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

23 February 2022

1H22 Results & Update(1)

Key Points

- Statutory NPAT increased 31.4% to $5.1m (1H21: $3.9m)
  - Underpinned by 1H22 EBITDA of $11.8m (1H21: $12.2m)
- Revenue from continuing operations decreased 9.6% to $54.7m (1H21: $60.5m)
- 1H22 Underlying EBITDA of $9.3m (1H21: $14.4m)
  - Consistent with expectation given unavoidable COVID-19 impact and significant decrease (of $3.7m) in government financial support (JobKeeper) received compared to 1H21
  - Reflects 13% decrease on PCP when effect of reduced government support disregarded
  - Translated to 1H22 Underlying NPAT of $7.4m (1H21: $12.0m)
- Compliant with all lending covenants as at 31 December 2021
  - Confident of 2022 refinance, with various options being explored
- Reasonable results reflect significant COVID-19 influence on all aspects of Group operations:
  - 1H22 impacted by Delta and Omicron waves:
    - Sustained impact on domestic operations with high shopping centre, metro or CBD presence, driving significant Customer Count decline in coffee Brand Systems
    - Positive indicators observed during Delta/Omicron interval (+2.6% network SSS)(2)
  - Partially offset by:
    - Strong 1H22 operational performances across QSR Division (+6.8% SSS), Gloria Jean's Drive Thru outlets (+11.6% SSS) and Brumby's Bakery (+0.5% SSS)(3)
    - International Division momentum (1H22 Underlying EBITDA up >200% on PCP)
- Ongoing focus on improving domestic franchise network performance and sustainability:
  - Guided by 'franchisee first' turnaround strategy
  - c.60 campaigns/product launches conducted during 1H22
  - Strong +7.4% network ATV growth(3):
    - Validates marketing/product strategies and initiatives
    - Demonstrates scope for enhanced outcomes in less volatile trading conditions
  - Ongoing focus on new outlet growth and strategic growth drivers
- ACCC proceedings commenced Dec 2020:
  - Comprehensive Defence filed in response to amended ACCC Statement of Claim
- Michel's Patisserie class action commenced Oct 2021:
  - Proceedings at early stage with applicant to file Statement of Claim
  - RFG intends to defend proceedings

Retail Food Group Limited (RFG, the Company or Group) today reported 1H22 statutory Net Profit After Tax (NPAT) of $5.1m, representing a 31.4% increase on the prior corresponding period (PCP). The result was underpinned by 1H22 statutory EBITDA of $11.8m, which was slightly down on PCP (1H21: $12.2m). On an underlying basis, EBITDA declined to $9.3m (1H21: $14.4m), translating to underlying NPAT of $7.4m (1H21: $12.0m).

RFG Executive Chairman Peter George noted the Company's performance was a reasonable one given the Company's 1H22 result did not cycle $3.7m in JobKeeper support received in the PCP, together with the sustained and unavoidable impact of COVID-19 across the Group's operations throughout the period.

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"1H22 was a challenging period for the Group, its franchise partners and customers, and was essentially bookended by the Delta and Omicron waves", he said.

"The full impact of Delta induced lockdowns, border closures, vaccine mandates and other trading restrictions took effect during Q1, particularly in NSW, Victoria and the ACT which endured extensive and sustained lockdowns. Subsequent emergence of the Omicron wave and resulting close contact isolation requirements further influenced consumer shopping habits and operational effectiveness, including lost trading days or hours for many outlets".

"This was particularly the case amongst the Company's coffee-based Brand Systems which were predominantly based in shopping centres or metro locations, where worsening customer count declines were increasingly evident", he said.

Despite these conditions, Mr George noted that there were a number of positive indicators observed across RFG's business which provide confidence regarding improved future outcomes.

"Average Transaction Value (ATV) grew a further +7.4% across the domestic network during 1H22(3), contributing to a +20.8% increase versus 1H19(4). Not only does this significant improvement validate the marketing and new product strategies which have been implemented by the Group as part of its 'franchisee first' turnaround strategy, it positions RFG's Brand Systems well to respond to less volatile trading conditions in the future".

"Strong operational performances across the Group's QSR Division, Gloria Jean's Drive Thru and Brumby's Bakery networks were also pleasing, together with the momentum being generated by the Company's International Division", Mr George said.

Domestic Franchise:

1H22 network SSS and Customer Count declined 2.5% and 9.2% respectively, albeit represented an improvement on then YTD declines reported at the Company's November 2021 AGM(5).

The QSR Division, which enjoyed SSS growth of +6.8% on PCP(3), was a standout performer for the Group during the 1H22.

"The value models successfully introduced to the Crust and Pizza Capers networks during FY21 continue to resonate with customers and have been complemented by the introduction of compelling new products such as Crust's first ever plant-based protein range. These initiatives have driven a +7.7% increase in Crust 1H22 SSS and Customer Count, without impacting ATV which remained flat(3). Whilst Pizza Capers 1H22 SSS growth was less vigorous at +0.7%(3), it reflects a +18.5% SSS increase versus 1H19(6), demonstrating the significant headway made by the brand in recent times", Mr George said.

Gloria Jean's Drive Thru outlets continued to outperform with +11.6% SSS growth, whereas Brumby's Bakery successfully cycled FY21 gains and, underpinned by ATV growth of +2.3%, further grew SSS by +0.5% on PCP(3).

"These outcomes partially offset COVID's significant impact on coffee Brand System performance, best illustrated by the Customer Count declines on PCP experienced in NSW, where a large proportion of outlets are based, of -31.5%, -26.1% and -27.9% for Donut King, Gloria Jean's and Michel's Patisserie respectively(3). Adding to a COVID influenced loss of customer traffic has been the operational impact

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of isolation requirements which have contributed to lost trading days and hours. Indeed, the onset of COVID-19 has contributed to a c.13% decline in trading hours across the Group's coffee Brand Systems since 1H20 [(7)], further diluting network sales during this period," he said.

"Whilst these conditions resulted in extremely challenging conditions for the network, improved performances were observed during the relatively brief interval between Delta lockdowns ending and Omicron emerging. During this period network SSS grew +2.6% despite a moderated customer count decline of 2.6%[(2)]".

Given the factors described above, improved leasing outcomes and COVID-19 related relief for the Group's franchise partner community continues to be a priority. The gross lease arrears position in respect of franchised store leases where RFG is head on lease declined during the 1Q22 (from $9.0m at 2 July 2021) as rent abatements and deferrals were applied and franchise partner payments were received. However, the onset of sustained Delta related restrictions (including lockdowns), challenging trading conditions and uncertainty regarding government financial support available for franchise partners (particularly in Victoria where support did not extend to many outlets given eligibility criteria) ultimately contributed to an escalation in total arrears over the full course of 1H22.

As at 31 December 2021, the gross lease arrears position was $10.6m. The Group has maintained a conservative position regarding these arrears by taking a non-cash lease receivable impairment of $8.0m (up $1.6m since 2 July 2021), however, retains confidence that close engagement with franchise partners supported by proactive credit management processes will result in payment of a large proportion of outstanding rental amounts, particularly where trading conditions improve. That confidence is supported by landlords having reported c.$2.3m in payments received against arrears subsequent to 31 December 2021.

New outlet growth, whilst frustrated by COVID related travel restrictions and the postponement or cancellation of recruitment opportunities, also remains a priority for the Group. Four new outlets were established during the 1H22, including two new Donut King mobile vans following a warm reception to the concept's launch in August 2021.

"The Company has also developed a strong pipeline of potential new franchise partner candidates, with 20 having passed initial review/approval stage and more than 50 pending further vetting. Over 40 1H22 existing store transfers and renewals, which exceeded internal budgets, also demonstrates the continuing relevance and attraction of RFG's Brand Systems and franchise offer", Mr George said.

Mr George also noted that further advancement of various strategic growth drivers factored to deliver future positive outcomes for the Group complements the focus detailed above.

"Donut King is set to imminently launch a new 'mini kiosk' concept that incorporates a smaller footprint and establishment cost, providing access to non-traditional site locations. As well, design of a Gloria Jean's Drive Thru container model has been finalised and, pending Development Approval, is anticipated to be established in South-East Queensland later in the year. A number of additional Drive Thru sites are also significantly advanced, albeit have been impacted by COVID or developer influenced delays".

"Following commitments by three franchise partners, the Crust intra-territory satellite store concept is set to be trialled later this year. As well, the Gloria Jean's new menu trial continues to demonstrate positive results, having driven the food category to 33.9% of concept store sales, which is a considerable increase on the national average of 19.4%[(8)]. While the trial has been extended to

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accommodate virtual CMS activated digital menu boards, a loyalty platform linked ordering system and testing within alternative store environments, elements of the new menu are set to be rolled out to the broader network in the future", he said.

International Division:

Improved trading conditions across the majority of RFG's international network, where most Master Franchise Partners have reported they are now in post-COVID recovery, together with the cost reduction benefits realised from restructuring activity, contributed to a strong 1H22 result for the International Division that witnessed underlying EBTIDA grow >200% to $1.5m (1H21: $0.4m).

36 new outlets, including Gloria Jean's first new outlet in the USA since 2018 and the commencement of store operations in Vietnam, were offset by 56 closures, c.35% of which were attributable to the UAE territory which has since stabilised[9].

"More than 50 outlets across 16 countries are currently programmed for 2H22 launch[9]. When coupled with the recent establishment of a supply-chain solution for the Donut King brand that will enable entry into the Middle East, North African and Central European markets, the Company continues to maintain considerable optimism regarding the potential contribution of international operations to RFG's future success", Mr George said.

As at 31 December 2021, international operations comprised 570 outlets across 55 licensed territories in 42 countries [9].

Di Bella Coffee:

Di Bella Coffee 1H22 underlying EBITDA of $0.5m (1H21: $0.8m)[10] benefited from the positive impact of ongoing restructuring activity, offset by COVID's impact on independent café and contract roasting customers and reduced gross margin attributable to lower volumes and increased raw material costs.

Mr George noted that a combination of global freight costs and environmental factors had contributed to a rapid increase in Arabica green coffee bean pricing to a c.10 year high.

"RFG absorbed these additional costs for the majority of 2021 in order to provide additional support to our franchise partners experiencing extremely challenging trading conditions. Wholesale coffee pricing increases were however implemented in December 2021 across both franchise and foodservice customer bases, and we expect to see the positive impact of this during the 2H22", he said.

Material Litigious Matters:

RFG has now filed a comprehensive Defence in response to the ACCC's amended Statement of Claim, which abandoned a number of substantial allegations initially made by the regulator in the proceeding.

Whilst the Court's further directions regarding the future conduct of the proceedings is pending, and leaving aside the legal issues, RFG remains of the view that, as a matter of commercial and practical reality the ACCC should, in the interests of franchise partners, agree to an early and reasonable resolution of the proceeding which concerns historical matters. If this cannot be achieved, RFG remains committed to defending its position based on the facts outlined in its Defence.

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In the Michel's Patisserie Class Action[11], the Applicant has consented to filing a Statement of Claim in order to precisely outline its allegations against the Company. However, the proceeding is effectively suspended pending determination of an interlocutory application filed by the applicant seeking the Court's approval of litigation funding arrangements which support the action.

RFG has opposed that application. A date for the hearing of that application is yet to be set. If unsuccessful, RFG remains resolutely committed to defending the proceeding.

Outlook:

Close consultation with RFG's supply and distribution partners has enabled the Company to largely maintain service levels for franchise partners across its supply chain, with additional stock holdings and strong communications ensuring minimal disruption for the network to date.

Omicron's influence has however extended to the 2H22, and various barriers to optimal trading, together with a risk of heightened store closures attributable to sustained COVID related trading pressures and uncertain government support, continue to exist.

That said, 2H22YTD performance has improved with network SSS and ATV both positive at +3.5% and +10.4% respectively[12]. Customer Count does however remain well below PCP at -6.3%[12], and significantly below FY19 pre-pandemic levels (-16.1%)[13].

Mr George noted that, despite the continuing impact of COVID-19 on the Group's operations, there remain a number of positive indicators observable in RFG's 1H22 results.

"The Group's Brand Systems are resilient and well positioned to respond to less volatile trading conditions. RFG's International Division is generating strong momentum, and the Company maintains a strong balance sheet and liquidity buffer that affords scope for further investment in franchise network support and the various growth initiatives that will complement organic growth opportunity".

"The Company is also exploring a number of options in connection with the refinance of its debt facilities, and is confident that one or a combination of these will be executed by November 2022".

"We remain focused on those things we can control, and whilst it remains difficult to predict future financial outcomes, RFG retains confidence that the many positive initiatives implemented or in development will contribute to a much stronger 2H22", 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 1H22 Results Presentation lodged with the ASX on 23 February 2022.
(2) Based on unaudited reported sales by franchisees during Week 19 (week ending 17.11.21) to Week 24 (week ending 12.12.21) versus unaudited reported sales by franchisees for the prior corresponding period.
(3) Based on unaudited reported sales by franchisees amongst stores trading a minimum 23 of 26 weeks during 1H22, versus unaudited reported sales by franchisees against same stores trading a minimum 23 of 26 weeks during 1H21.
(4) Based on unaudited reported sales by franchisees amongst stores trading a minimum 23 of 26 weeks during 1H22 vs unaudited reported sales by franchisees against same stores trading a minimum of 23 of 26 weeks during 1H19

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(5) During the Company's 2021 AGM held 24.11.21, RFG reported then YTD SSS and Customer Count declines of 4.9% and 12.2% respectively. Both metrics were based on unaudited reported sales by franchisees amongst stores trading a minimum 16 of 19 weeks during 1H22 versus unaudited reported sales by franchisees against same stores trading a minimum 16 of 19 weeks during 1H21
(6) Based on unaudited reported sales by franchisees amongst stores trading a minimum 23 of 26 weeks during 1H22 vs unaudited reported sales by franchisees against same stores trading a minimum 23 of 26 weeks during 1H19
(7) Trading hour decline presented as the average number of trading hours of the same stores in 1H22 vs the same period in 1H20 (pre-COVID)
(8) Based on unaudited reported sales by Gloria Jean's trial store since new menu launch (FY22: Weeks 14 – 26) vs unaudited reported sales by remainder of Gloria Jean's network during same period
(9) As reported by Master Franchise Partners
(10) Di Bella Coffee segment excludes contribution from Di Bella Coffee supply to franchisees, which is included within franchise division results
(11) Refer RFG Announcement of 19 October 2021 and Chairman's Address to 2021 AGM for further details
(12) Based on unaudited reported sales by franchisees in respect of Week 27 (week ending 02.01.22) to Week 33 (week ending 13.02.22) versus corresponding weeks in FY21
(13) Based on unaudited reported sales by franchisees in respect of Week 27 (week ending 02.01.22) to Week 33 (week ending 13.02.22) versus corresponding weeks in FY19

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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