

2 April 2020

Further COVID-19 Update

Retail Food Group Limited (RFG, the Company or Group) today announced that it had taken a number of actions in response to the rapidly deteriorating trading conditions experienced by a large proportion of its domestic franchise network, directly attributable to the escalation of measures being employed by Australian governments to slow the spread of COVID-19.

RFG Executive Chairman Peter George noted that recent trading data continued to support RFG's expectation of a significant reduction in customer count across the Group's domestic franchise network, particularly in shopping centres.

"The escalation of measures to slow the spread of Coronavirus within the community has directly impacted foot traffic for our stores, which is the lifeblood of our franchisees' business, as the public rightfully observes the Government's advice to avoid public spaces and stay at home. The situation is most acute within shopping centres, and is demonstrated by a c.50% reduction in customer count amongst the Company's Donut King, Gloria Jean's and Michel's Patisserie brands¹ whose stores are predominantly situated in the shopping centre environment".

"Consequently, we have seen a consistent and increasing decline in many of our franchisees' trading revenues compared to this time last year, and as a result, c.90 domestic franchisees have elected to temporarily close their stores as existing trading conditions simply become untenable. We expect this situation to be exacerbated by further restrictions which might be imposed by Government, and for so long as this health crisis exists", he said.

Similar conditions prevailed amongst the Company's international network, where temporary closures attributable to government restrictions had increased to 481, with a further 141 outlets limited to take-out only, and 51 remaining outlets continuing to operate normally, albeit subject to increasingly difficult trading conditions.

Given the extremely challenging retail environment, and despite the erosion of its own revenue base, RFG has implemented an increasing number of measures at its own expense to support franchisees and preserve the long-term sustainability of its franchise network.

"The steps we have taken differ by brand system, are directed at those franchisees most in need, and include the waiver or reduction of certain fixed and percentage based fees, waiver of fixed royalty and or marketing levy 'floors' so that these are calculated solely by reference to a percentage of, albeit declining, sales, and the deferment of outstanding debt and RFG provided finance. Interest will not be charged on these deferred amounts".

"Those previously announced strategies adopted to ensure the Group's cost base is reduced to match anticipated revenue in the foreseeable future, together with RFG's enhanced balance sheet following the Company's recent recapitalisation, provide it increased scope to deliver additional support for our franchisee partners", he said.

Mr George also noted that a major fixed expense for its franchisee community was rent, and that RFG was increasingly frustrated and disappointed by the general lack of progress it is experiencing when dealing with landlords, and the unwillingness it had observed amongst lessors to provide meaningful relief in response to current circumstances, particularly shopping centre lessors.

"The National Cabinet has encouraged landlords and tenants to engage and agree on commercial arrangements that can see both through this crisis, and has provided a list of principles which should underpin those discussions. Whilst the key elements of this guidance are conceptually sound, they fail in terms of practical application due to the significant power imbalance which exists in favour of landlords. In reality, it is our experience that tenants have very limited bargaining power to drive meaningful and timely outcomes in these circumstances".

¹ Based on unaudited reported sales by franchisees for the week ending 29 March 2020 versus unaudited reported sales by franchisees for the week ending 31 March 2019

“This is particularly the case within franchise systems such as RFG’s, where the Company or its subsidiaries are in many cases the tenant under the lease, but neither own nor operate the business conducted from the premises”, Mr George said.

“We appreciate that landlords too are suffering financially from the current crisis, and are operating under, and making decisions influenced by, the same uncertainty that is impacting retailers. However, it is abundantly clear that the reduction in foot traffic attributable to government restrictions intended to combat the Coronavirus has materially reduced the benefit otherwise derived by RFG and its franchisees from their leases within shopping centres. Deferral of rent in these circumstances is simply unacceptable, and will achieve nothing for our franchise network other than to delay the adverse financial consequences arising from the current situation”.

“RFG supports and agrees that necessary restrictions should and must be imposed by government to combat COVID-19. However, where the government’s objective is to hibernate business so that it is able to contribute to restarting the economy and preserve jobs, RFG considers that robust and urgent government intervention is necessary to address fixed cost bases such as occupancy costs, and limit the uncertainty that is necessarily influencing current decision making”, he said.

This announcement has been authorised by the Board of Directors.

ENDS

For further information, interviews or images, please contact:

Belinda Hamilton, RFG Chief Communications Officer, 0487 700 048 or Belinda.Hamilton@rfg.com.au

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