REFINITIV STREETEVENTS

EDITED TRANSCRIPT

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

EVENT DATE/TIME: FEBRUARY 21, 2023 / 11:30PM GMT

CORPORATE PARTICIPANTS

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

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

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

Josh Kilimnik *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific*

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

Martin Steenks *Domino's Pizza Enterprises Limited - CEO of Taiwan & Director of Franchise Operations of Netherlands*

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

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

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

PRESENTATION

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

Good morning, and thank you for joining us today. My name is Nathan Scholz I'm the Group Chief Corporate Affairs Officer, at the Domino's Pizza Enterprise. I'd like to start with an acknowledgment of country and welcome you to Domino's Pizza Enterprise half year results. You recognize the traditional owners of the land in which we meet, which is the [Gadigal] people of the Eora nation. Today we are joined by (inaudible) joining you from Australia and dialing in from internationally. 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 good morning, everybody. I'm going to start on Slide 2 and remind everybody of our mission as our mission is unchanged to be the dominant sustainable delivery QSR in every market by 2030. And there's really important translation here, obviously in sustainable. Sustainable comes in so many forms in our business, including the profitability and viability of our franchisees.

And every product we launch today, we're focused on making sure that it is more sustainable than products that proceeded it. But also delivery, delivery for us is really that we design everything to be consumed off-premise and that is that whether a customer chooses to be the driver through a carryout or whether it's a more premium service with our delivery, everything that we do is designed to be consumed outside our stores.

If we come on to Slide 3. Our strategy is the same, both past and present. And we continue to work on the value equation. We're in the value industry, and it's the heart of everything that we do. During this half, we haven't always fully balanced the equation, right, particularly in delivery pricing, delivering the right product, the right service, the right image and affordable price is front and center and quite vibrant actually in this community.

So we acknowledge that the QSR industry as a whole, when we look around the world, be it in different forms is really vibrant at the moment, and it's for us to get right largely in delivery right now. As we rebalance this equation, we anticipate that we'll continue to build a frequency of our customers as we win new customers as well. If you come with me on to Slide 4. Clearly, these are not the numbers we wanted to put in front of you today. But we want to be really transparent to make sure that we can share what has occurred and, more importantly, what are we currently doing to address these.

If we look at our network sales in constant currency, they are up 1.2%. Our online sales in constant currency were up 0.5%. We materially lifted the network in store growth this year with store count by an additional 509 stores this last 12 months. But as we do report in Aussie currency, our EBITDA was down 14.3% this year, and we'll talk to why as we proceed in this presentation. What's really important is that this business has materially lifted in store count in the last 12 to 36 months, and we believe that as we get our pricing right in delivery and get a return to strong order count growth, we'll see a pretty sharp inflection point at that time.

If you come in to me on to Slide 5, we wanted to just be, once again, transparent and highlighting some of the headwinds that we've had over the last 3 years, but also in the same transparency, already just in that 1 month, the profitability from the Malaysian and Singapore business that turned on in December.

If you come with me now on Slide 6, you can see in our first 7 weeks of trade that our network sales are up 4.2%, obviously, now also enjoying the sales from Malaysia and Singapore. Our same-store sales were down 2.2%, and as a result of that and noting that we're still working through some pricing around our business that -- and getting our value equation right, that we think that in this particular year that we may come in under our 3- to 5-year outlook.

When we talk about our store openings, we've built materially bigger development teams across our business in the last 3 years. As a result of that, our store pipeline is actually really full. And if we were able to open all of those stores, we would be achieving our 3- to 5-year outlook. At this point in time, we just bring a little caution to the business in that franchisee sentiment, largely in Europe, may have an impact on that in this half.

On the other side of that, we are seeing a ramp-up of store openings in Singapore and Malaysia, which are adding to the store counts right now.

If we come through to Slide 7, and we talk about some of the short-term headwinds that we're experiencing. There's no question that we've acted quite rapidly on inflation in passing prices through and that in the early phases of October and November, we were benefiting from that. But after multi cycles, some of that initial positive effect started the downturn, and that was largely in delivery in December and into January. So higher prices in delivery bundles or in some markets because it's not everywhere, including a delivery service fee, did reduce some of the customer counts, and we'd be now actively engaged in changing that. Customer accounts have not met our expectations in December, largely in Europe and Asia, which has lowered the store profitability and ultimately our profitability.

December EBIT was particularly impacted in Japan due to the large number of corporate stores, especially the maturity of those corporate stores in some of the regional core locations in Japan. Pricing strategies are currently being worked through, and we continue to try and balance that value equation. And just highlighting, once again, that there's been some FX and also an extra trading week that we've been rolling from last year.

If we come on to Slide 8. Despite some of the earnings challenges that we've had in the last 6 months, they are actually -- and it's really important to note there are actually some really high achievements in the business, which really do set us up for the years ahead. First and foremost, the management tenure in this business, the franchisee tenure in this business is almost second to none in our industry. And so I really want to recognize our franchisees, our team members, our executives and support team in the -- not navigating some of these historic challenges that we've actually had to navigate the last 3 years because we really do have a great team and we are getting many things right, including our technology.

And so one of the things that we can point to is that things like our mobile app has grown dramatically in our mix of digital. And we'll talk more specifically about how that mix changes later in the presentation, but we can also point to the fact that our operations are executing well at the moment. So our NPS scores -- so when we think of our operations, considering we're materially bigger when we think about our technology, those parts of our value creation we've got right.

We've also got some of our product initiatives right, which are also inspirational coming into this year. The Burger Range in the ANZ business was the most successful since the taste color in 2016. Our New crispy fries launched in the recent weeks in France and the Benelux are the fastest growth side items and the largest most successful side item implementation in those businesses. And then the fastest growth consumer since the invention of the aggregators has been the single (inaudible) and the pizza category hasn't always catered for this fast growth consumer.

And Japan is the first of all of our markets to launch the Domino's MyBox, which is an individual shared meal -- an individual [served] meal that can be customized and we look forward to rolling that into the rest of our business in various forms. Right at the beginning, we've gone out of our way to protect franchisee profitability, and they -- this is sustainable despite the historically record high inflation that we've had to roll in our business.

As I mentioned earlier, our customer experiences are getting better and stronger. We know from all of our data that when we get towards an 18 minutes or better delivery time, NPS skyrockets. When the customer rates us out of 1 to 5 in the app. If we can get a 4.5 or better rating from a customer, NPS skyrockets. And we've got more and more stores that are migrating as we are able to work and focus on that. The Malaysia and Singapore acquisitions are going well and trading well. So we're excited to have them a part of our family, and you're going to see some fast expansion there. And we're imminently hoping to be able to settle that last 1/3 of the German business, and we're just working through the mechanisms at the moment.

So in the face of challenges in this post-COVID world, management and franchisees are working in partnership to make sure that we can deliver on a success for all stakeholders.

If you come with me now on to Slide 9. You can see here that we talk a lot about the network sales, and we did actually get growth in constant currency at plus 1.2. Our online share -- we want to talk later about the mix of that. It's really important to note where carryouts going deliveries going in there, even aggregators and so on and where our business is growing, but we did actually get a growth in constant currency out of our digital platform, which is one of the big engineers of the business.

So if you come with me now on to Slide 10. The business expanded in this half by 357 stores with just under 80 stores organically and 278 stores that were acquired in the Malaysia/Singapore business. As a whole in the last 3 years, this network is now 44% bigger in store count than it was just 3 years ago at this point. And some of that is immature, particularly in Japan. But what we do know is that with this extra 1,140 stores that we haven't seen the leverage from all of that in this current window. And as soon as we get this order count right, we believe you'll see that inflection point.

If you come with me now on to Slide 11. This is just showing more transparency about how our results have been achieved in the last half. And later this presentation, we're going to talk in detail about the causes and the solutions.

If you come on to Slide 12, and obviously, really important slide that we introduced a couple of years ago. Franchisees are the heart of our network, and we've worked to make sure that within material inflation that we've been able to protect our franchisee profits first. What we can see in our number is our most sophisticated investors, our franchisees and those that grow internally, is that the stronger operators are getting stronger. And you'll even hear that in parts of our business, many of them enjoying record profitability despite inflation. So you can see that expansion there with the 3 to 5 and 6 or more stores per franchisee. Even within a like-for-like industry like our own, 2.6 stores on average per franchisee is at the higher end, and it shows the depth.

And when we break out the tenure in our business, we know we have really strong tenure in our franchisees, which also sets ourselves up into the future. But you can see in the earnings that the headwinds that we faced at a store level or the same we face as a company and it's the same solution for both stores and ourselves. It's all about order count growth. And specifically, it's all about delivery order count growth, which we've got to get right in the near-term. So at this point in time, I'm going to pass back over to Richard. And thank you very much.

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

Thank you, Don. If we just move to Slide 14, I think it is Nathan. As Don highlighted, our network sales are down 4%, but positive 1.2% in constant currency, with an FX translation headwind of $105 million. Our net impact is down 21.5%. However, this was impacted by FX of 4.8% and a further 3% to 4% from the additional trading beat that we had in 2022. So on an apples with apples, if we adjust for that, there's a decline of 13% versus the 21.5% approximately.

If you move to the next slide. If you have a look at our -- this is our normal summary around our geographic performance. As you can see, our revenue was down 4.3%, but positive 1.4% on constant currency, noting here that Asia having the largest headwinds of $51 million or 11.5% of the 12.5% downturn. ANZ is the lighthouse for the rest of our business, having grown earnings positive 5.2% with one less trading week as a result of strong product launches and our ability to more successfully pass through inflation.

Moving to the next slide. Nonrecurring costs increased materially, probably due to our legal defense costs ramping up for the trial, which was held in November. And in addition, the (inaudible) acquisition costs predominantly relating to Malaysia and Singapore for and [same to] Cambodia.

Moving to the next slide, a strong result from our free cash flow perspective, with net operating cash flow up 17.6% to $109.1 million, inclusive of timing headwinds in working capital, which we expect to unwind slightly more in the second half.

Moving to Slide 18, where we go into more detail on the CapEx. As you can see, this slide highlights our continued brand investment back into the business with store-related CapEx up $29.9 million and digital investments of further $23.3 million.

Moving to Slide 19, our balance sheet. You can see here that there's this some quite large movements this year, predominantly due to the timing of our solid first-time consolidation of Malaysia and Singapore and the related funding in addition to the recent capital raising also moving some of the numbers here. On that note, I want to highlight you put an additional slide here, highlighting our group debt position and probably we've strengthened our balance sheet, both in terms of our debt financing and the recent capital raising.

I can now highlight that we now have raised new debt with 4-year committed debt facilities following our acquisition of Malaysia. But more importantly, we've now locked in our interest rates of $367.2 million of our debt at less than 1%, with a maturation profile of 4 to 6 years. So that's a nice position to be in coming into a world that's maybe fairly volatile at the moment. Also worth noting, we now have undrawn debt multicurrency undrawn debt facilities of a further $453.7 million in addition to our cash and cash reserves of $143.7 million.

Moving to Slide 20. We're just highlighting again some of our key ratios, as you can see. The return on equity and capital employed have come off as a result of lower profits and some small amount of dilution in the recent capital raising impacting return on equity, but still a strong number at 29.3%. You can see our cash conversion has gone up from 71.6% to 86.6%, and our balance sheet, in terms of our covenants, we're conservatively geared now of the interest coverage at 24.8x and net leverage ratio now at 2.1x, which is well within where we like to be.

If we now move to Slide 21, you can see our group underlying EPS. Obviously, this is down considerably as a result of the numbers for the first half, down 21.8%. But if you look at our underlying EPS at 10-year rate is still irrespective of 15.3%, which gives us confidence in our long-term future. I'll now pass you to back to Andre.

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

Thank you, Richard. And if you want to follow me to Page 24, what's very obvious from this page is that we managed to grow the top line, but missed our bottom line, our EBITDA and EBIT. So let me take you to the next page to go through the European performance. It's been a challenging environment in Europe. We've experienced high levels of inflation. And with the Ukraine war just on the European [borders], this resulted in very low consumer confidence and an increased cost base for the system, our stores, our commissaries.

Price increases have helped us the top line, as you can see, but did result into a declining customer count mainly in delivery. And remembering, we're comparing delivery with the year before where most of Europe was still in a lockdown and dine-ins and restaurants were closed. The decreased volume obviously has a big impact in our earnings. We are a volume business and less volume is not helping.

And as you might remember, during COVID, we've indicated that would be a great time for us to invest more into the business, and we have actually put our foot to the floor, but this has resulted in some short-term impact on margins. And at this moment, I'd like to take over -- to hand over to Stoffel, who joins us from Germany at a late night time.

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

Yes. Thank you, Andre, and good morning to all on this call or afternoon, night as it is here. And as mentioned before in the presentation, we really doubled down on investing in the store growth. So we've got significantly more people on our development teams. And even though the numbers of store openings might look a bit soft, we've decided it is the right thing to do because some of our multiunit owners, if I look at Germany, they've all opened one or more stores in the last years.

And now with some economic headwinds or challenges, uncertainties, they've chosen to consolidate the business before taking the next step of growth. We want to be ready for that, and that's why we've got -- we want to deliver on all the projects that we've got in our pipeline. So that at the moment, when our customer counts turn positive, we can go back to store growth straightaway.

If we then look to the Danish business on our full year results, we've broken more out there. And since then, we've created a 3-step approach: Step one, is to get away from the negative brand image that the previous owners left the brand with; step 2 is creating store level profitability; and then step 3 is to make the whole business profitable by growing the number of stores and the sales that we do. So -- the marketing campaign that was just out when we spoke in August, actually did a lot for our business and for the customer perception of our business. And that has resulted in the Danish customer accounts being the best in the whole European business.

With that, even though we're not done with step 1 yet, we can more and more start focusing on step 2 as well and start focusing more on the bottom line of our stores and making the stores profitable. I must also add a little shoutout to the team in Denmark because they've done some amazing work in really increasing the productivity of our stores, which is a big step towards profitable stores in a high labor market like Denmark.

Once we've created the solid bottom line, we can actually start focusing on step 3, which through more sales in our corporate stores and adding franchise stores to the mix would result in a profitable business. If we then look at franchisee profitability across Europe, we actually see that the last quarter has been resilient, given the trading conditions. If I take Germany as an example, we faced a minimum wage increase of 24% year-on-year. This on top of the commodity and utility inflation that everybody was facing. And we're actually very proud to say that despite these headwinds, the actions we took resulted in the last quarter being the strongest earnings quarter of calendar year 2022. I now want to hand over to Josh.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific*

Thanks, Stoffel. If you come with me now to Page 27. I'll take you through the results for -- as it relates to Asia. And what you can see here is that we had good top line sales growth, but like the other markets, we didn't produce the results that we would have liked on the bottom end due to the inflationary pressures, some timing delays in lifting prices and a shift to sort of carry out, which is at a lower ticket.

But I will point out that our stores are now stronger than pre-COVID in our mature store sets and delivering meaningful returns for both franchise and corporate stores. Now whilst we would have liked this 6 months results to be a bit better. And if you come to the next page, we would have liked to be better. Our strategy is really -- it is sound. And I want to outline that the strength of our growth platform would build in the region, which if I take you back to August 2020, I told you very clearly my intentions to grow the business in Japan exponentially.

It was the first time we had available sites, people, very strong value equation, very strong operations. And I guess that mindset -- that growth mindset, and that enabled us to grow from a 646 store business back in August 2020 to now a 960-plus store business. At that time, we also told the market that we're active in the acquisition space. And we've delivered, and we're adding 4 -- we've added 4 markets in Taiwan, Singapore, Malaysia and Cambodia. And of course, this enables DPE to really dimensionalize our growth across the region.

Another way to look at this is that since 2020, our store numbers have grown from 642 stores in just Japan to now 1,417 stores and now not operating in just one country, but across 5 countries in the region. It represents 121% store base growth. And as these stores move along their respective maturity cycles, we will see margins return. And we don't deliver the more expected numbers shareholders have enjoyed in the past. And of course, this is multiplied across a much larger base.

So we are confirming our 3,000 store growth for Asia alone. And I guess to this, I'm tried to report that the newly acquired markets that we've -- are performing well, and we're really looking forward to in the next 6 to 9 months getting all the integration done. And that means integration with our tech platforms, that means digital end tech and back end tech, but also just getting our knowledge in those markets over the next 6 to 9 months. At this point, I'd like to hand over to Martin Steenks, who will take you more on -- through the specifics on Japan.

Martin Steenks - *Domino's Pizza Enterprises Limited - CEO of Taiwan & Director of Franchise Operations of Netherlands*

Thank you, Josh, and good morning, everybody. For those not fortunate to visit Japan last year for our Investor Day then, where I met actually some of you. Let me introduce myself first. My name is Martin Steenks, 25 years in the Domino's business right now. And my background includes all facets of the company, from driver to franchisee towards up Director in Holland towards the recent job as CEO of Japan.

And as Josh mentioned, we have multiple plans ready to improved profit, which will be shown later on in this presentation. Warehouse earnings were lower than prior year in Japan, mainly due to lower sales and due to food cost increases not being fully passed on to stores in this half. Franchise profitability remained strong in Japan for Q2, mainly due to a very strong October month. And corporate store profit for our mature stores in Japan, although below expectations, remained on par with last year.

The maturation of a significant portion of the Japan business opened during COVID is expected to deliver growth in earnings and margins in the medium term. That said, I would like to give it over to David Burness.

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

Thank you, Martin, and again, good morning, everybody. If we go to Slide 30 to the financial highlights. You'll see that we had sales of $687 million for the half, which is down 0.3% on H1 '22. But like all markets, we had an extra week of sales in H1 '22. If we normalize that, we would have been up 3% in network sales.

And that flowed through to an EBITDA increase of $3.3 million or 4% and EBIT of $3.1 million or 5.2%. Now -- I mean the reason for that is primarily that we have managed to pass on enough of the inflation cost throughout the half to do that. And we're really -- over that 6 months, we've been really nimble on our testing of pricing and the number of pricing changes that we've rolled out.

And one thing we will be doing in the second half is to really focus on customer count, not just sales growth because we know that's where the future sales will come from. And we've unlocked a model that we think is making a real impact there. So real [green shoots] of seeing that customer count growth, which I'll discuss in a moment.

So if we just go to the next slide, 31. Just going to the second point, we reinvested in the franchise space through Project Ignite that we've shared with you in the last year. That is working. We've seen 23 new stores in H1, and that's compared to 23 for the full year in the prior year. And in fact, in the gap map state that we see, Domino's has opened more restaurants in that half than any other QSR in Australia.

And included in that number is 3 of our mobile pizza kitchen stores, which now we've shared that with many of you. It's a fully-fledged store on wheels. It's a truck. And what it gives us is the ability to get into some small communities where previously, we might not have tried that with a traditional store, but the Mobile Pizza Kitchen comes with a lower cost base. And then it's also got the flexibility to be able to move if that particular town didn't work.

So that's a really exciting prospect for store growth in the coming months. And of course, just on to point three there, protecting and rebuilding franchisee profitability is our most important focus in the business at the moment. on the back of that really heavy inflation that we've had in the last half. What we're finding is that we're getting variable results from franchisees, certainly in our top 25% to 50% of franchise fees, we're seeing some really good results where their stores and franchise groups are actually making more money in H1 of this year versus H1 of '22.

So -- and that's really on the back of those stores that have been able to execute operationally and pass on that value to customers are getting rewarded by customers. And those stores that have not been able to execute operationally and have given the customer the same or even the lesser service than what the customer got previously, they have not been successful in passing on that inflation. But we know that we've got [lighthouse] stores that we have our national rally coming up next week. We'll be sharing with all of their franchisees. We've got a record attendance of that rally. And we've got some really clear lighthouse stories that we can share with the network of what it looks like to successfully pass on that inflation and get rewarded by customers.

We did have -- just to the fourth point there, we did have some franchisees that exited the business due to underperformance, and we measure that through our ABF program. That's why we can see that our corporate store count has increased in that half. And we will aim to refranchise those stores. And of course, that will happen on the back of just good unit economics. But also something we're doing is our manager of franchisee program that we have designed, and we'll be launching that at our national rally next week, where we'll be working with franchisees to sponsor their managers into a franchise and that will be a really exciting program.

Just to the last point, rebuilding store returns and payback is our main focus by increasing our average weekly order counts. Now something that Josh is going to expand on later in the presentation is that we've been working on a new voucher system. We call it our Flex voucher system. And what it does is it gives us an ability to start with a really sharp headline price for customers. I mean, we're talking for some of our delivered deals as much as $10 cheaper on the headline price of the deal.

But then it gives a customer the ability to upgrade that. And as they wish, and we green shoots so far, but we've been testing this in ANZ since December, and we've started to roll that nationally now over the last 2 or 3 weeks. And we're seeing some really good results. And we feel as though we've found a bit of a sweet spot where we can give value to the customer, but we also give the customer the ability to upgrade that deal, and that's where we provide margin to franchisees and corporate stores. And all the data we're seeing so far is that we are getting that sweet spot of margin protection whilst also getting customer count growth. And Josh will expand on that a little bit later in the presentation. And I'd like to hand over to Marika Stegmeijer, who will take us through everything we're doing in Domino's for Good.

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

Thank you, Dave, and good morning to everyone. I'm pleased to share with you today another update on our ESG program, Domino's for Good, as VP, we're committed to contributing to a more sustainable prospers and inclusive future for all our stakeholders, which, of course, include our team members, our franchisees, our customers, our business partners and investors and the communities in which we operate.

And with our Domino's for Good program, we believe, in a better slice for everyone. And to us, this means to achieve a measurable positive impact for our main key stakeholders by 2030. And as my colleagues have shared with you today, we're putting in place the right strategies to further improve the performance of the business. These responses today, in our view, do not undermine -- I'm going to stress that the delivery of our critical longer-term sustainability objectives.

Moving on to the next slide. As you may have seen over the last few years, we've worked hard to build our global ESG strategy and performance framework. Our FY'22 sustainability report, which was released this half year, of course, reflects the progress we've made so far. And as we've shared in previous updates and the progress we achieved this year is clearly the result of a very dedicated leadership team, many engaged team members and external partners who share our passion to create a better slice for everyone.

This slide summarizes some of the main highlights of our FY'22 achievements. I'm not going to read all of them here. As you can read them already on the slide. Just want to stress that with our last sustainability report, we started to report with reference to global ESG and reporting framework, GRI and SASB. We're working on further improving our ESG data collection and reporting process and we're also considering other reporting frameworks like TCFD, which I know many investors are interested in.

And we're also working towards compliance with upcoming European -- with the upcoming European Crop Sustainability Reporting Director, and we're keeping an eye, of course, on developments in that field in our APAC market.

And moving on to the next slide. As we shared in previous updates, we believe that science-based targets will help us to do the right thing, and it will help us to measure and report on our progress consistently over time. And these targets help are based on keeping global warming to our 1.5-degree pathway our impact on that. And to reach these targets, we've set net 0 emissions target by 2050 and intermediate targets by 2030. In order to achieve the targets, we focus our actions on 3 main impact areas, which you can see on this slide: Our sustainable stores and operations, responsible sourcing and sustainable product innovation.

For each of these focus areas, we've identified the most important actions that also summarized here, and we've put in place roadmaps that further help us to take the right actions. For our business, some concrete examples on the work that we're currently doing that's currently taking place. In stores, we are measuring the energy and waste and we're creating guidelines in sustainable stores. The markets can adapt. It should adapt.

Some of them are already opening sustainable [stores] soon or planning to do that soon. We're engaging with our key suppliers on environmental ambition, and we are discussing projects to reduce our emissions in our value chain, such as looking at improving animal feed, sustainable farming and factoring deforestation in our value chain. As was mentioned before by Don Meij, our new products also are supposed to include a big sustainability component, every new product needs to be more sustainable than the previous one. We're working on sustainable packaging guidelines, and we plan to communicate the footprint of our products in some of our European markets soon.

To conclude, we understand that now more than ever, our stakeholders expect us to take action on our environmental and social environmental social issues. In our view, there can be no wavering from our joint commitment to build a sustainable future, and we recognize that the long-term success of our company is linked to our thriving plant in society. And moving forward, we would like to maintain and transparent as we are trying to do today and with our sustainability report and constructive dialogue with our stakeholders and our journey towards 2030 and encourage all of you to please share your observations and your feedback and we welcome that. And thank you for today. And I now would like to hand over back to Don.

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

Thank you, Marika. And I know we're all proud of the work that you're leading and that the teams are all working on around the world, so well done. If you come with me now on to Slide 36, I'd like to talk a little bit now about looking forward. Firstly, we do still expect to see some commodity increases in this calendar year as we forecast. Although they are coming on at materially less than they were last year. And we are also forecasting listening to governments around the world that we will be getting labor increases. .

So one of the first things is that there is a potential for unanticipated inflationary pressures. There can be still surprises, even spikes in labor in different markets around the world in the way that they may react. So we're very well aware of that. That's built into our planning as we think through the initiatives and knowing that we've constantly got to make sure that we're able to pass through the inflationary pressures that come our way. And I think the toolbox that we've been learning and building is really growing.

And one of those you're going to hear a lot more about from Josh in our flexible voucher, the voucher that is the voucher for everybody. but I'm going to let him go through the detail of that. I also can share that at this time, as we do take price up, we're still focused on more for more that as we -- products need to grow with those prices. And you're going to see that in the imminent weeks with the value range in Australia as we make those better.

Ultimately, we're in the value business. The QSR industry is the value business, and the value equation of Domino's' product plus service plus image divided by price and affordable price and are central to attracting and building our frequency. And we've got that right in carryout, and we're going to keep throwing more fuel on that fire.

We didn't quite get a right in delivery. But that's saying, as an aggregate across the group, already we can see elements of our business where we are getting that right, and we're seeing the positive shift in momentum, be it early days. Management are confident on the strategy that we're implementing, and we do expect to see increasing customer counts and sales rebound.

The fundamentals of the value tree that we presented last year are still wide and well in the business. And you're going to see that on the next page. And then I'm now going to hand over to Martin as one of the first initiatives to put into more detail around the value tree on Slide 38. Thank you, Martin.

Martin Steenks - *Domino's Pizza Enterprises Limited - CEO of Taiwan & Director of Franchise Operations of Netherlands*

Thank you, Don. And let me take you through the store initiatives we have already took in place history leading through fortressing, e-bikes and Domino's end-to-end ownership of the ordering experience. Supply chain initiatives, including the expansion of in-store dough making through the whole Asia will support operational efficiencies with offsetting savings. Reduced delivery times are still the key in the determinant of heightened product quality and customer satisfaction scores.

And we also launched Club 1845. It's included 18-minute delivery times and a 4.5 star product ratings for the highest achievers each quarter. Year-to-date, we are currently at 17 stores who are in this Club 1845. And currently, 63 stores are on track to reach Club 1845 in Q3. I also would like to tell or ask you to please watch this video on a later stage where one of our best franchisees in Japan is explaining actually what Club 1845 is. With that said, I will now give it over to Andre.

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

Thank you, Martin. Let me take you to Page 39. As Don mentioned before, the digital sales channel performed very well and grew based on constant currency, which is even more remarkable given the lower delivery sales that historically have a way higher online percentage. That's a testament to all the things that we've rolled out with the new app.

And app users are higher in CLV and have a higher frequency. And I'm really excited about the additional functionalities that we continue to roll out also over the next 6 months, such as more payment choices for customers and functionality that give customers even more control about what they're eating. So if I conclude Martin's point on store operations and digital performance, it is clearly that product development and pricing should be our primary focus.

And let me take it to product development first before Josh takes over and talk about our pricing initiatives. We have developed a lot of new menu additions and we already talked about the crispy fries in the Netherlands, the Burger Range, the My Domino's box. The good thing is that there's a lot of learnings that we share across all our markets. And there is a lot more coming and what I'm excited about is that the things that are coming are unique to Domino's and designed to be delivered. So to talk more about value and pricing, I will hand over to Josh at this moment.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific*

Thanks Andre. I think operations have been really strong with evidenced by strong NPS. We've got strong tech, we've got new products. Really, the last remaining piece is pricing. And we've been -- it's quite complex in each one of the markets that we operate in. But in the last 6 months as it relates to raising prices, it's fair to say we haven't always got it quite right. But our pricing strategy has really been all about trying to provide strong order driving value whilst protecting our margins of all our stores. .

And I think the good news is that we've found a mechanism to do this and subsequently, we've been testing, which has been referred to in this presentation already by Dave and by Don, basically mechanism called a flexible voucher, which, in our view, answers all those items margin, flexibility and giving customers what they want and presenting strong headline value.

The look at these -- the look and feel of the vouchers is going to be very familiar to many of you as it is already in the marketplace across some other companies out there. But let me highlight some of the -- a couple of examples of what this looks like. So if you look at this page alone, you can see headline pricing of 2 pizzas 2 sides for $17. Now that's new flex pricing. If you look back only 3 months ago, we would have been presenting a headline price of $27.99 for that same deal.

What this means is that customer -- the headline price of $17, attracts the customer into the platform. And then it's up to them if they'd like to upgrade or change out sides or pizzas. It's up to them, and it's their choice. What's interesting is that we're actually seeing high ticket with a -- even presenting a lower headline price by offering more choice in this platform. Now of course, we grab these learnings very quickly, and we start rolling these out across our group.

I'll give you an example of what this looks like in Japan. We've got a big value layer there a big Wednesday. Our original headline pricing would have been around the [JPY 2,600] for 3 small pizzas. We can now offer that headline price at [JPY 1,990,] and that is being tested throughout the market over the next -- now and over the next months ahead. If you take Europe, an example of this is that we used to be presenting 2 pizza offer for $30 pickup, and we can now present a headline price of $19.99, which is great positioning in the market right value positioning but important to not driving a higher ticket and contribution to the business.

It's a win-win. Customers get what they want. They can do it whichever way they like, and it does protect margin at a store level. So we continue to roll this out, test it and protect this over the months to come across DPE. So at this point, I want to hand back to Don to the final slides.

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

Thank you, Josh. We come with me now on to Slide 42. I want to reconfirm our future outlook that we will have 4,000 stores or more than 4,000 stores opened by the end of this calendar year. But we'll also have more than 5,000 stores open in the calendar year somewhere at '26, '27 and that we believe that we will be able to achieve our outlook of 7,250 stores and growing over the next decade.

If you come with me on to Slide 43, as we've talked about today, as a result of lower than anticipated sales in the recent trading period we are allowing for this one, particular year the anticipated central sales to be below the 3- to 5-year outlook, although we do continue to reconfirm (inaudible) the 3% to 6% is accurate over 3 to 5 years. We have big development teams, and they have a full pipeline of stores right now, and it really comes down to just franchise sentiment in this half and flowing into next financial year on when those stores will open.

And that's largely in that out of Europe. We're seeing strong openings in the rest of the business and now additionally with Malaysia and Singapore. CapEx within the region of what we expect and have given us an outlook.

If you come on to Slide 44. Whilst we did achieve positive sales in the quarter 2, they weren't as strong as anticipated as we saw some of the unwinding of our delivery pricing late in December into January. We're seeing a short-term decline in those delivering customers. And now we are getting that into a new balance for the value equation and flex vouchers is one of the most significant examples of that where since December, we are now seeing an improvement in those original test [stores] now rolling nationally, an improvement in delivery count. But equally as important, I want to reinforce, accelerating the carryout market, which has already been performing well.

There's a couple of headwinds that we just point to there. The acquisitions in Malaysia and Singapore are trading to expectations, and we expect that you'll see some good acceleration in growth there, and we anticipate to take on Cambodia in the coming months. The Asian business is materially bigger than where we were in just 3 years ago. Just pointed out, it's 121% larger. There's no maturation in the Japanese stores, as we really did put the foot to the floor as we said we would. But by and large, as we get this order count right, we do expect to see that pivot in the leverage.

Customer satisfaction is high through our stores to operational execution. One would argue well, if you're 44% bigger is one of the problems, execution Well, execution and delivery pricing, you're absolutely correct. Execution and operations, no, we've actually got that right. We've actually improving as we speak, despite the fact that we're larger. Our technology platforms continue to get better. And in fact, aggregator sales that have declined globally, we're winning share inside the aggregator sales.

But even better than that, it's actually our own platform, which is the most profitable way for us to drive our business continues to grow and accelerate. And that's worth noting in a time when there's a shift that carryout customers typically run at a lower percentage and a lower ticket average than our delivery customers, and that's blended into that online environment. So for us, it's always been about value and we've just really focused front and foremost on getting that pricing right. We're in a buoyant QSR industry.

We've been the exception, and it's disappointing for me to share that with you in delivery that we've been the exception, but the actual industry itself around the globe in different ways is really strong and rebounding. And we can point that the fastest growth stores currently in our business are the CBD stores, again, as they -- customers are returning back to the offices and therefore, picking pizzas up on the way home. And that behavior, we're literally seeing in some cases, record sales in the CBD stores, whether they'd be in a small town like [Cairns] City all the way through to a downtown Sydney City store.

If you come with me now on to Slide 45. With the new markets and organic growth, we now have additional 1,140 stores and 44% larger than we were just 3 years ago. I really feel positive about the strong tenure on our franchisees. And as you -- as we highlight, they're investing, and they are the elements of our business that are growing.

And the high tenure in our leadership team and support around the world is literally second to none in our industry. And that's why we feel so confident about our ability to deliver as we have in the past and will into the future. We continue to drive performance of our network through various initiatives like the flexible voucher, the new app. And we're also targeting savings from (inaudible) stores. The big projects of the back of house dough (inaudible) roll out, producing dough in-stores bring savings into our stores and also delivering a high-quality outcome for our customers, potentially reducing the number of deliveries to our stores once again a saving, but even improvement to our ESG and carbon footprint.

So all positive initiatives that we're focused on in the business. We anticipate that our same-store sales may be lower than our 3- to 5-year outlook in the current window. We also are saying that we've got a strong pipeline of stores. They're there to open. It's just timing. Do we -- and largely that sits in Europe. We've got a very transparent pricing model, we feel really good about. That digital flex voucher which, by the way, will also be seen in our in-store experience as well through our point-of-sale systems. You can't get that on an aggregated platform.

It's an all-in-one voucher. We talk about it as the unlimited voucher. You can do everything and anything with that voucher whereas typically in the past, it's always been focused that it's a certain way. It's only a pickup. It's only a delivery [go], if you can only do these things. It's the customer's choice the way they want to do that. And it's worth also noting that whether it's a value range and for $5 more, you can get the premium pizza. Ultimately, that's still very affordable pricing, and it's something for everybody that we're quite excited about. So it's now from here to be able to execute, get all accounts back in the right place in the delivery segment.

And then we'll be able to pivot from our larger network, maturing our corporate stores that are newer, particularly in Japan and then leveraging that big scale both for our franchisees and for you, our shareholders.

So let me be really clear in my last statement and over to questions. The QSR industry is -- remains positive. And it also should be clear that our long-term growth is through convenience and we believe largely in the areas of delivery with carryout and actually Domino's delivering, and we believe we have the strategy to store footprint, the expansion ability to deliver on this. So at this point in time, I'm going to hand over now to Q&A. Back to you, Nathan.

QUESTIONS AND ANSWERS

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

Thank you very much, John. We have a number of questions that have come in on the Q&A. And as I mentioned in the group chat to all of our attendees, for those attendees, who for compliance reasons I'm not able to send questions my answer if you can also send questions to investor.relations@dominos.com.au. As I said, we have a lot of questions, and so let's get straight stuck into them. We are -- where we can, I'll try and group some of the questions we've asked, the same kinds of questions into themes.

So the first question is from Michael Simotas, and I'd like to thank Jefferies for hosting the results this week for us. At the time of the equity raise, you seem to be expecting materially better first half NPAT outcome given you seemed comfortable with consensus at the time of the $77 million to $78 million. What happened in the tail end of the year?

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

Yes. One of the things that historically is pricing needs to go for a number of buy cycles. And when we -- in a normal year, you're doing a good 3-, 6-month pricing tests. And so the pricing that worked in -- that were implemented throughout the October period continued to show good results in November. But as we got through more buy cycles, the delivery element has started to reduce. And so we realized that some of these structures in our bundling in some cases, potentially our Domino's service fee, which, by the way, isn't in every market, but it is in some markets. And so that unwound into the December and January period, which you can see January and February period.

So already with flexible vouchers, we can see a change in the momentum in the Australian and New Zealand business, strong momentum in Denmark, good momentum in Malaysia, Singapore and even in the Netherlands. But a lot more work. We've got teams right now in Japan and the rest of Europe to make sure that we're getting this pricing right. It's all about delivery or account growth. That's where we've got to get it right. We see green shoots of that. We've got to see -- like we saw in the last window, caution is because we've got to see that run through a number of buy cycles before you can say it's absolute.

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

Thank you, Donald. So are you expecting the trends in the second half to be better or worse than in the first half?

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

Yes. It just comes out of the timing of these order count growths. Where we can see, as I mentioned, I just pointed out, some markets of Australia and New Zealand and the new markets, Singapore and the Netherlands and Denmark, we're seeing positive momentum. We've got to see those same items implemented now through France, Japan, Taiwan and Germany.

And I put all of this that the inflation we've taken in France and Germany is extraordinary. I mean when we woke up in April, May dreaming about how we were going to get through this, I had a much bleaker view in those early months than I do now, and I feel quite confident. And I think hats off to Andre's team on keeping our franchisees whole at this point and delivering. It's just timing now. That's really when all this flows through.

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

Okay. So then a few questions, then let's dig into franchisees potentially profitability. So again, Michael has asked -- so franchisee margins deteriorate sharply, can you talk about trends across the territory? And then Michael has asked -- sorry, is there a significant tail of loss-making franchisees? And the final question for this has also been asked by Michael Simotas and Richard Barwick, has DBE done anything to support franchisee profitability, will you need to invest more to support the franchisee base?

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

Yes. So I'm going to hand back over to the rest of the team here, so that I'm not the only one speaking. The first thing we talked about, order count growth. When we get that order count growth, our franchisees' profitability accelerates, our profitability accelerates. That, when we look at our objective and key result focus in this business this quarter, it's our single focus, order count growth, largely by delivering growth. So that's the first thing.

But then I'll hand over to Josh in honoring the rest of the team. So maybe start with you, Josh, on the first 2 parts of that question.

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

I suspect, while Josh is unmuting, I do believe following the last investor call that, that means a (inaudible) to Domino's for good, as our standards bet. While Josh is just figuring it out, maybe it would be best if we hand over to Andre, and we will give some color on the European franchisee situation.

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

Yes. We -- as we said in the presentations, we have not passed on all the increases at the same time that they haven't. So in that sense, we have supported the franchisees in their profitability. It's not -- it wasn't necessarily something that we planned, but this is how we help the franchisees. And yes, their EBIT has been impacted like ours. And like Don said, we -- it is order count growth that we need to get up and especially on delivery. We're not forgetting about the value-conscious customer that comes up for pickup, that's the good thing, that we have those 2 legs in our business. Yes, I'm not sure what I can add to that.

Maybe Josh has found the unmute button now?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific*

Yes. Sorry, a problem with my laptop, my apologies. Same thing. It's about order accounts, are we providing more support to franchisees, no more than we have done to grow our store base. So those types of things are still in place. So yes, not much more to add there on that.

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

Can we get country-specific over to you, David, and then followed, Stoffel?

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

Yes. I indicated earlier that we're seeing a real difference in performance if we -- I mean there's an average. But what we're tending to do with franchisees is a drill down into percentile groups. And if we look at 4 different percentile groups, our -- the best -- the top percentile of our franchisees are actually considerably more profitable this year than they were last year. And that's about execution of the model.

And then when we look at the group, that's 50% to 75% percentile, they're similar to where they were last year. And then we've got the 25 to 50 percentile that are a little bit low. And then we've got the bottom percentile that are not managing to pass on the inflation or to deal with it.

And -- but we're not -- I mean similar to Josh's point, we're not having to offer more support than what we have in previous years. And what I think we'll find is that those franchisees -- and this is probably no different to any other trading year, that those franchisees who execute the model really well and maintain their profits, we imagine we'll look to expand at some stage. And it's likely that those deals may come from the franchisees and the bottom percentile who are not managing to execute the model as well.

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

Yes. So building on what Dave has said, we haven't done anything, what we haven't done other years either. We always look for where we can support franchisees by doing the right thing by the customers, looking for growth. So we've done this half, but not in a different way. And what you also need to remember is that some of the things that actually hurt our bottom line is because we've taken some tough decisions to make sure that franchisees stay profitable.

So if I look at the some of the decisions we took, they hurt the customer count, but they actually increased broader profit for franchisees. So franchisee profitability in the last quarter, we're pretty happy with. If I could have signed off on that amount at the start of the Ukraine war, I would have definitely, wouldn't have blinked to do so. So yes, there's work to be done. We need to increase our customer accounts to get to the next level, but some of these decisions were made to make sure that our franchisees stay profitable.

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

And maybe some comments last comment from David, the net spend on (inaudible) profitability?

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

I think that's $50 as well, Nate.

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

I did comment on the different percentiles that we've got. But I do note some other or questions in the chat around a gold profit percentage for franchisees. And one thing that we're really [fighting] with, just talking with the franchisees, and this has always been the HBM conversation is that we're not focused on a profit percentage but EBITDA dollars. Because as a franchisee myself for many years, I was very passionate about that fact, that I've never been able to pay my bills in any month or quarter with a percentage, it's paid in dollars.

And we're working with franchisees to make sure that as they grow customer counts, that they're making more dollars than they did last year. And similar to what I said before, we're seeing big bands of franchisees, and I'm talking hundreds of stores where they are making more profit dollars than they did last year, and that will be a focus with franchisees.

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

Yes. Thank you, David. And another way that we've talked about in the past is that's absolutely front and center accurate, is that it's the return on investment. And when we see our stores move towards in a dollar sense, a 3-year payback, we see acceleration in 2.5, we can barely stop the system. We haven't got that in every market right now. There's some migrated up towards 4. So that's where we've seen a slowdown in appetite. But yes, it's all about the dollars to the investment and trying to head towards that 3 and ultimately 2.5x payback.

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

So thank you for that, team. And the question had been essentially asked by [Brian Raymond and Craig Wolford]. And then Shaun Cousins had also asked similar, but then also asked then, so can that be achieved? And this really goes to the strength of the model. Can that DMP achieve an 8% to 10% growth store -- with -- sorry, store growth with franchisee EBITDA margins at 7.5%, whilst also the franchisees are also able to get that. Can those percentages both be right?

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

Yes. So the percentage just isn't quite the right way to look at it. As we just said, it's all about the ROI, return on capital employed for a franchisee, and we've got to move towards that 3-year payback. So with an accelerated order count growth, it really does quickly pivot. Many of these stores are past the breakeven. So the contribution margin is really high, but it's both ways leveraged down, and we've been minus 2%. We also have that negative leverage that way.

So we're really, really focused on this order count growth. We believe we get that pivoting and we've got strong store count growth. We have solid store count growth in Australia. We have solid store count growth in most of Asia, really strong. You're going to see imminently. I should even have flagged earlier in the presentation, in fact, it says we've opened 15 stores. You'll see in the next 24 hours or so, that will add by 4, so it's closer to 19.

And that's 3 more in the Netherlands, another 1 in Malaysia. And ultimately, it's about that. It's about getting that pivot in old account, get the leverage from that because most of the stores are passed that breakeven. And then you'll see these stores open with the confidence mostly in Europe that we've got to be.

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

There's 2 questions in terms of some commentary made at the AGM regarding the profit outlook for the full year. And so I just want to make sure I've got the correct person. So [James Lee] had asked, you previously guided the AGM to FY '23 NPAT growth at $7 million foreign exchange impact. And so do you believe that's reasonable. And if so, is it good growth year-over-year? What's going to be that key pivot?

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

Look, if I don't hit every element right, somebody please jump in. But ultimately, for us, in this window was the timing of getting all of those flexible vouchers, all of that pricing right, lifting delivery, increasing the momentum in carryout. So we just because we're in transition with all of that, we just -- that's really why we are where we are in removing that conversation from the AGM.

Nathan, did I miss anything that I should say that or Josh, Andre?

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

I would simply follow up, I mean to be really transparent. There's some commentary some analysts who essentially said that is this, by not repeating or not restating the guidance, is this essentially walking away? Perhaps, Don, if you could then talk to what you do think the outlook looks like for the full year. We've talked a lot of our customers count growth.

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

Yes. So the outlook for the full year is that -- sorry, for this full year is that we're not going to come into the 3- to 5-year outlook for same-store sales. The outlook for store count is the stores are in the pipeline and we could be in that 8% to 10%. It all comes down the center now in -- largely in Europe and the timing of that, did some of those stores move into the next half or even to the timing of when we have that profitability right. So that's really the variable here.

It's unlike in previous years where if you don't have -- like any year, the length of time of anywhere from 9 months to 2 years to get a store in the pipeline, they're in the pipeline. It's now just the appetite of the franchisee pushing go on that site. And for us, with the site, if you can imagine, in many cases, the sites built, you could arrive to that location through the windows. There's a full store behind that site. And then we may be enjoying rent free or starting to pay rent, which on a relatively basis, is small, and it's just waiting for that segment to move to that bank. It might be now or it might be next year.

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

Thank you very much for that. I have questions from Richard Barwick. I'm just going around the different regions. If customers have stepped away from Domino's where have they gone? Are people switching to other QSR alternatives or switching to supermarkets?

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

It's really important to note, and I'll hand back to Europe and with Andre and so on, the QSR market is buoyant. So the industry is buoyant. Our carrier [element] is buoyant. Delivery is down, but we've been down more against what we should be down, and we know that through our data, and that's what we've got to get right.

Andre?

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

Yes. And if you compared to the same half year, obviously, dining was closed last year in Europe around this time. So yes, some people went from having more deliveries to back to go and to dine in and go to restaurants because they reopened. In general, we've seen aggregated turnovers. We've seen share of other QSRs in aggregators go down. We took some share back to our app, which is a good thing. But the biggest where customers went is back to dine-ins that were available and drive-thrus.

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

Just while we're on that same topic, Brian Raymond asked this. I mean we've obviously talk about our buoyant QSR, but are our prices out of line with QSR competitors?

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

Yes. I think I might hand over to, once again, to Josh, David and Stoffel to give some more specifics.

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific*

I was just going to talk in relation to maybe Japan and what we're projecting. There was a shift away from delivery as everything opened up when people started looking for more value options. And there's many, many options in both Taiwan and Japan. You walk down the street and find relative value around everywhere. We saw sort of drop out of delivery and our pricing didn't move to reflect that fast enough.

And so we now -- going back to the flex voucher, this is the way we present better value in the marketplace. And actually, we'll come in and present that headline price a lot lower than our competitors in that space. So that's why we're putting a lot around this. and looking forward to seeing those customers return, both on a carrier and a delivery. So I get more carrier than I already do, which is buoyant, but then return -- get the customers to return from a delivery aspect.

Dave, do you want to add to that?

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

Yes. We've found you -- the question around is our pricing right in comparison to competitors? We're looking at our pricing in comparison to 2 things. Firstly, 2 competitors and also to CPI. And we're seeing a lot of data we're talking to DPC, the franchise saw around that fact.

And what we find is that if our pricing is -- there's a real sweet spot where we sit about 1% under CPI and also slightly under our competitors where we see order count growth, I think what happened in the second half of -- or in the first half of this year was that we took our pricing slightly above where it needed to be. And in that, we talked a little bit about that flex pricing. We've been very, very conscious of competitive pricing when we're doing that. And I mean some of those prices that Josh was alluding to, we're finding that our headline price for a delivery deal is a similar price to what our QSR competitors are doing for a pickup deal or a carryout deal.

So that makes it exceptionally good value as a headline price. But what customers are then doing is they're choosing to upgrade that deal. So for example, the deal that is 2 pizzas and 2 sides for $25, that's a comparative value to what you would get when 1 of our competitors to carry that out. What we're finding though was that the average ticket on that is about $38. So it's -- that's where the sweet spot sits. So I think that we're probably better pricing right going forward.

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

If I could add 1 other thing, element too, Dave. A good example in our business is that the Australian business for many years was requiring $5 value range to be a part of its arsenal. And what flex has done is as we've taken price to $5.99 in some markets and $6.99 in Sydney, the flex voucher with the carryout of 1 plus 2 and 2 plus 2 is actually fulfilling that gap. And that's why we're still seeing strong customer count growth even though we've been able to move value range, which we haven't been able to do as easily in previous years. So this flex is flexing delivery, but it's also flexing carry out.

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

On top of that, for Germany, I actually see some real good opportunity because, as Don said, carryout is pretty strong. Delivery is where we're still searching to get the pricing right. Germany has the highest delivery counts in the whole of our business. It's -- as a percentage of our business, delivery runs the highest.

And in most other markets we went after carryout in the past. We started it in Germany, then we got into the Asia delivery fueled with a lot of COVID delivery, not really being able to attract customers to come and carryout, having shops closed for carryout due to local legislation. So we really focused on delivery and other things.

We've got an underdeveloped carryout business in Germany, which is a great opportunity for us, and we're searching for the right pricing there. We see that with our newer stores that are built in locations that we picked that are also really suited for carryout, we're doing really well, and we're getting to closer to where the Dutch is with the division between carryout and delivery. And we see great opportunity for other stores. So that for specifically Germany is something that we're exploring and we're driving as hard as we can.

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

Richard has asked the question in terms of the spike in corporates also, Richard Barwick (inaudible) asked a question in terms of the increase in corporate stores in ANZ and (inaudible) and what risk is there that will occur in other territories? And Stoffel, if you can take the next.

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

Yes. Look, we -- I don't imagine we'll see a substantial further spike in those corporate store numbers. I mean that's been a conscious decision to remove underperforming franchisees from the system. Now we might see a little bit of movement either way within that corporate store group, but as we're seeing some of those increases in order counts and net flows through to profitability through this half, I imagine that we would see more appetite from franchisees to existing franchisees to expand.

And then the other thing I touched on earlier was that we're launching a manager of the franchisee program where we'll be encouraging franchisees to sponsor store managers in -- as franchisees, and I would imagine that that's where a lot of our expansion will come up.

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

Thank you very much. I think that answers in terms of then the issue with the current markets. A question in terms of the immaturity of stores in Japan. On Slide 7, are you saying, Josh, that these newer stores have been hit hard by weaker customer accounts does this bring into question Japanese store targets?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific*

Look, we made a decision to grow at that point. I mean, it is -- we've got relatively low order counts in other markets and a slight move in any order count does sort of make for some lower EBIT. But those stores are still maturing through their cycle.

We made a decision with -- we wanted to get critical mass in each 1 of the prefectures that we operated in. That was a strategic decision, so we get more TV and more brand bandwidth out there. Those stores will mature through that cycle. And what we're doing now is actually moving some of these store growth away from those areas that we previously had sort of split -- sort of carved out in our own territories. And we're moving those to regional areas and different areas where it just takes the pressure off the model while we get those stores to return, go along their maturity cycle in a more orderly fashion.

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

Thank you, Josh. A question in relation to Denmark. Have we confirmed a $4.9 million EBIT first half? I know (inaudible) and 1 store was added halfway and 3 other stores at least breaking even?

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

Yes. Thanks, Nathan. So the $4.9 million, that's the comparison against the first half of '20 for -- we haven't broken out the half year, but we are still expecting a full year better result than we had last year, as we also said in the full year announcement back in August.

Coming to the store opening, it's a good point. And in the 3-step approach, we've also said that until we get to step 3, we don't plan on adding any stores. We really want to first work in step 2 on the store level profitability before we plan to open the next store. We do need to keep in mind that 1 of our major -- or the major issue in Denmark is the brand image and where we see that -- we hear it most is in smaller towns where the old owners did operate source.

Actually, some of our newbuild stores in new areas operate a lot better than some of these old ones. So when we go back into growing, we're actually pretty bullish on those. If we feel the time is right, in fact, we might do that. But for now, there aren't any store openings planned, and we don't see any store openings until the end of this financial year.

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

Thanks, Stoffel. A question from Sriharsh from the Bank of America. Given the lower customer account pressure on the delivery, you're seeing in Europe, do you think you negotiated the right price for the German acquisition? Or do you think you could have gotten a better deal?

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

Yes. Look, in fairness, we're still in those final stages. There are some mechanisms in there that are just in the final price negotiations. It is still our expectation it'll be accretive and shareholders will be happy. So I think we're doing the right thing.

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

Thank you, Don. Just a quick in terms of -- and I want to make sure, many of the analysts have asked the same question, but I'll start with what's changed since the capital raise and guidance in terms of positive and trends improving (inaudible) which I think Don already addressed. And also Tom Kierath, on the back of that question, which regions have missed expectations and why?

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

Yes. So the bigger unwinding it happened in Japan, a phenomenal Christmas, but then the New Year or the end of January has disappointed. And that was the unwinding of some of this price. And so even with all -- Australia has been a shining light for this, but even Australia had windows in that, were dipped and then came back as the flexible pricing kicked in. So predominantly, it was Japan, a little bit of Australia and in Europe, where we've now just got to sharpen our prices to get this growth back in the delivery. And sharpen our prices is the toolbox of flex.

These -- you're hearing these -- I'm not sure if it's resonating, but when you've been able to -- when you're going out with very customer-friendly digital vouchers, which we call flex and the customer is choosing to pay more, we go out with a beautiful headline price, gets a lot of conversion, a lot of traction. It's more profitable for the franchisee.

The question is, what is the longevity in that? And that's what we still -- and that's where there's just that little bit of caution on maintaining that guidance that we were offering at the AGM. So if the trend continues as we are seeing it currently, and remember, this did start early in December for Australia, if that continues, then you'll see us a lot more bullish as we come into the full year announcement.

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

Thank you, Don. So question is from Sam and others in relation to commodities. So can you provide a further color on your current outlook, comment on the respective commodity inflation versus current spot rates being of [recent bias] to understand (inaudible) locking on a 4- to 6-month contract and then implementing [QA] for the next roll forward? And can you confirm when that roll forward base is going to be? In the same vein, we have a question from Brian Raymond, how long is that lag which means easing for the energy prices flowing through franchisees and new prices?

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

I'll hand over to Josh and Andre specifically, but by and large with food, we haven't seen the spikes that we saw last year. So the ones that we'll see some cost increases in March and then July and then September and September is a little far out. So we get a guide. But it's not as clear with September, but a lot more visibility, obviously, with March, April and then July. And the commodity prices are not spiking anywhere near what we saw.

Wages is a different story. Governments are talking about wage growth. What does that mean? And we haven't seen 1 to my knowledge -- and something changed in the last week or 2, but those will most likely still be quite reasonable and that means is higher than historical averages. But I think the market is as important as we are on that and have their own opinions.

Josh, Andre, have I missed anything there?

Josh Kilimnik - *Domino's Pizza Enterprises Limited - CEO of Asia-Pacific*

I think as we sort of look at all the commodity pricing, exactly for -- the way I see it is exactly that. We're probably seeing a bit of FX softening as it relates to some of the more import heavy markets like Taiwan Japan. And even as we just sort of go through the cycles of Malaysia and Singapore, we're starting to see that sort of come off a little bit. So, yes, I'm not too concerned about big changes just now. I think it will stabilize, hopefully.

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

No, Don, you're right, it's mainly labor that we're looking for the next couple of -- or basically this calendar year. We just had an increase from the first of January in the Netherlands of minimum wage going up 10%. Stoffel in Germany has had big increases over the last year. So our inflation actually in-store was a lot higher than the national inflation because we were hit on labor, energy and food and all at the same time. So our inflation compared to what is reported as the national average, it was just a national average. But in our stores, we felt it a lot heavier than what the national average was.

We expect labor, we expect it in France as well as governments tend to make up for the inflation in the -- especially in the minimum wage range. Although we don't pay minimum wage in all markets and especially in bigger cities because we cannot pay minimum wage, we wouldn't get any staff. Also, those wages have to go up to have the same delta between the minimum and what they are paid.

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

Yes. And I want to reinforce that we would talk a lot pre this window about our whole cycle that getting closer to customers, doing more deliveries per hour. So that's still in our business. In the Australian Rally this week, we've got guest speakers talking about how they're thriving with higher -- paying more than the minimum wage in different markets because they're just more efficient. And that's still the macro outlook, that we can do more deliveries than anybody else, and that's how we win. So whilst we're more concerned in the near term about wage growth, it then puts us down to that pressure on efficiency and getting these bundles right.

And obviously, if a driver goes to the door with $2 or $3 doors more than they may have only 6 months ago, that helps to leverage that because it's still the same driver. And if they can do it in the shorter run because we've got improved run times, we're more efficient as well because we get more deliveries per hour. So that's front center as we think a little bit more about labor than food in this 12 months.

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

Thank you, Don. A couple of questions from (inaudible). Do you think you need to pause growth projects for a period and consolidate the base of this profitability and get this coming, the probability of ROIC price was [figured] here on a 1- to 3-year view?

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

Yes. I think that it's still our view that this is an order count issue based around delivery. It's not a big fall macro problem for DPE. It's not like we've got a lot of different other issues. This is predominantly about getting this delivery order count growth right, continue to accelerate carryout. And then metrics improve and we're all winning.

We're in a buoyant market. QSR is really buoyant. I'm a little embarrassed to say that probably for the first time in a very long time, we didn't get it right in a buoyant market. So we haven't got the share that we deserve. I would say that burgers overall is winning, that around the world, burgers are probably getting it more right in most markets. But the customer is there. And as soon as we get that right, there's no reason we shouldn't continue to accelerate.

So that's why when we look at that -- this year, getting up 4,000 stores, '26, '27 getting up to 5,000 stores, we believe that's very realistic. And it's just this short -- how long is this window, getting that delivery order count growth right.

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

Thanks, Don. This should make a pretty simple follow up for you to answer then for Ben. So despite M&A in new stores, the first half EPS is below pre-COVID DC, the second half is likely to be as well. Is the business now just structurally a lower margin, lower ROIC business? In theory, it shouldn't be given (inaudible)?

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

Yes, the scoreboard says that right now, but that's not what we believe will happen as soon as we get the leverage from that order comp growth by franchisees, and we will benefit from that. It's unfortunate, we've accelerated all this growth. We've added already 3 new markets with a fourth 1 about to be added and we've put a serious amount of new stores on the ground.

And we haven't had leverage from that yet. So I think that my observation in this business is as soon as we get that right, franchisees accelerate and then immediately, that 44% -- as you've highlighted, our earnings are lower now than they were when there were 44% less stores. So I don't think that, that's a long-term issue. This is a near-term issue, near term being as long as we -- is all about delivery or account growth and accelerating the carryout growth.

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

Thank you, Don. So a couple of questions here from [A.J.] from Macquarie. How's your profitability in Europe and the percentage of stores are operating below 8%? And can you give us a feel of the pipeline and store openings in Europe over the next 18 months?

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

Sorry, Nathan, can you quickly repeat that?

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

Yes, there's some questions from A.J. from Macquarie who's asking (inaudible) profitability in Europe and around number of stores operating below 8% and where are you seeing the store pipeline?

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

Yes. Like Don said, it's all about the confidence of the franchisees in the future. And as Dave pointed out, there is -- there are franchisees in all brackets and the franchises that are in a good bracket actually do want open stores and are opening more stores. I know we had a slow half year. We don't actually think in 6 months cycles, but you'll see an increase over the next 6 months. And there's still a lot of franchise in high fire bracket that do want to expand their business.

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

Thank you for that. Just a question in terms of service fees, delivery service fees from [Sam] again. Just asking in relation to Europe, will this now not move forward? And then I have a follow-up question from Martin in terms of the service fee in Japan, will you now look at reducing or rolling that back to deliver growth? So Andre, we'll start with you in relation to service fees in Europe.

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

Yes. We tested a lot different kinds of fees, service fees. We even call them managing fees, and it is -- it's not a surprise that fees are longer term. Initially, they look like people accept it, but longer term, are not driving frequency. And what we see now with introducing the flex vouchers, we talked about that a lot is that we think there's an opportunity to go back to more simple pricing and get away from fees. But we still have fees in certain markets like Denmark, like France, where delivery fee is more than other markets like the Netherlands, for instance.

So we look at it as -- from a country base, we really look what it does it do with frequency, profitability of the orders and data tends to take longer to really measure that frequency. The average order frequency in the Netherlands is -- or in Europe is roughly every 3 months. So it takes you a while to see that -- the actual effect of adding fees.

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

Thank you for that, Andre. I do note that it's currently 2:00 o'clock in -- 2:00 a.m. in Germany. So Marika is going to drop off the call now. She has some important meetings with our partners upstate. But we're just going to continue on because we've got another about 8 to 10 questions that I'm keen for us to cover as many of them as we can.

The next question will be for Richard Coney. And sorry, I just need to bring up the Q&A chat again in front of me. So yes, the question is, how comfortable are you with the balance sheet position versus covenants given the challenges ahead in the second half? And that's from Brian, right?. That's $50 for the donors. I would like to point out our Give for Good charity has claimed up $150 so far today. So -- and none of that from me this half. So thank you all for those donations, and over to Richard.

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

Just make sure you pay the $50, Nathan, I'll be auditing it. So yes, so probably just highlighting again Slide 20, where I probably -- this was why we -- sorry, yes, this is why I put in there sort of -- I placed Slide 20 out from our banking balance from our banking section where fundamentally we've -- sorry one second, Slide 20, where DPE, we've basically raised new debt to a 4-year term. And most importantly, we've now locked our interest rates out 4 to 6 years at below 1%. Obviously, that makes our interest coverage ability to service our debt in a very strong position, with our interest coverage ratio now at 24.8x, coming off a while, but our covenant was 3x. So we're a long way ahead of that.

Our leverage is more back to sort of a position which we like at 2.1x and our covenant is 3x. So I feel like we have a good headroom at this point.

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

Thank you very much, Richard. I had a question in terms of -- from [Craig Woolford], and I'll address this one to David Burness. Australian profitability was impressive in the first half, given weak sales. How much of a contribution did the store acquisitions make to the half's results? So was there a benefit of increase in our core results?

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

No. It's more about the fact that we were quite nimble in our pricing management through that half, and we probably managed to pass on a bit more of the inflation cost than what some other markets did. Having said that, we -- I did note earlier that our focus for this half is really around that order count growth. And we feel as though we could probably do both of those things in the second half of the year. But no, I wouldn't say that it was about the acquisition of those stores. It was more about getting that blend drive of passing on cost.

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

Thank you, Dave. A question from [Aaron Mazula], how can we recover inflation for franchises still building this year when we are still sharpening our prices?

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

Yes. So one of the beautiful things about Flex is it's digital. And so you should be aware that the digital activation teams around pricing are doing AB tests 5 days a week, some markets 6 days a week right now. And what that means is that they're playing with all sorts of little triggers. So there's some Flex pricing, for example, that hasn't even been rolled in man that we already know is successful, that have already tested really well, and then will go through a longevity test now. So it's an interesting thing with pricing.

And because we're presenting bundles, we're presenting individual pizzas, there's still -- we think there's still a lot of elasticity in this whole Flex. I'll give you one thing that you can't do in the Flex voucher that you'll be able to do when it will be the unlimited Flex is that you can't do unlimited pizzas in it right now, and you can't do unlimited sides. In other words, you get the 3 plus 3, you can switch them out. But then adding another pizza doesn't -- isn't mechanically in that digital, but it's being built right now, and we see that as being accretive.

There will be some mix and match ability coming soon. So some of those -- right now, it's pizza and it's sides. But in some markets that could become in the Netherlands loaded fries or pizza or it could become a pizza rice bowl or pizza or pasta or pizza. So as that flexibility grows, the test illustrate good ticket movement. I mean the pasta test has been really positive where it's really accretive. It's actually people are quite comfortable to add that as additional, as a meal much just as a side.

So we think the benefit of Flex is the agility. Because it's digital, it's immediate. A lot of these other coupons leap into the offline and online, whereas this is -- you can track conversions, where the conversion is at, where ticket growth is at. And if you can imagine a matrix for a franchisee and imagine on one end you've got order count growth and on the -- that could be on the horizontal -- sorry, on the vertical. And on the horizontal, you would have contribution margin. And the sweet spot is how do you get up into the right hand? How do you get really strong order count growth with really high margin?

And sometimes in that, it's also that just with a slight change, you can see that it produces materially more orders at just a slightly lower margin, but therefore, the net profit of that coupon isn't materially bias or higher. So there's all these sort of tweaks. And those tests are constant, you would expect, we're an agile digital business. We're just applying what we just have learned in the last 6 months is how to do now with pricing.

In the pre-inflationary world, we didn't have to be as agile in pricing. Price changes would happen in a 6- or 12-month window. They were tested over long periods of time. So the agility that we apply to digital platforms wasn't brought into pricing. We now have a tool that was built. It's unique. It's the only one of that we're aware of in the market. And it's now what we think is our inflationary model, be it, it's still early days. It's only been live since December in the Australian business and now expanding throughout the world. So we're still going to learn more as we go.

But that gives great confidence when you see David, in is toolbox right now has offers, which he hasn't even rolled out, that are successful tests. And that will contribute more profit to franchisees. So -- and he's the deepest into this learning.

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

Thanks so much, Don. A question from Tom Kierath. Again, I've got 4 more questions and then I can get the audience on this off to group lunch. So Tom Kierath has asked, with European profits falling considerably over the first half. Can you maybe provide some more color on the profitability by country? So I'll hand it to Andre.

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

Yes. So we already said that we expect Denmark to be better for the full year than this year. But it's been roughly across all markets where Netherlands, we're more mature and also we can move faster because we're on TV every day. We can get a message out faster has been invigorated a little bit. Less Germany, where inflation was by far the highest in the market. Has done the right thing with price increase, but we've seen a frequency loss and loss in delivery. So in general, you could say Germany and France were the 2 markets that were the most impacted. Yes, from a geographical perspective, that's about it.

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

Thank you for that. In terms of then the same-store sales growth across the world. How does -- what's the composition of volume growth versus price growth? Obviously, we've spoken about a delivery count decline. Don, I'm not sure if there's additional color you'd like to provide?

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

Yes. So what's interesting is carryout runs a lower ticket. And you can see that just by the 2 plus 2 that's highlighted in Josh's slide that he presented for $17 and it's delivered for $25. So when you get good carryout growth, that's, from a complete customer count, masking some of the delivery drop. So this part is in as far -- the difference between same-store sales and customer count isn't as big because it's been filled in a lot by carryout. But by and large, I think about 9 of the markets were still slightly negative in customer count in the most recent window. But 3 of the markets currently are positive in customer count or were positive during that window.

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

Okay. Thank you, Don. Just a couple of financial questions so back to Richard at the end. A question from Richard regarding on the CapEx. Can you identify how much of the bottom probably goes to back of house infrastructure investment. Not really previously gone down to that a little detail, but that's the question.

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

Yes. Predominantly, it is all back of house operational initiatives. So yet to answer your question. We're investing in -- we're investing significantly in digital, but we're also looking at -- would continue our back of house investment, and that's supporting, I guess, the initiatives in the business to get improved operational efficiency in-store and give the tools to our stores to be able to do that, which is a key focus, which I think Don highlighted in terms of how do we get that productivity in stores and give our store managers the tools to ultimately execute with that complexity.

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

Okay. Thank you, Richard. And then the last question is before I then close off today's call is to Don, just which markets so far in our trading update have been the weakest to date?

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

That's scrambled a bit for me there, Nathan, sorry. Which markets...

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

Yes. Which markets so far in our trading update have been the weakest ones to date?

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

Yes, I think it was touched on earlier that from an order count point of view, you would have had France, Germany and Japan in the order count growth. It's worth noting, and I'm really impressed with the German same-store sales because they still have been positive for most of this window despite having the highest inflation in our group. And when we say it, we mean it. We kept our franchisees whole. They had a strong quarter relative to pre-COVID numbers in Germany.

If we propel that with order count growth, which is what Stoffel and team really focused on, as is Martin, as is Joel in France, then we're into a really strong place because most of these stores are beyond breakeven and the leverage is phenomenal. And I'm not sure Martin and Stoffel, because you are 2 of the businesses there, can add any more color to that?

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

Martin do you want to kick it off?

Martin Steenks - *Domino's Pizza Enterprises Limited - CEO of Taiwan & Director of Franchise Operations of Netherlands*

Yes, I was finding my unmute before I start talking. So yes, it is actually. So store growth -- order growth in this part is so important for us. It's -- and it's also in line what Josh was saying about finding new locations for new stores. Actually, those regional areas are quite interesting for us to investigate also because they're also a big part of our order growth.

But looking towards, we see the order growth growing, or the order growth is there in carryout. We have to find back in delivery. And especially in Japan, we find the price point here is very sensitive. It's not that we can easily reduce the prices here and say, "Well, we have found the silver bullet." It's -- in Japan, pricing is very sensitive here. So yes, we are investigating multiple options. Very happy with the Flex voucher start last week or actually this week in general. So quite confident about the outcome there.

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

Yes. For us, for delivery and the business, Flex is going to play a significant role as well. And we've got our first test out, and we're about to learn a lot on how to drive the customer count and franchisee profits at the same time. And then as I explained in an earlier question, for Germany, it's also very relevant to add the layer of carryout. If we add more carryout, we will see higher productivity in our stores, which with raising labor cost, obviously, works very well for the bottom line of the stores.

So driving these things and then going into very different comps, because we are comparing the last half, we were comparing to COVID times as a predominantly delivery business, that was pretty good for us sales-wise. Obviously, a terrible disease. But now we're going into comp-ing numbers that already had the inflation. We were -- business was cooling off a bit after COVID. So I'm pretty bullish on that. We still need to find a few. What's the right pricing for the carryout deal? What's the right thing that really drives the customers through the doors? And how is Flex going to be interpreted?

Those things, we need to figure out. But we know they are the right solutions for the issues we've got, and with current store level profitability and then going back into growing customer counts, we'll elevate to the next level of profitability if we -- if and when we pull it off.

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

Thank you so much, Stoffel. Don, perhaps, you opened the call, and I'm going to -- I'll hand it back to you then to close. You obviously spoken to a number of journalists today, and you've seen some of the commentary and you've got a full meeting week this week, what's the kind of key message that you have been asked, and can you communicate it?

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

Yes. Clearly, these were not the results that we were hoping to present, and the momentum loss in December and into the early part of this year is disappointing to us. The good news is we know why. And now all of the focus in the business is activating that why? It's largely been delivery pricing. Hand-in-hand with that, we will accelerate carryout because Flex also already gets an accelerated business, and it's showing you can also make it better because that's where the customer is also vibrant.

And with a 44% larger network than where we were 3 years ago, the inflection point for us and our franchisees will be significant when we get that right. But we are in a window where some of the markets are still testing, they need more time for that to run through for us to be able to bring more certainty to shareholders, hence, the way that we've discussed it today.

But we've got the right people. And I believe we've got the right technology platform. Our people, our franchisees, our managers and our team members are executing at a higher level, which is great because when you -- you sometimes wonder if a business gets bigger, does it lose control? When it grows as fast as it did, does it lose control of its operations? And we can point to all the metrics, even our food safety scores are much higher than they were in recent years.

So nearly every operational metric, we've got better, and we're very focused on that. And so let's get this pricing right, time it and then let's get the leverage out of the much larger network, and let's get the leverage right for our franchisees, which is ultimately the most important for the long-term growth of this system.

So look forward to more color and detail on specific markets as we do our rounds. Thank you very much, everybody.

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

Thank you, all. We'll see you soon. Thank you. Bye.
