RETAIL FOOD GROUP
Retail Food Group Limited
Level 4, 35 Robina Town Centre Drive
Robina Qld 4226

25 August 2021

FY21 Results & Update[(1)(2)(3)]

Key Points

- FY21 Underlying EBITDA of $26.9m (FY20: $31.7m):
  - Translated to 23.3% increase in Underlying NPAT to $23.2m (FY20: $18.8m)
- Statutory NPAT of $1.5m (FY20: $4.0m loss), including Discontinued Operations:
  - Represents 1st annual Statutory Profit result since FY17
  - $7.4m Statutory NPAT derived from Continuing Operations
- Compliant with all lending covenants as of 2 July 2021
- Strong performances across Brumby's Bakery (+9.1% SSS), QSR Division (+4.3% SSS) & Gloria Jean's Drive Thru network (+17.8% SSS) partially offset COVID-19 influence on:
  - Domestic operations with high shopping centre, metro or CBD presence
  - International operations impacted by government trading restrictions
- Continued focus on improving domestic franchise network performance & sustainability:
  - Guided by 'franchisee first' culture
  - Supported by extensive marketing activity (c.100 FY21 campaigns/product launches)
  - Implementation of new field service team & support methodology
  - Successful launch of new QSR Division value models
  - Ongoing focus on new outlet growth (FY21: 17 outlets (FY20: nil))
- Ongoing restructuring initiatives to improve business performance & focus on core operations:
  - Oct 2020 divestment of non-core Dairy Country marked exit from traditional foodservice
  - Implementation of c.$2.0m cost saving initiative across Di Bella Coffee business
- ACCC proceedings commenced Dec 2020:
  - Concerns historical matters under former RFG leadership
- Positive indicators observed in 1H22 despite impact of ongoing COVID-19 headwinds

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Retail Food Group Limited (RFG, the Company or Group) has reported FY21 underlying Net Profit After Tax (NPAT) of $23.2m, representing a 23.3% increase on the prior corresponding period (PCP). This result was derived from FY21 underlying EBITDA of $26.9m, consistent with consensus forecasts.

Statutory EBITDA of $16.6m 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 $1.5m (FY20: $4.0m loss) and represented the Group's first statutory profit since FY17. Excluding discontinued operations, FY21 Statutory NPAT was $7.4m.

RFG Executive Chairman Peter George noted that a number of positive indicators amongst the Group's business partially offset the unavoidable impact of challenging COVID-19 influenced trading conditions which had persisted for much of FY21.

"Successful execution of targeted, customer driven marketing strategies, new product launches and a steadfast focus on improving franchise partner performance delivered domestic network Average Transaction Value (ATV) growth of +5.7% and creditable Same Store Sales (SSS) growth of +3.2%, despite a COVID-19 influenced reduction in customer count, particularly amongst business units most exposed to shopping centre, metro and CBD locations."

Domestic Franchise:

Gloria Jean's Drive Thru outlets, which delivered +17.8% FY21 SSS growth, were supported by strong performances amongst Brumby's Bakery (+9.1% FY21 SSS growth), the QSR Division (+4.3% FY21 SSS growth) and regional outlets which were less impacted by COVID-19 restrictions affecting metro and CBD regions.

"Brumby's has successfully re-engaged with local communities, leveraging the brand's fresh baked promise and quality product offer, complemented by a focus on key seasonal events and introduction of a new loyalty program which has driven ATV and customer count by +6.1% and +2.8% respectively."

"Amongst the QSR Division brands (Crust and Pizza Capers), an additional c.600,000 pizzas were sold during the year following successful implementation of new value models promising premium pizzas at affordable prices. Crust has grown customer count by +6.7% on PCP, contributing to FY21 SSS growth of +3.2%, whilst Pizza Capers has over-achieved, delivering FY21 SSS growth of +12.4%," he said.

Positive indicators were also evident amongst the Company's predominantly shopping centre-based coffee Brand Systems where regional outlets performed strongly in comparison to metro and CBD locations more exposed to extended COVID-19 trading and movement restrictions:

Brand System	FY21 SSS	FY21 SSS (non-metro)
Donut King	+2.9%	+6.6%
Gloria Jean's	+0.2% (-1.8% ex Drive Thru)	+6.6%
Michel's Patisserie	-5.8%	+0.5%

"The strong performance of regional outlets across Donut King, Gloria Jean's and Michel's Patisserie indicates the Group's 'franchisee first' and customer driven strategies were delivering tangible outcomes at store level, and demonstrates the enduring potential for RFG's domestic store portfolio to deliver positive outcomes once the pandemic's impact subsides and less volatile trading conditions return," Mr George said.

"This of course would not be possible but for our franchise partners and the manner in which they have safely adapted their businesses, pivoting in many cases to takeaway and delivery only operations. Our success is inextricably linked to theirs, and our appreciation of their commitment to their businesses during extremely challenging trading conditions serves to strengthen our own commitment to realising the full benefits of RFG's turnaround journey."

Green shoots were also evident in terms of new outlet growth, despite momentum having been curtailed by reaction to commencement of the ACCC's proceedings. During FY21, 14 new outlets and 3 vans were established (FY20: nil), partially offsetting the closure of 85 sites and 13 vans.

The FY21 restructure of the Group's retail management and field teams under a dedicated internal retail division reinforced the Company's 'franchisee first' focus and commitment to driving improved store operations and franchise partner profitability.

Mr George noted that feedback received in response to this initiative had been overwhelmingly positive, and importantly, the changes implemented facilitate and underpin the 1H22 implementation of the Group's new Partnership Program.

"Designed to provide each franchise partner with unique customer and performance insights and the identification of growth opportunities and operational efficiencies, this program also enables development of tailored business plans established in consultation with Brand System management and backed by customised support delivered by in-field or support office specialists. The program includes measures to reward and recognise positive outcomes, outperformance and a commitment to Brand System values and standards," he said.

An ongoing focus on securing positive leasing outcomes, including COVID-19 related rental relief, has been and remains a priority for the Company. Maintaining close landlord engagement, and leveraging the Group's portfolio and the support afforded by the 'Code of Conduct for Commercial Tenancies', RFG has been able to secure considerable rental abatements and deferrals for franchise partners throughout FY21. Gross lease arrears reported as at 2 July 2021 were $9.0m, reflecting a reduction of c.$2.8m since the Company published 1H21 results in February 2021 and includes c.$0.8m in deferred payment arrangements.

"While the Company has maintained a conservative approach by taking a non-cash lease receivable impairment of c.$6.4m for FY21, close engagement with franchise partners supported by proactive credit management processes, evidenced by the 2H21 reduction in lease arrears achieved, provides continuing confidence regarding payment of the majority of outstanding FY21 rental amounts," Mr George said.

International Operations:

Consistent with 1H21 themes, RFG's licensed international network continued to be heavily impacted by COVID-19 restrictions throughout 2H21. Licensed networks in 17 countries remained subject to varying COVID-19 related restrictions on close of the financial year.

These conditions contributed to a 38.2% decline in divisional underlying EBITDA to $2.4m (FY20: $3.8m).

"Despite these headwinds, a number of positive results were achieved, including the global launch of Gloria Jean's premium 'Glorious Blend' in response to Master Franchise Partner demand, relocation of the Group's USA office to new headquarters in Chicago, and supply hub to the USA east coast, both of which are more closely aligned with the country's mid-west and east coast outlet profile."

"Additionally, the launch of contract roasting solutions to service the Group's Middle East, Central Asia, European and New Zealand international networks has driven a more efficient, agile and cost effective supply chain that is better positioned to take advantage of growth opportunities anticipated as international networks return to more traditional trading environments," Mr George said.

Master Franchise Partners reported 43 new outlets during the period, offsetting 84 closures, the majority of which were considered attributable to COVID-19, resulting in a closing FY21 network population of 590 outlets.

Di Bella Coffee:

Di Bella Coffee FY21 underlying EBITDA[4] of $1.2m (FY20: $2.1m) was influenced by the positive impact of restructuring activity attended to date, offset by the COVID-19 impact on independent café and contract roasting customers, most acute in CBD and metro regions, and reduced gross margin attributable to decreased volumes which resulted in higher costs per unit.

Mr George noted that, in response, the Group was assessing and implementing further manufacturing and supply chain efficiencies, including automation and capacity rationalisation, to target a c.$2.0m saving opportunity.

Regulatory Activity:

As previously announced, the Australian Competition and Consumer Commission (ACCC) commenced Federal Court proceedings against RFG and five of its related entities in December 2020 by way of a Concise Statement. This document described the ACCC's allegations in summary form.

The allegations are historical and concern the sale or licence of 42 corporate stores, as well as the management of marketing funds. The conduct occurred under former RFG leadership.

Subsequent to release of RFG's 1H21 results, at the request of RFG, the ACCC filed a Statement of Claim in the Federal Court proceedings. This document outlines in more detail the ACCC's allegations made against the Company and five of its related entities.

In response, the Company has filed a comprehensive Defence. The Company's Defence outlines in precise detail the factual history — demonstrated by several contemporaneous records not referred to in the ACCC's allegations — relating to the sale or licence of the relevant corporate stores. The Defence also outlines the Company's response to the ACCC's allegations concerning management of marketing funds. The ACCC has since filed its Reply in response to the Company's Defence.

Mr George noted that it is currently not possible to determine the potential outcome or financial impact of the proceedings for the Group. Should the ACCC be successful in the proceedings, that could result in the imposition of potentially significant penalties.

"RFG has filed a comprehensive Defence which responds factually and in substantial detail to the ACCC's allegations. Given the historical nature of the allegations, as well as the matters outlined in that Defence, the Company believes that an early resolution should be achieved in the interests of all RFG franchise partners. Above all, this would serve to recognise the reality that under RFG's new leadership several positive initiatives have and will continue to be developed, which together provide real world benefits to our franchise partners who unfortunately continue to face significant challenges in the face of the health and economic crisis caused by the COVID-19 pandemic. However, if such a resolution cannot be achieved, RFG is committed to defending its position", he said.

Outlook:

Mr George noted that COVID-19 continued to create ongoing challenges and uncertainty within key markets in which the Group, its franchise partners and Master Franchise Partners operated.

"Recent, and in many cases ongoing, lockdowns in all domestic States and Territories except for Tasmania have impacted 1Q22 performance. During the FY22YTD, a strong ATV of +5.8% has partially offset the impact of an 11.9% reduction in customer count which has contributed to a network SSS decline of 6.7%. Allied to this, c.40 outlets have temporarily closed as a consequence of challenging COVID-19 influenced trading conditions," he said(5).

"Metropolitan outlets within coffee based Brand Systems are the most impacted, particularly in NSW and Victoria, which reflect a large proportion of the Group's domestic footprint and which have endured extended restrictions."

"Despite this, the positive impact of the many business improvement measures undertaken throughout RFG's turnaround journey, observable in FY21 performance, provide confidence regarding future performance following return to less volatile trading conditions."

"RFG continues to focus on those things it can control, and remains steadfastly fixed on executing its FY22 strategic plan and the various growth initiatives underpinning it. These include an aggressive focus on establishing new Gloria Jean's Drive Thru outlets, realisation of QSR Division satellite store opportunities, and rollout of the FY21 successfully trialled Donut King mobile van concept."

"The Group continues to make strong progress in its turnaround, and while the ongoing uncertainty generated by COVID-19, together with the ACCC proceedings, continues to make difficult the prediction of future financial outcomes, RFG continues to approach 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 FY21 Results Presentation lodged with the ASX on 25 August 2021.

(2) FY20 comparative information restated for Discontinued Operations – refer Note 33 in Financial Report for Financial Year Ending 2 July 2021, lodged with the ASX on 25 August 2021.

(3) Unless otherwise noted, all Same Store Sales (SSS), Average Transaction Value (ATV) and Customer Count (CC) metrics provided are based on unaudited reported sales by franchisees amongst stores trading a minimum 46 of 52 weeks during FY21, versus unaudited reported sales by franchisees against same stores trading a minimum 46 of 52 weeks during FY20.

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

(5) Based on unaudited reported sales by franchisees for FY22YTD (to 15 August 2021) vs unaudited reported sales by franchisees during the previous corresponding period.

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For further information, interviews or images, please contact:
Mark Abernethy, Wilkinson Butler, 0414 310 924 or mark@wilkinsonbutler.com

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