Domino's Pizza Enterprises Limited
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ACN: 010 489 326
www.dominos.com.au

23 August, 2023



# Domino's Pizza Enterprises Ltd Financial Results - 12 months ended June 2023

## FY23 Global Food sales of $4.0b (+2.2%[1]) | Full Year EBIT[2] $201.7m (-23.3%)
## FY24 YTD Trading Update: Network sales +12.6% (SSS +2.8%)

Europe +6.6% | ANZ +6.6% | Asia -7.8%

Domino's Pizza Enterprises Ltd (ASX:DMP) intends to rebuild franchisee and Group profitability this financial year, winning more customers and market share by launching inspired products and services and delivering everyday value.

Domino's today released the Company's FY23 financial results showing total food sales grew +2.2%, but EBIT was -23.3% lower; total sales growth came through higher menu prices, but fewer meals sold.

The Company's margins and earnings were affected by the decision to increase menu prices to protect the sustainability of more than 1,000 franchisee partners faced with extraordinary inflation.

Group CEO & Managing Director Don Meij said: "Because of the speed at which we needed to respond to inflation we didn't always get the 'value equation' right. For example, some of the changes we made including the introduction of a Delivery Service Fee did not resonate with some customers and over time they ordered less frequently.

"We have heard this feedback loud and clear and have now removed the majority of these fees. That said, some pricing decisions were accepted by customers, such as slightly increasing the price of our value range, while still providing amazing value.

"We are still actively working to 'rebalance' the value equation – this means getting the right products, service and image for our customers, not simply reversing price increases – we believe we can deliver both great value for customers, and great profitability for our franchisee partners.

"I want to be clear to our customers facing cost of living pressures, we do not expect to pass on pricing increases this year. We encourage customers who haven't ordered recently, or who haven't tried us before, to put us to the test and see what great value Domino's delivers."

**FY23 PERFORMANCE**

At the beginning of FY23, Domino's stores experienced historically high levels of inflation including food, labour and energy.

During this short-term period Domino's absorbed some of the ingredient price increases for stores, due to either the speed at which these increases occurred, or the expected effect on store profitability.

As customer ordering frequency declined, Domino's and franchisee partner earnings were affected by a further reduction in food volumes, and additional margin pressure from operating deleverage.

Group revenue increased +3.4% to $2.37B, however underlying EBIT reduced -23.3% to $201.7M.

Mr Meij said earnings improvement in FY24 relied on rebuilding customer frequency and order volumes, with new products a proven path to increasing orders from new and returning customers.

**REBALANCING THE VALUE EQUATION: PRODUCT, SERVICE & IMAGE AT AN AFFORDABLE PRICE**

Management is focused on 'rebalancing the value equation' – namely product, service and image, at an affordable price.

Franchisee partners are encouraged and incentivised to focus on improving key operational metrics including

[1] Sales growth vs FY22
[2] Earnings before interest and taxation: FY23 underlying compared to FY22 underlying, excluding significant charges

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product quality (as rated by customers) and safely reducing delivery times – both proven to increase store sales and average weekly orders.

Domino's has stepped up its new product development in all markets, with the first of these new products already attracting new customers on new occasions.

For example, the My Domino's Box, first launched in Japan, is now in all markets across the Asia-Pacific and will be launched in Europe this Half.

"The My Domino's Box has exceeded expectations and is creating fans among customers and franchisee partners, who are earning higher sales and reduced input costs from this inspired product," Mr Meij said.

"It goes head-to-head with other Quick Service Restaurant offerings, is more sustainable through less packaging, gives customers unrivalled choice and fantastic value, and is winning customers beyond the single-person occasion."

Domino's has also had success with new pizzas across markets, including the Doner Kebab pizza in Germany and the Pasta Packed Pizza range in ANZ, as well as new sides such as Crispy fries, first launched in Europe and now in roll-out in ANZ.

"Our mantra is 'differentiation is the custodian of profit' – and everything we do is designed to be delivered.

"This includes the humble pizza box, which customers will see is having not just a refresh, but a complete redesign, that will make it stronger, ensuring your meal is even hotter and fresher on arrival.

"It's distinctive – Domino's pioneered delivery in the 1960s, and we intend to showcase our delivery credentials with every order our customers open."

Domino's expects these initiatives combined, as well as a line-up of new products to be launched later this year in all markets, will assist in rebuilding order frequency and, in turn, unit economics and Group profits.

**RESTRUCTURING TO BUILD A STRONGER FOUNDATION FOR FUTURE GROWTH**

In June, Domino's advised the Company had taken immediate steps to deliver material, near-term cost savings, as part of an organisational restructuring designed to build a stronger foundation for future growth.

These initiatives included exiting the Danish market, optimising the corporate store network through a targeted program of closing underperforming stores and accelerating the refranchising of others, as well as streamlining operations.

Domino's expects these initiatives to deliver network savings of $50-60 million in FY24 (rising to $80-94 million in FY25), with about 1/3rd of these savings to be reinvested into the franchisee network.

"These initiatives are now well underway and just last week we shared significant changes to the structure of our business," Mr Meij said.

"These changes include simplified reporting lines; the creation of 'Centres of Expertise' where areas of specialist knowledge will be applied globally; and utilising centralised Shared Service Centres.

"Wherever a global function sits within a market, the majority of our leaders will now 'double hat' so there is one decision maker, and my role is no exception – effective immediately I will be acting as both the Group and ANZ CEO for Domino's.

"Sadly, these changes mean that we expect a number of staff in our support offices in Australia and internationally to leave our business in the coming months, after we work through local consultation requirements. We intend to support our team members as best we can through this process.

"These decisions, while challenging, will ensure we have a stronger foundation for future growth, both for our Company and our franchisee partners."

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**CAPITAL MANAGEMENT AND BANKING COVENANTS**

Domino's Pizza Enterprises Ltd has instigated prudent capital management initiatives to accelerate a reduction in gearing levels towards the Company's targeted level of less than 2.0x underlying EBITDA[3].

Group Chief Financial Officer Richard Coney said the steps included tighter management of capital expenditure, with net CAPEX expected to be at the lower end of the Company's 3-5 year outlook[4].

Additionally, the Company today announced a Dividend Reinvestment Plan, fully underwritten.

"While our net leverage ratio was at the upper end of our banking covenants at the end of the FY23 financial year (at 2.9X), on a pro-forma FY23 basis, this would reduce to 2.6X once the discontinued operations and store closures are removed," Mr Coney said.

"In total, the cost savings initiatives announced in June and updated today are expected to deliver an uplift in FY24 EBIT of between $33 million and $40 million, which will make an immediate improvement to our gearing levels."

**TRADING UPDATE AND OUTLOOK – Network sales +12.6% (+2.8% Same Store Sales)**

Domino's has commenced FY24 with strong sales growth from Europe (+6.6% SSS) and Australia/New Zealand (+6.6% SSS), as each market targets higher volumes to improve unit economics and Group profitability.

Asian sales growth (-7.8% SSS) is currently below expectations, with the application of sales strategies that are resonating in other markets taking more time, due, in part, to less frequent customer ordering behaviour.

"We believe our pricing for customers now appropriately balances the costs for our stores, while ensuring we deliver customers ultimate value. The key for our improved performance in FY24 is increasing the number of customers we serve each week," Mr Meij said.

"Our inspired new products, combined with a focus on world-class service and product quality, as well as reinvigorating pre-COVID strategies such as 'Boost Weeks', are the key to our success.

"Combined, they will be a win for customers, our franchisee partners, and Domino's Pizza Enterprises Ltd."

Based on current momentum, Domino's expects to deliver material sales and earnings improvements in this Financial Year, with FY24 earnings growth expected to flow from structural savings initiatives underway.

While margin recovery is starting in Europe and ANZ, management is cautiously optimistic depending on the speed of Asia returning to volume growth.

The Company declared an unfranked final dividend for FY23 of 42.6 cents per share. The dividend will have a record date of 29 August 2023 and a payment date of 28 September 2023. The Company activated its Dividend Reinvestment Plan for eligible shareholders residing in Australia or New Zealand for the FY23 final dividend which will be fully underwritten by Morgan Stanley. The Full Year dividend of 110.0 cents per share is -29.7% lower than FY22.

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

~ENDS

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[3] Earnings Before Interest, Taxation, Depreciation and Amortisation, calculated on a rolling 12 month basis, excluding AASB16.
[4] Net Capex 3-5 Year outlook: $100-150 million a year, excluding expenditure relating to recent major acquisitions