

28 February 2019

1H19 Results & Update

Key points

- Underlying NPAT¹ of \$6.6m (1H18: \$24.7m) impacted by combination of factors.
- Statutory net loss after tax of \$111.1m (1H18: net loss after tax of \$87.8m) recognises \$123.7m (pre-tax) in non-cash impairments and write-downs and provisioning, and reflects forecast sustainable earnings, existing Group risk profile and restructuring activities underway.
- Significant restructuring initiatives to improve business performance and reduce cost base commenced 1H19:
 - Targeting c.\$20m in annualised cost savings.
 - Refocusing business on core retail food franchise and coffee supply operations.
 - Aimed at better aligning resources closer to business unit and franchisee/customer needs.
- Ongoing strategic focus on balance sheet repair:
 - Continued evaluation of options available to Group, including potential asset sales, refinance, alternative debt and new equity.
- Key executive changes and Board renewal implemented, including appointment of turnaround specialist Peter George as Executive Chairman.
- 93 1H19 domestic outlet closures, consistent with prior guidance.
- Testing of financial covenants for period ending 31 December 2018 waived.

Retail Food Group Limited (ASX: RFG) today announced a statutory net loss after tax of \$111.1m for the six months to 31 December 2018, compared to an \$87.8m statutory net loss after tax in the previous corresponding period (PCP).

Underlying 1H19 NPAT of \$6.6m, a decrease of 73.4% on PCP, was impacted by a number of factors, including ongoing difficult retail trading conditions, the cumulative impact of outlet closures, investment in restructuring activity, prevailing negative sentiment regards franchising, and declines in new store, resale and renewal activity versus PCP.

A statutory EBITDA loss of \$112.5m compared with a \$100.8m statutory EBITDA loss for the PCP, reflecting non-cash impairments and write-downs, and provisioning, totalling \$123.7m, as well as \$12.7m in one-off expenses for business turnaround and restructuring activity, property disposal and lease exit costs. Underlying 1H19 EBITDA was \$23.9m (1H18: \$45.7m).

During the 1H19 RFG effected Board renewal and key executive change, including the appointment of experienced turnaround professional Peter George as Executive Chairman to drive strategic initiatives.

These initiatives include 1H19 commencement of major restructuring activity foreshadowed at the Company's 2018 Annual General Meeting, and intended to better focus RFG on its core retail food and coffee supply operations, align resources closer to business unit needs (including franchisees), and drive improved outlet profitability.

Restructuring activity is forecast to deliver c.\$20m in annualised cost savings. These benefits are expected to start materialising in 2H19, but will largely be felt in FY20.

¹ Underlying Net Profit After Tax (NPAT) is a non-IRFS financial measure. Non-IFRS measures have not been subject to audit or review. A reconciliation and description of the items that contribute to the difference between statutory performance and underlying performance is provided in the summary of financial information attached to the Directors' Report issued for 1H19.



RFG Executive Chairman, Peter George, said: “The 1H19 results show that the Group has gone some way towards clearing the decks and stabilising the performance of continuing operations, although a lot of work remains to be done to resurrect the financial health and performance of the business.”

“As we progress restructuring activity, we will be focusing on the delivery of enhanced product innovation and brand system marketing strategies.”

“We remain committed to equipping our franchisees with the best possible products and support to enhance their own profitability and expect these benefits to start materialising in the first quarter of FY20.”

“The major restructuring and ‘right sizing’ of our shared services is an immediate priority for the Group, and is expected to deliver cost savings as well as an agile, more efficient operating model. The removal of surplus and duplicate full-time roles and reductions in costs pending non-core business divestments or discontinuation of operations, are targeted to deliver significant annualised cost savings of approximately \$20 million,” he said.

Domestic Franchise Operations

Persistent challenging retail trading conditions, increasing occupancy costs imposed by store landlords, and ongoing negative sentiment in connection with franchising and RFG, continue to place pressure on both the Company and its franchise partners.

RFG continues to provide substantial financial support to its franchise partners to help offset costs such as increasing rents under lease arrangements. This included c.\$2.5m in rental, product and additional marketing support during 1H19.

The strategic domestic store network reset was advanced in 1H19, resulting in 93 1H19 closures and contributing to a domestic outlet population of 1,252 units as at 31 December 2018. The Company continues to progress the closure of outlets identified in the updated domestic store network reset published August 2018, with no material changes to the number of expected closures by 30 June 2019. RFG continues to seek improved rental outcomes where possible to minimise this number, and will continue to work constructively with affected stakeholders.

Whilst limited new outlet growth was experienced during 1H19, the approval of 74 resale and 29 renewal transactions evidenced ongoing support and appetite for RFG’s Brand Systems.

International Operations & Coffee Roasting

During 1H19 RFG granted two new master franchises. Potential new master franchisee interest remains impacted by negative sentiment regarding RFG and franchising, however interest is starting to regenerate with a number of new opportunities in the preliminary stages of exploration.

11 new international outlets were opened during 1H19, offset by 139 closures, resulting in a total international network population of 738 as at 31 December 2018.

“Despite the recent headwinds RFG’s international division has experienced, we remain focused on progressing the international expansion of the Group’s brand systems, which are currently represented across 83 licensed territories,” Mr George said.

“Significant long-term growth potential exists for RFG’s international business unit, particularly in the USA and UK, where RFG already has a platform for growth and the coffee market is large and growing. Planning for the launch of growth initiatives for the Gloria Jean’s and It’s A Grind businesses in the USA is imminent, and will seek to harness for RFG’s benefit the burgeoning café culture developing in that market.”

In terms of coffee, the increasing popularity of specialty and premium coffee products creates significant growth opportunities for Di Bella Coffee to better leverage its roasting facilities and brand



equity both domestically and abroad. RFG's core retail brands are aligned to the growth in the coffee industry, and the Group's significant scale positions it well to compete against independent operators.

Following 1H19 management renewal, Di Bella Coffee will focus on capturing additional sales opportunity within the corporate and independent foodservice channels, complemented by restructuring activity to streamline the cost base of the business.

Manufacturing & Distribution

Operational challenges including a failure to fully extract synergy opportunity, contributed to a poor operational performance amongst the Company's foodservice distribution businesses during 1H19. Remedial restructuring and integration programs, including management renewal, have been introduced in response.

Ongoing margin erosion and future CAPEX demands have led to the Bakery Fresh wholesale bakery business being classified as non-core and excluded from the underlying performance assessment of the Group. Subsequent to 31 December 2018, the Company has resolved to close these operations in CY19 when existing contractual commitments are completed.

Processing volumes within Dairy Country increased c.23% on PCP, however, margin erosion and additional overhead costs contributed to a c.\$2.5m reduction in underlying EBITDA versus PCP. Dairy Country continues to tender for additional production volumes with existing and new customers to drive enhanced economic returns from RFG's investment in a second processing facility.

Debt Structure Update

During 1H19, RFG's lenders agreed to waive testing of financial covenants under the Company's senior debt facility for the period ending 31 December 2018.

RFG continues to engage with its lenders in connection with the Company's senior debt facility, which is subject to a potential review process at some point after 28 February 2019, and the Board extends thanks and appreciation to its bankers, NAB and Westpac, for their support to date.

The Company also continues to explore a range of options to reduce debt, including alternative funding opportunities that will provide the Group with a more flexible capital structure. These options include the potential sale of RFG's Donut King and QSR Division brand systems, which, having regard to progress achieved in their sale process by 31 December 2018, required the classification of these assets as 'discontinued operations' in the Company's 1H19 accounts. Negotiations in connection with this sale process are ongoing and no formal binding agreement with the proposed buyer has been reached at this stage.

The Board is actively undertaking a debt restructuring program aimed at the best interests of all stakeholders, and will keep the market advised as funding options are secured in coming months.

Outlook & Guidance

Business improvement will be driven by successful implementation of a Six Point Plan that focuses on business stabilisation, debt reduction and operational improvement amongst the Company's business units:

1. Re-focusing the Group on its core retail food franchise and coffee supply operations and divesting or discontinuing non-core underperforming business units;
2. Strengthen the Company's balance sheet to improve financial stability;
3. 'Right size' shared services resourcing, align resources closer to customers/franchisees, and implement initiatives to consolidate supply chains for a more agile and efficient business;



4. Improve the health of the domestic franchise network through significant increase in product category extensions and new product campaigns delivered to drive traffic and revenue over the next twelve months;
5. Leverage Di Bella Coffee's competencies and sales team to diversify and grow coffee revenue in external markets while continuing to support RFG's franchise partners; and
6. Drive growth in the franchise business by leveraging a healthy network as a platform for new store sales and increased renewals, and capitalising on existing international opportunities (particularly in the USA market) where RFG already has a platform for growth.

"Although the current retail sector remains challenging, RFG's Brand Systems continue to enjoy significant exposure to the Australian mass market, with c.67 million customer transactions enjoyed in the last twelve months," Mr George said.

"A number of measures have been implemented to support the Six Point Plan and stabilise RFG's performance, however, the Company anticipates that future results will remain subdued whilst retail market conditions remain challenging and the Company executes on its restructuring program. The Company therefore currently anticipates FY19 underlying EBITDA to be in the range of \$43m-\$48m, assuming full year contributions from all business units and the realisation of forecast annualised restructuring benefits."

ENDS

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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 foodservice, dairy processing and wholesale bakery sectors. For more information about RFG visit: www.rfg.com.au