer preference (Fig. 20 and 21). The food delivery industry alone has become a global market in excess of U$150b, having more than tripled since 2017.

Figure 20 – Shift in Australians who used meal delivery services by age demographic



SOURCE: ROY MORGAN RESEARCH, BELL POTTER SECURITIES

Figure 21 –Consumer restaurant-dining anxiety : US (% of respondents)



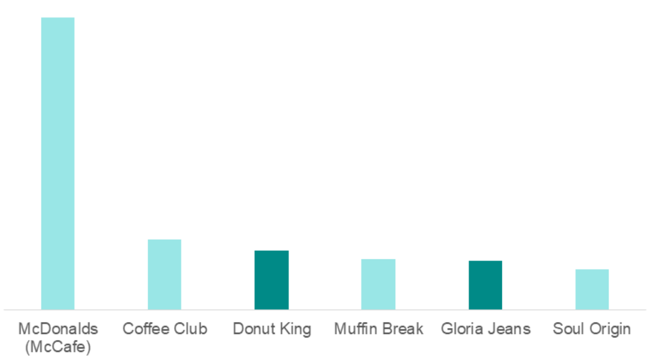
SOURCE: MCKINSEY & COMPANY'S 2020 CONTACTLESS JOURNEY PULSE SURVEY: RESTAURANTS, BELL POTTER SECURITIES

Growing health consciousness. While there have been dominant trends towards takeaway food in Australia with food delivery apps customising to customer needs with the help of AI, we also note the emergence of heathy foods and light meal preferences. Consumers are becoming increasingly aware of their health, particularly what they eat.

Coffee Industry

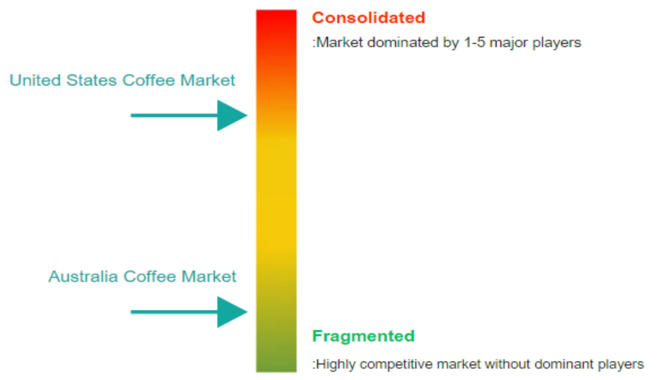
Fragmented ANZ market to a consolidated US industry. The ~$8b Australian café & coffee shop industry consists of ~10 large scale players with the rest of the market being highly fragmented. We note the brand strength of Donut King in the café industry as a mass brand & as the largest doughnut manufacturer and Gloria Jeans among the top 5 coffee brands in Australia. While the US market is ~6x larger than Australia (IBIS) in terms of industry spend, the total number of coffee shops and cafes appears to be 3x that of Australia, indicating the highly concentrated nature of the US market. A chunky 78% of the branded US coffee shops are owned by 3 large chain brands, Starbucks, Dunkin Donuts and JAB (Peet's Coffee, Espresso House, Krispy Kreme, Pret A manger). Similarly, Gloria Jeans will compete in a consolidated structure and should benefit in the 4 targeted regions identified by management for the US roll out and largely assisted by multi-site franchise operators.

Figure 22 – Aus Coffee shop/Cafe chains by number of locations



SOURCE: FRANCHISEBUYER.COM.AU, BELL POTTER SECURITIES

Figure 23 – Coffee market structure by region : Australia vs USA



SOURCE: MORDOR INTELLIGENCE, BELL POTTER SECURITIES

Segments in focus

Figure 24 – Group structure and brands

*INTERNATIONAL COFFEE NETWORK SALES BPE | SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Domestic Bakery/Café Division

Donut King – The jewel in the crown

High unit economics. Donut King is an Australian franchise system that specialises in donuts, coffee, and other treats. It is a well-established and recognised brand, especially in Australia where it is the largest specialty donut and coffee destination, serving over 12m customers per year. Within RFG, Donut King is seen as the strongest growth prospect given the strong unit economics, faster payback, lower associated capital expenditure and ease of running the franchise.

A proven, resilient brand. Founded in 1981, Donut King has weathered depressions, the GFC, pandemics, cost-of-living crises, and more. One thing that remains true to the business – customers always want a treat. Donut King strategically targets the 'impulse buy', 'reward', and 'treat' segments of the food retailing sector, understanding that their products are often indulgences that customers buy on a whim, as a special treat, or as a reward for themselves or others.

Attractive high margins. The fundamental strength of Donut King lies in the potency of its unit economics. Of all the brands, Donut King stands out with the lowest average transaction value, which is just $8.76. Despite this, Donut King has an unbelievably high margin opportunity for franchisees. The cost of goods for franchisees are very low compared to the sale prices. As a result, Donut King stores can navigate cost-pressures much more effectively than other retailers. Donut King's affordable pricing strategies reduce the consumer's likelihood of deciding to forego a 'craving' for financial reasons. Despite contrary belief, company sales data shows that in increasing cost of living environments, cheap treats are one of the last discretionary purchases to be forgone

Despite its maturity, still growing. In recent years, newly employed RFG strategists have identified the importance of brand image in the Donut Market. As such, the focus of the group has been investing heavily in rejuvenating the "fresh, colourful" Donut King brand so that they can enhance their command of the Donut and Coffee market. Donut King stores are typically located in shopping centres, usually positioned in high traffic flow areas such as food courts or kiosks in front of shopping centre 'anchor' tenants to maximize visibility and customer reach. The brand is already in 200 of the 700 major shopping centres in Australia, which identifies a clear growth strategy for targeting the remaining stores. We have also identified a strong relationship between store sales and stores in low socioeconomic areas.

Brumby's Bakery – Resilience in a steady-state network

Second largest bakery brand. Brumby's Bakery, the second-largest bakery brand in Australia behind Baker's Delight, specialises in a diverse array of products such as bread, sweets, and savouries. Despite being industry counterparts, Brumby's Bakery and Baker's Delight operate under distinct business models that sidestep direct competition. Baker's Delight embraces a high-cost model akin to Donut King, strategically situating their outlets in prime locations to optimise visibility and footfall. Conversely, Brumby's Bakery adopts a low-rent, cost-efficient model with a geographical focus on regional towns and independent storefronts, positioning grocery stores as their primary competitors.

COVID beneficiary. The COVID-19 pandemic has proven advantageous for Brumby's model. The shift towards remote work has amplified consumer demand for premium bread products for homemade meals, reflecting a change in consumption patterns. Consumers would plan a trip around their bread, rather than making a spontaneous purchase when in a shopping centre. Currently, Brumby's Bakery operates 90 stores nationwide, and generates an average weekly sales per store figure greater than both Donut King and Gloria Jeans.

Facing industry wide challenges. The bakery business faces a significant industry-specific challenge: the dwindling interest in baking as a career choice among the younger generations, primarily due to the demanding work hours. This headwind has led us to project a steady-state forecast for Brumby's Bakery, with only marginal growth in store numbers expected. Despite this, the management at RFG has put forth a growth strategy that involves enticing existing bakers with manage-to-own arrangements for Brumby's stores. This innovative scheme allows the Group to shoulder the initial costs, while the baker-turned-store-manager incrementally purchases the store from the Group over time.

Michel’s Patisserie – A thing of the past

Making headway. Michel’s Patisserie is the final brand within the Bakery/Café Division, specialising in pastries, cakes, and coffee. Michel’s is currently the lowest performing brand under the Retail Food Group banner umbrella but has regained some strength with ongoing marketing and product initiatives returning since COVID-19.

Developments from 2018 to now. The past decade has seen a sharp decline in store count from 150 in 2018 to 42 at present. The year of 2019 saw a troubled phase of the brand when franchisees levelled accusations of deceptive practices within the franchisee agreements against the parent company, with a Class Action currently pending, however we believe that the impacts of this are near negligible compared to the ACCC proceedings. While the new management has resolved underlying issues to a large extent, it appears that unlike the remaining brands under RFG there is more headway in terms of alignment between franchisees and brand leadership.

Incremental opportunities. We think that there is an attractive long-term strategic proposition to phase out the Michel's brand, converting any suitable stores into Donut King and Gloria Jeans outlets and we believe that this could contribute positively to the business by enhancing operational efficiency.

Domestic Coffee Division

Retail Food Group's domestic coffee business consist of Gloria Jeans, Cafe2U, The Coffee Guy and Di Bella Coffee. However, more than 95% of revenue comes from Gloria Jeans.

Gloria Jeans Overview

Gloria Jeans is an American-Australian coffee & cafe brand. The first store opened in Chicago in 1979 and operations expanded to Australia in 1996. RFG acquired the Gloria Jeans global business and IP assets in 2014 for ~$180m. Through this, RFG acquired the status of "Franchisor" for 40 licenced international territories and operational management of the Australian & USA regions. However similar to the broad-based store declines, Gloria Jeans ANZ has seen a decline in its store count from 287 in 2018 to ~155 (excluding Coffee Vans) at present.

Adding flavour to a fragmented coffee market

Fragmented industry. Australia has a highly fragmented coffee market with a strong coffee culture. Approximately 95% of cafes/coffee shops in Australia are independent coffee shops (2023, IBIS World), as the discerning consumer base associates independence with quality, ambience, and even ethically sourced product. This trend has been accentuated by the COVID-19 pandemic, making it increasingly challenging for large chains to compete with local cafes.

Tapping into flavoured coffee. Gloria Jeans are strategically operating in an underdeveloped segment of the coffee market – flavoured beverages, both hot and cold. The company has undertaken a renewed marketing approach to build the brand around the flavours. This involves targeting: 1. older consumers who may have a sentimental attachment to flavoured beverages, a thing of the past, and 2. Introducing 'coffee-alternatives' to the next generation.

Lower income demographics, lower ATV. Similar to Donut King, our analysis into the Australian Gloria Jeans store network shows a positive correlation between Gloria Jeans franchise sales and lower socioeconomic areas. While the lower average transaction value (ATV) should see customer spend immune to coffee purchases, we note that these demographics have experienced the highest financial stress in the current high-inflation environment, which could be an impact as customer numbers return back to pre-COVID levels. Positively, we forecast store growth for Australia driven via both corporate owned stores from a present network of ~8 and franchise led expansion.

Drive Thru - Driving Sales

Higher returns than outlets. Gloria Jeans currently have 13 Drive Thru's in Australia, this number has almost doubled in the last 2 years (7 Drive Thru's at FY21). This business development strategically targets one of the biggest emerging trends in the food and beverages sector - convenience. Especially after the COVID-19 pandemic, consumers have developed a greater willingness to pay for ease of consumption. The Drive Thru's have been a massive success, on average returning 2x the store sales of a normal store. We believe there are significant further opportunities in this space.

Increasing penetration. In both Drive Thru and stand-alone stores, management have identified the importance of moving from metro-areas to the outer-suburbs through neighbourhood malls and strip shops. Not only will this lead to cheaper rent, but we think this will locate Gloria Jeans within greater proximity to their target consumers.

International Coffee Division

USA – The Land of Opportunity

Targeted growth via multi-site operators. Retail Food Group are now focusing on international expansion, particularly in the United States as one of the largest coffee market in world (among top 10). The group currently has ~42 stores in the North American region (as of Mar-23). In contrast to Australia the US has a highly developed licensed store chain model that has grown rapidly over the last few decades. In addition to the vast size of the American market, the chain model has succeeded due to a greater acceptance of standardised products and services, an appreciation of consistency and a higher level of consumer brand loyalty. All stores in the United States are run by multi-site operators (MSOs), who ultimately provide funding for new franchises.

Drive Thru to be a key driver. We believe that Gloria Jeans will continue its successful growth trajectory in the United States through the 'Drive Thru' franchise model as focused by management within the ~140 overall stores targeted (both normal stores and drive thru) for the next 2 years in the region. American consumers exhibit a higher inclination towards car travel compared to Australians, making the drive thru business model exceptionally viable. Gloria Jeans has already witnessed remarkable revenue generating potential from their existing Drive Thru stores in the US and we anticipate this trend to persist and contribute to the continued success in the region.

Key regions. RFG have already identified 4 penetrable target areas within the US market and liaised with 'ready' investors – Texas and Florida, where we see comparatively weaker product competition, as well as New York and Chicago, where we believe there is pent up demand for Gloria Jeans product, returning to its city of origin.

Rest of the world – Growth opportunity with lower risk

Master franchise driven growth. The rest of the world region totalling to ~550 stores has a focus on Master Franchise Agreements, where the master franchisee becomes the franchisor for their territory and is responsible for recruiting and training their own franchisees. This de-risking strategy removes liability from the parent group, yet still continued to the growth received from rolling out stores and receiving royalty incomes.

Domestic QSR Division

Premium Gourmet Pizza – What the people want

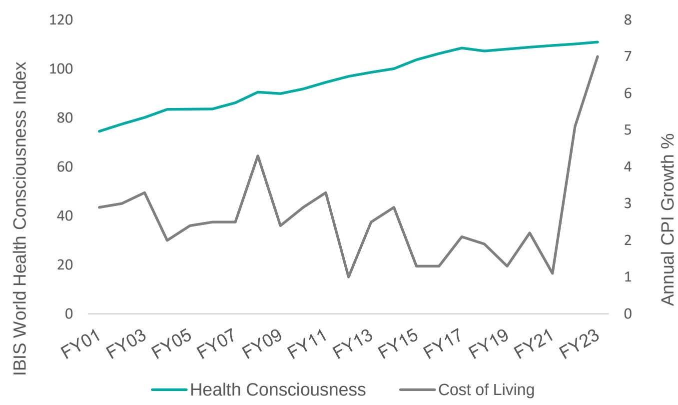
Third player but leading in gourmet pizzas. The Quick Service Restaurant (QSR) division of RFG consists of two premium pizza brands: Crust Gourmet Pizza and Pizza Capers. The QSR Industry includes all types of 'fast-food' restaurants, yet our analysis focused on the Pizza Industry, considering it is the exclusive domain that Retail Food Group operate in. The Australian pizza market is currently dominated by Dominos Pizza (market share of ~40%) and Pizza Hut (~15%). Crust Pizza sit tad below Pizza Hut on this list. The remainder of the market is made up by a diverse array of small, independently owned pizzerias with premium pricing models.

Niche market space. We believe that RFG's QSR division has identified a lucrative and rapidly expanding niche within the Pizza market – affordable, healthy, premium pizzas. Modern day consumers are caught in a crossroad between an ever-growing distaste to unhealthy foods, yet unable to afford top of the range health choices due to the ongoing cost-of-living crisis. We believe that the convergence of these macroeconomic trends will create an opportunity for Crust Gourmet Pizza and Pizza Capers to gain market share.

Figure 25 – Emerging 'Affordable Premium' Niche in Pizza Market

SOURCE: COMPANY WEBSITES, IBISWORLD, BELL POTTER SECURITIES

Figure 26 – Increased Health Consciousness & Cost of Living



SOURCE: ABS, IBISWORLD, BELL POTTER SECURITIES

Dual brands, Crust & Pizza Capers. RFG's dual QSR brands target health-conscious consumers seeking high quality ingredients and unique flavour experiences. Despite the highly competitive pizza market, both brands have built a loyal customer base by trail-blazing this new disruptive 'premium pizza' space.

Steady growth over 10 years. This has been instrumental in the consistent growth of Crust Pizza franchises in Australia. In 2011 Crust Pizza reached 100 stores and has increased steadily to 146 stores today. Pizza Capers has pursued a different strategy by streamlining its operations and divesting underperforming stores. The brand has refocused on the highly profitable market in Southeast Queensland, where it has a strong presence (23 stores) and a loyal customer base.

Franchise led business. The QSR division is unique within RFG, in that it is the only entirely franchised division. Franchise owners pay for the fit out of their stores and then pay ongoing royalties (6.5%) and market levies (4%) to RFG. This model allows the division to maintain relatively low capital expenditure and high margins on revenue.

Underlying customer trends supportive. We forecast that the tailwind of increasing consumer health awareness will be instrumental in RFG gaining market share from its relatively less health-focused competitors, such as Dominos & Pizza Hut. As such we anticipate that the QSR Division will sustain its growth trajectory and its outperformance relative to the other divisions of RFG Group in future years.

Rack ’em Bones BBQ Ribs – Virtual stores, Real Growth Potential

Lower Capital expansion. Rack ’em Bones BBQ Ribs (Ribs), the newest brand within RFG, presents a unique and innovative business model that leverages existing QSR infrastructure to maximise profits. As part of this model, Crust Pizza franchisees are offered the opportunity to sign a secondary franchise agreement, allowing them to open a Rack’emBones BBQ Ribs virtual outlet within their Crust store. This approach eliminates the need for additional capital or infrastructure investments, as franchisees can conveniently utilise their existing Crust kitchens for Ribs operations. Despite being housed within Crust stores, Ribs maintains a separate distribution network via third-party aggregators (3PA) such as Uber Eats, reinforcing its operational independence.

Distinct branding strategy. From the perspective of the consumer, Rack’emBones presents itself as an independent ribs chain with no apparent connection to Crust. This distinct branding strategy, coupled with its separate distribution, ensures that the two brands cater to different culinary preferences without cannibalising each other's market share. Initial data indicates this strategy's success, with existing Rack’emBones delivering average sales equivalent to ~10% of the original Crust store’s sales. The integration of the Rack’emBones brand into Crust outlets provides franchisees with a diversified revenue stream, thereby enhancing their business resilience and growth potential.

Earnings and Valuation

Earnings Estimates

Domestic division in 2H23. RFG reported network sales growth of 2.2% on pcp for their domestic franchising division for the 2H23 to-date (up to week 49 of FY23). Our 2H23e forecasts see a similar run-rate for the division driven by the outperformance in Donut King followed by Gloria Jeans, while QSR and Brumby's see softer growth as COVID comps are cycled through. All RFG's brands except QSR have seen growth in average transaction values (ATVs) and we believe remains a good metric showcasing the ability to remain immune in a slower consumer spending environment, in addition to the further opportunities that we identify within the network to improve pricing.

US/international performance. We forecast steady growth in the US/internal franchising business with the growth in the numbers of US based stores and gradual increase in master franchise stores in 2H23e. Early signs of the US rollout appears to be promising with good levels of engagement with the Gloria Jeans brand from the existing 42 stores while seeing strong interest from multi-site operators on new stores.

EBITDA outlook. RFG expects to deliver towards the lower end of the $26-29m Underlying EBITDA guidance given the 2H macros headwinds and cycling of COVID comps in strong categories and we forecast $26.8m in EBITDA for FY23e. Our EBITDA forecasts for FY24e see incremental growth from the adjacent brand expansion of Rack 'emBones BBQ Ribs in the QSR division and contribution from the US based Gloria Jeans store rollout.

Figure 27 – BP earnings drivers / Result Preview (Underlying basis)

	FY21a	1H22a	2H22a	FY22a	1H23a	2H23e	FY23e	FY24e	FY25e
Network Sales	**674.4**	**306.6**	**322.8**	**629.4**	**342.0**	**334.8**	**678.0**	**711.4**	**774.2**
					12%	*4%*	*8%*	*5%*	*9%*
Domestic Franchising	494.8	226.9	242.0	468.9	259.0	248.2	508.2	525.8	552.5
					14%	*3%*	*8%*	*3%*	*5%*
International Franchising^	179.6	79.7	80.8	160.5	83.0	86.5	169.6	185.5	221.6
					4%	*7%*	*6%*	*9%*	*19%*
Group EBITDA	**25.7**	**9.3**	**12.2**	**21.5**	**13.7**	**13.1**	**26.8**	**29.4**	**32.9**
					47%	*8%*	*25%*	*10%*	*12%*
Domestic Franchising	24.5	7.8	10.5	18.3	11.7	10.9	22.5	23.9	25.4
					50%	*3%*	*23%*	*6%*	*6%*
International Franchising	2.4	1.5	1.7	3.2	2.0	2.3	4.3	5.5	7.5
					33%	*34%*	*34%*	*28%*	*36%*

^INTERNATIONAL DIVISION NETWORK SALES BPE | SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Improving cash conversion. RFG's cash conversion in 1H23 was 58% (Operating cash flow to Underlying EBIDTA), however the working capital impacts on the 2H cash flow will see a lower cash flow in 2H with the addition of lower capital driven Donut King corporate stores (16 stores currently). As non-core item related cash drain is largely behind the company, we forecast RFG's FY24e cash conversion rate to improve towards a ~85% Operating cash flow conversion of Underlying EBITDA and ~65% Free cash flow conversion of Underlying EBITDA.

CAPEX requirements. We forecast capital expenditure related to the corporate store rollout of Donut King and Gloria Jeans brands in our forward year estimates. We also consider a phased out investment into IT as the company plans to focus on mobile based ordering & loyalty which will add incremental revenues and rolling-out of software aiming at several cost efficiencies such as invoicing and automation.

Valuation

Buy rating with a $0.13/share target price. Our $0.13 12-month target price is based on a 50:50 blend of: 1) Discounted Cash Flow (DCF) valuation methodology utilising a WACC of ~12% and a terminal growth rate of 3.3%; and 2) Target P/E multiple of 10.5x on a FY24e and FY25e blended basis.

Relative valuation. Our 10.5x forward P/E target multiple is based on a ~50% discount applied to the median multiple of the peer group we have considered. We utilise the discount considering the factors such as limited store growth over the past 4-5 years, the trading liquidity in the stock and current trading multiple compared to peers.

Figure 28 – Valuation summary

DCF	FY22a	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Operating Cash Flow	15.4	-7.2	26.5	38.5	34.0	39.0	42.2	48.7	48.4
Capex	-3.1	-4.5	-6.0	-6.4	-7.1	-7.4	-7.7	-8.0	-8.3
Lease payments									
Free Cash Flow	**12.3**	**-11.7**	**20.5**	**32.1**	**26.9**	**31.6**	**34.4**	**40.7**	**40.0**
Discount Rate	*-0.981*	*0.019*	*1.022*	*2.022*	*3.022*	*4.022*	*5.025*	*6.025*	*7.025*
Diluted SOI (m)	2123.5	2439.5	2439.5	2439.5	2439.5	2439.5	2439.5	2439.5	2439.5
FCF per share	0.01	0.00	0.01	0.01	0.01	0.01	0.01	0.02	0.02
PV of FCF	13.7	-11.7	18.3	25.7	19.3	20.3	19.8	20.9	18.4
Total PV of FCF	131.0								
Terminal Value	225.9								
Value	**356.8**								
Net Debt/(Cash)	4.1								
Other	0.0								
Equity Value	**352.7**								
Shares on issue	2439.5								
Equity Value ($)	**$ 0.14**								

Sensitivity of DCF to WACC and terminal growth rate

		Terminal Growth Rate				
		2.8%	**3.0%**	**3.3%**	**3.5%**	**3.8%**
	10.2%	$0.17	$0.17	$0.18	$0.18	$0.19
	10.9%	$0.15	$0.16	$0.16	$0.16	$0.17
WACC	**11.7%**	$0.14	$0.14	**$0.14**	$0.15	$0.15
	12.4%	$0.13	$0.13	$0.13	$0.13	$0.14
	13.2%	$0.12	$0.12	$0.12	$0.12	$0.12

Relative Valuation (P/E)	
FY24e Net Profit	26.6
FY25e Net Profit	30.1
P/E Target Multiple	10.5x
Implied Enterprise Value	**287**
Net Debt (FY23e)	4.1
Deferred Acquisition Costs	0.0
Implied Equity Value	**283**
Diluted shares on issue	2439.5
Valuation per Share	**$ 0.12**

Methodology	Weighting	Value
DCF Valuation	50%	$ 0.14
Relative Valuation	50%	$ 0.12
Blended Valuation		**$ 0.13**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Listed comps

Comping to global peers. Below we compare sales/earnings growth & margins and valuation multiples across peers including ASX listed food & beverage retailers and international franchise owners focusing on the quick service restaurants (QSR) industry. We note that on average these comps consist of a mix of franchise to corporate owned stores with majority franchise stores. In comparison to close comp, Domino's Pizza (DMP) with an 80:20 franchise:corporate store spilt, RFG stands at more than 95% franchise stores for the group and no corporate stores in the QSR division.

Ranking well on EBITDA growth & margins. RFG's EBITDA growth and margin trajectory stand out in the peer group which we attribute to the turnaround in the business and further growth opportunities to be driven by the management team which are expected to generate incremental EBITDA for the company.

Figure 29 – Listed comps (ASX listed food & beverage retailers and global QSR players)

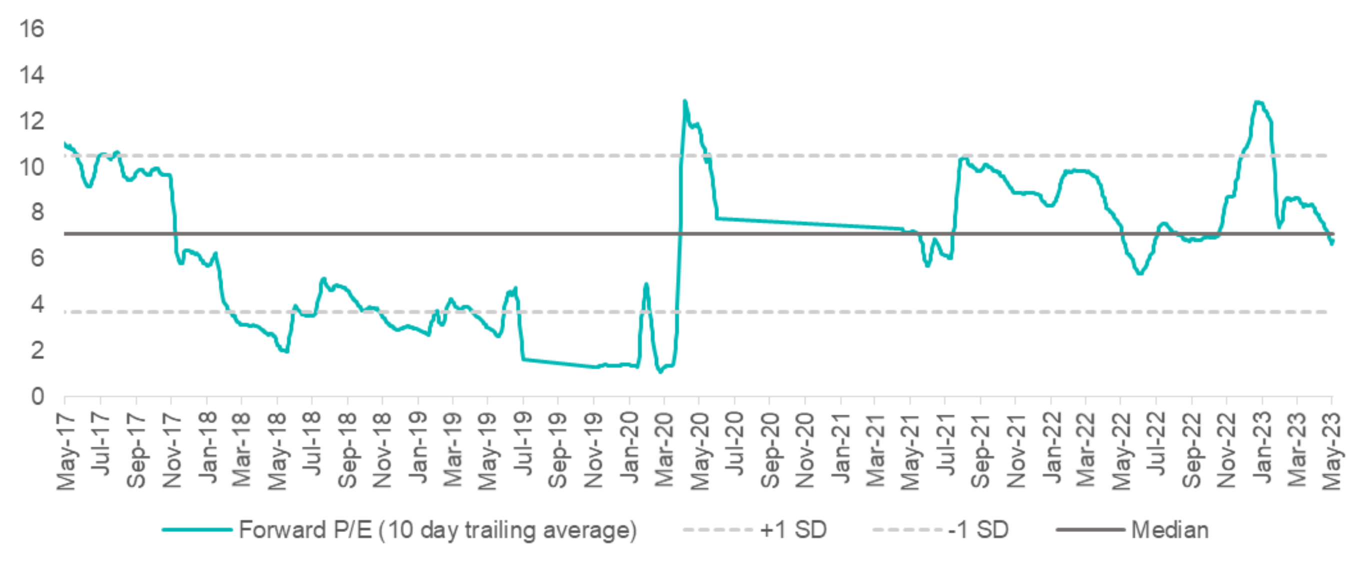
Domestic	Ticker	Report Date	Currency	Last Price	YTD Price	Market Cap	EV	Sales Growth		EBITDA Growth		EBITDA margin (%)		EV/EBITDA		P/E (x)	
					%Change	Local ($m)	Local ($m)	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Retail Food Group Ltd	RFG	28/02/2023	AUD	0.047	-41.3%	114.99	214.19	-25.0%	7.7%	54.1%	12.6%	31.1%	32.5%	8.2	7.3	7.8	6.7
Collins Foods Ltd	CKF	29/11/2022	AUD	8.12	12.9%	952.66	1,603.83	12.3%	8.4%	-9.2%	6.4%	14.1%	13.9%	8.5	8.0	19.2	18.8
Domino's Pizza Enterprises Ltd	DMP	22/02/2023	AUD	44.42	-33.0%	3,957.40	5,293.64	521.7%	8.8%	-9.5%	16.9%	14.6%	15.6%	15.3	13.1	30.5	24.7
Good Drinks Australia Ltd	GDA	27/02/2023	AUD	0.53	-20.3%	68.02	100.97	1251.3%	9.6%	-2.5%	44.6%	7.2%	9.5%	12.2	8.4	66.3	21.2
						Median		267.0%	8.6%	-5.9%	14.8%	14.3%	14.8%	10.3	8.2	24.9	20.0
						Average		440.1%	8.6%	8.2%	20.1%	16.8%	17.9%	11.0	9.2	31.0	17.9

International	Ticker	Report Date	Currency	Last Price	YTD Price	Market Cap	EV	Sales Growth		EBITDA Growth		EBITDA margin (%)		EV/EBITDA		P/E (x)	
					%Change	Local ($m)	Local ($m)	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Wendy's Co/The	WEN	10/08/2023	USD	22.48	-0.7%	4,737.36	8,273.28	10.1%	4.9%	-6.4%	6.6%	23.3%	23.7%	15.4	14.4	22.8	20.0
Papa John's International Inc	PZZA	4/08/2023	USD	72.78	-11.6%	2,376.71	3,136.60	7%	4%	15%	8%	10%	10%	14.1	13.1	26.5	23.0
Starbucks Corp	SBUX	1/08/2023	USD	101.27	2.1%	116,095.93	136,717.83	25%	11%	-8%	15%	18%	18%	19.2	16.8	29.5	24.8
McDonald's Corp	MCD	26/07/2023	USD	293.04	11.2%	213,946.72	260,061.92	15%	6%	5%	8%	50%	51%	19.5	18.1	26.5	24.3
Chipotle Mexican Grill Inc	CMG	27/07/2023	USD	2,049.80	47.7%	56,553.65	59,385.93	29%	13%	5%	19%	17%	18%	30.8	26.0	46.2	38.4
Texas Roadhouse Inc	TXRH	28/07/2023	USD	108.07	18.8%	7,240.72	7,822.98	24%	8%	-1%	14%	10%	11%	15.0	13.1	23.1	19.9
Brinker International Inc	EAT	16/08/2023	USD	36.57	14.6%	1,619.93	3,879.63	12.7%	3.7%	-28.9%	14.0%	8.2%	9.0%	11.1	9.7	13.2	10.9
Restaurant Brands International Inc	QSR	4/08/2023	USD	76.12	17.7%	34,585.25	47,848.25	12.7%	5.4%	45.0%	7.2%	34.2%	34.8%	19.1	17.8	24.5	22.5
KOMEDA Holdings Co Ltd	3543	12/07/2023	JPY	2,672.00	7.5%	123,520.95	162,399.95	36.0%	7.3%	n/a	n/a	n/a	-22.8%	0.2	0.1	20.7	19.2
J M Smucker Co/The	SJM	23/08/2023	USD	151.34	-4.5%	15,443.73	18,728.13	-3.6%	1.1%	8.3%	3.6%	21.4%	22.0%	11.3	10.9	16.2	15.0
Nayuki Holdings Ltd	2150	31/08/2023	CNY	5.77	-23.4%	9,896.28	9,931.24	126.1%	22.8%	1183.2%	51.2%	11.0%	13.6%	9.3	6.1	28.5	13.9
Autogrill SpA	AGL	28/07/2023	EUR	6.37	-1.5%	2,450.74	4,139.75	13%	1%	n/a	11%	16%	17%	5.6	5.1	57.9	23.6
Boston Pizza Royalties Income Fund	BPZZF	4/08/2023	CAD	12.23	11.3%	248.15	329.37	11.3%	n/a	n/a	4.3%	92.9%	n/a	7.0	6.7	11.0	10.1
Yum! Brands Inc	YUM	2/08/2023	USD	135.82	6.0%	38,041.41	50,335.41	15%	8%	6%	10%	32%	33%	19.7	17.9	26.5	23.0
Jollibee Foods Corp	JBFCF	10/08/2023	PHP	4.26	6.5%	4,765.63	69,098.51	30%	12%	12%	13%	10%	11%	2.4	2.1	31.3	25.5
						Median		14.6%	6.5%	5.3%	10.8%	17.5%	17.7%	14.1	17.8	26.5	22.5
						Average		24.2%	7.7%	103.0%	13.2%	25.4%	17.9%	13.3	11.9	27.0	20.9

CONSENSUS BASED ESTIMATES

SOURCE: BLOOMBERG, COMPANY DATA, BELL POTTER SECURITIES

Figure 30 – P/E (forward basis, 10-day trailing average) (+/- 1 SD)



SOURCE: BLOOMBERG, BELL POTTER SECURITIES

Board of Directors and Management

Matthew Marshall – Chief Executive Officer. Following a well flagged progression plan, Matthew will become the CEO of RFG effective as of 1-Jul. During the past 3 years as Head of Retail, Matthew has played a vital role to date in driving RFG's franchisee first and customer centric strategy. As the Group CEO, he will be responsible for managing overall operations and enforcing the group's strategic direction. Matthew has an extensive knowledge of all aspects of the business, with a particularly proven ability to weather difficult retail environments given his preceding role. He also brings an array of experience from major brands and organizations including Cadbury Schweppes, Asahi, and Sanofi Consumer Healthcare and Brumby's Bakery. He returned to RFG in early 2020 as Head of Growth and was subsequently promoted to Head of Retail in November 2020.

Peter George – Executive Chairman (since Nov-18). Peter has a rich background in telecommunications, media, and corporate finance. He will continue in this role for a further 2 years during which he will focus on specific strategic growth projects, as well as mentoring and supporting Matt to ensure a smooth succession. He led the restructuring and merger of PMP Limited and served as Executive Chairman of Nylex Limited. He has also served on the boards of Asciano Limited and Optus Communications.

Rob Shore – Chief Financial Officer (since Apr-23). Rob has over 20 years' experience in senior finance roles in Australia and in the United Kingdom. He played a key role in the development and execution of group strategy and led the transformation of the global finance function at ASX-listed EML Payments Limited. Prior to joining EML, Rob held senior finance roles in the Asia Pacific businesses of US listed Valmont Industries Inc.

David Grant – Independent Non-Executive Director (since Sep-18). Grant has a broad financial and commercial background. He currently serves on the boards of Event Hospitality and Entertainment Limited and The Reject Shop Limited. He has chaired key board sub-committees, especially in relation to audit and risk, and serves as Chairman of RFG's Audit & Risk Management and Nominations & Remuneration Committees.

Kerry Ryan – Independent Non-Executive Director (since Aug-15). Ryan has a professional background in commercial law and has worked with many retail, food, and beverage brands. She has experience in a range of industries and is currently on the boards of Aligned Leisure, Mental Health First Aid, and Kids First Australia.

Michael (Mick) Bulley – Independent Non-Executive Director (since Mar-23). Bulley brings extensive retail and small business experience to the board. He established his first business, an independent doughnut shop, in 1989 and has since opened and reinvigorated multiple stores across RFG Brand Systems. He is now one of the most successful multi-site operators within RFG, currently operating 8 Donut King locations.

Mark Connors – Director of Corporate Services and Company Secretary. As Director of Corporate Services and Company Secretary, Connors has held various positions within RFG's operations and legal departments. He has been with RFG since 2004 and has served as Company Secretary since the company listed in June 2006.

Retail Food Group
as at 26 June 2023

Recommendation	Buy
Price	$0.05
Target (12 months)	$0.13

Table 1 - Financial summary

Jun Year end (Pre-AASB 16)

Profit & Loss (A$m)	2021a	2022a	2023e	2024e	2025e
Sales revenue (Und.)	96.9	90.0	103.1	112.0	119.2
. . . Change		*-7.1%*	*14.5%*	*8.6%*	*6.5%*
Underlying EBITDA	**25.7**	**21.5**	**26.8**	**29.4**	**32.9**
. . . Change		-16.3%	24.7%	9.7%	11.8%
Deprec. & amort.	(1.6)	(1.4)	(1.4)	(1.4)	(1.4)
Underlying EBIT	24.1	20.1	25.4	28.0	31.5
Net Interest	(1.9)	(1.4)	(2.4)	(2.9)	(2.9)
Pre-tax profit	22.2	18.7	23.0	25.2	28.6
Tax expense	(0.7)	(0.2)	0.2	-	-
Underlying Net Profit	21.5	18.5	23.1	25.2	28.6
. . . Change		-14.0%	25.1%	8.8%	13.7%
Abs. & extras.	(20.0)	(13.2)	(17.0)	-	-
Reported Profit	1.5	5.3	6.1	25.2	28.6

Cashflow (A$m)	2021a	2022a	2023e	2024e	2025e
EBITDA	25.7	21.5	26.8	29.4	32.9
Working capital changes	(15.0)	(1.3)	(20.8)	5.9	7.1
Net Interest Expense	(3.2)	(0.9)	(1.1)	(2.2)	(2.2)
Tax	-	(0.7)	0.3	-	-
Other operating items	3.5	(3.2)	(12.4)	(8.0)	(0.8)
Operating Cash Flow	**11.0**	**15.4**	**(7.2)**	**25.1**	**37.1**
Capex	(2.7)	(3.1)	(4.5)	(6.0)	(6.4)
Free Cash Flow	**8.4**	**12.3**	**(11.7)**	**19.1**	**30.6**
Dividends paid	-	-	-	-	-
Acquisitions	-	-	-	-	-
Share issues	-	-	27.4	-	-
Payment of leases	(9.2)	(12.6)	(12.7)	(12.6)	(12.8)
Other investing items	(5.9)	(7.4)	(16.2)	-	-
Total change in Cash Flow	**(6.7)**	**(7.7)**	**(13.2)**	**6.5**	**17.9**

Balance Sheet (A$m)	2021a	2022a	2023e	2024e	2025e
Cash	34.6	29.2	16.0	22.5	40.4
Receivables	32.1	27.0	48.2	32.8	34.1
Inventories	4.3	6.4	15.5	8.5	3.6
Other current assets	5.9	4.6	5.8	5.9	5.9
Current Assets	**76.9**	**67.3**	**85.5**	**69.6**	**84.0**
Receivables	37.2	30.2	32.6	32.4	32.9
Fixed Assets (PP&E)	21.0	23.6	32.1	38.2	44.6
Right-of-use Assets					
Intangibles	230.7	225.5	225.7	225.7	225.7
Other non-curr assets	4.0	3.6	5.5	5.5	5.5
Non Current Assets	**292.9**	**282.8**	**295.9**	**301.7**	**308.6**
Total Assets	**369.8**	**350.1**	**381.5**	**371.3**	**392.6**
Short term debt	9.8	9.7	20.1	20.1	20.1
Creditors	13.0	13.5	23.3	6.4	9.7
Lease liabilities & other	52.70	47.74	43.38	30.42	18.85
Current Liabilities	**75.5**	**71.0**	**86.8**	**56.9**	**48.6**
LT debt	34.6	27.2	-	-	-
Lease liabilities	63.7	52.1	58.4	57.9	58.7
Other non curr liabilities	18.2	16.0	18.5	14.8	14.8
Non Current Liabilities	**116.4**	**95.3**	**76.8**	**72.7**	**73.5**
Total Liabilities	**191.9**	**166.3**	**163.6**	**129.5**	**122.2**
Net Assets	**177.9**	**183.8**	**217.9**	**241.8**	**270.4**
Share Capital	615.1	615.5	643.6	643.6	643.6
Reserves	6.2	7.5	6.4	5.1	5.1
Retained Earnings	(443.5)	(439.3)	(432.1)	(406.9)	(378.3)
Shareholders Equity	**177.9**	**183.8**	**217.9**	**241.8**	**270.4**
Outside Equity Interests	-	-	-	-	-
Total Equity	**177.9**	**183.8**	**217.9**	**241.8**	**270.4**
Net debt/(cash) $m	9.8	7.7	4.1	(2.4)	(20.3)

Price	$0.05
Recommendation	Buy
Diluted issued capital (m)	2,439.5
Market cap ($m)	114.7
Target Price (A$ps)	$ 0.13

Jun Year end (Pre-AASB 16)

Valuation Ratios	2021a	2022a	2023e	2024e	2025e
Underlying EPS (¢ps)	1.0	0.9	0.9	1.0	1.2
. . . % change		-14.1%	8.9%	8.8%	13.7%
Reported EPS (¢ps)	0.1	0.2	0.3	1.0	1.2
. . . % change		259.3%	1.0%	312.6%	13.7%
P/E (on underlying EPS) (x)	**4.6**	**5.4**	**5.0**	**4.6**	**4.0**
P/E (on reported EPS) (x)	68.2	19.0	18.8	4.6	4.0
EV/EBITDA (x)	4.62	5.52	4.43	4.03	3.61
EV/EBIT (x)	4.93	5.91	4.67	4.24	3.77
NTA ($ps)	(0.02)	(0.02)	(0.00)	0.01	0.02
P/NTA (x)	(2.17)	(2.75)	(14.74)	7.11	2.56
Book Value ($ps)	0.08	0.09	0.09	0.10	0.11
Price/Book (x)	0.56	0.54	0.53	0.47	0.42
DPS (¢ps)	-	-	-	-	-
. . . % pay-out	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Performance Ratios	2021a	2022a	2023e	2024e	2025e
Network Sales growth (%)		-6.7%	7.7%	4.9%	8.8%
Revenue growth (%)		-7.1%	14.5%	8.6%	6.5%
EBITDA growth (%)		-16.3%	24.7%	9.7%	11.8%
EBITDA margin (%)		23.9%	26.0%	26.3%	27.6%
NPAT margin (%)		20.6%	22.5%	22.5%	24.0%
Gross cash conversion (OCF to Und EBITDA %)		71.7%	-27.0%	85.3%	112.7%
ROE (%) (on Und NPAT)	12.1%	10.1%	10.6%	10.4%	10.6%
ROIC (%)	13.8%	12.0%	13.9%	13.7%	14.1%
Capex/Sales (x)	2.7%	3.4%	4.3%	5.4%	5.4%
Capex/Depn (x)	1.7	2.2	3.2	4.3	4.6
Net interest cover (x)	12.8	14.4	10.5	9.8	11.0
Net Debt/EBITDA (Underlying)	0.4	0.4	0.2	(0.1)	(0.6)
Core net debt/Equity (%)	5.5%	4.2%	1.9%	-1.0%	-7.5%
Net debt/Net debt + Equity (%)	5.2%	4.0%	1.8%	-1.0%	-8.1%

Half year (A$m)	2H21	1H22	2H22	1H23	2H23e
Sales revenue (Und.)	35.1	42.9	47.1	51.5	51.5
Underlying EBITDA	**12.1**	**9.3**	**12.2**	**13.7**	**13.1**
Deprec. & amort.	(0.9)	(0.7)	(0.7)	(0.7)	(0.7)
Underlying EBIT	11.2	8.6	11.5	13.0	12.4
Interest expense	(0.9)	(0.7)	(0.7)	(1.0)	(1.4)
Pre-tax profit	10.3	7.9	10.8	12.0	11.0
Tax expense	(0.4)	(0.1)	(0.1)	0.3	(0.1)
Underlying Net Profit	9.9	7.8	10.7	12.3	10.9

Divisions EBITDA	2021a	2022a	2023e	2024e	2025e
Domestic Franchising Division	**23.3**	**17.1**	**21.3**	**22.7**	**24.2**
Bakery/Café	11.1	7.1	10.4	11.1	11.9
Coffee Retail	6.1	4.0	4.1	4.2	4.4
QSR	6.1	6.0	6.9	7.5	7.9
International Franchising	2.4	3.2	4.3	5.5	7.5
Di Bella Coffee	1.2	1.2	1.2	1.2	1.2
Total Underlying EBITDA	**26.9**	**21.5**	**26.8**	**29.4**	**32.9**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Thomas Wakim	Healthcare	612 8224 2815	twakim
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Joseph House	Industrials	613 9325 1624	jhouse
Daniel Laing	Industrials	612 8224 2886	dlaing
Hayden Nicholson	Industrials	613 92351757	hnicholson
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Thomas Sima	Industrials	612 8224 2843	tsima
Jonathan Snape	Industrials	613 9235 1601	jsnape
Regan Burrows	Resources	618 9236 7677	rburrows
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9325 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Associates			
Connor Eldridge	Associate Analyst	612 8224 2893	celdridge
Baxter Kirk	Associate Analyst	613 9235 1625	bkirk
James Williamson	Associate Analyst	613 9235 1692	jwilliamson

Research Coverage & Policies

For Bell Potter Securities' Research Coverage Decision Making Process and Research Independence Policy please refer to our company website: https://bellpotter.com.au/research-independence-policy/.

Authoring Research Analyst's Certification

The Authoring Research Analyst is responsible for the content of this Research Report, and, certifies that with respect to each security that the Analyst covered in this Report (1) all the views expressed accurately reflect the Analyst's personal views about those securities and were prepared in an independent manner and (2) no part of the Analyst's compensation was, is or will be, directly or indirectly, related to specific recommendations or views expressed by that Research Analyst in the Research Report.

Research Analyst's Compensation

Research Analyst's compensation is determined by Bell Potter Securities Research Management and Bell Potter Securities' Senior Management and is based upon activities and services intended to benefit the investor clients of Bell Potter Securities Ltd. Compensation is not linked to specific transactions or recommendations. Like all Company employees Research Analysts receive compensation that is impacted by overall Company profitability.

Prices

The Price appearing in the Recommendation panel on page 1 of the Research Report is the Closing Price on the Date of the Research Report (appearing in the top right hand corner of page 1 of the Research Report), unless a before midday (am) time appears below the Date of the Research Report in which case the Price appearing in the Recommendation panel will be the Closing Price on the business day prior to the Date of the Research Report.

Availability

The completion and first dissemination of a Recommendation made within a Research Report are shortly after the close of the Market on the Date of the Research Report, unless a before midday (am) time appears below the Date of the Research Report in which case the Research Report will be completed and first disseminated shortly after that am time

Dissemination

Bell Potter generally disseminates its Research to the Company's Institutional and Private Clients via both proprietary and non-proprietary electronic distribution platforms. Certain Research may be disseminated only via the Company's proprietary distribution platforms; however such Research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the Author's previously published Research. Certain Research is made available only to institutional investors to satisfy regulatory requirements. Individual Bell Potter Research Analysts may also opt to circulate published Research to one or more Clients by email; such email distribution is discretionary and is done only after the Research has been disseminated. The level and types of service provided by Bell Potter Research Analysts to Clients may vary depending on various factors such as the Client's individual preferences as to frequency and manner of receiving communications from Analysts, the Client's risk profile and investment focus and perspective (e.g. market-wide, sector specific long term and short term etc.) the size and scope of the overall Client relationship with the Company and legal and regulatory constraints.

Disclaimers

This Research Report is a private communication to Clients and is not intended for public circulation or for the use of any third party, without the prior written approval of Bell Potter Securities Limited.

The Research Report is for informational purposes only and is not intended as an offer or solicitation for the purpose of sale of a security. Any decision to purchase securities mentioned in the Report must take into account existing public information on such security or any registered prospectus.

This is general investment advice only and does not constitute personal advice to any person. Because this Research Report has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited Broker (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this Research Report.

While this Research Report is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in this document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee expressly or impliedly, that the information contained in this Research Report is complete or accurate.

Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views, opinions or recommendations contained in this Research Report or for correcting any error or omission which may have become apparent after the Research Report has been issued.

Bell Potter Securities Research Department has received assistance from the Company referred to in this Research Report including but not limited to discussions with management of the Company. Bell Potter Securities Policy prohibits Research Analysts sending draft Recommendations, Valuations and Price Targets to subject companies. However, it should be presumed that the Author of the Research Report has had discussions with the subject Company to ensure factual accuracy prior to publication.

All opinions, projections and estimates constitute the judgement of the Author as of the Date of the Research Report and these, plus any other information contained in the Research Report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice.

Notwithstanding other departments within Bell Potter Securities Limited advising the subject Company, information obtained in such role is not used in the preparation of the Research Report.

Although Bell Potter Research does not set a predetermined frequency for publication, if the Research Report is a fundamental equity research report it is the intention of Bell Potter Research to provide research coverage of the covered issuers, including in response to news affecting the issuer. For non-fundamental Research Reports, Bell Potter Research may not provide regular updates to the views, recommendations and facts included in the reports.

Notwithstanding that Bell Potter maintains coverage on, makes recommendations concerning or discusses issuers, Bell Potter Research may be periodically restricted from referencing certain Issuers due to legal or policy reasons. Where the component of a published trade idea is subject to a restriction, the trade idea will be removed from any list of open trade ideas included in the Research Report. Upon lifting of the restriction, the trade idea will either be re-instated in the open trade ideas list if the Analyst continues to support it or it will be officially closed.

Bell Potter Research may provide different research products and services to different classes of clients (for example based upon long-term or short term investment horizons) that may lead to differing conclusions or recommendations that could impact the price of a security contrary to the recommendations in the alternative Research Report, provided each is consistent with the rating system for each respective Research Report.

Except in so far as liability under any statute cannot be excluded, Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in the document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of the document or any other person.

In the USA and the UK this Research Report is only for institutional investors. It is not for release, publication or distribution in whole or in part in the two specified countries. In Hong Kong this Research Report is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In the United States this Research Report is being distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this Research Report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 16/F
Prosperity Tower, 39 Queens Road Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929