RETAIL FOOD GROUP
RFG

1H19
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 Australian 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.

1H19 SNAPSHOT

- Underlying NPAT[1] of $6.6m (1H18: $24.7m) impacted by combination of factors.
- Statutory net loss after tax of $111.1m (1H18:($87.8m)) recognises $123.7m (pre-tax) in non-cash impairments and write-downs, and provisioning, and reflects forecast sustainable earnings, existing Group risk profile, and restructuring activities underway.
- Significant restructuring initiatives to improve business performance and reduce cost base commenced 1H19:
  - Targeting c.$20m in annualised cost savings.
  - Refocusing business on core retail food franchise and coffee supply operations.
  - Aimed at better aligning resources closer to business unit and franchisee/customer needs.
- Ongoing strategic focus on balance sheet repair:
  - Continued evaluation of options available to Group, including potential asset sales, refinance, alternative debt and new equity.
- Key executive changes and Board renewal implemented, including introduction of Executive Chairman role to drive business turnaround.
- 93 1H19 domestic outlet closures, consistent with prior guidance.
- Testing of financial covenants for period ending 31 December 2019 waived.

[1]Underlying NPAT is a non-IRFS measure

1H19
PERFORMANCE REVIEW

1H19 GROUP PERFORMANCE[1]	1H19	1H18	% Change
Revenue (including disc ops)[2]	**$192.0m**	$195.5m	(1.8%)
EBITDA (underlying)	**$23.9m**	$45.7m	(47.7%)
EBITDA (statutory)	**($112.5m)**	($100.8m)	(11.6%)
NPAT (underlying)	**$6.6m**	$24.7m	(73.4%)
NPAT (statutory)	**($111.1m)**	($87.8m)	(26.5%)
EPS (underlying)	**3.6cps**	13.8cps	(73.9%)
EPS (statutory)	**(60.8cps)**	(49.0cps)	(24.2%)
Dividend	**-**	-	
Net Operating Cash Flow[3]	**$7.6m**	$3.4m	
Net Debt	**$258.9m**	$259.7m	

(1) Underlying EBITDA, Underlying NPAT and Underlying EPS are non-IFRS measures used by management to assess financial performance. Refer to page number 3 for reconciliation of underlying to statutory results.

(2) Revenue (including discontinued operations) – refer to Note 18 of 1H19 financial statements.

(3) Statutory.

1H19 PERFORMANCE SUMMARY

> 1H19 revenue includes $13.1m arising from adoption of new AASB 15 revenue standard, including consolidating Franchise Marketing Funds.

> 1H19 performance influenced by:

- Ongoing difficult retail trading conditions.
- The cumulative impact of FY18/1H19 domestic outlet closures.
- Decline in domestic franchise new / renewal activity and international licenses, impacted by prevailing negative sentiment.
- Implementation of major restructuring and cost reduction initiatives across the Group.
- Significant restructuring expenses incurred in the period, including staff redundancies, asset write downs and disposals, and the closure or exit of certain non-core businesses and premises.
- Non-cash write-downs of intangibles, and provisioning, of $123.7m.
- The Company’s present financial position and well publicised requirement to reduce debt to strengthen its balance sheet, have contributed to all divisions experiencing a decline in sales and debtor collections, as the ability to attract and retain customers is diminished.

RECONCILIATION OF UNDERLYING TO STATUTORY RESULTS

> Impairment and provisioning assessments for 1H19 considered RFG's market capitalisation as at 31 December 2018 compared to the carrying value of assets, RFG's store closure assessment, expected FY19 sustainable earnings, and the risk profile of the Group.

> Non-cash impairments and write-downs, and provisioning, totalling $123.7m accounted for in 1H19, comprising:

- Brand System and Goodwill impairments $78.7m.
- Non-cash write-downs, and provisioning, of $45.0m, including trade debtor provisioning, PP&E and inventory write-downs, and onerous lease and contract provisions.

> Adjustments to statutory performance also reflect non-core expenditure, major restructuring and cost reduction initiatives, including staff redundancies, asset write downs and disposals, and the closure or exit of certain non-core businesses and premises.

1H19	Underlying	Statutory
EBITDA $m	23.9	(112.5)
NPAT $m	6.6	(111.1)
EPS cps	3.6	(60.8)

Underlying Adjustments[1]	$m
Statutory EBITDA	(112.5)
Business turnaround & Restructuring	9.8
Property Disposal & Lease Exit	2.9
Provisioning & Impairment of Assets	
• Provisioning	45.0
• Impairment of assets (non-cash)	78.7
Underlying EBITDA	23.9

[1] Refer 1H19 financial statements for further details.

EBITDA PERFORMANCE BY DIVISION TO PCP[6]

UNDERLYING EBITDA	1H19	1H18	% Change
Bakery / Café Division[1]	**$11.6m**	$15.7m	(26.2%)
Coffee Retail Division[2]	**$3.5m**	$5.0m	(30.4%)
QSR[3]	**$5.9m**	$6.0m	(2.1%)
Domestic Franchising Total	**$21.0m**	$26.7m	(21.3%)
International Franchising	**$3.3m**	$6.3m	(48.2%)
Di Bella Coffee[4]	**$1.9m**	$5.5m	(64.7%)
Manufacturing & Distribution[5]	**($2.3m)**	$7.2m	(131.9%)
Group Total EBITDA	**$23.9m**	$45.7m	(47.7%)

(1) Michel's, Brumby's, Donut King.
(2) Gloria Jean's, Mobile.
(3) Crust Gourmet Pizza Bar, Pizza Capers.
(4) EBITDA derived from Di Bella Coffee supply to franchise network is reported within the Franchise Division's results.
(5) Dairy Country, Bakery Fresh, Hudson Pacific.
(6) On an Underlying basis.

- Domestic Franchise operations EBITDA declines due to:
  - Cumulative trading revenue impact of FY18/1H19 domestic outlet closures.
  - Decline in revenues from new and renewing franchisees.
- International Franchise EBITDA declines due to:
  - Prevailing negative sentiment impacting new Master Licence sales.
  - Lower international coffee sales on PCP.
- Di Bella Coffee impacted by:
  - Margin reduction in contract roasting sector, and EBITDA losses in FY18 cessation of capsule supply contract.
  - Loss of key customers in the competitive contract roasting sector, particularly in Victoria.
- Manufacturing & Distribution impacted by:
  - Loss of key customers, operational challenges and failure to fully extract synergies within distribution business.
  - Additional overhead costs associated with additional production and cold storage facility.

CASH FLOWS

- Decrease in cash receipts from customers consistent with reduced underlying revenues in Franchise and Di Bella Coffee operations.
- The Group's cash conversion ratio reduced on PCP influenced by significant costs associated with restructuring activities undertaken in the half year, including:
  - $20.0m in costs attributable to restructuring activity and asset sale activities, including:
    - onerous lease payments.
    - redundant payroll and premises.
    - professional advisory fees and associated vendor due diligence expenses.
- $7.3m income tax refund on FY18 received in the period.
- Proceeds from sale of Property, Plant & Equipment predominantly represent sale of corporate office buildings. 100% of net proceeds returned to lenders as debt repayment.

	1H19 ($m)	1H18 ($m)
Receipts from Customers	246.6	260.7
Payments to Suppliers & Employees	(237.9)	(242.5)
Gross Operating Cash Flows	**8.7**	**18.2**
Statutory EBITDA	**(112.5)**	**(100.8)**
Ratio of Gross Operating Cash Flows to EBITDA (underlying)	36.9%	39.9%
Interest & Other Costs of Finance Paid	(8.1)	(5.0)
Income Taxes Paid	7.0	(9.8)
Net Operating Cash Inflows	**7.6**	**3.4**
Dividends Paid	-	(22.0)
Net Debt **(repayment)**/increase	(9.5)	12.5
Acquisition of Business & Intangibles	(0.7)	(7.9)
Payments for Property, Plant & Equipment	(1.7)	(16.2)
Proceeds from sale of Property, Plant & Equipment	8.6	5.8
Net Capital Raising	-	21.5
Other Cash Activities	0.8	0.4
	(2.5)	**(5.9)**
Net (Decrease)/Increase in Cash Reserves	5.1	(2.5)
Cash Reserves at Period End[(1)]	**21.0**	**7.1**

(1) Excluding restricted cash balances of $0.6m (1H18: $0.7m).

BALANCE SHEET

Balance Sheet at 31 December 2018	1H19 ($m)	FY18 ($m)
Assets		
Cash Reserves	20.5	19.0
Trade Receivables	36.9	52.9
Financial Assets	9.8	23.8
Inventories	15.3	24.6
Assets held for sale	133.1	9.4
Plant & Equipment	43.2	64.6
Intangibles	172.3	364.1
Current Tax Assets	-	7.3
Deferred Tax Assets	52.2	32.2
Other	4.2	6.7
	487.5	604.6
Liabilities		
Trade Payables	67.4	70.1
Provisions	24.9	31.7
Current Tax Liability	0.2	-
Borrowings	258.9	264.3
Derivative Liability	1.7	1.5
Deferred Tax Liability	37.2	64.2
Contingent Consideration	-	0.3
Other	31.9	10.7
Liabilities Classified as Held for Sale	45.8	3.8
	468.0	446.6
Net Assets	19.5	158.0

> 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 $123.7m.

> Assets and liabilities held for sale are primarily the Donut King and QSR Brand Systems.

> Other asset and liability movements include:

- $8.6m decrease in inventories due to working capital reductions in the Manufacturing & Distribution, and Di Bella Coffee divisions.
- $9.4m decrease in assets held for sale as disposal of properties completed in the period.
- $6.7m of Deferred Tax Assets of carried forwarded tax losses.

> 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.

DEBT STRUCTURE

- The Group received a waiver from its senior debt lenders on 21 December 2018, for testing of financial covenants for the period ended 31 December 2018.
- The Group's debt facility is subject to a review process with the lenders after 28 February 2019.
- Exploring debt reduction through various options[(1)]:
  - Consideration of asset sales.
  - Consideration of a recapitalisation after business performance stabilises, or accessing alternative sources of finance.
  - Major restructuring and cost reduction initiatives.

Senior Debt Facilities	1H19
Net Debt[(2)]	$258.9m

Financial covenants and conditions

Operating Leverage ratio	• 5.0x to December 2018[(3)] • 4.5x to March 2019 • 4.0x from 1 April 2019
Interest Cover ratio	• 3.0x
Total Facilities	• $285.0m
Tenor of facilities	• 31 October 2019

(1) Refer to the Directors' Report forming part of 1H19 Interim Financial Report for further commentary regarding financial position and going concern status.

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

(3) Testing of Operating Leverage Ratio for period ending 31 December 2018 waived.

1H19

DIVISIONAL PERFORMANCE

DOMESTIC BAKERY / CAFÉ DIVISION

- 1H19 performance influenced by:
  - Cumulative impact of FY18 & 1H19 outlet closures.
  - Decline in domestic new / renewal activity, impacted by prevailing negative sentiment.
  - Implementation of major restructuring and cost reduction initiatives across the Group.
- 1H19 EBITDA is above 2H18 EBITDA of $8.7m (excluding AASB 15 adoption)(4).
- SSS declines primarily attributable to the Michel's Patisserie brand system.
- Operational focus:
  - Focus on operational excellence.
  - Product innovation.
  - Network compliance.

	1H19	1H18	% Change
- New Outlets	**-**	2	
- Closures	**(41)**	(69)	
Outlets at 31 December 2018(1)	**597**	700	(14.7%)
Transfers approved	**35**	45	
Same Store Sales (SSS)	**(3.5%)**	0.6%	
Network Sales(2)	**$165.7m**	$188.0m	(11.9%)
- Transaction Revenues	**$0.8m**	$2.7m	(70.9%)
- Trading Revenues	**$22.4m**	$27.3m	(17.9%)
External Revenue	**$23.2m**	$30.0m	(22.4%)
Bakery Café Division EBITDA(3)	**$11.6m**	$15.7m	(26.2%)
- Brumby's EBITDA(3)	**$2.9m**	$4.0m	(28.3%)
- Donut King EBITDA(3)	**$5.8m**	$7.0m	(17.0%)
- Michel's Patisserie EBITDA(3)	**$2.9m**	$4.7m	(38.2%)

(1) Opening outlets excludes 24 concept and trial stores no longer franchised.
(2) 1H18 Network Sales (NWS) restated to exclude trade sales, and non-compliance activity. NWS presented on a like for like (LFL) basis with 1H19.
(3) Underlying EBITDA – Domestic Operations. Includes $1.3m impact of AASB 15 adoption.
(4) On Underlying basis.

DOMESTIC COFFEE RETAIL DIVISION

- 1H19 performance influenced by:
  - Cumulative impact of FY18 & 1H19 outlet closures.
  - Decline in domestic new / renewal activity & SSS impacted by prevailing negative sentiment.
  - Implementation of major restructuring and cost reduction initiatives across the Group.
- SSS declines impacted by Gloria Jean's exposure to shopping centres and ineffectiveness of tactical initiatives.
- Operational focus:
  - Focus on operational excellence.
  - Ongoing focus coffee led product innovation.
  - Network compliance.

	1H19	1H18	% Change
- New Outlets	-	5	
- Closures	(35)	(17)	
Coffee Outlets at 31 December[(1)]	262	305	(14.1%)
Mobile Vans at 31 December [(1)]	171	193	(11.4%)
Transfers approved	22	31	
Same Store Sales (SSS)	(4.4%)	(2.1%)	
Network Sales[(2)]	$80.6m	$92.2m	(12.6%)
- Transaction Revenues	$0.7m	$1.8m	(58.7%)
- Trading Revenues	$21.1m	$24.1m	(12.5%)
External Revenue	$21.8m	$25.9m	(15.7%)
Coffee Retail Division EBITDA[(3)]	$3.5m	$5.0m	(30.4%)
- Gloria Jeans EBITDA[(3)]	$2.5m	$3.9m	(35.6%)
- Mobile Coffee EBITDA[(3)]	$1.0m	$1.1m	(12.5%)

(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) 1H18 Network Sales (NWS) restated to exclude trade sales, and non-compliance activity. NWS presented on a LFL basis with 1H19.
(3) Underlying EBITDA – Domestic Operations. Includes $1.0m impact of AASB 15 adoption.

DOMESTIC QSR DIVISION

- 1H19 performance influenced by:
  - Cumulative impact of FY18 & 1H19 outlet closures.
  - Decline in domestic new / renewal activity, impacted by prevailing negative sentiment.
  - Implementation of major restructuring and cost reduction initiatives across the Group.
- Trading revenues increase attributable to vertically integrated product supply into QSR in 1H19.
- Excluding impact of AASB 15 adoption in this period, 1H19 EBITDA is consistent with 2H18 EBITDA of $4.9m[3].
- SSS declines primarily attributable to the Pizza Capers system.
- Operational focus:
  - Focus on operational excellence.
  - Product innovation and LTOs.
  - Alignment with delivery aggregators.
  - Disciplined pricing policies.

	1H19	1H18	% Change
- New Outlets	**1**	1	
- Closures	**(17)**	(23)	
Outlets at 31 December 2018[1]	**222**	269	(17.5%)
Transfers approved	**17**	15	
Same Store Sales (SSS)	**(2.1%)**	2.4%	
Network Sales	**$84.1m**	$91.1m	(7.7%)
- Transaction Revenues	**$0.4m**	$0.6m	(35.8%)
- Trading Revenues	**$9.6m**	$8.2m	17.7%
External Revenue	**$10.0m**	$8.8m	13.7%
EBITDA[2]	**$5.9m**	$6.0m	(2.1%)

(1) Opening outlets excludes 15 concept and trial stores no longer franchised.
(2) Underlying EBITDA – Domestic Operations. Includes $1.0m impact of AASB 15 adoption.
(3) On Underlying basis.

INTERNATIONAL FRANCHISING DIVISION

	1H19	1H18	% Change
New Master Franchise Agreements	**2**	1	
New Outlets	**11**	45	
Outlets at 31 December 2018[1]	**738**	891	(17.2%)
- Transaction Revenues	**$0.8m**	$1.2m	(34.1%)
- Trading Revenues	**$9.4m**	$10.3m	(8.7%)
External Revenue	**$10.2m**	$11.5m	(11.4%)
EBITDA[2]	**$3.3m**	$6.3m	(48.2%)
EBITDA Margin	**31.9%**	54.6%	

(1) Opening outlets excludes 14 concept and trial stores no longer franchised.
(2) Underlying EBITDA – International Operations. Includes $0.1m impact of AASB 15 adoption.

> 1H19 performance influenced by:

- Prevailing negative sentiment surrounding the franchise industry and RFG impacting new master licence candidate interest.
- International Franchise Partners reported 126 outlet and 13 mobile van closures across 83 international territories.
- Lower coffee sales contribution to EBITDA than PCP.

DI BELLA COFFEE

(formerly Coffee & Allied Beverages Division)

- Divisional 1H19 performance influenced by:
  - $2.2 million margin reduction on loss of key customers in the independent contract roasting sector, particularly in Victoria.
  - Revenue and EBITDA following cessation of capsule business in FY18.
  - Decreased earnings on international roasting operations.
  - Increased costs from divisional restructuring activities.
- Di Bella Coffee segment underlying EBITDA excludes contribution from Di Bella Coffee to supply franchisees, contributing $9.3m across domestic and international franchise network.
- Di Bella Coffee Operational focus:
  - Following management renewal within the Division, the focus is to capitalise on the brand equity which exists in Di Bella Coffee, and pursue organic growth opportunities in the domestic and international coffee markets.
  - To be complemented by streamlining of business cost base as the Group's major restructuring activity is progressed.

	1H19	1H18	% Change
Revenue	**$22.2m**	$32.4m	(31.5%)
EBITDA(1)	**$1.9m**	$5.5m	(64.7%)
EBITDA Margin	**8.7%**	16.9%	

(1) Underlying.

MANUFACTURING & DISTRIBUTION DIVISION

(formerly Commercial Division)

	1H19	1H18[1]	% Change
Revenue			
Foodservice	**$31.3m**	$42.2m	(25.8%)
Dairy Country	**$50.4m**	$30.4m	65.9%
Bakery Fresh[2]	**-**	$8.1m	-
TOTAL	**$81.7m**	$80.7m	1.3%
EBITDA[3]			
Foodservice	**($4.0m)**	$1.8m	(325.0%)
Dairy Country	**$1.7m**	$4.2m	(58.1%)
Bakery Fresh	**-**	$1.2m	-
TOTAL	**($2.3m)**	$7.2m	(131.7%)
Throughput			
Dairy Country	**15.3m kg**	12.4m kg	23.3%

(1) Hudson Pacific acquired September 2016; Associated Food Services acquired May 2017.
(2) Excludes $7.0m of Bakery Fresh revenue not included in underlying operations.
(3) Underlying.

> Divisional performance for 1H19 attributable to:

- Foodservice: significant operational challenges arising subsequent to 2H18 integration of AFS into HPC facilities, resulting in reduction of 1H19 sales revenue of $10.9 million, increased operating costs on PCP, and failure to fully extract synergy opportunity.
- Dairy Country: increased revenues by $20.0 million on PCP via increased processing volumes, offset by additional overhead costs of operating a second Dairy Country facility, and margin reduction on increased wholesale manufacturing sales.
- The non-profitable Bakery Fresh operation will closed in CY2019 when existing contractual commitments are completed.

> Operational focus:

- Remedial restructuring program and management renewal in Foodservice commenced 1H19 to rectify operational issues and improve service levels, expected to complete in late 2H19.
- Tendering for additional production volumes with existing and new customers to drive economic returns from RFG's investment in second DC facility.

RETAIL FOOD GROUP RFG

1H19

STRATEGY AND OUTLOOK

Six Point Plan

Business improvement will be driven by successful implementation of a Six Point Plan that focuses on business stabilisation, debt reduction and operational improvement amongst the Company's business units:

1. Re-focusing the Group on its core retail food franchise and coffee supply operations and divesting or discontinuing non-core underperforming business units;
2. Strengthen the Company's balance sheet to improve financial stability;
3. 'Right size' shared services resourcing, align resources closer to customers/franchisees, and implement initiatives to consolidate supply chains for a more agile and efficient business;
4. Improve the health of the domestic franchise network through significant increase in product category extensions and new product campaigns, delivered to drive traffic and revenue over the next 12 months;
5. Leverage Di Bella Coffee's competencies and sales team to diversify and grow coffee revenue in external markets while continuing to support RFG's franchise partners; and
6. Drive growth in the franchise business by leveraging a healthy network as a platform for new store sales and increased renewals, and capitalising on existing international opportunities (particularly in the USA market) where RFG already has a platform for growth.

OUTLOOK

- A number of measures have been implemented to support the Six Point Plan and stabilise performance, however future results likely to be subdued whilst retail market conditions remain challenging and RFG executes on its restructuring program.
- Active consideration of options to reduce debt – definitive decisions yet to be made.
- Currently anticipate FY19 underlying EBITDA in the range of $43-48m, assuming full year contributions from all business units and the realisation of forecast annualised restructuring benefits.

APPENDICES

DEFINITIONS

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
MANUFACTURING & DISTRIBUTION	Hudson Pacific Foodservice, Associated Foodservice, Bakery Fresh, Dairy Country (formerly referred to as Commercial Division)
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