RETAIL FOOD GROUP
Retail Food Group Limited
Level 4, 35 Robina Town Centre Drive
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24 February 2021

1H21 Results & Update(1)(2)

Key Points

- 1H21 Underlying EBITDA of $14.4m (1H20: $19.9m)
  - Underpins 60.0% increase in Underlying NPAT to $12.0m (1H20: $7.5m)
- Statutory NPAT of $3.9m (1H20: $13.9m), including Discontinued Operations
  - $8.6m Statutory NPAT derived from Continuing Operations
- Compliant with all lending covenants as at 31 December 2020
- Creditable results reflect COVID-19 influence on all aspects of Group operations
  - Impact on domestic operations with high shopping centre, metro or CBD presence
  - International operations impacted by government trading restrictions
  - Partially offset by strong performances amongst Brumby's Bakery (+11.7% SSS) & QSR (Crust/Pizza Capers) Division (+6.7% SSS)(3)
- Ongoing focus on improving domestic franchise network performance & sustainability
  - Guided by 'franchisee first' culture
  - Reinvigoration of marketing activity post COVID-19 'first wave' pause
  - Successful launch of new Crust value model
  - Implementation of new field service team & support methodology
  - Focus on new outlet growth, particularly amongst multi-store franchise partners
- Ongoing restructuring initiatives to improve business performance & focus on core operations
  - Oct 2020 divestment of non-core Dairy Country marks exit from traditional foodservice
  - Driving efficiencies within international coffee business
- ACCC proceedings commenced Dec 2020
  - Concerns historical matters under former RFG leadership
  - RFG intends to defend proceedings

Retail Food Group Limited (RFG, the Company or Group) has today reported 1H21 underlying Net Profit After Tax (NPAT) of $12.0m, representing a 60.0% increase on the prior corresponding period (PCP). This result was underpinned by 1H21 underlying EBITDA of $14.4m.

Statutory EBITDA of $12.2m recognised restructuring costs, non-cash lease impairments and a loss on disposal of the non-core Dairy Country business. Statutory NPAT for the period was $3.9m (1H20: $13.9m), increasing to $8.6m when discontinued operations are excluded.

RFG Executive Chairman Peter George noted that while challenging COVID-19 influenced trading conditions had persisted for most of 1H21, these had produced mixed results across the Group's operations.

"A number of positive indicators were being observed across RFG's business, particularly in Brumby's Bakery, the QSR Division and outlets situated within regional locations. These have partially offset the impact of COVID-19 on operations with high exposure to shopping centre locations, metropolitan and CDB regions, where government social distancing and trading restrictions have had a more enduring effect", he said.

Domestic Franchise:

The 1H21 performance of Brumby's Bakery and the QSR Division, which respectively enjoyed Same Store Sales (SSS) growth of +11.7% and +6.7% on PCP, were highlights for the Group.

"Brumby's enjoyed strong average transaction value growth of +8.5% during the 1H21, assisted by marketing activity reinforcing the brand's handcrafted baking heritage and a resurgence in demand for quality products offered by consumers' local bakery", Mr George said.

"Driven by strong preferences for non-contact meal delivery options, both QSR Division brands performed well throughout the period. Complemented by the successful launch of its new value model, Crust has grown customer count by +7.0% and SSS by +5.4%, while Pizza Capers outperformed with +15.5% SSS growth supported by customer count growth of +10.9%".

Performance was more mixed amongst the Group's principally shopping centre-based coffee Brand Systems (Gloria Jean's, Donut King and Michel's Patisserie), where the impact of COVID-19 restrictions was most evident, particularly amongst metropolitan stores in those States which were subject to extended lockdown or more robust government measures.

At a network level, these factors contributed to a 2.6% decline in SSS vs PCP, although SSS were relatively flat at -0.3% when the impact of Victorian network performance (where SSS are down c.15.9 % on PCP) is removed.

Having regard to these matters, together with the cumulative impact of underperforming outlet closures over the past 12 months, total network sales for 1H21 were c.$244m, down c.13.2% on PCP.

Further analysis of the performance within the coffee brands (Donut King, Michel's and Gloria Jeans) demonstrates COVID-19's impact due to imposed trading restrictions in Victoria and NSW, particularly within major shopping centres. Of those stores suffering turnover declines of more than 30% nationally, c.79% of the decline has come from metro-based locations within these states.

"Conversely, c.74% of those coffee based stores experiencing 1H21 growth were located within regional areas, or amongst those States or Territories least impacted by the pandemic, including Queensland, W.A., S.A., N.T. and Tasmania, supporting confidence in the network's recovery following a return to less volatile trading conditions", Mr George said.

The Group's 'franchisee first' focus saw the 1H21 restructure of the Company's retail management and field teams under a dedicated internal division redefined as IconicCo. This restructure reinforced the importance of relationships, and the refinement of a model dedicated to improving store operations and franchise partners' profitability.

"The General Manager for each brand is now directly responsible for relationships with our franchise partners and ensuring we provide timely and accurate support. This change has been complemented by the 1H21 rollout of our new specialist field team, which has been deployed to drive improved revenue and profit outcomes for each of our franchise partners. Initial feedback regarding this last initiative has been overwhelmingly positive", Mr George said.

Mr George noted that the Group has also prioritised improved leasing outcomes and COVID-19 related relief for its franchisee community, with concessions having been negotiated for over 400 stores.

"Unfortunately, less than 30% of these concessions have been formalised by landlords via adjusted rental statements. This has led to high levels of confusion amongst all concerned parties, and given rise to a gross rental arrears amount of c.$11.8m across those outlets in the network where the Group is 'head on lease'".

"This figure is yet to be adjusted for abatements and rent deferrals which the Company estimates to be in the order of $3.4m. While the Group has taken a conservative approach by taking a non-cash lease receivable impairment of c.$5.3m for the half-year, close engagement with our franchise partners together with proactive credit management processes provides confidence regarding the payment of the vast majority of current arrears", Mr George said.

The Company also maintained its focus on new outlet growth opportunity during 1H21, particularly amongst RFG's multi-store franchise partner complement and the Gloria Jean's drive-thru network, where SSS growth of +19.9% during 1H21 outshined traditional outlet performance.

"Whilst considerable momentum was achieved during the first half, that momentum has been curtailed by the ACCC's commencement of Federal Court proceedings in December 2020", he said.

International Operations:

RFG's licensed international network was heavily impacted by COVID-19 throughout 1H21. At 31 December, c.25 outlets remained temporarily closed, and master franchised networks across 34 countries remained subject to various trading restrictions.

These conditions contributed to declines of c.46% and c.63% vs PCP in licence fee and wholesale coffee revenues in the period, resulting in 1H21 underlying EBITDA for the Division of $0.4m.

Notwithstanding these conditions, Master Franchise Partners reported 27 new outlets during the period, offset by 54 closures, 32 of which are considered attributable to COVID-19.

Di Bella Coffee:

Mr George noted that COVID-19 also weighed on Di Bella Coffee, which experienced a c.43.2% decline vs PCP in underlying EBITDA, to $0.8m[4].

"COVID's impact was particularly evident in Victoria and across metro precincts, where reduced ordering volumes and closures amongst CBD based customers has been observed, influenced by extended work-from-home arrangements. These factors, when coupled with reduced volumes across the Group's coffee based Brand Systems, has also contributed to margin pressure for the business", he said.

Despite these challenges, Mr George noted the Group was implementing further action to improve its international coffee business.

"RFG decommissioned its Auckland roasting facility in December and established contract roasting arrangements that are forecast to deliver annualised savings of c.$300k. During the 2H21, we will also be introducing a contract roast solution for our Middle East and Central Asian franchise networks. This initiative will ultimately see c.70% of international network coffee demand shift offshore, leading to efficiencies for our Sydney roastery, and a more agile supply solution, supported by a fresher product, for our international network", he said.

Regulatory Activity:

On 15 December 2020, the Australian Competition & Consumer Commission (ACCC) commenced Federal Court proceedings against the Company and five of its related entities, alleging contraventions of the Australian Consumer Law, the Franchising Code of Conduct and the Competition and Consumer Act 2010 (Cth) in respect of the Donut King, Gloria Jean's, Michel's Patisserie and Brumby's Bakery brand systems during the period 2015 to 2019.

The proceedings concern allegations relating to historical conduct occurring under former RFG leadership, and are relatively narrow in scope and focus having regard to the broad nature of the ACCC's >2.5 years investigation of the Group.

"The Company continues to review the allegations in the proceedings, and it is currently not possible to determine the potential outcome or financial impact for the Group. Should the ACCC be successful in the proceedings, this could result in the imposition of potentially significant penalties for the Group. That said, RFG intends to defend the proceedings", Mr George said.

Outlook:

Mr George noted that COVID-19's unavoidable influence, demonstrated by the Group's 1H21 performance and various lockdowns witnessed during the 2H21, creates ongoing challenges and uncertainty within key markets in which the Group and its franchise partners operate.

"Despite this, there are a number of positive indicators across the Group's business that provide confidence in respect to future performance following a return to less volatile conditions", he said.

"RFG has made considerable progress in respect of its turnaround and delivered on the various commitments made to key stakeholders throughout that journey. Those commitments included the adoption of a new strategic roadmap focused on our core franchise and coffee operations, the Company's 1H20 recapitalisation, substantial improvements to marketing, delivery of tangible COGs improvements for franchise partners, enhanced systemisation, and investments in the redesign of RFG's field service model and approach to franchise system management".

"The Company also maintains a strong balance sheet and liquidity buffer, which is supported by a more robust, efficient and agile organisation that has benefited from the extensive restructuring activity undertaken to date".

"While ongoing COVID-19 related uncertainty, including the potential impact of government support initiatives such as JobKeeper being withdrawn, makes it difficult to predict future financial outcomes, and despite the ACCC proceedings, the Company approaches the future with cautious confidence", he said.

This announcement has been authorised by RFG's 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 1H21 Results Presentation lodged with the ASX on 24 February 2021.

(2) 1H20 comparative information restated for Discontinued Operations & AASB 15 accounting – refer Note 16 in Financial Report for Half Year Ending 31 December 2020, lodged with the ASX on 24 February 2021.

(3) All Same Store Sales (SSS) metrics provided are based on unaudited reported sales by franchisees amongst stores trading a minimum 23 of 26 weeks during 1H21, versus unaudited reported sales by franchisees against same stores trading a minimum 23 of 26 weeks during 1H20.

(4) Di Bella Coffee segment excludes contribution from Di Bella Coffee supply to franchisees, which is included within franchise division results

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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 and Cafe2U. 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