Domino's Pizza Enterprises Ltd (ASX.DMP) FY21 Full Year Results August 18, 2021

SPEAKERS

- Don Meij, Group CEO & Managing Director
- Richard Coney, Group CFO
- Andre ten Wolde, Europe CEO
- Nick Knight, ANZ CEO
- Josh Kilimnik, President and CEO, Japan
- Andrew Bradley, France CEO
- Nathan Scholz, Investor Relations

Nathan Scholz 00:05
Good morning. The time is now at 11 o'clock. So we're going to start our webcast for the results. My name is Nathan Scholz, the Head of Investor and Government Relations for Domino's Pizza Enterprises and it's my pleasure to welcome you to the full year results for the period ending 27th of June 2021. We're joined this morning by representatives of our global leadership team, including our Group CEO & Managing Director Don Meij, our Group CFO Richard Coney, Andre ten Wolde, our DPE Europe CEO, and Andrew Bradley, our France CEO, I thank them both for joining us at 3am local time, also joined by Josh Kilimnik, Japan CEO and Nick Knight, Australia/New Zealand CEO. With that I will hand you over to our group CEO and managing director Mr. Don Meij.

Don Meij 00:48
Thank you, Nathan, and welcome everybody who's joined the call. If we could start with slide three in our investor presentation today, I really want to start by thanking our franchisees, our team members, executives all over the world and our board for the way despite the challenging conditions, particularly in the Northern Hemisphere, that we've really demonstrated the best of Domino's values, and that's guiding us throughout. So very proud of the actions of our team around the world. To come with me now on a slide four gives you a bit of an idea of what we're going to talk about today. These results are the dividends that have been paid and that have been from the performance and the investment from the last three years. And then what we've done this year and what is coming this year, and the sort of investments we're going to talk about today for future results to come. If you come with me now on to slide five, you can see there that the power engine of DPE has consistently been digital delivery. It was pre the pandemic and it is today with that growth of 21.5% it's actually 26.1% in constant currency

which is even more relevant for performance. We look at our EBITDA, it was up 27.2% and in constant currency 33%. Our EPS are 28.7% we've increased our dividend payout policy as of today are we actually was our policy to be between 70 and 80%. We're now going to run at a run rate of 80% going forward. So that means that Full Year dividend is up 45.4% and you can see our free cash flow was up 40% 40.2% for the year. On slide six.

Don Meij 02:28
I really want to highlight the really strong performances out of the big engines today in Japan, Germany and France which opened record stores in all of those locations for a big year. So despite all of the lockdowns, the curfews the teams that an extraordinary job around the world getting stores open, including some better cadence in Australia, New Zealand at 30 stores. And so you know, when we're living with COVID, what we often feel and see is that during lockdowns, we lose carry out and then delivery accelerates but as we've come out of lockdown deliveries may remain higher than historical averages and carry out returns as we've seen in summer in Europe this year. If you come with me now on to slide seven you know I really think that at DPE being one brand with one focus is part of our successful formula. When you think about in France, our investments in the franchisee partnership with incentives a couple of years ago and we're seeing the benefits there. You know, the strong results in Germany coming from those strategic acquisitions of Hallo and Joey's. Now one unified brand first time a pizza brand has been of this size and scale that we can communicate the benefits of the Domino's brand and the Benelux we continue to fortress and open a number of increased number of stores, and our you know, our delivery expertise in that countries, along with Japan and leaders for the world, Japan when Josh, and bringing in Todd Reilley and Ben Oborne just a few years ago now, taking a real look at the Japanese business. And you've just seen incredible acceleration as we apply the DPE mentality of High Volume Mentality. And of course, Australia, New Zealand, the constant focus from Nick and the team on renewing the base of our franchisees learning from the past and from the greater business, and you're seeing the acceleration of our multi unit ownership. If you come on to slide eight, with these strong earnings, it's also been a strong year of investment. We've really leaned in heavy on ESG this year, and you're going to see that we put some more information and posted more disclosure than ever before. And we're very committed to making, that more people share in the success of Domino's, more stakeholders in this coming decade. From a marketing point of view, it also should be noted that many of our markets also added extra funds to the marketing funds to give a boost to when we could buy our TV at lower rates. Digital Strategy and Insights has been a significant investment. Again, we're going to see a third generation of apps role this year, partnering with DPZ. Getting more leverage as a business, there's a constant focus from the board and leadership. And our development teams, we've never had more development team members, it's been one of the most significant investments. You know, we're about to have our 10th market with 10 development teams, but in places like Germany and France, that it's really expanded to multi teams. And that's why you're seeing this acceleration of stalled rows. If you come with me. Now on to slide nine, you can see there that we've had another good start to the year, almost solely led by Japan, we're now in a normal cadence again, where in Europe, we've got most of our team on holidays in July and August. But I can assure you, we're going to have a record first half and then record full year of store growth. And we talk a bit about that throughout this report. Customers asked us and shareholders sorry, shareholders have asked us "Are we going to retain all these customers that we were getting these new customers during the early phases of COVID?". And when you can see our cumulative same store sales growth of 13.7%. For

these first seven weeks, I think we can, with confidence, say that we are attaining and gaining with these customers, especially in delivery. If we come on to slide 10. The network up in constant currency of 18.8%. You know, currencies today have been a headwind, but we all know that they can be a tailwind in the future as well. Coming on to slide 11. I'm really happy to report that 94% of the new stores that are opening with franchisees this year, were opened from with inside the system internal candidates, whether they be store managers getting their first store or an existing franchisee, expanding their own multi unit ownership. So that's a really important measure for us. That, you know, those who grow up in the business are often out A performers, our highest performers. I can also say that this cadence is momentum you're seeing with our store growth, that we will add more than 500 stores to the system this year. That includes the 157 stores in Taiwan, but we will also open a record organic growth and that will be across the business, will be strong numbers maybe not a record in ANZ, but it'll be a strong result in ANZ and the rest of the business coming in and around records. If you come with me on to slide 12 you really get a sense at just in all of this investment in mainland Europe and in Japan is now paying in results in the sales and profit growth. And you can really see the size of those businesses coming on. On slide 13 we're really happy for the first time to report on our franchisee profitability. We will report on this on a six monthly basis. It's been a question that's been asked and we're happy to be now delivering on that. It is worth noting that there is some COVID benefits in these results. But we were very focused as a leadership team it's part of our ESG philosophy that a really healthy, strong franchisee base is the driver and that's why you've seen so many stores open and you'll see some further investments that we're intending to make in Australia/New Zealand this coming year. So these are these are strong results. We're very focused on the long term, and we will report on these on a six monthly basis. Now at this point in time, I'd like to hand over to our CFO Richard Coney. Thank you Richard.

Richard Coney 08:17
Thanks Don, just moving to slide 15. Revenue growth of 15.4% has flowed through to our profits resulting in margin expansion and EBIT growth of 27.2%. Our underlying NPAT is up $42.6 million, which is 29.2%. Noting on a statutory basis, this is actually 32.9%. As Don highlighted our full year dividend is up 45.4%, 70% franked with our payout ratio increasing from 70 to 80%. This This is from H2 21 onwards and we expect for this to continue going forward. Moving to slide 16. As you can see, we've had EBIT growth of 33% in constant currency, noting the headwind on FX basis of 13.3 million, very strong performances in Europe and Japan with constant currency growth rates of 48 and 53%. We've had global cost increases and noting our increased investment in ESG and customer insights, specifically around our BI platforms and Data Science Solutions. This sales leverage has resulted in significant margin expansion, as you can see, especially in Japan and Europe, with our total margins now lifting from 12.1 to 13.3%. Moving to slide seven, this slide, as always provides further detail about non recurring costs. Noting in Europe this year we had a fairly material write down of the carrying value of our facemasks which we managed to secure at the onset of COVID-19. So that impacted us just a one off cost and in ANZ and you can see we've still got continued legal defense costs for the Australian fast food class action. Moving to slide 18, as Don highlighted free cash flow up 40.2% to over 216.2 million, with strong cash conversion of 105.7% predominantly due to our positive working capital movement of 42 million rolling last year's 63 million. Also probably also worth noting, though, we do expect part of this to unwind due to the timing of our financial close this year with the additional week, the 53 week reporting period for 2022. Just moving to slide 19. This slide gives us some summary of

breakup of our net investing our capex and as you can see the capex which recycles makes up over 35% of our net capex. And within this we have invested 99.5 million to fund the earnings of both corporate and franchise stores predominantly franchisees. Offsetting this, though is the 69 million in inflows from our franchisees and sell down of corporate stores. So some big investments and we expect this to actually continue and increase in the coming years. Moving to slide 20, not a lot to say on our balance sheet. Most of the material movements are a result of FX translation, and the revaluation of our put-call option due to Germany significant outperformance this year. Moving to slide 21 key financial ratios. As you can see, all of our ratios are up significantly: return on equity going from 44.4% or 49%, return on capital employed now up to 18.7%. You can see our net debt has reduced by significantly 118.7 million. And as a result, our net leverage now has dropped to 0.9. So a very good outcome and sets us up for the future. If we just move to slide 22 Thanks, Nathan.

Richard Coney 12:50
I'm pleased to announce we have now concluded negotiations for our new five year 900 million committed loan facility, with financial close and drawdown, which we now expect to actually occur tomorrow. The new facility not only increases our funding capacity by 150 million, but also lowers our funding margins improves our diversity diversification. We now have eight banks across our geographic footprint with three banks, European banks, three Japanese banks and two Australian banks. This will provide us with additional this will also provide us with additional capacity to support our franchisees' funding requirements in all of our markets with having local banks that get to understand our business. With that I'll pass you back to Don Meij.

Don Meij 13:48
Thank you, Richard, thanks for all the great work you did for that facility with the team. And so what are we going to do with these funds? You know, with the strength of the balance sheet, what we're doing is that we are in paying this increased dividend an 80% payout, approximately we do expect that to be around 70% franked, in the in the coming years. We will we've got really strong cash flows as well and free cash. So that's also aiding in this. As Richard said, we're acquiring the market of Taiwan, buying out the remainder of our partnership in Germany. We will enhance our franchisees where required, we may in some cases buy back or we may support our franchisees to expand and keeping our powder dry there. And we're continually looking at further acquisitions and continue to be quite active in that space. It's always opportunistic, so we can never guarantee it. But we are being quite active and we hope that we can achieve some more markets to add to our business. If you come with me on to slide 24 I'm really happy with the EPS for this year. And obviously that CAGR now 21.9 so the constant investment in this business is getting some good results. So passing, you're now on to Andre ten Wolde to talk about Europe.

Andre ten Wolde 15:08
Thank you, Don and welcome, everybody. Good morning. Very happy to report on Europe. Strong results in all of the markets, despite their very different challenges that in all markets related to COVID and, and different variations of measurements taken by the government. Nathan, if you can take it to the next slide. So really strong increase in sales, obviously against a year where there was four heavy COVID months, but over a two year it's a it's a CAGR of almost 14% sales growth. And most of that is again powered by our online sales, which have grown again, really steady. Both our own online sales

as the aggregators, they're both growing at sort of at the same relative rates are the share of aggregators is not is not growing. But in absolute numbers of obviously, it is. I'll talk about network growth, store growth later. And on the bottom right corner, you can see that it's both the existing stores as the new stores that are adding to the network sales. You want to come with me to the next slide, slide 27 on store openings, again, despite our differences in the markets on maturity, but also on COVID related measurements, we managed to open a lot of stores in all markets. The Benelux as a combined market opened 45 stores. Germany open 40 stores has a strong pipeline for next year. What has been working really well is dividing up the market in four smaller markets, let's say four times four Beneluxes now in Germany, many now so that we can focus more on store openings all over the country. And then in Denmark, we opened six stores. And notably, two of those stores were a Greenfield store. So areas where there's never been a Domino's store before. And we saw increased performance of those, those two stores. And with that, I'd like to hand over to Andrew Bradley to talk about a little bit more about France and about ESG.

Andrew Bradley 17:41
Thanks, Andre. Good morning, everybody. Yes, France very pleased in what was a very challenging year we had a series of lock downs and particularly curfews, which was very disruptive to the business during basically the whole year. But I think we managed to get through very well with the franchisees and I think this is really a sign of the confidence that there is with the franchisees that we open 38 stores which is by quite a long way the record for France, in these conditions. And it's a sign of confidence, I think what is pleasing is it comes from existing franchisees whether they be traditional franchisees with Domino's, also quite a few of the Sprint stores. Some of you will remember we bought some years ago, the Sprint network out in the west of France, which is bought in some really good young franchisees which have been developing with us and moving around France to open in other areas. And also our emerging leaders process which helps young operational people coming through the system to become franchisees. And it was a record year for that program, which has now been going for four years. And we've moved a lot of people through that some of them already open stores and others will be opening stores in the future that so the pipeline looks good for the future. So overall a very good result for the year and a new record in terms of openings. If we just move on, just on to the next slide, just as a summary really for Europe. As Andre was saying earlier, the situation was not identical across each of the European countries, we all had our challenges. But I think we all got through them because we were built on the same strong structures as Don mentioned earlier on in this development over time with the franchise network. I think we've come through it stronger with the franchise network as I've seen what we've done. And this network combined with High Volume Mentality and the 3TEN delivery program has meant that we've been able to drive profitability with the franchisees during this period take the opportunities that came during the period and it's given people the upside to grow. And as we grow obviously that adds more money to the advertising fund. Which means more growth and we're into a positive circle. So delivery has stayed strong after the most of the lockdowns have finished. That's very encouraging and we carry out with the click and collect businesses coming back nicely and we think after the European holidays was could come back with that, and have a program designed for that. So, DPE, we have continued to invest in network growth to grow with our franchisees and help them to open stores. We've also invested in infrastructure, new commissary in Netherlands, in order to go to support this growth, both for the Benelux and rest of Europe. So I think these are important investments for the future. So in summary, for Europe, very

satisfying year, and above all, a good place to grow from. So with that, I'll hand over to Josh to talk about Japan. I'm sorry, Josh we seem to have an audio issue on your end.

Josh Kilimnik 20:51
Sorry, that's okay. So by all accounts are great results in Japan, but a year that we've invested in our future growth, and as really as per our strategy, and our long term aspirations in Japan, we've invested in quite a few things. And I'm going to share with this in the presentation to come. So if we go to the next page, where we go through the results, some of the high level results. So if you look at this page, some of the things that stand out to me, are really the consistent growth trend lines that we have the key stand outs of 30.9% in total network sales combination of not only the stores we built in FY20, but also the stores we built last year of 126. Also, if we look at the online sales increase, which is an incredible percentage, uplift. But what's more exciting for me is really the sheer quantum of digital orders, which in Japan's case is really balanced between carry out and delivery sales. So if you come with me to the next page. Okay, we've seen significant internal franchisee reinvestment back into the brand through this year, which is really is largely driven by confidence in the strategy or up weighted communications of the strategy with our franchisees, which has increased their confidence. But really, of course, what is the major factor is strong unit economics, and is always the major deciding factor. And that of course, along with funding options, now with quite a few suitors that are helping us through that is really a good recipe for success. If you recall a couple of years ago, we're about 1.5 to 1.9 stores per franchise. And as a result of professionalising the franchise side of the business, we're up around about three and this represents now 50% of our stores, which are now franchised, which we've gone across that magic 50% mark. What you will see, or what you can see here is 38.6% of the system is now three to five stores, and 12%, almost 12, is six plus, of course, there is a third of our franchisees that are still single units, but majority of them are pretty positive about the expansion in the future. If I look at Taiwan, it's great to start the journey on with you on Taiwan as we welcome Taiwan soon into the DPE family. So more on this in the slides to come.

Josh Kilimnik 23:18
Next slide, please. So we've experienced some amazing results. And as I mentioned last time, it wasn't, it isn't luck, we weren't overly surprised. But we are pleased. Over the last three years we've been executing against a strategy, which, you know, I've taken all of you on the journey on and when you're seeing the critical mass fruits of this work in operations is there's never been better. We've got the metrics to demonstrate this, our service has improved by two minutes across the group over the year, and then that's even considering the increased volume. We also saw consistent cost control which goes to our strong store managers, our training programs. And of course, this all dropped through to record P&L's in the store, which is basically the main scorecard I look at. If there was one thing to take away from this slide is that we rolled some of the largest conceivable sales from the first half of last year with 11.3%, which is really testament to the strength of the strategy, the layers, the product layers and the professional layers that we've been building upon. And generally the brand strength of Domino's in Japan. You know, overall, when we look at margin, you know, sales is the major reason. But it's also worth reiterating that we've been investing alongside this back into the business as we set ourselves up for the future. We've upgraded many managers in our stores and we need to carry these managers because this ensures we have a solid pipeline for future stores and we can open successfully but also been investing back into things like TV into prefectures that can carry many many

new stores. So this creates strong brand presence and also helps our stores open strong. An example of this is Hokkaido. We've got about 11 stores there. And we can see many, many stores over the next 12 to 24 months. One other reason for margin expansion is that, you know, we're constantly challenging the cost base. And an example of that is, you know, as we grow in more and more of the prefectures, and we get critical mass in those, it's enabled us to reduce distribution costs by standing up regional supply hubs or distribution centers, thanks to our supply partnerships in those regions who have graciously come on the journey with us in Japan. Finally, one thing I just wanted to get out of the way early and contrary to popular belief, is that Olympics produce high sales. In general across, we don't tend to see that on big events like this, we didn't see this through Rugby World Cup as well. And, you know, we also had the numbers from the many Olympics that have run in the DPE, or the overall Domino's network, and generally don't have that impact on the business. So at this point, I'd like to hand you over to our CEO, Mr. Nick Knight.

Nick Knight 26:15
Thank you, Josh. Next slide, please, Nathan. I'm very pleased with our growth this year, and being able to grow our network sales by 6.5%. And inside of that result, a really strong result in online sales of 10.1. Next slide, please, Nathan, a really good step up in new stores with 30 new stores for the year. And as you can see, that's helping drive an increase in average store number of stores per franchisee, and particularly in those larger group cohorts, which is really great. Next slide, please, Nathan, underpinning that and helping drive that is our program to lift the capacity of our franchisees and that's really starting to deliver some very strong results we have now I feel really confident about our new generation of young multi unit franchisees who have shown that they both have the appetite, but most importantly, the capacity for growth. Also, our program of Operations 360 continues to be a focus. And I want to call out there that we really do feel like that most of the heavy lifting is done there. But that continues to be a work in progress over the last three years 37 franchisees with the lowest operational performance scores inside of that program, representing 54 stores have left. And it's really pleasing to see that that tail end of the cohort showing really improved metrics, both customer satisfaction, and that, of course leading to better profits for those franchisees as well. On Job Keeper, we made it clear from the start of the pandemic that we wouldn't rely on government assistance if we didn't have to. And whilst that program helps keep some employees connected with the business, which was really important in that early phase, we were privileged to be able to continue to trade. And subsequently, we were able to hand back all of the Job Keeper paid to us over the last two years, our franchisees and liking the other markets, I really want to call out their level of engagement really have been able to navigate these rapidly changing local environment. And in Australia, particularly we've seen those changes really affect trade and our operation of our stores. And inside of that delivery growth continues to be really quite strong. And as we've come out of these less restrictive lock downs, we've seen definitely the rebuilding of the carry out segment, which is predominantly what gets affected inside of lock downs. Next slide, please Lachlan. I mean Nathan, I'll hand over now to Andrew to talk to you about our progress on ESG.

Andrew Bradley 28:48
Thank you, Nick. Yeah, we've said in the past, that we want to be more than just driving a great profit and to do the right things because they're the right things to do. And another thing that we believe within the group is that what gets measured gets done. And these are both been really the basis of

what we've been doing this last year in ESG. So if we could move come with me to the next slide. The arrival of Marika Stegmeijer as our chief ESG Officer for the group has really allowed us to move forward on a lot of fronts. And we've made a lot of progress in this area. In the first year. I'm not going to run through all the points on the slide today. But you can just see a couple of examples of how we are starting to measure some of what we see is the key KPIs for ESG. In our business, and this is an example of in terms of store, carbon footprint and also in terms of females in the executive positions. You'll find a lot more information if you haven't already been on the site on the investor site, the Domino's for Good part of it where you will see there is already quite a lot of information about what we are doing and this will be updated as we move forward through the year. I think it's important I wanted to use a couple examples of things we've been doing in France just to show that these, this is doing the right thing. But it's also good for our business and can drive profits within the group as well while doing good. We've done a couple of logistics projects within France, one of which was to reduce the amount of packaging we send out into the network. And with the changes we've made, we've been able to take out 350 tons a year of outer packaging, which previously was being sent out to the network. So that is all being recycled and reduced in a centralized way, we've also just launching a new initiative in the way we distribute our dough balls, which will give us quite significant reduction in need for logistics, in trucks, and so this will obviously be good in terms of reducing as well the amount of trucks that we have on the road at any time on delivery. So these are the things which, as I say, are the right thing to do, but also are good for business. And that is, is the driving force of what we're doing as far as ESG is concerned. And they're just a couple of examples in France, the other countries have their own examples of, of what they've been doing there. On the governance side of things, and also take the opportunity to recognise the contribution of Ross Adler, to the group as a board member and previous Chairman of the board, over almost 20 years, he will be retiring at the at the AGM and everybody would like to thank Ross for his contribution over that period as the group has grown significantly during that period. And we also take the opportunity to welcome Tony Peake who's joined us, whose background as a chartered accountant means he brings a lot of experience in a lot of areas, which will give us a very helpful for the group as we continue to grow in the years to come. So welcome aboard. If we just go to the next slide now just look forward as to where we're going. I think it's when you say continuity and acceleration in this whole area as ESG becomes a way of doing business. I think if we summarize it, it's measure manage and report would be the summary of what we are doing. And to making sure that this vision and strategy for our ESG policies in line with our core business in all the markets, and it will vary a little bit from one market to another. We will continue to communicate on this as we move forward and this you'll hear a lot more about Mission Positive 2030. As we move forward, this is the summary. And this is how we'll be communicating about all the different initiatives that we are doing. Because we think they are the right thing to do, but also because they're good for our business, and important for all the stakeholders in the business. So there's a very quick summary, if you want more details, go to the site. And you'll see there's quite a lot of information in there. And with that, I'll hand over to Don for the outlook.

Don Meij 32:50
Thank you, Andrew. And I'd personally like to also thank Ross Adler for the 20 years, being a young CEO, when we listed the businesses there's absolutely no way we would have been able to list the way that we did. And he's been incredible guiding right in the background for our business over these last two decades. So thank you, Ross, he will be greatly missed. If we come with me now on to our group

looking forward. You know, as we mentioned earlier, we're still living with COVID as a philosophy in our business. This is something that's not going away anytime soon. And as a result, we're you know, we see the fluctuations in New Zealand, the most recent example of that last night, what we're experiencing in Sydney and Melbourne right now. But you know, we do see a carry up business decline during lockdowns, delivery does increase, in some cases, quite materially. And then what we've seen in some of this year in Europe to reinforce in the great reopening in Europe, is that deliveries has remained a lot higher than our historical numbers, as we've now retained a lot of these new customers, but then we lose your return to carry out as Andre said. So we've had a really good summer, as you can see in our results here in your we're going to continue to monitor the commodity increases what I can say today, because of our long contracts, we've just come out of a significant cheese period. We're actually in a low cheese period right now, predominantly through the Australia/New Zealand business soon to be in Japan. And when we look at our soft commodities for most of the financial year, where because we've got long contracts, we don't actually see much of an increase, although there is an expectation that there will be some increases in the second part of the calendar year 22 with what we're observing around the world. We also like to highlight that there is labour shortages in most markets, it makes Project 3TEN so important to us. You know, this is the decade where the most efficient companies will win. We need to be able to do more deliveries per hour as we do than just about anybody else in the delivery business. And 3TEN is a major driver of that. So we do expect there'll be some natural market inflation in our truck drivers in our commissaries and the distribution systems and potentially for our own drivers. We can't wait to launch our new weapon and app in the coming 12 months, it's time with, you've seen our online continues to grow, we've still got increasing conversion, but we want to be able to attack ourselves with an even better platform. As you will see, there will be record expansion this year in organic plus, obviously, the acquisition of the Taiwan market. And I want to just remind the audience, that what we experienced four years ago in Japan is that we will capture the two biggest weeks of the year in the first half. So when we look at this year, we'll try to analyze that. So you know, what happens in the first half will be largely inflated compared to normal because it's captured that extra week, the whole business is capturing an extra week. But that's really significant in the Japanese business, just as alerting that ahead of reporting. So at this point in time, I'd like to hand over to Andre to talk about Europe looking forward.

Andre ten Wolde 35:51
Yeah, thank you, Don, for Europe, it won't be a surprise that we will keep on building on the foundational work that we have done so far. And we will continue to do more work on the Foundation, like you said, with when emerging from the lockdown, we tend to keep the delivery numbers on a very high level and then slowly add carry out most notably in Denmark where carry out came back a couple of months ago with their new system of vaccinations or show that you've had a test in the last three, three days. So society is sort of back to back to normal, where it goes to visiting restaurants and stuff in stores. And we've seen that all over Europe. So we're very confident, that our focus on delivery and rebuilding the carry out is an opportunity and we'll add more sales over the over the months coming or the year coming. Also for store openings to pipelines in all markets are very high, locations are available and the increased investments that we did in development teams is really starting to pay off combined with the with franchisees really wanting to invest in the brand and grow their own businesses. We expect France to continue to deliver strong results. France, notably the hardest hit market with COVID, with their seven o'clock curfews where the French tend to eat a lot later, we've managed to, to

offset that with more deliveries, while keeping our operations really strong. It's kudos to the team in France that their delivery times improved, where their deliveries almost doubled, which is testimony to how good the franchisees but also the operations teams work together. In in Germany, store openings will continue we're seeing the effects of increase in investment. From the first of January we'll see the last royalty step up after the Hallo conversion. But we still intend to deliver above average growth. Benelux since the start of this calendar year, we've seen a real increase in sales again or a bigger increase than before. partly due to the launch of crunchy chicken a whole new layer that we intend to expand in in the rest of Europe. And then lastly, Denmark. Our reputation's improving. But it's a really slow process. It's good to see that if we're in new markets, if we open stores in markets where there's never been a Domino's store, we tend to do a lot better than in the reopening of the old system. So looking forward this year, almost all new stores will be new markets outside of Copenhagen. So we expect that we can we can improve on reputation. And with that, I'd like to hand over to Nick.

Nick Knight 39:22
Thank you, Andre. I'm looking forward for Australia/New Zealand. The pandemic continues to bring some short term uncertainty especially into this region. It seems that this moment in time, many of you be aware that the New Zealand business when New Zealand itself was plunged into a lockdown last night that we'll see our New Zealand stores closed for three days and our Auckland stores closed for seven. So there's still a lot of volatility inside of our operations at the moment but our focus is resolute and remains unchanged. And that is that this next era will be a focus on execution, we're very focused on making sure that we have the right Product Service and Image at an affordable price for our customers. And a big part of that is making sure that our franchisees are equipped with the skills and tools that they need to be able to execute inside of that. I'm pleased to report that franchisees grew significantly even during the commodity increased prices of the last half and enjoyed close to record the profit levels and those commodity prices have now moderated, so very excited about what this next four months holds. Next slide, please, Nathan, I want to share with you what we're calling Project Ignite internally in the Australia/New Zealand business. And essentially, this isn't the first time or anything particularly new to the business. And you've seen and Don call it out earlier on the call. Regions like France have done similar things. And currently what is, what it is an investment in the long term growth and the future growth of a franchisee level business. It's a investment in store level profitability across the board showing through predominantly food costs and some other smaller areas of reduction. It's an incentive to our what we call developing markets. And the reason for that is we know that where we have the highest penetration, we have the best unit economics due to reduced delivery times and better saliency in those markets. And that leads to better store level profitability. So an extra incentive to encourage and help those franchisees reinvest in growth, and an investment in new store openings with a reduction in the cost of a new store. And also some improved waiver programs around I'm very excited with how the system has received that franchisees very excited by that and already seeing a great pipeline starting to develop their next slide. I'll hand over to Josh.

Josh Kilimnik 41:51
Thanks, Nick. So looking forward for Japan, we've started the year strong. And I might just remind everyone that we are still going through the effects of COVID state of emergency extended out most likely to the end of September or midway through September, it just keeps moving, it's the biggest spike we've ever seen. That said we're comfortable with our strategy. And we'll continue to execute against

that. What I see is our future is we'll be actively front loading future success. This will come in the form of mainly new managers, which really do need to be handled with care, because we can't simply fast track the time required the training and the experience. So this is an area that we want to remain slow on and make sure we do the right thing, because it actually minimises stress in the future, and allows us to open and capitalise on customers and profit going forward. But also continue to invest in our pricing and promotional layers, we've been building over the last 12 to 18 months Hangaku half price is one of those BOGO delivery (buy one get one free) delivery, both layers are still growing very strongly for us. And we'll continue to invest in those. We're also, as previously mentioned, our barbell strategy, we're still working on ways to access single user offerings, like the pizza rice bowl, combined with no minimum delivery is a great way to do this. And we're going to continue to update this over the course of the next 12 months, which is really important to access the single users as aforementioned. The growth profile of the business, most likely take a bit of a new shape over the next one to three years with franchise really taking the lead. To facilitate this, we've combined, you know a really solid and robust franchise development program, along with an incentive package to deliver more franchisees over the next three years. As I think about store growth, you know, we're really cognizant of the fact that, you know, we have carve outs and carve outs have an impact on margin. And we put some really good process and rigor in place to make sure that we balance that with a Greenfield and carve outs. So we can manage our internal margin expectations in Japan. All I said, but a few little headwinds, a little bit of commodity cross costs, which is just more of a timing thing that'll be definitely off by next half. And we've been hit with a small minimum wage increase, which is a bit of a surprise for us. It was handed down the start of July, and we were told to implement it at the start of August. The good news is, is we've already found a way to mitigate that through sales and orders predominantly. And that is a work in progress as we speak. Finally, I want to update the group all our investors, and welcome at 10th market to DPE. We're likely to get the keys to this market on the first of September, thanks to receiving foreign investment approval this month. And we're just really excited, welcoming, welcoming all Domino's Taiwan. And not much to share, just yet, but we look forward to sharing updates at further future announcements with you on that market. So at this point, I'll hand back to a group CEO, Mr. Don Meij.

Don Meij 45:26
Thank you, Josh. Well done everybody on a great year. So if I now refer to slide 46, it's often a positive thing and in our results period to look back that in full year 2014, or financial year 2014. We forecast there would be 2950 stores in 2025. And we've achieved that four years early. It's also exciting that we are going to open or add to the network 500 stores this year, or more than 500 stores that put us on a cadence to 3000 our 3000th stores will open the next couple of weeks. But our 4000th store will actually open before the end of the calendar year 2023. And our 5000 stores open sometime during the calendar year of 2026 and 27. We are upgrading the milestones for the Benelux in Japan by 200 stores in the Benelux and 500 in Japan. We like to use the word milestones here because I think it's really important that these are not, as we've seen in the past potentially the final positions for each market. But as we hit new tipping points with advertising our penetration our faster and more efficient delivery of benefits to our customers has allowed us to through our models, our digital models, being able to map out more stores. If you come with me now on to slide 47. I love this slide, it shows that we doubled our network in store count and we tripled our EBIT, which is, you know, showing that we've been efficient as we've grown. And you can see there that for shareholders that have woken up today that you know,

there are milestones as we've added another 1100 stores, to this to this network in the years to come. If we come on to slide 48, I'm really happy today to reinforce that we expect our same store sales over the three to five year outlook to be within the 3 to 6%. We're upgrading the cadence of our store growth network growth to 9 to 12%. We clearly exceeded the outlook last year and we have all of this investment in development with the high profitability of unit economics, the constant focus on constantly even making that better, as you heard from Nick, is that we have great confidence that we're going to be able to live this nine to 12%. We are going to be spending more capex we are investing, some of that investment may be for example, in Germany with the huge growth, you know, we're well ahead of the plan in Germany and we supported our franchisees to buy extra ovens when they may have been more conservative, sometimes it's helping a brand new manager to get their first franchise or a multi unit owner to just stretch themselves a little bit. And we can support in that, as they're expanding, and I get an opportunity that arises. But we're also investing significantly in our digital platforms, security strategy insights in ESG. It's worth noting that whilst this number has increased over time, relative to the size of our network, it's still quite a modest investment. And when you consider the scale and how quickly we're getting to that scale, so we want to stay ahead of it. If you come with me now, in conclusion on slide 49, I think that we've been able to illustrate today that it's the investments of the past, both in geographies, in our platforms, in our people and our franchisees in our store managers, and strategic elements of our business that has allowed us with these long term decisions to deliver today. And the investments we're making today are going to help us deliver in the years to come. We will continue to deliver organically and inorganically. We're very proud to be part of the Domino's system, it shouldn't be lost on anybody that we greatly benefit from all of the learning beyond the 10 markets that we operate, and the great leadership around the world, particularly from the parent in the US. We were looking to work closer and closer with on technology projects and constantly learning from each other. So we were very focused one brand business and very proud Domino's master franchisees around the world. Our franchisee profitability continues to improve. Of course, these are averages that will be an exception, where that might not apply. Often. It's from an operations or distraction. But these, you know, when we look at the network that we're creating, and the structures and the systems we're creating, they're allowing our franchisees to thrive. And in the odd case, and during the middle of COVID at the peak period that the bleaker periods but also survive in those moments. So we haven't, we really have a lot of competent work that is going to continue to grow at great pace. Exceptional performances in the big businesses Germany, Japan and France coming on strong now. That all of this has allowed us to now have a new outlook of 80% dividend from our NPAT. And, and in around 70% franked, we come with me on to slide 50. You know, our franchisees have also demonstrated their resilience, and we cannot thank them enough for working with us around the world to deliver on this exceptional performance in some challenging times, we'll continue to invest, as you've seen with Ignite, and, and with the new market of Taiwan. And, yes, I'm just so happy to be able to share the increased outlook for store growth, and the next three to five years, and some investment that matches that. So now this point in time, I'm going to hand over to Nathan to answer many of the questions that you've forwarded to us. Thank you.

Nathan Scholz 50:52

Thank you, Don. And thank you to all of our speakers this morning. Just a reminder, there is a QA button, Q&A button at the bottom of your screen. If you'd just like to enter your question into there, and then we can answer it will direct it to the relevant speaker. I'm just going to start with the first question in relation to acquisitions. And we've had some questions from Craig Woolford. And then also from Ben Gilbert in terms of acquisitions. Does DMP expect these to be adjacent to existing geographies? And also, what's the appetite across the rest of Asia for M&A? Or is Asia more of a priority versus Europe? I'll hand that to Don.

Don Meij 51:28
Yes, so we always like to think a little bit more generic rather than be specific, but our core focus today and where we're getting synergies of that scale is either in Europe or in the APAC region. That's where we operate, you know, the 10 markets. And so that's where our core focus is today. And it is, it can be in new MFAs if we're fortunate enough, and we seek approval from our board and from DPZ. But also, we are also looking inside markets at some smaller acquisitions to build up scale that continues today. Thank you.

Nathan Scholz 52:03
There's a number of questions in relation to Ignite and then also incentivising franchisees for opening. So perhaps if I can just start with on Project Ignite A question from Alexander, and from another analyst asking about what the expected payback on the $12 million investment in Project Ignite is going to be.

Nick Knight 52:23
Thanks, Nathan. So the investment, in a lot of cases has been more than what we're flagging there. And that's because some of its returning already, but I think that we're going to see a really ramped up pipeline over the next three to four years. And definitely within that time frame, we'll start to see our franchisees and all of those stores start to really scale up and see the full benefit of that scale and leverage,

Nathan Scholz 52:46
Then in relation to ignite, so is the cost called out of gross or net impact? Is there going to be more investment in FY 23? And beyond? And now the same question in terms of returns.

Nick Knight 52:58
It's a net investment. And, you know, it's a program that we're putting in place for four years as we've, as we've called out, and it's a it's not the first time we've seen an investment like this, and I want to highlight the obvious example of France and the obvious result that that has had when, when applied correctly. And I think if the program we have in Australia and New Zealand will have a very similar effect. And getting that, that payback to that magic number that we see around the world of 2.5. And when we see that we know that it really does, you know, lift the store level investment from our franchisees both operationally and in new stores. And we know that that pays back huge dividends, not only to our franchisees, but our customers through experiencing, you know, far better service metrics through that penetration.

Nathan Scholz 53:45
And still keeping with the same topic, Nick, we've got a few that we're going to make sure we get all the way through. So from Grant Saligari, and another analyst has asked a similar question. I mean, how do you balance this? Is it? Is it a question about encouraging franchisees to invest? Or is it that there's a

level of franchisee happiness? And then can you perhaps dig into, you know, what this means in relation to what kinds of incentives you're talking about that will go into the market?

Nick Knight 54:10
Yeah, so it's, it's to encourage that and give confidence in investment. We know when we get that, like I've said that unit economics to this to the right level, stores almost open themselves, because franchisees really see the benefit in that and in many cases, it becomes capacity related. When we look around the markets where we have the biggest penetration, we also have the best store level unit economics and the best sales to end customer satisfaction to go with that. So it's partly to help drive that because we know that those new stores, we bring them forward, benefits all of the stakeholders in the business and they become the gifts that just keep giving in terms of you know, being able to offer more meaningful employment by being able to give better service and by improving and fortressing our markets were seeing all around the Domino's world. And it's coming in the form of like I've mentioned, the reduction in some food costs at store level and some other some other fees, a specialist or a special incentive aimed at developing markets, namely Sydney, Melbourne, and Adelaide. And that's where we have the most growing and the most opportunity to grow. And a reduction in the cost of a new store build and that all culminates to really make, and some of that will be through DPE loans. And you're seeing that reflected in some of the capex that we're forecasting, their.

Don Meij 55:33
Probably adding to that Nathan, and that what Nick just highlighted there with the reduce of a store cost itself, that's a pretty well, a global project. And, you know, one of the things that has happened during the pandemic, because we're seeing the age of delivery, accelerate, that we need smaller foyers, and smaller foyers means there's less capex, it also means less operating costs, less air conditioning, less maintenance, and so on. So you know, overall, these, we're looking to continue to bring down the cost of a store while at the same time increasing the average franchisees profitability. So there's a double side to that.

Nathan Scholz 56:08
Thank you for that, just in relation to Japan a couple of questions in terms of the increase in the expected store numbers there. Richard Barwick has noted that we only recently increased the store, count there. And now we've lifted it by another 500. We've also been asked by Sam Teeger, that we've upgraded quite a few times already. So perhaps, you're able to talk through the assumptions behind that, you know, what's changed, what changed since our most recent upgrade for Japan,

Josh Kilimnik 56:36
Sure, a couple of things. When we looked across the system, when we went over, certainly when I originally started there, we were really low penetration in some of our major capital cities, there's a lot of a lot of population, not a lot of stores. And that affects a lot of things, you know, service quality. Pizza quality is a byproduct of that as well. And we just saw an opportunity to upweight that and to get critical mass in each one of these markets. As you model that out it no doubt, we could see that there was upside to growing the stores in each one of these markets. Of course, we also mentioned a couple of years back, we didn't have a model to go and expand into some of these regions that were virtually inaccessible through high cost. So we introduced things like back of house dough, which enabled us to

go into these regional prefectures. So it's, it's not just one thing that's made us uplift our store targets. But it's a whole range of things that has allowed us to sort of see whitespace territory as well, or greenfield sites, as we call them. And an ability to sort of keep pushing the envelope to find more stores profitably. Remember, in each one of these prefectures, you've got to hit critical mass. And there's a lot of population here. And we get encouraged by some of the other big chain brands on their penetration in each one of these cities as well. And we use our own metrics to plan our roadmap going forward. So as Don said, it's a milestone, it's not the end, but we can see the stores before us.

Nathan Scholz 58:20
And Josh, you just mentioned in terms of greenfields versus fortresses, existing markets, a question from Tom Kierath, in Japan, how many stores are in Tokyo in Nagoya? Do you think those two markets are fully penetrated? Or is there more room for growth?

Josh Kilimnik 58:34
Well, no and no. I mean, I look at, if you take Tokyo, the city limits of Tokyo there's about 13.9 million people just in Tokyo, we have about 298 stores in that territory. You take greater Tokyo, you got 37 million people, we've got about 400 stores. So that gives you an idea. This, you know, so 1.5 times the size of Australia, and we have 400 stores. If you look at Nagoya, you know, the city of Nagoya has got about 2.2 million, you look at greater Nagoya, about 6.8 million. And we've got about 65, in the city of Nagoya at about 96 in the greater Nagoya region. So there's considerable upside here. And again, just going back to some of our big global chains that are already there, we're a third of the size in some cases in Nagoya's case we're a quarter of the size and we can see that with our growth trajectory and just the way we grow the brand and the critical mass that we can get that we're heading towards right now. There's going to be tremendous upside so you will see more growth. We just got to balance the carve outs and do it smart and make sure that we've got the right model to do this.

Nathan Scholz 59:53
Just moving on to a question about capex capital intensity has been increasing and is ahead of the store rollout upgrade, can you give some color on capex allocation? Any detail on investment in the digital space? And the big question, is there now a concern that consumers are gravitating more towards aggregators as they ramp up their investment in offering?

Don Meij 1:00:12
Yes, so when you look across our business with the rare exception of individual stores and so on, typically aggregator growth has remained at a constant percentage, not an increased percentage of our business. So you know, our online ordering business, and aggregator business because we operated inside the aggregators, are quite constant. And there are some exceptions in the business, like CBD Melbourne, or CBD Sydney or something like that, as a small example, or an Amsterdam. From a capex point of view, I'm not quite sure I agree that we're increasing the cadence beyond the store growth, I think our store growth is, when you look at, you know, from last financial year and four to five more years from now, you know, we've got to make sure we stay ahead of this, and especially from security, from the quality of our platforms, they can't break, retiring some of the old digital legacies. So, yeah, I think that you'll see that we've given quite a wide band there, history says we've sort of come somewhere in the middle of that. But, you know, it's, it's a lot of, technology is a big piece of that as well

not just only store investments. And remember, when we do that many, many franchisees we typically get it back within one to three years certain cycles back. So at some point, sometime beyond my lifetime, when we stop growing, then you know, then you stop investing maybe on these new stores, but right now, long game with the growth and we want to support it.

Nathan Scholz 1:01:40
In this staying on topic. For a bit there is a two similar questions in terms of capex and franchisees because we talked a lot about investing in franchisees to support so. So is that really is the lifting capex guidance really driven by those loans to franchisees? Or is there other ways in which we're using capex to support those franchisee growth?

Don Meij 1:02:00
Yes, sometimes the capex as I said can be in equipment, we may do a mass rollout we did a couple of years ago with pizza checker and DPE may fund that just to make it easy, ovens is the most recent one in Germany, you know, we really the capacities we're doing in Germany, it's from a sales point of view, which has our highest unit AWUS for most months of the year, that came out of being one of our lowest markets. So trying to feed that with equipment means sometimes we could derisk it, rather than, don't need to have the conversation, let's derisk that for you, we'll give you more ovens, if you don't need them, we can always take them back. But you know, just get rid of those arguments with franchisees. And then we've got new managers, you know, to grow to 6650 network we do have some of our franchisees retire over time, and we're seeing retirement in France, for example. Andrew Bradley talks a lot about the new Emerging Leaders Program, because he also has some old franchisees there. When I say old, they're not old they're around our age, but they've made a lot of money, and they want to go and enjoy their lives. And, and so we've got to make sure we're also growing through that capacity. And, and so the best thing we can do for shareholders is growing our existing franchisee base, I mean, with inside that there's no better ROI, it's the best place to put our capex. And, as I said, most time it recycles back pretty quickly as well.

Richard Coney 1:03:21
Just highlight that, there's sort of a technical difference between loans and we also license stores. So you'll see our loans are being repaid. But also, when where it comes across as a down of stores. So a lot of the, let's call them our top gun young franchisees we will fund under a licensing arrangement. So that is pure capex, but it is allocated to that recycled section in my presentation. Thank you.

Nathan Scholz 1:03:54
There's a number of questions from different participants in terms of labor, how easy or difficult it is to staff new stores. What are we looking at in terms of cost pressures? And not just in Australia? There's also been asked a similar question from Japan. Are we seeing above inflation costs increases from labor? And is there anything that DPE can do in terms of assisting with staffing at that store level,

Don Meij 1:04:21
I might even hand over to Andre at this point to talk about in Europe and then to Josh. It is a headwind across the business. And the shortage of team members, our efficiencies without a doubt are giving us an advantage but I'll let the others add some colour.

Andre ten Wolde 1:04:35
For Europe, even before COVID we were experiencing shortage of labor, our pay rates have gone up in all of the markets, we just have to pay them better. Give them a better environment to work in. But one of the advantages of fortressing your market is that your delivery areas are small and you can deliver to more customers with fewer delivery drivers. And that has helped us a lot. We're not seeing, currently, we're not seeing levels that we have to close stores early or because we can't get people to come to work. But we are prepared for that. And with the efficiencies that we're bringing into the stores, we think we can battle that and, and also then actually pay our staff higher rate compared to competitors. Because they can do, they are more efficient than our competitors. Obviously, there's a lot of new business in the market in Amsterdam, I reported to the board, there's now six different businesses that claim they can get your groceries to you in 10 minutes. And believe it or not all these people are aiming at our delivery drivers to come to work for them. But the good thing about us is that we have we have actually physical stores where people can be and gather and have a team where we see that if you work for one of the aggregators or the supermarket guys that are now popping up that it's quite a lonely job. I mean, it's you and you wait for your call and you go somewhere, we try to create teams and get a better working experience, which is just as important to our staff as payment is. As far as commodities, Don talked about it. We don't we don't see any direct headwinds. Over the next six months, we're monitoring this. We have long term contracts. But for now, we seem to fare very well on commodities.

Josh Kilimnik 1:07:01
So if you just all those, all those things that Andre just said overlay for Japan as well, and but I'll give you the local context, it's not, we're not finding it hugely difficult at this point we doing, we do see that the pressure will increase as delivery becomes more part of the mainstream, it is a little bit behind Japan, where they didn't pizza delivery was really the only thing. But with the rise of home delivery on many items, now we're starting to see some pressure and pressure to retain people as well, as some of the wage rates get inflated. Apart from that, not too many issues with finding people at this point. And that's, I think, got a lot to do with the way the restaurant sector works. And, you know, what you can see is dine in across the for those who've been to Japan, it's a very dine in heavy market. Through COVID, we saw a great reorganisation, where we saw those people release back out into the hospitality world. And that's enabled us to pick up many great people. Well, what's interesting, some of the stats that we can see is, you know, sort of a 60% growth in carry out across the industry. And that's meaningful and 30% out of delivery. And, you know, that's really because the restaurant industry, the dine in restaurant industry, has been lagging through this COVID period.

Nathan Scholz 1:08:34
Then perhaps just to wrap it up, Nick, any comments on labor for Australia? Adding to what Andre and Josh have asked? Yeah,

Nick Knight 1:08:40
I think the big point to highlight as Andre has mentioned is that team environment and store level culture and I think that's really where Domino's has got the right formula for win out in this tightening labor market. With the exception of maybe last year, for 25 years, I've been in the business, it's always been difficult to you know, select and train the right team members without the right platforms and

culture in place. And we're investing in becoming a world class training organisation with the right sort of tools and skills to be able to empower our store managers and franchisees to be able to find those great talents through new recruitment platforms. And obviously, Domino's provides also a great career pathing opportunity for store managers and franchisees and you know, a number of us on this call are examples of that. So, you know, I think if there is any company in the current labor environment that has a good formula, I think we've got the best one and it's up to us to make sure we continue to invest and execute on that.

Nathan Scholz 1:09:38
Thank you all. A few questions in terms of commodities. So, we mentioned earlier in the presentation some you know, strategies around the potential commodity price increases. Can you elaborate on that slightly and then also given those some pressures higher EU brand fee to DPZ and the Project Ignite costs, you know, how do we expect margins and to grow into FY22, based on Outlook for same store sales growth and network sales growth.

Don Meij 1:10:06
These are good questions. And I think, you know, what we've highlighted is this financial year, not a lot of impact in soft commodities. And because we've got a year, we've got time to massage and get ready, we do benefit, when we have an increase in delivery, it's a bigger food basket, the bigger food baskets a higher ticket average, and that helps we get leverage from that. But you know, as Josh said, where he's had a little tiny window, we had a lag from last year. And he's been able to mitigate that already with strategy. It's not the first time we've dealt with some of these increases. The wage one is the biggest challenge over the longer time, because we do take the belief that this is the age of delivery, and there's not enough human beings to deliver. So we will we're constantly focused on this efficiency model, that we need to do more deliveries per hour. And that's an important measure in our business that we'll continue to focus on. The second part of that question, Nathan was

Nathan Scholz 1:10:57
Just given that we've outlined the commodity changes the step up in the EU royalties, and then also Project Ignite, what's the sort of expectations for margins going forward?

Don Meij 1:11:08
Yeah, we don't give margin guidance, you know, because what we do is when we are well ahead of our own expectations, we do invest. And we did that again last year. And, you know, that's obviously governed by our board as well, you know, we've got to go and talk about the sort of things that that we're going to invest in. And so in this high growth period, it's I don't think it's appropriate to be guiding on margins in any given year. But when you just see the size and the scale, we do expect that over time, it just flows through and you'll go, you'll see windows, you saw Japan, Japan had immense amount of investment this year and had high margin growth, because it just grew so fast. And then there may be some leveling off periods, and most of that, but you know, expectations is margins will grow over the three to five year window. I just, we've been working really hard to take people out of six and 12 months, leave reviews of the business. And, you know, earnings as businesses are going to grow this year. And it just comes down to timing, what some of those investments play through.

Nathan Scholz 1:12:09
If we can just turn to a trading conditions, if we can provide some comment on the experience of the European stores in recent weeks, I think Andre had touched on that, specifically about, you know, collection and delivery. And the key question has been, you know, what happens when we unlock in different markets? Are we still supporting some of our franchisees in some of those more impacted areas? You know, like the CBDs? And can we give them some feedback on ticket performance across our key markets? Particularly, you know, pre COVID, FY19 versus now, what are we really seeing in the market?

Andre ten Wolde 1:12:44
Yeah, if I can answer that. The good thing what we've seen over the last 18 months, it's been a roller coaster and condition changed, could change on a dime. And you're seeing that now in New Zealand. What I think is we will a lot of resilient systems that we can re reuse if whatever happens if there's a new curfew and there's not one answer to your question, because all the six markets in Europe, for instance, and even regions within those six markets have different rules and different measurements for COVID. Denmark is the standout example because they've gone out of that lockdown first in all our markets, restaurants reopened, I think it's five months ago now. So things although not normal, are looking sort of normal, vaccination rate is high in Denmark. But if you get a test, three days later, you can do everything that you could normally do. And what we've seen there is delivery remains high. Especially in Europe, I think you need to remember that we're behind in deliveries compared to the US or Australia. And we're still building the delivery business. And for some people, it's now a staple thing, it's part of their daily life. So it's become the norm to get deliveries and that's why I think we don't see deliveries dropping off. I'm looking forward to September when in most of our markets, universities reopen, schools reopen. So we're expecting carry-out to increase and we're ready for that we, we've got our promotions and our teams ready to handle increased carry-out at the same time. I think deliveries will remain where they are. And there's, again, there's no one answer because all six months are in very different phases as far as long as our loved ones are concerned.

Nathan Scholz 1:14:50
Okay, so Andrew, perhaps some given your experience in France, would you be able to provide some additional colour in terms of the trading conditions that you've seen?

Andrew Bradley 1:14:59
Yeah no, I think Andre summed it up pretty well, the I think the situation, we're very pleased with how the delivery level has stayed higher than it was before. We were in a market, which was quite balanced between delivery and carry out. So we've kept a higher level on that. I think they on delivery, I think the key will be, as Andre said, when the students come back, you know, a lot of the carry out deliveries, particularly with the special offers, like the Tuesday and Thursday, offers that we have in France, are very much driven by young people, because they're great value offers. And that has been missing, as we've been, you know, universities have been closed, every sign at the moment in France is that we're in a fairly good position at the moment, and we hope it stays that way. But the the students will be back. And in that case, we we've planned to add the extra media, from the national budget into driving, carry out business. So as we get that business back up, so it's the combination of the higher delivery and

getting the carry out business back up. Obviously, that's the win win. And that's what we're planning for, as we go into September, October.

Nathan Scholz 1:16:08
And then circling back in terms of, Craig had that the second part of that question is, in terms of we've obviously delivered significant network sales growth this year. And indeed, Don, you refer to the impressive CAGR over the past two years. What is given this shift in terms of delivery? What is that contribution from ticket? How are we seeing tickets flow through? Is it driven by increased customers?

Don Meij 1:16:27
Well, it's one of those ones it's a bit harder to average because there there are different experiences in Australia and New Zealand, we did see the the additional ticket and delivery came back to a bit more normalized, whereas other parts of the world was we're still seeing strong delivery tickets. So there's just not one picture in amongst all of that. So I hope that helps anything else anyone in the team want to add?

Nathan Scholz 1:16:55
I'm getting shaking of the head, okay, let's move on to the next one in terms of the outlook is over the next three to five years to lift the number of new stores to nine to 12%. Yet same store sales growth is unchanged at three to 6%. Is it new territories or more fortressing in existing markets? And if and if it's any existing markets, is it confidence that not only in carry out, but also delivery share in these territories can increase as well,

Don Meij 1:17:20
Yes delivery share does increase with fortressing because it's just, it should be natural to understand that when you just get there faster with a hotter, fresher pizza, then orders grow. And we do see that. So our delivery business has grown as we continue to fortress, we also attract new carry out customers, because we're now in the neighborhoods as well. There is a lot of organic growth, what we call Greenfield areas in Japan and Europe. I mean, just in Europe, the team have isolated 512 locations where there's never been a Domino's store, and there can be a Domino's store. So that's beautifully, you know, we don't need to fortress. So you've got those opening, there's still natural fortressing, because remember, fortressing, we've always struggled with what we call this. In many cases, we're not close to the customer. And we need to get close to the customer and our franchisees bursting at the seams. You know, observations in Germany and France recently have just franchisees say, I just have to open that store I cannot do any more volume out of this store I must put this one here. And so you've got all of that going on. So in Australia and New Zealand, of course, it's nearly all fortressing and trying to be more efficient, get closer to the customer. And as Nick says, it's not lost on us that the most penetrated markets in Australia have the highest sales, the best customer scores and the most profitable individual unit economics. So you know, that's some of the support in Ignite is specifically targeting markets where they're under penetrated. So they're getting additional support compared to other markets that are already additional in that dollar amount that you see it's not divided equally amongst the network. So lots of Greenfield stores as well as fortressing.

Nathan Scholz 1:19:01

I'm conscious of the time as I've got you back to back. So we'll race through the last few. In terms of our recent trading performances, DMP gained market share in the Australian QSR market in the last financial year, given that organised QSR arguably gained share versus smaller single site operators. And I think we may have answered but it's still just reiterate because another person's asked; how are you seeing franchisee profitability in Australia?

Nick Knight 1:19:27
Yeah, so relating to the QSR. Yes, as a group definitely growing and those participants with drive throughs and who are participating in delivery, obviously the big winners there in terms of sales and those who aren't able to execute in those platforms they're really struggling as you might expect, especially in those lockdown markets. When it comes to franchise profitability. We are seeing record level profits last two years. So franchisees doing really well obviously there's always there is the exception of those small number of stores who are in those still affected areas of the inner CBD areas and university stores, which we are supporting, it's not overly material or meaningful in terms of our overall number. But it is certainly to those franchisees and we're working with them to support their existing businesses, and many of them are taking the opportunity to now expand their network outside of regions that have those kinds of impacts, and are growing into really profitable new stores.

Nathan Scholz 1:20:31
A question we've obviously spoken a lot about fortressing, can you share your current thinking around the value or otherwise of dark kitchens?

Don Meij 1:20:40
Yeah, at this stage, you know, we were almost playing in that space by the fact that the whole Japanese business we bought was dark kitchens, they were in the dungeons of these buildings all over Japan. And, and what we've seen is that the efficiencies of getting to the high street, and being exposed far outweigh. So that's more of the Domino's model today. And, you know, don't forget that we leverage carry out as well by exposing the store. So when you look at the size of the rents that we go into, the dark kitchens don't make sense as such for Domino's. Because we've got such a cost effective model, and we want to get the carry out and the delivery. And so we've almost been running the reverse model. And as we get closer and closer. It's interesting to know, in every bit of research we've ever done on Domino's, the number one reason you buy a pizza is it's the nearest pizza shop to me, that's the first reason why. Now for you to notice the nearest pizza shop to you, it needs to have some awareness. You know, when you open an aggregator you're trying to figure out where is that it gives a name of a suburb, maybe, and you're trying to figure out, but there is something that's, you know, I've been past that store it is a fresh, clean, bright, accessible business, and even for delivery, number one reason is it's the nearest pizza shop to me. So it means that you're going to see us get closer and closer with the customer. That's been our long model. And all of that investment continues to pay, especially now the cost of wages are going up. And we're just so much closer to the customer.

Nathan Scholz 1:22:06
You mentioned further lifting corporate stores in Europe. Can we explain the strategy here and expectations for the future number of corporate stores?

Don Meij 1:22:16
I'll hand over to Andre for that.

Andre ten Wolde 1:22:20
Yeah, let me go off mute first. Yeah, we, we will invest more in corporate stores. Also, because we have spent especially in Germany, we've retained the talent, what we tend to do is get the best franchisees to come on board and then run corporate stores and, and we're seeing great success in Germany with that, and we want to expand that, typically, and Andrew can talk to that a little bit more. We try to develop markets where it's a little bit harder. So typically, we're open stores in areas like in Paris in France's case, to grow the business in those more difficult areas. And then later find franchisees to take over their stores, there's not a number in our head or a percentage in our head, it needs to be every market needs to have a minimum amount of corporate stores, because we build an organization around it and it needs to be supportive. So we have that minimum in mind. But to grow the business faster, and especially in the for us newer markets like Germany, we want to expand our corporate stores there.

Nathan Scholz 1:23:43
Thank you, Andre. The question on dividend, the increased dividend payout? Has this been set such that all of the free cash flow you expect to generate will be distributed? Will acquisitions be funded from new debt?

Don Meij 1:23:55
So, Richard I'll hand that one over to you on the dividend.

Richard Coney 1:23:59
So, look, we've got significant new facilities now. So we can move either way, whether we whether we want to access those facilities use those sorts of facilities for smaller acquisitions. In addition to that, we obviously generating a lot of cash. So our cash at, based on our current forecast, at least the next three years out, our cash after the significant capex that we've highlighted moving forward, we were generating more cash that can easily cover our dividend and our capex moving forward. So yeah, so I'm not sure if that answers the question, but we have both we have the capability to leverage either and we generate significant, sufficient cash to cover our dividends.

Don Meij 1:24:54
And the answer on acquisitions is it depends on the size of the acquisition. So Richard could also be access more facilities, if the size of the acquisition was worth it. You know, the cost of debt today is so much lower. And if you're buying profitable businesses, which therefore, have got a higher valuation, then it's still more attractive to do that through debt today, considering how lean our balance sheet is, relative to our global peers. So yeah, most things we can do within our balance sheet today. But Richard could access more capital required for a bigger acquisition. From what we look at today.

Nathan Scholz 1:25:31

Thank you. I'm conscious of time we have two more questions left, and that will then cover off every question submitted. So I'm very pleased we've got through all of those. The second last question is on Pizza Checker. Is there any update on the DragonTail acquisition by Yum?

Nick Knight 1:25:43
At the moment, it's still business as usual for us, we've got an extension on our contract with DragonTail and we're working through what potential options in the future might look like if that transaction does go ahead, as planned.

Nathan Scholz 1:25:59
Excellent, thank you. And the final one, you can tell it's lunchtime. Ben Gilbert has asked; will we see the launch of crispy chicken in Australia soon? Hearing some very positive feedback on it in EU. I'd like to add Andre, if it's not coming down to Australia, will you bring us some next time you come and visit?

Andre ten Wolde 1:26:16
I absolutely. Absolutely will.

Nick Knight 1:26:18
We're still listening and learning on that one. And I think it highlights you know, the power and strength in having a group like this one, that we can shamelessly steal great initiatives like that. And if the research does prove that out, well, then potentially that is something that's on on the cards, but we're still in the learning phase there. But you'll be the first to know if we do Ben.

Nathan Scholz 1:26:40
Terrific. Thank you all. As I said, we've finished our time. And we've also managed to get through all of the questions and answers. So thank you all of those who submitted and for your patience in allowing us to get to them. A recording of this session will be posted on our investor website in the coming days as well as a transcript, which will be something we'll be doing moving forward. We have a number of meetings booked in over the next few days. So we look forward to speaking with you over the coming days and weeks. Thank you all very much for your time and thank you for the attendee to dialing in very early in the morning, Andre and Andrew specifically. Thank you.

Don Meij 1:27:13
Thank you.