Domino's Pizza Enterprises Limited
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24 August 2022

Domino's Pizza Enterprises Ltd Financial Results
For the 12 months ended June 2022

Global Food sales of $3.92b (+4.6%) | Full Year EBIT[1] $262.9m (-10.5%)

Highlights

- Network sales: +4.6% to $3.92b
- Online sales: +4.4% to $3.06b
- EBIT: -10.5% to $262.9m
- Underlying NPAT (after Minority Interest): -12.5% to $165.0m
- 450 new stores added (+294 organic, +156 acquired), +15.3% of the network

- **Asia/Pacific:** Added 10th market (Taiwan +156 stores) and added +171 organic stores. Sales grew +4.9% in AUD despite lifting of State of Emergency in Japan. EBIT -9.7% reflecting rebasing of Japan sales and accelerated corporate store openings compressing margins

- **Europe:** Regional sales (+4.3%, to $1,535.4m), with franchisees rising to COVID conditions by growing delivery sales through improved execution. EBIT -11.0%, to $78.8m

Domino's Pizza Enterprises Ltd (ASX.DMP) has achieved the largest Full Year new store expansion in the Company's history, opening 294 new stores, an average of more than five stores a week.

With the addition of 156 stores in the Company's 10th acquired market, Taiwan, Domino's grew its multi-national store footprint by 450 new stores in FY22 (+15.3%).[2]

Domino's is on track for an even larger expansion this year, with the announcement today of three new markets in Asia (Malaysia, Singapore and Cambodia).

In presenting the Financial Year 2022 results and trading update, Group CEO & Managing Director Don Meij said the Company had built a more substantial and resilient business, well positioned for the future.

"We have reached a challenging but important milestone, as we transition from 'living with COVID' to facing historic inflation, on track for a significant expansion in delivered food across the Quick Service Restaurant (QSR) industry.

"Our long-term strategy ensures we are built for this time, as the most efficient, sustainable QSR in the delivery business.

"Importantly, we intend to apply the same principles responding to inflation that delivered us significant growth to now: delivering Supreme Value for our customers, strong unit economics for our franchisees, expanding our store footprint to deliver more scale to the benefit of our customers, our team, and our shareholders.

"At the same time, we intend to do what's right for our environment, by substantially reducing our carbon footprint."

Domino's also provided an update on its response to inflation, with recent promotional offerings – including the successful launch of the new Burger Joint Pizza Range in Australia and New Zealand – democratising high-quality food for customers facing cost pressures and delivering higher sales for franchisees.

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[1] Earnings before Interest and taxation: FY22 underlying compared to FY21 underlying, excluding significant charges
[2] Record organic + acquisition expansion 484 stores in FY16, including the addition of 213 stores in Germany and 89 stores in France

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Customers have responded well to pricing initiatives in Europe and the Asia/Pacific, including the recent addition of a Delivery Service Fee in Australia/New Zealand, which the Company attributed to its strategy of providing "Supreme Value"; menu and bundle options that provide customers choice at an attractive price.

"It is clear that this inflationary environment, more than any we've seen historically, requires a nuanced and multi-layer approach: reducing costs and maximising the benefits of scale, lifting menu prices where appropriate, and balancing these with 'inflation busters' that shows Domino's consistently offers choice.

Domino's global food sales reached a record $3.92 billion in FY22, with online sales passing $3 billion for the first time ($3.06b).

The Company delivered EBIT of $262.9 million, +19.1% higher than pre-pandemic[3], but -10.5% lower than the record FY21 result. This was largely due to rapidly changing sales conditions in the first Half, previously announced, a multi-million reinvestment in the ANZ franchise business (Project Ignite) and the rebuilding of the Danish business, acquired 2019.

ANZ: reinvested $10m into the franchise business to accelerate store openings and grew EBIT $3.3 million (+2.8%). The investment has delivered 20 store openings in H2 22 (17 in the prior comparable period) and the refranchising of 30 stores.

ASIA: Because of a strategic decision to pursue growth in this key region, including expanding the store network and franchising with experienced store managers, EBIT in Asia in FY22 was $31.7m (+59.4%) higher than pre-COVID. A rapid change in sales in Japan, following the lifting of a State of Emergency in H1, combined with foreign exchange headwinds, delivered EBIT -$25.6m lower, (-23.1%) than the prior year.

EUROPE: Domino's has significantly grown the European business through COVID, with a shift to increased delivery in most markets. EBIT pre-COVID is now $14.1m higher (+21.8%), but -$9.7m lower (-11.0%) than the prior year, with the largest driver the increased investment in rebuilding the Danish business.

COVID-19 TO NOW

Domino's today outlined the significant growth delivered, and retained, throughout COVID-19.

Mr Meij said: "Sadly, COVID continues to affect many people's lives, but for our communities, our stores and our team members, living with COVID is now the new reality.

"Importantly, the customer behaviour is now one we are very familiar with, and is stable, with delivery counts remaining significantly above pre-pandemic levels, even with carry-out rebuilding.

"We made clear when COVID first affected us that we would be investing in growth. Where some choose to 'save themselves rich', we instead determined we would 'double-down' and grow; protecting our people, finding more sites, investing in distressed media and opening more stores.

"Today, we can measure ourselves against those goals, and are pleased with our performance drawing a line from 'pre-COVID to now' – integrating a new market, adding +865 stores (+34.3%), growing sales by +35.2%, and EBIT by +19.1%. We are well positioned for the future."

INFLATION AND GROWTH – DELIVERING SUPREME VALUE

Domino's has a long-standing approach to ensuring strong unit economics - prioritising individual store earnings, then margins – this approach remains unchanged when facing historic inflationary headwinds.

The Company today outlined a multi-layer response to inflation, starting with supply chain efficiencies, and operations and technology investments, to make Domino's the most efficient food delivery business in the industry.

"By ensuring we have the lowest cost of operations, we can pass these savings through to our customers, delivering them Supreme Value when they choose where to enjoy their next meal," Mr Meij said.

[3] EBIT: FY22 underlying compared to FY19

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"Customer pricing is complex and there is not a 'one size fits all' approach. We have had to slightly increase some of our prices and are likely to have to increase some more – just like all businesses right now. Equally we are offering 'inflation crushers' – that win new customers by showcasing the value we provide.

"All of this adds up to delivering 'Supreme Value', striking the right balance: giving customers choice and value, while protecting franchisees with increased revenue and margin to help offset inflation."

"Importantly, the customer response has been positive, because when they consider their meal choices, within our range of menu offerings, and compared even to a home-cooked meal, Domino's delivers a hot, fresh meal, delivered fast, at an affordable price.

"This is an ongoing process, and we appreciate the support from our existing and new customers during these extraordinary times."

THE AGE OF DELIVERY

Delivery is the fastest growing category of the global QSR industry, and Mr Meij said Domino's is well positioned for this future.

"Independent forecasts show the market for delivered food is expected to grow more than +45% by 2026 – and we intend to earn our share," Mr Meij said.

"Our strategy of opening more stores, closer to customers, delivers higher customer satisfaction from safe, fast deliveries, and improved unit economics for stores by lowering the costs of delivering a meal, remains unchanged.

"As we enter this next phase of our business, being closer to our customers has never been more important and we intend to maintain a high cadence of new stores openings – growing +8-10% of our network through new stores each year.

"We will employ the people we need to resource this growth, and we intend to retain them with our 'Path to Excellence' - a training and development app that helps grow team members, from their very first shift through to multi-unit store ownership and beyond.

DOMINO'S NEWEST MARKETS: MALAYSIA, SINGAPORE AND CAMBODIA

Domino's has entered into a binding agreement to acquire three new markets – Malaysia, Singapore and Cambodia, comprising 287 corporate stores.

As a result of this acquisition, Domino's is increasing its future store count outlook in Asia from 2,400 stores to 3,000 stores by 2033.

"This is a tremendous opportunity for our business, and for those joining our business – we intend to apply our High Volume Mentality, our technology and our operational expertise to grow our market share in these countries, with the potential to develop entrepreneurs through franchising," Mr Meij said.

"Our teams have built a 'Centre of Excellence' in the APAC region – world class operations, technology and marketing, led by experienced professionals. We intend to apply the lessons from our best operations in all markets to work with the team in these new markets to lift performance to the next level."

The initial purchase price for the acquisition is 660 million Malaysian ringgit (equivalent to c. A$214 million) (10.1x FY22 normalised EBITDA pre-IFRS16), which Domino's will fund through debt facilities.

The business delivered 65 million Malaysian ringgit (A$21m) normalised EBITDA pre-IFRS16 in the year to 30 June 2022. The final purchase price is subject to an earn out over the next two to three years.

"DOMINO'S FOR GOOD" – ENVIRONMENT, SOCIAL AND GOVERNANCE

Domino's has completed the Company's first corporate footprint baseline assessment, as part of its commitment to net-zero emissions by 2050.

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Group Chief ESG Officer Marika Stegmeijer said Domino's largest footprint was in 'Scope 3' emissions – those not owned or controlled by the Company, but which Domino's indirectly impacts.

"Of our carbon and water emissions, 97% and 99.7% respectively are not owned or directly controlled by Domino's, with dairy and beef supplies the largest contributors.

"While some companies focus only on those emissions within their direct control, we intend to work with partners across our supply chain, to identify areas we can minimise our direct and indirect impact, for the best outcomes for our environment and our communities."

FY23 TRADING UPDATE AND OUTLOOK: NETWORK SALES -2.4% (SSS -1.1%), +13 NEW STORES

The customer response to Domino's response to inflation has been positive. Although sales have started the Financial Year behind the prior comparable period, this is compounding very high sales in the prior comparable period (+26.2% over the past two years).

"At the start of COVID-19 we had a choice; to be defensive or to invest in growing a larger, more sustainable business. We chose the latter course and will continue to do so; today's announcement of a substantial acquisition in Asia demonstrates our ability to pursue growth now, and into the long-term," Mr Meij said.

Domino's remains active in pursuing suitable M&A opportunities. In the next 12 months, the predominant focus will be on in-fill opportunities where they deliver value by building scale in existing DPE markets.

The pleasing customer response to recent initiatives, including the Mega Trial Week in Japan, a new marketing promotion in Denmark, and the successful launch of the Burger Pizza range in ANZ – among other programs – have reinforced confidence in positive sales momentum for the months ahead.

"Our existing menu offering, operational efficiencies and delivery strategy have been critical to negotiating the challenges of inflation. While there is more work to do, we believe providing customers Supreme Value, and choice, is key to responding to inflation.

"With menu innovation in all markets and new, app-first technology to roll out this year – there is positive sales momentum, and we expect to be within our 3-6% outlook for same store sales this year.

"New store construction will rely on our ability to navigate inflation, and accordingly franchise profitability – our progress, combined with franchisee appetite, and investment in our people through our Path to Excellence, gives us confidence we will reach our store roll-out target this year of 8-10% new store openings.

"Opening more stores, closer to customers, improves unit economics, builds customer satisfaction and loyalty, and will help us be the most efficient, sustainable delivery QSR.

"We are a business focused on long-term growth, and we look forward to delivering."

The Company will pay shareholders a final dividend of 68.1 cents per share (70% franked). This is proposed to be paid on 15 September 2022, with a record date of 31 August 2022.

This release has been authorised for release by the Board of Directors.

END

For further information, contact Nathan Scholz, Head of Investor Relations at investor.relations@dominos.com.au.

Domino's Pizza Enterprises Limited (DMP) is Domino's largest franchisee outside of the USA. It holds the master franchise rights to the Domino's brand and network in Australia, New Zealand, Belgium, France, The Netherlands, Japan, Germany, Luxembourg, Denmark and Taiwan. Today, DMP has a network of ~3,400 stores. For more information, visit www.dominosinvestors.com.au

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