Domino's Pizza Group plc Full Year Results 2021

Tuesday, 8th March 2022

Overview

Dominic Paul

CEO, Domino's Pizza Group plc

Welcome

Hello, good morning everybody. Thank you for taking the time to join us this morning in the extraordinary times the world is currently facing for our full year 2021 results presentation. I am sorry we cannot meet in person today, but I do hope that when we report our interim results in August, we will do so face-to-face. I am joined today by David Surdeau our Interim CFO and Will MacLaren our Head of Investor Relations.

Let us turn to the agenda on slide two. I will give you a short overview of the year before handing over to David who will talk you through our financials in detail. I will then take you through our strategic progress and focus for 2022 before we conclude with Q&A. If you have got questions, please do enter them into the appropriate section on the webcast and Will will read them out when we get to that section.

A Transformational Year

Robust trading, excellent strategic progress and returns to shareholders

2021 was a transformational year for Domino's. We made excellent strategic progress, trading was robust, we delivered substantial returns to shareholders, and we finished the year with a resolution with our franchisees. I know the dispute has been issue many of you have paid close attention to over a number of year and it was a really important moment enabling us to truly unlock the potential of this business.

This time last year we launched our new strategy, and I will take you through our progress in more detail later in the presentation. To give some highlights, 31 new stores were opened in the year compared to 19 in the prior year. We continued to transform Domino's into a truly digital business. 91.2% of sales now come from digital channels, an increase of 70 basis points compared to last year. We opened our fourth supply chain centre in Cambuslang, Scotland and we completed the exit from directly-operated international markets, stopping significant cash outflow that we have experienced over the past few years. Over the past 12 months we have transformed the Executive Team and I would like to thank them, our colleagues and of course our franchisee partners who have played a significant part in what has been such a transformative year for the business.

We delivered system sales growth of 11.2% and this translated into earnings growth of 11.5%. Domino's is a highly cash generative business which enabled us to return £136 million to shareholders through dividend and buybacks in the year. The strength of cash flows this year has enabled us to launch a new £46 million buyback and increased the full year dividend by 7.7%.

Finally, we finished the year with a resolution with our world-class franchisees. This was a really significant moment for the business which heralds a new era of collaboration and is already having a meaningful impact on how we operate and win in the market. The resolution allowed us to increase our medium-targets and we now expect to achieve at least the upper-end of the previously announced £1.6-1.9 billion system sales target and exceed our target of 200 new stores. With that I will turn to David who will talk you through the financials.

Financial Performance

David Surdeau

Interim CFO, Domino's Pizza Group plc

Sales Performance

Continued underlying system sales growth

Good morning, everybody, it is a pleasure to be here this morning to present the financial results for the year. System sales have grown significantly, up 11.4% across the UK with system sales in Ireland up 7.5%. Importantly when we adjust system sales for the impact of VAT, they grew 5.5% which is a 150-basis point increase on the prior year. Reported revenue was £560.8 million, an 11% increase on 2020. This was driven by good growth in the supply chain revenue, royalties from the increased system sales, a strong performance from our corporate stores and an increase in the national advertising fund and e-commerce funds.

Looking at EBITDA margins as a percentage of system sales, this remained healthy at 8.8%, down 20 basis points from the prior year. This was a result of the dual running of our new supply chain centre in Scotland in the first half of the year and some additional labour costs in the second half, as well as our investment in people, infrastructure and capabilities to drive the platform for future growth.

UK & Ireland Trading Performance

Strong system sales; order count helped by recovery of collection

Let us go into system sales and order count in a little more detail, starting on the left side. We split out the impact of sales and orders between collection and delivery. Overall total orders were up 5.5% on the prior year with a marginal decline in delivery orders more than offset by the recovery of our collection business. Collection orders were up 34.3% in the year as it recovers from the complete closure of collection that was necessary back in Q2 2020. We exited the year 87% of the 2019 levels having grown sequentially each quarter in the year and they are currently at 94%.

Delivery order count was down only 1.3% in 2021 with the growth in the first quarter offset by a decline in the second quarter caused by the exceptionally strong comparative period in the last year when the pandemic initially hit. Delivery recovered in the third quarter but was down in the fourth quarter as we were up against a period when much of the UK was in full lockdown. Comparing to 2019 delivery order count was up 8.8%.

In the chart on the right-hand side, you see the quarterly profiles of the total system sales growth in blue and order count in red. However, the most important indicator of the underlying performance of our business is the green bars which represent our like-for-like performance excluding the impact of VAT. Here you can see that our performance was consistent across the year, delivering 5.5% growth compared to 4% in 2020.

Income Statement

Strong trading delivering underlying earnings growth

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. The underlying United Kingdom & Ireland EBITDA is £131.4 million, up 8.8% on

2020. In 2021 we charged £2.4 million of COVID-related costs to underlying EBITDA compared to £9 million in 2020. We have also received an estimated net benefit to our profits of the reduced rate of VAT of around £6.2 million in 2021 compared to £3.6 million in the previous year. We grew profit before tax by £12.7 million to £113.9 million. Our underlying effective tax rate for the year was 18% giving an underlying basic EPS of 20.3 pence, up 11.5% on last year, which is a very robust performance.

COVID-19 Related Costs & VAT Benefit

Included within underlying items

As I mentioned, COVID-related costs reduced to £2.4 million compared to £9 million last year. In the first half of 2020, to ensure the system could operate safely as the pandemic hit, we supported our franchisees picking up the cost of initial orders for PPE and other safety equipment. Throughout 2021 we continued to incur incremental costs in our supply chain to ensure that deliveries could be maintained safely. As the COVID restrictions have eased we are normalising the operations with our supply chain and these COVID costs will continue to decline.

The UK rate of VAT was cut from 20% to 5% in July 2020 and provided us with some financial benefit, estimated at £6.2 million in the year, principally in the form of increased royalties from the franchisees and enhanced income from our corporate stores and joint ventures. The VAT rate increased from 5% to 12.5% from 1st October and will revert to 20% on 1st April so the VAT benefit will largely be non-recurring in this financial year.

Analysis of UK & Ireland EBITDA

Strong performance

A significant proportion of our EBITDA comes from the supply chain centre through procurement, manufacturing and distribution of products to stores. Throughout the COVID period our supply chain has maintained an excellent service level and I would like to pass on my thanks to all our colleagues who helped deliver this outstanding performance. Our EBITDA from the supply chain for the year was £105.2 million after incurring both the direct supply chain COVID-related costs and the majority of the franchisee support costs.

System sales growth has been strong, up 11.2%, which has driven our net royalty income growth of £4.2 million. Net overheads increased due to increased investment in our people, new store incentives and continued investment in data analytics and marketing effectiveness. Our investments in joint ventures and corporate stores traded well during the year, benefitting from improved underlying performance and some VAT benefit.

Franchisee Trading

Healthy profits for the system

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 are world-class operators and have worked tirelessly to operate safely in a constantly changing environment. Their financial performance has been strong with the average profit level increasing significantly in 2021. Average UK store EBITDA was £287,000, a 25% increase on the prior year in part driven by the reduced rate of VAT.

Non-Underlying & Discontinued Operations

Materially reduced charges

Thus far we have concentrated on the underlying performance of the business, but we do have some non-underlying and discontinued charges. The majority of these charges relate to the international businesses that we have now exited. In 2020 these businesses reported trading losses of £10.1 million. That has reduced to only £1.5 million in 2021 and following completion of all the disposals this will be zero in 2022. Below the trading loss line, we have the accounting losses associated with the disposal activity. In May 2021, the Group disposed of the operations in Sweden and Iceland. Switzerland was disposed of in August. We are pleased that the international operations are no longer a drain on Group resources and that the team is now able to focus on the execution of our strategy and to grow the business in UK & Ireland.

Free Cash Flow

Strong generation of free cash flow from the business

We have a business model that generates strong and consistent cash flow. Strong trading from operations produced excellent EBITDA of £136.4 million, an increase of 8.7% on the prior year. The majority of this flowed through to free cash flow and, as I mentioned earlier, we reduced the cash outflow from our international discontinued operations. The working capital inflow of £11.2 million primarily relates to a timing inflow of £11 million shortly before the year end. Dividends received of £3.8 million represent payment from our JV investments in Full House and [Inaudible 12.07] and net interest was broadly comparable with the prior year. Our tax payments were lower than the prior year as a result of the timing of UK tax payments in that year. Overall, this resulted in £104.6 million of free cash flow in 2021 and let me explain what we do with that cash generated.

Capital Allocation Framework

Further investment in the core business, increased dividend and buyback

You should now be familiar with this slide. When we announced our strategy this time last year, 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 about 1.5-2.5x. Working within these parameters we will allocate cash in a disciplined way.

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 £14.3 million in capital expenditure in the year. We will maintain a sustainable dividend with an EPS cover of at least 2.0x. For the 2021 financial year this means we are proposing a final dividend of 6.8 pence giving a full-year dividend of 9.8 pence, an increase of 7.7% compared to the last year.

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. For 2021 we have completed the exit from our subscale international operations that were a drain on Group cash. To help drive future growth we have also invested £6.6 million in a new joint venture in Northern Ireland.

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 and have today announced a new share buyback programme of £46 million.

Net Debt Bridge

Strong cash generation and shareholder returns

On this slide I have shown how our net debt has moved in the year, the sources of cash inflows and our capital allocation framework in action. We started the year with £171.8 million net debt and, as I have already explained, we generated £104.6 million of free cash flow in the year. We received a combined £11.3 million from the German Associate which comprised £6.4 million in relation to deferred consideration paid in respect of the market access fee and £4.9 million of loan repayments. We completed the disposal of international operations in the year which resulted in cash inflows of £12.6 million and we made a small foreign exchange gain on net debt of £3.5 million.

Here you can see what we did with that cash generated. Capex of £14.3 million, £56 million paid out in dividends, a £6.6-million investment in a new JV and £80 million in share buybacks, as well as some purchases on behalf of the Employee Benefit Trust. This resulted in year-end net debt in line with guidance of £199.7 million.

We will continue to invest in the core business

Capex this year to increase to c.£24 million from £14.3 million in FY21

Before I turn to the 2022 guidance, I would like to go through our 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 2022 we expect capex to be around £24 million, which represents a 60% increase on the prior year. This is primarily driven by the resolution with our franchisees as we invest more in our system to drive sustainable and profitable growth. The main component of our capex will be around £14 million on our digital and technology infrastructure. This will be centred on a new e-commerce platform and enhancing our digital capabilities. Secondly, we will continue to invest in our outstanding supply chain with development of our capacity in Ireland and exploring options in the South West of England. Finally, our investment will be focused on developing and improving our core franchisees' operations' technology.

Current Trading & Guidance

Turning to current trading and guidance, as we have previously guided, we expect 2022 underlying EBITDA and EPS to be in line with current market expectations. Trading in the first quarter has started well, aided by our first national price campaign for several years, made possible because of the resolution with our franchisees. Overall order count and customer acquisition continues to be positive, despite being up against comparative quarter last year when there were strict lockdown restrictions in the UK.

Here I have summarised some modelling guidance for the year. We expect underlying depreciation and amortisation to be between £18 million and £20 million. Underlying interest costs of between £6 million and £8 million. Our underlying effective tax rate is expected to be around 17% for the year. With regard to net debt, we expect to grow this a little as a result of the use of cash to deliver returns to shareholders. Now let me pass you back to Dominic.

Strategic and Operational Update

Dominic Paul

CEO, Domino's Pizza Group plc

Growth and Sustainable Returns

Strong business model well placed to succeed in all conditions

Domino's has a unique sustainable business model which we have proved well-placed to succeed in all conditions. We have a world-class brand recognised globally as the number one pizza brand. In the UK, our market share of UK takeaway pizza is 25 percentage points greater than our nearest competitor. 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. There is no getting away from it, our pizza tastes great. Customers across multiple cohorts love the product but we do not rest on our laurels. We continue to innovate, and we strengthened our team in this area in the past year.

We are a digital business. Well over 90% of our sales come from digital channels and I will talk more about digital progress later in the presentation. Freshly made pizza from order to door in about 25 minutes despite the operating challenges across the market is a true differentiator. As a result of our leading delivery times our NPS remains strong at +52. We are absolutely focused on maintaining and improving our customer satisfaction scores. Finally, the model is highly cash generative.

Trading Environment

Domino's business model is resilient to an inflationary environment

Turning to the next slide, let me explain how Domino's is positioned to succeed in the current operating environment. Clearly, we are operating in an inflationary environment. The resilience of the Domino's business model has been proven out through economic cycles and we are well-placed to navigate the current challenges and better-placed than the competition to succeed. We have significant scale and buying power through our supply chain operations. Its vertical integration is a key differentiator compared to the wider market. We can leverage our scale to realise operational and procurement efficiencies to help mitigate inflationary pressures in the market. We continue to work with our franchisees to improve our labour efficiency and to optimise pricing across our system. Our focus on growth collections is particularly important here as collection is the most efficient channel from a labour perspective as we are effectively outsourcing the delivery to the customer.

We are acutely aware of cost of living increases that consumers in the UK are experiencing this year. This is where our really strong value message and proposition will resonate well with those consumers who will still want a treat but are priced out of going to eat in restaurants. Following the franchisee resolution, we are now able to promote our value message using a price point nationally. We also believe Domino's has far better store economics than most operators in the QSR sector, with smaller footprints, lower rent and significantly lower running costs. What we proved during the pandemic is our model is flexible and we are able to pivot successfully between delivery and collection depending on what restrictions are in place at any given point in time. However, we also know that Domino's has performed well in times of economic stress such as post the last financial crisis because of the great value we offer to our customers. We have confidence in our model's clear strategy to deliver both for our customers, franchisees and all our stakeholders.

Strong Position in a Growing, Competitive Market

Market share gain in £16 billion UK Takeaway market

Turning to the competition in the pizza market, previously we have not shown much market share data. As a result of our investment in data and insights we have changed the way we look at market share to be far more robust and data-led. We now use Kantar, which is a recognised industry data provider, including analysing the market share of UK supermarkets. Using this data, you can see from the chart on the left that we have increased our share of the UK takeaway market from 6.5% in the final quarter of 2020 to 6.8% in the Q4 2021. This is an enormous opportunity for us as the addressable market is large. Given our collection market share is very low there is significant headroom for growth.

We have also maintained our leading 44% pizza market share in a year when the UK pizza takeaway market grew at 10%. You can also see from this chart that our share is significantly more than our nearest pizza competitor. Our share is essentially 25 percentage points greater. For me, the really interesting point here is we have maintained this when our system was not aligned, and we had not resolved the franchisee issue. Think of what we can do now that we have a system which is fully aligned and ready to accelerate growth.

Resolution With Our World Class Franchisees

Tangible progress since Resolution announced

Let us turn to our franchisees and what has changed since we reached resolution. We started the year with the resolution with our world-class franchisees. We do recognise that in recent years Domino's has lagged comparable Domino's businesses around the world and I firmly believe this resolution will unlock the significant latent potential of the Domino's system. Under the resolution both ourselves and the franchisees have made a number of commitments. These include a one-time capital investment of approximately £20 million from Domino's, a new store incentive scheme to deliver at least 45 new stores a year over the next three years and a commitment to participate in national promotional deals focused on both delivery and collection.

However, today I would like to talk you through what has really changed since a resolution was agreed at the end of last year. First, we have been able to launch our first national price pointed offer for over two years, giving customers 50% off when they spend more than £30 on pizza. We have done additional campaigns around Valentine's Day and Twos Day on 22nd February 2022. These campaigns have helped to drive positive order count growth in the year so far which is especially pleasing given we are up against a period last year when the UK was in full lockdown. We have opened five stores so far this year compared to one at this point last year. This reflects the new store incentive scheme, and we are on target to open at least 45 new stores this year, a material improvement on the 31 opened last year and the 19 in the prior year.

We have seen enhanced collaboration on operations technology to improve store efficiency. We are currently in trial with GPS 2.0 and the inventory app trial starts later this month. Other areas of collaboration include alignment behind new product innovation such as the Vegan PepperoNAY and new collaborative ways of working with franchise forums across marketing, operations and technology. Finally, you can see our commitment to driving improvements in the system through our increased investment which David explained in his presentation.

Delivering a Better Future Through Food People Love

What we are really passionate about is 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 its heart. The five key objectives that underpin the strategy are nobody delvers like Domino's. We are a market leader and can build from a position of strength. We will turbocharge our collection business where there is an opportunity to grow market share. We will amplify our product quality and value through a 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. We first laid out these five objectives a year ago and I will now tell you want we have achieved in the year and what our focus will be on.

Objective One: Nobody Delivers Like Domino's

Delivery is at the very heart of our business, and it is what we are best known for. We launched our new app which features group ordering functionality and Deal Wizard and has received excellent customer feedback with an average rating of 4.8 out of 5 stars in the app store from 1.5 million reviews. App sales are now 42% of system sales, a 2.2 percentage point improvement on 2020. This is important because app customers have a greater lifetime value and continue to provide a rich source of data for the business. We were delighted that our app won Food & Drink App of the Year at the UK App Awards in 2021.

Other strategic progress included launching Apple and Google Pay for which provided many users a smoother checkout process. We implemented the CRM platform Braze in the year. This is a leading customer engagement platform designed to deliver hyper-personalised customer communications across a broad range of marketing channels, such as push, email, SMS, on-site content and social media. Our personalisation began at pace at the end of 2021 and will continue in 2022. Examples of its impact included optimising the time of communication to customers, targeting customers later in the day to drive incremental value, targeting customers who browse the app but place nothing in their basket and incorporating dynamic content based on nutrition preference. Combined these initiatives drove incremental sales of around £10 million in the year and show the potential in this area.

As we move into 2022 our focus is on starting work around next generation web platform which will provide a personalised experienced for our customers. We will also focus on new technology, such as an upgraded GPS tracking system to improve the delivery experience and harnessing the use of data. Finally, we will continue the personalisation and automation journey of our CRM activity through Braze.

Objective Two: Turbocharge our Collection Business

Our second objective is turbocharging our collection business. Collections have recovered well. We exited 2021 at 87% and they are now at 94% of 2019 levels, having recovered sequentially each quarter in 2021. Our share of the collection market is small and our market-leading position in delivery is an indication of what we could aspire to achieve in the currently under-penetrated carry-out business. For me, the key to unlocking this opportunity is to drive customer awareness and this year our focus will be on raising awareness of the collection channel, primarily through promotion in national campaigns focused on value. In a year of cost of living increases our value message is expected to resonate really well with our customers.

Another lever to drive incremental sales is in-car collection, a service we launched this year and rolled out to 422 stores. Customer feedback has been excellent, and we will continue to promote awareness of this new channel. We continue to see significant opportunity to drive an increase in collections to accelerate our growth.

Objective Three: 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 see a great opportunity to drive product innovation to stay ahead of our competitors. Under new marketing leadership we launched a new media campaign at the end of May to demonstrate that nobody delivers like Domino's. Through a strong creative platform, targeted media and increased investment. The yodelling campaign was timed with the easing of lockdown restrictions in the UK and was centred on reunions between friends and family, cementing the Domino's brand as the perfect partner for these occasions. Crucially and in a marked change from the past the campaign was created and planned with our franchisees who gave great input throughout the process and is further evidence that when the system is aligned, we all benefit.

We were then able to build on this momentum and collaboration with the launch of our first ever festive TV advert. To keep our customers coming back and drive incremental sales we are always looking for new ways to excite them. In 2021 we expanded our vegan pizza, the Chick-Ain't which has been highly successful in bringing new customers in, and two new meaty pizzas, Absolute Banger and Meatball Marinara to appeal to our core customers. We rounded off the year with our first festive offering, the Festive One pizza and After Eight cookies and started this year with the launch of Vegan PepperoNAY. Under new innovation leadership we have a strong pipeline of innovation this year with new pizzas, sides and desserts designed to bring new flavours and experiences to tempt customers in.

Our main focus in 2022 will be on amplifying our value message through national campaigns and continuing our menu innovation. We believe that this will be crucial in a year when customers will be experiencing cost of living increases.

Objective Four: Uphold our Industry-Leading Scale 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. WE continue to collaborate closely with key suppliers to ensure we have stock cover at optimal times and to minimise cost inflation where possible. We have expanded our number of suppliers to ensure we secure best value for money for our system, along with providing resilience across our supplier base. Our world-class supply chain delivered another year of exceptional operational performance in a challenging year.

Across the year 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. We were pleased to open our fourth supply chain centre in Cambuslang in Scotland in the first half of the year with a capacity to support 150 stores and introduced efficiencies such as routing and driver performance software to maintain and improve our performance. We are committed to maintaining the highest standards of health and safety and driving efficiencies across our supply chain.

In 2020 we started rolling out cages and dollies and now 60% of our stores are being delivered to with cages and dollies. We anticipate rolling out to remaining stores in 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. Again, we have been externally recognised, as the Domino's dolly won the Supply Chain Solution of the Year Award at the 2021 UK Packaging Awards. Our focus in 2022 will be on driving operational efficiencies to benefit our franchisees' profitability and maintain our world-class operational performance.

Objective Five: Model Excellence as a Franchisor

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. We strive to provide our franchisees with the tools they need to be as successful as possible. We have continued to invest in the business to drive organic growth by building capability across our data and insights team, transformation team and store operations, whilst at the same time upgrading our supply chain and IT infrastructure. We continue to see a range of opportunities to improve our performance here, particularly in data and insights. With over 1,200 stores and just under 70 franchisees we are now aligned and focused on accelerating our growth. We were delighted that our first Homegrown Hero, a new franchisee who has come up through the system, opened a store at the end of 2021 and our second Homegrown Hero has opened a store at the start of this year. Our system rewards both franchisees and the Group.

Now that we have the resolution our interests are aligned to accelerate our growth strategy. A central part of the growth strategy is new store openings. In full year 2021 we replaced a complicated and outdated new store incentive scheme with a simplified scheme. Our focus this year is opening at least 45 new stores, working collaboratively with our franchisees through the inflationary environment and embedding the commitments made in the resolution. We will also help our franchisees grow in a profitable and sustainable way and will continue to embed the franchisee performance management framework, as well as rolling out the Domino's Academy to drive their continued success.

Summary

To summarise I am incredibly proud of the significant progress which we have made over the past 18 months. Over the last year our trading was robust, excellent strategic progress was made across all our objectives, we returned £136 million to shareholders, and we finished the year with a resolution with our franchisees, meaning we have been able to look to the future with confidence.

We have started this financial year well. We are now able to undertake national price campaigns and our first one launched in January. The timing is spot on as a strong value message will become ever more important over the coming months and gives us a great opportunity to continue to acquire new customers. Importantly, despite being up against a quarter when the UK was in full lockdown our overall order count year-to-date is still positive, demonstrating the benefit of our business model.

I look forward with confidence and am excited about the future of this business. We are aligned as a system and look forward to accelerating growth for the benefit of all stakeholders. Thank you for watching. I would now like to turn the call over to Q&A so we can have the first question please, Will

Q&A

Will MacLaren (Head of Investor Relations, Domino's Pizza Group plc): Thanks Dominic. The first question is from Anubhav Malhotra from Liberum and there are two questions on the same theme. I note that a few stores in London have been charging for delivery. Will this be rolled out nationally? The second question is, what has been the impact on volumes and like-for-likes on stores where delivery charges have been applied?

Dominic Paul: Hello everybody, good question. I think as we outlined in the strategy presentation, driving a national price pointed message is really important for us and the timing of doing that is absolutely right now. We want to have a really sharp national price pointed message. The second element of the strategy that is going to be increasingly important is driving collect where we see a really good opportunity. We have been thinking about a delivery charge for a while and I think what has been interesting if you see the evolution of delivery charges in the delivery space is that customers have got much more used to and comfortable with paying a delivery charge. Aggregators, many of the companies that do delivery they increasingly have a delivery charge but also a service charge as well. Of course, many markets of Domino's globally have delivery charges. The US has a variable delivery charge in place, and they have done for many years.

We put a trial in place for about 150 stores, a proper data-led trial. We actually started it in October last year because we wanted to assess the impact of a delivery charge. We did different levels of that charge. We found that putting a delivery charge in had very little impact on sales overall but what it does is it enables us to have a strong national price pointed message. It does enable franchisees to use some of that delivery charge to invest in labour to improve their own operations and pay rates for their workers but also offset some of the inevitable inflationary pressures that are coming every business's way this year. We will be rolling out a delivery charge. The rate is going to be different according to franchisee and according to area as well. In a hyper-local way of pricing, which I think works really well for us, the franchisees will work on that on a local basis. Some franchisees will not put a delivery charge in, some will put a lower delivery charge in and some slightly higher. The rate is likely to be somewhere from £0.99 to £2.50 depending on the franchisee, depending on the area. The good thing about delivery charges is it still really reinforces our national price pointed message. Of course, collect does not have a delivery charge attached so it helps also drive our collect proposition. I actually think it is a really quite clever way for us to take some ticket pricing but actually maintain that really sharp price point to our customers.

Will MacLaren: Thanks Dominic. Next question is from Paul Ruddy, and he has four questions. I will read them out. The first is any thoughts on what the impact of the national price promotions might be on total system sales or like-for-likes this year? Second question is, are there specific targets from the resulting volume benefits? Third question is, valuation has reduced recently, is there a valuation point where you might consider increasing the buyback programme and leverage within your stated range? Finally, what level of cost inflation will the franchisees see in the year ahead?

Dominic Paul: Let us take the first couple of points first. Yes, we have national price pointed messages. We have got 50% off when you spend over £30 at the moment. We have got buy one, get one free on collection. Both really strong messages so we are very focused on continuing that national price pointed message. That clearly has an impact on sales. That is one of the reasons why we are guiding positively from a sales perspective and an order count perspective. We have seen that momentum build. It is a core pillar of our growth strategy and that is important.

In terms of the valuation, we have got a really clear capital allocation framework. One of the criticisms about this brand in previous years has been our capital allocation has not been completely clear. It is really clear now. I think when we had conversations with investors last year there was a sense of, was it going to be an ongoing capital allocation plan? It is an ongoing capital allocation plan. We have been very clear about investing in the core business first and foremost but also having a really clear plan on dividends and share buybacks moving forward. We are committed to that capital allocation plan on an ongoing basis, and I think that is probably very clear. It is a very clear capital allocation plan.

In terms of cost inflation, it is a really evolving situation that we are all in. The majority are hedged for this year. Inflation will be higher this year than it has been on previous years. We have had two years in a row where we have had really low inflation passed through to the franchisees. It will be higher this year. Again, that is where things like a delivery charge helps the franchisees keep that really strong price pointed message to the customer. That is also why driving efficiencies across our organisation, across things like our supply chain are an opportunity for us. It is interesting as well that I do think every business in the UK is going to be impacted by inflation this year and we are better placed than most. We are better placed than most because of the scale of our business. As we have a value proposition to the customer our ticket price is relatively lower, and I think what it will do is it will drive people away from some more expensive treats like eating out in restaurants to Domino's where we offer incredibly good value. Ironically, the inflationary environment whilst challenging for everybody it is at times like this you want to be in the value space. We are clearly in the value category.

Will MacLaren: Thanks Dominic. Next question is from Doug Jack at Peel Hunt. It is a question on franchisees. At what level do you expect franchisee EBITDA per store to resume at following VAT returning to 20%?

Dominic Paul: I do not think we are guiding particularly on what level we think that the franchisee EBITDA will get to. The franchisees have had tremendous profitability over the past couple of years and they have put a huge amount of work in to get that profitability. I think our franchisees have worked incredibly hard to deliver the performance they have, and you can see the upside of that from some of the sales numbers that we announced today. The profitability will more normalise over this year for sure, but the profitability of the Domino's system is still very strong. Franchisee profitability is strong and us working together gives us line of sight to seeing how that profitability can grow over time. As we continue to work together to stay focused on growing overall sales, growing customer count and actually working together to drive efficiencies, we do believe that the Domino's proposition is strong enough where we will see that profitability grow back again. Of course, this year and next year there is a normalisation of the profitability from the extraordinary time that we have been in, but it is still a very profitable model for franchisees. The return on invested capital is fantastic. That coupled with really attractive store incentive programme means that franchisees can get really strong returns from opening stores and continue to grow their businesses.

Will MacLaren: Thanks Dominic. The next questions, I have got a couple here from Richard Taylor at Barclays. First is, your order count is positive year-to-date. Please can you split between delivery and collection, albeit noting restrictions last year give a tough comp? The second question relates to Germany. What are your plans on the German Associate? Your statement comments you can exercise the put option from last year to December 2023 with cash receipts of £70-100 million anticipated. What is your timing on selling this stake and what would you anticipate doing with the proceeds?

David Surdeau: Good morning, everybody. We have the capital allocation framework. It is well settled now, and we will manage the realisation of our investment in Daytona in line with that framework. I think you are aware that that option can be exercised by the other shareholder at the beginning of next year and as we have noted in the RNS we will make an attractive uplift on our valuation and have a good cash inflow as a result. We will follow the same process as we do for annual cash flow. We will look at opportunities to invest it in our core business. Then when we bring through those in a rigorous and disciplined manner, we will look to return an appropriate amount if that is the right thing to do at that time.

On the like-for-likes we noted in the RNS that we have started the year very strongly and we have got a good order count growth which is flowing through into a good like-for-like sales growth on an adjusted basis for VAT. We are seeing a very strong recovery of collection which helps that, but we are also looking to build our delivery sales as well, albeit against tough comps from last year.

Will MacLaren: Thanks David. Next question is from Owen Shirley at Berenberg. There are a couple here, but I think one of them on cost inflation Dominic you have already answered. The first is, roughly what like-for-like sales growth in 2022 is your current guidance predicated on? If you can give any colour around that. Secondly, you noted in the statement and your comments that orders are positive versus the early part of last year, despite being in a period when the UK was under lockdown last year. Previously during periods of lockdown, you said lockdowns were a headwind because you lost collection business and delivery growth did not offset it. Could you clarify whether lockdowns mean you sold more than usual or less than usual across all channels?

David Surdeau: We have a plan to work with our franchisees leveraging the resolution. We have been very clear on our investment in marketing, on our national deals, particularly our heightened capital investment around digital innovation, operational efficiency and e-commerce. Working together with our franchisees we see a lot of opportunities to build like-for-like growth during the course of the year. We have not actually guided for the full year, and we do not but we have started the year very strongly. It is very promising.

Dominic Paul: Then the second part of the question was really about the difference between delivery and collection I think during locking down. I tell you what, it is very hard to compare versus 2020 and 2021 because of the different patterns of lockdown that we were seeing in the UK. Those of you who are on this call who lived in the UK will remember we had periods of full lockdown, we had periods of the country being in different tiers and then we had periods of coming out of lockdown and then going back into lockdown. It does make the comparisons difficult. I guess I would summarise it as generally COVID was a tailwind for delivery because a lot of restaurants and competitor sets were actually shut but it was a headwind for collect. Even when collect opened back up because fewer people were out and about. I think you can see that as it flows through the numbers now. Q4 is a good example. You will see that Q4 delivery numbers were negative versus the previous year but positive versus 2019. If you use 2019 as a base, we see strong positive numbers versus 2019. That is not surprising. In 2021 when we were comparing to 2020, we were in absolutely full lockdown so 2021 Q4 delivery numbers were frankly always going to be slightly negative because of that. However, collect was really strong as people got out and about. That is not by accident. That is because we have had a very clear plan of pushing collect. Our franchisees have done a great job of supporting the growth of collect. We have got a buy one, get one free message out there for collect as well and we have improved the app experience for collect. We have seen collect build back nicely. I think we will see trends like that throughout this year. Delivery will bounce around as we lap lockdowns and coming out of lockdowns. We feel confident we will be able to continue to drive this collect message. All of this is under the umbrella of a very clear nationally-focused value message which I do think is going to be increasingly important as customers look for value when they spend their money. Domino's is very well placed to do that. It is a great value proposition. We own the experience from beginning to end so it is a great service proposition as well. When you put those two things together in somewhat uncertain economic times, we are in exactly the right sector to be in.

Will MacLaren: Thanks Dominic. The next question is from Richard Stuber at Numis. It is two questions. I think the first is actually on 2022 like-for-likes which I think David you have already covered. The second question is on aggregators. Dominic, have you changed your strategy on how you compete or how you interact with the food delivery aggregators?

Dominic Paul: The whole aggregator subject is a really interesting one, is it not? There has been a lot of movement and changes in that space over the last few years. I guess a couple of things on the aggregators. One, I think we have been consistent at saying they have grown the market and that is a good thing that they have grown the market. It gives us a larger total addressable market to go after. With a brand as strong as ours, and our brand is exceptionally strong, a lot of the good work that has been done by our franchisee partners over the years on building that brand gives us enormous awareness in the UK market. As the aggregators have grown the market that gives us opportunity to go after. That is a good thing. Tick. The other thing I think is versus the aggregators we have got a really sustainable business model. You can see that in the numbers. We have produced a strong set of results today. A highly cash-generative business with a good margin and very, very resilient. We own the experience from beginning to end, as we say, dough to door. That means we have got a real consistency of experience and service levels so that is another tick. The other tick for us when we look at the aggregator market is we have got access to a lot of customer data, and we can leverage that data. We talked about some of it in the presentation today. I actually feel more excited about that opportunity actually than I did 12 months ago. I can see that that data for us is a really valuable resource. That is a tick.

What I find interesting about the aggregator question is there are different strategies about aggregators in different markets. You have DPZ, for example, in the US that do not sell through aggregators, but you have DPE who sell through aggregators in pretty much all the markets that they operate in. We did do a trial about three years ago on aggregators and I have looked at the detail of that trial. My summary would be it was not data-led enough. It did not actually answer the question as to is there incrementality from a customer perspective from aggregators? We do need to be able to answer that question. It is very likely at some point that we will do a trial with aggregators, but we will do a proper data-led trial. We will answer the question once and for all whether we think there is incremental growth to come from aggregators. If there is not incremental growth it is okay. We have a great strategy. It is very clear. It is growth-orientated, and we can succeed without being in the aggregator space. I feel confident about that. If actually during that aggregator trial, we find out that there is incrementality to go after and it does give us access to a different group of customers then that will be cream on top. However, we need to do a proper data-led trial to be able to answer that question. It is very likely that we will have a trial in place at some point to be able to answer that question. In the meantime, I think we are in a really good position. We have got a clear strategy. We have got an incredibly strong business model, particularly versus the aggregators, and we have got great brand awareness and preference amongst our customers. Investing in the core business strengthens that further.

Will MacLaren: Thanks Dominic. Just a short question on franchisees from Doug Jack at Peel Hunt: How many new franchisees do you expect to add this year?

Dominic Paul: Relatively few actually. We have got just under 70 franchisees at the moment. We are blessed with a very high-performing group of franchisees, and you can see that from the operational figures that we talk about. There are a lot of people who would love a Domino's franchise. The reality is most of the territories in the UK & Ireland have already been apportioned to franchisees and those franchisees have got growth plans in place to grow those territories, which is good news. That said, there are a few territories still that are unallocated, and those territories sometimes existing franchisees take them and sometimes we bring new franchisees in. So far this year we have had actually two new stores opened by new franchisees. They are two people who have been in the system for a number of years. They started as drivers, and they have ended up growing through the system and now run their own stores. They are actually wonderful success stories. We love supporting people within the system to become Domino's franchisees. There are relatively few opportunities to do that, but we want to continue to do that. Actually, the two franchisees that have opened have had great support from our existing franchisees as they have come into the system. The majority of the growth will come from our existing franchisees, but we will look to bring in fantastic new entrants from within the system to become Domino's franchisees because I think it is a brilliant story. Starting as a driver and ending up running your own business is kind of what made Domino's, Domino's.

Will MacLaren: Thanks Dominic. There are no further questions.

Dominic Paul: Okay, thank you very much. Thank you everybody for your time today. Thank you.

David Surdeau: Thank you.

[END OF TRANSCRIPT]