



30 August 2019

## FY19 Results & Update<sup>1</sup>

### Key Points

- Underlying EBITDA<sup>2</sup> of \$50.7m (\$44.0m excluding effect of AASB 15, consistent with guidance):
  - Underpins underlying NPAT<sup>2</sup> of \$15.4m (FY18: \$33.3m).
- Statutory net loss after tax of \$149.3m (FY18: (\$306.7m)) recognises \$185.2m in non-cash impairments, provisioning and restructuring costs, which reflects forecast sustainable earnings, existing Group risk profile and restructuring activities.
- Significant restructuring initiatives to improve business performance and reduce cost base commenced in FY19:
  - Targeting c.\$20m in annualised cost savings.
  - Refocusing business on core retail food franchise and coffee operations.
  - Improved alignment of resources closer to business units and franchisee/customer needs.
- Ongoing strategic focus on balance sheet repair:
  - Continued evaluation of a range of debt reduction options, including equity and debt funding options as well as asset sales.
  - Indicative non-binding proposal from Soliton Capital Partners.
- Key executive changes and Board renewal implemented, including appointment of turnaround specialist Peter George as Executive Chairman to drive business turnaround.
- Implementation of a new product and marketing strategy delivering a rolling pipeline of 62 new campaigns to better support franchisee profitability over 12-18 months.
- 173 domestic outlet closures (130 stores and 43 coffee vans), following 2018 strategic domestic store network reset.

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Retail Food Group Limited (ASX: **RFG**) has today reported underlying FY19 EBITDA of \$50.7m (\$44.0m excluding the effect of AASB 15, consistent with guidance) indicating that the turnaround objectives set by new management are being met as the Company executes the restructuring program commenced in 1H19.

RFG has reported a statutory net loss after tax of \$149.3m, an improvement of 51.3% on PCP. This includes \$185.2m in non-cash impairments, provisioning and restructuring costs. The Group reported underlying net profit after tax of \$15.4m. Despite challenging retail trading conditions and adverse sentiment around the franchising industry in light of the parliamentary inquiry and other media attention, the Company is seeing early signs of stabilisation.

FY19 saw key executive changes and Board renewal which included the appointment of turnaround specialist Peter George as Executive Chairman to drive business turnaround activity and refocus the Group on its core competencies of retail food franchising and coffee supply.

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<sup>1</sup> This Announcement should be read in conjunction with RFG's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange, available at [www.asx.com.au](http://www.asx.com.au)

<sup>2</sup> Underlying EBITDA and NPAT are non-IFRS financial measures. 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 statutory performance and underlying performance is provided in the summary of financial information attached to the Directors' Report for FY19.



Crucial to RFG's restructuring and turnaround plan has been the progression of debt reduction strategies to repair the Company's balance sheet and position it for future growth. RFG continues to explore a range of debt reduction options including equity and other debt funding proposals. Discussions in relation to the proposal put forward by Soliton Capital Partners to potentially recapitalise the Company are advanced.

RFG has also been exploring options for potential divestment of its non-core Manufacturing and Distribution Division assets, with discussions in relation to the sale of Dairy Country now at an advanced stage.

A new product and marketing strategy that will deliver a rolling pipeline of 62 new campaigns over the next 12-18 months has commenced for franchisees.

RFG Executive Chairman Peter George said: "Whilst the rollout of this new program remains in its infancy, its recent launch via nine bespoke new product campaigns has so far generated annualised incremental network revenue growth of over \$5m. This is a very positive indicator of the potential impact of these new initiatives which we expect will materialise throughout FY20."

### **Industry Context**

Intense competition and changing consumer trends, together with declining retail performance has contributed to challenging operating conditions. This has been particularly evident amongst shopping centres where high occupancy costs as well as changes in tenancy mixes and foot traffic are key contributors to RFG's domestic network performance.

RFG is committed to continuous improvement and has taken proactive steps to improve its own business systems to better support franchisees. These new processes are in addition to those prescribed under the Franchising Code of Conduct, with the aim of redefining best practice and re-establishing RFG as a leader in the franchising industry.

Mr George said: "We are committed to doing more to help and protect our franchisees, both existing and prospective. This includes making sure that prospective franchisees understand exactly what is associated with buying and operating a franchise and then helping them make an informed decision on whether their situation is suitable, or not."

"The narrative propagated in some media articles that RFG is indifferent to the position of its franchisees ignores the commercial reality that RFG's success is linked to that of its franchisees. We have absolutely every reason to do all we possibly can to help our franchisees be more profitable," he said.

### **A Fresh Focus**

Business improvement will be underpinned by the successful implementation of RFG's Six Point Plan:

1. Refocusing on RFG's core retail food and coffee operations, and divesting or discontinuing non-core business units;
2. Strengthening RFG's balance sheet to improve financial stability;



3. Redesigning organisational structure to refocus resources on brand, franchisees and customers, rather than relying on a shared service model, and implementing initiatives to consolidate supply chains to achieve efficiencies and enhance agility;
4. Improving domestic franchise business performance through strategic initiatives including product category extensions and innovative product campaigns to drive foot traffic and revenue for franchisees;
5. Leveraging Di Bella Coffee's competencies to profitably service external markets, whilst continuing to support franchisees; and
6. Driving growth in RFG's franchise business by leveraging a healthy franchise network as a platform for new store sales, increased franchise renewals and targeted international expansion.

Mr George said: "Management is focused on implementing the Group's Six Point Plan to return RFG to a stable and growing organisation which will see its franchisees given the best possible opportunity to thrive."

### **Major Improvements in Management, Systems and Support**

Throughout FY19, RFG implemented a range of initiatives to improve franchisee profitability and support. These initiatives have been implemented in conjunction with significant changes to the management structure and management team of RFG.

Mr George said: "These improvements have included changes in internal systems which allow for improved monitoring of franchise performance, targeted and timely offers of support, enhancements to the systems used to identify prospective franchisees, and alterations to the way in which both corporate and non-corporate stores are sold."

"The current management team is significantly different to that which existed last financial year and is focused on stabilising RFG's business through better serving our franchise partners, fostering a stronger customer focused ethos, reducing debt, and improving the Company's business units," Mr George said.

### **New Product Innovation & Marketing Strategy**

Significant improvements to RFG have been implemented in FY19 and early results are proving very positive with momentum building as the Company heads into FY20.

In FY19, the new management team has announced and or implemented:

- The total redevelopment of RFG's approach to Brand System marketing, with the implementation of new processes and strategies. This has led to the establishment of 62 new product marketing initiatives to be introduced to the Michel's, Brumby's and Gloria Jean's network over 12 to 18 months. As noted above, initial results have been promising with annualised incremental network sales growth of over \$5m having been achieved to date.
- A c.15-20% reduction (dependent upon brand system) in the wholesale price of coffee for franchisees of RFG's domestic retail brands, to be funded by a restructure of the Company's wholesale coffee business.



- A move back to fresh cakes for Michel's Patisserie franchisees, which has now been rolled out in New South Wales, Victoria and South Australia, with Queensland to follow shortly. This initiative will not eradicate the use of frozen product within the Michel's network, with franchisees having sought to retain aspects of the existing frozen model due to competitive cost of goods and profitability opportunities.
- Creating new efficiencies by leveraging alliances with familiar brands, such as through a new Nestle Kit Kat Chillers campaign for Gloria Jeans which delivered an increase in sales of 80% year on year for that product line, complemented by a social media campaign reaching 3.2m consumers.
- A focus on social media and influencer campaigns, including partnerships with celebrity ambassadors such as Matt Sinclair from MasterChef, to engage the emotional drivers of consumers. Some of these initial marketing initiatives have reached between 6 to 12 million customers, per campaign.
- To drive more shopping centre traffic into our stores the Group has designed a fresh range of point of sale displays to better appeal to the market demographic of our stores, along with new packaging to better align our brands to their target markets and drive brand recall and recognition.
- Development of a new coffee and loyalty program to drive customer growth, aimed at generating a 6 to 7 million customer database in the first 24 months.

Mr George said: "These new initiatives demonstrate the focus of RFG's new management team who are dedicated to developing and cultivating every single one of our stores and providing our franchisees with the best possible support and opportunities to build successful and sustainable businesses."

### **Increased Support to RFG Franchise Partners**

In line with its commitment to a franchisee-first culture, RFG has implemented improvements to its Franchise Assistance Program as well as other key support initiatives addressing pressure points identified in the network.

Since July 2017, RFG has provided approximately \$26m in direct and indirect assistance to help underperforming franchisees.

RFG has simplified and reduced the costs associated with franchise renewals to enhance the sustainability of its franchises. Significant reductions have been delivered in respect of the Donut King, Michel's, Gloria Jean's and Brumby's Brand Systems.

Regarding landlord support initiatives, RFG has implemented a Company-wide review of all lease arrangements to drive better outcomes for franchise partners. RFG has also appointed experienced leasing consultants to assist in lease renewal negotiations.

"RFG has also been working with landlords to introduce tiered store refurbishment options to make it more affordable for franchisees to reflect current brand standards and ensure modern appeal in a competitive consumer environment, particularly in shopping centres," Mr George said.



In 2019, RFG launched a comprehensive franchise partner appreciation award program which will offer incentives focused on core business drivers. The Award Appreciation Program seeks to drive customer and franchise partner engagement and is a vehicle to both foster and reward franchisee success.

## **Responsible Franchisee Selection**

In FY19, RFG initiated a number of new processes in respect of the sale of franchises which go above and beyond compliance with the Franchising Code of Conduct, including:

- *More stringent external independent advice:* RFG has introduced mandatory requirements to obtain both independent legal and financial advice, helping to ensure that potential franchisees better understand the complexities inherent in any new business enterprise.
- *Greater transparency around franchisee resales:* RFG has implemented new systems with mandatory requirements for existing franchisees to provide all relevant financial information in the context of a re-sale, understanding that where RFG does not own the relevant site it is not directly involved in any negotiations between the franchisee and the purchaser.
- *Tougher screening of potential franchisees:* RFG has augmented its screening process for new franchisees in order to better assess the suitability of candidates. This has included the use of the Franchise Relationship Institutes' Nathan Profiler, a psychometric tool used to better assess the suitability of an applicant to run a franchise business successfully.
- *"Try before you buy" programs:* RFG has introduced a Franchise Opportunity Program which allows selected prospective franchisees to operate an existing RFG store for a trial period of 6 months before deciding whether to proceed with the purchase of the franchise.

## **Outlook**

While the retail industry continues to provide its challenges, RFG is beginning to observe the positive impacts of the business improvement measures being implemented throughout the Group as part of its turnaround strategy.

In the immediate term, RFG is focused on the progression of debt reduction strategies which are already well advanced and the continued rollout of its new product and marketing strategy.

Mr George said: "RFG is making solid progress in the execution of its Six Point Plan and expects to see stabilisation and future growth through the strategic initiatives underway. The new management team is rebuilding the culture of RFG and will continue to strengthen our franchisee-first focus and position the Group for growth in the medium term."

## **ENDS**

For further information, 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 and a roaster and supplier of high-quality coffee products. The Company also operates in the foodservice and dairy processing sectors. For more information about RFG visit: [www.rfg.com.au](http://www.rfg.com.au)