Retail Food Group Limited

2018 AGM

CEO's Address

29 November 2018

[Slide 1 – CEO's Address]

Thank you, Peter, and good morning ladies and gentlemen.

I think it is fair to say that it has been a big year, for all of us. As Peter said, it is well reported that our FY18 results were very disappointing, not only for the Company, but also you, our shareholders.

Today, I will speak a little more about those results and some of the barriers to our operational success during the last financial year. I also want to provide broader context around the current retail conditions we are facing and how the sector has been performing.

Focusing on change and our turnaround strategy is of the utmost importance as we move forward. Our success as a Company depends on the success of our customers, so providing enhanced outcomes for all of them has been my first priority since accepting the role of Group Chief Executive Officer in late May this year.

[Slide 2 – Turnaround Strategy]

In late 2017, a business-wide review identified a number of recommendations which would be key to turning around the Group's performance. My role has been implementing, integrating and further enhancing those recommendations. These initiatives have been wide reaching with a real endeavour to simplify, improve and enhance the operations of Retail Food Group. At the same time, we have also been focused on improving the profitability, capability and engagement of our franchise customers, and therefore ultimately strengthening our own financial performance.

I have had the opportunity to meet with hundreds of our franchise customers as part of a national roadshow and am also meeting with each of the brand Franchise Advisory Committee Councils every 6 to 8 weeks. The response to these meetings so far has been positive. Post the last roadshow in July/August we conducted an open survey at which 79% of responding franchisees told us that they supported the new direction that Retail Food Group has embarked on, with the remainder neutral and only 3% not supportive.

Retail Food Group's turnaround strategy is a 12 to 18 month endeavour with our valued franchise customers and their shoppers at its heart. To turnaround performance we have had to make some difficult business decisions. By reducing duplication, streamlining systems and processes and redesigning our organisational structure, we are creating more efficiencies across all our brand systems.

Importantly, we are also in the process of tendering our complex distribution network across all brand systems, which will better leverage the Group's buying power and ultimately reduce our franchise customers' Cost of Goods whilst improving service and support.

To talk a little more specifically on how our turnaround strategy is tracking, some of the key business initiatives that the Group is focused on include:

- Delivery of over $4.5m in annualised cost of goods savings for our franchisees;
- Discounting 'new store' and franchise 'renewal' fees;
- The investment of over $1.5m, annualised, into additional field support (both frequency and capability); and
- The continued investment of over $1.2m annually into enhancing our franchisees' capabilities and awareness of their obligations with regards to wage compliance. We have also better embedded an audit regime to ensure we continuously monitor the network's performance.

An important part of delivering change to the network is also about us working together with our franchise customers more closely and asking them to actively play a part. Through my engagement with our franchise customers, I have asked them to focus on 'back to basics' improvements they can make in their own stores with minimal to zero capital expense. Our aim is to refocus our community on improving the shopper's experience; better customer service, better presentation of food and beverages and a real focus on store standards. These elements will all contribute to renewed success across the network of individually owned and operated stores.

[Slide 3 – Franchise Performance]

Our business wide review confirmed significant external market pressures that were also affecting the performance of our network and the retail sector in general. Industry challenges such as rapidly increasing operational costs (rents, utilities, wages and insurances), combined with increased competition within major shopping precincts are all pertinent issues facing our franchisees. As Peter mentioned, despite these industry challenges, we are beginning to identify opportunities to better capitalise on the breadth of our operations to support a more sustainable business model for the Group and our franchise customers.

We have committed to partnering with our franchisees to identify potential revenue growth and profit generating opportunities that can be implemented across the network. These initiatives include piloting concept stores at Michel's Patisserie, Brumby's Bakery, Donut King and Gloria Jeans, and digital promotions and loyalty programmes.

Underlying EBITDA from RFG's domestic franchising operations was $43.1m in FY18, down from $78.1m in FY17.

Factors including the cumulative trading revenue impact of store closures over the past two financial years, a decline in revenues from new franchises, renewal activity in light of media scrutiny, and increased investment into franchise customer support, have all impacted our bottom line.

[Slide 4 – International Franchise Update]

Despite tough domestic retail conditions, in FY18 we grew our international footprint to 880 stores, with 93 new outlets commissioned. New Master Franchise Agreements were granted in the key territories of the United Kingdom (Donut King & Crust Gourmet Pizza) and Germany (Gloria Jean's), bolstering growth prospects in Western Europe.

At 30 June 2018, the Group enjoyed an international footprint incorporating 87 licensed territories across 11 brand systems, and whilst many of these territories remain at an early stage in their development lifecycle, they are expected to generate growing recurrent revenue streams as they mature.

[Side 5 – Manufacturing and Distribution]

FY18 underlying EBITDA for the division fell c.15% to $10m. However, the year saw significant investment into new production capacity to cater for growing throughput volumes. Commencement of operations at a second Dairy Country facility also began as part of that strategy. Investment into enhanced sales capability contributed to a near 30% increase in throughput at Dairy Country, and a c.53% increase through Bakery Fresh's business, although our margins have been squeezed.

Furthermore, integration of Associated Foodservice Distributors into RFG's existing Hudson Pacific distribution facility was also completed late in the financial year, consolidating the entirety of the Group's distribution operations at the one site.

[Slide 6 – Brand System Initiatives]

We need to be ahead of the pack when it comes to product innovation, service, and local area marketing initiatives designed to attract new shoppers. Based on our operational priorities for the year ahead we expect to see our brand systems begin to stabilise, allowing us to start to transform our franchise business.

The recent commencement of the rollout of Gloria Jean's "Good Cup" initiative is showing early positive signs. We expect the new products, techniques and equipment being utilised through the "Good Cup" rollout will reform the brand's coffee offer and enhance the shopper experience whilst driving additional profits for franchisees.

Brumby's Bakery recently introduced customers to an upgraded store concept which elevates the theatre of in-store daytime baking. The initiative was designed to connect with customers through nostalgia and includes enhanced customer education regarding the health benefits of our artisan baked products as well as a stronger coffee presence in stores. This new and improved merchandising and operational approach is about improving the impulsive nature of our shoppers through better store experience and creating opportunities for our franchisees to further engage with their customers on our unique points of difference.

Michel's Patisserie is also focused on enhancing its instore theatre by upping the ante with customer service and elevation of its coffee and food credentials. The recent rollout of our new French inspired menu is proving promising, and we expect that over the next period will become a key competitive advantage. The concept store pilot which was launched earlier this year at "The Pines" shopping centre, introduced a new menu combined with improved merchandising and ambience, and has proven to be successful. We are set to rollout this pilot to the wider network over the coming months.

The Donut King brand also launched a concept store pilot in June this year, showcasing new merchandise displays to grab the attention of shoppers of all ages. Following a positive reception in the market place, the concept store learnings are currently being implemented in five additional Donut King outlets, to identify opportunities for improved franchise performance across the entire network.

Our QSR division, which includes Crust Gourmet Pizza and Pizza Capers, continues to work closely with our franchisees to develop new restaurant inspired menus. The Crust Pizza menu is also being complemented by the rollout of an ultra-modern brand identity and store design, bringing something new to the QSR market. Pizza Capers has been placing a strong emphasis on enhancing its local area marketing activity to attract new customers to each of our franchise territories.

In summary, FY18 was a tough year, however I believe it is now time that we start looking toward the future. As a network, we have been through a lot this year, from working to rebuild trust with our franchisees and their shoppers, to appearing before a Parliamentary Inquiry into Franchising, to significant key executive changes and the necessary restructuring, compounded by aggressive media reporting (and misreporting). But we have got through it, and I believe, we will be stronger for it.

I can’t stand before you today and promise that in FY19 we will see an immediate and drastic improvement in our financial situation. But what I can promise you, is that as the Group CEO, I will do everything in my power to bring about change for the better – as soon as we possibly can. I can also promise you that our customers and their shoppers will remain at the heart of everything we now do. As I have said, we are hinged at the hip; our customers’ success will ultimately be our success.

I would like to take this opportunity to thank Retail Food Group’s team for their efforts during FY18 and in the current year. Your hard work, resilience and commitment to our customers, has been noticed.

In closing, I would like to extend to our shareholders and franchise customers, my sincere appreciation. Thank you for sticking with us. I assure you that the business remains wholly focused on improving our position in line with our turnaround strategy.

GROUP CEO's

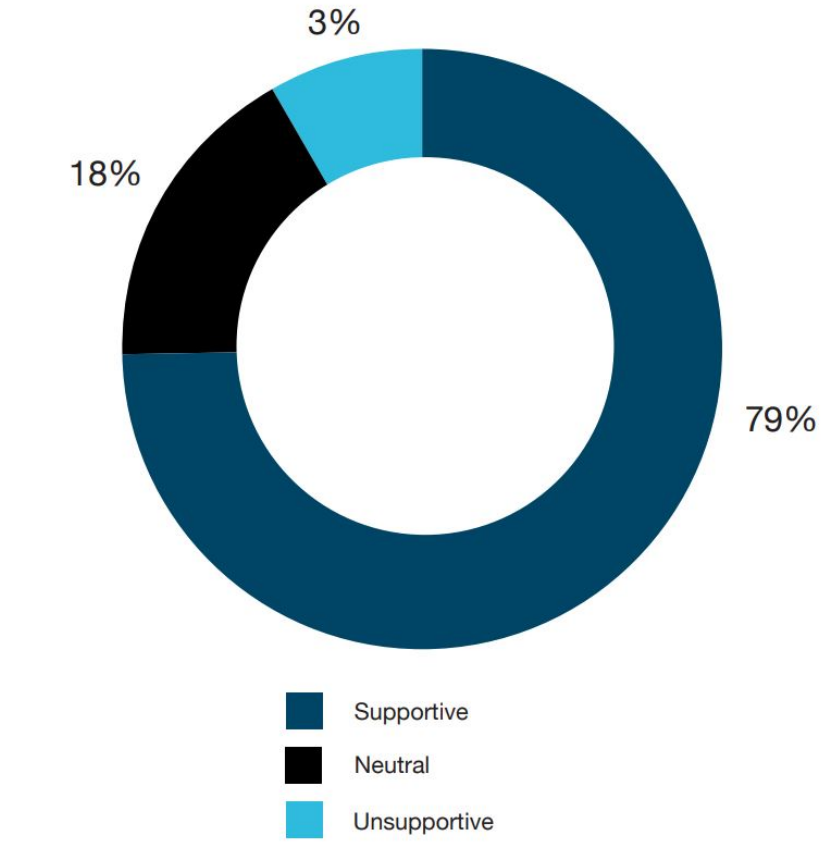
ADDRESS

RICHARD HINSON | GROUP CEO, RETAIL FOOD GROUP LIMITED

Turnaround Strategy

Key business initiatives:

- >$4.5m in annualised cost of goods savings for franchisees.
- Discounted ‘new store’ & franchise ‘renewal’ fees.
- $1.5m annualised investment in additional field support.
- $1.2m annualised investment in enhancing franchisees’ wage compliance capabilities & awareness.
- Better embedded an audit regime to ensure continuous monitoring of network performance.



Post roadshow online survey: 193 franchisee responses

Franchise Performance





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International Franchise Update

FY18 Highlights:

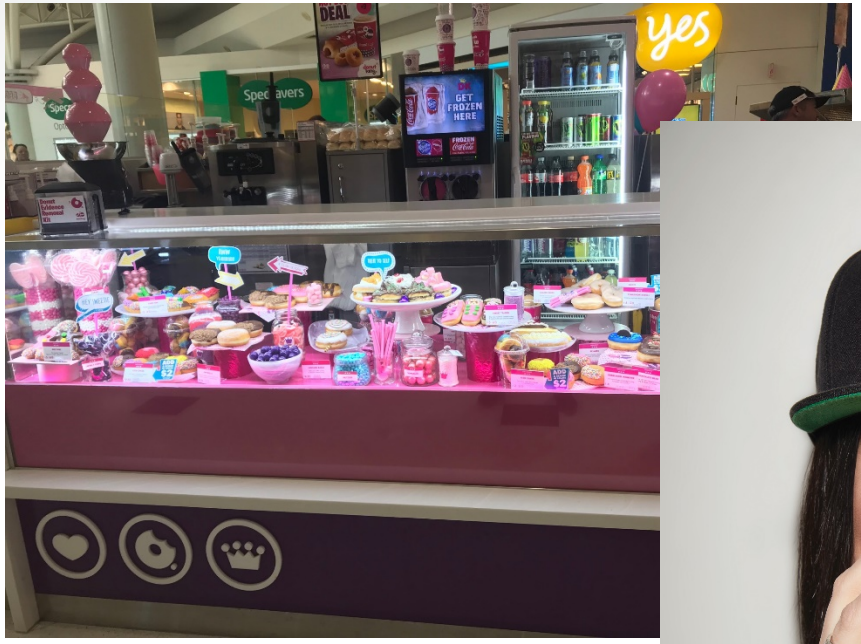
- 93 new outlets commissioned.
- International footprint incorporating:
  - 880 outlets;
  - 87 licensed territories.
- Licenses granted for key regions (Crust/Donut King – UK & Gloria Jean's/Germany).

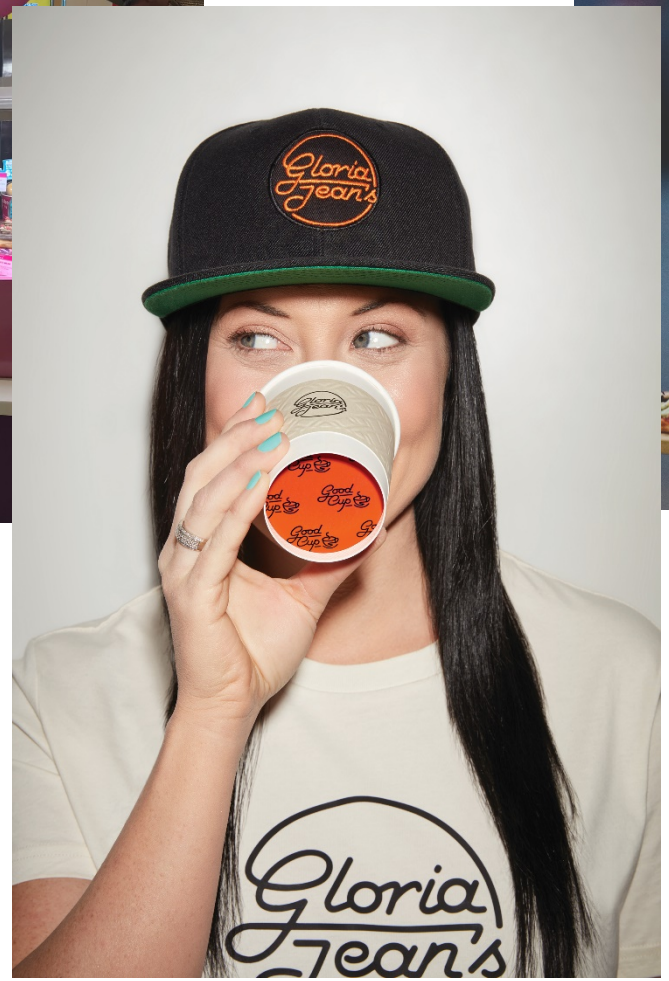


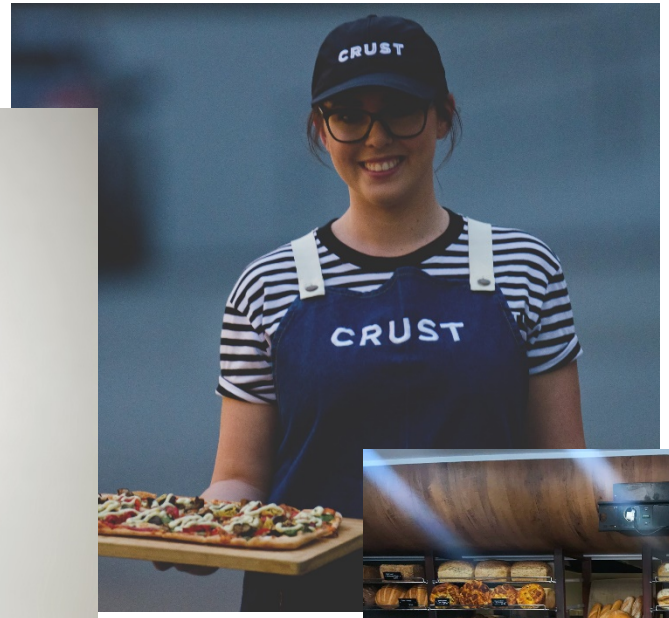
Manufacturing & Distribution

- Significant investment in new production capacity.
- Commencement of operations at a second Dairy Country facility.
- Enhanced FY18 throughput:
  - Dairy Country (c.30%);
  - Bakery Fresh (c.53%).
- Associated Foodservice Distributors integrated into HPC distribution facility.

Brand System Initiatives









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