Domino's Pizza Group plc Full Year Results 2022

Thursday, 9th March 2023

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Overview

Elias Diaz Sese

Interim Chief Executive Officer, Domino's Pizza Group plc

Well, hello and good morning, everybody. Thank you for joining us this morning for our Full Year 2022 Results Presentation.

My name is Elias Diaz Sese. I am the interim Chief Executive Officer at Domino's Pizza Group and I am delighted to be joined today with my partners, both Edward Jamieson, our 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 very short overview of the year, before handing over to Edward, who is going to be discussing with you more in detail the financials of the year. And then I will take you through the strategic progress that we have made in 2022, as well as outline what are the priorities for all of us in 2023 before concluding with a Q&A.

Strategic Progress, Strong Trading and Returns

Turning to slide three, 2022 was a year of strategic progress for all of us at DPG. Strong trading and continued shareholder returns.

Following the resolution of the dispute with our franchise partners back in December 2021, we have enjoyed a year of alignment when together, we have improved our service to customers and taken market share in what has been proven to be a very challenging market for all operators.

The benefits from the execution of our strategy and aligned system were particularly evident in the Q4 of last year where we increased our like-for-like sales by 13.9% and took further market share. I am pleased that the momentum has continued in 2023. And for the first ten weeks of 2023, our like-for-like sales are up 10.8% and our orders are up 2.5% for the first ten weeks of the year.

Our asset-light, cash-generative business model and continued execution of our strategy has allowed us to – or has enabled us to return £130m to our shareholders this year through dividends and buybacks.

We have an exciting year ahead with clear priorities, which I will talk to you a little bit later. But now, I'm going to be handing over to Edward who will be taking you through our financial performance and guidance in detail. Thank you very much. Edward.

Financial Performance

Edward Jamieson

Chief Financial Officer, Domino's Pizza Group plc

Thank you, Elias, and good morning, everybody. It is a pleasure to be here this morning and to present the 2022 financial results and to update you on our outlook and guidance for 2023.

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Financial Highlights

2022 was a year of like-for-like sales growth, improved orders and increased returns to shareholders.

Like-for-like sales, excluding VAT, were up 5.3% in the year, and with a strong Q4 in which sales increased 13.9%. We're also pleased to report order count growth in a challenging market and a 7% growth in DPG's revenue.

Underlying EBITDA was affected by the accounting treatment of investment in cloud-based technology platforms. This treatment has no impact on cash and is simply a reclassification from capital expenditure to operating expenditure. A lower contribution from our German associate, partly due to the put option exercised on the 10th of November to exit our investment, was offset by the profit on sale of five corporate stores.

And importantly, excluding all of these factors, underlying EBITDA would have been broadly flat compared to the prior year.

Statutory profit before tax was up 4.2% following the completion of exit of our loss-making international operations in the prior year.

And finally, we have increased the full year dividend by 2% for the year, in addition to £86 million of share buybacks that were announced in 2022 and have now been completed.

So, turning to the next slide.

Sales Performance

As expected, driven by the change in the VAT rate in the UK, system sales declined 2.8% with a 3.2% decline in the UK being partially offset by 4.8% growth in Ireland.

It is worth noting that system sales were 20.3% higher than the comparable period in 2019, pre-pandemic.

Reported revenue was £600.3 million, a 7% increase on last year. This was driven by 9.7% growth in our supply chain revenue, with smaller increases in royalties on system sales and corporate stores revenue.

National Advertising Fund and eCommerce expenditure increased 2.7% in the year. Our NAF represents a significant competitive advantage for the Domino's system as it gives us and our Franchise Partners real scale as we continue to strengthen the brand and offer our customers compelling value.

Looking at EBITDA margin as a percentage of system sales, this remained stable at 8.8% as we have passed through food cost inflation, albeit on a lagged basis.

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. I covered system sales on the previous slide so let walk you through our order performance.

Overall, total orders were up 1.6% on the prior year, with the decline in delivery orders more than offset by the growth of our collection business.

Collection orders were up 33% in the year as momentum grew throughout the year and are now at 111% of 2019 levels.

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Delivery order count was down 8.5% in the year. The first half of 2022 was against a strong comparative period in the prior year when there were strict lockdown restrictions in place in the UK. We finished the year with a recovery in delivery which was only down 5.1%, a marked improvement from Q2 and Q3.

In the chart on the right-hand side, you can see the quarterly profiles of, firstly, our like-for-like sales performance excluding the impact of VAT in blue; and secondly, order count in green.

Here, you can see our strong finish to the year with like-for-like sales growth of 13.9% and order count growth of 4.1%. As expected, trading was strong as a result of effective national value campaigns, operational service excellence from our franchise partners, growth in collections and the initial incremental benefit of being on the Just Eat platform as well as the Men's Football World Cup, an event which only occurs once every four years.

Technology Platform Costs

Before I go into the profit performance for the year, I want to take some time to explain in detail and give you clarity on our technology platform costs. These costs will support the long-term growth of the system and Elias will touch on this shortly. But I want to explain the accounting treatment of these costs and the corresponding impact on profit and cash.

During the year, we started investment projects to develop and implement two cloud-based IT systems, an eCommerce platform and an ERP system. As we've previously communicated, both systems are part of our investment in growth, and the ecommerce platform is part of our growth investment framework agreed with our franchise partners in December 2021.

The accounting treatment for these costs is simply a reclassification from capital expenditure to operating expenditure. And therefore, this treatment has no impact on cash.

The total costs recognised in underlying profit before tax relating to these investments was £7.6 million in 2022. Within EBITDA, costs of £5.2 million have been recognised, of which £2.7 million relates to the ERP, and £2.5 million relates to the eCommerce platform. These represent costs spent on development of these assets which are expensed through the income statement rather than capitalised as intangible assets, as they relate to cloud platforms.

For the ERP, this represents the full spend on the project in the year.

For the eCommerce platform, this relates to the percentage spent on the cloud-based element of the project. An additional £1.9 million has been recognised in capital expenditure relating to the eCommerce platform.

Within amortisation, a further total cost of £2.4 million is recognised. And I'll explain the impact of the technology platform cost in FY23 shortly.

Analysis of EBITDA

The majority of our EBITDA comes from the supply chain centre through procurement, manufacturing and distribution of products to stores.

In FY22, we maintained outstanding service levels, with 99.9% accuracy and 99.8% availability. This is due to the commitment of our supply chain colleagues working

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collaboratively with our franchise partners, and I would like to thank all those who helped to deliver this outstanding performance.

Our EBITDA from the supply chain in the year was £108.9 million, an increase of £3.7 million compared to the prior year. This increase was driven by increased volume and pricing growth.

Lower system sales, driven by the reduced VAT rate in the prior year, resulted in a £3.1 million decline in net royalties.

Net overheads decreased 2.9% as expenditure on new store incentives and franchise partner events was more than offset by a continued focus on support office efficiencies.

And corporate store EBITDA increased 25%, largely driven by the sale of five corporate stores towards the end of the year. This resulted in underlying EBITDA before technology costs and Germany increasing by £1.3 million to £132.7 million in the year.

The contribution from the Germany associate was £2.4 million lower in the year due to the exercise of our put option on the 10th November and the underlying performance of the German business in the year.

Group EBITDA Movement

Let me briefly walk you through the year-on-year movement. Last year, we reported underlying EBITDA of £136.4 million.

The net effect of pricing growth, offset by our supply chain inflation and franchisee investment, such as new store incentives, was broadly flat at £0.3 million.

As I have already mentioned, we made a £2.1 million profit on the sale of five corporate stores.

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

And you can then see from the chart, the impact that a lower contribution from Germany and the accounting of technology platform costs had on our EBITDA performance in the year.

This resulted in EBITDA for the year of £130.1 million.

Income Statement

Moving to the income statement. Depreciation and amortisation increased to £20.3 million in the year. This includes £2.4 million of amortisation and impairment as a result of the technology platform costs I talked about earlier.

Finance costs were higher in the year due to higher levels of interest rates and a higher average net debt.

In July 2022, we successfully refinanced existing bank facilities at favourable rates with a £200 million private placement facility fixed at 4.26% and a £200 million revolving credit facility. Both of these are in place until July 2027.

This resulted in a 13.2% reduction in underlying profit before tax in the period, with underlying EPS down 7.4% to 18.8p.

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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, and 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 £182,000, equivalent to a 16% EBITDA margin. The reduction compared to 2021 and 2020 reflects the net benefit of VAT in those years, as well as the impact of higher food and labour costs.

Franchisee profitability in 2019, before the pandemic, was £145,000 per store, equivalent to a 14% EBITDA margin.

Elias will talk later about our focus on this key area.

Free Cash Flow

So, our business model generates strong free cash flow.

Trading from operations produced EBITDA of £130.1 million and let me walk through how this flows through to free cash flow.

We had a working capital outflow of £17.5 million compared to an inflow of £11.2 million in the prior year. This was primarily due, firstly, to higher debtors linked to pricing and volumes in the final weeks of the year; and, secondly, decreases in creditors due to timing. This year so far, £8 million of the movement has already reversed as a cash inflow and we anticipate a net working capital inflow for the full year.

Dividends received of £5.1 million represent payment from our investments in Full House, West Country and Shorecal and net cash interest was broadly comparable with the prior year.

So overall, this resulted in £79 million of free cash flow in the year and let me explain how we use this given our disciplined approach to capital allocation.

Capital Allocation Framework

You'll now be familiar with this slide. We first introduced this in March 2021 and update you every six months.

We have an asset-light, high-returns business, which is strongly cash generative. We have this framework to ensure that effective cash allocation can amplify the benefits and returns from the cash generated by the business. We want to retain a sensible level of leverage, and 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.

So, we generated £79 million of free cash flow in the year and let me walk through how we used this cash.

So, firstly, we continue to invest in the core business to drive long-term sustainable growth. And to that end, we invested £19.7 million in capital expenditure in the year.

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We will maintain a sustainable and progressive dividend. We will pay a full year dividend of 10p which represents a 2.0% increase compared to last year. The cost of the FY22 full year dividend is £42.9 million.

In the year, we sold five corporate stores, and we exercised our put option over Germany.

We have now finalised the price for the German associate. Total cash receipts will be around £79 million, which includes the repayment of a £9-million loan that will be received in June 2023, and proceeds will be flowed through the capital allocation framework.

Finally, we look to return surplus cash to shareholders, and we announced £86 million of buybacks in 2022 which completed at the end of January this year. The first tranche of £46 million was in relation to cash generated in FY21, with the remaining £40 million in relation to FY22.

Net Debt Bridge

So, here, you can see how our net debt has moved in the year, 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 £79 million of free cash flow in the year.

We received a combined £10.3 million from the German associate, which comprised deferred consideration paid in respect of the market access fee and loan repayments.

And here, you can see the cash outflows for the year. CAPEX of £19.7 million, £43.8 million paid out in dividends, and £84.9 million in share buybacks and some purchases on behalf of the employee benefit trust.

This resulted in yearend net debt, in line with guidance, of £253.3 million, giving leverage at the end of the period of 2.06 – around the midpoint of our target range of 1.5 to 2.5 times.

Investing to Drive Sustainable Growth

So, before I turn to our guidance, I'd like to go through our 2023 CAPEX in more detail. As I previously said when discussing our capital allocation framework, our priority will always be to invest in the core business.

In 2023, we expect CAPEX to be around £25 million compared to £19.7 million in 2022 as we continue to invest more in our system to drive sustainable and profitable growth.

The main component of our CAPEX will be around £13 million on our digital and technology infrastructure. This will be centred on the technology platforms I've talked about and also enhancing our digital capabilities.

Secondly, we will continue to invest in our outstanding supply chain with the continued redevelopment of our capacity in Ireland.

And finally, our investment will be focused on developing and continuing to improve our core franchisee operations technology.

So, turning to current trading and guidance.

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Current Trading and Guidance

We have continued to grow market share in a challenging consumer and inflationary environment. Like-for-like system sales, excluding split stores and VAT in the first ten weeks, have increased by 10.8%, with orders up 2.5% and new app customers up 46%.

In FY23, we expect the impact on EBITDA from the accounting treatment of technology platform costs to be around £9 million and there will be no further contribution from the German associate following the exercise of our put option on the 10th of November.

We expect FY23 EBITDA to be broadly in line with current market expectations before the £9 million of technology platform costs.

In addition:

- We expect underlying depreciation and amortisation to be between £22 million and £25 million;
- Underlying interest costs of between £15 million and £18 million;
- Underlying effective tax rate is expected to be around 22% for the year;
- CAPEX of around £25 million;
- And with regard to net debt, we expect this to be between £255 million and £275 million.

Thank you, and now, let me now pass you back to Elias.

Strategic & Operational Update

Elias Diaz Sese

Interim Chief Executive Officer, Domino's Pizza Group plc

Domino's now a Stronger Business

Thank you very much, Edward. It is so great to have you at Domino's.

I joined the Domino's Board back in October 2019 and I firstly invested my family's capital in the business later in the year, December 2019. I have always been very impressed with the strength of this brand; with the strength of its vertically integrated supply chain; and also, with the strength of their franchise partners, some of whom I know for many, many years.

Since 2019, together we have navigated the pandemic and the challenging market conditions in the last year. And you can see from this slide that we have come together through these very external factors much stronger and with a larger business across a range of measures.

This is testament to the investments that we have made together, us and our franchise partners, and, also, to their operational excellence in their stores. And I would like to thank all of them for their immense hard work and commitment, and, also, their team members at the store level, the real heroes of our business.

Domino's system sales are 20% higher than in 2019 and our revenue is 18% higher. Our EBITDA is 11% higher, with Franchise Store EBITDA much improved also since 2019, although flat versus 2021, excluding VAT benefits.

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Our total orders have risen to nearly £70 million and our store footprint in the UK and in Ireland has increased 7%.

Our digital focus has resulted into app orders, as a percentage of online orders, increasing 8.8 percentage points across this year. We continue to be making lots of progress in this area and I will talk to you a little bit more in a minute.

Importantly, we have achieved all this whilst seeing our customer satisfaction scores improving. And importantly, our value for money perception scores are also materially higher than in 2019.

We, together, have achieved a lot, but this is just the beginning. We have a great momentum but a lot to be done in the near future. And this is why I invite all of you to join us in this journey to bring this Domino's business to new heights.

So, turning to our position in the market.

Stronger Position in a Competitive Market

We have increased our share of the UK takeaway market by 1.2 percentage points over the last year and 1.5 percentage points over the last 2 years.

We have increased our leading pizza market share from 44% to 47%, with our share essentially 25 percentage points greater than our nearest competitor.

Our share increase in Q4 was driven by different factors:

1. Our focus on value;
2. Our digital acceleration;
3. Our growth in collection;
4. Just Eat roll-out;
5. And last but not least, full alignment with our franchise partners on executing, at the store level, excellent service.

I am pleased that the trajectory of market share gains has continued in the first ten weeks of 2023.

Delivering a Better Future through Food People Love

Now, what we are really passionate about is to deliver a better future through food people love. And this is supported by our vision to be the favourite food delivery and collection brand with pizza at heart.

You will be familiar with this slide and with the five objectives that you see in here. Now, we are focused on accelerating the execution of this strategy. Definitely, that's what I've been doing for the last five months. We have made very good progress on our strategy, and we are extremely excited about the prospects of 2023.

So, let's turn to the next slide and I'm going to share with you the five priorities that we have for 2023 that everyone within the organisation is laser focused.

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5 Key Areas of Focus in 2023

1. Franchisee profitability and our own organisation as a driver of this franchisee profitability;
2. Value for money;
3. Digital;
4. Convenience;
5. And the implementation of our technology platform projects.

So, let me go a little bit in detail through each of them.

Franchisee Profitability and Organisation

Our number one priority this year is to focus on franchisee profitability. What do I mean by this?

First, we have reshaped the leadership team in order to ensure that we are leaner, and we make faster decisions. Together with our franchisee partners, now, we are able to act in a much more agile way in order to react to the changes in the market that we are seeing.

Secondly, there has been a material step-up in the last year in terms of franchisee engagement and collaboration. I have spent much of my time, during the last five months, travelling all around the UK and Ireland visiting our franchise partners in their stores, together with my partners, and building the right relationships and underlining our commitment to work collaboratively.

I have been a franchisee myself and I understand the challenges which they are facing right now, and this is why this is a key priority for all of us, as a team, in 2023.

In addition to our Marketing Advisory Council that we have with our franchise partners, we have enhanced our operations forums. We have held a country-wide rally with more than 1,400 store managers in that meeting. And we have held several operational roadshows in Q4 in order to be focused with our management team on product, service and image. This is critical for our service, and we've been doing this together with our store managers. And later this month, we are going to be holding the first economic forum with representatives of our franchise partners.

Now, this won't be enough. As, clearly, like for many other UK QSR operators, times are very difficult out there due to the challenging consumer environment and the inflationary environment. And although we are very well placed, we are focused on increasing our Franchise Partners' profitability. Therefore, we are going to continue to be working together in order to enhance our commitment to them.

How?

1. Accelerating the execution of the five priorities that I just mentioned.
2. Continue to be investing in our Growth Framework that we have agreed with our Franchise Partners back in December 2021.

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3. Leveraging our scale as well as the long-term relationships that we have with our suppliers in order to make sure that we search for more efficiencies that can reduce the cost to our franchise partners.
4. And last but not least, looking for other potential operational efficiencies with a different lens at the store level, from revenue management initiatives to operational technology, to marketing contributions or to menu simplification.

At DPG, under the leadership of our partner and Chief Operating Officer Nicola Frampton, we will ensure that we are focused on the most important projects which will benefit our franchisees' profitability, and will ruthlessly be focused on a smaller number of important projects to ensure their successful execution.

Now, let me turn to the rest of the opportunities quickly.

Value for Money

Secondly, value for money. At Domino's we are laser focused on offering good value for money food and a great experience to our customers. But there are a few components into this value for money.

1. *Service.*

Service is the number one proven driver of customer satisfaction and frequency growth.

We continue to improve our delivery experience and make considerable progress in 2022. And our delivery times and percentage of deliveries on time are improving significantly in Q4 versus Q4 the previous year and the same over the first ten weeks of the year.

Last year, we rolled out our enhanced GPS into 777 stores and we are targeting to deploy, as soon as possible, to the rest of the estate in 2023. This enables all of our customers to see exactly where their order is and provide an accurate delivery time; an absolute game changer in the industry.

Our aspiration is to return our delivery orders to growth in 2023 and reduce the average delivery time for our customers from the current figure of around 25 minutes, as well as increase our accuracy.

2. *Value.*

We are very aware of the cost of living pressures that our customers did experience last year and are continuing to be experienced this year. This is where our really strong value message and proposition resonates very well. Alignment with our franchisee partners has allowed us to bring back our national value campaigns. And our value for money scores have improved during the year.

We have continued our value campaigns into this year with our Price Slice platform – £8, £10 and £12 price points for small, medium and large pizza – already 11 weeks into the market.

But we are planning an exciting range of new value platforms throughout 2023. But our continued progress on improving store profitability, obviously, will be key for all of this.

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3. *Product.*

We aim to increase frequency and attract new customers, not only through new focused pipeline of product platforms but, also, very importantly, by delivering great tasting, fresh, hot pizzas and sides to our customers.

We also continue to see an incredible opportunity in collection in order to drive business and growth, as we see it as an effective value offer for our customers in the current environment.

Turning quickly to our third priority, digital.

Digital Opportunity

I am super passionate about the digital opportunity. We have built a great team under the leadership of our Chief Marketing Officer, Sarah Barron, over the last year. And everywhere I look, I see an opportunity.

Ninety percent of our digital – of our sales are digital. But I truly believe that this is just the beginning, that we are only on the early stages of becoming a truly eCommerce platform. The Domino's app is a key driver of this strategy but let me share with you a few facts.

App downloads in 2022 have increased 50% and active customers are – or were already at 6.1 million, an increase of 16% compared to the previous year. Last year, orders generated through our app grew 10% and the app orders, as a percentage of online orders, were 52.2%. But this 52.2% number is the average across the year.

In December, this number was already 59.8%. And last week, we were at 65.8%, demonstrating real momentum and progress from that perspective. Indeed, today, we have 6.6 million active customers in our app in the market.

But why is this important?

Last year, customers who only used the app produced 43% higher sales than customers who only used the website. In addition, customers who only used the app in 2022 had an average order frequency of 51% higher than web-only customers.

Obviously, attracting more customers to the app continues to be a key focus in 2023. But the most important thing is that we are extremely pleased that in the first ten weeks of 2023, our new app customers are already up 46% year-on-year. Remember, 16% across the year in 2022; in the first ten weeks of 2023, 46% year-on-year.

Obviously, personalisation is at the heart of our digital strategy. And we recently began under the leadership of the Head of Digital in our team, Nick Bamber, we have begun more targeted personalisation.

Let me give you a couple of examples:

1. Reminders for our customers on their preferred order day;
2. Personalised segmentation based on dietary preferences; this is starting to be delivering results week-on-week.

At the end of the day, enhancing and broadening our personalisation will enable us to continue to be driving growth over the long run and enhance our food ordering experience.

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With the app as the centre of our digital strategy, we are focused on delivering an increasingly better customer experience with the goal, the dual goal of bringing more conversion and more frequency that will drive sales.

I really look forward to share in the future, later this year, how we are progressing from a results perspective in this arena.

Now, let me quickly move to our fourth priority, convenience, which is also key in the arena of bringing in new customers to our business.

Convenience

There are two elements of convenience for us:

1. Our Just Eat partnership;
2. And increasing the number of stores in the system.

Just Eat

Let me start by the first one, Just Eat. You will be familiar that at the end of the last year, we fully rolled out on the Just Eat platform in the UK and Ireland. Why did we roll out? Very simple.

By being on the Just Eat platform after a long test, we were able to attract incremental customers that only used the Just Eat platform. And this made a strong contribution to our like-for-like sales in Q4 last year and exactly the same over the first ten weeks of 2023.

Quite frankly, our franchise partners, again, did an outstanding job in the super quick roll-out in Q4 with more than 1,000 stores. And as a reminder, Domino's fulfils delivery to our customers. We are the ones that deliver. It is our franchise partners, the one who ensure that we maintain our standard service to our customers. At the end of the day, nobody delivers like Domino's in the market.

As we move on through the year, we are focused on continuing to drive incrementality from being, obviously, on the Just Eat platform. And we look forward for a full-year benefit of being on the platform.

Let me turn to the second component of convenience that is our priority, store openings.

Store Openings

We have made a significant progress in this arena too. We have opened seven stores this year, as we speak, by six different franchisees, versus five last year. But on top of that, we also have ten additional stores already today under construction versus the two we had at this particular moment this year. So, in total, we are double the progress compared to the same period of 2022, a year where we opened 35 stores.

But more importantly, we have completely rebuilt the pipeline with the great effort from our franchise partners. We have today a significantly stronger pipeline than what we have last year at this time of the year with, very important, 25 franchise partners working on this pipeline. It's not one, two or three; it's 25 of them believing and working on this pipeline.

We remain on track to open at least 200 stores over the medium term, as we committed back in March 2021. And we are targeting at least a mid-single-digit percentage point increase in the store estate in 2023.

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Turning to the next slide and our last enabler of our strategy, extremely important for our medium and long term, the implementation of our technology platform projects.

Technology Platform Projects

Edward has explained to you in some detail about the investment we are making and the accounting treatment of these technology platform projects. But let me tell you about the benefits of these projects and how they are going to be helping us to bring new customers into the platform and to grow ourselves.

First, we are focused on the development of our new scalable and best-in-class eCommerce platform. This will, one, enable us to deliver improvements into the platform very quickly and at a more cost-efficient way than our current platform; second, enable more agile marketing and promotions to be put in place; and most importantly, it will allow us to introduce loyalty, a loyalty platform within the system.

Secondly, we have also begun to work on a new ERP programme replacing our 2016 one, which will enable us to improve, obviously, processes and efficiencies across the entire business. But most importantly, it will bring efficiencies on our supply chain operation that is key to all of us.

Summary

So, in summary, in 2022, alignment with our franchise partners and a reset of the relationship with our franchise partners, as well as our investment in growth that Edward has been explaining before, has allowed to maintain store profitability, excluding VAT benefits. Second, it has delivered value for our customers and market share gains. And third, it has increased returns to our shareholders.

I hope I have been able to share with you, in a clear way, the five priorities that all of us are laser focused on 2023 – all with the goal of giving our customers a great experience, working with our franchise partners to improve franchise profitability and growing the business, as well as delivering returns to our shareholders.

We do acknowledge the challenging consumer and inflationary environment. But we are extremely confident that if we remain focused, laser focused on our priorities, we will be very well placed to deliver further returns to our shareholders while our franchise partners will continue to see returns growing this year and beyond.

Thank you very much for listening. And now, I would like to turn the meeting over to Q&A. Please wait for the microphone to come and state your name, if you don't mind, and your institution for the benefit of those who are watching our webcast.

Q&A

Harishankar Ramamoorthy (Deutsche Bank): Hari from Deutsche Bank.

Elias Diaz Sese: Sorry, could you repeat your name?

Harishankar Ramamoorthy: A couple of – Hari.

Elias Diaz Sese: Hari.

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Hari Prasad: From Deutsche Bank. A couple of areas that I wanted to quiz you on. One is that you've seen franchising profitability being maintained or improving this year, right? So, we've seen profitability go a couple of percentage points relative to 2019 levels. So, going forward, if we look at the value chain between price and volumes, what is your view on how pricing might shape up and how volumes might shape up?

Related to this is also, if and when we see F&B costs easing, maybe into H2 this year – actually, it would be helpful if you could share your views on how that might trend. When that happens, if and when that happens, how does the pricing strategy change, if at all? Would that be focused on driving volumes, which would probably be more beneficial for the plc? So, that's the first part.

Second is, if we look at the guidance on net debt from £250 million to – £255 million to £275 million, and if we extrapolate that in conjunction with what you've said about EBITDA and CAPEX and whatnot, the differences, is it fair to assume that there is bound to be some return to shareholders? Or how does the difference move via your capital allocation programme? Thanks.

Elias Diaz Sese: Thank you, Hari. Thanks a lot for the three questions. Let me – you're okay, let me answer the first two.

Edward Jamieson: Yeah.

Elias Diaz Sese: And I will give you the guidance question. Let me start by the first one, which is around franchise profitability and the impact in volumes and pricing, right?

Look, franchise profitability in 2022, as you have seen on the slide, was approximately £185,000 per store, which is obviously a big increase versus 2019 when it was £145,000. Obviously, as I said on my opening remarks, vis-à-vis 2021, it'd be flattish if we take into consideration – if we leave aside the VAT benefits from that perspective.

We are extremely committed, and as I said before, it's priority number one for all of us to continue to be bringing this profitability up. There are different ways we are going to be doing this.

Number one, making sure that we push hard on these five priorities that we do have.

Number two, as I said, continue to be investing, as we agreed with our franchise partners back in 2021.

And then looking for efficiencies. I think that with the vertical integrated supply chain we have, with the scale we have and with the leverage that we have on the long-term relationships with our suppliers, we will be able to continue to be bringing efficiencies from that perspective that will be able to help our franchisees.

That's on the franchise profitability side of things.

The way I see value on volume – sorry, volume on pricing moving forward is the following:

Look, we've been seeing – we're on our sixth consecutive month – we have started our sixth consecutive month of order count growth, of customer growth. And I think that that's absolutely critical. We saw the momentum in Q4, and we are continuing to be seeing the momentum on the first ten weeks of 2023. And that's going to be our focus.

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So, if I see how the market is right now from an environment perspective, us continuing to be focusing on our value for money, that has two elements: pricing, obviously, with our promotions – I've said it, £8, £10, £12 – and service. That's going to be one focus. Number two, digital capabilities. I've said it before, right? It's bringing new customers into our platform. We have already 6.6 million today in our platform. And over the first ten weeks, we have increased 46% versus the 16% last year.

So, I think that us, we will continue to be doing that. We focus on order count.

Now, you tell me, what happens if, in the future, costs continue to be going – or starts to be going down? Look, we won't change the strategy. We won't change the strategy. We really believe that this balance between value for money, digital capabilities and us bringing in new customers through our Just Eat platform and our opening of stores is the right strategy from that perspective. And we will continue to be placing that one from that point of view.

And on guidance, Edward?

Edward Jamieson: Yes, on guidance. So, we're due to receive, as we talked today, about £79 million related to Daytona, the German associate, in June. At that point, we will flow through the capital allocation framework. The principles, as we've talked about today so far, will be firstly, to look at what we invested in the core business to drive sustainable growth; secondly, we'll, of course, then look at dividends; and then thirdly, with any surplus cash, when we haven't identified growth opportunities, we'll return to shareholders. So, we will, in due course, sort of update the market on that.

But what we can say for now, absolutely, is that we'll wait until those proceeds land and then apply the capital allocation framework in a consistent manner.

Elias Diaz Sese: Please.

Richard Stuber (Numis Securities Limited): Morning. Richard Stuber from Numis. Two questions, please. The first one is on OPEX and CAPEX, just a bit of clarity on guidance. I think the last two years, you spent now £14 million on the cloud-based IT platforms in OPEX. How much more is there to go specifically on those two projects? And therefore, will OPEX normalise in the year after that?

And on the CAPEX side, I think you got £25 million in guidance for this year. What do you see as the sort of medium-term maintenance CAPEX number going forward?

And the second question, it's really just a follow-on from the previous one, could you clarify what food cost inflation you expect this year? Thank you.

Elias Diaz Sese: Thank you, Richard. You want to start with the OPEX and CAPEX?

Edward Jamieson: Sure. Let me start with OPEX and CAPEX. So, if we talk about those two projects, then very much 2022 and 2023 are the years of – we've put on the years of investment within those sort of projects. We anticipate that the ERP will partially go into 2024. But in terms of you thinking about the investment in the business, it's very much 2022 and 2023.

With regard to CAPEX, as you say, there's been an increase in CAPEX. So, we've invested in areas around data, digital, IT, marketing to drive our business forward. Again, we're not providing medium-term guidance on it. I think we do foresee now that the CAPEX would

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likely to trend down based on our views at the moment, beyond the guidance that we've provided for 2023.

Elias Diaz Sese: Thank you, Edward. Look, on food inflation, 2022 has been very volatile, Richard. And, yeah, I could tell you that it's been on the high mid-teens inflation, what we have seen in 2022 across the year. I guess regarding 2023, our 100% focus right now is what I said before.

Number one, continue to be working with our suppliers. I think that with the scale that we have and with the strong relationship and long-term relationship that we have with them, we will be able to continue to be doing what I think has been a great effort in 2022 to reduce that cost. So, we don't need to bring that level of inflation to our franchisees at that level but that's still to be worked from that point of view.

And then, as I said before in my opening remarks, right, we are looking into store efficiencies with different lens. We see different opportunities there, right? Revenue management with many architecture pricing and promotions that we could see in a very different lens from that perspective. Us bringing GPS but other ops technologies that we are working on at the store level. Us bringing a different lens also from a menu simplification perspective.

Those are going to be the kind of things that we are going to be working on in order that, yeah, that our food inflations to our franchise partners improve over the next year.

Edward Jamieson: May I just add one point on that?

Elias Diaz Sese: Please.

Edward Jamieson: I think it's also important to bear in mind that in terms of procurement, we're the largest buyer in the categories we're buying. And therefore, both the scale of our procurement and the expertise of our procurement team that we, obviously, seek to purchase as cost efficiently as we can in this environment as always.

Elias Diaz Sese: Thank you, Richard.

Richard Stuber: Thank you. Could I ask a third question if I'm being greedy? You talked about some market share gains and the various factors which is driving that. I think one factor which you may have missed out is the competition and what's going on, the weakness there. I know certainly, one of your major competitors pointed out that the UK business is a little bit weak at the moment. Could you talk more about the general competitive environment, and are you seeing others struggling? And is that also helpful for your market share?

Elias Diaz Sese: Look, you've got from the media the comments that the competitors did, right? What I can assure you is what we're trying to do, right? And in value for money, as I said before, one of our biggest focus is service. And Richard, that's the key theme. Nobody in this market delivers like Domino's. Nobody. We control the entire delivery, from our supply chain centres to the door of our customers. And we're, right now, with full alignment with our franchise partners, focused on service, service and service.

I'll give you two stats. As we talk right now, we are two minutes faster this year than we were last year at 25 minutes. We're 7 percentage points, 7 percentage points better in terms of deliveries on time versus last year. That's not happening in 24 hours. That's the result of

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the work that has been done with our franchise partners since the summer of last year, getting ready into Q4, making sure that we recruit as many drivers and as many colleagues and as many Domino's staff into Q4, and maintaining that tension in the year.

I really feel, Richard, that if we continue to be doing so, controlling the delivery, number one, having everyone within the system focused on service, our unique selling proposition is going to be extremely competitive in this market and it's going to be very good – but not for today, across the year, for next year and the next years to come. So, I am a very positive on the focus that the team is having.

Please, we have another question here on the right. Thank you, Richard.

Darragh O'Sullivan (Jefferies): Hi, Darragh O'Sullivan from Jefferies. My first question is franchisee economics. With franchisee relationship being an increased priority for 2023, do you see there being any change to franchisee economics going forward?

The second question is on read across from the US business. So, the US business recently updated its guidance and reduced system sales growth and the store roll-out for the medium term. I was wondering if you could talk through how this might compare to Domino's UK outlook. Thank you.

Elias Diaz Sese: Thank you. Sorry, you said, Darren?

Darragh O'Sullivan: Darragh.

Elias Diaz Sese: Thank you, Darragh, for both of the questions. Go one-by-one and let me start with the franchisee economics from that perspective and come back to my remarks, Darragh, from that perspective. Priority number one for the team, priority number one for the team, franchise profitability, number one.

For number two, we are working with our franchise partners in order to make sure that our franchise profitability across the year continues to be improving. And we have Nicola Frampton, our COO, leading this project, together with Edward, myself and the rest of the team from that perspective.

What are we trying to do? Accelerating the execution of our five priorities that I have spent a good amount of time explaining. Us, making sure that we continue to be investing, as we agreed in March 2021, on our framework of growth that is delivering the results that I am mentioning. And point number three, us making sure that we bring more efficiencies. How? Working with our suppliers and colleagues from a store-level perspective. That's what is under our control and that's what we're going to be trying to do together with our franchise partners. And as I mentioned, later this month, we have our first economic forum together with our franchisees. That's what we're doing from that point of view.

Point number two. Read across vis-à-vis the US, right? Look, we are seeing this in a different way here in the UK, right? We're growing order count; we are growing sales and we are opening stores. And we believe that if we continue to be executing the three priorities vis-à-vis the market that I just mentioned across the presentation, we are confident that we will continue to be seeing this.

But I'm not saying this just for the sake of faith, of confidence. I'm just saying these with facts, right? Number one, we're growing market share. We're growing market share – 44%

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last year, 47% in 2022, and we are seeing same levels of growth on the first ten weeks of 2023.

Number two, we are growing customers; six consecutive months of growth of orders. I repeat, six consecutive months. We're at 2.5 on the first ten weeks and we're very happy with the scale of how the months are playing from that perspective.

Number three, we are bringing new customers – 46% of new customers are coming through the app. We have 6.6 million. Just to give you two numbers, right? Our orders in our app vis-à-vis total orders – vis-à-vis, sorry, digital orders in 2017, look at this, 2017 were 40%; in 2021, grew 5%; from 2021, up to 45%.

As I said, on the first ten weeks of the year, we're already at 65.8%. The growth is huge, and we just started this last year. The team was put together last year. That's why this investment is so critical.

Think about this, right, we restarted the engine again with the great agreement with our franchise partners in December. That's restarting the engine, right? We are seeing the momentum in Q4, and the acceleration is coming now. But this is just the beginning, as I was trying to say.

What is going to happen if we continue with personalisation? What is going to happen if we continue to be focusing on bringing more customers into the app? What is going to happen when we bring loyalty in the future?

So, I think that quite honestly, I can't see any comparison to the read-across to the US because on top of that, I finish the question, store openings. I just mentioned, right? We are today with stores opened and under construction double the progress of last year, point number one. That's a fact. And by the way, the seven stores that we opened have been opened by six franchisees. And we have ten stores under construction, double the progress.

Number two, our pipeline today is far more progressed than last year, far more progressed, because think about this, the restart of the engine started in January last year. So, we've been making the progress up to now. But more importantly, Darragh, this pipeline has already 50% – five-zero – 50% of that pipeline today has already planning and zoning approved by the city halls. That's the most important thing because that's the arena in the development process that is not under our control. That means that very soon, those sites are going to be on lease signed and they are going to be on construction process.

So, we feel very comfortable with both the side of things of order count and sales and the development of stores. So, I don't see that read-across coming into the UK, Darragh. Thank you. Please.

Anubhav Malhotra (Liberum): Good morning. It's Anubhav Malhotra from Liberum.

I've got a couple of questions, firstly, on the impact of Just Eat on your delivery order count in the fourth quarter because I see they're still quite negative at minus 6.5%. So, and then just your comment on the underlying performance excluding the Just Eat impact, are you happy with that performance?

And a related question on collection. So, your collection, obviously, is growing very, very well. Can you comment on what times of the day and what occasions of the day are you

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seeing more success now that you're pushing behind collection? And are these collection orders just as profitable for the franchisee as delivery because it seems like they are eating a bit into your delivery performance? So, is that equally profitable for you as well as for franchisees? Thank you.

Elias Diaz Sese: Thank you very much. Look, if we see incrementality of orders in Q4 – you were asking about Just Eat in Q4, right? If we see incrementality of orders in Q4, the way I think about this is very simple, right? 15% of it is approximately World Cup impact. World Cup is always welcome in Domino's Pizza, and we had a great World Cup from that perspective, but that was only 15% of it. The rest was a big part of it, Just Eat implementation, new customers, right? It's really bringing new customers that we didn't have access before. And the reason why we didn't have access before is because those customers were only trading on that platform, which is the one with more penetration within the country.

So, obviously, it had a big impact, but it was not the only one, right? As I said before, the digital acceleration and value were also important ones from that perspective. So, yes, it had a good relevant impact in our incrementality from an order count perspective – and by the way, continues to be having it in the first ten weeks of 2023.

Edward Jamieson: Yeah, I think there's two points. Firstly, as Elias was saying, look, this is simply Just Eat is one of multiple levers of growth. I think the real benefit of the sort of strategy and the execution that we're laying out is we're focusing on a number of different areas, and we can see them bearing fruit together. So, it's about the combined impact.

The second piece that's relevant is, of course, that we've rolled out Just Eat – obviously, we started with a trial in Q2. We rolled it out during Q4. So, we haven't yet even seen a full quarter of performance across the full store estate. It's still very early in that journey. And therefore, for that reason, I won't add to Elias's sort of comments on that. But that's the Just Eat part. Elias, back to you on the questions around collection.

Elias Diaz Sese: Yeah. Look, yes, collection has been growing very much. It has been – you saw it on the presentation, it has been a big element of focus of the team. And obviously, we have also seen good focus of our customers in collection because from a value perspective, it's an obvious benefit from that perspective.

We have seen it cross-borders. I couldn't tell you that it's been more here or there. We have seen this growth cross-borders from that point of view.

Now, it's been very good to see not only the collection growth but also the delivery order count growth. If you think about this, it's a good balance, right? We were, in Q3, at minus 15%; in the entire year at minus 10%; and in Q4, we were at minus 5%; and that momentum has continued over 2023. So, that balance, we're starting to be extremely happy with and we think that, yeah, it's a mix of everything, right? It's a mix of value, it's a mix of service and it's a mix of Just Eat together with the digital acceleration.

Now, you asked about the profitability. Yeah, the margin of an order collection, for obvious reasons, is higher than a delivery. But obviously, the ticket average is lower, right? So, that's what we are working with our franchise partners to continue to be increasing, not only the transactions but also, the ticket average in those orders. Thank you very much.

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More questions.

Edward Jamieson: I think we're done.

Elias Diaz Sese: Any more questions? Please, go ahead.

Richard Stuber: Thank you. Just a couple of extra ones, if that's all right. One is, what are you seeing in terms of franchisees' delivery fees? Are they continuing to push up this year?

And secondly, you've hinted that your new eCommerce platform may allow you to roll out a loyalty programme. Could you just give us your current thinking in terms of timing and how additive that could be? Thank you.

Elias Diaz Sese: Yeah. Look, on the first one, which is delivery fees, I think that we are, right now, at approximately £1.99 average from a delivery fee perspective and they are capped at a level. So, we're not seeing them going any further from that perspective.

On loyalty, look, it's critical for us, right? I think that we will see another good path of growth coming out of loyalty. Obviously, we need this platform, this eCommerce platform to be developed in order to be able to be deploying it. And we need to do it very carefully and we're working already in advance of getting the platform developed in order to be ready so when it's developed, we can go all in from that perspective. But we are very excited about loyalty and the impact that it can have also on incremental growth from an order count perspective and, obviously, from a value-for-money point of view.

So, it's very aligned with the strategy and the three pillars that we have. Thank you, Richard. Any other further question?

Well, if there are no more questions, thank you very much to all of you for coming today and thank you very much for everyone on the webcast. And, yeah, I hope to see you all very soon. Thank you very much. Have a great day.

[END OF TRANSCRIPT]

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