

24 August 2022

FY22 Results Establish Platform for Growth

Key Points⁽¹⁾⁽²⁾:

- FY22 Statutory NPAT increased to \$5.3m (FY21: \$1.5m)
 - Underpinned by 4.6% increase in FY22 EBITDA to \$17.3m (FY21: \$16.6m)
- FY22 Underlying EBITDA of \$21.5m (FY21: \$26.9m)
 - Consistent with guidance
 - Reflects 7.6% decrease on PCP when effect of FY21 COVID support (inc. JobKeeper) excluded
 - Led to Underlying NPAT of \$18.5m (FY21: \$23.2m)
- Compliant with all lending covenants
 - Extension of Senior Debt tenor to September 2023
- Creditable operational performance across domestic network given COVID-19 influence
 - SSS grew +2.3% vs FY21 despite Customer Count decline (-5.0% vs FY21)
 - Turnaround evident in 2H22 performance:
 - +6.6% SSS vs PCP
 - 10.2% weighted average increase in network Customer Count vs 1H22⁽³⁾
 - QSR Division stand-out performer: +10.1% SSS vs FY21
 - c.120 campaigns/product launches contributed to strong ATV (+7.7% on PCP)
- SSS momentum sustained during FY23YTD: +23.2% vs PCP⁽⁴⁾ / +11.5% vs pre-pandemic FY19⁽⁵⁾
- Strong momentum in International Division, with 2H22 net outlet growth of 14 and an FY23 new outlet pipeline of c.50 outlets developed⁽⁶⁾
- RFG successful in recent interlocutory application in ACCC matter
- No significant change in Michel's Patisserie class action proceeding

Retail Food Group Limited (RFG, the Company or Group) has reported FY22 statutory Net Profit After Tax (NPAT) of \$5.3m, a more than threefold increase on the prior corresponding period (PCP). The result was underpinned by FY22 statutory EBITDA of \$17.3m, up 4.6% on FY21 (\$16.6m). On an underlying basis, EBITDA was consistent with guidance, declining 20.1% to \$21.5m (FY21: \$26.9m). The year-on-year decline moderates to 7.6% when the effect of FY21 government pandemic assistance (JobKeeper and similar support) is disregarded. Underlying NPAT was \$18.5m (FY21: \$23.2m).

RFG Executive Chairman Peter George noted that the Group's FY22 performance was a creditable result given COVID-19's unavoidable impact, with 2H22 performance demonstrating strong momentum and the underlying resilience of the Company's Brand Systems.

Domestic Franchise:

"While still below pre-pandemic levels, during the 2H22 our domestic network enjoyed a weighted average increase in network customer count of c.10% vs 1H22. 2H22 momentum is, however, best demonstrated by comparing 1H22 Same Store Sales (SSS), which declined 2.5% on PCP, to 2H22 SSS, which reflected an increase of 6.6% on PCP. This momentum has been maintained into FY23YTD".

“The FY22 performance of the QSR Division, which grew SSS 10.1% on PCP, was a stand-out, further validating Crust’s and Pizza Caper’s brand repositioning and FY21 introduction of new value models promising quality pizza at affordable prices”, he said.

“As well, RFG’s ongoing focus on compelling marketing activity and new product innovation, which saw c.120 campaigns or product launches during the year, also helped to mitigate the effects of COVID induced customer count declines. Network Average Transaction Value (ATV) grew 7.7% on PCP, contributing to a cumulative increase of 19.6% since the commencement of RFG’s turnaround journey in FY19”.

Domestic new outlet activity was curtailed by COVID-19’s influence, with travel restrictions and border closures constraining recruitment activity and contributing to new site delays. Ultimately nine new outlets were established during FY22, partially offsetting 112 closures (27 of which were Mobile units), the majority of which (69) occurred during COVID-19’s 1H22 peak.

A strong pipeline of over 80 applicants has however been developed for both new and existing stores. Many of these are advanced, with 16 outlets presently at ‘build/commence build’ stage. Over 80 FY22 existing store transfers (25) or franchise renewals (58) also demonstrated the continuing relevance and attraction of RFG’s Brand Systems and franchise offer.

“The Company continues to explore various opportunities to facilitate effective and sustainable expansion via new sites and retail concepts, including establishment of ‘dark kitchens’, execution of the Donut King ‘mini’ and Crust satellite store concepts, expansion of the Gloria Jean’s Drive Thru network and leveraging existing bricks and mortar outlets to harness virtual store opportunities to expand customer appeal, increase market share and ‘sweat’ existing assets”, Mr George said.

Given the challenging trading environment through FY22, securing positive leasing outcomes, including pandemic related relief, remained a priority for the Group. Close engagement with RFG’s landlord portfolio and Franchise Partners, along with pro-active credit management processes, served to reduce gross lease arrears reported by landlords where RFG is ‘head on lease’ to c.\$8.4m on close of the financial year, a c.\$2.2m reduction since 31 December 2021. The Group has retained a conservative provision of c.\$6.4m against these arrears in its FY22 accounts.

International Division:

Improved trading conditions reported by Master Franchise Partners (MFPs), together with the benefits derived from prior restructuring activity, drove International Division contribution to FY22 underlying EBITDA +35.5% to \$3.2m (FY21: \$2.4m).

MFPs reported 77 new outlets during the period (including 7 vans), offsetting the closure of 83 outlets (including 10 vans). Importantly, however, the Group’s international network enjoyed positive net outlet growth of 14 outlets during the 2H22, complemented by a strong FY23 pipeline of c.50 outlets across 15 countries.

Di Bella Coffee:

Di Bella Coffee FY22 performance improved slightly on the PCP, with the positive impact of restructuring activity and the implementation of a new route to market strategy for the independent foodservice channel offsetting the impact of gross margin pressures and a reduction in revenues

attributable to COVID-19's impact, the transition of international roasting operations to third party arrangements, and the Company's exit from certain low-margin supermarket contracts.

"A combination of increased global freight costs and environmental factors contributed to a rapid rise in Arabica green bean prices to a 10 year high in late 2021. In order to support our Franchise Partners within an extremely challenging trading environment, the Group absorbed these costs for the majority of the 1H22", Mr George said.

Material Litigious Activity:

There has been no significant change in the Michel's Patisserie class action, with the Applicant afforded further time until September 2022 to file a statement of claim which particularises her allegations in the proceeding.

In the ACCC matter, the Company was recently successful in its application for certain orders it considers will substantially narrow the scope, and thereby increase the efficiency, of the proceeding in a manner consistent with the parties' obligations to the Court. RFG remains committed to defending its position in the ACCC matter, however as a matter of practical and commercial significance, continues to hold the view that the ACCC should act with a view to protecting the current interests of all Franchise Partners by resolving the proceeding which concerns long dated historical matters.

Outlook:

Optimum trading levels have yet to return, with lost trading days and hours attributable to a challenging labour market and COVID isolation requirements continuing to weigh on performance. The Group is also closely managing inflationary pressures on its supply chain, albeit these have had relatively limited impact to date, and remains cautious as to the risk of further outlet closures resulting from the sustained impacts of the pandemic over the past two years.

Despite these things, there were various positive indicators in the Group's FY22 performance, with considerable positive momentum generated during the 2H22. That momentum has been sustained in FY23YTD.

"SSS during the first seven weeks of FY23 reflect a 23.2% increase on the PCP. Whilst impressive, a better measure is to compare YTD performance against pre-pandemic FY19 metrics for the same period. Doing so demonstrates a strong 11.5% SSS increase, but also highlights further opportunity for growth given customer count remains 7.6% below pre-COVID numbers. These results also highlight the resilience of RFG's multi-Brand System portfolio and the strong value proposition each of the Company's brands offer consumers. Whilst we have significantly increased basket size for our Franchise Partners over the past three years, ATV remains relatively low and provides us flexibility to better compete and more effectively manage retail prices in a challenging trading environment", Mr George said.

Further progress was achieved in RFG's turnaround journey during FY22, albeit much work remains to be done. Despite the challenges noted above, and tempered by the ongoing distraction and risk relating to litigious matters connected to historical matters, the Company retains confidence that it has established a firm platform for a much stronger FY23.

This announcement has been authorised by the 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. 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 FY22 Results Presentation lodged with the ASX on 24 August 2022.
- (2) Unless otherwise specified, operational metrics (SSS, CC, ATV) provided in this Announcement are based on unaudited reported sales by franchisees amongst stores trading, in the case of a half year, a minimum 23 of 26 weeks, and in the case of a full year, a minimum 46 of 52 weeks, versus unaudited reported sales by franchisees against same stores trading a similar number of weeks during the comparable preceding period (as the case may be).
- (3) Reflects 2H22 vs 1H22 on a weighted basis
- (4) Based on unaudited reported sales by franchisees in respect of Weeks 1 to 7 FY23YTD vs unaudited reported sales by franchisees against same stores for the corresponding period in FY22
- (5) Based on unaudited reported sales by franchisees in respect of Weeks 1 to 7 FY23YTD vs unaudited reported sales by franchisees against same stores for the corresponding period in FY19
- (6) As reported by Master Franchise Partners

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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 manager, and is the owner of iconic brands including Gloria Jean's, Donut King, Brumby's Bakery, Michel's Patisserie, Crust Gourmet Pizza, Pizza Capers, Cafe2U and The Coffee Guy. The Company is also a roaster and supplier of high-quality coffee products, supplied under the Di Bella Coffee brand. For more information about RFG visit: www.rfg.com.au