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DMP.AX - Full Year 2023 Domino's Pizza Enterprises Ltd Earnings Call

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PRESENTATION

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Good morning. The time is now 10:30, so we're going to start the Domino's Pizza Enterprises Full Year Results for the period ending of the 2nd of July 2023. My name, for those who have not met me before, is Nathan Scholz, and I'm the Chief Communications and Investor Relations Officer for Domino's Pizza Enterprises.

Joining us on the call today is our Group CEO and Managing Director, Mr. Don Meij; our Group CFO, Richard Coney. Don and Richard will be doing the presentation today. And joining us for the Q&A session is Asia CEO, Josh Kilimnik and Europe CEO Andre ten Wolde.

And with that, I'm going to hand over to our Group CEO and Managing Director, Mr. Don Meij.

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

Thank you, Nathan, and thank you for everybody who's coming on the call today. I'm going to start with our mission because I'm going to refer to this a number of times throughout the presentation as a mission-led company, it's so clear with the products that we're winning and where we're winning, and I'll refer to elements that we are, and we want to be, the dominant sustainable delivery QSR. It's what helps to differentiate us and break away in the market.

Next slide, Nathan. One of the things that we talked about forever is that we're in the value business. And if you can just go to next slide, Nathan. We're in the in the value business. And one of the things that we want to take you through today is how -- when we get the value equation right, it flows through to our results. And clearly, last year, we didn't get the value equation right.

And it always starts with the customer. You can't make more money out of less customers. And we always say at Domino's that today's customer count is tomorrow's sales and profits. And what we saw last year was a very challenging year as we took inflation and we didn't get the value equation right. We -- if you look at the left-hand side of the page there, we responded really quickly to try and protect franchisees' margins. In some cases, we even took some of the soft commodity hits in the very old spaces because there are prices in the marketplace for our franchise partners that couldn't profitably take or survive the pass-through of some of those ingredient prices. So we took some of that.

And then -- we then responded without as much testing as we used to with increased prices, and in examples like the delivery service fee, we got it wrong. And it took us some time to rebalance that. And what we hope we can show you today and we're going to talk to you today is why we think that in 10 of the 12 markets today, we've got that mostly right and we'll be passing through to the other 2 markets that we're still building on that.

And it always starts with the customers. Immediately, when you see our same-store sales that we're reporting today in Europe and ANZ, that's actually off the back of positive customer counts. I mean it's this time last year that we were taking some of those big increases. And so whilst we still are ahead in our ticket, we're also really proud of the customer count growth that we're getting in our stores.

And then with great -- strong customer count, we're seeing that flow through to our franchisee sales and profitability, and I'll refer a little bit to that on what's happening right now. And then ultimately, it flows through to us. And that's the right chain and that's the right order from customer to our franchise partners or our corporate stores and then through to our shareholders.

Next slide, Nathan. But if we look at last year, and I hope that this isn't a surprise today, when you look at these numbers because I think we updated relatively clearly in June, is that we basically had a flat year in same-store sales. And inside that, we saw some great recovery in Europe towards the end of the last quarter and some recovery in ANZ, which you've seen that continue through and build in the last 7 weeks. But we did have weakness in Japan and Taiwan, which drove that down in Taiwan, specifically still rolling COVID numbers until October. Japan, good customer count growth in carry-out but not in delivery, and that's where we need to do some work in Japan, and we'll talk to that today.

We added 205 organic stores last year, and we acquired the markets of Malaysia, Singapore and Cambodia. We spent more on our CapEx than our normal 3- to 5-year outlook because of the acquisition, but also we didn't get the proceeds of sales through a number of our corporate stores, which is a traditional income line for us. And that literally came from a lower appetite with lower earnings at our store level after last year.

Next slide, Nathan. Now if you have a look at our trading update today, we're really proud to be able to share that our network sales are up 12.6%. Now that does include Malaysia, Singapore and Cambodia, and it does actually include some benefit of FX right now. But it also includes the core operating sales that the business are growing in Europe and ANZ by about 6.6%. Some of that has been negated by Japan and Taiwan, and to net out at 2.8%, but we'll talk in more detail about what we're doing in Japan and Taiwan and what's driving the Europe and ANZ business because it's the same things that will flow through.

We've already opened 9 stores, although we do anticipate that when we look at this year's earnings, we're being cautiously optimistic in that margin recovery, we believe, is there. However, a lot of this year's profit growth will come from what we're doing with the restructure, and noting that 1/3 of that is passed through to our franchise partners.

So next slide. And you can see where the numbers flow through in our business is that our network sales were only up 2.2% and online sales up 2.4%. That was 4.3% if you take into account FX. Our store count net was up 11.7%. But with the poor trading that we experienced and our franchise partners experienced, our own EBIT was down incorporating earnings by 23.3%. And as a result, also our EPS was down 26.9%.

And unfortunately, for our franchise partners, it was also an equally challenging year. You can see that whilst we -- our franchise scale is growing, so the number of franchisees per store, on Slide 7, is now at 2.7. Clearly, we're disappointed with the profitability of our stores. And I want to highlight, however, this goes through to March, and Nathan, if you can make that the next slide, this goes through to March. And I'm going to be proud to be able to report what's already happening in this quarter. For example, the Australian franchisees are up 18%. The first 7 weeks this year had a profitability rolling last year's numbers, which actually was our strongest period of the whole Australian year when we rolled the burger range out last year. So it's good comps on good comps, but we have a much bigger ambition to deliver for our franchise partners in that area.

Clearly, our results are out beyond 4x, which that's why you've seen slow in organic store growth. But there is still stores opening, because these are averages, and average is still high, that there's obviously stores that are weaker than this on the bottom and stores that are stronger than this on the top. And right now, with the recovery that we're seeing in Europe and Australia and New Zealand, we're already starting to see some, for example, appetite in the Australian business to get more stores open.

So in summary, if you come and we reflect on last year, on Slide 8. In the face of extraordinary inflation, we moved, first of all, to protect our franchise partners, and in some cases, we overcompensated with our menu prices and particularly with the delivery service fee. And today, we're proud that in some markets, we're the only operator and hence why we're seeing good delivery growth again without a delivery service fee.

Scale of inflation meant that we didn't use our normal testing models. We literally rushed many ideas through the market. Some of them we got right. In fact, the carry-out business grew quite healthily, but in delivery we clearly got it wrong. And as a result of that, we lost some frequency in our customers and even some of our light users.

And we saw then in the second half, around February, March, we started to recover in many cases with our Flex (inaudible) the DSF, and then what you're seeing now is also the benefits of our new product launches, which are very, very focused on our mission. And I'll take you through that as we go through that.

Our franchisees have been extremely resilient through this period. Together, we stood side-by-side in incredibly challenging period. But it feels great that we're rebuilding the business together, and we're both benefiting from that today.

So what I'm going to now talk about is the restructuring of the business in 2 pieces. First of all, on Slide 9, we announced in June that we were departing the Danish business. For those, just reminding that we bought a brand damage business, and we just felt that in a public environment, it was just going to take too many years to repair the brand and the losses were too deep. And so we decided we'd exit that small business.

We also made an announcement that we were going to be closing 56 of our existing stores and our corporate stores, which were ones that we've taken back that were structurally broken. And our habit was not to close stores typically, but these may have had rents that over the years somehow structurally were wrong, maybe the position of where the store was for their house counts was wrong. And so there were a lag in our earnings, and we still got -- we provisioned already in this announcement for another 18 stores that we'll close.

Most of those, because we haven't been able to close some with stores in France as we've got to go over through a process there, that's where there's a bit of lag in those numbers. But predominantly, what's happened in Australia, New Zealand has already happened, and in most of Asia.

We're also franchising. We've taken an impairment on some of our stores where we think that, for whatever reason, the price sitting on our balance sheet wasn't appropriate to make them profitable for our franchise partner to operate in the market. So we're in transition with those. Some of them already happened and some more to come.

We're also closing all the commissaries Southeast Asia. So by the end of this financial year, the whole of the Asia and Australia and New Zealand businesses will be back of house. That passes around 2% to 2.5% of savings through to the stores. Already in Germany, we followed back of house and we reviewed the rest of the business.

And finally, we've already written off some of the legacy assets as we've gone to new assets with, for example, the one digital platform, the next gen that's already rolled. So by and large, just in this area, there's around $30 million to $31 million of savings. A lot of it is already being realized. And so it's going to fall through throughout the year. And where it has been realized we're already passing through 1/3 of the savings to our franchise partners. And Australia was the fastest to act and our franchisees are enjoying some of those savings already. And the nonrecurring cost is around about $105 million from this area.

Now if we go to Slide 10, the second part, and that takes a little bit longer, although we're very active already, is streamlining and restructuring the operations. So we are realigning reporting lines, in many cases, making -- getting rid of some layers in the business where we duplicate. In fact, many parts of the business, it's returning to what we were doing for most of our public life where many of the group roles were also on the tools because the problem in recent years is group roles like myself were often consulting to the business, not in the business as much as far as like literally working on projects. And we've rechanged that and an example is that I'm now the ANZ CEO and Group CEO, and loving every moment and having a lot of fun at the moment with our franchise partners.

So we're realigning. We're also establishing centers of expertise where often we were duplicating things, we roll it all up in areas of marketing and digital and aggregators, and many of our specialist areas in our platform of our business. And these centers of expertise service each of the markets. And then it allows our CEOs to be able to leverage all of this expertise and then focus in market with the franchise partners on operations, on the marketing calendar itself, on profitability and development specific to that market.

If you look at that also, as I mentioned earlier, we're establishing centers of expertise, we're also moving some of our business through shared service. And the marketing segment of our business is really rolling up many of these centers of expertise. CMOs are still very driven in their markets, applying the day-to-day, but leveraging through a more global CMO the tools.

And so the savings in this area just in this financial year will be around $20 million to $29 million. And once again, 1/3 of that is, as soon as it's being realized is being passed back to franchisees. So roughly, when you look at just this year, when you aggregate these things together, it's around $50 million to $60 million of savings, then 1/3 goes to franchisees. And then this year, when it's fully realized into next year, the run rate would be between $80 million to $94 million. So that steps up extra $34 million next year as we complete the full restructure. And that will continue, once again to be shared in 1/3.

We do the like-for-like comparison on Page 15. Richard will take you through that on what we announced in June and how, in fact, these numbers are now more significant as we've worked through it, both also in the nonrecurring, but in the actual pass-through to the system and to our shareholders.

So at this point in time, I'm going to hand over to Richard Coney to take us through the financial results. Thank you, Richard.

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

Thank you, Don. Nathan, could you go to Slide 12? Okay. As you can see, our revenue is in line with network sales growth of positive 3.4%, noting we had a slight FX headwind with an impact decline of 23.5% on a constant currency basis. Our full year dividend this year is $1.10 per share, consistent with an 80% underlying payout ratio with a final franked dividend of $0.426 -- sorry, a final unfranked dividend of $0.426 per share. In addition, we have activated our DRP, which is fully underwritten.

Nate, if you could go to Slide 13. On this slide, you can see revenue is consistently up in all regions noting Japan had a significant FX headwind, offsetting the acquisition benefit of Singapore and Malaysia. Our total EBIT is down 23.3%, predominantly due to large declines in Europe and Asia, with margins below -- as you can see, below our historic averages.

Moving to Slide 14, Nate. Total nonrecurring costs of $116.6 million with, as Don mentioned, $105 million relating to restructuring and discontinued operations in line with what we updated the market on the 13th of June. In addition, we had $11.6 million related to ongoing legal fees for the class action, which has continued from last year, Pizza Sprint, along with the Malaysia, Singapore acquisition, and integration costs getting to the majority of that number.

Nate, if you could go to Slide 15. This is a slide Don referred to. A lot of detail here. But basically, we got restructure and closure costs have come in at $105 million, versus our estimate on 13th of June announcement of $80 million to $93 million. This is largely due to an additional 31 store closures with 18 provisioned to happen in 2024. As a result, we expect to get an EBIT improvement in FY '24, the DPE of $33 million to $40 million, the DPE itself in '24, and $53 million to $62 million in FY '25, which compares very favorably to the original forecast in June. So more nonrecurring costs but bigger benefits in the latter years.

Moving over to Slide 16. Generally, a pretty good result here for our cash flow with net operating cash flow up 37.2%, largely due to a positive $36.5 million change in working capital due to a timing and one-off benefit from the Singapore and Malaysian acquisition. Also worth noting that the cash impact of the restructuring is relatively minimal, with nonrecurring cash costs, you can see, of $19.4 million versus the $116.6 million expense.

Nate, if you could move to Slide 17. Our net CapEx has slightly exceeded our 3- to 5-year outlook, predominantly due to the additional investments in Malaysia and Singapore and lower cash inflows from store sales and the refinancing of our franchisees. We expect this to rebalance in the coming year in line with the planned improvement in store unit economics, with our franchisees able to get financing in a more -- when their unit economics are stronger.

Moving to Slide 18, Nate. I guess the key points to note on this slide is that our net debt has increased by $252 million to $819 million as a result of the acquisitions and higher net CapEx. Other movements in the balance sheet predominantly relate to the Malaysia, Singapore acquisition and the settlement of the Germany minority interest.

And now, Nate, if you could move -- moving to Slide 19. I know the number one question from a capital management perspective is how we plan to deal with our elevated gearing and the resultant net leverage ratio of 2.9x. As you can see, we have taken a 3-pronged strategy to accelerate a reduction in gearing levels to our targeted range of closer to 2x. And these include tighter management of our CapEx, as highlighted; a fully underwritten DRP; and most importantly, the immediate closure of 83 underperforming stores in our Denmark and across the group, as we've highlighted. Noting that these alone would have reduced our net leverage ratio in the 2023 year to 2.6x on a pro forma basis. As a result, I'm very confident we won't come close to breaching our covenant in the coming year.

Also worth noting that we do have significant headroom from a debt servicing perspective, with interest coverage at 15.7x versus our covenant of 3x. Also noting that we've locked in $328 million of our debt, which is fixed out to 2027 at an interest rate of close to 1%. So that's a good outcome for us that we delivered over the year.

Nate, moving to Slide 20. This is our normal key financial ratio slide, probably just the highlights here is our return on equity is still relatively strong at 26.5% and also noting cash conversion per the benefits in working capital have lifted from 86% to 102%.

I'll now pass you back to Don Meij.

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

Thank you, Richard. And also thank you, Nathan, on Slide 22. So let's break it out into the 3 segments of the business. .

Clearly, in the results today, the area of the business that we're still looking to deliver all the learning is in Japan and Taiwan. It's worth noting that in both those markets, we're still enjoying good carryout growth. It's really been the delivery recovery and the order frequency is just so much longer than it bounces in Europe and Australia and New Zealand. So similar initiatives through the aggregators and delivery (inaudible) DSF has happened, we expect that we're going to recover to positive substantial sales in this year.

We're still embedding in the Malaysia, Singapore and Cambodian businesses and Taiwan, Taiwan because of -- we couldn't access the business in the first 18 months of ownership with COVID. And so we still got to build all of our technology platforms and all of our BI stacks and data and so on to be leveraging all the knowledge that we have in our business, especially with the center of expertise that they're going to really need to have those technology stacks to aid.

Bit of Europe. Europe was already seeing some strong recovery in the last quarter and has continued this quarter, this first 7 weeks. The rock star in our whole business for the whole year was the Benelux led by the Netherlands particularly. The Netherlands, which is just very consistent, was an inspiration for the rest of the group with its product development and its more consistent approach to pricing. It didn't roll the DSF, so it came in stronger into the period, and therefore, was slower and that paid off in what they did in their markets and was inspiring for the rest of us.

We've seen France has delivered recent growth with a more consistent national approach. And Germany is experiencing some of the strongest same-store sales. In fact, in the last 7 weeks, we've had 4 of our biggest weeks -- 4 of our 10 biggest weeks in the history of the German business. That does not happen in summer where typically summer is our quieter times of the year. So a very strong product launch there and also strong aggregator engagement.

Then if we come to the ANZ business, we're seeing really strong aggregated growth here, and I'm going to talk about that in the next slide. The launch of the MyDomino's Box has been fantastic for segment growth. We've never really had a single-leader product. We've been predominantly a dinner-driven business. We've shared meals. MyDomino's Box has been a real star. High margin for our franchisees. It's not a product we discount. On a Thursday we might give away a 300, 600 ml Pepsi product or occasionally we might take $2 up on a Thursday. But otherwise, it is its price, and it's been really successful.

And the mall campaign has just launched, answering a lot of questions for this particular era. Customers are wanting more. The hero, our -- the Lot pizza in the first week, where it's our most topped pizza in history with 15 toppings, became the #1 selling premium pizza straight off the bat, which is just rare when you think of the maturity of our menu. And also the crispy chips that are launching, and you'll see more of that to come, very mission-focused, both MyDomino's Box and the crispy chips designed to be delivered, a really robust product that's to be consumed at home.

And in fact, crispy fries in Europe was the biggest selling side item in our history, because fries is the #1 food eaten in QSRs, not really made for delivery. And we've now designed a fry to deliver. And we couldn't be more excited of what's going to happen in the Australian and New Zealand business in the coming weeks. Also launching in New Zealand next week, it's actually a Kiwi product.

As a result of this, our franchisee profitability just in our ANZ business, the Australian business alone is up 18% in the first 7 weeks rolling stronger numbers. Europe is also seeing high single-digit, double-digit growth. So when we look at the numbers, they are the numbers for last year and the epicenter of the [worst] for both our business and for our franchise partners. And now we're in the recovery.

Still lots more to do. We want to make sure that's really clear, that there's big ambitions in our strategy, very product-focused and very margin-focused for our business partners.

If you come on to Slide 23. I want to talk about the aggregators because for many years, when the aggregators were launching throughout our network, there was a fear that they were a competitor. And we were -- we -- our strategy, 5 or 6 years ago, led through Andre ten Wolde, was that they're not a competitor. It's another marketplace. And it's just another place for us to go and win. I'm really proud to say right now that it's inside the aggregators that in places like Australia, New Zealand and Germany and imminently in some of the other markets where we're getting actually our fastest growth, we're seeing significant double-digit growth inside the aggregator platforms.

And part of what served that is that we've got a new deal with Uber that's global. We want to thank the parent company in DPZ (inaudible) who actually delivered this contract for us. It's great how we're working this closer and closer together and it's a little insight of what's more to come on global buying. But this is really material. I mean to our franchisees, it's significantly better margin. We haven't realized them yet. It's days away, because whilst we have the global deal, it's got to be implemented by each individual market by contract, but franchisees are running -- our franchise partners are running at it really hard, and we're seeing great growth across the business. And as I said, it's more of what's to come.

You see in our business, media buying and platform buying, just say 3 to 4 years ago, if you're sitting in Australia, we would go to Channel 9, Channel 10, Channel 7, we would buy a lot of television. We would buy a lot of letterbox drops through Australia Post. We did a bit of News Corp. Today, by far, the biggest growth is through the big global platforms of Meta and Google and TikTok and Line. And we're looking in partnership to bring aggregated savings to our franchisees like this contract, to do global sourcing, global buying, which is a whole new place. Because it's not just only about the price, but it's also being at the cutting edge of how these tools work.

And just like in the old days of TV where no 15-second ad is the same, time of day, but also is the first 15-second ad break or the last 15-second ad break, a lot of the algorithms for the aggregators are exactly the same. And how do you dominate by doing global buys and get the best position. So you not only have a better price, but you get a better yield out of the platform as well. So that's one of the things we're hoping to deliver with the new structure. And once again, thanks to our partnership with DPZ on getting this fantastic deal across the line.

By the way, it's mostly -- helps Japan, France, Taiwan, Australia and New Zealand. That's where we get most of the gains from the Uber contract.

If you come with me on to Slide 24. Our business has always been about a high-volume mentality. It's the leverage through more order count growth that our franchise partners win, and we ultimately win if they're winning. And we -- and that's where we lost it last year. We lost order counts. You can't make more money out of less customers, and that created a lot of pain in the business.

So what you're seeing now is that because we've balanced our pricing, in fact, we're even saying in this announcement that in this financial year, because we're now getting strong benefits through soft commodities and with lower energy and transport costs, that's negating the increases we're seeing in wages around the world, which we expect to continue throughout this financial year. And as a result of that, we're pretty confident we're going to be able to stick to the menu prices that we have today. And then we'll be launching new products into that basket as we retire also old products. Now every product has a job to do in our menu, and if it doesn't, then it needs to move on and be replaced with more profitable new products, which is what we're doing.

If you come with me on to Slide 25. We mentioned earlier, it's all about value. Value to us, it's not just the price. It's the product, it's the service, it's the image that we get for that price. And I want to give you an example of our -- living our mission. Domino's Pizza invented the corrugated pizza box some 50-odd years ago. And for the most intents and purposes, it's been the same product copied by competitors all over the world. What we're really, really proud about in the last few weeks is we've launched the D-Box in Australia. So we've gone and reinvented the box. That's -- the D-Box is not only signature Domino's, but it also holds our pizza tighter in place. It's a structurally more rigid packaging, so it's less likely to get crushed when customers buy multi pizzas and drinks on top of the hot bag. So it gets -- it's more likely to come better to the customer, which delivers a better product experience. Fully recyclable and made from recycled materials in most of our markets around the world.

I think Nathan has got a little bit of a video he wants to play here just as it will be in the market this week in Australia.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Absolutely do.

(presentation)

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

Thank you, Nathan. I couldn't wait to shoot that video. All right. If you come with me now onto the next slide, there has been some adjustments with the inflation that we've experienced last year and as we're now rebuilding the business this year, we feel that we lost the year in that. And so our 5,000 stores outlook is shifting to '27, '28. The same with Australia, that we're saying that's now going to be '27, '28 to achieve the 1,200 stores. This is a big year of chasing AWUS growth. Just in Australia alone in the last 2, 3 months, we've taken the AWUS, which is average weekly unit sales, from 29,000 to 34,000. That's very material for our franchisees. And we've got big ambitions to go harder after that and get that up so we can leverage our fixed and semi-fixed costs and get our returns on capital employed down to less than 3 years and get those stores open, as we still have many places around Australia and New Zealand where we could do a better job servicing the customer.

We still have a milestone of 7,100 stores by 2030. We think that we can well and truly achieve that.

But if we come on to Slide 27, we are making one adjustment -- another adjustment here today in that we believe that whilst this year we won't hit the 3-, 5-year outlook for our store count as we're rebuilding those unit economics, we do think we will recover to that in 2025. And we're saying that the run rate to get to the 7,100 stores by 2033 means that we'll open approximately 7% to 9% of our stores per year.

We are reconfirming, though, that we believe that we're going to be able to achieve the 3% to 5% -- sorry, the 3% to 6% same-store sales over the next 3 to 5 years, and we feel quite confident about that. So in the near term, we -- this is not giving guidance as such, but it's giving outlook.

All right. If we come on to the next slide, Nathan. I'm going to jump straight to Slide 29 and just for conclusion because we know that there's a ton of questions and we've got 268 people online. The first thing is that we're very, very focused on winning more customers for our business partners. We're working through the value equation to make sure -- this is on Slide 29, Nathan. We're making sure that we're going to get those pricing structures properly delivered through our Taiwan and Japan business.

It's clearly just executional there right now. We know what we've got to do, and we just got to get that back into delivery. High-volume mentality lives in the business. That is -- I want to get the mid of the table that I've read in the marketplace from some of our analysts that they, "Oh, they took away the 7%, and therefore, franchisees' margins have dropped." Franchisees' margins, I can assure you, have increased since we've done that as we level-set the menu.

The other reason margins have increased because we've launched more profitable products. Some of these products like the MyDomino's Box are the most profitable products we've launched in our history if not in recent history. And so we're really confident that we're going to grow franchisee unit economic margins. And ultimately, that would grow to more order count growth, which will flow through to us in more increased profitability to ourselves as well.

We're back winning share. We have maintained a 51% share in the pizza category in a market like Australia. But right now, we're recovering some of our orders from other categories. And similar approaches are being applied throughout the Europe business and through Australia and New Zealand. I mean, Europe business has been very inspiring with their product development, the product in Germany, the kebab pizza are very much like the burger range in Australia, just been an absolute rock star. MyDomino's Box launches in France this week. It's already in Taiwan, Japan, Malaysia. So we're going to see it throughout our business in the coming 6 months. It's just a really good product and it resonates with consumers.

This year, we're delivering $60 million of savings to the network. And next year, it will be $80 million to $94 million, 1/3 of that will go to our franchise partners. That's already underway.

If you then go on to the last slide. We're quite optimistic about the short term and resolute on the medium to long term, that, yes, the last 18 months was incredibly challenging. My 36 years in the business, it hadn't faced, with the team. Take full responsibility for some of the initiatives. Many of them are very well entrenched in and they -- many of them didn't work and that's evident in our results. And apologize to our franchise partners that we couldn't do things faster.

But that's the past. We're now in the future. We are already in that mode of recovery in the business. We're going to be passing through those savings and we're going to deliver the results for our franchise partners and for you, our shareholders.

So yes, at this particular time, I'm now going to hand back over. There's many items in the appendices, which we can go through more detail. But at this time, I'm going to pass back through to Nathan for Q&A. Thank you very much, everybody.

QUESTIONS AND ANSWERS

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Thank you, Don. And thank you, Richard, as well for your presentation. So I'm now -- as Don said, I'm now going to pass on to the Q&A. (Operator Instructions) I know there are a couple of our analysts that for compliance reasons are not able to enter questions into Zoom. For those, if you are able to just send me a quick e-mail for analysts and investors, then I'll be able to ask those on the call as well.

I'll start with the first question from Michael Simotas, which is on the balance sheet. And it looks like if not for the payables timing benefit, you would have breached the covenant. Is this correct? Richard, one for you.

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

Yes. So that, I guess, is a theoretical sort of statement. But look, we have things moving both ways. So payables, obviously, was a benefit to us in our cash flow. But on the other side, we had a lot of CapEx in the last couple of months as well, which was a negative. So if we needed to, we could have pulled back some of that. So look, we, obviously, it was tighter than we would have liked, but it wasn't really a payables as such strategy. It was us managing our cash flow, and we do that reasonably well.

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

Yes. I just want to reinforce that so you can hear it from me as well as the group CEO is that I'm quite confident that we are not going to come close to breaching that covenant this year. I feel that with the DRP that we've implemented and just the savings that we're immediately bringing through the business and momentum that we're seeing, we started the year strong, and I can't see any reason why that won't continue. And therefore, I think we're in a pretty good place.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

And then just a follow-up question for Michael, that if you take out that adjustment, that leverage falls to 2.6x for discounted operations, and the cost out that Richard mentioned. And he's saying that if we annualize the weaker second half 2023 trend, now, I know, Don, you've said that that's not expected, we're growing from that second half, but it looks very tight when the covenant is tested, and why not just raise equity to fix the problem and why pay a dividend at all?

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

It won't be dilutive. Sorry, it won't be dilutive to shareholders. That doesn't make any sense when we don't think we need to, and we feel we're in a very good place.

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

But the other position, Michael, is we've really -- that 83 store closures, which is closing the Denmark, and the 83 corporate stores in title, that's a loss we're not carrying forward. So we're not going to have that, and that was a big part of the last half trading. So we expect that's just a free kick, we would call it, now into the first half. And then hopefully, we'll get more further upside from that. And then obviously, with the DRP, which is underwritten, that's another $35 million savings. So we're reasonably confident, very confident.

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

The other thing is that often, I know companies announced delivered savings that they're going to intend to deliver and then they may come back in a couple of years and adjust that. What I can say is the savings on Slide 9 have predominantly already been executed. So other than there's a few more stores to sell and we just got some stores to close in France, and 1 or 2 here and there, by and large, and then execute against the back of house, but that is rolling at rapid pace throughout the Asian businesses.

So these savings have already been delivered. And then even when you go to savings on Slide 10, in the Asia Pacific region, where we're able to do that at a more effective pace than parts of Europe, we're also already delivering a lot of these savings coming in to these couple of months and right now. So I'm highly confident we're going to deliver those through. And we're nearly passing this free to franchisees, which I'm sure your Australian franchisees will be able to share that with you if you ever ask them. They're getting those savings.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

A question from Craig Wilford. Can the company provide some commentary on July trading update with respect to transaction count growth? Are Europe and Australia, New Zealand in positive territory in transaction growth?

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

Yes, they're in positive territory for transaction growth. Yes. Because remember, we're rolling now the price increases last year. And so yes, we have positive customer count growth. I'm not sure if, Andre, you want to add to that Europe.

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

No, it could be more, but we're very happy to be in a positive territory again.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

And then a question from Shaun Cousins on Asia. Josh, what are the plans to grow order frequency? And how easy is this to achieve given unlike other markets has less of a history with the pizza category?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific & Australia and NewZealand*

Yes. I mean, pizza is growing in Japan still. So I mean, we're adopting all the learnings out of Australia, out of Europe. It just takes a little bit longer to put that in place for Asia. So we're going to be leading through inspired products. We're going to be growing orders. We're going to be investing against aggregators, all the things that you've heard Don talk about, will flow through. It's just a lower frequency.

And remember that last year, we introduced, like many other markets, a delivery service fee, but it wasn't just a delivery service fee. It was also on our carryout orders as well. We introduced that in October. We only got rid of that in April, and we're still rebuilding out of that. So it's a lower frequency market, takes a little bit longer to get those customers back. But we are seeing the green shoots of that.

Then we overlay inspired products and services, which is all the stuff we're learning globally now, which is why this structure is so important to share these learnings. And then we can -- then we'll build out of that all the way in. Remember also, we -- I've said this many times on these calls, is we test out everything. We've tested out everything again all the way out to Christmas and beyond. So we're feeling confident about what we have to do, and then the investments we're going to make. And it's going to be around aggregators around paid search, paid media, being a little bit less traditional in TV, and sort of blowing up what we thought was where we had to go for marketing spend and really putting in the places where the customers are. So we're fishing in some pretty big ponds right now, and you're going to see that unfold over the next 3 to 6 months.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Thanks, Josh. Don mentioned at the start of this presentation that obviously strong and sustainable franchise partners is really key to our business growth. So perhaps if I dig into a few questions that we've received on franchisee profitability. Shaun Cousins has asked what EBITDA per franchisee does Domino's require to see franchisees open stores? Obviously, noting it's an average is the current $93,000 seems insufficient. Is it $120,000 or more at an average? And how quickly can franchisee profitability increase with this getting to a recovery in store growth of 7% to 9%.

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

Look, it's a very good question. $93,000 is absolutely not sufficient. And it -- we've -- the most realistic way to look at that is that, if you get towards a 3-year or better, and so that -- and why I'm putting that out there, not to be gray is that it's also what's happening with the build cost. We are building smaller, more efficient stores at the moment as we're very, very focused on delivering carryout. There was a moment in a history we're building much larger stores with dine-in. That's reduced significantly to bring the build costs down. Fortunately, we've been able to deliver some savings there.

But ultimately, it's about getting to 3 years or less. So for example, in Australia, if you're building a store, I've just signed off on a store that was less than $500,000, but if we use $500,000, then divide that by 3, and that's the number that we've got to hit to see strong growth in store openings. And that's relative around the world. That's a good question.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Ross Curran has asked, he's mentioned that we've previously shared our view on the share of the profit pool is that we would like franchisees to be able to make an 8% to 12% of the profit pool. And given funding costs have increased significantly, is that target still viable? Do we need to change the profit share between our support offices and franchisee partners to improve the franchisee EBITDA margins? Or does the target range need to lift to reflect higher funding costs?

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

So very transparently today, and we've communicated this right around the world, that we are passing through 1/3 of the savings to our franchise partners. And that is happening and will continue to happen. So I want to make that really clear. That's exactly what we're doing. So indirectly, we could have kept those savings, but we're not, we're passing them through. And that's what I expect we need to do, and that's what I expect we only need to do for our business.

First part of the question, sorry, Nathan, was -- the percentages, yes. And the 8% to 12% is exactly where we need to be. But more importantly, it's the quantum of euros, dollars, yens, and so on in the big business. That's what's really matter. So the higher we take the AWUS, the average weekly unit sales, then the lower that that margin needs to be. And the nirvana place is when you're at about 12% on an increased AWUS because in that mode, chances are franchisees that are highly profitable, and they will want to invest, they want to invest in old portfolio relocating. They'll want to invest in new equipment. They'll want to invest in their people, and they'll want to invest in many cases, to open new stores. And that's what we're building right now, and in elements of our business, we've already seen the early green shoots of that, including Australia.

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

Also it's worth remembering that, that's an average and we still have stores that are very profitable who will be opening stores anyway because they -- in whichever geographic location or just that specific franchisee is getting great results and great profits. So it's not -- you don't have to have all the franchisees, it's an average so you need to be careful of averages.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Just in terms of that speed of rebuilding franchisee profitability and then that flowing through to organic store growth, why was -- a question for Michael Simotas, why was the 3- to 5-year outlook for store growth reduced? It's now the second time that's happened, how confident are you that this is the sustainable level? Obviously, we mentioned previous time, we reduced it was because of a larger base of acquisitions, but, Donald, how confident are you in that outlook?

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

Yes. So the facts of the fact we've just had a terrible 18 months, and now we're building out of that in this year. And so that's put a lag because it's still everything we just said about franchising profitability. I'm highly confident that we're going to return both through the margins we're passing back through and the 1/3 savings, the new products we're rolling out, the initiatives that we've got in tracing the order accounts we have right now that we will return to that 7% to 9% next year.

But the reality was we're just rebuilding out of this, and we just want to give certainty and confidence and remove any of the naysayers around the target that whilst we probably still could push out those to more extremes, let's give something that everybody can build their models around and have great confidence in.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Now just in terms of operating cost inflation, we've just mentioned that we are intending to share 1/3 of those savings back to the franchisee partners. But is there anything else you can do to offset in particular, wages and rent? And what does cost growth look like into FY '24 versus FY '23? Perhaps Donald if we start with you and then we move on to Europe and in Asia.

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

Yes. So if you look at the bigger picture, wages are still climbing, particularly in Europe at a significant rate, but even relative in Asia, relative to anything in history. So wages are still climbing, but then we're getting the tailwinds for our new soft commodities which are coming down, particularly our cheese contract, which is just coming out of its tender right now and looking very attractive for our business partners, our franchisees and the other savings in wheat and most of our transport and energy costs have come down.

So that's what's negating the wages and then we've got all the order count growth that's coming off the back of that. What's really significant for the markets with Uber, it's material savings, material savings. It's half to 1/3 because there's 2 parts to that of what we were paying previously as the margins for that franchisee.

So it's really material and our franchisees are benefiting from that. And then the same thing will happen as we leverage these other global contracts with these global buying initiatives, which are newer initiatives because they're newer platforms and newer spaces. And therefore, bringing newer skill sets to negotiate within them. Josh?

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Josh then.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific & Australia and NewZealand*

Yes, sure. So the same issues. We've got some contracts that are still flowing through. There are some softer commodity setting. Obviously, we -- Don just said that we buy cheese globally. We're starting to stitch together some bigger buyers across the region. As for example, Pepperoni, we use Australian Pepperoni in Taiwan and will most likely use it in some of the other markets.

But we are still seeing some costs go up in the market quite also. We've got quite a weak yen and we do a lot of buying obviously importing quite a few items. We do have hedging strategies in place, but that just means that we just have to be smarter about how we buy. It really comes down to how we create products and inspire these products to hit the market at that time. So whilst things are going up, we're going to be creating products that hit the market in pricing and value for our consumers.

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

And then for Europe, like Don said, we are expecting some pretty significant wage increases, but a good thing now is that we see them coming now and we have a lot more experience on how to deal with them than we had in the initial big inflationary period. We have our learnings. We've got a lot smarter on how to deal with them. I'm quite optimistic that we can deal with them and not have to raise consumer pricing at the same time.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Thank you, Team. Alexander Mees has asked what's the outlook for operating margins in FY '24, excluding the benefit of cost initiatives? Are you seeing any respite in input cost inflation?

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

Yes. So we are getting that respite, as we just said, we were balancing things out. In this particular year, because of the way that we're managing all of this, we're saying that right now, if you just put in the savings directly, we feel be comfortable with that, and then hopefully, we can bring you better news in November or February based on the sales continuing and the recovery in Taiwan and Japan. So for a conservative outlook, we're saying just pass through the savings that we implemented this year, and we feel comfortable with that. But we have every intention that once our franchisees are delivering on their margins, we should be getting the same leverage for the order count for the business. That's how we make our money as well.

And including in our corporate stores. Corporate stores were a big drag with Denmark and some of the legacy have failed franchise partner stores. And we've been doing a lot of cleaning up there. And I'm really proud of some of the work that these corporate stores are doing in Asia, and here in Australia. I mean we're leading in product quality and our food safety measures in our single deliveries, in our service times and in our total sales growth.

So that feels really, really good that our own stores are leading the averages. But you can pick it out and say that there's other parts of Melbourne and Sydney right now that are just unbelievable, how good the sales growth and margin improvements taking place, which have been lagged in more recent years.

But I think the approach that we're taking Queensland, WA have always been very strong markets as an example. But right now, really, really good growth in some of the bigger markets.

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

I think the key is last half, especially and the half before, we traversed everything going negative for us. It was almost a perfect storm of utilities, food and labor. And now we're predominantly, as Don mentioned, we're having to deal with, we don't have that big massive impact of everything, and now it's stabilization. And as Andre mentioned, the pricing, we can start to deal more effectively with those types of impacts.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

A question just in terms of that cost disinflation, Michael has asked, how significant will it be? But then also, as it then comes back, how does that then flow through to franchisee partners, corporate stores or food supply. So really what -- how much of that profit pool gets shared back to franchisee bonus?

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

Yes. So the way a soft commodities purchased in any typical year, I believe we're back to a typical cadence is that if prices go up, they're passed through. If prices come down, they're passed through. And that's exactly what I expect. I expect that we will pass them through immediately. Where have we passed through savings from the restructure that come through by also reducing our food margin, where we've just said straight out pickers and savings. This is the cleanest, easiest way to give it back to our franchise partner in food.

But once we get through this 2 years of savings, then will just be a regular cadence, that won't happen again. But as far as the raw ingredient coming in up or down, it goes straight through to a partner. And I expect the most significant soft commodity in the Asia and Australia, New Zealand area of the world, we'll get some material savings this year and beyond.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

A question from Mitchell Hawker from Bank of America, and maybe this pivots into some of the regional commentary. What's the Benelux region doing that can be replicated in ANZ and Asia? Andre for you?

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

Yes. What is it -- it's obviously a highly penetrated market for us, and it's been quite stable and had a massive aggregator share already. It's the birthplace of Takeaway.com, and we've always played our part in that. So I think the learnings is that we never really overreacted in some of the things. We didn't introduce the service delivery fee. We tested it in corporate stores. It didn't do well for our margins in corporate stores, but we didn't roll it out because we saw the impact it had on the frequency in a period where there's low consumer confidence.

So this is not a plea for not acting quickly. It is exactly reinstating what Don says that we've done things early in this period without having real data and not going through the motions. We were fortunate enough that we could do that in the Netherlands, and I think that's the learning that Don shared earlier is that we now have so much data. We now see some of the increases that we have, particularly in Europe with labor.

And there's still some food increases because of the war in Ukraine and some of the harvest issues in the southern part of Europe with tomatoes for instance, there will be a bad crop. But we can -- we see them coming now and that was the case before this whole inflationary period, and we saw it coming and it's not the same. So in short, it's what we're used to just running on data and really good research.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Question from Ben Gilbert in terms of what you're seeing for -- because obviously, we called out Germany is performing well. What are you seeing in terms of carryout versus delivery transaction changes in Australia -- sorry, in Germany, and then I'll pass to Don for Australia.

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

Yes. So the big growth currently is still in carryout. And Germany is a heavy delivery market. It's 85% of our business is delivery. We're growing the carryout market. We are fortunate that our deals with aggregators. We used to have only one, which was Takeaway.com. And fortunately, Uber and Wolt and others have entered the market who really are keen having us as launching partner. So we grew our delivery share through aggregators as well. but currently in Europe, in general, we see that carryout is still growing and delivery is either neutral or lightly negative.

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

And talking about Australia and New Zealand. Yes. We've seen -- we've had a strong carryout growth and delivery really suffered the most last year and we had a project that was very focused on how many orders we had to recover that started in April, and we well exceeded that now. So we've not only recovered it, we're net positive against those periods. So carryout remains healthy. Delivery remains healthy.

One of the big focuses of this business, I touched on earlier was segmentation with our menu. And this is a business that's lived for far too long just on the dinner occasion and the shared meal dinner occasion. So what we're doing now is our highest growth segment of the day is now currently lunch. And we're testing and almost completed all the tests of a product we're launching before Christmas, but Domino's hasn't done well in snacking. And that's another important part of QSR, afternoons, late night, pre-lunch. And we've got a real rock star product that we're going to be launching in various markets around the world in the next 6 to 9 months as well and we're going after snacking.

So very much looking at the segmentation and saying, how does Domino's get more share and that's done very well for us and the aggregators has done very well for us in the single eater with the My Domino's box, both delivery and carryout. And then we'll see even extensions. #1 food sold by fast food companies around the world is chips, and chips don't deliver well, and they've not been something that we've specialized in. And Andre led a product in Europe, became the #1 selling side item in Europe, then was enhanced with loaded fries. And we're mirroring that with a different product that comes out of New Zealand, but it's designed to be delivered and then will become loaded fries and fun, fun, fun. Right on target to our mission.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Just in terms of how we're thinking about this -- from Sam Teeger, how are we thinking about same-store sales over FY '24 in the first half versus the second half. Maybe if we start in ANZ, Don?

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

Yes. I think we're confident that we're going to sitting in that 3- to 5-year outlook. And we are rolling incredibly weak comps in the second half. In the first half last year, the Burger range, which distorted some of the price changes, and we talked about that, that Australia and New Zealand really was a canary in the coal mine, but we couldn't see that originally as we were running away from our long models. And so first quarter, we've got good same-store sales growth now, and we're rolling our strongest campaign.

Our worst period of sales was that sort of December, that started to kick in December into March. And so that's when we should really grow some good comps. But I'm proud of the comps that the team are delivering, the ANZ team delivering against the strongest campaign last year. Josh?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific & Australia and NewZealand*

Yes. Sort of the same contrary really. I mean we expect to come back to more normalized rates. We've got some weaker comps coming in for the first half and the second half. So we expect to roll those fairly positively and with all the stuff that I've been speaking about before with all the products and the learnings, we do have to -- it takes a little bit longer because we have a lower frequency.

But we are very focused on the execution side. I mean, we're operating at a very high standards, with some of the highest product quality scores in the world. So quite often, you sometimes -- you have to work out where your weakness is. We don't have that. We just need to build volume through value in those markets, and that will see the return to same-store sales.

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

And then for Europe, as you can see in the deck, we had a 3.3% same-store sales over the last 6 months, which was better than the 6 months before that, but now that are now our comps, I look at it from an initiative standpoint and see the initiatives with aggregators, initiatives with new products, more occasions, I'm quite positive that we'll -- despite if the comps are good or bad that we will exceed them over the next 12 months.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

If I just pass across to Asia, a question from Ben Gilbert, and that is that -- sorry, he's just asking -- sorry, the question is not now in front of me. But he was just saying that we're seeing some stronger performance, for example, for McDonald's and other QSR. So is this adversely impacting demand for new stores? What's the level of price that Domino's has taken in Japan?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific & Australia and NewZealand*

Yes. I mean we're taking quite a bit. I mean we had -- we had all the same problems as the rest of the world where we're getting increases coming out of set of rates on us. We took a decision to take a price increase in our core menu and some of our sides. And then we topped it up with a service fee and that was for delivery and carryout. So if you look at that, it's probably about 15% to 25% depending on the product that you look at and which basket you look at because remember, we run -- we look at different baskets and occasions and segmentations.

So yes, that's what we've taken in the business now. We obviously need to find ways to have -- and our product journey is all about some more value items and priced to attract people to our category again. McDonald's is enjoying aggregator growth from what I can understand. And there is -- that's where we'll be investing. It's a marketplace like we've said in our slides, and we're going to be going after those incremental customers quite heavily as well as in our owned media channels.

And we've got quite large databases. We're just going to be activating those quite differently, and we're going to be investing behind them to entice people back to our brand. And that's why we're confident about where we're heading in the future months and 12 months really.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

A question from Sam Haddad regarding the longevity benefit of some of the promotions. So for example, he notes that MyBox was -- MyDomino's box was initially launched in Japan, but Japan's weaker now, was that mainly a carryout benefit only? So maybe Josh, I'll start with you. And then to Don , your confidence on the longevity benefit of keeping promotions driving ANZ, Europe, SSS . So we'll go around the grounds, maybe start with Josh.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific & Australia and NewZealand*

Yes, sure. So MyBox is still a significant part of our menu. It's a lower ticket, so that is showing in some of the same-store sales as well. But still a significant amount. We're actually going to be on our third phase of MyBox, and it's going to be a category that we just keep investing behind.

So that, coupled with -- we see that as one occasion in a whole host of occasions that customers uses for. So it's almost like a gateway. And you actually have to have that lower sort of price point. And then you then -- as you obviously get the data of that customer, then you can transition them through other occasions that you have and can answer their needs for. So I'll pass to Don or Andre, to commentary around that.

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

Yes. I think MyDomino's box, we believe, is a platform now, and you're going to see extensions, as Josh said, all new pizzas get launched into MyDomino's box now. We've got new sides. The new crispy chips are available. So it's a very low risk way to try those.

So there's going to be some constant investment and our franchise partners love it. Slightly more complicated in operation, but because the margins are so high, they're prepared to live with that a little bit more complication because yes, it delivers. But if you look at what we're doing here, we're going after segmentation. The MyDomino's Box segmentation will be another product coming, and we continue to work in that space.

We still got to keep exciting the core, they key. That's an example with the 6 new pizzas that launched in the ANZ business Australia this week, New Zealand next week -- last week, sorry, in Australia. And then looking through this, we also will deliver some in and out products that are designed for the new media. We call it eatertainment, and you would have seen that with the pasta packed pizzas. Huge commentary, gets a lot of attention. And in the new media platforms. We're capturing imaginations with our audiences in the 6 and 9 and 15, second captions, there will be some in and out products as well that will be part of eatertainment. And -- but segment core, a little bit of fun to excite the brand about what we can do with this brand.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Andre, we hand over to you in terms of the longevity. I mean, how sticky are these same-store sales growth initiatives?

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

Yes. The good thing is that if your product is really good, you don't have to promote it as deeply as -- and some of the products are just so amazing that we're rolling out. We saw it with the fries and the loaded fries, we actually, today, Wednesday, we're launching the MyBox in France and the tests that we've done are very exciting. So we hope to have that category in France from today as well.

So we still are -- we're a value business, but we have many levers to pull. And currently, we see that there's high demand for more quality, more indulgent food, and that's what we're delivering. The loaded fries are just blow the doors off because it's so good and it's so good delivered as well. It's not some soggy fries with some toppings on top of it. It is really moreish and good.

And the better your products, the less you have to discount them, and that's what we're doing. And together with building more day parks, more occasions and that mix delivers the same-store sales that we've reported.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Thanks, Andre. Don, Richard Barwick from CLSA has asked more of a long-term question. So looking back, it feels that as an organization, you weren't equipped to deal with such strong cost inflation. Do you believe you've now built this capability? Or is it a case of dealing with it as each new scenario as it unfolds?

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

Yes. I mean I'd like to say that we're smarter and wiser and the restructuring have build more strength into the bench and learning from how the Dutch dealt with it versus the rest of our business is inspiring, but I also, a realist that it feels the last 3 or 4 years that each of the new events that took place in the world were a new crisis for us. It gave us a 9 out of 10, out of 10 for our management of COVID and it give us less than 5 for how we dealt with the first phase of inflation. As an average of the business hats off to what the Dutch business did. Also hats off to what the German business did. I mean they took the most inflation in our business, like extraordinary numbers, twice what Australia took and have come out so strong and resilient as a business and enjoying some of the higher same-store sales growth and records in our history.

So look, I think we're wiser, but I'm not going to be naive to say that you've got to have management that's agile and adjust to the new circumstances because it doesn't seem like every crisis is exactly the same.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Thank you. Then moving to the restructuring and the financial performance. Richard, a question very clearly from Peter Marks, has your debt now peaked?

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

Yes. very clearly.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

I love a quick answer. Okay. So in terms of then earnings improvements, what's the expected first half, second half split for the savings from the restructuring initiatives? That's from Peter Drew.

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

Yes. No, that's a very good question because much of what's taking place in Europe really is much more weighted to the second half whereas in the Asia, we at least get a good quarter out of it. In the case of Australia, maybe even a little bit better than that because we were able to act on parts of the business sooner.

So it is -- we would have the majority of it in place in the second half, we're delivering upon that in the first half. And that's put into the restructure of the people side of our business. The actual more asset side, you see that already taking place with the closed stores in Denmark and so on. That's already happened. And those savings are already there.

So yes, you will see more benefit in the second half for sure, from our results, and that's a really important thing to note. It's also when you look at the 2 halves, the second half by result is weaker. So let's try to impress you with results in November and February, and then that will be good tailwinds into the second half.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Question from Richard Barwick, should we consider FY '23 EBIT as the base to which we can add the net cost savings in FY '24? Or will Japan be a drag still?

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

There's a little bit of a drag in the -- in what's happening in Asia and more than likely compensated by what's taking place in Europe and Australia and New Zealand. From a conservative perspective, we're saying, yes, just take '23 and add the savings, and that puts you in a good place. And hopefully then, we can illustrate a fast recovery in Taiwan and Japan and the rest of the business has contributed along the way.

The -- we want to make it really clear. We're very committed with our franchise partners in our strategic plan of how we're going to deliver them more through more growth. And get this [referred] to them as well as soon as it takes place. So that's all live and happening. And that's the biggest indicator. As soon as you see, when we report what's happening now, when you see that in 6 months' time, I think you'll see why if we continue that, we'll see stores open. And that's what it's all about, customer, franchise partners, the company.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Ben Gilbert has asked a question. I'm just going to be careful with how I ask this question because I want to make sure that we're staying away from giving guidance here. But how should we interpret the comment -- material improvement on the second half of '23. Material sales and earnings improvement based on the current second half momentum, what does this mean?

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

Yes. You can see that, that was by far the toughest. I mean the epicenter for our -- we thought we'd recovered a lot of the work in October and we share that in November, and then we fill in a hole in December, January, February. And we have to share that with shareholders at that window.

And that was -- we had a hault start. What we're seeing now has got a lot more legs behind it. We still use the word cautiously optimistic, because 3 months is still only 3 months or 4 months in Europe. So I'm not sure if I'm answering that question, Nathan, maybe I have lost it in my head.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

That's okay. There's a few different questions of -- so we'll come at it from a few different perspectives. So Craig Wolford similarly asked that the company commented, it expects material improvement in FY '24. And is that reference from the base in the second half, which was $88 million in EBIT and lower than the first half of '23. So H1 '23 was $114 million. H2 was $88 million. So when we're saying material improvement, what are we looking at?

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

So from the whole year, it's over the whole '23, '24. There's no question. But it's -- for all the reasons we've just shared, we've got a stronger second half. We're still going to deliver -- when you look at how we've just come out of '22 and go into -- sorry, '23 and go into '24, when you do those numbers, you will see a jump because the savings are coming through, and we're getting better network growth. And in the first half last year, we took some hits with ingredients we just couldn't pass through franchisees. We just had to take those hits, and that's not taking place right now.

So this half versus the half just finished, we see growth, but then the scalability against the second half is higher because the results were so weak, and we've passed through more of the structural savings by that point.

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

I mean the main key here is we don't have these closed stores from most of them from 1 July. So most of them are closed, and Denmark is closed, so you've got that as I said, a bit of a free kick from that perspective. And then as Don mentioned, we're -- we've got the additional savings coming through in terms of the synergies and restructure and warehouse restructuring and commissary packer house, lots of initiatives that are going to take a little time to implement.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

A couple of questions from Shaun Cousins. First, in terms of the cost savings and the restructuring, what drove the uplift in FY '24 estimated realized savings. So we'd initially said $25 million to $30 million as a Domino's benefit after sharing with franchisee partners. That's now up to $33 million to $40 million. So firstly, what drove the uplift? And then when will we share those savings with franchisee partners. So let's go to the first half. What drove the uplift on it?

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

Yes. So we pass them through almost as soon as we get them, and that's sort of commitment with our Board. Our Board is very committed to our franchise partners and our Chairman has made it absolutely crystal clear to management that you need to pass it through and get those unit economics healthier because that's the success of this business.

So I want to make that very clear. It's at the same time, pretty well. We went a little bit more aggressive in our structure as we started to live elements of it. So Josh and I got more on the tools and it just reminded us. Andre has been in a different place. You saw that in Australia, New Zealand, Josh stepped in and I stepped in. And it just reminded us that as consultants with the business have become too layered in our first few weeks in the ANZ business. For all best intent, the team was spinning up projects that already existed globally, and the left hand didn't know what the right hand was doing.

So by getting us more entrenched in the structure, that has allowed more significant savings. And someone would say that will -- how is that sustainable? It feels a lot more sustainable to me because there's a lot more work -- there's a lot less work when you're part of implementing and sharing rather than constantly trying to consult and inspire. As a job of a leader, it's better when you're walking with credibility because you're part of it, and you can physically explain how things work.

So it means the global leadership team does a little less travel because they're implementers, but I think we're going to see more robust and strong results as a result of that and there lies some of the increased savings that flow through to the business.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Then a question for Michael Simotas, will there be more restructuring charges in FY '25?

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

There will be some minor ones, but most of them happened in this particular year. But yes, there will be some. The move to some of the shared service work in the business does not happen in a day. We've got to build the strength of our shared service team. And so that takes a little bit longer. And with that, there will come some nonrecurring costs in '25, but it will be much more material this year.

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

Most of the streamlining costs haven't -- we haven't calculated some complexity, especially in Europe. So there will be some restructuring costs into the second, into the first and maybe some into the second half of next year. Hopefully, most of them will be out of the way in the first half.

And also, as you know, we've already -- we have provisioned for some of the closure costs for stores that haven't closed yet as well, but that's already provisioned. So that won't be coming through. but it's really related to the streamlining of operations and restructuring with respect to our team members.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Richard, a question from Shaun. What's the outlook for franchisee loan repayments as this was almost 0 in the second half of '23. Is that run rate expected in FY '24?

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

Yes. So with the challenging unit economics, especially in that flowing into that second half, then the amount of refinancing that we did was significantly below our normal, and we expect that to lift and hence, why we're -- we -- our net CapEx position, we're pretty confident that it's going to be at the lower end of our 3- to 5-year outlook, which is based on slightly lower capital expenditure and funding of franchise stores, but also that we're expecting to get some of those loans refinanced that we didn't have coming in, in the last half should push through into the first and second half. Japan is a big opportunity as well as that business starts to improve. So that's sort of maybe a bit of a summary.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

And just from Shaun, on cash conversion, what's the expectation if payables can remain elevated? And how will Domino's manage working capital to ensure we don't breach our debt covenant?

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

Yes. Just to give some clarity there. When you say they're elevated, I think I've highlighted there's timing of our -- let's call it, our total working capital does move around depending on the -- and when we closed the year. But you've also -- we also had the acquisition of Malaysia, Singapore, which added another $30 million that -- in their working capital benefit that we -- just in total creditors, debtors, and that was a positive to our business.

So yes, it wasn't -- it isn't sort of just a one-off that was -- that's locked. We'll continue to have that benefit further going forward. So yes, I'm not seeing any challenge in terms of our working capital. We manage that day to day and it moves up and down depending on the flows and ebbs of our business. And I think I've also highlighted Japan has some peaks and troughs in terms of the seasonality. And in December, we should get quite a significant benefit as their sales uplift per normal.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Thank you. Just in terms of margins, we've obviously noted in the pack that at this stage, earnings improvements are anticipated to come from the structural savings. And margin recovery is starting in Europe and ANZ, but management is cautiously optimistic and we'll provide further updates. Andre question for you from Peter Marks, the margin outlook for Europe has it troughed now?

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

Yes. Obviously, there's a couple of things in there that brought the margins down. But from a support and forward perspective we see improvement. There's some of the corporate stores that are closed now, which will improve our margins. We see that the store refinancing, so we do book profit on stores that we sell. We see that coming back, which is adding margins. So we believe that margins will improve both from operations and from all the initiatives that we're undertaking.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

A question regarding similar margins in Asia, with Singapore and Malaysia, Taiwan profitable in the second half, given that the 4% margin down from 10% in the prior corresponding period? Or was the driver of that lower margin for Asia, Japan?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific & Australia and NewZealand*

Yes, predominantly Japan. Yes, to answer the first part, we don't break it out, but the businesses we did buy were profitable. So no concerns there. And all our business were profitable, just margins were compressed. Remembering also that we actually own the majority of these stores in these markets.

So they directly hit us. And as we cycle even in Japan, we -- out of the 1,500 stores, we have across Asia, we have 790 that are corporate or 760 that are corporate, so we're taking some of those -- some of that pain last year, and then we're rebuilding out of that, which means the upside is we get the benefit as well once we rebuild out of those.

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

It's worth adding to that, that we will begin that franchising in the Malaysia business as well. So that will be some return of capital in the -- following the Japan model. That hasn't commenced yet, but that's imminent.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific & Australia and NewZealand*

Yes, that's a good point. And it's not just Malaysia, but we are also looking at Singapore as franchising as well. And then considering Cambodia, and how do we do scale that business considering the trading conditions there. So it's -- we should see that kick off quite heavily this year.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Just on corporate stores, Richard Barwick has asked where do you think corporate store numbers will settle in Europe and ANZ once all the closure on selling's completed?

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

From an ANZ point of view, we've said that our cadence would be -- we'd like to sustain around 50 to 60 store base. And so yes, that doesn't change as the long-term outlook. And so yes, that's what we'd like to get there. Over to Andre.

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

Exactly the same for your 50 to 60 corporate stores over the 3 markets.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Don, a question from Ben Gilbert, given that you'll now be dual holding the roles of Group, CEO and ANZ CEO, we previously advised that we were going to consolidate ANZ and Asia reporting into just APAC and Europe reporting. What's our plans from a reporting perspective?

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

With the restructure, we now have 3 clear segments. So we will continue to report the 3 segments. So it's a good point, and we should have highlighted that earlier. Yes, ANZ, Asia, Europe. So the way our business works is that Andre, Josh and I sit and 2 of the 3 of us agree, that's the strategy for the company.

And when we drive that forward. I might have a captain's call every now and then, but by and large, it's the 3 of us. And then we've got 4 big segments under that, of the business, and those big segments keep bringing up part of the strategy to Andre, Josh and I and 3 segments.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Richard, a question from Alex Mees just in terms of the dividend, will future dividends be able to be franked?

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

Yes. Well, they should be. I mean, obviously, this year, the franking was impacted by the statutory losses for the restructure costs that was a direct hit to our P&L. So moving forward, we'll pick up the franking as our earnings -- statutory earnings recover, which without these large nonrecurrings, the position should improve over the next 6 to 12 months, in line with -- where we're saying the markets where our position is going to be in terms of profits.

ANZ is obviously helpful. That with the ANZ mark in terms of franking, the profits are made in ANZ. So with that market turning around earlier, that's helpful. And then in addition to that, as Japan and Europe increase their profits, we do collect royalties from those regions. So it's beneficial.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

And Richard, while I've got you, Craig Wolford has asked, why was there such a large increase in payables in FY '23 being up 25%?

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

Yes. I think I sort of answered that earlier, but a one-off from the acquisition of Singapore, Malaysia, Cambodia. So that was $30-odd million in itself. And then it's literally timing. So..

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Don, a question from Sam Teeger from Citi, which of your markets staffing issues is most challenging and how you're addressing this, obviously given the increased volumes that we're targeting?

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

Yes. Look, it is challenging across the board. And so we're we obviously got the fastest growth part of the business, it's really challenging. So we've made it clear with our franchise partners that we've got this momentum. We're not going to back off. So we're at the same time, trying to support them with strategies on how we can grow our team members. And we have stores that are doing new volume now. I mean we have stores in the ANZ business now on a run rate of $4 million a year. And so -- and they're already in very small delivery areas, so they're not candidates to be easily structurally fortressed. There's some that are, but there's others that aren't. And so yes, we -- as a team where when we look at our 3-year plan, very much in this phase right now as we grow the average weekly unit sales is how do we support our franchisees to train the staff in their stores and retain their team members, how do we structurally improve operations.

There's things that we get feedback constantly, we pulse our franchisees. They're giving us really good feedback on things we need to invest in to service them better. We will do that. And even some new equipment and software design that aids some virtual assistance and things like that for the business. So it's a pressure where we see the high growth. So the source -- the market's at the highest same store sales growth, they're the ones that's the loudest because it's often coming from delivery and delivery is the most labor intensive.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Okay. unfortunately, going to have to leave a couple of questions on the table just given, I'm conscious of time and we have a hard stop that we need to meet. So maybe, Don, if I just pass back to you to conclude. This is -- you mentioned at the start, not necessarily the result you'd like to be, the numbers you'd like to be putting out on the page. You've gone through a significant restructuring, which is currently underway, both in terms of team members and then also some organizational changes and some closing of stores. You've been in this business a long time. How -- what's your expectation of the future? How are you sort of looking over the years ahead?

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

Yes. And I want to apologize first to our franchise partners because, as I said, I give us a 5 out of 10 for what we did in most of the business, not the Netherlands. We don't live in the averages. That's extraordinary job and there's other pockets of our business that needs an extraordinary job. But overall, I take responsibility that we could have done things differently and the hangover from all of our growth as well. We could have responded to that faster.

But that is the year in the past, and I apologize to our long shareholders with that as well. We're now living in the future, and there is lots to inspire our team. It is -- right now, it's a 2-speed part of the business in that in one sense, our franchise partners are starting to see in Europe and parts of Asia and Australia, New Zealand. The merits of what we're doing with sales and margins.

But our support offices are going through this restructuring and any restructure does have some emotional feeling in the business, morale can drop in parts of the business that are getting the most restructuring. And so we're being sensitive to that as well. But this business is built from our franchise partners part. Confidence this is built from our franchise partners up. And personally being on the tools with many of them, I am loving it because it is a partnership, and we're working very closely together, and we're going to do some extraordinary things. Also I'm cautiously optimistic that 3, 4 months is not a full 1 to 2 years of track record. It does feel that the things we're doing are positively structural, and we're going to reward our partners, our customers with better value and then our shareholders. So thank you, everybody, for coming on this call today.

Nathan Scholz - *Domino's Pizza Enterprises Limited - Head of Investor & Government Relations*

Thank you so much to Don, Richard, Andre and Josh for presenting and answering questions today. As always, a recording of this presentation will go up on our investor website. I do need to get the speakers now off to ongoing engagements as part of our roadshow, and I look forward to seeing many of you at the pizza launches over the coming days and all of the one-on-one meetings that we have scheduled. Thank you very much for your time and attendance. Have a great day.

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

Thank you.