Dominos Interim Results 2024

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London - 020 7870 7100
www.global-lingo.com

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Andrew Rennie

CEO, Domino's Pizza Group

Introduction

Good morning, everybody. Thanks for your time this morning. I am Andrew Rennie, CEO of DPG, and we are reporting our half one results for 2024. I appreciate you coming here today. First of all, I'd like to start off let's move on to first slide. I will give an overview of where we are at today. Just very briefly. Then I will pass on to Edward for the financial detail. Then we will come back to more of a strategic update, operational update, and then we will go for Q&A. Thanks very much, Will. Okay, so where are we at? The good news. The good news is that we have got some really good positive momentum since about the middle of May, transitioning all the way through to up till today, which is fantastic.

Did the euros play a part in that? Yes, but we started that before the euros, and we have continued that since the euros. Was the euro good for us? Yes, it was. Was it massively incremental? No. And the reason why is that because people will save up. So, on a game like the Sunday night, people hold back a little bit on Saturday night and a Friday night to save up for that big pizza night. So, it is a huge night on the Sunday, but lower on the Friday and Saturday. So, some people said was the euro is not good for you.

No, it was very good for us. But it doesn't have massive incrementality because people do move their purchasing habits around. The good news was our franchisees absolutely nailed it. The service we were delivering, particularly on those big days and those big games. 24 minutes, 25 minutes average delivery times. To give you some context. A lot of our competition were over double that and sometimes worse. So really proud of what the team have achieved. So, the momentum is going really well.

Delivery

Delivery. Delivery is up for the first time in ten quarters. So, delivery order count growth. I think that is the thing about this these results is it is very much a core growth strategy. It isn't just about pricing putting our pricing up. It is real customer growth. So, we feel really pleased about that. EBITDA is up and EPS is up as well. All right. So, we are also proud of that. Would we like them to be up more. Yes, sure we would. But we did flag at the full year results that the first half was going to be tough. The tougher half probably ended up a bit tougher than we expected, particularly Q1, hence why we are adjusting some numbers today. The good news though, the core of this business is our franchisees, the franchisee health of our business.

This business is 40 years old next year, approaching 1400 stores next year. We are really proud about that, and our franchisee profitability. Even after they rolled over, the biggest ever minimum living wage increases is up 6% on last year. Now, why is that important? That is important because when they are strong, they drive customer growth. They are passing on this growth to customers opening more stores. And therefore, that leads to our top line growth. So, I am really happy with where that is in a healthy position. As we said, we flagged earlier this year that we were going to recycle capital, sell down the corporate stores that had no strategic benefit anymore.

After we had tidied up that estate and rearranged some things in London, we have passed those stores into the hands of five sort of medium sized franchisees at a London based who are able to drive those stores and integrate them into their own system. So that is now completed. So, we are very happy with that. We are also very confident with our cash flow. This is, as you all know, this is a very cash generative business, very capital light. So therefore, we have announced a £20 million buyback. Again, recycling that customers when we do not have need for it, we pass it back to our shareholders. And I think we are approaching half £1 billion passed back to our shareholders in the last three years. So, we are very proud of that as well.

Second Half Outlook

So, moving into the second half, I will pass it on to Edward. What we have done is from a strategic point of view we have been able to pass on more of the food savings to our franchisees, who are in turn leaning in, passing on those to our customers and their customers, which is driving this growth, which is what we are rolling into in the into the second half. So that that is why it gives us great confidence. While the second half feels so good, not to mention the fact that the lapse of our like for likes in the second half are much easier compared to the first half. In that first quarter, we were lapping basically 11% like for likes from last year.

So, feeling really confident about that. The team are working very hard, and I will speak more about the detail in the operations in a second. But I feel like we have really set up the core and the health of the business in a good place to take advantage of not only the second half, but also the next three, four, five years heading towards our 2000 store. Target feels like we are really on track for that. So, with that, I will pass over to our CFO, Edward Jamieson. Thanks, Edward.

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Edward Jamieson

CFO, Domino's Pizza Group

Thank you, Andrew, and good morning, everybody. I am going to present the 2024 half-year financial results and update you on our outlook and guidance for the year. So, the first half of this year saw 35.1 million orders with like for like sales down 0.5% against strong comparators in the prior year. These strong comparators have now eased as we head into the second half of the year. Underlying EBITDA was up 0.4% and free cash flow was lower year on year, driven by a working capital outflow, which is mostly expected to reverse in H2. Our underlying earnings per share was up 3.2%, and we have increased the interim dividend by 6.1%.

Finally, as the as a result of the confidence in our process and our future prospects, we have announced a new £20 million share buyback program, effective immediately. Let me now go through our performance in more detail. Let me start with system sales and order count in more detail. Starting on the left-hand side, we have split out the impact of sales and orders between collection and delivery. System sales grew 0.2% in the half, with growth in collections more than offsetting a decrease in delivery sales. Overall, total orders in H1 were down 0.9% on last year, with the continued growth in collection orders not enough to offset the decline in delivery orders in the half. Pleasingly, orders and importantly, delivery orders were back in growth in Q2.

Let me turn to the next slide to give more color on this. So, in contrast to the slow start to the year, our recent trading momentum has been good with the growth in orders and with the growth in total orders in Q2. This started from the middle of May and has continued through June and July. July. Total orders were up 5.8%. We benefited from the men's Euro football tournament, but it is important to note that momentum picked up well ahead of the tournament. Importantly, delivery orders were back in growth in Q2, and this follows ten consecutive quarters of decline. And it shows that the strategic decisions that we have made are working. This was a result of a continued focus on outstanding customer service as well as improved value in the channel.

H2 Outlook

As we head into H2, we are confident that our strong Q2 performance will continue. Our strategic initiatives continue to gain traction and our comps have progressively easier. Andrew will cover these in more detail shortly, but we have a number of levers to sustain our momentum. Our revenue was £326.8 million, a 1.8% decrease on H1 last year. This is primarily driven by a 7.7% decrease in our supply chain revenue. As anticipated, we saw food cost deflation in the period and in line with our model to support our franchisees, we passed these lower food costs on to them. Corporate stores revenue was up £9.8 million, driven by the acquisition of Shorecal, which completed in April. The EBITDA margin as a percentage of system sales was stable at 9%.

Now, once again, our supply chain operation delivered an outstanding performance with accuracy and availability stats of 99.9% and a half. And I'd like to express my appreciation to all our very dedicated supply chain colleagues. Our EBITDA from the supply chain in the half was £64.6 million, down 3.1% compared to the prior half year. This was primarily driven by the passthrough of lower food costs, offset by efficiencies, which we continue to drive in our operation. Net overheads increased 1 million as we lapped a £2.3 million benefit from the sale of a freehold property in the prior half year.

Technology platform costs were £3.5 million, £1.8 million lower than the prior half year, with dual running the new e-commerce platform. With the legacy system and the cut over to the new platform we complete this year. The deployment of the ERP will now run until next year, as we will pause the rollout towards the end of this year during our peak trading season. The acquisition of Shorecal completed earlier than originally anticipated and required less investment in the first half than we previously expected. The business has performed well, contributing £2.1 million to our H1 performance. The net impact of these movements was a 0.4% increase in underlying EBITDA to £69 million.

Movement in EBITDA

Let me briefly walk you through the movement in EBITDA. The prior year benefited by £2.3 million from the one-off sale of a freehold property. Lower order volumes and the pass-through of food cost deflation reduced our underlying trading performance by £1.3 million. As I outlined on the previous slide, technology platform costs were £1.8 million lower and Shorecal contributed £2.1 million inches the half, excluding the freehold property sale in the prior year. Underlying EBITDA was up 3.9%. Moving to the income statement.

Finance costs were £1.2 million higher, driven by higher levels of debt in the period, and I will walk through the movement in net debt shortly. Taxation was £1.3 million higher than the prior half, as we had a full six months with the UK corporation tax rate at 25%, as well as an increased tax charge related to transfer pricing between our UK and Irish subsidiaries. This resulted in a 2.3% reduction in underlying profit after tax in the period, with underlying EPs up 3.2%, the difference being driven by share buybacks. So, trading from operations produced EBITDA of £69 million. And let me walk you through how this flows through to free cash flow. We had a working capital outflow of £10.7 million, compared to an inflow of £10.2 million in the prior year. This is mostly expected to reverse in the second half of this year.

The first half movement was primarily driven by decreases in overall accruals and accrued income of £8.3 million. So, the capital allocation framework, we first introduced this in March 2021. We update the market every six months. We have an asset light business which is highly cash generative. We have this framework to explain how we think about allocating capital effectively. We want to retain a sensible level of leverage, which we believe to be about one and a half times to two and a half times. And working within these parameters will allocate cash in a disciplined way.

Firstly, we continue to invest in the core business to drive long-term sustainable growth. To that end, we invested £7.1 million in capital expenditure in the half. Secondly, we will maintain a sustainable and progressive dividend and will pay an interim dividend of 3.5 pence, up 6.1%. And then thirdly, we invest in additional growth opportunities. In the first half of the year, we invested 48.7 million in the Shorecal acquisition, £11.4 million in the DP Poland stake, and received a cash inflow of £17.3 million from a number of the corporate stores we sold in the first half. Finally, we have announced a new £20 million buyback program today. We are confident that our business model will continue to deliver meaningful free cash flow growth over the medium to long term.

London

So just to cover the London corporate store disposal. So, in May, we announced that we were in an advanced stage of the disposal of our London corporate store estate. And this is consistent with our strategy of recycling capital. So, we have now sold all 30 corporate stores to five different franchisee groups, for a total consideration of £35.1 million, and the rest of the detail is on the slide. Moving on to net debt. So, we started the year with £232.8 million net debt and leverage of 1.77 times, and we have continued to invest in the business and return cash to shareholders during the half. This has resulted in net debt of ££285.4 million at the 30th of June, giving leverage at the end of the period of 2.16 times, which is towards the middle of our target range of one and a half to two and a half times.

We have also raised an additional £100 million of US private placement notes. These carry an interest rate of 5.97% and are due in 2034. This starts to spread out our debt maturity profile and supports a reduced utilization of the RCF facility, which is a higher interest rate. Our priority will always be to invest in the core business, and there is no change to our CapEx guidance of circa £20 million for this year. As we continue to invest more in our system to drive sustainable and profitable growth in the first half of this year.

Our CapEx was focused on expanding the capacity of our supply chain centre in Ireland, and this investment will allow us to move from the ability to serve 90 stores to in excess of 130 stores. Having completed the development of our new e-commerce platform, we are in the last stages of the cut over to the new platform, which will enhance customer experience. So, moving to outlook and guidance. So today we are moving FY24 underlying EBITDA guidance towards the lower end of current market expectations. And this includes the contribution from Shorecal. Aside from Shorecal, there are two primary reasons for this.

Firstly, the tough start to H1, which we have already told you about and this makes up the majority of the change guidance. The remainder is due to a greater level of pass through of food costs in H2 than we originally planned for, and this also includes some strategic support to our franchise partners as we continue to deliver value offers for customers, underpin the strength of the system, and drive long-term growth. Andrew will touch on this, but momentum is building, the strategic initiatives are gaining traction, and we see a real opportunity in the market to grow the system in our business. Our full technical guidance is laid out below. Thank you. And let me now pass you back to Andrew.

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Andrew Rennie

CEO, Domino's Pizza Group

Key Points

Thank you, sir. Let's come together on page 19. So, what are the key points here? The thing for me is about the core of the business. The core of the business has to be in a solid place for growth. And as I said before, the core and the backbone of our business is our franchisee health, which is extremely good. And we continue to focus on that to drive that forward, making them more efficient because they pass that on to customers and we all benefit from that. As an example of that, when you look at the average delivery times of 24.1, in fact, the second half of the year, there is probably closer to 23 minutes. That is world class. If you look around the world, there are not many companies doing that sort of delivery times.

On time deliveries means deliveries means under 30 minutes as we class as late as soon as it goes over 30 minutes. App customers are up 17%. We really are migrating a lot of our customers to the app. Why? Why is that positive? One is they spend more on the app. Two is we have a lot more pure data, and we can have a better communication with them. And that leads into loyalty, which I will speak more about in a second. The store openings were slightly behind last year at this point, however, the second half was much slower last year. But when you actually look at the detail, we have actually opened four in these last four weeks, whereas last year we opened one in the same period.

Store Openings

So, we have already opened up to 26 stores open this year, and we have 38 more, either in construction or in planning. That puts us up into the 60s. We are still targeting 70. What varies there is that you can move your planning or your utilities connection by 12 weeks, 16 weeks very easily. So, we are still targeting 70. But sometimes the electricity doesn't get connected or gas doesn't get connected the last minute, and that you can lose a few stores out of that. But we still feel comfortable we can get there. The most important thing is we look into the pipeline into next year, and the hunger for more stores is quite incredible.

If we go on to the next slide now, our outlook hasn't changed. I probably feel more confident than ever that the 2000 store target will be achieved. We will be 1400 stores next year, and there are not too many businesses in this country that are over that sort of size. More importantly for me, it is not just the number of stores, it is the quality of stores. As we will see in the second, we will talk about those is the quality of the openings have been unbelievable. So still very feel very confident about our plan here. We will talk more about that in a few seconds. Of course, these things lead to EPS growth which is obviously our main focus for shareholders.

Moving on to the next slide. Well, I think something worth noting here is that some of you may not realise, but DPG is 40 years old in this country next year, 40 years old. And if you look across the growth curves, it is consistently and sustainable growth over those 40 years. This is a reflection of what has happened in the last 12 months. With our competition. We continue to grow. We continue to continue to grow that moat around our business. We have barely closed the store in 40 years. We have relocated some because of the building of the landlord issues or something or other, but we continue to grow because we believe in long-term sustainable growth. It is not just about trying to whack as many stores on the ground and get the store numbers up.

It is about long-term, successful growth, and our franchisees play a massive part in that. So, I really want to thank them for that because this is why we will get to 2000 stores, because we have been doing it for 40 years. We are really good at it, and we make sure that we do it methodically. Well next we will go over to the next slide. Core business really important. Franchisee profitability leads to deep profitability because when they are making more money, they are opening more stores. They are driving better value for their customer.

When we drive better value for money for our customers, that leads to order count growth, because when they get better value from us, they come back to us more often. And value isn't just price. Value is also the service, the quality of the products. And we are continually told by our customers that they love our products. We are always working on them to try and make them better. But it is not just about delivering a pizza, it is about delivering high quality food hot consistently well, and we do that better than anyone in this country. I firmly believe that. And what happens with digital is when you have exceptional digital. And our whole back end has been rebuilt. The whole infrastructure is all now crossing over, literally live as we speak to the new world.

We now have an infrastructure and an app system that allows us to get high quality data, which allows us to do things like loyalty, which we couldn't have done before. Loyalty actually starts tomorrow with 630,000 of our customers. We have been in some tests getting some data. We now go live. Once we get that learning out of the first six months, we will then go to the next stage, which will be a roll out next year. But we feel very excited about that. We are learning a lot from the US. The US has done an exceptional job on loyalty, so we are getting lots of learnings from those guys before we jump ourselves.

Convenience

Last point is convenience. Convenience to consumers is not only access through it. And digital is proximity to me. So, as we build more stores, as we go to the villages out in the countryside, we get closer to our customers. That creates more convenience for them, which they really appreciate. So that is the long-term growth. Moving on to the next slide. Franchisee profitability and margin growth. You know it is up 16%, which we are very proud of. But we will keep focusing on that that that never stops and why. Because that leads to growth. As an example**,** about where we are with our franchisees, we are extremely engaged and aligned at the moment. We had our national conference just about eight weeks ago. We had 1500 Domino's from around the UK and Ireland at that rally.

Since then, our delivery times have gone to another level. As I said before, more we have got franchisees like in the SK Group, achieving over 200 stores of 21 minutes, 21.5 minutes across a whole week. Right. We are talking about hundreds of thousands of deliveries are nailing that. And that is because the engagement and the alignment with the franchisees is quite incredible. The ADT. So, the average delivery times, which is actually GPS tracked, it is actually data statistically correct is at record lows. So, we are very happy about that. And next year, as we turn 40 we have already had enough feedback from our franchisee partners etc., that we have to have a space big enough for 2500 people because they are so engaged with the brand and where we are going, they want to be part of it.

So, we are very, very happy about that. And just remember too, is that on the H1 24 profitability, that was after franchisees rolled over the largest ever national living wage increase, which was a double-digit increase. So, they've rolled over that, and they are still more profitable. So very proud of that. Next slide. One of the leading indicators to future order count growth for deliveries is delivery times. Believe it or not, it is actually statistically about one minute shaved off has a has a big impact. It takes time. Our customers order on average once every quarter. So, it takes a few quarters for you to see this this momentum come through. But this to me is why I sleep well at night. Knowing these numbers, we are able to make sure that it is not only the fact that I get my pizza fast, it is the fact that the product is so much better, so much hotter and tastier is why they come back and repurchase. So, we are very proud of those numbers. Next slide. Value for money. We continue to focus on value. All right. It is all about our customers. Continued value as said price is one part of it. Delivery service is another.

We have also got our four-pound lunch. I just want to clarify. Lunch is a long-term strategy. Lunch is a small part of our business. All right. We are talking sort of 10 to 15% of our business. And we are not throwing massive amounts of our marketing at it. We are slowly just dribbling that out. This is a two, three, four-year strategy. But it is very important from the value perception point of view. Because when you can get a £4 wrap or pizza under 600 calories, under 400 calories, it really resonates with consumers. And those consumers then become nighttime customers.

All these things just lead to value, why we are seeing consumer growth, because franchisees are in a good place. They can pass these on to our customers. We also with part of our surveys that we do regularly every year. Our last survey, which was only done a month ago, is that the consumers said that we are now the best value for money scores since 2020. So, in the last four years, they are saying at the moment we are the best value they've seen in the last four years. Next slide will innovation. This to me is also an important part of our strategy. We are continually innovating, bringing fresh ideas to our consumers making it refreshing it. The cookies were one example. The wraps are another.

We never stop that. We are always focused every single day. We have a large team focused on innovation, making not only the current products tastier and better for you, but bringing some new products to market as well. So that also helps underpin our growth. Next slide. Why is this so important? This this data is so rich. And we have got a team now of data analysts that they are giving us insights into the business that we have never had before, insights that we are getting in these last three or four months that has helped part of that momentum growth. So, we are continually focused on how we can lift these numbers. We have had exceptional growth over the last couple of years. It will not stop. I think we will certainly breach that 10 million customer base very soon. But the data that we get from this is very, very rich and helps us make drives decisions for growth in the business.

This is what it is all about with the loyalty to drive frequency right. The US has been able to drive frequency with their loyalty. We believe the same. We have been testing it and we finally got to the point now where we launch it tomorrow. We feel very good about it. We want to get all the learning before we go and spend too much money and go too far, but certainly at the moment it feels good. And yeah, the team have done a sensational job with getting loyalty to where it is.

Next slide. Convenience. As I said, we are targeting those 70 stores. What I am really happy about is the quality of openings. We are opening a lot of in our new territory stores with only 11,000 addresses. To give you a reminder, the average store in the UK is about 21,000 addresses. These guys are opening up at 11,000 and doing above national average sales. It is quite incredible. A store that opened last night that we expected to do about 4000, did over 6000 in a small area. Quite incredible. So, franchisees really are engaged in opening those stores. We are getting closer to our customers when we do these things. They are loving it. So, we feel very good about the pipeline and about our growth.

As I said, we have opened 26, 22 to June 30th, another four this last four weeks, which was against one last year. We have got 38 in construction or planning. So that puts us very close up to our target of 70. Just coming over to Just Eat and Uber. These two complement each other. They are very complementary. They are very incremental to our business. We were able to track where these customers come from, where they are customers for or not, et cetera, so they complement each other. Uber is stronger in London. Just Eat stronger outside of London, so it is not a test anymore. It is permanent. It is a nice little add on to our business. It is not massive in some other parts of the world. It is massive part of our business because our platform is so strong. It is a smaller as a percentage but incremental, nevertheless.

Growth Opportunities

Moving on. Additional growth opportunities though nothing has changed from the last time I updated you. Yeah, we are very cash generative. We want to take that cash and either give it back to shareholders or grow the business and ideally do both. We are very focused on the core. That is our number one focus as you've seen with Shorecal, recycling the capital out of London. We are very disciplined. We are not rushing out to do anything crazy. We are taking a very disciplined approach, as per the low-risk option we have taken with going international with Poland. Got really clear guardrails.

We remain capital light, so we will give that money back or we will buy something. We are still focused on those things. We have got a few things out there that we are looking at, but nothing to report at this stage. So those strategies have not changed one little bit. We stay on track for that. We go to the next slide. Shorecal, we said we wanted to focus on the core. We bought Shorecal to help unlock the growth in Ireland. It is doing what we expected. It is on track strategically. We think when you see the fact that it is got 80, 85,000 per population per store in the UK versus our 53,000 in the UK, there is room for growth over there.

This is what this is helping to unlock. It is early days, but so far, we are very happy with our acquisition. Corporate stores in London sold. That is done. Poland. Nothing has changed there. We have still got that option in place, and we sit back and watch and assess that in a very clear guardrails and disciplined way. Moving on to sustainability, we have looked first published our first sustainability report in 2024. Very important to us and our customers and our team members. Our five pillars are customers, people, environment, sourcing and communities. So, they all work together to make sure that we are being more sustainable.

We have a nutrition policy. We are continually focused on nutrition as well. As I said, we have got some products under 400 calories, under 600 calories. We actually have some products probably coming out soon that are even lower than that. So, we are making sure that our customers have choice. We also began executing our first carbon reduction glide path. So, the team have done a great job with that. So, all these things are very important to our consumers, and we make sure that we are doing them because they are the right thing to do, and we will continue to do those things as well.

Summary

So, in summary, just coming on to the last slide. So as Edward said, our strategic execution driving is driving improved trading conditions driving delivery orders. They are up. All right. And that hasn't been happening for the last ten quarters. It is very customer focused. Our franchisees, I think, have been more focused on the customer than they have been for a very long time, hence why we are seeing such better delivery times. We are really focused on the core on the UK and Ireland. Ireland is an important part of that growth strategy. We think there is so much growth left over there. So, we are very excited about what is happening over there.

I think the most important thing is that that word at the bottom there, sustainable long-term growth. We are not just here to sort of push things up for a quarter or six months. We are here for the long term. We have been around almost 40 years, and we want to be around for another 40 years. So, this is about long-term sustainable growth for franchisees, for our franchise partners, for ourselves and for the shareholders. And we continue to focus on being a capital light business that has the growth ambitions.

So, with that, I think I will open up to Q&A. There is a roving microphone here, so if you would like to ask questions, please pass it around. We have got Doug at the front here. Thanks, Doug.

Q&A

Doug Jack (Peel Hunt): Yeah. Thanks very much, Doug Jack at Peel Hunt. Three quick questions, if that is all right. Can you just talk about the outlook on food and energy costs at the moment and any sort of hedging that is in place on that. In particular, then the second one would be any impact on changes in the cheese price, because obviously you are more susceptible to what happens with that. And the last question is just opportunities to improve efficiency within the supply chain centres. What you've got planned at the moment.

Andrew Rennie: Good questions Doug. So, first of all, this year we see quite, quite flat on pricing. We see a lot of the rebasing from the high inflation during the Ukraine war start. So that is definitely rebased. Well, that is why we have been able to pass it back to the franchisees. And while they are running good food costs at the moment. So, this is fairly benign. As we move into 2025, it is always hard to tell this far out at this stage seems generally okay. But some things cheese maybe very slightly at this stage, but it moves by month to month, so we do not want to call it too soon. We do not put hedging in place, but we forward buy, so we forward buy things like wheat that makes sense. So, we feel very good about certain things that we can forward buy very stable.

My objective for my team is to say, let's keep pricing as stable as possible as long out as possible. We do not want any shocks to franchisees, ourselves or our customers more importantly. So, we feel very good about that. Energy pricing has come down as well. So, we see that as being very stable. Again, we do not know what the future holds with the world is ever changing at the moment, but I think we see this year, 2024 is stable and 2025 at this stage. No shocks at this stage. So, time will tell.

Your point about investment in commissaries? Yes, we actually have some very good projects underway right now to create more automation in the commissaries' small investments that have great ROIs, as they would have said we have only spent £7.1 million in Capex this first half. We are budgeting for £20 million. A good chunk of that goes to automating. In our commissaries. We think we can get more efficiency from the commissaries by automating. We actually brought in a specialist to help us with that. So that is well underway. Did I cover all your questions there, Doug? Thanks very much. Wayne?

Wayne Brown: Thanks. Morning, gents. Just a couple of questions from me. Firstly, on pricing and competition. Clearly, you highlighted that some competition is falling away within the pizza market. But if you can just have a look maybe at McDonald's obviously also coming under pressure from a sales perspective but noticed recently that they are investing quite heavily in price. So, for burgers, for fries, £18. That is quite cheap. So, do you guys need to respond to that or just the view on pricing within the marketplace? Then also, can you give us a little bit more color on lunch and how that is been performing from a volume perspective, or is it just really just gaining momentum over a very long period of time?

Andrew Rennie: Thanks. Yeah, sure. Thanks, Wayne. Good questions. We really believe that we are the owners of our own destiny when it comes to our consumer growth. And I think you are seeing that right now, is that what we have done has driven the growth. There's been nothing to do with the macro environment per se. Yes, the consumer was tough definitely in the first quarter, etc., and we chose not to do marketing, and that certainly had an impact on us. But we are very much focused about the delivery experience. When you think about the frequency we have compared to McDonald's, it is very different. Our consumers are buying once a quarter, so it really is a luxury type purchase in some ways.

We make sure that that event is very special to customers. We think we can lift that frequency because we do not expect too much of a lift to get a decent improvement in our customer base. Particularly we can see we have got 13 million customers. So, value is omnipresent. So, we are always trying to offer value to customers. And what we say to, to everyone is that value isn't just price, it is also the service. I can serve you a cheaper product but deliver it in an hour and it is cold. It is not very good value. So, it is also about the price and the balance with that service as well. Some people, when you do the math, for example, on a large pizza, right, which is a large slice of pizza, individually eight large slices, they are equivalent of £1.50 a slice. Incredible value, right? People do not tend to think of it that way, but that is what they are.

So, we already provide very good value when you actually do a side-by-side analysis on how you can feed a family or four people, et cetera, we come across as very good value for us as being consistent with that message and consistent with the delivery service. Now to your other point and also the collection service as well, because collection can offer £7.99 collection perfection. That is also great value for those who want to collect. On your point about lunch, it is a long-term strategy, right? The weeks that we are driving lunch, we see good incremental growth, really good incremental growth. But because it is a small percentage of a very big number, you do not necessarily see that in our numbers here. To me, it is more about what it will be at in two years' time, three years' time, four years' time.

What it does is it actually creates more efficiency for our franchisees. Even a couple of hundred pounds a day additional actually helps their labor numbers and helps them to be more profitable. So that feeds into what we are seeing here today as well. Again, it also has a great perception for the consumer. When you are talking about £4 lunch, a lot of people go £4 pounds for a Domino’s. That is quite rare, isn't it? But it starts to change perception that you actually can get very good value at Domino's. So, we are not throwing the kitchen sink at it because it is a small part of our business. We are just tempering away. They are slowly adding to it over a long period of time. This is a long-term strategy. But so far everything we have seen is working very well.

Wayne Brown: Just one last one on marketing. What phasing should we expect in the second half and any big promotional activities that you've got planned?

Andrew Rennie: Yeah, I would not say anything out of the norm. We have tried to space it out over the last six to nine months of the year. We are putting it where it needs to count. Right. So, we are putting obviously some behind this loyalty test as well. But that is very targeted to those customers. We have got it. So, we are certainly putting some towards new innovation in the back half of the year. Obviously, we have our Christmas period, which is the biggest sales period of the year. So, we also make sure we save our money for our Christmas period as well. So, we try to space it out.

The Olympics do not typically add anything to our sales. It is interesting. It never has in any country I've worked in. It never really adds to sales. So, we haven't not really spent spending during the Olympics at the moment. It is not really worthwhile, but we go fishing when the fish are biting. The consistent message is really important to us. Eight, 10, 12, Monday to Thursday. It is a strong message, and we just keep that because that is really good value when you think about it. So, we are really focused on staying really consistent with that message and the core. Richard?

Richard Stuber (Deutsche Numis): Thanks very much. Richard Stuber from Deutsche Numis, please. Three questions, if you do not mind. The first one is we are coming to I think the three-year memorandum of understanding was announced in 2021. Where are we now? Should we expect a new one before the end of this year? The second question is in terms of the loyalty trial, I saw the slide. It looked like it was buy five large pizzas, get one free. That would suggest maybe you only get one free pizza after a year's worth of ordering. I know in the US it was slightly tweaked in terms of points, and you can redeem earlier on any more colour in terms of whether you are looking at that or whether it is a simple buy X, get Y free. The final question is on DP Poland, you talk about a call option. Are there any more details in terms of when and how much that would be to exercise? Thank you.

Andrew Rennie: Sure. I will start with the last one first. There's no more detail on the on the Polish call option, just that it is in place. So, we are not going to give any more detail on that at this stage. Just remains as it was. On loyalty. We have taken all the learnings from the US, the good and the bad and the ugly, etc., and put that into our model. it is five orders, not necessarily five large pizzas. So, five orders. and basically, this is part of our testing right now. So, we will get a lot more data from our customers. Is that the right way? And it may very well end up being tweaked for the bigger rollout, Richard. That is exactly why this is in test phase. But our initial testing says that this is what consumers want. Remember, a four is an average, right? So, some customers are more than that. Some are less than that. So, if we can pull the ones that are slightly below that up a little bit and the ones that are higher, even higher, again, that is fantastic. So, a heavier user will get a lot of benefit out of this, but even a midsize user as well. But this is exactly why we are testing it.

Your first question was around memory MOU. So, look, we are in really good discussions with the franchisees. As I said before, we have we have got good alignment. I feel like we are in a really good place. The other good thing is that the MOU is 80, 90% of it is actually really in good shape. It is actually a lot of it we can keep, we do not need to rebuild the castle if you like to remake the wheel. So we are in good discussions, and I think we will have something definitely before the end of the year. Yeah. I feel very confident about that. The franchisees are great to deal with. So I've got no reason to not think that we will have something sorted out later on this year.

Ross Broadfoot (RBC): Hi, Ross from RBC. Two questions please. The first on loyalty. Can you give any colour on what good penetration of the client base looks like, just either from the US or from other things you've looked at. And second of all, just on the rollout, you've talked about the good performance of the Virgin stores with 11,000 addresses. is there a bit of a tweak in strategy then, in terms of the rollout to looking further at 10's, nine's, eight's? I guess my question is, ultimately, does it increase the size of the playing field for you given that strong performance?

Andrew Rennie: Yeah, sure. Thanks, Ross. So, first of all, part of our strategy that two 2,000 stores is those small villages are inside of that. We actually have stores opening up. Well, less than 11,000 addresses, some at four, five, 6,000 addresses. So that has already been successful. So, we haven't gone after them before. It is becoming more of a focus now because they are so successful. More importantly, franchisees are going, wow, the ROI on this store that I've just opened with 10 or 11,000 addresses is fantastic. I am prepared now to do a 7,000 address rollout as well. So that is that is working very well for us. Just as an example, in other countries like Australia, the US, they have stores in 2,000, 3,000 address counts that do very, very well.

Your other question was about the penetration. So, it is a really interesting one. Right. Because every country has different levels of penetration in their market. So, our believe it or not, we are more penetrated on a branded pizza basis in the US is we have a lot more. So, it is almost hard to draw a line with what will our consumers do, because we are more penetrated here than they are. What I can say is that I've seen examples of where frequency is going up one or 1.5 times from what it was before, but then you need to assess that as well on what customers they are measuring that against as well.

So, data can sometimes be a bit distorted. If we could get even half a lift, that would be huge, right? A half, a half a point or 50 basis points, if you like, lift in loyalty, I think in some consumers will be higher, some will be lower. Until we have got the data, I cannot really speak with authority about that. I'd like to think that by this time next year I've got a bit more data. I can say, hey, this is what we are seeing. It is quite exciting, but I think no matter how you cut it people have been screaming out.

For one, it was really important. We did it really effectively. I've seen too many around the world where they've done it, cost a lot of money and really didn't get the flow through into, into bottom line for both franchisees and us. So, we have to be really careful. But we have kept it really simple. Well, there are a couple of stages to it. You're only seeing one stage, there is a couple of other stages, but we feel very positive about it, and we haven't we haven't jumped at it too quickly. We have put a lot of thought into it, so it is being well constructed and kept really simple for the consumer, which is also very important.

Any more questions? No. All right. With that, first of all, I'd like to thank everyone for their time today. I hope you can see that we are really focused on driving the core business. I feel more confident about our 2,000-store target than ever before. I feel like we are really doing the right thing by our customers. I feel like the franchisees are in a really good place and hence why they are looking after their customers so well. Yes, we have taken a short term hit for that, but I think the short-term hit is for the long-term gain, in fact, the medium and long-term gain. So, we are building a bigger, stronger business here. We have got growth ambitions; I can assure you of that. We keep churning out cash and we are prepared to give back to shareholders with that £20 million buyback. So, it shows our confidence. I want to thank Edward Will, the whole team that have done a great job here today and look forward to talking to you all very soon. Thanks very much.

[END OF TRANSCRIPT]