# FY18
# RESULTS PRESENTATION

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This Presentation contains certain non-IFRS financial measures. Non-IFRS financial measures are defined as financial measures that are presented other than in accordance with all relevant Accounting Standards. Non-IFRS financial measures are used internally by management to assess the financial performance of RFG's business and include EBITDA, Underlying EBITDA, Underlying NPAT and Underlying EPS.

A reconciliation and description of the items that contribute to the difference between RFG's underlying and statutory results is provided on page number 3 of this Presentation.
Further information regarding the non-IFRS financial measures and other key terms used in this Presentation is included in this Appendix.

Non-IFRS measures have not been subject to audit or review.

# FY18 SNAPSHOT

> **Disappointing FY18 performance**

- Statutory net loss after tax of $306.7m, compared to statutory NPAT of $61.9m for PCP.
- Underlying NPAT of $33.3m, down 56.1% on PCP, in line with guidance.
- Non-cash impairments and write-downs, and provisioning recognised in FY18, totalling $402.9m pre-tax.

> **Decisive actions to stabilise business performance**

- National roadshow to re-engage with franchisees and discuss system improvements.
- 123 domestic outlets closed during H2 FY18 from planned c.160-200 closures under strategic re-set announced March 2018.
  - Strategic re-set forecast recently revised up to a total of c.250 stores which may close, or leases not be renewed, by end FY19.
  - Reflects 10.7% reduction to pre-existing global network (as at 31.12.17).
  - Re-set will focus RFG on core of sustainable stores.
- Immediate focus on COGS and fee reductions.
- Increased investments in field support & wage compliance framework.
- Partnering with franchisees to grow revenue and revitalise brands.

> **Turnaround strategy progressing**

- New executive leadership appointed with a new vision for the business.
- Considering a range of options to substantially reduce debt and leverage.
- Clear turnaround plan to stabilise performance, optimise operations and re-invest in new organic growth opportunities.

RETAIL FOOD GROUP
RFG

# FY18

# PERFORMANCE REVIEW

# FY18 PERFORMANCE SUMMARY

| FY18 GROUP PERFORMANCE[1] | FY18 | FY17 | % Change |
|---|---|---|---|
| Revenue | **$374.0m** | $349.3m | 7.1% |
| EBITDA (underlying) | **$71.4m** | $123.5m | (42.2%) |
| EBITDA (statutory) | **($354.3m)** | $106.5m | (432.6%) |
| NPAT (underlying) | **$33.3m** | $75.7m | (56.1%) |
| NPAT (statutory) | **($306.7m)** | $61.9m | (595.2%) |
| EPS (underlying) | **18.4cps** | 43.7cps | (57.9%) |
| EPS (statutory) | **(169.5cps)** | 35.7cps | (574.8%) |
| Dividend | **-** | 29.75cps | |
| Net Operating Cash Flow[2] | **$10.8m** | $63.8m | |
| Net Debt | **$258.9m** | $247.1m | |

[1] Underlying EBITDA, Underlying NPAT and Underlying EPS are non-IFRS measures used by management to assess financial performance and are defined in the Appendix to this Presentation. Refer to page number 3 for reconciliation of underlying to statutory results.

[2] Statutory

> Revenue increase (+7.1%) reflects full period contribution of FY17 acquired assets (HPC/AFS), offsetting reduced performance amongst franchise and coffee businesses

> FY18 performance influenced by:

- Cumulative impact of FY17/FY18 domestic outlet closures:
  - H1 FY18: 109 stores closed.
  - H2 FY18: 123 stores closed in strategic re-set.
- Challenging retail trading conditions, increasing occupancy costs and changing tenancy mix.
- Effectiveness of tactical initiatives and disappointing execution across business.
- Decline in domestic new / resale / renewal activity, impacted by negative sentiment.
- Franchisee assistance and investment in business turnaround initiatives.

> Dividend payments remain suspended.

# RECONCILIATION OF UNDERLYING TO STATUTORY RESULTS

- Impairment and provisioning assessments for FY18 considered the 30 June 2018 RFG market capitalisation compared to the carrying value of assets, the revised store closure assessment, expected FY19 sustainable earnings and risk profile of the Group.
- Non-cash impairments and write-downs, and provisioning, totalling $402.9m accounted for in FY18, comprising:
  - Brand System and Goodwill impairments ($306.2m):
    - Michel's Patisserie ($59.2m)
    - Brumby's Bakeries ($22.7m)
    - Gloria Jeans ($90.1m)
    - Pizza Capers ($4.5m)
    - Cafe2U ($1.1m)
    - Bakery/Café ($24.0m)
    - Coffee Retail Division ($46.9m)
    - Di Bella Coffee ($10.0m)
    - Food Services ($47.7m)
  - Non-cash write-downs and provisioning of $96.7m, arising from domestic outlet network analysis and resulting actions, including trade debtor provisioning, PP&E and inventory write-downs, and loss on real property disposals.
  - The impact of non-cash impairments and write-downs, and provisioning, reduces shareholder funds to $158.0m.
- Adjustments to statutory performance also reflect non-core expenditure, including investment to date in business-wide review.

| FY18 | Underlying | Statutory |
|---|---|---|
| EBITDA $m | 71.4 | (354.3) |
| NPAT $m | 33.3 | (306.7) |
| EPS cps | 18.4 | (169.5) |

| Underlying Adjustments[1] | $m |
|---|---|
| Statutory EBITDA | (354.3) |
| Business turnaround & Restructuring | 20.2 |
| Property Disposal & Lease Exit | 2.1 |
| Provisioning & Impairment of Assets | |
| • Provisioning | 66.9 |
| • Impairment of assets (non-cash) | 336.0 |
| Contingent Consideration Expensed | 0.5 |
| Underlying EBITDA | 71.4 |

[1] Refer FY18 financial statements for further details.

# EBITDA PERFORMANCE BY DIVISION

| UNDERLYING EBITDA | FY18 | FY17 | % Change |
|---|---|---|---|
| Bakery / Café Division[1] | **$24.4m** | $43.1m | (43.5%) |
| Coffee Retail Division[2] | **$8.5m** | $22.7m | (62.7%) |
| QSR[3] | **$10.2m** | $12.3m | (17.2%) |
| Domestic Franchising Total | **$43.1m** | $78.1m | (44.7%) |
| International Franchising | **$10.2m** | $19.4m | (47.7%) |
| Di Bella Coffee[4] | **$8.1m** | $14.2m | (43.0%) |
| Manufacturing & Distribution[5] | **$10.0m** | $11.8m | (15.3%) |
| Group Total EBITDA | **$71.4m** | $123.5m | (42.2%) |

(1) Michel's, Brumby's, Donut King.
(2) Gloria Jean's, Mobile.
(3) Crust Gourmet Pizza Bar, Pizza Capers.
(4) Previously referred to as Coffee and Allied Beverage. EBITDA derived from Di Bella Coffee supply to franchise network is reported within the Franchise Division's results.
(5) Previously referred to as Commercial - Dairy Country, Bakery Fresh, Hudson Pacific.

- Domestic Franchise operations EBITDA declines due to:
  - Cumulative trading revenue impact of FY17/FY18 domestic outlet closures.
  - Decline in revenues from new and renewing franchisees.
  - Increased costs on franchisee support.
- International Franchise EBITDA declines due to:
  - Prevailing negative sentiment impacting new Master Licence sales.
  - Investment in divisional resourcing to service network.
- Di Bella Coffee (previously referred to as Coffee & Allied Beverage):
  - Margin reduction in contract roasting sector, and EBITDA losses in cessation of Caffitaly capsule supply contract.
  - Lower volumes amongst existing customer base, impacted by increasing competitive environment.
  - c.$3.5m non-recurring gains reported in FY17.
- Manufacturing & Distribution (previously referred to as Commercial):
  - Margin reduction in wholesale manufacturing sales.
  - Additional overhead costs associated with additional production and cold storage facility.

# CASH FLOWS

- Cash receipts increases derived from full year contribution of Manufacturing & Distribution division (acquired FY17), offsetting reduced cash inflows from franchising and related coffee sales.
- The Group's cash conversion ratio reduced on PCP due to increased working capital requirements of the Manufacturing & Distribution and Di Bella Coffee divisions, and significant costs associated with the restructuring and turnaround activities undertaken in the year, including:
  - $5.0m working capital increase in Manufacturing & Distribution, and Di Bella Coffee, due to wholesale customer growth.
  - $26.4m in costs attributable to business-wide review and restructuring activity, including:
    - franchisee assistance and occupancy costs.
    - redundant payroll and premises.
    - professional and contract consultancy fees.
- Acquisition of business & intangibles includes $6.4m in earn out payments, and $1.2m of payments with respect to Di Bella Coffee and Hudson Pacific Corporation acquisitions.
- Proceeds from sale of Property, Plant & Equipment includes $5.7m on the sale of Head Office buildings.

| | FY18 ($m) | FY17 ($m) |
|---|---|---|
| Receipts from Customers | 565.7 | 456.0 |
| Payments to Suppliers & Employees | (535.2) | (361.3) |
| **Gross Operating Cash Flows** | **30.5** | **94.7** |
| **Statutory EBITDA** | **(354.3)** | **106.5** |
| Ratio of Gross Operating Cash Flows to EBITDA (underlying) | 42.7% | 76.7% |
| Interest & Other Costs of Finance Paid | (9.6) | (9.4) |
| Income Taxes Paid | (10.1) | (21.5) |
| **Net Operating Cash Inflows** | **10.8** | **63.8** |
| | | |
| Dividends Paid | (22.0) | (42.9) |
| Net Debt Increase | 18.5 | 40.0 |
| Acquisition of Business & Intangibles | (7.6) | (67.7) |
| Payments for Property, Plant & Equipment | (22.9) | (30.7) |
| Proceeds from sale of Property, Plant & Equipment | 6.9 | 0.2 |
| Net Capital Raising | 22.0 | 35.1 |
| Other Cash Activities | 0.6 | (5.2) |
| | **(4.5)** | **(71.2)** |
| Net (Decrease)/Increase in Cash Reserves | 6.3 | (7.4) |
| **Cash Reserves at Period End**[1] | **15.9** | **9.6** |

(1) Excluding restricted cash balances of $0.6m (FY17: $0.7m)

# BALANCE SHEET

| Balance Sheet at 30 June | FY18 ($m) | FY17 ($m) |
|---|---|---|
| **Assets** | | |
| Cash Reserves | 16.5 | 10.3 |
| Trade Receivables | 51.1 | 85.8 |
| Financial Assets | 24.0 | 23.7 |
| Inventories | 24.6 | 28.5 |
| Assets held for sale | 9.4 | - |
| Plant & Equipment | 64.6 | 95.6 |
| Intangibles | 364.1 | 668.9 |
| Current Tax Assets | 7.3 | - |
| Deferred Tax Assets | 22.8 | 13.7 |
| Other | 6.7 | 3.2 |
| | 591.1 | 929.7 |
| **Liabilities** | | |
| Trade Payables | 71.4 | 69.8 |
| Provisions | 31.7 | 7.8 |
| Current Tax Liability | - | 2.5 |
| Borrowings | 264.3 | 250.0 |
| Derivative Liability | 1.5 | 1.8 |
| Deferred Tax Liability | 54.7 | 119.4 |
| Contingent Consideration | 0.3 | 7.0 |
| Other | 5.4 | 6.2 |
| Liabilities Classified as Held for Sale | 3.8 | - |
| | 433.1 | 464.5 |
| **Net Assets** | 158.0 | 465.2 |

- Decreases in receivables, PP&E, intangible assets, and deferred tax balances, and increases in provisioning, primarily attributable to non-cash impairments and write-downs, and provisioning, totalling $320.9m.
- Other asset and liability movements include:
  - $2.6m net increase in domestic franchise trade receivables and financial assets.
  - $2.1m increase in inventories due to Manufacturing & Distribution, and Di Bella Coffee divisions.
  - $9.4m decrease in PP&E due to transfers to assets held for sale.
  - $6.7m contingent consideration reduction due to $6.4m in earn out payments, and $1.2m of contingent payments, with respect to Di Bella Coffee and Hudson Pacific Corporation acquisitions.
- The Group will adopt AASB16 Lease from 1 July 2019. AASB 16 will result in the majority of all leases where the Group is the lessee being recognised on the balance sheet. The new leasing Standard will have a material impact on the Group's financial statements, particularly with the inclusion of new assets and liabilities associated with lease recognition (see Note 35 of FY18 financial statements).

# DEBT STRUCTURE

- The Group received a waiver from its senior debt lenders on 29 June 2018, for testing of financial covenants for the period ended 30 June 2018.
- Agreement has been reached between the Company and its lenders to reset the covenants effective from 31 August 2018 for covenant testing periods commencing 1 July 2018.
- Other terms of the revised agreement with lenders are:
  - 100% of asset sale net proceeds to repay debt.
  - The Group's restructuring program is subject to a review process with the lenders after 31 December 2018.
- Exploring debt reduction through combination of:
  - Turnaround strategies and improving business performance.
  - Consideration of asset sales.
  - Consideration of a recapitalisation after business performance stabilises or accessing alternative sources of finance.

| Senior Debt Facilities | FY18 | FY17 |
|---|---|---|
| Net Debt(1) | $258.9m | $247.1m |

(1) Calculated in accordance with Senior Debt Facility Agreement.

| Financial covenants and conditions* | Revised 31 August 2018 |
|---|---|
| Operating Leverage ratio | • 5.0x to December 2018<br>• 4.5x to March 2019<br>• 4.0x from 1 April 2019 |
| Interest Cover ratio | • 3.0x |
| Financial Guarantor, Gearing rations and performance to budget | • Covenants removed |
| Total Facilities | • $285.0m |
| Tenor of facilities | • 31 October 2019 |

* Refer to appendices for details of covenants revisions.

# FY18

## DIVISIONAL PERFORMANCE

# DOMESTIC BAKERY / CAFÉ DIVISION

- $18.7m Divisional EBITDA decrease, impacted by:
  - Cumulative impact of FY17/FY18 domestic outlet closures impacting NSW and trading revenues.
  - Sharp decline in domestic new franchise and renewal activity, influenced by negative franchising sentiment, impacting transactional revenues.
  - Franchisee assistance and investment in business turnaround initiatives.
- Most acute in Michel's Patisserie Brand System:
  - Transition to in-store operating model continues to present challenges.
  - Discounted product supplies pricing support passed on to franchisees.
- Ongoing focus on new product innovation, digital initiatives and investment in franchisee support structures to drive enhanced performance.

| | FY18 | FY17 | % Change |
|---|---|---|---|
| - New Outlets | 2 | 33 | |
| - Closures | (131) | (79) | |
| Outlets at 30 June[(1)] | 638 | 767 | (16.8%) |
| Transfers approved | 77 | 88 | |
| Same Store Sales (SSS) | (2.4%) | 1.7% | |
| Network Sales[(2)] | $348.4m | $411.1m | (15.2%) |
| - Transaction Revenues | $3.0m | $6.6m | (54.7%) |
| - Trading Revenues | $49.8m | $59.3m | (16.0%) |
| External Segment Revenue | $52.8m | $66.0m | (19.9%) |
| Bakery Café Division EBITDA[(3)] | $24.4m | $43.1m | (43.5%) |
| - Brumby's EBITDA[(3)] | $6.3m | $10.4m | (40.1%) |
| - Donut King EBITDA[(3)] | $11.2m | $17.0m | (33.8%) |
| - Michel's Patisserie EBITDA[(3)] | $6.9m | $15.7m | (56.2%) |

(1) Opening outlets excludes 24 concept and trial stores no longer franchised.
(2) FY17 Network Sales (NWS) restated to exclude trade sales, and non-compliance activity. NWS presented on LFL basis with FY18.
(3) Underlying.

# DOMESTIC COFFEE RETAIL DIVISION

- Divisional EBITDA has decreased by $14.2m, impacted by:
  - Cumulative impact of FY17/FY18 domestic outlet closures on NWS and trading revenues in Gloria Jeans.
  - Sharp decline in domestic new franchise and renewal activity, influenced by negative franchising sentiment, impacting transactional revenues.
  - Reduced margins on coffee and ancillary sales following discounting to pass on savings to franchise network.
- Ongoing focus on GJ20:20 brand evolution for Gloria Jeans, with coffee led product innovation, digital initiatives and investment in franchisee support structures to drive enhanced performance.

| | FY18 | FY17 | % Change |
|---|---|---|---|
| - New Outlets | **5** | 27 | |
| - Closures | **(47)** | (66) | |
| Coffee Outlets at 30 June(1) | **287** | 316 | (9.2%) |
| Mobile Vans at 30 June(1) | **181** | 194 | (6.7%) |
| Transfers approved | **51** | 66 | |
| Same Store Sales (SSS) | **(1.9%)** | 0.6% | |
| Network Sales(2) | **$169.8m** | $201.8m | (15.9%) |
| - Transaction Revenues | **$1.6m** | $6.8m | (76.7%) |
| - Trading Revenues | **$45.2m** | $52.3m | (13.6%) |
| External Segment Revenue | **$46.8m** | $59.1m | (20.8%) |
| Coffee Retail Division EBITDA(3) | **$8.5m** | $22.7m | (62.7%) |
| - Gloria Jeans EBITDA(3) | **$6.6m** | $19.9m | (66.7%) |
| - Mobile Coffee EBITDA(3) | **$1.9m** | $2.8m | (34.3%) |

(1) Opening coffee outlets excludes 33 concept, trial stores and Di Bella Coffee locations no longer franchised.
Opening mobile outlets excludes 6 Di Bella Coffee mobile locations no longer franchised.
(2) FY17 Network Sales (NWS) restated to exclude trade sales, and non-compliance activity. NWS presented on a LFL basis with FY18.
(3) Underlying.

# DOMESTIC QSR DIVISION

> Divisional EBITDA has decreased by $2.1m, impacted by:
  - Sharp decline in domestic new franchise and renewal activity, influenced by negative franchising sentiment, impacting transactional revenues.
  - Cumulative impact of FY17/FY18 domestic outlet closures on NWS and trading revenues, particularly in the Pizza Capers brand system.
  - Additional costs attributable to franchisee assistance and business turnaround initiatives, and investment in franchisee support structures to drive enhanced performance.

> Credible SSS/ATV metrics (+2.0%/+2.9%) within highly competitive market disrupted by online delivery service providers, driven by:
  - Focus on operational excellence.
  - Menu innovation and LTOs.
  - Alignment with delivery aggregators.
  - Disciplined pricing policies.

| | FY18 | FY17 | % Change |
|---|---|---|---|
| - New Outlets | **1** | 7 | |
| - Closures | **(54)** | (24) | |
| Outlets at 30 June 2018[1] | **238** | 291 | (18.2%) |
| Transfers approved | **23** | 42 | |
| Same Store Sales (SSS) | **2.0%** | (0.6%) | |
| Network Sales[2] | **$169.7m** | $173.3m | (2.1%) |
| - Transaction Revenues | **$0.9m** | $3.2m | (70.4%) |
| - Trading Revenues | **$15.8m** | $15.7m | 0.2% |
| External Segment Revenue | **$16.7m** | $18.9m | (11.8%) |
| EBITDA[3] | **$10.2m** | $12.3m | (17.2%) |

(1) Opening outlets excludes 15 concept and trial stores no longer franchised.
(2) FY17 Network Sales (NWS) restated to exclude trade sales, and non-compliance activity. NWS presented on a LFL basis with FY18.
(3) Underlying.

# INTERNATIONAL FRANCHISING DIVISION

| | FY18 | FY17 | % Change |
|---|---|---|---|
| New Master Franchise Agreements | 7 | 15 | |
| New Outlets | 93 | 143 | |
| Outlets at 30 June 2018 | 880 | 870 | 1.1% |
| - Transaction Revenues | $6.3m | $8.4m | (25.0%) |
| - Trading Revenues | $19.8m | $19.9m | (0.5%) |
| External Segment Revenue | $26.2m | $28.4m | (7.8%) |
| EBITDA[1] | $10.3m | $19.4m | (47.7%) |
| EBITDA Margin | 39.2% | 68.5% | |

(1) Underlying.

New Master Franchises granted FY18

| donutking | crust Gourmet Pizza Bar | Gloria Jean's |
|---|---|---|
| UNITED KINGDOM<br>INDONESIA AIRPORTS | UNITED KINGDOM | MALDIVES<br>GERMANY<br>UZBEKISTAN<br>SWISS CONFEDERATION |

- Divisional FY18 EBITDA decreased 47.7% to $10.3m, influenced by:
  - Decline in new master franchise agreements partially influenced by negative franchising sentiment, impacting transactional revenues.
  - Reduced EBITDA margin reflecting:
    - Investment in divisional capability and resourcing to service expanding network and realise growth opportunities.
    - Increased international coffee distribution costs.
    - Costs related to the UAE joint venture establishment, and reacquisition of GJ New Zealand master franchise agreement.
- Current international footprint outside Australia: 87 licensed territories across 11 Brand Systems:
  - 7 new master franchises granted FY18:
    - DK & CGP United Kingdom and GJ Germany bolster growth prospects in Western European markets.
  - Net outlet increase of 10, after 93 new outlets commissioned.
- H1 FY18 UAE joint venture suspended indefinitely by mutual agreement, pending further progress of RFG turnaround strategy.

# DI BELLA COFFEE

(formerly Coffee & Allied Beverages Division)

> Divisional FY18 EBITDA decreased 43.2% to $8.1m, influenced by:

- Margin reduction in contract roasting sector on new customer acquisition.
- EBITDA losses in cessation of Caffitaly capsule supply contract.
- Lower volumes amongst existing customer base, impacted by increasing competitive environment.
- c.$3.5m non-recurring gains reported in FY17.

> Di Bella Coffee segment EBITDA excludes contribution from Di Bella Coffee to supply franchisees, contributing $23.1m across our domestic and international franchise network.

> FY18 a year of transition:

- Consolidated wholesale and contract roasting operations under Di Bella Coffee brand, positioning it as Australia’s second largest roast and ground coffee enterprise.
- Appointment of highly experienced global leadership team, including Darren Dench as Chief Executive – Di Bella Coffee.
- Phase-out of existing coffee capsule business following non-renewal of retail capsule supply agreement and unsuccessful professional capsule program.

| | FY18 | FY17 | % Change |
|---|---|---|---|
| Revenue | **$53.7m** | $63.7m | (15.7%) |
| EBITDA[1] | **$8.1m** | $14.2m | (43.2%) |
| EBITDA Margin | **15.0%** | 22.3% | |

(1) Underlying

# MANUFACTURING AND DISTRIBUTION DIVISION
**(formerly Commercial)**

| | FY18 | FY17(1) | % Change |
|---|---|---|---|
| **Revenue** | | | |
| Foodservice | **$82.7m** | $43.2m | 91.6% |
| Dairy Country | **$68.3m** | $45.6m | 49.7% |
| Bakery Fresh | **$16.1m** | $11.7m | 36.7% |
| TOTAL | **$167.1m** | $100.6m | 66.2% |
| **EBITDA(2)** | | | |
| Foodservice | **$2.3m** | $1.8m | 24.6% |
| Dairy Country | **$6.2m** | $9.1m | (32.0%) |
| Bakery Fresh | **$1.5m** | $0.9m | 78.6% |
| TOTAL | **$10.0m** | $11.8m | (15.3%) |
| **Throughput** | | | |
| Dairy Country | **26.2m kg** | 20.2m kg | 29.7% |
| Bakery Fresh | **4.6m kg** | 3.0m kg | 53.3% |

(1) Hudson Pacific acquired September 2016; Associated Food Services acquired May 2017.
(2) Underlying.

- Divisional FY18 EBITDA decreased 15.3% to $10.0m, attributable to:
  - Costs associated with carrying additional sites to allow for integration of the May 2017 Associated Food Services (AFS) acquisition.
  - Investment in sales & management capability driving sales volumes across Dairy Country & Bakery Fresh divisions.
  - Additional overhead costs associated with commencing operations at second Dairy Country facility, margin reduction on increased wholesale manufacturing sales.
- $6.3m capital investment in new production capacity and efficiency completed FY18:
  - Upgrade of existing equipment to increase capacity and manufacturing capability.
  - Second Dairy Country facility, including new production lines & cold storage capacity.


# FY18

## STRATEGY AND OUTLOOK

# SITUATIONAL ANALYSIS – JANUARY 2018

**Support of franchisees in rapidly changing retail environment reviewed**

- Group's supply chain in supporting franchisees examined.
- Effectiveness of execution of tactical initiatives considered.

**Market pressures impacting franchisees**

- Challenging retail trading conditions.
- Changing tenancy composition within shopping centres, increasing food retail competition.
- Increasing rents and occupancy costs, particularly within shopping centres.
- Escalating wages, utilities and general operating costs.
- Evolving consumer trends & market disruptors.
- Impact of negative media coverage.

**Now realising opportunities to better leverage scale and scope**

- More effectively integrating past acquisitions to improve Group outcomes and performance for franchisees.
- Improving integration between head office, in-field operations and franchisees.
- Streamlining supply chain across Brand Systems to better leverage Group buying power.
- Sharing best practice and positive franchisee and consumer experiences.
- Repositioned coffee business to leverage full potential.

# 12-18 MONTH TURNAROUND ROADMAP

## Stabilise

**Stabilise the business and return to a profitable platform**

- Articulate 3-year business strategies
- Realign organisation structure
- Renew and embed franchise and field support model
- Embed brand revitalisation programs
- Identify and capture supply chain efficiencies
- Simplify operational model
- Embed financial improvements

## Optimise

**Optimise operations and enhance profitability and returns for RFG and franchisees**

- Develop and implement additional revenue growth plans
- Embed 'Gold Standard' customer training
- Revise supplier and distribution network
- Enhance analytical and digital capability
- Finalise network rationalisation
- Achieve operational cost efficiencies
- Launch simplified product portfolio

## Re-invest

**Re-invest to prudently grow**

- Embed revenue growth plans
- Enhance sales and marketing operations
- Enhance integrated planning and analytics
- Revise employee training and development
- Initiate corporate owned and operated 'flagship stores'
- Build on financial and operational improvement

# SIMPLIFYING RFG OPERATIONS

## RFG Group's businesses

### Franchise

- A global retail franchising business
- Servicing franchise customers and shoppers
- With core capabilities in customer support, supply chain and shared services

### Di Bella Coffee

- A global consumer product business
- Servicing coffee consumers, cafés and food and beverage retailers
- With core capabilities in brand management, sales, marketing, manufacturing and distribution

### Manufacturing and Distribution
(formerly Commercial)

- A manufacturing and wholesale business
- Servicing mid-size to large food services organisations, including RFG business segments
- With core capabilities in manufacturing and distribution

## Realising enhanced profitability for customers through five propositions

Delivered through

1. Sustainable competitive products
2. Exceptional partnership models

Enabled by

3. Lean and efficient operational model
4. Data driven transformation
5. Customer-centric culture

# STRONG FRANCHISEE SUPPORT FOR RFG'S FUTURE DIRECTION

**Increased support to franchisee network**

- National roadshow across six cities incorporating face-to-face meetings with ~700 franchisees.
- $1.5m (annualised) investment in additional field support – enhancing in-store servicing, shopper experience & franchisee engagement.
- More franchising experience introduced to management team.

**Partnering with franchisees on brand revitalisation**

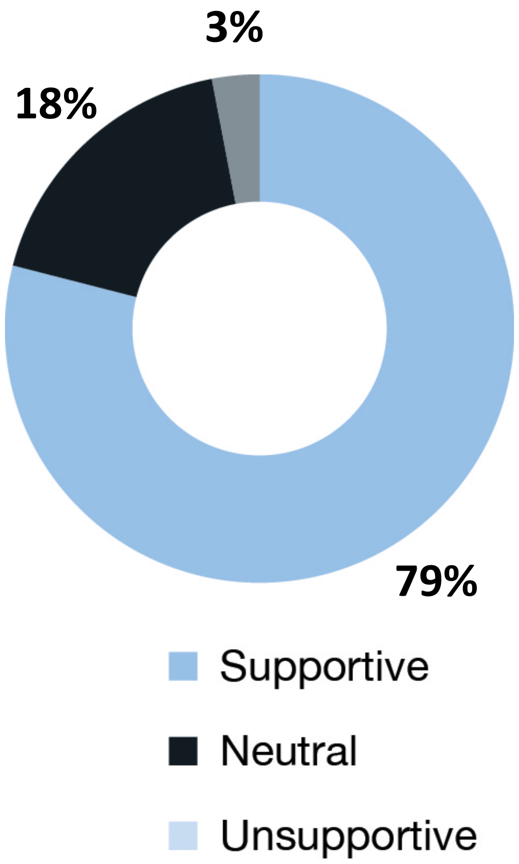
- Revised core coffee profiles in each Brand System.
- "Concept store" pilots in consultation with Franchise Advisory Councils and franchisees at Michel's, Brumby's, Donut King and Gloria Jeans.
- Digital loyalty program pilot roll-out Q1 FY19.
- $1.2m investment in enhancing wage compliance audit and training.

**Realising operating efficiencies**

- Focus on COGS delivering over $4.5m (annualised) in benefits to franchisees.
- Bulk coffee program delivered discounts and reduced freight costs.
- Delivered $10m (annualised) operating cost savings.

**Streamlining supply chain**

- Tendering national distribution to deliver significant benefits to the network.
- Reduce number of SKUs to simplify supply chain and aid buying power leverage.
- Focusing on product offer to deliver franchisees and shoppers enhanced quality.




Post-roadshow online survey: 193 franchisee responses

# OUTLOOK

> Given present challenges – unable to provide FY19 guidance.
> Retail market conditions continue to be challenging but confident of strategies being pursued:
  - c.2,200+ operating outlets globally, across 11 franchise systems in Australia and 87 licensed international territories.
  - Australia's second largest roast and ground coffee business.
  - Significant national food manufacturing and distribution operations.
> Trading results will likely remain subdued until full impact of lease restructuring, product and supply chain initiatives, and broader turnaround strategies deliver effective improvements to franchise and coffee businesses.
> Focused on disciplined execution of turnaround actions to stabilise performance and optimise operations.
> Actively considering options to reduce debt, in conjunction with improving operating performance.

RETAILFOODGROUP RFG


# APPENDICES

# REVISED BANKING COVENANTS

- Restructuring program subject to review with lenders after 31 December 2018.
- Revised banking arrangements come at an increased cost to the Group, which has been factored into future cash flows.

| Financial covenants and conditions | Revised 31 August 2018 | Previous covenants |
|---|---|---|
| Covenant testing | Quarterly | Quarterly |
| Operating Leverage ratio | - 5.0x to December 2018<br>- 4.5x to March 2019<br>- 4.0x from 1 April 2019 | - 3.0x to December 2018<br>- 2.5x from 1 January 2019 |
| Interest Cover ratio | 3.0x | 4.0x |
| Gearing ratio | Covenant removed | Less than 50% |
| Financial Guarantor EBITDA and Assets ratios | Covenant removed | Greater than 90% |
| EBITDA performance to budget | Covenant removed | 20% variance to budget |
| Mandatory prepayment – asset sales | 100% of net proceeds | 60% of net proceeds |
| Mandatory amortisation | Requirement removed | $12.5m repayment by 2 March 2019 |
| Total Senior Debt Facilities | $285 million | $309 million |
| Tenor of facilities | 31 October 2019 | January 2020 and December 2020 |

# DEFINITIONS

| | |
|---|---|
| ATV | Average Transaction Value |
| BCD | BAKERY/CAFÉ  DIVISION: Donut King, Michel's Patisserie, Brumby's Bakery |
| CRD | COFFEE RETAIL DIVISION: Gloria Jean's, Café2U, The Coffee Guy, It's A Grind, bb's Café, Esquires Coffee |
| COGS | Cost of Goods Sold |
| MANUFACTURING AND DISTRIBUTION | Hudson Pacific Foodservice, Associated Foodservice, Bakery Fresh, Dairy Country<br>(formerly referred to as Commercial Division) |
| CPO | Contribution Per Outlet (EBITDA) |
| DBC | DI BELLA COFFEE: Franchise supply; specialty roasting; in-home/grocery; contract roasting |
| GFR | Gross Franchise Revenue |
| MAT | Moving Annual Turnover |
| MOBILE | Café2U, The Coffee Guy |
| NWS | Network Sales |
| PCP | Previous Corresponding Period |
| QSR | QSR DIVISION: Crust Gourmet Pizza Bar, Pizza Capers |
| SSS | Same Store Sales |