

28 February 2023

## 1H23 Results & Update<sup>(1)(2)</sup>

### Key Points:

- 1H23 underlying EBITDA of \$13.7m (1H22: \$9.3m):
  - Reflects 47.4% increase on PCP
- 1H23 statutory loss after tax of \$1.1m (1H22: \$5.1m profit):
  - Reflects effect of commitments arising out of Dec 2022 ACCC resolution
  - Represents 32.0% increase vs PCP (to \$6.7m) when that effect is excluded
- Strong operational performance across domestic network:
  - +17.9% SSS growth driven by +17.3% Customer Count & 0.5% ATV growth
  - All Brand Systems enjoyed positive 1H23 SSS growth
  - Significant SSS/CC increases observed across coffee based Brand Systems
  - Donut King a stand out: +40.7% SSS vs PCP (+20.2% SSS vs pre COVID-19 1H19)
  - 13 new outlets established (offsetting 21 store & 8 van closures)
  - >80 existing store transfers (19) & renewals (66)
- Launch of new virtual brand system concept: Rack ‘em Bones BBQ Ribs
- Resolution of ACCC proceedings:
  - Represents finalisation of legacy regulatory actions
- Strong momentum across International Division:
  - 39.1% increase in divisional underlying EBITDA to \$2.0m (1H22: \$1.5m)
  - 44 new outlets (offsetting 27 store & 9 van closures) & strong pipeline developed<sup>(3)</sup>
- Limited progress in Michel’s Patisserie class action:
  - Original Statement of Claim struck out, with costs
  - New Statement of Claim filed, Dec 2022
  - Timetable set for Defence & Cross Claim
- Compliant with all lending covenants
- FY23 underlying EBITDA guidance of \$26.0m to \$29.0m<sup>(7)</sup> maintained
  - Expect FY23 result to fall within mid to upper end of this range

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Retail Food Group Limited (RFG, the Company or Group) today announced 1H23 underlying NPAT of \$12.3m, up 65.7% versus the previous corresponding period (PCP). The result was underpinned by 1H23 underlying EBITDA of \$13.7m (1H22: \$9.3m), which was driven by strong 1H23 operational performances across the entirety of the Group’s business. At a statutory level, the Company reported a 1H23 loss after tax of \$1.1m (1H22: \$5.1m profit), reflecting the effect of financial commitments arising from resolution of the ACCC proceedings in December 2022.

RFG Executive Chairman Peter George noted that more ‘normalised’ post COVID-19 trading conditions, complemented by those strategies implemented by the Group to grow network sales pursuant to its ‘Franchise First’ turnaround plan, contributed to strong operational performances across RFG’s business during 1H23.

### **Domestic Franchise:**

During the 1H23, the Group's domestic franchise network enjoyed strong Same Store Sales (SSS) growth of +17.9% vs PCP, driven by a 17.3% increase in Customer Count and 0.5% increase in Average Transaction Value (ATV).

"While the relative scale of these metrics should be tempered by the challenging trading conditions experienced during the 1H22, they compare favourably to pre COVID-19 1H19 performance. When viewed through that lens, SSS and ATV have respectively grown 13.3% and 20.6% vs 1H19, despite a 6.0% decline in customer count versus that period as consumer shopping behaviours have evolved over the course of the pandemic. These metrics not only demonstrate the resilience of our brand system portfolio, but also validate the strategic decisions implemented throughout the Company's turnaround journey", Mr George said.

"During the 1H23, all brand systems enjoyed positive SSS growth. Of particular note, the Group's coffee based brand systems enjoyed a significant post COVID-19 'bounce back' as customers returned to more normal shopping routines".

"Donut King was a clear standout across the Group's portfolio. The brand's broad customer appeal, allied with an affordable and compelling product offer, contributed to 1H23 SSS growth of 40.7% vs 1H22, aided by 32.5% and 6.2% increases in Customer Count and ATV versus PCP", he said<sup>(4)</sup>.

Building upon the momentum created in the 2H22, over 80 existing outlet transfers (19) and renewals (66) demonstrated the continuing relevance and attraction of RFG's brand systems and franchise offer.

"This later metric, which exceeded total renewals for the entirety of FY22 (58), was particularly pleasing. Over 100 domestic franchise agreements have now been renewed since 1 May 2022, providing significant confidence that the Group's turnaround activities enjoy strong support across our franchise partner community", Mr George said.

The improved trading conditions evident in the 1H23 also contributed to a c.\$4.3m decrease in gross arrears reported by landlords in respect of franchised stores where the Group is 'head on lease', to \$4.1m. The Company has retained a conservative \$2.8m provision against remaining arrears, and holds confidence regarding a further reduction as FY23 progresses.

Mr George noted that the facilitation of effective and sustainable expansion of the Group's domestic network, whilst also providing pathways for franchise partners to grow their business and outlet portfolios, remains an important focus for the Company.

"An element of this has been the development of new opportunities to leverage existing bricks and mortar outlets to harness virtual opportunities to expand customer appeal, increase market share and 'sweat' existing assets. This has led to the launch of 'Rack 'em Bones BBQ Ribs', an entirely new concept that leverages existing QSR outlet fixed costs and assets to maximise profitability".

"A simple, low-cost business model that affords opportunity for incremental sales growth whilst avoiding potential cannibalisation of existing QSR Division sales and menu, Rack 'em Bones BBQ Ribs has been successfully trialled across 11 outlets during FY23, with trial outlets experiencing average weekly sales growth of \$3,500 during the trial period", he said.

Rollout of new Rack ‘em Bones BBQ Ribs franchises forms part of a relatively strong pipeline of 33 new outlets. To support that growth, 23 new franchise partners have been approved and more than 100 other applicants and leads are in various stages of pre-approval.

**International Division:**

Improved trading conditions reported by Master Franchise Partners (MFPs), together with the benefits of prior restructuring activity, facilitated a 39.1% increase in International Division contribution to 1H23 underlying EBITDA to \$2.0m (1H23: \$1.5m).

MFPs reported 44 new outlets during 1H23, contributing to net outlet growth for the period of 8 outlets. A strong CY23 new outlet pipeline of more than 60 outlets across 15 countries exists, with c.35 of these programmed for the 2H23.

“The first of three new Gloria Jean’s drive thru outlets programmed for Texas, USA, was established during the period. This activity has been a catalyst for more detailed consideration of the USA market, the only international territory within which RFG is the direct franchisor. That consideration has led to the implementation of a strategic initiative to drive USA network growth, with a target of more than 100 outlets to be achieved over a two to three year horizon. Implementation steps in connection with this strategy are now underway”, Mr George said.

**Di Bella Coffee:**

Di Bella Coffee 1H23 underlying EBITDA grew 16.9% to \$0.6m (1H22: \$0.5m), with improved gross margins offsetting a reduction in revenues attributable to the Group’s FY22 exit from certain low-margin supermarket supply contracts and reduced volumes within the independent foodservice channel attributable to COVID-19 related impacts on CBD based customers. Di Bella Coffee was also awarded two medals at the 2022 Sydney Royal Fine Food Championships.

**Material Litigious Activity:**

The Company resolved the ACCC’s Federal Court of Australia proceedings late in December 2022, bringing to an end legacy regulatory actions relating to the Group<sup>(5)</sup>.

The proceedings were discontinued without RFG making any admissions as to the ACCC’s allegations in the proceedings, nor RFG paying a pecuniary penalty or being subject to an injunction, disclosure or adverse publicity order. As part of the agreed resolution, RFG entered into an undertaking with the ACCC under s87B of the *Competition and Consumer Act 2010 (Cth)*, pursuant to which it has agreed to pay certain franchisees c.\$8.035m and waive franchisee debts of c.\$1.82m. RFG has also contributed \$500K towards the ACCC’s costs<sup>(5)</sup>.

In terms of the Michel’s Patisserie class action, in October 2022 the Company was successful in obtaining orders from the Court striking out the applicant’s entire Statement of Claim. The Court also refused to adjudicate, and therefore dismissed, the applicant’s December 2021 application seeking declarations as to the legality of litigation funding arrangements.

In striking out the applicant’s original Statement of Claim, the Court provided the applicant leave to file a further Statement of Claim, which was filed in December 2022. A timetable has since been set for the RFG respondent entities to file their Defence and a Cross-Claim.

## Outlook:

2H23YTD performance remains strong despite an increasingly challenging trading environment impacted by inflation and interest rate pressures, with network sales having grown 6.8% vs PCP, backed by a strong 11.8% increase in network SSS<sup>(6)</sup>.

“The Group’s coffee based brand systems, led by Donut King which has enjoyed +31.0% SSS vs PCP, continue to demonstrate positive momentum, more than offsetting a moderation observed in QSR Division customer count as consumers return to more ‘normalised’ dine-in and eat out routines versus the heavily ‘Omicron’ influenced PCP”, Mr George said<sup>(6)</sup>.

“We remain focused on delivering solutions for our franchise partners to unlock growth and drive profitability. This focus has led to a range of initiatives, including virtual brand extension via launch of the Rack ‘em Bones BBQ Ribs concept; ongoing cost of goods review, menu optimisation, pricing evaluation and RRP review to offset inflationary pressures; marketing investment to enhance brand awareness, attract new customers and grow share; and the 2H23 implementation of a new eCommerce platform to improve customer experience and loyalty functionality”.

“We maintain a diversified and resilient brand system portfolio, have carried considerable momentum into the 2H23, and are pursuing multiple growth opportunities”, he said.

FY23 underlying EBTIDA guidance in the range of \$26.0m to \$29.0m, excluding AASB 15, AASB 16 and non-core expenses, is maintained<sup>(7)</sup>, with the Company expecting the FY23 result to fall within the mid to upper end of this range.

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](http://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 1H23 Results Presentation lodged with the ASX on 28 February 2023.
- (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) As reported by Master Franchise Partners
- (4) Excluding Donut King mobile vans
- (5) Refer RFG’s announcement to the ASX of 23 December 2022
- (6) Based on unaudited reported sales by franchisees in respect of Weeks 27 to 33 FY23YTD vs unaudited reported sales by franchisees against same stores for the corresponding period in FY22
- (7) FY23 guidance range provided at 30 November 2022 Annual General Meeting.

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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](http://www.rfg.com.au)