Retail Food Group Limited
Level 4, 35 Robina Town Centre Drive
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27 February 2020

1H20 Results & Update[1]

Key Points

- 1H20 Underlying EBITDA of $31.7m (1H19: $23.9m)
  - On track with FY20 Underlying EBITDA guidance[2]
  - Underpins 1H20 Underlying NPAT of $9.3m (1H19: $6.6m)
- Statutory NPAT of $14.3m (1H19: $111.1m loss)
  - Recognises $71.8m gain on debt forgiven, offset by non-cash provisioning and non-core asset write downs, and restructuring costs
- Balance sheet stabilised following successful 1H20 recapitalisation:
  - $193.5m gross equity proceeds raised[3]
  - $71.8m debt write-off (representing 27 cents in the dollar)
  - Significant debt repayment (c.$140.7m)
  - New $75.5m three-year term debt facility (maturing November 2022), reduced to $53.3m gross debt as at 31 December 2019[4]
- Compliant with all lending covenants as at 31 December 2019
- Ongoing focus on improving domestic franchise business performance:
  - Maintaining targeted $30m gross margin generation at franchisee level;
  - Early success from targeted marketing & product initiatives;
  - Cost of goods reductions & lease negotiation assistance provided to franchisees;
  - Driving franchisee engagement and support;
  - Key executive appointments to drive initiatives and improve franchisee outcomes;
- Divestment of loss-making Hudson Pacific Foodservice operations (completed 03.01.20);
- Restructuring initiatives to improve business performance and reduce cost base ongoing:
  - On track with FY20 cost out plan targeting c.$8.0-$9.0m per annum cost savings, with potential for further upside.

Retail Food Group Limited (RFG, the Company or Group) today reported 1H20 underlying EBITDA of $31.7m, representing a 32.7% increase on the previous corresponding period (PCP). Excluding the contribution from discontinued operations and the effect of AASB 15 and 16, the Company's 1H20 underlying EBITDA equated to $21.5m, which is on track with the Company's FY20 underlying EBITDA guidance[2].

Statutory EBITDA of $50.1m, an improvement of 144.5% on PCP, recognises the $71.8m gain on debt forgiven as part of the Company's recent recapitalisation, offset by $33.9m in non-cash provisioning, non-core asset write-downs, and $20.3m of restructuring costs. The Group reported statutory net profit after tax of $14.3m (1H19: $111.1m loss).

The Company's 1H20 results reflected growing traction derived from turnaround initiatives commenced during FY19. In particular, the Company's capital restructure, completed in December 2019, addressed the debt burden which represented a major threat to the Company's future, whilst also presenting an opportunity for the Group to continue to harness the underlying value of its franchise network and enhance franchisee performance.

RFG Executive Chairman Peter George said, "the Company now enjoys a sustainable debt facility, together with a liquidity buffer that provides stability whilst management implements various performance improvement initiatives".

1H20 also witnessed the Company's entry into a binding agreement, which settled on 3 January 2020, to dispose of the loss-making Hudson Pacific Foodservice business. Mr George noted the transaction facilitates enhanced focus on the Group's core retail and beverage operations and the Company's FY20 cost out plan.

"RFG's restructuring program remains on track, and targets c.$8.0m to $9.0m per annum in further cost savings, with potential for further upside", he said.

Franchise Network Focus:

Signs of stabilisation were evident in RFG's franchise network during 1H20, with underlying Franchise Operations' EBITDA for the period of $26.4m representing an increase of $2.1m on PCP, demonstrating the positive impacts of the many initiatives being implemented by the Group.

Mr George noted that the Company remained committed to achieving its target of an additional $30m gross margin generation at franchisee level from current initiatives, including:

- The consolidation of all franchise facing functions under a dedicated Retail Division that facilitates more agile decision making, enhanced efficiencies and a closer connection to franchisees and end consumers;

- The appointment of Jessica Buchanan as Head of Retail, and Damian Zammit as Head of Operations, who bring to the table over 50 years combined retail franchise and brand experience, including in senior roles;

- A new product and marketing strategy determined by the end customer in order to generate maximum appeal and drive franchisee sales. This strategy had resulted in a significant increase in campaign activity, with over 134 campaigns per annum targeted across the Group's brand system portfolio. 1H20 campaign activity to date has driven total estimated annualised incremental network sales of c.$13.8m[(5)], and would be bolstered by further activity programmed for 2H20;

- An ongoing focus on cost of goods improvements for franchisees, including the implementation of a c.15-20% reduction (dependent upon brand system) in wholesale coffee pricing for franchisees of domestic retail brands, implemented 1 July 2019;

- Partnership with a market leading leasing agency to drive improved leasing outcomes for franchisees and the Group;

- Enhanced social media activity, which targets a reach of over 200 million customers during the first 12 months campaign cycle, and a commitment to improved Local Area Marketing (LAM) underpinned by the current roll out of a new LAM platform that provides enhanced tools for driving local customers to store;

- New mobile based loyalty programs to be rolled out across all brand systems during 2H20, to drive frequency of visit and marketing intelligence; and

- Enhanced systemisation of operational activities and a refreshed focus on innovative training programs and content for field teams, franchisees and outlet team members.

Mr George said, "these initiatives evidenced RFG's steadfast commitment to strengthening customer service culture, enhancing profitability for its franchise network, and providing franchisees with the best possible opportunity and support to build successful and sustainable businesses".

Operationally, the weighted Same Store Sales (SSS) decline across all Brand Systems moderated to 2% during 1H20, highly influenced by unique challenges within Michel's Patisserie where a number of strong indicators as to positive product and marketing campaign performance, together with the brand's award of Roy Morgan Coffee Shop of the Year, have not to date translated to consistent reported franchisee sales. Excluding Michel's Patisserie performance, weighted SSS decline reduces to 1%, with Donut King a standout performer with +1.1% SSS growth during the period(6).

Mr George noted that those product categories being driven by campaigns originating from the Group's new approach to product development and marketing were generally showing growth, an example being Gloria Jean's food category which experienced 4.72% growth YOY (1H20 vs 2H19).

"Given the tough retail climate in which the Group's franchise networks participate, these results demonstrate the growing traction of new product and campaign activity and provide momentum for the 2H20, during which a variety of marketing activations will serve to bolster Same Store Sales performance", he said.

During 1H20, 73 domestic outlets and 10 mobile vans were closed, consistent with expectation. Whilst no new outlets were established during the period, considerable work has been undertaken in order to improve the Group's recruitment processes and provide pathways for new franchise ownership, particularly amongst Multi-Site Operators (MSOs).

Mr George said, "the Company appreciates that new outlet growth will follow from demonstrated performance within the Group's existing franchise network. The myriad initiatives implemented across RFG's franchise operations evidence the Company's resolve to achieve that outcome, and we are cautiously optimistic of a return to organic outlet growth in the future. 44 renewal and 35 resale application approvals during the 1H20 support that confidence and demonstrate continuing support for the Company's Brand Systems".

At an international level, a net contraction of 21 licensed territories occurred as legacy and non-performing master licences, where development quotas had not been achieved or progressed, were brought to an end. 40 new outlets, offset by 72 reported closures, resulted in an international network population of 667 outlets across 66 international territories licensed by the Group as at 31 December 2019.

Di Bella Coffee:

Excluding the impact of AASB 15 and 16, Di Bella Coffee 1H20 underlying EBITDA was $1.5m from wholesale coffee operations, reflecting the FY19 loss of key customers in the competitive independent contract roasting sector and decreased earnings from international roasting operations, offset by overhead cost reduction from restructuring activity commenced in the 1H20. Industry recognition was also received in the form of 22 medals across wholesale and franchise blends at the 2019 Golden Bean awards.

A strategic review and detailed planning for restructure of the Group's wholesale coffee business was completed during 1H20, and is in the process of implementation. This restructure is anticipated to streamline the business cost base and afford greater scope for improved efficiencies.

Manufacturing & Distribution:

1H20 Dairy Country revenue increased by $21.8m on PCP, attributable to a 19.9% increase in processing volume on significant new business in the grocery channel. 2H20 will see commencement of a strategic review and detailed operational planning for the Dairy Country operating cost base.

Outlook

The significant outcomes achieved during 1H20 have laid the foundations for a much stronger, more focused and resilient RFG, whilst also enabling implementation of the Group's further restructuring initiatives and cost out plans.

Mr George noted that, "the Company remains focused on achieving its vision of becoming a respected leader in both the domestic and international retail food and beverage arenas. Central to that goal is an unwavering commitment to our franchisees, and providing them, along with our internal teams, with the tools to better support them in more strategic, long term ways".

Solid progress is being observed in connection with those business improvement initiatives already implemented, and whilst retail market conditions continue to prove challenging, the Company maintains its guidance of FY20 underlying EBITDA in the range of $42.0m to $46.0m, assuming full year contributions from all continuing operations, but excluding the impact of AASB 15 and 16.

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

(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 and underlying NPAT. 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 1H20 Results Presentation lodged with the ASX on 27 February 2020.
(2) FY20 Underlying EBITDA guidance of $42.0m - $46.0m, assuming full year contributions from all continuing operations, but excluding the impact of AASB 15 and 16
(3) $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
(4) Net proceeds of SPP and 'Invesco top up' placement applied to further reduce new debt facility
(5) As at 7 January 2020
(6) Same Store Sales metrics for 1H20 exclude the contribution from outlets closed pursuant to domestic outlet network review

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