

31 August 2018

## FY18 Results & Update on Debt Facilities

### Key Points

- Underlying NPAT<sup>1</sup> of \$33.3m (FY17: \$75.7m) represents disappointing result.
- Statutory loss after tax of \$306.7m (FY17: statutory NPAT \$61.9m) recognises \$402.9m non-cash impairments and write-downs, and provisioning, reflecting the Group's expected FY19 sustainable earnings and risk profile inherent in current challenges.
- Pursuing debt reduction through a combination of improving business performance, consideration of asset sales, and accessing additional funding (including a potential market recapitalisation when business performance has stabilised).
- Agreement with senior debt lenders to reset financial covenants.
- New executive team in place, executing 12-18 month turnaround plan to:
  - Stabilise the business and return it to a profitable platform;
  - Optimise core business operations; and
  - Re-invest to prudently grow the business.
- National Roadshow meeting 700 franchisee customers:
  - 79% of franchisee customer respondents to post Roadshow survey indicated support for new direction of RFG<sup>2</sup>.
- Strategic domestic store network re-set progressed:
  - 123 domestic stores closed in 2H18;
  - Forecast store closures/lease non-renewals revised up to c.250 stores (including 2H18 closures) by 30 June 2019.
  - Reflects 10.7% reduction to pre-existing global network (as at 31.12.17).
  - Re-set will focus RFG on core of sustainable stores.
- Re-positioned Di Bella Coffee business to realise full potential.

Retail Food Group Limited (ASX: **RFG**) has today reported a statutory loss after tax of \$306.7m for the year ended 30 June 2018, compared to a statutory net profit after tax of \$61.9m for FY17.

Consistent with guidance, the Group reported underlying net profit after tax of \$33.3m for FY18, a decrease of 56.1% from the previous corresponding period, impacted by a combination of factors including difficult retail trading conditions; the cumulative impact of domestic store closures; effectiveness of tactical initiatives; a decline in new store growth, resale and renewal activity; and investment in business turnaround initiatives.

Further consideration of RFG's expected FY19 sustainable earnings, the risk profile inherent in those challenges impacting the Company, and RFG's 30 June 2018 market capitalisation compared to asset carrying values, resulted in further non-cash impairments and write-downs, and provisions, totalling \$402.9m for the financial year.

The Board has put in place a new executive team to lead the turnaround of the business, with the appointments of Richard Hinson as Group Chief Executive Officer, and Darren Dench as Chief Executive of Di Bella Coffee.

<sup>1</sup> Underlying NPAT is a non-IFRS financial measure. A reconciliation and description of the items that contribute to the difference between statutory performance and underlying performance is provided in the summary of financial information attached to the Directors' Report issued for FY18.

<sup>2</sup> Based on 193 respondents. 3% of respondents were unsupportive, with balance respondents neutral.

Mr Hinson said, “While RFG’s performance in FY18 has been disappointing for the Company and its shareholders, we are beginning to realise opportunities to better capitalise on the scale and scope of our operations, to support a more sustainable business model for the Group and our franchise customers.

“These initiatives include streamlining our organisation and supply chain so that we deliver quality products for our franchisee customers at prices that better allow them to compete successfully and profitably in challenging retail trading conditions.”

Recommendations from the business-wide review to more effectively leverage RFG’s diversified business model, support franchisee customer sustainability, and improve shareholder value are being implemented across the Group.

### **Franchise Operations**

RFG has also re-engaged with franchisee customers to better understand and address the challenges facing their businesses, including Mr Hinson meeting with approximately 700 franchisee customers as part of a recent national roadshow. A number of actions have been taken to further support franchisee customers, including:

- More than \$4.5m in annualised reductions in cost of goods;
- Discounted new store and franchise renewal fee structures;
- \$1.5m annualised investment in expanding RFG’s field support resources; and
- \$1.2m investment to enhance wage entitlement audit and compliance activities.

In addition, RFG is partnering with franchisee customers to pilot “concept stores” at Michel’s Patisserie, Brumby’s, Donut King and Gloria Jeans, and is investing in a digital promotions and loyalty program pilot, to identify potential revenue growth opportunities that can be implemented across the network.

In March 2018, RFG announced that its business-wide review had identified between 160-200 domestic stores that were not considered sustainable, and which would likely be closed, or lease renewal not sought, by the end of FY19, predominantly as a result of unsustainable or above market rents and shopping centre performance.

The domestic network analysis was recently revisited, having regard to franchisee customer assistance activities and landlord rental negotiations undertaken in 2H18. RFG is now forecasting that, by 30 June 2019, up to 250 domestic stores will close, or their leases will not be renewed. This forecast includes the 123 domestic stores which closed during 2H18, contributing to a domestic network population of 1,344 stores as at 30 June 2018. RFG continues to seek improved rental outcomes where possible, to minimise store closures, and will continue to constructively work with affected stakeholders.

In FY18, the Group’s international franchise network grew by a net ten outlets to 880 stores. Seven new Master Franchise Agreements were granted, including for Donut King and Crust in the United Kingdom, and Gloria Jean’s in Germany, each of which bolster growth prospects in Western European markets. RFG currently has an international footprint incorporating 87 licensed territories across 11 Brand Systems.

### **Di Bella Coffee**

During FY18, RFG completed the consolidation of its four coffee operations into a single, integrated business under the established Di Bella Coffee brand. Di Bella Coffee is Australia’s second largest roast and ground coffee enterprise, and will leverage its scale and craft coffee pedigree to expand into a range of new market channels.

## **Manufacturing & Distribution**

In RFG's manufacturing and distribution operations, the Group finalised integration of Associated Food Services, acquired May 2017, into Hudson Pacific. RFG also made significant investments in production facilities, including commissioning a second Dairy Country facility, to create additional capacity for new business opportunities.

## **Debt Structure**

Subsequent to 30 June 2018, RFG reached agreement with its senior debt lenders to reset covenants effective from 31 August 2018 for covenant testing periods commencing 1 July 2018. The key terms of the covenant reset include:

- All financial covenants are to be measured quarterly commencing 30 September 2018;
- Operating Leverage ratio (previously 3.0x) increases for the following periods:
  - 5.0x to December 2018;
  - 4.5x to March 2019; and
  - 4.0x from 1 April 2019 onwards;
- Interest Cover ratio of 3.0x (previously 4.0x);
- 100% of the net proceeds of any asset disposal (unless agreed) to be applied to repayment of debt, stepping down to 60% where Operating Leverage Ratio drops to 2.5x (previously 60% net proceeds of asset disposals, and a mandatory \$12.5m repayment by 2 March 2019);
- Removal of prior financial covenants for Gearing, Financial Guarantor EBITDA and Assets, and EBITDA performance to Budget;
- A reduction of existing senior debt facilities by \$24m, resulting in total senior debt facilities of \$285m; and
- Tenor of all facilities now expiring October 2019 (previously January 2020 and December 2020).

The Group's restructuring program will be subject to a further review process with its lenders after 31 December 2018.

## **Outlook**

While retail market conditions continue to be challenging, RFG expects to see each of the Company's Brand Systems stabilise during FY19 to a core of profitable, well-run franchise stores, supported by field services and a supply chain that delivers operational and economic support for RFG's franchisee and other customers. Di Bella Coffee is also well positioned to expand its market penetration through non-RFG franchise coffee channels, including independent cafés, larger foodservice providers, grocery, office coffee services and online sales.

In the immediate term, RFG's trading results will likely remain subdued until the full impact of lease restructuring and product and supply chain initiatives deliver the anticipated benefits to the Brand Systems and coffee business.

Mr Hinson said, "Our focus in the current financial year is to stabilise the business and return it to a profitable platform, and optimise our core operations so that we enhance profitability and returns for both our franchisee customers and RFG."

RFG will also be seeking to reduce debt through a combination of strategies, including improving business performance, consideration of asset sales, and plans to obtain additional funding, by way, for example, of a potential market recapitalisation when business performance has stabilised. Work continues on these options, but the Board has not yet determined a definitive position on which options are preferable.

## **ENDS**

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 owner, a roaster and supplier of high quality coffee products, and an emerging leader in the foodservice, dairy processing and wholesale bakery sectors. For more information about RFG visit:

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