

12 November 2020

Trading Update

Retail Food Group Limited (RFG, the Company or Group) today announced that, despite trading conditions during FY21YTD having been affected by COVID19 and measures implemented by government in response, particularly within Victoria, it had observed a number of positive indicators, including amongst the Brumby's and Crust brands:

Domestic Franchise Operations:

FY21YTD performance has been strongly influenced by the performance of coffee based brands with high exposure to shopping centres, particularly in Victoria where severe government restrictions have been imposed during the 1H21.

RFG Executive Chairman, Peter George, noted that Same Store Sales (SSS) for FY21YTD were down 2.5% on the prior corresponding period (PCP) at a network level, but are relatively flat at +0.2% when the impact of Victorian network performance, where SSS are down c.18% on PCP, is removed¹.

"Brumby's and Crust Gourmet Pizza have been standout performers during the YTD. Brumby's has enjoyed YTD SSS growth of +10.8%, underpinned by strong average transaction growth of 9.2%, and Crust has sustained +7.4% SSS growth as customers have been attracted to the new value model adopted amongst the majority of the network¹", he said.

Across the entirety of the Group's domestic franchise network, total sales to 1 November 2020 were c.\$162m, or c.14.5% down on the PCP².

Mr George noted that c.18% of the Group's domestic outlet population was based in Victoria, however, c.43% of the difference between total sales in FY21YTD vs PCP was attributable to reduced performance within that State.

"Interrogation of sales metrics at a brand level further illustrates the COVID19 impact on coffee based brands with high exposure to shopping centres, particularly in Victoria. c.18% of Donut King outlets are situated in Victoria but reflect c.47% of the YTD sales decline for that brand versus PCP. The same applies with Gloria Jean's and Michel's Patisserie, where Victorian outlets represent c.21% and c.14% of total stores, but c.41% and c.27% of total YTD sales decline for those brands versus PCP²".

In a number of cases, franchisees elected to temporarily close their stores given the impact of COVID19 measures on trade, and in others, such as food courts in Victoria, temporary closure was mandated by government. As a consequence, FY21YTD temporary outlet closures attributable to COVID19 peaked at 36 stores during early September 2020.

Whilst seven of these outlets remain temporarily closed, the remainder have reopened for trade.

"We anticipate additional positive momentum as Victoria's COVID19 measures are further eased, marketing activity returns to more normal levels, and the Group continues to execute on its broader turnaround plan".

"Green shoots are also starting to appear in terms of potential new franchisee interest, with expressions of interest received in connection with dozens of new and existing store opportunities, including advanced discussions in connection with 15 potential new sites or territories across the Donut King, Crust and Gloria Jean's brands", Mr George said.

International Franchise Operations:

Whilst trading performance has improved during the YTD, licence fee revenue derived from RFG's international network is down by c.44% on PCP³, influenced by COVID19 related trading restrictions which continue to impact c.490 outlets to varying degrees. A limited number of outlets remain temporarily closed.

36 outlets have permanently closed during FY21YTD, predominantly in the North America, New Zealand and UAE markets. These closures are offset by 11 new outlet openings, which is considered a credible performance in the current circumstances, and a pipeline anticipated to deliver c.25 new outlets across 14 markets during FY21.

The Company continues to closely monitor international operations as northern hemisphere markets enter their winter months, increasing the risk of subsequent COVID19 'waves' and increased government restrictions in response. This is particularly the case in the USA and northern Europe where increased COVID19 case numbers or higher level restrictions are being observed.

Di Bella Coffee:

The same factors influencing domestic franchise operations have also impacted Di Bella Coffee performance during FY21YTD, particularly in the Victorian market. Reduced ordering volumes amongst independent CBD based customers has also been observed, as work from home arrangements continue to impact demand for out-of-home coffee based products.

RFG anticipates scope for increased competition within the independent wholesale coffee market due to enhanced roasting capacity amongst industry participants coupled with lower demand.

"These factors also lend themselves to potential market consolidation and rationalisation of existing industry players which may present future opportunities for RFG's coffee business", Mr George said.

Outlook:

Focussed on the progression of its turnaround plan and driving positive outcomes for all stakeholders, RFG continues to approach the future with confidence. However, given the challenging trading conditions in which its businesses continue to operate, it remains difficult to predict future financial outcomes at this juncture.

This announcement has been authorised by the Board of Directors.

- ¹ Based on unaudited reported sales by franchisees amongst stores trading each week during weeks 1 to 18 FY21YTD vs unaudited reported sales by franchisees amongst same stores trading each week during weeks 1 to 18 of FY20
- ² Based on unaudited reported sales by franchisees across all stores for weeks 1 to 18 FY21YTD vs unaudited reported sales by franchisees across all stores for weeks 1 to 18 FY20
- ³ Based on licence fees calculated by reference to unaudited reported sales by master franchise partners for July to October 2020 vs licence fees calculated by reference to unaudited reported sales by master franchise partners for July to October 2019.

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. For more information about RFG visit: www.rfg.com.au