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DMP.AX - Full Year 2022 Domino's Pizza Enterprises Ltd Earnings Call

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PRESENTATION

Nathan Scholz *- Domino's Pizza Enterprises Limited - Head of IR*

Good morning. My name is Nathan Scholz. I'm the Head of Investor and Government Relations for Domino's Pizza Enterprises, and I'm delighted today to be presenting to you the FY '22 financial results. We're presenting today from Sydney, Australia, and I'd like to acknowledge the Gadigal of the Eora nation, the traditional custodians of this land, and pay my respects to their elders, both past and present.

Joining us today are group CEO, Don Meij; Group CFO, Richard Coney; Europe CEO, Andre Ten Wolde; APAC's CEO, Josh Kilimnik; Chief of ESG, Marika Stegmeijer; ANZ CEO, David Burness; and Germany CEO, Stoffel Thijs. (Operator Instructions)

And with that, I'll now hand you over to Group CEO and Managing Director, Don Meij.

Donald Jeffrey Meij *- Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

Thank you, Nathan, and welcome, everybody.

I'm going to start on Slide 2. One of the things that I want to share upfront that continues to guide us around the world when we're operating in 10 markets and hopefully soon -- or soon actually in 13 markets, is that every day when we're making decisions for all of these different place that we have to work at that we're really grounded in our purpose and our values. And it's helped us all the way through the pandemic and the effects of the Ukraine war in Europe, particularly in inflation.

Throughout this presentation, if you come on Slide 3, we're going to go through it in 3 different parts. First of all, trading through COVID and the outlook and highlights from pre-COVID to now. Then we're going to talk a lot about the inflation, how we're offsetting inflation, where we're getting it right and how we're getting it right. And then the big picture still from the medium term and the long term, which is we really believe in the age of delivery. It's the most convenient way to get QSR today and how we're making sure that we're going to stay ahead in the age of delivery.

If you come with me on to Slide 4 and just have a look at the big highlights. We were able to achieve the positive network sales despite rolling high comparatives for the previous year and also with the FX. We've continued significant store openings. In fact, it was a record for organic store openings. Plus we added the acquisition of Taiwan, which really put us in high strength. And we're within our range for CapEx.

If you have a look on Slide 5. As we highlight, our network sales were up 4.6 in Aussie dollars, 4.6%. Our online sales in the engine room of this business, up 4.4%. We added 438 stores to the business in the last financial year. We were able to deliver an EBIT that's actually down 10.5%. And therefore, our EPS is down 12.6%.

If we look at it on a -- from a pre-COVID to now, we really feel that what we promised we would do, we have been able to do and that we added $1 billion -- over $1 billion to our network sales, driven by our online digital delivery largely at $1.1 billion. We added 865 stores to the network, and that the actual EBIT was up $42.1 million since that period or up 19.1%.

Now if you come with me on to Slide 6, which probably will surprise many investors today is, we're going to talk a little bit about the great success that we're experiencing in Australia and New Zealand. In fact, it's probably been 5 years that the Australia-New Zealand business has been the poster child for the rest of the business.

Because what we've done since July in Australia and New Zealand is we're through delivering new innovative products like the Cheeseburger pizza; through technology, like we finally got our new -- our third-generation app and web out, and that's performing exceptionally well; and also with our pricing that not only have we being able to excite consumers and we're enjoying strong customer count growth, strong same-store sales, but that's, therefore, leading that our franchisees currently are ahead of last year in earnings, and that therefore, leads DPE to be ahead.

So if we just break that out, because that's the road map, and you're going to hear about that because that's also being applied in Japan, and we expect that, that will be imminently rolled out in the next 6 weeks through Europe. But if we just look at APAC, APAC has, at this point, largely offset through its pricing initiatives, through its innovation, the barbell strategy and so on, the overall food, labor and energy. We haven't rolled it all yet in Europe, as I just mentioned, although we expect that, that is imminent. And so far, the early response from customers is rewarding with positive customer count growth and same-store sales.

Asia has rebuilt itself from when we went to the rebasing last October, and that's what's so exciting. Our whole business rolls the strong numbers in Europe and Japan at the end of September. So when we talk about our business, we were talking about this first quarter. By the time we get to the AGM and then half year and full year and why we still believe in our outlook.

And the ANZ business, despite the fact that we actually had a $10 million investment in the business, we actually were able to exceed even our own expectations, particularly in the last 9 months of the year. And the way we started this year is incredibly exciting.

We have an offset in Europe, as I mentioned, we will. Germany has experienced some lower same-store sales, but still a really strong business when you look at what we've been compounding. And you'll see that in the breakout. We've broken out Denmark because it is unique, Denmark, in that it's a turnaround business for us where we bought a brand-damaged business. And specifically, Stoffel will highlight as Denmark is supported very heavily by Germany.

Where we're at right now, we've just launched a new campaign and the results we're already seeing from that. And why we believe that actually that's the peak. You're seeing the peak of losses in Germany and that we will reduce them from here and head towards profit. France was probably -- was the weakest performer. We went too early on price, and we'll talk all about that. And the Benelux, strong performer constantly in Europe and continues to perform well.

If you come with me now to Slide 7. When we highlight that the same-store sales for the first 7 weeks of this year with a negative, that is rolling strong comps with the rebasing, particularly with France and Japan. So we do expect from October that will go positive. We'd also like to highlight that we're rolling the UEFA Cup in July last year. So that was obviously strong support in Europe. We will pick up the benefit of the World Cup in the last quarter this year.

The 13 stores is simply timing. In fact, just in the last week, that number was guided internally to be 24. It became 13. It's just timing of stores. You'll see that we're still quite confident, and we'll explain why we're confident in new store openings on the next slide, if you go to Slide 8.

Because one of the questions that's the most obvious question to shareholders, are you -- what's your 3- to 5-year outlook look like for same-store sales and store count. And I feel, subject to any new developments, particularly in Europe with the Ukraine war and the effects that may flow into energy in -- especially in places like Germany, but all things given equal in what we think will happen, that we will go to positive sales from October in those markets and in Japan. So we'll be slightly positive by the AGM and be able to report positive results at the half year and then go on to achieve our 3- to 5-year outlook. And we're already well above that in the ANZ business today.

Then when we look at the store count growth, you'll see that the last 2 years really do stand out. And it's not only because we had the tailwinds of COVID, although they were definitely supportive, but it's the fact that we rebuilt teams. We talk a lot about the 4 teams that we built into Germany, into France. The extra people we put on into Japan. And the fact that we're now, with Project Ignite, you're going to see the store growth accelerate in Australia and New Zealand this year as well. And additionally, with our new program, the Mobile Pizza Kitchen.

So we're still quite bullish on store growth because it's not just only the fact that earnings at store level are higher than pre-COVID, but it's the fact that the teams -- we have more people in the field executing against more. And the only portion against that is any other surprises that may flow anywhere in the world.

So at this point in time, if you come with me now on to Slide 10. We talk a lot about this, the age of delivery, and I'm really proud to say that Europe has been able to increase delivery count by over 30% since the pre-pandemic, and the APAC region is up 42.8%. That's our engine. That's the numbers that we look at.

It is interesting that there will be windows in time like right now where carryout is actually accelerating in some markets like Australia, New Zealand, with the price-sensitive consumers. So we are seeing an acceleration of carryout for the first time in those markets. But when we look at the longer-term picture, we're very obsessed. It's in our BHAG as an organization about being the dominant QSR and delivery in each of our markets.

If you come on to Slide 11. You can assess our performance over this period when you look at the fact that we've got more customers, more frequency, we're a much larger network, and therefore, we've delivered more earnings. And that's what we're trying to highlight on this page.

On Slide 12, this slide clearly shows our trajectory. Whilst we didn't surpass the extraordinary results of last year, we still were 14.1% above the previous year in '20 and 41% over the last 5 years. And we do expect that whilst it is a tale of 2 halves this year with the weaker first quarter in Europe and Japan rolling those numbers that we've so commonly talked about, I think that the next 9 months will be strong. And you'll see that clearly flow through into the second half rolling these weaker numbers we've just rolled.

On Slide 13, you can see that we've nearly doubled our network sales, not quite and in the last 5 years, and we've been able to take our online sales up 220%.

On Slide 14, the size and scale of the network. And really proud that we've been able to announce the new acquisition today that's been nurtured for 3.5 years. And that's going to really make sure that we are delivering and actually will be the over-deliver on the numbers that we were giving us an outlook as milestones, and I'll talk to that at the end of the presentation.

And you can see that despite COVID, despite inflation, supply chain issues, I mean, I'm really proud of this team and all of the other teams that aren't here on this call, that they've been so agile and they've been able to navigate and move because it has been extraordinarily challenging, getting ovens and make lines and getting delayed councils. Yet you can see that acceleration of store growth in Europe and Asia, which we expect to remain strong.

And ANZ, for a number of years, will now also, due to Project Ignite and all the initiatives that Dave and Adam and all of the leadership team and franchisees have been applying the ANZ business. I think Dave can feel really proud today that the ANZ business is the superstar, as we speak, in current trading.

If you come on to Slide 16, you can see there that our earnings are still stronger than -- for our franchisees. We -- our ambition is that they should be still even stronger than this. Unit economics drive our business. So whilst on one end, they're better than the pre-pandemic earnings, we have higher expectations. And we're just a much more knowledgeable business. We're battle worn from the last 3 years, and I think we've learned a ton. And we're going to be applying that.

And the great news is our most sophisticated investors, our franchisees, if you just look at that 6 or more stores, it's really accelerating. And we're seeing franchisees with 10 to 25 stores becoming quite a mature and strong group within our business. And that trend, we will continue to expand. Noting always, we continue to raid that group for our future leaders, our future CEOs and COOs because when you've got -- when you can run a multiunit business successfully and you're one of the best practice, then we can teach the other skills in a public company. But that's the core differentiator for DPE.

So at this point in time, I'm going to hand over to Richard to go through in more detail on the financials. Thank you.

Richard Coney *- Domino's Pizza Enterprises Limited - Group CFO*

Thank you, Don.

If we just move to the next slide. As you can see, our revenue is in line with network sales. Growth, up 4.1%. NPAT and EPS are down 12.5%, but positive 16.8% and 15.5% over a 3-year period. A dividend of $1.565 per share is down 9.8%, but up 35.5% over the 3 years as a result of both our profit growth and also we increased our payout ratio during this period from 70% to 80%.

On to the next slide. Coming to our geographic summary. Europe has had a very challenging second half as a result of the Ukraine crisis, pushing up inflation to levels not seen in decades. The full year is now down 11% after being up 11.5% in the first 6 months. ANZ was up 2.8%, notwithstanding its continued $10 million investment into our franchisees and store rollout with Project Ignite. And Asia, although the lowest performer on a 1-year basis down 23.1%, it actually performs the best versus pre-COVID, up 59.5%.

If we come to the next slide, some detail on our nonrecurring costs of $8.8 million. As you can see, we're noting that we've had an additional $2 million in the second half relating to the class action, now totaling $3.5 million for the full year, and $3.2 million in acquisition costs predominantly for Taiwan and also today's announcement of the Malaysia, Singapore and Cambodia acquisition. In addition, there were actually some costs associated with our assessment of the Italian master franchise, which, in the end, we concluded was not a right fit for DPE at this time.

Moving to the next slide. Our cash flow. As I explained at the half year, we have an unwinding of our working capital position due to the extra trading week. This is purely a timing. And as you can see in the prior half those numbers, we're still well ahead of the prior 2 years, and also higher inventories that we've had to hold both for our store construction build phase, making sure we have enough ovens and make lines to open all of the stores that we've opened in the last -- especially in the last couple of months. Also ensuring we have sufficient food supplies to ensure our stores could keep trading.

Our net CapEx of $137.6 million is tracking per our outlook of between $100 million to $150 million. And so -- if Nathan, if you could go back to the cash flow. And our loan book, although increasing due to our growth in accelerated sell-down of stores in Japan, continues to recycle, returning $37.5 million.

Now moving to the CapEx. This obviously, as per normal, provides a more detailed breakdown of our group CapEx full position of $137.6 million. You can see our CapEx, which recycles, is up significantly on the prior year from $30.5 million to $59.5 million. Gross CapEx -- split between gross CapEx of $132.5 million, which is predominantly our corporate stores and primarily in Japan, franchise loans for new and existing stores and franchise acquisitions predominantly in Europe and ANZ.

This is partially offset by record cash inflows of $73 million, arising from franchisee loan repayments and proceeds on sale of corporate stores. In addition, we have more than doubled our investment in digital CapEx spend of -- going from $43 million, up from $18.1 million. And obviously, as Don highlighted, we've just launched our new native ordering app and next-generation OLO platforms, along with our new GPS driver platform was a key part of this investment.

Moving to Slide 23, our balance sheet. Our net debt increased by $242.1 million, noting, obviously, the acquisition of $79.4 million for Taiwan. Also, our other current liabilities increased primarily due to Germany put call reclassification from current -- noncurrent liabilities of $127.4 million. Noting DPE's call option is available from January next year.

If we now move to slide -- the next slide, Slide 24. Return on equity and capital employed remained strong at 42.3% and 16.8%. And our net debt and leverage remain conservative, with interest coverage of over 33x and leverage of 1.7x. Noting with the Malaysia and Singapore transaction, this will increase to 2.2x on a pro forma basis.

And then moving to Slide 25. Our group underlying EPS. As already highlighted, EPS was down 12.6% for FY '21. But on a 2-year basis, still positive 6.2%. And over a 10-year period, our CAGR is tracking at 17.8%.

I'll now pass you over to our next speaker. Nathan?

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

I have to confess that we have an agreement within the executive team today that any person who's on mute has to make a $50 donation to Domino's Give for Good, our charity. And so that's my first $50.

So obviously, inflation is a core topic for all of our investors as it is for our customers and our franchisees. And let me take you through that. But first, if we note that we consider this phase inflation and growth because, ultimately, growth is the solution to these historic challenges.

Now we've been responding to price increases across the board since January, largely in energy, labor and food. And these cost increases are ongoing, with more labor and food costs in ANZ from July and visible to us increases to come in Europe this calendar year. And while Domino's isn't immune to cost increases and nor is this the first time our franchisees have had to rise to this challenge, our menu offering, our best-in-class operations and our incentive programs for franchisees already in place provide us flexibility in response.

The inflationary period has reinforced the importance of our barbell menu strategy, giving customers choices from inflation-busting offerings at one end to premium ingredients where we democratize good food with things like Tiger Prawns, Rackled and our new Burger Pizza offering, which you saw at the start of this presentation at the other end of that barbell menu strategy. And those are our customers to trade in from other meal options, including fast casual restaurants.

Now as we noted, customers are also experiencing inflation. And we're seeing behavior changes, including a recent increase in carryout from more value-focused customers. So we believe we have the multilayered approach, including menu and strategy to respond to these times. And let me take you through those now.

So as Don mentioned earlier, unit economics are the core of our business, and overcoming inflation is essential to those unit economics and requires this multilayer response. Now people may sometimes consider we're the $5 pizza company, particularly from an Australian perspective, but the reality is our menu and the occasions we serve are much more complex, not just in Australia and New Zealand, but in all of our markets. And you can actually see the range of meal choices and occasions that we're speaking to when -- on Slide 59.

So let me be clear, we have had to increase prices, and we will need to do some more. But we can confidently say to our customers, when they're choosing where to enjoy a hot, fresh meal and compare us to their other meal choices, Domino's is always going to provide supreme value to compete for their hard-earned dollar.

Now I'd like to take you through management's thinking, and our goal is to give you a sense of the significant work that's underway, but without providing a road map to competitors in our markets. We've implemented a number of initiatives focused on all aspects of the inflationary response, and our CEOs will take you through those.

And they start with cost initiatives to keep cost pressures as low as possible for our stores and then to pass these savings on to our customers. And then we add on to those with customer-focused initiatives to take and also earn additional ticket. So layered up, the goal is to continue to deliver strong franchisee profitability with suitably attractive store payback that delivers more store openings while still giving a win for our customers.

So the key question then, how are customers responding? Well, this is a unique time, and we believe that customers recognize costs are increasing at such a pace and scale that some prices do need to go up. But they're also seeing price increases everywhere in their daily lives. So to win customers, we have to provide supreme value. And that is great value relative to all of the other choices customers have when they're choosing their meal, whether it's a meal for 1 or feeding their family, and whether that's from QSR or making a meal from scratch from their groceries.

One of the interesting things that started to emerge in APAC is that customers are making these new choices. In ANZ, for example, we're seeing a recovery of carryout for those customers who are more price sensitive. For delivery customers, where we've added a 6% delivery service fee, we're taking ticket, but customers are also choosing marginally less in their basket. And that means where the fee on an order would have grown ticket by $0.70, the flow-through in ticket is about $0.25 because of slightly less food in that order. And this is really important for franchisees, customers and shareholders because it's customers exercising choice, franchisees lifting ticket and protecting franchisee profitability.

In February, we talked about more for more, a key aspect of our inflation response. The Value Max range, which we talked about at that time at $3 more per pizza, is now outperforming the value range. And that gives franchisees more ticket and margin, and it gives customers a better-quality meal, a larger pizza, more ingredients and more leftovers, which is a win-win for franchisees and customers.

It's also important to highlight, with cost inflation, the expectation may have been that same-store sales must be materially higher than headline inflation just to maintain profits. But as we're seeing, we can beat inflation and get a customer count growth within 3% to 6% of same-store sales because of the ordering decisions customers are making. We believe franchisee profitability will rise in the next 9 months from October to June as we roll through these programs, as we've already seen in Australia and New Zealand and in Japan.

And to talk you through Asia, I'll hand you over to Josh Kilimnik, our CEO of Asia Pacific.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Thanks, Nathan, and thanks for the $50 donation. I appreciate it. I've been off mute for about the last 5 minutes just to make sure.

But look, yes, I'm feeling good about where we are, what we've built over the last sort of 2 to 3 years through this COVID time. So backtrack to the February announcement, I am feeling good about it because we're about to go through -- we said it was going to be a lumpy period, it was. And we're nearly at the end of that. And come 1st of October, we're through that period. So really, really proud of where we've come as a business.

And currently, we're operating 1,103 stores in the region. We built about 170 -- 148 stores in the last 12 months. If you then add the acquisition on that of Taiwan, and now, the new acquisition that we -- Malaysia, Cambodia and Singapore, that's 792 stores that we now have over 5 markets now that we didn't have pre-COVID. And I think that's reflective of our approach to the business. And I'm quite excited what we can do in each one of these markets. And certainly, as we recycle the rebasing period come October.

So if you come to me now to the next page. Network sales are up 6.7% on a constant currency basis and about 14.3% on a local currency basis. So I look at the 3-year compounding numbers like-for-like because it was such a lumpy period. And I'm really proud of the 75.9% growth over the last 3 years. EBIT is down as we roll some very different trading conditions of yesteryear. And just as a reminder, I mean, we were really the only option available for delivery -- or safe option for delivery and carryout, and customers flocked to us through this time.

The good news is our business is materially stronger than pre-COVID, and that's been part of our core focus throughout this whole time, being very transparent about what we've been doing in the market. Now we have grown rapidly. Over 40% of our sales come from our new stores. And as these new stores and carve-out stores become more mature, you will see accelerated profit and growth out of those stores.

So if we go to the next page, please, Nathan. Underlying performance in Japan, it's really encouraging as it rebuilds after the lifting of the state of emergency. We said previously that it will be a little bit bumpy, but the good news is only one more month to go in the 1st of October, and we're confident that we're going to have a positive sales period for us in Japan.

Throughout the year, we've been reducing our cost. Now that's not unusual. We've been doing that every year in the business since I've arrived in Japan. But it has held us in good stead, especially as it relates to Christmas and half 2. And in fact, Christmas had 400 record sales stores during that period. And as Christmas falls this year, which is on a Saturday and Sunday, we expect we're going to have more records going forward.

We've been moving price throughout the year. We've been doing that. We've been very transparent about doing that. We've been aided by our barbell strategy, which has been -- which hasn't changed through COVID period. And just as a reminder, our barbell strategy is really aimed sort of assessing all the occasions that people want to use our brand. And when we're moving price, we can actually look at what segments are more elastic than others, and we've been aided by that. And then aided by big platforms and big layers like buy 1, get 1 free and half-price carryout, where we don't project an actual hard pricing number. And we were able to change the back end. And that's been received really well by all our customers.

The other part of that, of course, is the operations side because lifting price, you also need to maintain and actually make operations better. So we've been talking about how we've been improving our operations. If you look at our delivery times pre-COVID, our pizza scores, our customer sentiment, our NPS, it's remarkably better. We're actually delivering about 3 minutes better than we were pre-COVID. And that's been part of the heavy lifting and all the work we've done over the last couple of years in the business. So this puts us in a really good place to accelerate growth over the next few years.

In relation to Taiwan, we've been -- we've seen strong growth and strong -- not only in stores and sales. And this has been -- it's a challenging environment. It actually lags the rest of the world in terms of COVID. It hasn't opened up completely. There's still lockdowns from time to time. There's quarantine. So it's been challenging finding stores, but we actually have had a record store growth for the market that we're operating in.

And it's proven to us that there's plenty more work to be done there. And I'm really looking forward to embedding more of the DPE cultures in there, embedding our tech stack and really leveraging across now Japan and probably leveraging across the other markets that we're going to acquire. We're already using creative assets from Japan in Taiwan, and that's part of what we want to do in this twin region focus.

We're also thrilled that we're doing things the right way. We've established a sun shop through the Domino's Foundation in Japan. We want to be a company that supports the industries and communities around us. And we've raised about $180,000 for the agriculture, dairy and fishery sectors in Japan. It's a real source of pride for everybody in our business and really excited to be part of that and continue that journey.

At this point, I'm going to hand over to our new CEO of ANZ, Mr. David Burness.

David Burness - *Domino's Pizza Enterprises Limited - CEO of Australia & New Zealand*

Thanks, Josh, and good morning, everybody. I'm a long time in Domino's, but first time in this chair for the market call, so happy to join you.

And you can see there that in the ANZ region, we finished the year on 883 stores, which is 23 new stores opened for the year.

And if we go to Slide 34, you can see the numbers. And it's already been discussed that in the ANZ business, we had increasing network sales of 3.5%, doing just over $1.3 billion in sales, and that has dropped to increasing EBIT as well with an EBIT of $121 million versus $117 million in FY '21, so 2.8% increase in EBIT, which over the 3-year basis is an increase of 7.9%.

And if we go to Slide 35, we've already sort of highlighted where this has occurred, but I'll try and give a little bit more color on it. I mean one of the things to bear in mind with that increase in EBIT is that we've had headwinds in this year, like many markets. And one of the things, not a headwind as such, but an investment is Project Ignite where we've invested $10 million into our franchisees to ensure continued confidence from the franchisees and continued growth from them. And we've seen good early signs of that.

In fact, we had 30 corporate stores that were refranchised over the course of the year, which shows that the franchisees are confident regardless of some of those inflation challenges we've got. We also -- we opened 23 stores. But as we note there, 20 of those stores are actually in a half 2 of

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the year. So it really feels as though we've got some momentum when it comes to new stores. And included in those new stores are some new store concepts as well that are really driving confidence with franchisees. I'm going to talk about one of those new types of stores in a moment.

And also that momentum seems to be flowing into this year as well. So we -- in the first half of FY '22, we only opened 3 stores, but we've opened 4 stores already just 7 weeks into the year with another 11 stores under construction. So really strong pipeline to start the year.

One thing that we did have to deal with this year was that the New Zealand market was closed for the whole market for a 2-week period. And in fact, the majority of the market was closed for a full month in August of this year. So that's a really big hole in the budget to have to find. And as we've highlighted before, we did manage to find that across the back half of the year. So very happy to do that.

And we've talked about the barbell strategy, both Nathan and Josh talked about that. And we've applied that same strategy to our promotions and pricing in the ANZ region. Nathan talked about the supreme value chart earlier and the concept of more for more, which we've spoken about a lot. We've done that through our Value Max campaign, where it's a range of pizzas. Rather than talking about just $5 pizzas, we're now talking about a better quality pizza that is $8 that we believe is a really good value for the customer, but it's also a really good value for the franchisees. And we're now selling more of those pizzas than we are the $5 value range pizzas.

However, we talk about inflation crushers in that Supreme value chart. And we know that, that $5 pizza still is that inflation crusher that in a time when we know our customers are concerned about their own EBITDA, we continue to have that value message through our hunger savers. But again, it's not a $5 message. It's a message around value, and we call it Hunger Savers. And that's been our barbell approach that has enabled us to be able to do -- to take the price that we need to take at the same time.

And one of those initiatives to take price is our delivery service fee, where we're charging a 6% delivery service fee, which early signs on that, so far, so good. Now it's interesting to note that from the time that we've rolled that, we've been able to invest that -- some of that money into better operations. Our delivery service times have decreased since we started the delivery service fee. And our Net Promoter Scores have actually increased. So customers certainly are not -- well, they're rewarding us with better Net Promoter Scores to reward that better service.

And so if our customer counts were outperforming expectations. We knew that there was a risk of some customer count decrease as we roll that delivery service fee, but so far, very good, and we continue to watch that closely.

And the last point that we note on Slide 35 is Domino's for Good. One of our values is do the right thing because it's the right thing to do. We were really thrilled that the Queensland Community Foundation awarded us the Corporate Philanthropist of the Year because of all the work we've been doing in our Give for Good charity. A lot of growth in Australia in the Give for Good charity, and we're excited to say that we've also launched that as a registered charity in New Zealand also. So we'll continue to do good things there.

Just moving on to the next page. One thing I wanted to highlight, another one of our values is crush convention. And we've talked about different types of stores that we're opening to be able to grow to our goal -- our store openings in ANZ. One of them that's really exciting is this idea of a mobile Pizza Kitchen. Now it's probably a bit hard to appreciate how good this thing is from the photo that you're looking at now. It looks like just a food truck, but believe me, it's more than a food truck.

This thing is a store on wheels. It's got 2 full ovens in the truck. It's got a make line. It's got a cold room. It really is a store on wheels. The first one is open and trading in Lismore in Northern New South Wales. For folks that know the area would know that the Lismore area was heavily flooded, many businesses closed and very cautious about reopening in the Lismore area. Well, this thing's on wheels. So we can roll in.

It's a fully functioning store, doing the sales like a normal store. It has a store number attached to it. And these trucks -- and we've got 2 already in action with another 10-odd order, and we're really excited to see what this can do because it can give us access to areas that we otherwise wouldn't get access to.

And on that note, I'd like to hand over to our next speaker, Andre Ten Wolde on Europe.

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

Well, thanks, David. Stoffel and myself, Stoffel is also on the call, we are not as happy about our results in Europe as you can be and just can be about results in APAC. Having said that, there's a lot of learnings from APAC that we're already rolling out in Europe and seeing the first results. For the year, Europe ended in 1,401 stores, opening 123 over the 12 months.

And if I can take you to the next slide, the pleasing part of this is on the right side of the page that we are a lot better business than we were pre-COVID. But the tough side is in the middle of the page. As -- a week after we talked last, our life in Europe changed quite dramatically with the start of the war in Ukraine, pushing inflations, getting to record low consumer confidence levels over all the market we have in Europe.

So that resulted in a network sales increase over 4.3% over the full 12 months, but an EBIT that is 11% lower year-on-year. And we'll get some more details on that later when we take you to the per market slide.

So Nathan, if you can take us to Slide 39, where, from an operational perspective, Benelux and Germany did very well. Benelux has grown significantly. And as Don has already said, was -- had an outstanding results. France is one of the areas where we struggled to get sales up because just before all this hit, we changed our menu offering, which did not resonate at all with the lower consumer confidence and a really price-sensitive consumer because we went to a Domino's signature range, which was the more expensive side of pizzas, very good quality, beautiful pieces, but it just did not resonate at that moment with the French customer.

Second point, on France, you see the Project Golf, which helped us a lot in France to lower our carbon footprint. It's something else, too. It's been instrumental in negating some of the increases that we had in logistic costs in Europe, helping the franchisees to offset other cost increases for their P&L. And we're going to roll that out from next month into the Netherlands as well based on the success it has.

Next that to that as an ESG initiative. We achieved meaningful process -- progress in Europe with our Domino's for Good, including the introduction of the Nutri-Score, which is a score for customers to see how their -- the quality and -- of the products and how actually good it is for them, talking about doing Domino's for Good. And it's a part of our commitment to transparency and quality of our products. We also have expanded our partnership with Compassion in World Farming to now also include a better pork commitment, in addition to the better chicken commitment that we introduced in 2020.

And from here, I'd like to hand over to Stoffel to talk about Germany and Denmark.

Stoffel Thijs - *Domino's Pizza Enterprises Limited - CEO of Germany*

Thank you, Andre, and good morning to everybody on the call.

I'll start off with Germany. We've seen network sales and same-store sales grow compared to last year. We've opened a record number of 46 stores, but unfortunately, EBIT was below last year's number. Main drivers have been a step-up in royalty. We've been reporting on this in previous calls that to open the market, to turn around the market and the conversions of -- Hallo Pizza and Joey's Pizza, we had some reduced royalties from our U.S. parent company. And we've now had the final step-up in the last half of this financial year, which obviously is a headwind for us in the P&Ls. The other reason causing a step back in EBITDA is the same-store sales slowed down compared to the good trajectory of growth that we were on in the past 2.5 years.

As Nathan said at the start, our way of dealing with inflation, inflation is real in Germany, is growth. And that's why I'm very proud to say to you today that we've crushed convention in Germany because we see our competitors step away from deals, from offers towards customers, even though these are times that customers' purchasing power is going down, so they're open for good deals.

We don't speak to Germany and our franchise partners have decided to double down on our most successful deal, the Domino's Duo. Used to be Tuesdays and Wednesdays, the second pizza for only EUR 2. And we're now going to expand that to be valid from Monday until Thursday. So an additional 2 days starting in September of Domino's Pizza -- Domino's Duo, a loved and learned deal that we've had for 3 years now. So we expect that we can turn around the slowdown of sales growth, which has still been positive, to better positive numbers as we're battling inflation in Germany.

I'll move on to Denmark now. Wherein Denmark, we -- go back to -- stay on this slide. That's fine. So in Denmark, we bought the business for EUR 2.5 million in 2019, but we shouldn't forget that we bought a business that was closed on the back of a food scandal reputational crisis for the business. And the Danish team has been building customer confidence up ever since. It's been a hard job and that came with operational losses. And last this year, we reported AUD 12 million of losses.

The money that we've invested into the business in training up teams, opening new stores and turning around customer appreciation of the brand. We've really doubled down in the last period with a campaign that we call Clear Slate. The campaign focuses on that we're new owners, on the super hygienic standards, the best within our business, exceptional delivery fee performance with 100% e-fleet and premium quality ingredients. Part of this beer campaign is our first-ever TV ad. And Nathan, if you would play that now, that would be great.

(presentation)

Stoffel Thijs - *Domino's Pizza Enterprises Limited - CEO of Germany*

So as you can see, we're really owning up to things that have happened in the past, and we need to change. Other part of this campaign is that we're actually giving ourselves Trustpilot review saying that we need to do better. This campaign has really touched the heart of the Danish. We see our Trustpilot score has jumped up in the last week since it's gone on air. And I want to use the opportunity to thank Kellie and the Danish team for their courage of putting this on television.

Some of the questions that came in is, we've lost AUD 12 million this year. That's up 7 million -- from AUD 7 million last year. Difference is basically that we've opened more stores and we're converting more mindset of consumers. We believe that we broke the back of it. We've invested this summer in this campaign, and we'll keep doing so. We won't take our foot off the throttle. We'll be doing more television, putting great product on television.

Next launch will be the Cheesy Crust, something that here in the Australian market is known for a long time, but we can really own because it's a novelty in the Danish market. We'll have -- and next to that we'll be doing some great customer value campaigns. We have been working in the other countries. So between great products, great value and our next-to-be-launched new app, the same app that we're using across all our markets with the difference that is the very first app for Denmark.

Speaking about the app, I'll hand over to Don Meij to tell you more about this new app.

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

Thank you, Stoffel.

Yes. So many of you would have already and hopefully have used our new app, faster, easier, fresher, more convenient. And it's absolutely hitting the ground running. It's now the dominant platform for ordering. Throughout our business, web has typically been dominant. I think it's a really important statistic because I know many shareholders and analysts track our business on web traffic. Please make sure that you're also monitoring app traffic because it's now the dominant platform in Australia and New Zealand.

It's grown exceptionally well in the Benelux, and it's just getting promoted in the coming weeks in the rest of the European businesses. Soon to come to Japan, Taiwan, Luxembourg and Denmark. So we're getting a higher spend. It's definitely helping us with inflation as well. We're getting a higher frequency. We get higher NPS scores, better loyalty from our customers.

And this is just the beginning. We've had a 3.5-year drought in our technology for consumers, and we literally have a pipeline that we're now thinking how we're actually going to be able to communicate, how many really cool features that will come. And there's a -- one of the best features that we've got on -- is going to be launched just before Christmas for Australian, New Zealand consumers. So watch this space. We intend to make sure that it becomes the growing platform, something like 90% of our online sales in the coming 2 years.

All right. Let's talk about the third phase. If you come with me now on to Slide 43, the age of delivery. We've talked about this for a number of years now that we absolutely believe that delivery is the most convenient way to get QSR fast food and that in the coming years, it's going to be the fastest growth part of QSR. And we intend to make sure that we leverage our expertise.

Something that's unique about Domino's is everything we do is designed to be delivered, whether that's the customer consuming in their home when they pick it up, but particularly when we send those orders to the home. Unlike nearly all other QSR, everything is specifically designed that way, and that's a competitive advantage.

And for us, it all starts with that franchisee profitability, that unit economics. That's where we're obsessed that when franchisees are able to achieve stronger economics, which even now, the average for the group is in and around 3.5x the investor, so a 3.5-year payback. So that's -- we want to continue to improve that. But considering the inflation environment we just delivered upon, we're still quite strong.

When a franchisee is really profitable, they fortress. Thereby, bringing their stores closer to the customer because it's just more profitable to do so. Being closer to the customer allows us to be faster and more convenient, deliver a hotter, fresher pizza, which then improves the customer experience, which drives our customer lifetime value. One of the areas we've got the most sophisticated data on today is how we're building out all the little metrics that drive that customer lifetime value, and it's really inspiring. And it's -- the whole data part of our business has become a genuine competitive advantage today.

And inside that, we are constantly trying to reduce our delivery cost because we believe that the biggest challenge to our business in the coming decade will be a shortage of delivery drivers, in the age of delivery, not enough people to be able to deliver the number of packages. And we win by doing more deliveries per hour, which I'll show on the next slide. With all of those efficiencies, it allows us to fuel profitability with franchisees in that beautiful flywheel. That virtuous cycle just continues to flow.

If we come on to Slide 44. We sort of show this data in a really important way because our top 10% of stores are heading into the direction of what we're aiming for over the next decade. In fact, the Netherlands is the benchmark in the top 10% that we've been able to achieve that with the last 7 or 8 years of Project 3TEN work, that if we can get down to a 10-minute run time, that basically means that we're averaging between 5 to 6 deliveries per hour. And most of the industry today is 1 to 3.

But you can also see where we lag in the bottom. We've got a lot of work to do. So that's where the business would have existed as a whole in nearly all of our markets only just 7 or 8 years ago. But all of that progress and everybody in between is the real focus because, ultimately, we'd love to be the wage leader. We want to be able to pay, more than anybody else in the market because we can, we're more efficient and we can do more deliveries per hour and, therefore, keep our costs, benefits to the consumer in the right space.

If you come with me now on to Slide 45, I want to pass over to David to just talk about our path to excellence.

David Burness - *Domino's Pizza Enterprises Limited - CEO of Australia & New Zealand*

Thanks, Don.

And look, this is something I'm really excited to talk about. I mean, of all the things I love about Domino's, this is something that I'm really personally passionate about. And I mean, something that is critical to any business. The most important thing in any business is its people. But what's unique to Domino's is our philosophy of promote from within.

We really have that story of driver to franchisee and beyond. And it's so clear in our business. I mean, right through to Don Meij, I've lived that story in a whole working life. And not only that, I've seen that story passed on to others. I've had more than 10 of my store managers that started as a pizza maker or a delivery driver in a store, who have now gone on to become some of our really good franchisees, including my own daughter.

She started as a wobble border and a pizza maker in one of my stores years ago, and today is a 3-store franchisee. And those franchisees that know that process of growing their team from within to become franchisees, they know what it looks like, they know what it feels like and they're really good at doing it. And when you look through our successful stores, that's where our best franchisees come from, our most profitable franchisees and knows that they know how to grow others.

Now what we're doing through this program of path to excellence is we're going to systemize that process. We're bringing it to life through a program that is -- it's a proprietary training platform. It's actually -- it's built on a successful platform from the Japanese business called Mammoth. But more than that, it's the -- as I say, the muscle memory, the processes, the habits that exist in our best franchise stores, we're going to make those really easy to adopt for all franchisees across the system.

It's live in ANZ now. So we have stores that have been trialing it for the last couple of months. And it will actually be live throughout all 880 stores in the next 2 months in ANZ. And then we'll continue to grow it through FY '23. And then it will then spread to other markets through FY '23 and '24.

And I'd like to hand over now to Marika Stegmeijer, who's going to talk about some of the great stuff we're doing with Domino's for Good.

Marika Stegmeijer - *Domino's Pizza Enterprises Limited - Chief ESG*

Thank you, Dave, and good morning, everyone.

In addition to the updates provided by my colleagues so far, I'm pleased to inform you today about the progress we've achieved on group level with our Domino's for Good work. It's important to note at the start of this part of the presentation that the progress we achieved this year is a result of a dedicated leadership team, many engaged team members and external partners who share our passion to do the right thing because it's the right thing to do. And this past year's achievements clearly demonstrate that ESG is a shared responsibility in our company, not just my responsibility.

When I joined DPE, I noticed that we've done many great things in the past, but we did not have a global structure in place that helped us to achieve common goals in a meaningful, measurable impact for our stakeholders. Therefore, one of my priorities in FY '22 was to build a structure and, together with our leadership team, shape our strategy and set company-wide targets. I'm pleased to share that, that is indeed what we achieved last year.

Firstly, we developed our ESG vision stakeholder feedback. We invited many team members, many stakeholders to participate, including franchisees for many -- from our various markets, young team members, of course, our global leadership team and our Board. And we launched this vision globally and rolled this out across our markets.

And with Domino's for Good, we believe in a better slice for everyone because we want to achieve a positive impact for all of our stakeholders by 2030. As a reminder for this audience, our Domino's for Good work consists of 5 main pillars, and you heard about several examples earlier today in the presentation. It's about our people, our customers, our food, our environment and our community. And I will elaborate a bit more about the work we're doing with respect to our environment in a minute.

As you can see in the graph here, we've improved female leadership in our APAC region, and we're getting closer to 40% female leadership target across all regions. Important to note that agility was expanded to include additional roles in FY '22. There's been no reduction in the number of female leaders on that level. However, we, of course, are keen to further improve female leadership, especially on our global leadership team level.

In addition to the modern slavery statement we've conducted -- we've released for Australian market, we also conducted a research on responsible sourcing. We completed that research on a group level, and we're now in the process of setting up a global due diligence procedure for this. In FY '22, we've also further developed our ESG organizational structure. For this reason, we established an ESG Steering Committee, which obviously is our Domino's for Good work and key decisions in group level. Most of its members are actually in the call here today.

In addition to the global working group we have already in place, each market -- almost each market now has a local working group and representation from key departments. They are, in fact, are key ambassadors and they make sure that Domino's for Good really becomes part of everybody's job in this company. And last year, we also released our first Sustainability Report.

Moving on to the next slide. As part our Domino's for Good vision, we want to give as much as we can for the good of our planet, not as little as we can get away with. And we believe that science-based targets will help us do the right thing and help us measure and report on our progress consistently over time. As you may remember, during our AGM last November, we announced our commitment to science-based targets. In June, we submitted these targets to the science-based target initiative. And as part of this exercise, we completed a corporate footprint baseline measurement, we developed an environmental strategy and a climate roadmap.

Important to note and good for you to know, after officially committing to science-based targets, companies are allowed to submit their targets within 24 months. We managed to do this in less than 8 months. And to me, this clearly shows the commitment of this company to move forward with our Domino's for Good work.

Our targets, also important for you to note, are based on keeping global warning to 1.5 degrees, which is the most ambitious targets, a target that's out there currently globally, and reaching science-based net zero emissions by 2050 with intermediate targets for 2030. The targets are now being validated, and that will take a couple of months. Once these targets are validated, we will communicate them to you. And moving forward, we intend to report on our climate progress based on these targets.

Moving on to the next slide. As you can see in this slide, our baseline results are dominated by Scope 3 categories. They represent 97% and 99.7% of total footprints for carbon and water, respectively. This is very typical for -- or rather common for a food company. We found that our main hotspots in all impact categories are mostly dominated by purchased goods, followed by utilities and logistics.

We decided that in order to achieve our science-based targets, we will focus on 3 main areas, which are sustainable stores and operations; responsible sourcing; and sustainable product innovation. And for each focus area, we've now set targets and identified the most important actions. And we also established -- just established global centers of excellence for each focus area. These centers of excellence will be dedicated with a task of identifying sustainable innovations that can be implemented across our markets that will reduce our environmental impact and, of course, also ensure that they are still an attractive solution for our franchisees.

Wrapping this part of looking ahead, our focus for the coming 12 months can be summarized in 4 main points. We want to further develop and implement our ESG strategy to also include water and biodiversity targets. We want to improve ESG data management reporting. We want to have a solid measurement system in place that helps us track our progress and our metrics. We want to ensure responsible business conduct, and we intend to further implement our responsible sourcing policy and due diligence process in FY '23. And lastly, we want to communicate and engage with our key stakeholders because we want to better understand the stakeholders' needs in a means to have a positive impact.

I look forward to sharing more information about the progress in the sustainability report that we'll release later this calendar year. And of course, we're very keen to hear your feedback on our achievements.

Thank you. And now I'll hand over back to Don Meij.

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

Thank you, Marika. Congratulations, incredible progress in such a short period of time. At this time, I'm actually going to hand it over to Josh to just talk about the latest M&A.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes. Hi, everyone. If we can go to the next slide.

We are really pleased to announce that our intention to acquire Malaysia, Singapore, Cambodia some 3.5 years ago, where we started this journey, and we've come to this point. A lot of due diligence, not just from a financial point of view, but from a fit, whether we could do what we needed to do in this market and also being respectful in -- which is a very, very important thing in this region.

So 3.5 years later, we deliver our next acquisition. And obviously, with Taiwan before, this is -- we're very excited about it. We are the second-largest pizza chain in each one of these markets. And of course, the first thing for any time we acquire a business is to become #1. So that is our first goal. Of course, it's 287 corporate-owned stores. And I'm sure you understand we've got a sizable corporate business in Japan, so we're going to be leveraging a lot of that knowledge out of there. But also just building upon what they're already doing in the market, which is similar, but we feel that we can bring added expertise there.

It really does extend our twin region focus, and we're going to leverage a lot of our knowledge across the business, our infrastructure. We've learned a lot. Japan and Taiwan is -- we've been continuously learning with Japan. We've brought that to Taiwan. And we're going to keep -- we're going to introduce a lot of our things into that business, things like our digital stack, our operational know-how and marketing expertise to grow the unit sales and the unit economics, which is really the thing that will accelerate the store expansion.

We're excited about franchising there. It's corporate stores. And one way to think about that is that each of those stores has about 2 to 2.5 managers. So you've got about 500 to 600 store managers who potentially might want to be franchisees. So we're going to be working hard to grow that part of the business and that will come with recycling of capital of those corporate stores, but will give us that second engine room, which is what I've always spoken about with Japan about having 2 engine rooms with corporate and franchise started. And each helped the other one grow by finding new efficiencies and new ways to grow in the market.

Other great news is we retained all the leadership, and that's important because there's a lot of people in those leadership teams have been there for 10 years plus. And we've also retained the CEO who will be helping us out. And he's a 22-year veteran in the business and grew it from where it is now. It was actually Shakey's Pizza, and now it's been -- it was converted over to Domino's, and he's been growing that business ever since.

Also announcing that Ringo Johannes, who is leading the Belgium business and another 25-year veteran of ours, we will be bringing all the Domino's Pizza enterprises know-how, the high-volume mentality and all the things that we know in the business to make sure that we can grow sustainably in the region.

So very excited about this one. Of course, 5% EPS accretive is great as well. So excited and look forward to bringing you more about this market in the coming announcements.

So I'm going to hand over to Don now to bring us in. Thank you.

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

Thank you, Josh. And it's obviously always an honor that we're able to bring talent of 25 years' experience to new markets. So it feels really good.

If you go with me now on to Slide 52. Just looking at those milestones. Clearly, with the acquisitions, we're well and truly on track to exceed those milestones. And that's quite exciting for shareholders, I would hope.

If we look at Slide 53, you can see there that we're reconfirming our 3- to 5-year outlook for same-store sales, including in this year, and for net CapEx to be between the range of 3% to 6%. It will come in that flow, as I mentioned, with the first quarter being softer as we roll to more normalized figures. Obviously, with the cautious tone that we've lived now for 3 years with some pretty dramatic ebbs and flows, and there could always be that change in the market that we need to adapt to.

When we look at the -- now out of Taiwan, Singapore, Malaysia and Cambodia, we still are going to be opening the material store count, but when you -- and the numbers that we were already forecasting, but the base just got bigger by roughly 460 stores. So we're now just saying that 3- to 5-year outlook more looks like 8% to 10%. We just added a bigger base.

If we have a look at -- going forward, the way our cost structures are built, it's important that we literally start reporting in the 2 -- the twin region strategy in the way that we run the business with Europe and APAC. Because the way things work now, to be illustrative to shareholders, we want to be able to show it as the right cost structures and the way that we're running the business.

So from 12 months from now, the ANZ business will be rolled in to be reported under APAC. But we acknowledge for shareholders that we'll continue to report for the next 12 months with that. And we would also like to highlight this is outlook. It's not guidance and the way that we can best see the business today.

So in closing, when we think about -- when we traded through COVID, it's probably the last time we're going to really refer to it in that way. During those initial stages, we faced the choice to either become defensive, as some retailers may have chosen to do, or to invest and grow large and be more sustainable. And I think Slide 8 really, in this deck, really reinforces that we chose the latter. I'm really proud to say today that we added those 865 stores in 4 countries by the end of this calendar year.

The benefits of that are quite clear with substantially bigger delivery business. We've been cultivating and growing our stronger, more sophisticated franchisees and maximizing the opportunities and expanding our advertising and accessibility. We're getting closer and closer to the customer, and we're getting better and better at getting to those customers.

With inflation since January this year, obviously, in my 35 years, just about any chief executive that operates today, we haven't seen these sort of numbers, but I'm really proud that we've now got a road map. Whilst it's never guaranteed that the things that work in one part of the world work in the other, but we are feeling quite confident that the initiatives that have been rolled out in Australia, New Zealand and Japan will flow through in Europe in the coming months. And subject to anything new, we'll be able to consume that inflation, strong franchisee profitability, good consumer benefits and therefore, good earnings to ourselves that we can continue our journey.

This is the age of delivery, ensuring that our franchisees and ourselves that we're poised to do that. We're constantly focused on that, that flywheel for now and into the future, centered around those unit economics.

If you come with me on Slide 55. We are -- we still believe that we'll be able to deliver 3% to 6% in same-store sales, both this year for the next 3 to 5 years as an outlook. And management, we believe, that our customers have the choice. And with our barbell strategy, with our really big heavy push into new products, technology and pricing initiatives, we're quite -- we feel that we're a lot more certain today than we were just only 3 months ago.

Ironically, we're in a very interesting window where actually some of our biggest commodities of cheese and grain or wheat have actually come off to more normalized periods it could be just a window in time, but we've actually been forecasting in all of our budgets that by January, we're going to take another material increase. That may not end up being the case with the current benefits that we are likely to -- that could achieve with cheese and wheat.

The new organic store growth is still going to be 8% to 10% on average over the next 3 to 5 years. We've built the teams. We -- those teams -- in fact, we're even still just slightly increasing those teams with the new markets. We expect to hit the ground running in the 3 new markets as we did in Taiwan, really impressed with how quickly the team in total were able to turn on stores and apply all of our high-volume mentality.

Very excited about the path to excellence. It's going to, I believe, be another competitive advantage. Today, we employ approximately 100,000 people at any one time throughout the network. And as we intend to more than double that, this is another tool that will help to strengthen our business.

And we can't wait to -- Josh and I are up next week in Malaysia, Singapore and Cambodia to talk for the first time beyond the senior executive to all of the team and welcome them to the Domino's Pizza Enterprises network and all of the great things that we can share with investments in them and the investments in bringing new technology, the data that we have, the product development, the buying power. So I hope that we can get them as excited as we have in the rest of our business.

Finally, I'd like to say that as a business, I hope you could see from Marika's presentation and listening to the CEOs that ESG is not on the back burner at DPE, that despite the short-term pressures that may come at any one time, we're absolutely committed. And you'll see that as we continue to present.

I look at all the new products that we're bringing to market, it runs through our ESG lens. Does it -- if it's a future product that belongs in our network, does it better -- the planet better, sustainability? Is it better for our team members and our franchisees and, then therefore, flowing through to our shareholders.

So at this point in time, I'm going to hand back to Nathan to lead the question and answer. Thank you very much.

QUESTIONS AND ANSWERS

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you very much for that, Don. So as Don noted, we are now going to move into the Q&A section. I'm just going to stop sharing the presentation slides. And I note that we have -- obviously, we've covered a lot of ground today, and we have a lot of questions as well.

I have promised our Chief of Communications and Corporate Affairs that I will have Don to his next appointment at 12. But what we will do is we'll get some of those questions for Don out of the way first, and then we'll be able to continue on with the other speakers so that everyone will get their chance.

I'm not going to name names in terms of who's lodged many, many questions. But I do know that some of our analysts are doing multiple results today. So what I will do, as we're going through the Q&A, is I'll call out who has asked the questions. So keep an ear out for your name being called, so you'll be able to hear the answer you've asked for. A transcript and a recording of this will also go up on our website afterwards.

So maybe if we hit the first question that was lodged, which is from Shaun Cousins. Food inflation -- and I'll refer all of these to Don in the first instance. Food inflation. What is the status of food hedging? And when the hedges run off, so the full impact is felt, how does DMP food basket inflation compared to DPZ, which they were reporting at 13% to 15%? And can you discuss with reference to each division?

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

There's 10 markets out there, Shaun. So we've resisted putting just confusion into the marketplace. What I can say is that in many cases, because of the size and scale, particularly in Europe of the inflation that the actual longer contracts we just brought forward. If we want to supply, we had to take the price, and you saw a little bit of that in the last half in Europe.

So we've mostly taken the first half inflation through our business. There is a step-up of wages significant in Germany, which has been going in stages, and we finished in the September period. And energy by market, franchisees negotiate their own energy contracts. So when energy becomes -- when it rolls to the new prices, they're very material, and that's still flowing through in the current half, largely in Europe.

But across the board, we've taken -- when we look at from January to July, the big numbers, we're forecasting a little bit in September. That's probably not going to hit us in September quite as bad. In fact, Andre took the decision with our procurement team to do a shorter contract on a couple of our big ones, and that's actually good luck or good fortune. Let's call it good luck. Even though Andre is intelligent man, but we've now been able to -- we're actually going to end up potentially benefiting in the September quarter.

We were forecasting the next biggest increase would have been January. But once again, the new uncertainty that it could even be lower because of the fact that grain flows in the protein, grain is down so much, cheese is down so much at the moment. So a little bit unknown. We have built in wage inflation, expecting that governments -- we got a surprise in Japan only a few weeks ago. Fortunately, we had a lot of -- we were already well ahead in what we'd already put in our plan. So that was easy consumed. But yes, it's a volatile time.

But I can say to you, Australia, New Zealand is actually ahead out of store unit economics and at our own level. Japan is out ahead in store unit economics. Parts of Europe are already getting ahead. And with the expectation that all going well will be ahead and have consumed it all by the end of September.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you, Don. A question from Michael Simotas. Why is network sales growth currently year-to-date worse than same-store sales growth when you've opened so many stores? And what does that mean for network sales growth in FY '23, if you're going to be in the 3% to 6% same-store sales growth range?

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

A big part of that is obviously FX. Another big part of that, that doesn't include Taiwan right now, but it will include Taiwan as soon as we roll owning Taiwan last year. And of course, it's then the split stores and some of that stores that are not in that. And with the number of stores that we've opened up in recent times, there's stores that are removed.

The more mature markets are big quantum of same-store sales, which is a fair part of Europe and a fair part of, obviously, Australia and New Zealand. But Japan, a lot of splits in the last year, and that would have been reflected in that same-store sales figure.

So the outlook going forward, I think that we get to a more normalized state from October, but we don't -- I mean, I'm not a currency expert. And with interest rates staying low in Japan and Europe, our internal expectations is that FX will still be a headwind in the coming 12 months. But you might know better than I do on FX.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thanks, Don. A couple of questions also for Michael on the Southeast Asian acquisition announced today. And again, I'll refer this to Don in the first instance.

Is the EBITDA on acquired Southeast Asian markets pre or post AASB 16 given rent on corporate stores not insignificant? And also, Michael has noted that they're delivering EBITDA to network sales of 11.8%, which is much lower than the full vertical margin in other territories of more like 20%. So can the acquired territories move towards that sort of level? Perhaps, Don, if you wanted to parse that out to different speakers.

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

I'll start with the last part of that question first is, yes, we do have expectations that with the efficiencies with our high-volume mentality, we're quite excited that we will be able to deliver similar margins. Noting that we do on core business today have a 1% higher royalty than most of our business or new stores, not the case.

But I might hand over to Richard. Richard, if you just want to answer the first part of that question or even Josh? We caught Richard by surprise.

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

Sorry, Don. I missed the question, sorry.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Sorry, the question, Richard, was just in terms of whether the acquisition, the EBITDA, is pre or post AASB 16, given rent on corporate stores is not insignificant.

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

It's pre IFRS 16. So it's not including. So you haven't got the benefit of IFRS 16 removing the rents. So it's pre-IFRS 16.

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

And Josh, maybe you could answer the second part and restate that, Nathan, that question?

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Yes. So just the -- obviously, we spoke about the vertical margins there. The other part of Michael's question was just in terms of franchising. Obviously, Josh, you alluded to the franchising of the Southeast Asian. Michael asked, is there an established path to it and how much of the economics do you need to share with franchisees?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes. Look, great question. I mean we're going to be creating that model from scratch. We already -- there's already margin there that we can do. We've negotiated good royalty rates with DPC. So we're going to be exploring that pretty quickly. We see that pathway to getting to that profitability when we start that, it takes -- we're going to need to grow volume.

I think as we look at those synergies across the group, that's what we're going to be able to bring, and that's going to create some of the margin that we need to then go and franchise this business. So more to come on that. We've got to get in there and look under the bonnet even further and see what we've got. But that's going to be a key part of the strategy going forward.

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

And noting in that, that similar story to Japan, we brought a very similar model whereas all corporate, didn't have the same margin and it just took us a couple of years to build that up through the initiatives that we put in place. But yes, same expectations. And in our own business plans, we've done various ways that, that flows through, and it feels like it should map the rest of our business.

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

Just jumping in. Obviously, our franchise business is pure royalty versus a corporate store business, you've got very large revenues. So if you look at network versus network sales, it probably looks reasonably strong. So just be careful with that analogy as we franchise.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you for those answers. Now just in terms of one final one here from Michael. And I think we've answered some of this in the presentation, but worth restating. So Don, how are customers reacting to price increases so far? Is there some offset from trading down? And what do you expect price to contribute to sales growth in FY '23? Expecting more or less net inflation drag next year versus this?

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

Yes, it's an interesting question. At the beginning of our price increases, and France was an example and actually gave us a little bit of surprise that we went a little fast and the consumer didn't take it in the early phases. But as we've now flowed through into June, July, August, we can see that the way that we're launching products -- if I do the barbell in Australia, which you can, Michael, just relate directly to, the cheese burger and the burger pizzas are some of our highest-priced pizzas.

If you buy the menu price, burger pizza, I think it is the most expensive pizza on our menu. And built into that is all of that quality, but also the margin that helps to cover with inflation, and it's been highly successful. Embarrassingly, we ran out of toppings last weekend and are refilling the warehouses this week because it was so far ahead of our forecast.

On the other end, you've got the pepperoni pizza in the Hunger Savers. And interestingly, many of the value range have migrated up into the Value Max, which is now bigger than the value range, and that's $8 pizza instead of $5 pizzas with more ingredients. Then you've got the technology getting a better conversion at the moment.

We've just launched push notifications, which is also giving us, how silly, right? I mean DPE, Domino's was supposed to be pretty sophisticated in our technology. But we weren't using a native app and we weren't doing push notifications. And just turning that on just in the last little while, whoa, this is fantastic.

So we're getting -- the short of it is that we've got really good sales growth, good customer count growth. And I know to a lot of shareholder, they say, look, you pass on 8% in price increase, wouldn't that be an 8%? Well, it's not kind of working that way because, as Nathan clearly show, we've been getting a fast growth in carryout customers. And customer may choose not to buy a cheesy crust this time on or an extra topping and so on. It's just there's a slight different variation in their basket, particularly against the COVID-inflated baskets where people were getting a delivery and really filling up the basket. So we're seeing that normalize.

But the Australian, New Zealand business is definitely the benchmark, followed by Japan right now. And I expect that, that -- you heard Stoffel speak specifically on Germany, really good strategy, I think. Getting the best offer, actually expanding it, but that is a second piece of the 2 years. Or the first one will need to go up in amongst that, along with some of the other product innovation we're doing. So I hope that answers -- that I answer all that pieces Nathan or any other executive want to jump in?

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Okay. We're going to move on to the next question. Because I've got -- I'm conscious I've got Don for one last question before I need to send him off to his next appointment.

I'm just going to move to the question from Craig Wolford who asked, can you talk through the outlook for franchisee profitability based on Slide 16? It looks like franchisee profitability is still trending down over the next 6 months. So will the company provide any assistance to support more marginal franchisees?

Donald Jeffrey Meij - *Domino's Pizza Enterprises Limited - MD, Group CEO & Director*

It's not our likely intent. There will be little windows like we've always said in the past. As I said, what we -- the road map that we've shown in Australia, New Zealand and Japan right now is that store profitability is higher than this time last year despite all of those inflation because the great product innovation, the technology and initiatives like the delivery service fee.

So the European business definitely did have a drag in this last half relative to the recent 2 years. But we expect that if these projects work the way they have in Australia and New Zealand, then it won't be as required. So yes, it is our expectations that we will grow unit economics over the 12-month window. Be it that in this calendar year, there is some drag also this quarter until we roll in September with the like-for-likes in Japan, France, Germany.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Okay. Thank you, Don. I'm going to free you up for your next appointment. And we'll just -- so we'll continue on without, Don. But I know Don is back to back in a number of meetings, including a group lunch today. So I'm sure many of the people on this call will see him shortly. So thank you, Don, for your time today, and we'll continue on with the next question.

We have a number of questions from analysts regarding Denmark. And so I'll wrap up a few of them. Alexander Mees has asked, what's the composition of the $12 million in costs? What were the costs last year? And what's the outlook for the market moving forward towards profitability?

Similarly, Craig Wolford is asking the same kind of question. Can you clarify the loss from FY '21, what's expected for '23?

Bryan Raymond also stuff. Everyone wants to know how quickly can Denmark losses turn around? Could this rebase extend into FY '23 and FY '24? So if you can start with you, Stoffel.

Stoffel Thijs - *Domino's Pizza Enterprises Limited - CEO of Germany*

Yes. Thank you very much, Nathan. I understand the question. It's a question we ask ourselves is how quick can we turn this around? And what we believe is that with the current initiatives and what we're seeing today is we're really positive. There's a way out.

How long it's going to take us exactly? That's very hard to quantify. But the good thing that we see is that the customer opinion towards the brand of Domino's is changing by the feedback that our customers are giving us. And we know that today's customers are tomorrow's profits. So with that, we firmly believe that we can turn around this trend and that we've seen the worst of it.

So we, in no way, shape or form like loss-making markets. And we see it as a significant drag on our European result. So we're working with all guns blazing on turning this around. We'll -- we've got great food innovation. Another thing I didn't touch on is that we'll also move into sub-franchising in the market. We will have great local entrepreneurs that help us build the brand further out. So I'm very bullish on this.

Last part, what I probably didn't touch on is how the build -- what's the buildup of the cost here. It's us investing in the customer base. It's investing in additional store openings and building the teams up. And we see that we'll turn this around just like anywhere else with more customers driving higher sales. We'll take over 100% corporate stores today. We'll take over the breakeven point, and we're going to start building the market to its full potential of 150 stores in Denmark.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Okay. Thank you so much, Stoffel.

A question from Shaun Cousins. Organic store growth has been reduced from -- to 8% to 10% from 9% to 12%, which was raised from 7% to 9% last year. What was the impact of higher inflation and lower franchisee profitability? And will DMP provide increased incentives to franchise to open stores?

I'm sure I think we -- Don touched on this in his presentation. The move to 8% to 10% is merely simply because we're opening a similar number of stores on our forecast. But it's now as a percentage, it's based on that larger base, which now includes Taiwan and the 3 markets that we've announced the acquisition of today. But you should see a similar number of stores that we'll be opening.

Shaun has also asked, what does DMP bring to an emerging market acquisition? Given historical acquisitions have been in developed markets with hard currencies, could more emerging market territory acquisitions occur? So perhaps if Josh, I hand to you to cover that in terms of both emerging markets and the currency.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes, sure. I mean if you just answer the currency part first, I mean, yes, it's a different currency. It's not a hard currency, as you'd say. But it's very stable against the AUD and the USD. So we're not worried about that. Typically, what we can bring is -- I actually think it's quite exciting as we try to cement our #1 position there or as we drive towards it is that markets like that can't typically afford some of the bigger things. And with our size and scale, we can actually get first-class apps, first-class tech stacks and a range of other things.

So there's also an ability here to think about this a lower cost of doing business for some of the other things that we do across DPE as a group. So that's the other way to think about this. It could offer us some synergies across the whole group.

I think overall -- I think Singapore is actually a very stable currency. If you think about the food buying that we do, I mean, they've still going to buy the same mozzarella. Mozzarella is mozzarella is mozzarella, right? And that's all driven by commodity pricing. We can actually bring those types of synergies to this market, and that's the type of things.

But then it's really about our know-how and what we can do around franchising, around operations. This is a family business with respect. We're going to -- we're in favor of those. So we're going to be investing ahead of that to try to build a strong business.

There's also other things. This is a commissary-style model. There's probably some back-of-house manufacturing that we should be doing to the lower cost. So kind of a similar playbook to Japan where we harmonized freight across the business, where we looked at ways to find lower cost of doing business. These are the things that we bring to their market and that we've got know-how and expertise in. So very excited about pushing those initiatives through those markets.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you, Josh. Just staying on Asia for a while. So how much did FY '22 earnings benefit from COVID in Malaysia, Singapore, Cambodia? And is this the right earnings base to use when modeling the acquisition going forward?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Richard, do you want to take this one?

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

Sorry. Say that again.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Yes. How much did FY '22 earnings benefit from COVID in Malaysia, Singapore, Cambodia? Is this the right earnings base to use when modeling the acquisition going forward?

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

So well, probably Josh, you can chime in, but they're very similar to us in that they've got all of those COVID -- being a delivery business, they've got all of the COVID benefits in that period and had an extraordinary year. And probably part of the challenge is us, when we were doing the due diligence of this business, not trying to wanting to pay for that, let's call it, out-of-cycle benefits from COVID.

So yes, it was just a very similar situation to what we've experienced in -- especially in Japan and I think Taiwan, Josh. But maybe if you jump in on that, but that's how I think about it.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes, I think it's fair. It's a fair question. And by the way, what you didn't see behind this is we spent a lot of time on this question ourselves. So if we look at how long we've been working on this deal, which is 3.5 years, but more specifically over the last couple of years, we really took our time on this.

So it's a fair question. We think it's the right -- we landed on the right number, and we can see that there's a business to build here based on the foundations that are already there. So all those questions we had to answer in our own head and for our Board as well.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Okay. Thank you. I might just change gears to Italy for a moment. A couple of questions from analysts. I don't have names in front of me at the moment, sorry.

What was it about the Italian master franchise that made it not the right fit for DMP at this time? We've had a few people ask that, including other NMEs. Perhaps Andre, if I can pass over. You were very closely involved in looking at that business. What was the reason it's not the right fit at this time?

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

Yes. I have been working on potentially acquiring Italy, just as long as Josh has been working on Singapore and Cambodia. At this time, meant basically 2 things. Stoffel already talked about Denmark. We have a market in our portfolio in Europe that's loss-making. And Italy would have been also loss-making for the first couple of years. I think it would have gone to profitability way faster with the DPE thinking.

It was already, on a store basis level, pretty positive, especially in the bigger city regions. But then with the added costs of commissaries and offices, the total company was loss making. We just couldn't get to a deal that we thought was the right deal when the business was still healthy. And when we couldn't get there, management made some decisions that didn't improve the business.

And so later on, it wasn't a great fit for us at this moment. But the market is a $50 million-plus market. Stores were actually doing very well. Italians eat a lot of pizza, and they also want variety. And they definitely, once in a while, want an American pizza or American milkshake or all the things that we can add to the experience and not always a traditional Italian pizza. And especially for the -- that's especially true for the younger population.

I think with what we could have done and added to the business with our technology because they had very -- or I can't say no technology, but it wasn't up to a standard what we do with DPE. We could have made that at a certain moment in our deliberations a success. But at that moment, the current management still wanted to -- like some minds, we didn't think was right at that moment. But you never say no. It's a 50-plus store market -- 50 million people market in Europe. It's on the list.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you, Andre. I'm going to stay in Europe just for a little bit, and then we're going to go to store openings after that. So just in Europe, Alexander Mees has asked what has made inflation more difficult to mitigate than in APAC? Is it just about the volume of it? Or can you talk us through that?

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

Yes. Well, inflation -- apart from it being higher in our European markets, we actually tackled inflation really early and started in France. But the learnings there were that maybe we were too early because it hadn't really sank in with customers that the prices also in supermarkets were going up. I saw a number of 18% in the Netherlands. So we probably were too early. And the barbell message didn't stack up. Because at the same time, we were promoting this high-end pizza range.

So we took a step back and might have gotten a little bit frugal initially raising prices in other markets. But what -- as Stoffel said, when you combine raising prices at this moment, because customers really understand that, but then provide more, in Stoffel's case, days that you can have real value with your second pizza for EUR 2. That is -- and we're seeing that in the Benelux. That's the winning combination, and that's what we have to do in France.

But we did -- based on the first results in France, we did get a little bit skittish. We were absolutely the first DPE market to do it. But this shows you that doing it half is not the right way.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you. Andre, you just mentioned, obviously, the French menu and that premium offering. Bryan Raymond has asked, why didn't that French menu resonate with French carryout customers? And he's asked that our use of the term that carryout was impaired post COVID, does that mean that it can't be rectified?

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

I 100% believe it can be rectified. We will roll out some really good value deals for the customers. There is a change in behavior and still in markets of France, but other European markets as well. You see that even though everything should be back to normal, universities are still -- my sons are not going there every day as they used to. They go there once a week. Offices are still empty for a couple of days. So that -- there is a different consumer behavior, and we're working towards that.

But no. At no point do I think that we can't get back carryout. In France, as you know, we have these 2 crazy days, as we call them, Mardi and Samedi fou. And they are still outperforming the other days of the week, especially if we add some TV commercials to that.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Just staying in Europe. Brian Raymond has asked, has delivery service fee being implemented outside of ANZ. Brian, the answer is no. But his question is, if not, is it disappropriate for the European market given the inflationary pressure?

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

It's definitely not disappropriate, and we're testing. We're taking a big approach that we're going to test this. There's very -- there's -- in the 6 markets in Europe, there's different pricing models. And for instance, a large part of the French market already uses delivery fees. There's different structures of pricing in there, has been there forever. And in -- Stoffel, in Germany, is going to test a service fee, which will be initially in the test lower than the one in ANZ.

But we leave nothing off the table. Everything that we can test and which seems to be a good idea, we will definitely test. And we have aggregators in Europe as well, as you know. They have up to 7, 8 different lines that -- additions to the total full basket of fees and service fees and payment fees and delivery fees. So it's not abnormal for our customers. So we're definitely going to look at that as one of the ways to battle inflation, yes.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Now Richard Barwick has asked regarding the network. So we added 294 new stores and then 156 stores in Taiwan. That was 450 stores. That was short of -- 50 short of the 500 stores that we set at the half year that we intended to open. So what was the miss and which countries missed the target? And do we have many closures planned for FY '23? Maybe if I start with Josh first and then Andre as to where the miss was?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes, sure. So we built quite a lot of stores in that region. We had planned to build more. It was just more of a timing thing where it pushed over. There were some things that we had to -- it's just the way things fall sometimes certainly in that region.

ANZ was fairly similar. I might pass to Dave. He's got some thoughts on this. But it's more of just things pushed into the next half. And we had -- I remember looking at it and thinking we're going to have sort of 14, 15 stores open before the end of the year, but they all got pushed just through timings alone to start getting the sites in place, getting the construction and all those sorts of things. Anything on that, Dave?

David Burness - *Domino's Pizza Enterprises Limited - CEO of Australia & New Zealand*

Yes. I mean if you look at ANZ, we were 23 stores for the year, 3 in half 1, 20 in half 2. And what we found in half 1 was that we couldn't get our construction and development teams on the road. I mean, some of the stores that we're opening, they're conversions of independent pizza shops. And in cases like that, I mean, you're literally knocking on someone's door, talking to the owner of the business about whether they'd like to sell or convert the store. And to do that, you've got to have people on the ground.

So once we got our construction and development teams mobile, borders stopped being locked down, we saw that really accelerate in half 2. And we're seeing that continue now into FY '23. So yes, we're much more confident about this year than last.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes. And in Australia, we've got 11 stores under construction there. If you look at the APAC -- sorry, Japan and Taiwan, we've got about sort of 15, 16 stores under construction. I mean these are just timing things. We had a similar thing in Taiwan where we couldn't get to sites. We couldn't get even the leasing companies to turn up either. So that sort of pushed it out. We're going to get -- we wanted to get 21. We didn't quite get there, and those things pushed.

We also have to -- in Taiwan, as it relates, we have to invest into our development teams, and that was only recently that they've had a development department. So they're running on a very small overhead there. So we've put those people in place now, and we'll start growing appropriately. But probably over to Europe.

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

Yes. What we are seeing in Europe is that the window of store openings has become larger, mostly to utilities. It is -- we were sort of expecting with the wind down of COVID measurements that we will get in the normal rhythm of timing for getting electricity and gas in stores, but it actually became a long -- also these companies have staffing issues, making sure that we're connected.

Secondly, permitting has not become easier over the last years. Actually, it's become a lot harder. So we have to have a very full pipeline to overcome those window issues. And sometimes you just have a gap in your opening calendar. And they just don't fall because they get pushed forward, same as in APAC, I guess.

Stoffel, do you have anything to add to that?

Stoffel Thijs - *Domino's Pizza Enterprises Limited - CEO of Germany*

I do not. No, thank you. Sorry, I had to come off mute. So I don't -- I have to now donate $50.

I do not. No, it's akin to what you're saying. There's just -- they're headwinds that we are facing, everybody is. And we see the appetite for stores. We believe that with growing -- the initiatives we're taking to grow sales, with growing sales, we grow profits on both our side and the franchisee's side. And if we grow profits, we put an extra layer of opening intent with our franchisees.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Tom Kierath has asked how many stores we're targeting to roll in, in FY '23.

Obviously, we've said today that we're looking for 8% to 10%. So that puts us above 270.

Maybe Josh and Andre again, you can give some sort of a flavor? I know we've talked about -- we're expecting a first half skew to APAC in the pack today. So maybe we'll start there, Josh, and then Andre can tell us your plans as well.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes. Well, I mean we plan to open. We don't plan to slow down in Japan. Where we are growing -- looking to grow a lot more is in the more sort of greenfield areas, green space, so what -- whichever way you want to call it. Which actually then will take pressure off some of the other businesses or the other stores that we have in the bigger capital cities.

We detailed that quite heavily in the investor tour in Asia as well. We try to open stores before Christmas. It's a very big trading period for us. So I don't see us deviating from that in -- and that relates to Taiwan as well, which is also has a big trading for Christmas. So you should see more of the same.

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

Same for Europe. We won't take our foot of the pedal, and we will just continue to find locations and open stores, look for maybe smaller acquisitions, distressed smaller chains, which also have to battle inflation, struggling with getting staff or paying staff the amount that they need to pay these days on an hourly basis.

So no, we're looking for every opportunity. Again, the franchisee appetite is still there. So the 8% to 10% for us in Europe is we also look at a little bit more, obviously because we still have markets that are not even close to their full potential.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

So the key question then and follow-up from Richard Barwick on that is just franchisee appetite. Maybe if you could describe it? I mean, has there been a slowdown from franchisee appetite? Are we still seeing a high level?

Andre Ten Wolde - *Domino's Pizza Enterprises Limited - CEO of Europe*

If I can start with that, the franchisee appetite is still there. Is -- there's still a lot of confidence, but there's also a lot of unknowns. There's a lot of franchisees that expected, okay, once COVID is over, things are back to normal. And they've gotten even worse after COVID or even more interesting, as they say.

So yes, franchisees think about what's their next play, what's their next store. And if everything goes hunky dory, it's easier to open stores. Then they have these inflations to overcome. But I think, in general, franchisees have seen what we were able to do during COVID, what we were able to do in the early days of inflation. How -- what I'm thinking is how we think about battling this with this multilayered approach.

They see that we are having initiatives to reduce their costs. Project Golf is one that springs to mind. That we are smart about increasing prices, and at the same time still delivering great value. So I think the confidence of franchisees in the system, how resilient it is in also tough times, makes that they still want to open stores.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Josh, next, I saw everyone light up and come at me for that question. So Josh, next, then Dave and then Stoffel.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

We'll go to Dave first. I got my say on the last question. So Dave, do you want to take it?

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Dave, over to you for franchisee appetite.

David Burness - *Domino's Pizza Enterprises Limited - CEO of Australia & New Zealand*

Yes, I think that there was probably a pause on appetite around May, June until they saw how we handled the inflation in ANZ. And I think that we've talked about the fact that we seem to have navigated that inflation pretty well in July. And I think the appetite is back now for franchisees who are looking to expand.

We went on the road and did what we call a road show throughout June. And we went to every capital city. The executive team went on the road and spoke to most franchisees in the system. And once we mapped out the strategy for FY '23, it was a combination of a pricing strategy and an operation strategy, we polled the franchisees after that as to their confidence in the strategy. And that rated at over 83% confidence in that strategy. So that confidence in the strategy will then transfer into confidence into expansion.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Yes, very similar for the Japanese franchisees and the Taiwanese franchisees. It's all about the strategy. It's about how we communicate it. It's about more frequent communications, which is what Dave has been doing in Australia, getting them comfortable. Because they've got to be comfortable in our plans so that they can invest in the business. Not only in their existing stores, but for any future store growth.

We haven't seen a drop off. In fact, once people see the plan and see what we want to do and see this period as an opportunity to not only gain market share but to go in the opposite direction of everybody else in the QSR landscape and to really capitalize on it, they get -- they're quite excited by that and excited by the differentiated plan that we have.

And then you layer in things like technology. And they can see how we can capture people within our ecosystem now and talk to them in a way that they want to be spoken to, with the content that those customers want. They're starting to feel the excitement come from beyond. So I expect a lot more franchisee growth in all our markets.

Stoffel Thijs - *Domino's Pizza Enterprises Limited - CEO of Germany*

Yes. So I'll finish it off then. As Dave said, it's about the strategy and get a good uptake in Germany on our strategy from the franchisees. And then there is no such thing as de-franchisee or de-opinion of the franchise partners. It's a mixed bag. And some of the guys that are probably more entrepreneurial, more optimistic, they understand that with the risks and the challenges of the current market, it's actually an opportunity.

So what they will see is that, because we are the most efficient delivery service, if the cost of goods goes up, if the cost of labor goes up, it's actually a competitive advantage against the competition. Because they spend more time on the road to deliver the pizzas to their customers, that actually increase their prices more, which makes our prices look more attractive in consumers' eyes.

There's other franchisees that say, yes, I believe all that, and I'll see what's going to happen in the next couple of months and then I'll sign up. And that's fine, right? It's a mixed bag of people.

So yes, we see appetites. We see some people that are a bit hesitant for this moment in time. Dave already grew through that. We're probably a few months behind on where Dave is in his journey with the Australian team. So I'm confident in opening the stores.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you so much. We're going to have to wrap up shortly because we've gone well over and this is the first year that we have not been able to burn through all the questions.

Richard, I've got a couple of questions in terms of the acquisition in Southeast Asia from Richard Barwick and Lisa Deng.

Just asking, the acquisition-associated 5% EPS accretion, is that 5% post funding? Richard is saying that it seems to implied just a 1% cost of debt. And so can you confirm what that cost of debt that you're assuming. And the potential earnout seems significant, so what kind of EBITDA would have to be in order for that to be paid out? I know Richard is very keen to talk about the cost of debt.

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

Yes. So look, we're basically funding this as we've highlighted from cash and debt facilities. We've already got commitments from our current banking syndicate to fund the acquisition. Yes, the interest costs are in line with our current funding costs, so it's relatively low. Accessing, leveraging our Japanese and European banks that have relatively low risk margins and funding costs. So yes, it is -- that EPS accretion is after funding, so I can confirm that.

And in terms of the earnout, look, that we've -- that's a worst-case scenario -- sorry, that's a top -- maybe Josh, if you maybe go into a little bit more detail on that. But in terms of the earn-out, yes, it will be delivered if they achieve the multiples that were included in the [contract].

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

Remember, the benefit -- yes, we get the benefit on the other side of that as well. So you kind of might think that's a scary number. But if you look at it, we'd be happy to pay the earn-out because we'll be benefiting on the other side of that as well. So I don't really see it as a problem. I'm not sure who asked that by the way, Richard. But I don't see this as an issue. I mean, that's what we want to even go and exceed that if we can.

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

But in the pack, it's 11x multiple of EBITDA.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

That's right.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

I'm just going to -- sorry, a quick question for Josh then just in terms of -- because I know I've got to free you up. The -- how long you've been able to retain management book.

Richard Coney - *Domino's Pizza Enterprises Limited - Group CFO*

Sorry, I might want to add, that's 11x multiple pre-IFRS on EBITDA.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you, Richard. The retention, Josh, of local management, how long have you been able to retain management book?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of APAC and President & CEO of Japan*

We typically retain for 1 year. We've got the CEO, Shan-Ting, who was the previous CEO. We've got him in place for a couple of years. But yes, I think that's the standard amount of time we would retain book.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Thank you that, Josh. I'm just going to finish with one question. And as I said, unfortunately, we have not been able to get through all of the questions today. So we'll take some of those on notice.

Sam Teeger from Citi has asked, when Don mentioned that ANZ same-store sales in FY '23 to date are well above, can you please confirm if he was referring to well above positive or well above the 3% to 6% target?

I can say that he was referring to well above the 3% to 6% that our outlook is. Dave, maybe if you wanted to give some color just in terms of -- I don't know if every person who's still on this call -- there's still 179 participants dialed in, if every one of those has tried the burger pizza, but maybe, David, if I hand over to you.

David Burness - *Domino's Pizza Enterprises Limited - CEO of Australia & New Zealand*

Yes. So interesting is that the sales growth is not just increase in price because we talked about the 6% delivery service fee, for example, but we're actually tracking up customer count. If we take the last 4 to 5 weeks, our customer count is up, and our sales are up. So I mean some of that is a return to pick up because we're seeing quite a bit of growth in pickup customer count. But I can confirm that it's not just price increase. We are seeing customer count increase as well.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of IR*

Terrific. Well, thank you, and I appreciate everybody's patience today. And as I said, there's been a lot of people on this call. I'm going to finish up now and say how delighted we are to be seeing people in person this week, which we'll do over a number of meetings.

Thank you so much for your attendance, and as I said, for your patience with my Zoom skills, which are now going to be -- leave our Domino's for Good Foundation Charity Foundation $50 better off from my muting. So congratulations to all the other speakers for not having to make that donation today, but I'm sure that we'll be kicking in their own way.

So thank you all very much. We look forward to meeting you in person. Have a great day.
