Domino’s H1 Result 2022

Tuesday, 02 August 2022

Classification: Public

Introduction

Dominic Paul

CEO, Domino's

Welcome

Hello. Good morning, everybody. Thank you for taking the time to join us this morning for our half year 2022 Results Presentation.

I am joined today, by Matt Shattock, our Chair, David Surdeau, our interim CFO and Will MacLaren our Head of Investor Relations.

Agenda

So, let us turn to the agenda on slide two. I will give you a short overview of the half, before handing over to David, who will talk you through our financials in detail. I will then take you through the strategic progress we have made before we conclude with Q&A.

If you have questions for Matt, David, or me, please do enter them into the appropriate section on the webcast and we'll read them out.

You will all be aware that this will be my last set of results before I leave Domino's in December. I am hugely proud of the strategic progress that we have made in the last two years. This is testament to the hard work of our world-class franchisees and our colleagues who have worked tirelessly to produce excellent results. I'm leaving behind a refreshed, outstanding executive team, supported by a high calibre Board, who will continue executing the strategy and delivering value for our shareholders.

H1 Highlights

In the first half we grew order count, attracted more customers, and increased underlying sales despite unusually challenging market conditions.

We continued to gain market share, our value for money scores improved and we are well placed with a strong value proposition and strong operating model.

Following our franchisee resolution, we successfully restarted national price campaigns, and we are working with franchisees to build on the learnings from these campaigns as we accelerate our media spend in the second half.

We launched a trial with Just Eat which is showing encouraging early signs that it is giving us access to a new customer base, so we are now extending this trial to approximately one third of the store estate across the UK and Ireland.

Underlying like-for-like system sales grew 2.4% in the half and our asset-light cash generative model has allowed us to return £76 million to shareholders. Today we have announced a 6.7% increase in the interim dividend and an incremental £20 million buyback programme.

Our resilient business model gives us confidence that we are well-placed to navigate the current conditions and our full year guidance is unchanged.

And with that I'll hand over to David to talk you through the financials.

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Financial

David Surdeau

CFO, Domino's

Financials Result

Thank you, Dominic and good morning, everybody. It is a pleasure to speak with you this morning and to present the financial results for the half.

Sales performance

As expected, driven by the change in the VAT rate in the UK, system sales declined 5.6% with a 5.9% decline in the UK being offset by 1.8% growth in Ireland.

Importantly when we adjust total system sales for the impact of the change in VAT, they grew 3.4%.

It is worth noting that system sales, excluding the impact of VAT in the half, were 15.4% higher than the comparable period in 2019, pre-pandemic.

Reported revenue was £278.3 million, a 0.2% increase on the first half of last year. This was driven by 4.2% growth in the supply chain revenue offset by lower royalties on system sales and lower National Advertising Fund and eCommerce expenditure. We expect an increase in NAF expenditure in the second half.

Looking at EBITDA margin as a percentage of system sales, this remained healthy at 8.7%, though down 50 basis points from the prior period last year due to inflation in the supply chain. As is standard practice, we pass through food cost inflation to our franchisees on a lagged basis. We began passing on these increases during the first half of the year but will not see the full impact until the second half. As a result, this year profitability is expected to be second half weighted.

Trading Performance

Let us go into system sales and order count in a little more detail.

Starting on the left-hand side, we've split out the impact of sales and orders between collection and delivery. Overall total orders were up 2.1% on the prior half year with the decline in delivery orders more than offset by the recovery of our collection business.

Collection orders were up 39.6% in the half as they continue their recovery from lockdown restrictions and in Q2 this year they were 102% of 2019 levels.

Delivery order count was down 8.3% in the half. Q1 was against a strong comparative quarter last year when there were strict lockdown restrictions in the UK. And as expected, given the lockdown comparator, delivery orders were 4.5% lower from the prior year.

Delivery orders declined 12.1% in Q2 due to softness in the wider delivery market and a tough comparative quarter last year which had three different lockdown restrictions. Furthermore, in March 2022, as previously announced, we launched the delivery charge nationally.

In the chart on the right-hand side, you can see the quarterly profiles of total system sales performance in blue and order count in red.

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However, the most important indicator of the underlying performance of our business are the green bars which represent our like-for-like performance excluding the impact of VAT. Here you can see that our underlying sales grew 2.4% in the half.

Analysis of UK & Ireland EBITDA

A significant proportion of our EBITDA comes from the supply chain centre through procurement, manufacturing, and distribution of products to stores.

Our supply chain continues to maintain outstanding service levels and many thanks to all our colleagues who helped to deliver this outstanding performance

Our EBITDA from the supply chain in the half year was £50.4 million, a decline of £2.2 million compared to the prior half-year. This largely reflects the level of inflation we have seen, particularly in respect of labour costs alongside increased support to franchisees.

Lower system sales resulted in a £1.2 million decline in net royalties.

Net overheads increased due to increased investment in our people, franchisee events and new store incentives.

This resulted in UK & Ireland EBITDA declining by £7.8 million to £61.7 million in the half.

We have given guidance based on underlying Group EBITDA so let's turn to the next side to walk you through the movements in the half.

Analysis of underlying EBITDA

Last year we reported underlying EBITDA of £71.7 million.

This year we invested an additional £2.3 million as part of the resolution with our franchisees, not all these costs will recur in the second half.

We experienced labour and food cost inflation of £3.7 million within our supply chain and as is standard practice, there is a timing lag in passing the food costs through to our franchisees. Some of these costs will be passed through in H2.

In H1 last year we incurred £1.5 million of COVID costs and enjoyed a VAT benefit of £3.7 million – this gave us a net benefit of £2.2 million. This year we have incurred £0.2 million of COVID costs and a smaller VAT benefit of £1.2 million. This means that there is a £1.2 million reduction in the net benefit to EBITDA in this half.

The revaluation of Shorecal JV has a £1.1 million impact on EBITDA.

When all this is combined it results in underlying EBITDA declining £8.2 million to £63.5 million.

We are expecting improved second half profitability largely due to the recovery of costs incurred in the first half.

Income statement

Moving to the income statement. This slide refers to underlying numbers, so excludes non-underlying items and charges from our discontinued international activities, which I will cover later on.

As mentioned, the underlying UK&I EBITDA is £61.7 million.

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There was also a lower contribution from the German associate and finance costs were £0.8 million higher in the period.

This resulted in a £9.9 million reduction in underlying profit before tax in the period, with underlying EPS down 11.2% to 9.5p.

Franchisee Trading

Let me touch on franchisee trading. As in the past, on this slide we have shared franchisee trading estimates in order to provide a view of the health of the entire system.

The numbers are extracted from submissions from our UK franchisees. We aggregate the submissions to derive these averages.

Our franchisees continue to work tremendously hard in challenging market conditions and their trading performance has been impressive. Average store EBITDA for all UK stores for the year was approximately £94,ooo equivalent to a 16% EBITDA margin. The reduction compared to the prior year reflects the net benefit of VAT in the prior half year as well as the impact of higher food and labour costs. It's worth noting that franchisee profitability in 2019, pre the pandemic, was £68,700 per store, equivalent to a 13.4% EBITDA margin.

Free cash flow

We have a business model that generates strong and consistent free cash flow. Trading from operations produced EBITDA of £63.5 million and let me walk through how this flows through to free cash flow.

The working capital outflow of £11.2 million primarily relates to the timing of cash receipts and receipts for eCommerce sales of £6 million and changing of timing of supplier payments of £5 million.

We expect the £6 million will largely reverse by the end of the year, and of the supplier payments timing around £2 million will reverse, with the remainder being a consistent difference for the year. Overall, with other movements, we are not expecting a significant working capital movement for the full year.

Dividends received of £3.9 million represent payment from our investments in Full House, West Country and Shorecal and net interest was broadly comparable with the prior half year.

So overall, this resulted in £36.8 million of free cash flow in the first half and let me explain how we use this given our disciplined approach to capital allocation.

Capital Allocation Framework

You will now be familiar with this slide.

When we announced our strategy in March 2021, we also updated our capital allocation framework to ensure that effective capital allocation can amplify the benefits and returns from the cash generated by the business.

We have an asset-light, high returns business, which is strongly cash generative.

We want to retain a sensible level of leverage, which we believe to be around 1.5 times to 2.5 times. And working within these parameters, we will allocate cash in a disciplined way.

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First, we want to ensure we continue to invest in the core business and drive long-term sustainable growth and support our strategic ambitions. To that end we invested £7.5 million in capital expenditure in the year to date. There is no change to our guidance of £24 million capital expenditure this year.

We will maintain a sustainable dividend with an EPS cover of at least two times. For the first half we will pay an interim dividend of 3.2p which is approximately one third of the final dividend paid last year and a 6.7% increase on last year's interim dividend.

We also want to remain open to additional growth opportunities where we will assess, in a disciplined way, the potential to enhance returns and drive future cash flow.

Our investment in the Northern Ireland JV at the end of last year is performing well and generated £0.6 million profit after tax in the period.

Finally, we will look to return surplus cash to shareholders, not as a one-off exercise, but as a sustained programme, whereby we will regularly assess the optimal use of cash generated by the business. We returned £80 million in 2021, an additional £46 million buyback was completed in July this year and today we are announcing an incremental £20 million buyback programme which will commence with immediate effect.

Net Debt bridge

On this slide I've shown how our net debt has moved in the half, the sources of our cash inflows and our capital allocation framework in action

So, we started the year with £199.7 million net debt. As I've already explained we generated £36.8 million of free cash flow in the half.

We received a combined £9.4 million from the German associate, which comprised £8.6 million in relation to deferred consideration paid in respect of the market access fee and £0.8 million of loan repayments.

And here you can see the cash outflows in the half. Capex of £7.5 million, £30 million paid out in dividends, and £45.8 million in share buybacks and some purchases on behalf of the employee benefit trust. The outstanding amount of the £46 million buyback was completed after the period end.

This resulted in half year-end net debt, in line with guidance, of £236.4 million, giving leverage at the end of period of 1.95x – well within our target range of 1.5x to 2.5x.

We also successfully refinanced our banking facilities in the period and now have a £200 million RCF and £200 million sterling denominated private placement facility in place until July 2027.

Current trading and outlook

In the first half of the year, we increased our market share, order count was positive, collections grew past 2019 levels and we attracted more customers despite challenging market conditions.

As we move into the second half of the year, we expect to continue this momentum and grow our market share given our strong value message, planned second-half marketing activity, the men's football World Cup and our dynamic national price campaigns.

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As during prior periods and in line with our agreement, we pass through food cost inflation to our franchisees on a lagged basis.

Due to the rapidly changing inflationary environment this year, we began passing through these increases during the first half of the year but will not recognise the full benefit until the second half.

Profitability this year is therefore expected to be weighted towards the second half and as we have previously guided, we expect 2022 underlying EBITDA and EPS to be in line with current market expectations.

Here, I have summarised some modelling guidance for this year:

- Capex of £24 million
- We expect underlying depreciation and amortisation to be between £18 and £20 million
- Underlying interest costs of between £9 and £11 million, this represents an increase to previous guidance due to the rise in interest rates
- Our underlying effective tax rate is still expected to be around 17% for the year

And with regard to net debt, we expect this to be around £235m as a result of the use of cash to deliver returns to shareholders.

Let me now pass you back to Dominic.

Dominic Paul

CEO, Domino's

Sustainable Growth and Returns

Thank you, David.

Before I update on the current market environment and our continued strategic progress, I'd like to remind you why Domino's has a resilient, sustainable business model and why we are well placed to succeed in all conditions.

We have a world-class brand, recognised globally and in the UK as the number one pizza brand.

We have highly experienced and world class franchisees and following the resolution we reached at the end of last year, our system is now aligned and poised to accelerate.

We have significant scale which brings benefits in the current operating environment. We own the process from 'dough to door,' our supply chain is vertically integrated and consistently achieves exceptional results whatever market conditions we face.

We are a digital business, well over 90% of our sales come from digital channels and we continue to make great progress which I will talk about shortly.

As a result of our leading delivery times and our great tasting product, our NPS remains strong at positive 48. We are absolutely focused on maintaining and improving our leading service standards.

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And finally, the model is highly cash generative since we launched the new strategy and capital allocation framework in March 2021, we have returned £212m to shareholders.

Larger share of UK Takeaway Market

So, turning to the competition in the pizza market.

You'll recall that we started showing market share data at our full year results in March and now following our investment in data and insights we have partnered with Kantar to give a robust and data led view of market share.

Using this data, you can see from the chart on the left that we have increased our share of the UK takeaway market from 6.0% in the second quarter of 2021 to 6.6% in second quarter of this year. We increased our share of both the collection and delivery market in this period.

We have also grown our share of the UK pizza market from 42% to 48% and you can see from the chart on the right, that our share is significantly more than our nearest pizza competitor.

I'll now turn to our Franchisees and the progress we have made since we reached resolution at the end of last year.

Working with our World Class Franchisees

So, let me walk through the considerable progress we have made since the start of the year.

First, we've been able to launch our first national price pointed offer for over two years, giving customers 50% off when they spend more than 30 pounds on pizza. Subsequently we've rolled out additional campaigns on collection and other bundled promotions.

We've learnt from what went well and where we see further potential, and we are accelerating media spend in the second half as we focus on sharpening our message and ensuring that we offer customers compelling value.

Last year our media spend was focused on the Q2 launch of the yodeling campaign as lockdown restrictions ended and the men's Euro football tournament kicked off. This year is the opposite as Q2 will be our lowest spend. We are ramping up our marketing activity towards the end of Q3, and Q4 will be our biggest quarter of the year leading into key events such as the men's football World Cup.

In the last few weeks, we have trialled an innovative £8, £10, £12 offer which was extremely well received and performed well above our expectations.

We have opened 17 stores so far this year compared to 14 at this point last year and remain on target to open at least 45 new stores this year, a material improvement on the 31 opened last year and 19 in the prior year.

We have seen enhanced collaboration on Operations Technology and the innovations we introduced have been embraced across the system.

Finally, we rolled out a national delivery charge and launched a trial on Just Eat – both done within the space of two months. This is testament to the new era of collaboration, and I'll talk more about these initiatives shortly.

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Stronger Together

We have supported our Franchisees throughout the period with an enhanced food rebate mechanism, the national roll out of the delivery charge and were delighted to hold our first franchisee and store manager Rally in over three years.

Over 1,400 of our store managers and franchise partners from around the UK and Ireland travelled to Harrogate to celebrate all things Domino's.

We heard key updates from the leadership on focus areas for the rest of 2022, held our fastest pizza maker competition and Global CEO, Russell Weiner gave a keynote speech.

Our teams also had a chance to meet and speak with suppliers and Domino's experts in digital, sustainability, and operations in a learning space designed to encourage our teams to engage, learn, upskill, and network with each other.

Over the weekend we raised almost £30,000 for our charity partner Teenage Cancer Trust and our own Partner's Foundation. It was a fantastic event and thank you to all our franchisee partners who came and participated.

Delivering a better future through the food people love

I hope you are now familiar with this slide. We are really passionate about our purpose to deliver a better future through food people love.

This is supported by our vision to be the favourite food delivery and collection brand with pizza at our heart.

As a reminder, the five key objectives which underpin the strategy are:

- Nobody delivers like Domino's. We are a market leader and can build from a position of strength;
- We will turbocharge our collection business, which is where we see an opportunity to grow market share;
- We will amplify our product quality and value through continued innovation and marketing effectiveness;
- We will uphold our industry-leading economics by maintaining the world-class profitability of our system; and
- We will model excellence as a franchisor through increasing capability and attracting the best franchisees.

Let me now tell you what we have achieved in the last six months.

Nobody Delivers Like Domino's

Delivery is at the very heart of our business, and it is what we are best known for.

We are a digital business and we continued to demonstrate our digital-first approach in the period. Over 90% of system sales are through digital channels and the app now accounts for 43.9% of system sales, an increase of 3.1ppts compared to the same period last year. We now have 5.3m active app customers, an increase of 5% over the last six months.

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Our App customers have a higher lifetime value than other customers, primarily due to higher levels of ordering frequency. We are now providing local franchisee's with app-based metrics at a store level to accelerate penetration as we push our app to be our dominant order platform. This means that our franchisees can now see % of app users and app order frequency at store level.

We have continued to use Braze, our customer engagement platform, to develop our personalisation initiatives this year. Our customer churn rate has improved versus the same period last year and have seen a continued downward trend in this important metric. Where we have started implementing personalisation logic into our CRM communications, such as meat versus veggie preference we are seeing enhanced customer engagement rate improvements of up to 60%. We have continued to trial personalisation into 'Upsell' opportunities in areas such as 'Dip Upsell' and 'Additional add on cheese,' both of which have delivered incremental revenue. The team has more exciting initiatives landing in Q3 and Q4.

In March we introduced a delivery charge. As a reminder, all our key competitors, including aggregators, levy a delivery charge. The charge allows our Franchisees to offset some of the food and labour cost inflation which they are experiencing, and it is at the sole discretion of the Franchisee whether they choose to use it. The delivery charge ranges between 99p and £2.50 and each Franchisee decides which pricing level to use based on a range of factors including local competition.

The benefit flows through to our Franchisees as it represents an increase in system sales, DPG enjoys a small benefit as the delivery charge incurs the standard royalty fee. Take-up has been widespread and in Q2, 90% of delivered orders incurred a delivery charge.

In May we commenced a trial with Just Eat to see whether this channel can attract incremental customers to Domino's. We started the trial with 136 Domino's stores across the UK and Ireland and following early encouraging results that suggest we are gaining new, incremental, customers, we are extending the trial to approximately one third of the store estate. We believe that this can be a tailwind for future growth.

GPS 2.0 has now been rolled out to 728 stores and we are targeting completing the roll out by the end of the year. This will help store managers manage labour through more efficient driver route planning and better integration with the store as well as allowing drivers to use their own device.

Objective 2: Turbocharge our Collection Business

Collections have continued to recover well. In Q1 volumes were 95% of 2019 levels and we are very pleased that in Q2 they were at 102% of 2019 levels.

Our share of the collection market is small but increasing, and our market-leading position in delivery is an indication of what we could aspire to achieve in the currently under-penetrated carryout business.

I said in March that the key to unlocking this opportunity is to drive customer awareness, and in April we launched a national collection deal with a strong value message promoting awareness of the collection channel.

In a year where the cost of living for customers is increasing, our Value message is now resonating well.

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Another lever to drive incremental sales is 'In Car Collection,' a service we launched in 2021 and we have now rolled out this out to 444 stores. Customer feedback continue to be excellent, and we will continue to promote awareness of this new channel.

We continue to see a significant opportunity to drive an increase in collections to accelerate our growth.

Objective 3: Amplify our Product Quality and Value

Moving on to the next objective, amplifying our product quality and value. Our customers love our product, and we have re-ignited product innovation over the last year. Our 'Value for money' scores continued to improve this year, demonstrating our focus on giving customers value for money at a time when this is every more important for customers.

Following the introduction of a Vegan pizza, 'The Chick Ain't' in 2021, this year we launched Vegan PepperoNAY and a new Grilled Vegi Pesto pizza. Both of these have received strong customer feedback. As we enter the important second half of the year with events such as Freshers Week and the men's football World Cup, we will introduce further innovations to excite our customers.

Following the resolution with our Franchisees, we were able to launch our first national price campaign in January and amplify our value message to the whole country, with a 50% discount for spending more than £30 on pizza.

In the period when we ran our initial national campaign we grew order count, increased our market share, our brand awareness and value for money scores improved and we grew our active customer base. These are positive signs ahead of campaigns in the second half.

Alignment with our Franchisees has also enabled us to market Collection promotions which contributed to the strong Collection performance in Q2.

We also undertook tactical events around Valentine's Day, Mother's Day, Easter, and the Jubilee celebrations as well as specific App-only deals to target customers with a higher lifetime value.

We are learning, alongside our Franchisees, on the optimal approach to national campaigns and we will apply these learnings to our campaigns in the second half of the year as we increase our media spend around key events such as the men's football World Cup to amplify our great value proposition to customers. We are spending c.45% more on marketing in Q4 than we did in Q2 this year – a significant increase.

Uphold our Industry leading scale and economics

Turning to the next slide, which is upholding our industry-leading economics. Over the years, we have built a system which rewards both franchisees and us for the great performance of the brand for which we are responsible.

Our world-class supply chain delivered another year of exceptional operational performance in a challenging half. Again, we maintained 99.9% availability and 99.8% accuracy which is testament to the skill and hard work of our colleagues in the supply chain.

In line with our capital allocation framework, we will continue to invest in our supply chain to enhance capacity, drive efficiency and maintain availability for our customers.

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A new 'cross-dock' facility was opened in Avonmouth which allows us to warehouse product there for more efficient distribution across the South-West, this will be particularly important to maintain our availability for Q4. We also commenced re-development of our Naas supply chain centre in the Republic of Ireland.

In our commitment to health and safety within our supply chain operations, we have now rolled out Cages and Dollies to 85% of stores and with full roll-out expected to be complete by the end of 2022. The benefits which these deliver include improved health and safety, reduction in loading and delivery times and potential to further reduce cardboard being delivered into our stores.

Objective 5: Model Excellence as a Franchisor

And moving on to our final objective, modelling excellence as a franchisor.

We will work even harder to reinforce our industry-leading capabilities to better position all franchisees for success and attract new franchisees into the system.

Following the introduction of the new store incentive scheme last year, we have made good progress with our new store openings with 17 new stores from 10 different Franchisees to 1 August compared to 14 in the comparable period last year. We continue to expect at least 45 new stores by the end of the year.

We were also delighted that two stores have been opened by 'Home Grown Heroes' – a new franchisee who has come up through the Domino's system.

This year we have launched the Franchisee Performance Management framework. This framework has been designed to assess store and franchisee performance across the system and identify areas for improvement.

In the first half we rolled out the Domino's Training Academy which provides management training to team members using a balance of e-learning and classroom exercises.

We also rolled out a new inventory android app across the system which is now being widely used within stores for their counts on a day-to-day basis.

Summary

So, to summarise

I am incredibly proud of the significant progress which we have made over the last two years.

In a challenging market we made strong market share gains and continued our strategic progress.

A strong value message and great product is crucial given the cost-of-living crisis which consumers in the UK are facing. Our value proposition is strong, and our message will be amplified in the second half as we significantly increase our marketing activity.

Our business model is extremely resilient, and we remain focused on accelerating the sustainable growth of the system and delivering an improved second half performance.

Thank you for watching, I'd now like to turn the call over to Q&A, so Will, can we have the first question?

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Q&A

Will MacLaren: Thanks, Dominic. Start with a couple of questions from Wayne Brown at Liberum. There's a couple here, so I'll read them out one by one. The first one is why heading into a global downturn, a company that has negative order count for quite some time now in a cycle of downgrades and profits, declining franchisee margins under incredible pressure and only going to get worse. Is it appropriate timing to leverage up even further?

Dominic Paul (Dominos/*CEO*): Thanks, Will. Thank you. Thank you, Wayne. I guess the first point to make is we're holding guidance. I think we've put that in the RNS, and we've just reiterated that in the presentation. The second point is our order account is actually up in the half. We're growing by 2.1% overall. We're also growing market share, which I think is really encouraging. It shows the momentum that the brand is building. The other thing that we should probably reflect on is that quarter two last year was quite an unusual quarter for two reasons. One, the UK was still in and out of lockdown. Remember that it was only 12 months ago. The UK was in and out of lockdown. And the second thing is we were lapping the Men's Euros last year, which was a really significant sales tailwind for us. So actually, to have positive 2.1% all account growth in the first half and take market share, we think is really encouraging.

The other thing is the year is a bit back to front this year. We've had relatively reduced marketing spending in quarter two because we are building into the back end of Q3 and Q4, where we see the real opportunities this year. That's primarily driven by the World Cup season, which will be November, December this year. So, we call prime the pump for sales towards the end of the summer period, building into Q4, which builds into the World Cup. So, we up our marketing investment there. So, we are holding the guidance. We've had positive order account growth in the first half. We have increased marketing spend in the second half leading into Q4 in the world cup, and then we have other activities and actions in place like new innovation coming in to drive incremental customer numbers and sales, and then extending the Just Eat trial to further stores, which we think will also benefit us from a sales perspective.

So that's, I think probably the first part of the question, but then David, do you want to handle the second part of the question, which is more around the capital allocation?

David Surdeau (Dominos/*CFO*): Thanks, Dominic. Well, we have previously guided on our range of leverage, which we think to be prudent and appropriate. And that's 1.5 times to 2.5 times. At the end of the half, we were 1.95 times, so in the middle of that range. So, we're comfortable with that. As Dominic mentioned, we have now an established capital allocation framework. We launched it in March 2021. It was well received. I think what we've proved through the prelims and now the interims is that it's not a one off, it's a consistent program. We look at our cash flow and our profitability. We obviously look for opportunities to invest in our core business. We had a capital expenditure program during the first half to improve our long-term prospects.

We look to award shareholders through a dividend, which we've announced is sustainable and progressive. This time our interim dividend, the 3.2% is a 6.7% increase. So, we're comfortable with that. We also look for opportunities to invest outside the core business which we don't currently see. So that leaves us with the fourth element of our capital

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allocation framework, which is to return cash to shareholders in the form of a buyback. The 20 million we've announced now, follows the 46 million, which we announced with the prelims. So, which was executed and actually, offers shareholders a very strong incentive to invest with us through the help that gives to earnings for share growth. So, we're comfortable with both the leverage range and very comfortable with our capital allocation framework.

Will MacLaren: Thanks, David. The second question from Wayne is increasing the bank facilities is this to fund M&A or further buybacks. If M&A, what are you looking at?

David Surdeau (Dominos/*CFO*): No, we had a 350 million revolving credit facility that expires next year. So, we've prudently, I believe taken the opportunity to line the replacement up. We needed that in place before our financial year end at the end of the calendar. We've been very successful in appealing to US private placement investors. We've raised 200 million there and we've replaced the RCF with another 200 million. So, we have 400 million locked and loaded for the next five years, which I think is a source of long-term financial strength for the business.

Will MacLaren: Then one more on the franchisee margins - franchisee margins seem as they include the benefit from VAT from the start of the year. Does this mean they are mid-single digit on an underlying basis or the exit rate?

David Surdeau (Dominos/*CFO*): Well, franchisees margins, would've had some benefit from the residual VAT change in the first quarter, but equally they also would've benefited in the second quarter from the introduction of the delivery charge. So that will be either part of the franchisee P&L going forward. We have a spirit of a collaboration, a much-improved mutual working with our franchisees, and we are working together to deliver good profitability for both sides of the system in the second half of the year.

Will MacLaren: Thanks, David. The next question comes from Owen Shirley at Berenberg and there are a couple of questions here, so I'll split them up. The first one is, are you expecting Domino's Australia to utilize their call option on the German JV in January? What is your latest thinking on its value? Then the second question is linked, so I'll ask it as well. Does the weaker performance of Germany in the last half impact the valuation or likelihood of a transaction?

David Surdeau (Dominos/*CFO*): Well, I think DPE have been public in stating that they would be interested to exercise their call option at the appropriate time with a close to the performance of the German joint venture and we're monitoring it very closely and we'll keep the situation under review. We've guided in the RNS to the potential valuation range. At some point in the future, that will be a great opportunity to realize a substantial cash sum, which we will pass through our capital allocation framework in exactly the same way as we do for our earnings from our core business.

Will MacLaren: Thank you. Then the next question is what like for like sales do you need in H 2 to meet your guidance? Is there any colour on performance so far in H2?

David Surdeau (Dominos/*CFO*): Well, we guide on EBITDA and on EPS. So, we don't guide on sales, but you'll have seen in the presentation and in the RNS the nature of our financial year which is slightly the reverse of the previous year. So, there's some very good

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opportunities to drive sales in the second half of the year. We've mentioned some of them and notably around the alignment of our marketing and promotional spend with the peak trading time, especially in the Q4 with World Cup. So, there's lots of opportunities to go for.

Will MacLaren: Thank you. Next question is from Ivor Jones at Peel Hunt. It's around the Just Eat trial. And it is Just Eat at one third of the estate, a ceiling, or could the proportion of stores increase further.

Dominic Paul (Dominos/*CEO*): So, when we kicked off the trial a few months ago, we said, we said we were going to do a proper data led trial. We were going to focus on what it did to overall sales, but critically look at the incrementality. Our thesis going into the trial was, or our question going into the trial was have the aggregators grown their businesses to such an extent that they are now an interesting customer opportunity for us as a brand aspiring, incredibly well known and powerful.

As a brand, the aggregators have got very large. They've invested vast amounts of money in marketing over the last three to four years. When we did the trial a few years ago, I'm not sure, it wasn't as data led as I would've liked it to have been, looking back at it. The first thing.

The second thing is the aggregators were relatively quite a lot smaller then, when we did that trial. That has changed now. We've done the trial with about approximately 140 stores. The early indications are promising and positive both from an overall sales point of view, but also from an incrementality point of view. It's suggesting that we are getting incremental customers into the brand by using the Just Eat platform. Remember our people always do the delivery. So, we still own the experience from what we call door to door.

Because of the early positive signs, we have decided to extend the trial to more stores. So, we're going to go to circa a third of the estate over the next four to six weeks. That trial will then continue. If we see the signs that we'll need to see to roll it out to a larger part estate, then we would roll that out to the entire estate. But we'll only do that when we've seen enough of a frequency cycle to for sure answer the question about incrementality and additional growth opportunities, but the early indications are good, which is why we're extending the trial, but I think we're doing it in a really calm, considered way. If the early indications continue as we go through the trial, then it will be an interesting and good sales opportunity for us as we head into 2023.

Will MacLaren: Thanks, Dominic. The next question is from Richard Taylor at Barclays and it's on delivery. It's two parts of the question. So, the first one is please, can you help us understand how the delivery charge affects your like for likes? The second part is please, can you help us understand why delivery volumes were down 12% in Q2? What weighting would you put between the soft overall market, the tough comparator, and the delivery charge. On the delivery charge, do you think that consumers are switching between delivery and collection to save, and how does that affect your overall economics if that's happening?

Dominic Paul (Dominos/*CEO*): So, there are a couple of things on the delivery charge. We introduced it in the middle of, in the middle of March. Remember all of our key competitors have now got a delivery charge. A number of our competitors rolled delivery charges out relatively quickly after we introduced it, but the aggregators already had a delivery charge. Our delivery charge is also at the lower end of the cost spectrum. So, our delivery charge

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ranges currently between £0.99 and £2.50. So, the first thing is it is a market norm to have a delivery charge. The second thing is our delivery charge is on the low end. The third point is we always have collection, which obviously doesn't have a delivery charge attached to it.

There are a lot of moving parts in the second quarter. As we talked already, the country was in and out of lockdown. We had the men's Euro final, which was a, a huge period of sales for us. So, there are a lot of moving parts when we look at that quarter.

The other learning, I would say, I think we've got is as you roll out the delivery charge, it's really important that it's anchored to a very strong, compelling national promotion. We are learning with that. I mean, we haven't done national promotions for nearly four years, and we've just started again this year. We learned some really interesting things. We've learned 50% off resonates really well with customers. The 8, 10, 12 pounds, small, medium, large tactical that we did a couple of weeks ago, resonates really well with customers. Those actually resonate better than a slightly higher price point or a bundle price point.

So, we are learning what works well, and particularly when it's aligned to a delivery charge. That's one of the things I think that gives us confidence as we go through the back end of Q3 into Q4 that we can align behind a strong value message with increased marketing spend with a delivery charge. We still believe we great opportunity to continue to drive market share and customer numbers. The delivery charge is also a really important mechanism for our franchisees. Everybody is seeing extra cost at the moment to delivery charge, helps the franchisees manage that.

In terms of the second part of the collection between – question between delivery and collection, we did a lot of work during COVID on looking at the segmentation of our customer base. The conclusion very clearly was that a delivery customer is fundamentally different to a collect customer.

In the majority of cases, it's a different customer. Of course, there is some overlap. On the edges, you have people who move between delivering collection, but in the majority of cases, a customer is either a delivery customer or a collect customer. And that data, we refresh it regularly. That remains true today. We do see some blurring around the edges. Of course, you'll have some customers who've gone into collection, and you'll have some customers who've gone into delivery and maybe slightly more have gone into collection, but it's on the edges. Fundamentally, it's a different occasion and that's why we've effectively got a very clear collect strategy, which is buy one, get one free with a very strong value message and then a different set of promotions and offers for delivery because it's a different mindset and therefore it should be a different offer.

Will MacLaren: Thanks, Dominic. Got one question from Anubhav at Liberum. Could you please split the price impact on lifelike sales and Q2 of minus 5.6% between the impact of that price increases taken and the delivery charge impact?

David Surdeau(Dominos/*CFO*): We think it's too early to start giving information about the delivery charge as Dominic mentioned, was only introduced at the end of March and it rolled out in the second quarter, its implementation was different between different franchisees and between different regions the level of the delivery charge and the circumstances around it were also different. So, there were an awful lot of things happening in the second quarter, as we've indicated, there were three lockdowns in the comparator period in the previous year,

Classification: Public

there was a big change in the deployment of our marketing and promotional support and then we had you know, the delivery charge as well. So, we're keeping it under review, but at the moment there's a substantial amount of information in the deck, talking about volumes, talking about pricing, talking about the underlying light for like ex VAT, which is 2.4% for the half one. So, there's plenty in there, I think to understand a like for like performance and it's really rather early to start sharing information about the delivery charge.

Will MacLaren: Thanks, David. We now got a couple of questions from Richard Stuber at Numis. The first one is why is CapEx doubling in H2? What does this relate to? The second question is the increase in H2 marketing spend wholly financed by the national advertising fund? Will this partly be funded by DPG2?

David Surdeau(Dominos/*CFO*): I'll take the first part then which is the CapEx question. Will we guided for Capex for the year of 24 million and we're holding that guidance. CapEx tends to be second half weighted as the programs ramp up. We've talked about the work we're doing to upgrade our facility in Naas to make that really fit for purpose and to help us support future growth of which there are many prospects in that country. And we also have a lot of investment in our infrastructure and our e-commerce capability in particular, all of which are ramping up, those have been in the design stage and now we're into the development and deployment stage in the second half. So, it is naturally second half weighted. But as we've advised in the presentation, we retain our guidance of 24 million for the year.

Will MacLaren: Thanks, David. There's one final one, which –

David Surdeau(Dominos/*CFO*): There was another part to the question, which was the media spend, wasn't there?

Will MacLaren: Is the increase in H2 marketing spend holy financed by the NAF?

David Surdeau(Dominos/*CFO*): It's mainly funded by the NAF. DPG makes a small contribution to the marketing as well, which we announced when we did the resolution last year, which we're really happy to do, because it's an investment in growth and reminder we are backend loading the marketing investment this year as we lead into the world Cup. So, we have innovation products coming in, increased marketing spend, accelerating the Just Eat trial that then leads into the World Cup. So, we think the timing for that investment is spot on.

Will MacLaren: Great. Richard has got one final question, which is probably best directed at Matt. What has changed at Domino's during Dominic's tenure and what are you looking for in his successor?

Matt Shattock: Thank you. I think there are three areas of accomplishment I'd highlight during Dominic's tenure. The first is, and most importantly, he's built a really strong team. That's a team rooted in incumbents. People like Pete Trundley who has continued to lead our world class supply chain is reflective of new talent coming. Sarah Barron who leads our marketing and demand creation efforts, Nicola Frampton who heads up operations. That's our key operational interface with our franchisees. And indeed, that's continued this year. We've had our new people director arrive, Kirsty Pitcher, and obviously you've heard now we will welcome Edward Jameson as our CFO in October.

Classification: Public

Secondly, he's worked with that team to deliver and craft and execute a powerful long term integrated growth strategy. That's rooted in the capabilities manifested in that team, operational excellence demand creation our approach towards data analytics and our whole digital platform have taken significant steps forward in the context of that strategy.

Thirdly, and I think very importantly, he's built an excellent relationship with our world class franchisees. That's manifested in the agreement that we announced at the beginning of this year. And we've seen exercise for example, through the national deals and other areas that Dominic spoke about. And I think that will drive sustainable profitable growth for us all well into the long term. And what I would say is those accomplishments for which I'm very grateful will continue to propel this business for some time after Dominic moves on.

The second part of your question is what are we looking for in Dominic's successor? I would say, firstly, somebody who has some of the same characteristics, someone who has got the growth appetite, the passion, the dynamic energy to lead our business, because that's what it takes to lead this great business forward and unlock its true potential. And I think that is something that we will look to that new success to deliver.

The second is a balance between strategic and operational capabilities. Somebody who can really balance the operating mandate of this business, but also have an eye to the long term and the growth opportunities. And finally, somebody who will nurture and continue to grow and develop our culture. I think that's a culture that's rooted in a growth mindset, but also one very importantly, that's rooted in a spirit of collaboration amongst everybody in the system because when we are together, we win together. And that is the essence of what Domino is about. And so, as I said, I'm very grateful to Dominic and I'm very hopeful that we will find somebody who manifests and takes those characteristics forward.

Operator: Thanks, Matt. No further questions at this stage, Dominic.

Dominic Paul: Okay. Thank you, Will. Thank you, Matt. Thank you, David. Thank you all for listening today. Here ends the session today. Thank you all very much for your time. Thank you.

[END OF TRANSCRIPT]

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