RETAIL FOOD GROUP
Retail Food Group Limited
Level 4, 35 Robina Town Centre Drive
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28 August 2020

FY20 Results & Update[1]

Key Points

- FY20 Underlying EBITDA of $35.5m (FY19: $44.0m):
  - Excludes discontinuing operations & effect of AASB15/AASB16, exceeding revised FY20 guidance[2]
- Statutory Net Loss After Tax of $4.0m (FY19: $142.5m loss[3]):
  - Recognises $71.8m gain on debt forgiven, offset by non-cash provisioning, impairment and non-core asset write downs, and restructuring costs
- Positive momentum in first 9 months of FY20 heavily disrupted by COVID19 in all aspects of Group operations, including:
  - Significant impact on domestic operations with high shopping centre and CBD presence
  - Partially offset by positive performances in Brumby's Bakery & QSR Division
  - Various measures to support franchise network and reflect altered trading environment
- Ongoing focus on improving domestic franchise performance and network sustainability:
  - Retail Division redefined as "Iconic Co" to reflect brands' widely recognised standing in consumer markets and 'franchisee first' culture
  - New leadership team with significant retail & franchising expertise
  - Re-defining future strategic direction of all Brand Systems
  - Positive FY20 outcomes driven by c.100 marketing & product initiatives
  - Re-design & upskill of franchisee support structures
  - Development of best practice systemisation
  - Cost of goods reductions & lease negotiation assistance provided to franchisees
- Balance sheet stabilised following successful 1H20 recapitalisation:
  - $193.5m gross equity proceeds raised[4]
  - $71.8m debt write-off (representing 27 cents in the dollar)
  - Significant debt repayment (c.$142.8m)
  - New $75.5m three-year debt facility (maturing November 2022), reduced to $53.3m gross debt as at 30 June 2020[5]
- Compliant with all lending covenants as at 30 June 2020
- Di Bella Coffee restructure completed, realising annualised savings of c.$6.0m per annum
- ASIC investigation complete and no enforcement action taken. ACCC investigation ongoing

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Retail Food Group Limited (RFG, the Company or Group) today reported FY20 underlying EBITDA of $35.5m, exceeding guidance provided in June 2020[2].

FY20 statutory EBITDA of $32.3m (PCP: $130.0m loss), recognises the $71.8m gain on debt forgiven as part of the Company's 1H20 recapitalisation, offset by $59.0m in non-cash provisioning, non-core asset write-downs and impairments, and $33.5m of restructuring costs. The Group reported a statutory net loss after tax of $4.0m (FY19: $142.5m loss[3]).

RFG Executive Chairman Peter George noted that the Company's FY20 performance reflected a story of two clear parts, with positive momentum generated in the first nine months of the financial year overshadowed by COVID19 and its unavoidable impact from late March 2020.

"During FY20 RFG made significant progress in connection with the various turnaround initiatives implemented to stabilise business performance and establish a firm platform for a return to future profitability and growth. When releasing 1H20 results in late February, positive change was being observed and the Group retained comfort that then existing guidance would be achieved(6)."

"The subsequent emergence of COVID19 caused significant disruption, influencing performance in all aspects of Group operations. This was particularly the case amongst those Brand Systems with high shopping centre exposure, where customer count declined by c.50% at one stage, driving the temporary closure of c.100 domestic outlets. International network and Di Bella Coffee performance was similarly impacted by a high number of store and independent cafe customer closures or restricted trading conditions", Mr George said.

"The maxim that our franchisees' success is our success has never been more meaningful or appropriate than during the past six months. In addition to the strong pipeline of turnaround initiatives already underway, numerous measures have been implemented to support impacted franchisees and respond to unprecedented trading conditions."

"The positive outcomes delivered in 1H20, including the successful recapitalisation of the Group which afforded a sustainable balance sheet and liquidity buffer, established a much stronger foundation for the Company to take this decisive and necessary action", he said, "whilst also positioning RFG well to take advantage of the economic turnaround that will ultimately occur".

Redefining our Approach to Franchise Network Management:

Guided by a commitment to help build value for its franchisee community, significant progress in restructuring the Group's franchise operations was achieved during FY20. That restructure focused on three core deliverables:

- Establishment of a new retail management team, possessed of strong industry experience and a whole-hearted commitment to driving positive franchisee outcomes;
- Development of best practice systemisation to drive consistent quality improvement and efficiency; and
- Building a new brand management structure that is focused on improving franchise partner relationships and ensures key decision makers are closer to franchisees and end consumers.

"Consistent with this blueprint, all franchise facing functions were consolidated under a dedicated Retail Division more recently redefined as *Iconic Co*, to reflect the Group's new approach to franchise network management and our brands' widely-recognised standing in consumer markets", Mr George said.

Iconic Co is focused on redefining the strategic direction and development of each of RFG's Brand Systems, under the leadership of retail and franchise industry veterans including Jessica Buchanan (Head of Retail)(7), Damian Zammit (Head of Operations)(8), and Matthew Marshall (Head of Growth)(9). Key outcomes to date have included:

- Approximately 100 product and marketing campaigns launched across bakery and coffee brands during FY20, despite the 2H20 COVID19 influenced realignment or deferment of activity. Each have been determined by the end customer to generate maximum appeal and drove total estimated annualised network sales of c.$30.0m and social media reach exceeding 160m;

- Ongoing focus on cost of goods improvement for franchisees, including a c.15-20% reduction in wholesale coffee pricing for domestic franchisees, annualised flour range savings of >$500K for Brumby's Bakery franchisees, and cost reductions across the QSR Division core ingredient range;

- Partnership with a market leading leasing agency to drive improved leasing outcomes for franchisees, including COVID19 related relief for c.415 outlets during FY20;

- Development of best practice systemisation across all divisional functions to drive efficiencies, improve quality and further de-risk the business model. These systems reach across marketing, product development, supplier negotiation, operational performance, franchisee recruitment and expansion, network communications, financial reporting, site selection and lease negotiation, store design and construction;

- Redefinition of network management roles, designating Brand System General Managers as primary franchisee points of contact to ensure feedback is delivered directly and can be actioned promptly, to facilitate regular and accurate updates regarding network sentiment and performance, and to facilitate field service team focus on driving improved store performance;

- Redesign and upskill of the Group's field service support structure model and team. This evolution in franchisee support will drive specialisation across key operational functions including front and back of house, coffee excellence, product quality, business improvement, local store marketing and brand standards review. Tasked with the objectives of driving more revenue at store level, training franchise partners to become better retailers, building brand equity by improving customer experience, and helping maximize franchisee return on investment, this model will be rolled out in the 1H21 following completion of comprehensive operational retraining.

The strong foundation these steps have established will be complemented in FY21 by strategic initiatives focused on driving top line growth and new outlet establishment amongst our Brand Systems, including:

- Aggressive marketing and product innovation to drive category sales;

- Following successful completion of a trial which saw participating outlets experience strong Average Weekly Sales growth, the QSR Division's launch of a new value model to drive franchisee revenue and customer count, facilitate new store growth opportunity and increased market share, and shift brand proposition to 'premium quality pizza at affordable prices';

- Trial of a new Gloria Jean's concept incorporating a fresh baked food range and 'first to market' brand proposition, coupled with ongoing promotion of the brand's 'Flavour Famous' messaging;

- Leveraging the highly successful Gloria Jean's Drive Thru model, which enjoyed c.20% average weekly sales growth during COVID19 restrictions, and RFG's engaged multi-store owner complement, who currently represent c.24% of network stores but generate c.27% of sales, to drive new outlet growth, particularly amongst regional areas.

"These initiatives evidence RFG's steadfast commitment to supporting its franchisee community and enhancing their profitability, strengthening customer service culture, and ultimately, harnessing the underlying value of RFG's franchise network and laying the platform for its long-term sustainability", Mr George said.

FY20 Domestic Franchise Operations' underlying EBITDA of $25.7m (FY19: $35.9m) reflected the plethora of activity underway within the Iconic Co division, albeit significantly tempered by the Q4 impact of COVID19 and the ongoing program to rationalise non-profitable outlets to drive a leaner, more profitable network.

Operationally, and factoring the unavoidable 2H20 impact of COVID19, weighted Same Store Sales (SSS) for FY20 compared to PCP resulted in a decline of 3.8% across all Brand Systems excluding Michel's Patisserie(10), which despite a number of strong indicators of positive product and marketing campaign performance, including the brand's award of 2019 Roy Morgan Coffee Shop of the Year, have not translated to consistent reported franchisee sales.

This outcome was principally driven by significant customer count declines amongst those Brand Systems with a high shopping centre presence and which were most impacted by COVID19 measures, offset by positive SSS for Brumby's Bakery (+1.2%) and the QSR Division (+0.2%), which respectively benefited during COVID19 via their staple bakery offer and contactless home delivered meal options(10).

"Given the unprecedented retail climate in which the Company's franchise networks participated during FY20, these results demonstrate the underlying resilience of the Group's Brand Systems and provide optimism for future success when the economic turnaround eventually materialises", Mr George said.

International Franchise Operations:

The Group's international network was no less impacted by the COVID19 pandemic, with c.480 outlets amongst international licensed territories temporarily closing at the height of government restrictions, impacting both top line performance and underlying coffee revenues, and contributing to FY20 underlying EBITDA for the division of $3.8m (FY19: $5.9m).

Two new international territory master licences were granted during the year(11), and when coupled with the renewal of three existing licences, resulted in a net reduction of 26 international territory licences as legacy and non-performing arrangements, where existing parties were not considered sustainable long term, were brought to end. 50 new outlets, and 5 new vans, opened during the year, offset by the closure of 102 outlets and 21 vans, 40 of which were attributable to COVID19, principally in China.

As at 30 June 2020, international operations comprised 61 international territory licences across 47 countries, represented by a network population of 631 outlets.

Di Bella Coffee:

Di Bella Coffee's reputation for high quality coffee received further industry recognition in FY20, with 22 medals being awarded across wholesale and franchise blends at the 2019 Golden Bean Awards.

FY20 underlying EBITDA of $2.1m (FY19: $3.4m) was influenced by COVID19's impact on independent café and contract roasting customers, offset by the positive impact of restructuring activity.

Completion of the Division's restructure was attended in the 2H20, realising annualised cost savings of c.$6.0m per annum and consolidating roasting operations at the Group's state-of-the-art Sydney facility. Importantly, this consolidation has not compromised product quality nor Di Bella Coffee's commitment to customer satisfaction, with non-franchise blends independently verified against industry standard to confirm high quality grading, and DIFOT(12) rates of >98% maintained throughout the restructure and COVID19 periods.

Manufacturing & Distribution:

FY20 underlying Dairy Country EBITDA grew to $3.9m (FY19: $3.5m), attributable to increased processing volume on significant new business in the grocery channel, offset by margin reduction attributable to increased overheads on integration of new business, absorption of commodity price increases on legacy contracts, and an increased sales mix weighting to lower margin grocery channel products.

An operational and management review targeting increased economic returns was commenced during the 2H20, and whilst management was renewed and efficiencies identified, further implementation was suspended given COVID19 operating conditions that witnessed each facility at full capacity throughout the pandemic period.

The Hudson Pacific Foodservice business was classified as discontinued operations during FY20, with divestment of that business occurring 3 January 2020.

Regulatory Update:

In June 2020, the Group was advised by the Australian Securities & Investment Commission (ASIC) that ASIC's investigation regarding RFG had been concluded and that it had decided not to take enforcement action. The Australian Competition & Consumer Commission's (ACCC) investigation is, to RFG's knowledge, still ongoing. The Group has fully co-operated with that investigation to date.

Outlook

Despite the unprecedented and ongoing challenges presented by COVID19, which will necessitate ongoing support for the Group's franchisee community, during FY20 the Group further solidified the platform upon which future profitability and growth will be pursued when economic conditions improve.

"Each of RFG's Brand Systems possess inherent attributes that foster resilience during depressed economic conditions and the new 'COVID normal', with Donut King, Michel's Patisserie and Gloria Jean's offering impulse or low transaction value positioning resistant to declines in discretionary spending, Brumby's Bakery a quality food offer and staple bakery range, and QSR a non-contact delivered meal solution soon to be bolstered in the 1H21 by a new value range", Mr George said.

"Whilst we are cognisant of the extremely challenging conditions in which the Group's businesses operate, we are buoyed by the significant progress made in RFG's turnaround journey to date, are steadfastly committed to driving positive outcomes for all stakeholders, and approach the future with confidence", he said.

This announcement has been authorised by RFG's Board of Directors.

FY20 Investor Briefing: 11.30am 28 August 2020
Call 1800 834 379 to participate

(1) This Announcement should be read in conjunction with RFG's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange (ASX), available at www.asx.com.au. This Announcement contains certain non-IFRS financial measures, including underlying EBITDA. Non-IFRS financial measures have not been subject to audit or review. A reconciliation and description of the items that contribute to the difference between RFG's underlying and statutory results is provided in the Company's FY20 Results Presentation lodged with the ASX on 28 August 2020.
(2) Revised FY20 Underlying EBITDA guidance of c.$35.0m, assuming full year contributions from all continuing operations, but excluding the impact of AASB15/AASB 16, provided to the ASX on 26 June 2020
(3) The Company has restated the Group's performance and financial position for prior periods as a result of retaining the Dairy Country business as a continuing operation, and reassessment of accounting for adoption of AASB15 *Revenue from contracts with customers*. Refer to Note 34 of the FY20 Annual Financial Report.
(4) $170m gross proceeds raised from placement to institutional, professional & sophisticated investors (Placement) – settled November 2019; $18.8m gross proceeds from Share Purchase Plan (SPP) and $4.7m gross proceeds from 'Invesco top up' placement – settled December 2019
(5) Net proceeds of SPP and 'Invesco top up' placement applied to further reduce new debt facility
(6) Original FY20 Underlying EBITDA guidance of c.$42.0m - $46.0m, assuming full year contributions from all continuing operations, but excluding the impact of AASB15/AASB16, withdrawn 24 March 2020
(7) A multi-site franchisee with her family for a large portion of her early career before establishing herself as head strategist within multi-national advertising agencies to build global brands including BMW's Mini Cooper, Tabcorp, The Australian Defence Force and many of Cadbury Schweppes' brands. Jessica then combined her experience and focus on driving turnarounds to accelerate the growth of some of the country's most well-known retail and franchise brands, including Boost Juice, Hairhouse Warehouse, Healthy Habits, Banjo's Bakery, Narellan Pools, Miller's Fashion, Katies and others
(8) Over 30 years' operational experience with McDonald's, starting as a crew member at age 15 and going on to work at McDonald's Australia and the USA, before leaving as VP Operations for McDonald's Korea. Damian was part of the turnaround team tasked with moving McDonald's Korea into growth, and has a passion for customer experience, growing franchisee sales and using simple, robust systems and processes to drive bottom line profits at the retail level
(9) Over 15 years' experience across a variety of major brands and organisations including Cadbury Schweppes, Asahi, RFG and more recently, Sanofi Consumer Healthcare. Matt has held a number of senior commercial roles including Head of Sales, Head of Trade Marketing, Managing Director – Brumby's Bakery, and General Manager Commercial Partnerships and Planning
(10) FY20 Weighted SSS inclusive of Michel's Patisserie reflected a decline of 5.1%. All Same Store Sales metrics exclude the contribution from outlets closed pursuant to domestic outlet network review
(11) Gloria Jean's Hungary and Gloria Jean's Vietnam
(12) Delivered in Full on Time

ENDS

For further information, interviews or images, please contact:
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About Retail Food Group Limited:

RFG is a global food and beverage company headquartered in Queensland. It is Australia's largest multi-brand retail food franchise owner and a roaster and supplier of high-quality coffee products. The Company also operates in the dairy processing sector. For more information about RFG visit: www.rfg.com.au