Domino's Pizza Group plc
2023 Full Year Results

Tuesday, 12th March 2024

Overview

Andrew Rennie

CEO, Domino's Pizza Group

Introduction

Okay. Good morning, everybody. Thanks for coming through this morning with this lovely weather, which we love because it is great for Pizza. We call them free vouchers from heaven. So, I appreciate you spending time with us this morning for our 2023 results.

My name is Andrew Rennie, I am the Chief Executive Officer of Domino's Pizza Group. And on my left here, I am also delighted to be joined by Edward Jamieson, our CFO, and Will MacLaren, our Head of IR.

Strategic progress and profitable growth

A system primed to accelerate growth

If you come with me on page two, very briefly, I will give an overview of our strategic progress so far, before I hand over to Edward to go through the numbers and then I will come back and talk about the greater business in more detail.

First of all, we are very proud of what the team and our franchise partners have been able to deliver, strong EBITDA growth again this year. Our franchisees are managing their stores incredibly well through. If you look back at the year that was 2023 and all the challenges with the utility and gas prices and commodity prices, etc., it was a tough start to the year.

They managed it exceptionally well and we are able to grow profitability for their stores above the 2019 numbers, which is quite impressive.

Not only that, they also delivered the best store growth in five years. And as you will hear more about later on, we intend to actually beat that again this year. So, the business really is in growth mode, which is what I am here for.

We have also upgraded our medium and long-term store targets. A lot of data, a lot of thought and a lot of work is going into that. So, it is a number that is driven on hard data. So, we are excited to talk a bit more about that today.

And also, we will be talking about the acquisition of 100% of the shares in Shorecal, which we are already a partner with over in Ireland, which has been a great partnership for us and we look forward to talking more about that a little bit later on.

So, all in all, we have got a clear plan to deliver earnings and cash flow growth for our shareholders, but it is a real team effort.

So, with that, I will pass over to one of my key team members, Edward, to talk more about that. Thanks. Edward?

Financial Performance

Edward Jamieson

CFO, Domino's Pizza Group

Welcome

Thank you, Andrew, and good morning, everybody. It is a pleasure to be here this morning and to present the 2023 full year financial results and to update you on our outlook and guidance for 2024.

Financial Highlights

Sales and orders growth with increased returns to shareholders

Firstly, I am pleased to report that the successful execution of our strategy is clear in our headline financials.

2023 was another year of like-for-like sales growth, improved orders and increased returns to shareholders. 2023 was also a 53-week year, and as we go through the financial results, I will refer to 52-week growth rates for a better comparison with 2022.

Like-for-like sales excluding VAT were up 5.7% in the year, ahead of the prior year, with continued order count growth in an uncertain market. Our revenue increased 11.1% and we were pleased to report underlying EBITDA of £138.1 million, at the top of our guidance range.

Free cash flow increased by £18 million to £97 million, driven by good trading and working capital management. Underlying earnings per share declined to 18p, largely driven by an increase in the corporation tax rate and higher interest costs.

Finally, we have increased the full year dividend by 5% for the year, in addition to £90 million of share buybacks announced in 2023, which have now been completed. So, turning to the next slide.

Trading performance

Positive order count, driven by growth of collections

Let us go into system sales and order count in a little 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 5.8% with increased sales in both delivery and collection in the year. The 53rd week was strong, which reflects the inclusion of Boxing Day and New Year's Eve in the final week.

Overall, total orders were up 1% on prior year with the decline in delivery orders more than offset by the growth of our collection business. Collection orders were up 13.3% in the year and we continue to see a material opportunity to grow our collection business further, and as a reminder, in line with other international markets, we see the potential for this to be close to 50% of orders. Delivery order count was down 4.8% in the year and we are focused on returning our deliveries to growth.

Overall, our like-for-like sales increased by 5.7% last year, which is ahead of the prior two years.

Sales performance

Strong growth in revenue while maintaining stable margins

As I mentioned on the previous slide, system sales were up 5.8% driven by new store openings, increased orders and price. Reported revenue increased 11.1%. This was driven by a 14.4% growth in our supply chain revenue with a smaller increase in royalties on system sales.

Corporate stores revenue declined 10.2%, primarily due to the sale of five corporate stores at the end of 2022. Our National Advertising Fund and ecommerce expenditure increased 11.2% in the year, like this is a significant competitive advantage for the Domino's system as it gives us and our franchise partners real scale as we continue to strengthen the brand and offer our customers compelling value.

Looking at EBITDA margin as a percentage of system sales, this remained stable at 8.8%.

Technology platforms

Investment to capture growth and drive further efficiencies

I am pleased that our technology platform projects are largely complete and that the costs were in line with guidance. Our new ecommerce platform will create significant capabilities for our digital channels, remove constraints for our franchise partners, and ultimately provide an enhanced experience for our customers. Importantly, it also results in a more secure and resilient platform to seamlessly scale for our next stage of growth. And cutover of the various channels is in progress. The ERP system will deliver efficiencies and will complete this year.

Now turning to the next slide.

Analysis of EBITDA

Good underlying performance

The majority of our EBITDA comes from the supply chain centre through procurement, manufacturing and the distribution of products to stores. In FY23 we maintained outstanding service levels with 100% availability and 99.9% accuracy. Once again, this is due to the commitment of our supply chain colleagues working collaboratively with our franchise partners, and I would like to thank all those who helped deliver this outstanding performance.

Our EBITDA from the supply chain increased 24.9% compared to the prior year. This increase was primarily driven by food costs and increased volume. Net overheads were around £11 million higher than the prior year, driven by expenditure on new store incentives, investment in talent and general cost inflation.

Corporate store EBITDA was lower, largely driven by the sale of five corporate stores towards the end of 2022. This resulted in underlying EBITDA before technology costs and Germany increasing by 8.3% in the year, with underlying EBITDA at the top of our guidance range of £132 million to £138 million.

Group EBITDA movement

Strong trading results

Let me briefly walk you through the year-on-year movement. Last year we reported underlying EBITDA of £130.1 million. Our underlying trading drove an increase of £12.8 million. We made a £2.3 million profit on the sale of a freehold property, which was more

than offset by the lost contribution from corporate stores and the non-recurring nature of last year's sale.

The prior year EBITDA benefited from a £1 million revaluation of our Shorecal JV which did not repeat last year. You can then see from the chart the impact that no contribution from Germany and a £3.7 million increase in technology platform costs had on our EBITDA performance in the year. After taking into account a strong final week of trading, we reported underlying EBITDA of £138.1 million.

Income statement

EBITDA increase as a result of increased trading profits

Moving to the income statement. Depreciation and amortisation and finance costs were in line with guidance. Taxation was higher than the prior year due to an increase in the UK corporation tax rate from 19% to 25% in April 2023 and a one-off additional £1.5 million transfer pricing charge. This resulted in a 9.7% reduction in underlying profit after tax in the period, with underlying EPS down 4.3%, the difference being driven by share buybacks.

It is worth noting that based on the FY22 effective tax rate, underlying EPS would have been up 6%.

Free cash flow

Continued EBITDA growth and strong working capital management

Our asset light business model generates strong free cash flow. Trading from operations produced EBITDA of £138.1 million, and let me walk through how this flows through to free cash flow. We had a working capital inflow of £10.2 million compared to an outflow of £17.5 million in the prior year. This was primarily due to the timing of creditor payments and cash receipts.

Net interest was higher, driven by timing of payments on the £200 million private placement notes that are fixed at 4.26%. We also incurred a £11.9 million cash outflow relating to historical share-based compensation arrangements. These had been provided for in prior years. And so there was no impact on profit in 2023.

Overall, increased underlying EBITDA and effective working capital management drove an £18 million increase in free cash flow to £97 million, and let me run through how we use this, given our disciplined approach to capital allocation.

Capital allocation framework

Investment in core business, increased dividend and share buybacks in FY23

You will now be familiar with this slide as we first introduced it in March 2021 and update you every six months. We have an asset-light business which is highly cash generative. We have this framework to ensure that effective capital allocation can amplify the benefits and returns from the cash generated by the business.

We want to retain a sensible level of leverage, which we believe to be around 1.5 times to 2.5 times. And working within these parameters, we will allocate cash in a disciplined way. We generated £97 million of free cash flow in the year. And let me walk through how we used this cash.

Firstly, we continue to invest in the core business to drive long-term sustainable growth. To that end we invested £20.8 million in capital expenditure in the year. We will maintain a sustainable and progressive dividend. We will pay a full year dividend of 10.5p which represents a 5% increase compared to last year, and which indicates our confidence in the business. The cost of the FY23 full year dividend is £42 million.

In the year we received the proceeds from the sale of Germany and returned £70 million to shareholders through a share buyback. From free cash flow generation, we also returned a further £20 million to shareholders through a separate share buyback programme.

Consistent with our growth plans and our capital allocation framework, we have today announced the acquisition of the remaining stake in Shorecal, which Andrew will talk to shortly.

We are confident that our business model will continue to deliver meaningful free cash flow growth over the medium-to-long term, and combined with our strategy to build a larger and more cash generative business, we remain committed to returning surplus cash to shareholders.

Net debt bridge

Increased returns to shareholders

Here you can see how our net debt has moved in the year, the sources of our cash inflows and our capital allocation framework in action So we started the year with £253.3 million net debt. As I have already explained, we generated £97 million of free cash flow in the year. We received a combined £79.6 million from the German associate.

And here you can see the cash outflows in the year. CapEx of £20.8 million, £41.9 million paid out in dividends, and £97.8 million in share buybacks and some purchases on behalf of the employee benefit trust. This resulted in year-end net debt of £232.8 million, giving leverage at the end of period of 1.77 times within our target range of 1.5 times to 2.5 times.

Investing to drive sustainable growth

CapEx this year to be c.£20m

Before I turn to our guidance, I would like to go through our 2024 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. As guided, now spending on our technology platform projects is largely complete, we expect CapEx to be in-line with recent years. In 2024, we expect CapEx to be around £20 million as we continue to invest more in our system to drive sustainable and profitable growth.

There are three pillars to our CapEx in 2024:

- Firstly, within our supply chain we are investing in automation projects and the completion of the expansion of our capacity in Ireland;
- Secondly, having completed the development of our new ecommerce platform, we are now focusing on the cutover of channels and enhancing the customer experience; and
- Finally, our investment will also be focused on developing and continuing to improve our core franchisee operations technology and support office.

So, turning to current trading and guidance

Current Trading & Guidance

We have maintained strong momentum against our key strategic priorities in the first quarter with a rapid deployment of the Uber Eats trial and seven new stores opened, with a further 33 with planning consent or under construction. We expect to see some food cost deflation this year, which, in line with our model, will be passed through to our franchise partners.

Last year we proactively took action to reduce our cost base, and this will partially offset the overall impact of inflation on our cost base in 2024. As a result, we look forward with confidence and expect to deliver FY24 underlying EBITDA in line with current market expectations, and hence delivering another year of further profit growth. The technical guidance is on the slide and we are happy to take any follow-up questions in due course.

Thank you. Now let me hand you back to Andrew.

Strategic & Operational Update

Andrew Rennie

CEO, Domino's Pizza Group

Accelerating growth

Value for franchise partners, customers and shareholders

Thanks, Edward. Okay. We come on to slide 18 now. I would like to talk about a few things here that has been achieved in this business in the last four years, things of note.

I think a couple of standouts for me were the fact that collection orders grew 18%. But the opportunity is still much bigger than that. Today, we said roughly 37% of our orders are collection. I was in the US only a couple of weeks ago. When I first started in this business almost 30 years to the day, collection in the US was about 2%. Today, it is 55%. And Russell said to me that he believes he can keep growing that.

That means we are 20% behind where the U.S. is today and I think the initiatives that I will talk about soon with our lunch, etc., will push us towards that 50% barrier.

Now people quite often do not understand that actually collection is actually a very profitable part of our business, and it is a different customer. So, you are not stealing from a delivery customer. It is a totally new customer. So, I am very excited about that. And the business I came from previously in my past life, we had a much higher carryout percentage than we have today. So, I think huge opportunity to keep that growth and accelerate that growth.

I think the other one, too, is 11% of store growth, which is admirable. But based on what we achieved last year and based on what we already have in the pipeline this year, we have complete confidence in hitting over 70%. So, hitting that number of last year, which was double the previous five-year run rate, which gave us complete confidence we had to come out and talk about the fact that 1,600 stores in the next few years, 2,000 stores.

And it does not stop there. That does not mean we are capped out at 2,000 stores. That means we have a clear line of sight to 2,000 stores. So even at 2,000 stores, we are still 15%

or 20% under-penetrated of other large Domino's markets around the world where they are today and they are still growing.

As an example, the US has been going, the brand has been going 64 years. This business next year will be 40 years old. The US is still growing, and they are 24 years older than us. It just goes to show that through technology and different dayparts, we can continue to grow this business for a lot longer yet.

Stronger position in a competitive market

Driven by collections and continued store openings

So, I will move on to the next slide. I think the other thing, too, is that we continue to grow market share. And we have not really gone after it yet. This daypart that we are going after is not an area that we have typically gone after. It is an underutilised part of our business. So, the franchisees are fully supportive behind us in really going after this lunch strategy, which I think will really help us take more market share. So, we feel very confident about that.

If we move on to the next slide.

Long-term sustainable growth

Clear medium and long-term targets

This, for me, is sort of the, I suppose, takeaway slide for a lot of people. I know that a lot of analysts in their numbers, the growth target in the marketplace was around 1,600, 1,650, 1,675 depending on who you spoke to. We make it very clear. We have put a lot of research into this. We had a third-party company with 32,000 data points. We use all our own data of our own stores plus I went around and met with every franchisee.

The number one thing that franchisees wanted for me was more growth. They said, Andrew, we have got the team, we have got the desire, we have got the balance sheet. Help us find more stores. So that is what we have done. And Nicola and her team have done a fantastic job plotting where these stores are. So, they are not just plucked out of the sky numbers, they are stores that we can see are really already with villages, with fortressing. We have got stores that are so busy now they have to open a second store, which is fantastic because it is a win-win for not only our franchisees because we are able to have better labour metrics, but that is a win for our customers because they are able to get better service, faster delivery of pizzas, and faster is not about the speed, it is about the temperature and the quality of the pizza, with frequency, etc.

And then on top of that, the number one reason people choose you is proximity for collection, so we get closer to our customers as well. So, for me, this slide here is very important, is that it is a well, it is a data-driven number. It is a hard number and gives both medium and long term and we feel very confident about that.

Now please note the plus signals behind the 1,600 and the 2,000, the £2 billion and the £2.5 billion, we do not expect to get to those numbers and stop. They are minimum targets from our point of view. They are not caps, they are minimums. So, we do have a lot of confidence in going after those numbers.

Shorecal acquisition – unique opportunity

Transaction details

Next, come with me on slide 21. Really proud of being able to buy this business. This business has notoriety globally. The job that Adrian and Charles Caldwell have done in that business has been fantastic. They have been great ambassadors for the brand. We truly wish them well. They have been great partners to deal with. And we feel like we have a legacy to perpetuate here. We have got an incredible team led by George on the other side in Ireland and Northern Ireland.

We really find it is important to help drive the strategy in that country, that we put our money where our mouth is. So, we are really confident of taking our shareholding from 15% to 100%. We have also got obviously Stoffel Thijs who came from Germany. He has been a 27-year-old Dominoid who knows how to help drive these businesses. So, he is tasked to start with, as part of that project, to drive this business forward. Attractive multiple. It is going to be accretive, but it is more about 2025 because we want to get the business. We want to do some investments to set the whole country up for success, not just this one investment.

So really happy to be part of that acquisition. Again, this goes back to the framework we spoke about in December, about focusing on the core first. This is an important part of that first step of that core, and really proud to be able to bring this to you today.

Shorecal acquisition – unique opportunity

Strategic rationale

If you come with me on the next slide, 22. Why did we buy it? I mean one of the first reasons is that Ireland is 50% less penetrated than the UK today in terms of Domino's stores per capita. So, we think that having our full investment in Ireland and having our focus not only helps this business, but helps the other franchisees as well. The Domino's brand is very strong in Ireland, some of the most busy stores in the world, some of the most profitable stores in the world.

We think we can multiply that, possibly doubling that business over in the very short term. So, we have invested in our commissary out there. So, this is another way that we are leveraging shareholders' investment over these last years. We are going to synergise those investments, along with the technology, of course. So, we feel really, really positive about where we are going with that investment and why we have done it. I think it validates, again, we are focusing on the core first.

Driving long term growth in core business

Number one priority is to continue investing in and growing in the UK & Ireland

Again, this is our framework here. I look at this every day. It is actually the screen saver of my phone. That is how important it is to me. And the number one thing for me, I wake up every day thinking about how do we make sure our franchisees, and I can show you the phone to prove it, if you like. There it is there, is franchisee profitability. Having been an ex-franchisee, it is so important. We are in a partnership here.

Our franchisee profitability leads to more stores. And guess what? You are seeing more stores opened last year, double the amount. You are seeing even more stores opening this year. The reason is that franchisees' profitability is in a good place. But we are never happy, right? So,

we are continually pushing that. And one of the things that gives me great confidence is that we all know the minimum wage is a steep curve this year for every retailer.

We embrace that. We have got a strategy behind that. We have got technology behind that, that will not only roll over that, but I also think that we will actually improve profits again this year for franchisees even taking that into account. And we have got to remember, too, a lot of those people that are benefiting from that are our employees. That makes us very happy. They are also Domino's Pizza customers. So, we also benefit from that as well.

Value for money, as I will talk a little bit later on about, but as an example, for the first time in the history of this business, we have been going out with a £4 price point. Never happened before. So, £4 at lunch. We have got our Cheeky Little Pizzas, which are under 600 calories. We have got our Wraps under 450 categories. We've got fries. We've got our incredible cookies, and who has not heard about our cookies lately? These are the great Creme Egg story, of course, but our everyday cookies as well, you can buy two of those. You can buy a small box of chicken.

We have never had those things on offer before ever. So that is quite exciting for our customers and our consumers, of course. Particularly in this market, I think our consumers need value and we are supplying the value, but in a very profitable way because by going after this daytime segment we have not done before, it actually sweats our assets much better for our franchisees.

Our digital platform is now constructed. We now have the ability, we are able to start rolling out a few of the exciting ideas and projects that we have had on the sort of back burner for some time now. So, I will be able to report more about those and their success come in August.

And convenience. One of the biggest things for convenience is proximity to the customer not only in terms of collection that we are closer to them. But when we get closer to them, we can deliver in a faster way and give a much better product. And I really do believe that we have the best delivery business of food bar none in the UK and it is only getting better, as shown by our better delivery times last year.

Franchisee profitability

Focus on improving franchisee profitability

So, franchisee profitability, as I said, was ahead of 2019, which is the best comparable with an apples-for-apples, 9% ahead. We would like to do that again this year. We have some initiatives in place that if everything goes in our favour, we think we can do that or maybe even better that.

We think they did a fantastic job. As I said before, the utility costs, etc., that we all faced down with, the team worked really hard. And I give a little bit of credit here to our training department. They trained and trained and trained, trained thousands of employees throughout the year how to be more efficient, how to give better service and they paid off in spades. They really did.

It is hard to describe to some people about what it means to be a Dominoid, but in Tom Monaghan's speak, it is about saving seconds, it is about saving steps inside the store. Every

minute counts. There is incredible passion to save every second for the customer and we are hell-bent on that.

One of the reasons I was in the US a couple of weeks ago, I was looking at some new technology they have that can save us two or three minutes in store. Now that is huge in our business. So, we are looking to deploy those assets over the next few years.

Continued alignment. I cannot thank the franchisees and our team enough. This is a different leadership team and a different Board. It is a completely different space where this business was some years ago, which I am very proud of and we will never stop working it. But they are not only colleagues for me, a lot of them are my friends. So, we work very hard every day, work together.

And the thing that really impressed me was the second generation coming through is that the hunger from the franchisees today and the desire for them to have growth for their children. And when I talk children, I am talking 25, 35-year olds who want the next 20, 30 years of growth like their parents have had. So the way I think about this business is setting the pillars up for the next 10, 20, 30 years of growth. As I said, next year, we are 40 years old. US is 64 years old. There is no reason why we cannot grow for the next 20, 30 years at least.

Value for money

Outstanding customer service essential in current environment

Value for money. The number one reason consumers, I think buy from anybody is value. And I think the most important thing is value is not just price. Value is product, service and image as well divided by the price. So, for us, it is really important to make sure it is a really good product, a really high-quality product. I am really proud of the fact that we could have taken shortcuts, taken cheaper products to lower the price, etc, but that is not we are about. We are about supplying the best product in the marketplace even against the trends of food pricing, etc., making sure that we deliver it on time and as fast as possible.

We measure this metric down here is delivered on time. It is a metric I am really focused on because, for me, it is about, again, what Tom Monaghan brought out was the old days of 30 minutes or it is free. We do not talk about that anymore for legal reasons, etc. We want to make sure the safety of our team.

But internally, we talk about it every single day. In fact, we give away awards every month to stores that have 100% of their deliveries under 30 minutes. So not one delivery in a whole month is delivered to a consumer over 30 minutes, and we have many stores in that category now and we intend to get much more this year. So really happy with that.

Our technology with GPS is really helping to achieve those goals and getting much more data points so we can actually give franchisees great feedback, which they love, which they can go back and help them train their team to do a better job as well.

Value for money

Compelling value for our customers

The next one is, yes, value for money in terms of price, right? And the service is the most important part, but price is important to our consumers, particularly in the current environment. We are very happy that we have got our price. We had the Price Slice, we have now moved that to a weeknight steal, so £8, £10, £12, Monday to Thursday. Incredible value

for an individual, a couple or a family. Our franchisees are fully supporting this and is doing very, very well.

As I said before, the lunch £4 deal is we say, give us £4. It is only a few weeks away from launch. So, we are very excited about that. And part of the reason why we held back marketing in January was to be strategic to apply to great initiatives like this, also to the loyalty that we will be launching this year, also to the Creme Eggs, the innovation, the carbonara pizzas, the list goes on.

We really do have an incredible marketing and innovation team as well. We have actually got a whole calendar booked out for the next two years already in place. It is quite incredible. So, these things I am very excited about.

Value for money

Outstanding product and continued innovation

And as I said before, innovation has been doing a great job. I think I do not need to speak about the Creme Egg cookie too much. But on the other side, we are launching more healthier products as well. So, we want our consumers to have choice when they come to us. It is not just all about having their favourite treat. It is also being able to have a guilt-free purchase as well.

The Wraps are now in all stores. We are very excited about what the Wraps are doing for us. The Italian range in certain stores, the Mexicana pizza went very, very well for us, and loaded fries has been very successful as well. So, the innovation will not stop.

Digital acceleration

Significant growth in app customers

We come through to slide 28 now, just a little bit on the digital acceleration. I mean, it is quite incredible that three quarters of our business now effectively is on app. That growth will continue, but it has been a steep growth curve. Some people have mentioned the fact that the app download is a bit slower, but what we have to remind people is that we are also on Just Eats. We are also now 630 stores on Uber.

People can also order online directly. People with collection typically become an order over the counter, so they do not use an app sometimes. So, there is so many channels that people can go through. You cannot just measure off one device. But yes, with the new technology we have rolling out now is the app is very useful to be able to communicate with our customers.

So really happy that the loyalty is about to kick off. We have already got phase one is about to launch. There will be three phases. By later this year, we will have some really hard data to be able to share with you. But I am quite excited about that. And what is important is that it is a data-led decision on loyalty. We do not just throw money at something. We are doing it step by step to make sure that it is beneficial for our franchisees and our consumers, has to be a win-win.

Convenience – store openings

Material acceleration in FY23

Moving forward on slide 29. Spoke about it before, but I think for me, the results speak for themselves, right? 60 stores last year, basically a doubling of the previous run rate. Over 70

we will do this year. We will do. That is not an if or a maybe, we will do, and hopefully more. We have clear line of sight on those things. So, the team have been working very hard. To get those 70 stores, it is not something that started yesterday. That is something that started six months, 12 months, 18 months ago. So that is how far out we think.

And again, the convenience that brings to consumers is quite incredible. So again, it is a win-win for franchisees and consumers.

Convenience – store openings

Significant opportunity to grow the store estate

Slide 30. We have had a lot of success this last year with going to smaller territories, villages that where Domino's has never been before, but they obviously know the brand. And the brand is such a value now that when you get there, they blow the doors off. We are seeing sales in some of those villages where they only have a population of a third of the size of our average store. They are doing the sales of a national average or more in some instances. So, it gives us great confidence.

At the moment, we are only covering 85% of the UK and Ireland population. So, we have got 15% of white space. Additionally, we have got our stores where we carve out more new stores because our stores are so busy, so that gives better efficiency for the franchisees, and of course, a better product for our customers.

Convenience – Just Eat and Uber Eats

First full year on Just Eat with rapid roll-out of Uber Eats trial

Slide 31. Just Eat partnership is going really well. I want to thank them. It has been a great partnership and we continue to do well with Just Eat. The beautiful thing is the Uber Eats test is going exceptionally well. Most of it is incremental. We are in 630 stores now, which clearly shows the franchisees are behind this and loving this as well.

So again, this is a whole different consumer to what we have today. So, we will nurture that and we will continue to grow that. And I am pretty confident that the test results will show that we'll roll that out to the whole estate.

Additional growth opportunities

Slide 32. So, I think this is an important side as well is that DPG is a highly cash-generative business with a clear track record of investing in core business and returning capital to shareholders. So, we returned a lot of money last year. We have returned £427 million over the last three years. I think that is massive, right?

But aside from that, when I asked our major shareholders, right, over 50% of the ownership of the company, what would they prefer, would they prefer me to give the cash back to them or they prefer that I invested in growth opportunities? And their number one answer for all of them was, hey, grow first and if you do not find something to grow, the right business that you have put good lens over, then give it back through shareholder buybacks, dividends, etc. So that is what we are doing.

And as you saw today with Shorecal, it is a good example of investing in the core for growth and to help grow this business faster. We are looking at other brands. We are looking at international markets. We will do them in a very measured way, as I have said before. I have a lot of experience in international, so does Stoffel. Some of my team have worked

internationally as well, very different place, very different team to the past. And we will be doing it in a way that DPG would support us in a very healthy way as well to make sure that we have a long-term success when we go down that road.

But it is something that we are evaluating very closely. As I said back in December, this is something we look at. But the core is our focus at the moment and will always continue to be our focus because it is such a big part of our business. However, if we can do investments to give us long-term growth, we will look at them very closely with clear guardrails for growth and returns, right?

The Board and myself are very clear on that. And we have got a very good capital framework that we adhere to every day. So, we will update on additional growth opportunities soon, all right. Maybe sooner than later. We will see if they go the right way. But certainly, this year, you will see more growth initiatives coming from us.

So, I'm really confident on our strategy. We are an asset-light, large free cash flow business. We have got really good strong medium to long-term growth plans. And we are committed to returning any surplus cash, we will give back to shareholders. But first of all, growth is at the front of our minds.

Delivering a sustainable future

Commitment to our 'Connect the Dots' strategy

So really clear that it is important for us and our consumers we deliver on a sustainable future, our commitment to Connecting the Dots. We have got five pillars that we focus on:

- Our customers;
- Our people;
- The environment;
- Sourcing; and
- Communities.

As I said before, we focus on things like health for our customers. We have Cheeky Little Pizza. It says 650 calories. The team has actually done a great job, they are actually under 600 now. We have actually got our first Sustainability Report coming out in 2024, which will outline our initiatives for the next five years or so. So, we are really proud of where we are taking the business with that as well because we know that is important.

Summary

So, in summary, 2023 was a great year and benefits of being an aligned system. The core is my focus, right? The team and myself are really focused on growing this core as exampled by the 1,600 store target, the 2,000-store target and then putting our money where our mouth is and investing into the business in Shorecal in Ireland.

We will be recycling that capital. Typically, as I said to you back in December is that we will be taking money that we have already got invested in corporate stores and joint ventures and recycling that. So, it is not as if we are going to start becoming an asset-heavy business. We would not. We are going to stay an asset-light business.

We have got great long-term targets that are very measured and data-driven. And I think we are well placed to deliver sustainable long-term growth for everybody. So shareholders, team members and franchisees, right? So this really is a true partnership.

So, with that, I would like to turn to Q&A. Thank you very much.

Q&A

Richard Stuber (Numis): Four quick questions, please, if that is alright. The first one is on the Shorecal. Could you say how many stores you expect to open this year and whether that is also included in the CapEx guidance? And also obviously, you are paying for it part equity. What was the reason for doing that rather than fully debt?

Second question on the daypart. You have talked about you are under-penetrated at lunchtime. Could you say what is the market share you currently have at the pre-evening? And what percentage do you think you can get that up to?

Third question is on guidance. You talked about food cost deflation. Could you say what that would be and whether that will flow through to actually lower pricing for customers? And do you also see order growth back in growth by the end of the year? Yes, I will leave at that.

Andrew Rennie: Thanks, Richard. Good bunch of questions there. I will try and tackle them. If I miss any, Edward can back me up here. So, I will start from the last one first is that, look, food definitely is deflating, as Edward said. Along with our framework, we pass that on to our franchisees. And we are also passing that on to our consumers as well, as evidenced by the £8, £10, £12 weekday steal and the £4 lunch. So, we are trying to make sure that not only our franchisees win, but also our customers win. So yes, we are passing that on.

And that then leads to more growth. Your other question is that, yes, we expect that, that will lead to consumer growth overall.

To your question about lunch at the moment, lunch is only about 15% of our current sales. I could not tell you what our market share of lunch is. We do not actually measure that, but we might start doing that. We will have a look at that. But it is a small part of our business. Other Domino's markets around the world are anywhere from 15% to 25% of their lunchtime sales. So, we think there is definitely an opportunity to grow that. There is no doubt about that.

Shorecal, yes, the store openings that we have got planned for this year are already baked in, as is the CapEx. But where it starts to, I think have a bigger impact will be in 2025 because obviously we get this business in the second half of this year. We will make some investments to adjust the business as we see fit and get it ready for that next stage of growth. Did I miss anything?

Edward Jamieson: Last one just around equity.

Andrew Rennie: Equity, basically because the franchisee owners and our business partners there want to be part of the growth story, right? They are Dominoids. They believe in the bigger DPG story, so they wanted some equity as part of this deal. And that was good for us to keep some of that gunpowder dry for some potential other acquisitions. Thanks, Richard.

Douglas Jack (Peel Hunt): Two or three questions, if that is okay. How do you expect like-for-like sales to build in 2024 in light of your marketing initiatives, your comps, if that is okay. The loyalty scheme, secondly. How committed are you to that? Because it does not sound as though it is a definite in the statement, but obviously, you sounded more enthusiastic in the past. And then some guidance on central costs, if that is okay, given the jump we have had in the year we have just had.

Andrew Rennie: Thanks, Douglas. I think the first point is I think it is a good question to ask about the build on like-for-likes. We are cycling some big comps Q1, Q2 last year. And as you heard me say, we held back marketing in January. We purposely held back there to invest later in the year. So Q1, Q2, first half, will be slower and the second half will be much higher, I believe. So that is where it is more based on the back end of the year. And that is strategically, we think, the right thing to do.

The other point you raised was around the loyalty. So yes, apologies if the statement was not clear enough. It is not a maybe, it is already underway. It is real. So, Sarah and the team have already started this. We had several meetings on this some time ago now.

So, stage one is already underway. So, we are going to stage it because I do not want to just throw money at it for the sake of it. We gather data that helps lead to each stage and how we go about each stage. It is being done in a very methodical way. I have seen loyalty programmes that a lot of money has been thrown at them and it has been very costly. So, we are just making sure we do it very clearly and very methodically. But we are committed to having a loyalty programme. And as I said, I will report back in August on how that is looking and what the learnings are up to that date.

And I think you had capital.

Edward Jamieson: Sorry, if I just cover that. So actually, if you look at the 2022, those central costs. They are actually a marginal reduction of 2021. If we think about this as a percentage of revenue, those costs were 6.5% of revenue, which is similar to the level we are at in 2020-2021. Now importantly, what we are seeing within there in FY23 is a material step-up in new store openings and these new store incentives. So, within there, we have also seen some investments in IT and digital costs to support having a fully digital business.

And then there have been factors like salary inflation, some investment in talent and some changes in share-based payments reflecting management changes. As we then look forward for 2024, we will continue to see incentives from new store openings as there is work on a three-year basis. We have got a significant focus on continuing to manage our cost base robustly. And we expect following some of the changes we made in 2023 to see some people cost reductions in 2024. So overall, it is a line that we are managing very closely.

Alex Chatterton (Panmure Gordon): Three questions from me, if that is okay. Just following on from Richard's question on food cost deflation. Where are you seeing the greatest deflation in terms of ingredients? So that is my first question.

Second question, you touched on in terms of Just Eat and Uber Eats in terms of customers being predominantly incremental. What percentage of those customers are incremental? And is the long-term aim to get them onto your app presumably in terms of profitability?

And then finally, on your medium-term targets. You mentioned a third-party provider. What was the methodology behind that? If you could just go in a bit more detail on that.

Andrew Rennie: Sure. Look, we do not break out the commodity fluctuations. And the reason being is that we have long-term contracts with a lot of our products. So, I think it would be remiss of me to try and give you exactly which one. But generally, all of them have been deflating some back six months ago, some back maybe longer and some are happening this year. And some also are going up as well, right? It depends on the weather. So, a lot of things are changing there.

But overall, it is downwards. I could not break them out quite honestly. Maybe the other point was around.

Edward Jamieson: It was around JET and Uber.

Andrew Rennie: JET and Uber. Do you want to cover the JET and Uber?

Edward Jamieson: Yes. I mean, look, because there are two levers and multiple levers that we have got, we are not going to be sort of disclosing specific figures around incrementality. The point is, though, we do this in a very data-driven way. We are able to look at data. And we saw, as we did with JET, we saw incrementality there. The early signs are very promising on Uber, as Andrew pointed out, and we expect the incremental customers coming into there.

Importantly, remember, with Uber as well as JET, it simply provides a window to reach a new customer. We control those touch points, we control with delivery ourselves. But it enables us to reach a customer base that we do not yet target today, hence, the incrementality.

Now in the long term, then, of course, we are continuing to make our app sort of more and more attractive as evidenced by the investment in product that Andrew has talked about. And we will continue to be delivering to those customers ourselves. So, our app will continue to be more and more attractive. And naturally, some of these customers may choose to move across to us. That is certainly what we would like.

Andrew Rennie: One thing to be clear, Alex, is that those customers are very profitable for our franchisees. It is not an unprofitable customer. It is actually a very profitable customer. So, we do not need to steal them off of the aggregators, etc., at all. It is a small part of our business overall, to be fair, but it is very incremental, though. So, it is a partnership we actually work very well with and it is actually good for us because it is a different consumer.

There was one more question.

Edward Jamieson: The last question was around the external software we have been using for the geo mapping.

Andrew Rennie: Yes. Look, we have got all our own data, but when you use a third party, they have access to so many other data points that we do not have access to that they pay for, etc. And it was important for us that we do not sort of mark our own homework as well, is that we get someone to come and validate what we are thinking and doing. So sometimes we will use two or three different sources to make sure that we can triangulate them. But it gave us great confidence in the numbers that we were thinking. So, it gave validation, and in some examples, it actually showed us there is more opportunity than we thought.

And we will probably have to do that study again in probably two or three years' time because if £4 lunch works as well as I think it will, that will also open up a different daypart for us and actually potentially more stores will come out of that. But let us one step at a time. Thanks, Alex.

Richard Taylor (Barclays): Three questions, please. Back to food price deflation. Can you let us know roughly how much you are going to pass on to franchisees this year in terms of pound million? And how much is that going to drive their margins higher?

Secondly, from your perspective, I know you generally operate a pass-through model other than on cheese, but you saw quite strong growth in supply chain in the year just gone. So how does supply chain profit look for you in a more deflationary world? Are you still confident you can grow supply chain profit even if perhaps the margin goes backwards? Just some colour on that would be great, please.

And then finally, just some modelling points on Shorecal. I am not sure when you expect it to complete, but I can see the headline EBITDA multiple of 8 times. So, we can work out an EBITDA number, but any help in terms of how that comes into the P&L, D&A charges and so on, that would be great.

Edward Jamieson: Sure. Let me touch on those. So firstly, if we talk in terms of food price deflation, I say we will pass that on to franchisees. We expect that to have a limited impact on our EBITDA this year. And the reason for that is that when we look at our supply chain EBITDA, it is a combination of obviously movements in food price as well as continued operational efficiencies.

We have talked about within CapEx that are investing in automation. We continue to try to drive efficiencies out of our supply chain. And then to that point, as you pointed out, cheese, as you have said, which is obviously a major category for us is on a cash margin basis.

Andrew Rennie: Volume as well. More stores.

Edward Jamieson: Yes. And volume as well. So, with more stores there. And of course, that helps our procurement there.

In terms of Shorecal, if I just comment on that, we have provided the building blocks today in terms of EBITDA. If you look at their depreciation in their accounts that are disclosed in company's house, we see it is a figure of around about £1.5 million. So, you are able to work through and get to a view there.

But importantly, and as Andrew highlighted earlier, this year, we expect not a significant contribution to EBITDA this year from Shorecal because we are not going to complete the transaction until close to the half year. So, we are going to have half a year of benefit.

We have transaction costs and then we have got some investment costs this year. This is really about 2025, where we expect to see this as being earnings accretive in 2025 and then significantly accretive in the long term.

Richard Taylor: Sorry, just to clarify on the last point, half year contribution, i.e., 4 based on the math you set out, is that about right?

Edward Jamieson: I think you can work through that, Richard.

Andrew Rennie: There is investment and transaction costs. And I think the other thing to remind is that it is not just about the Shorecal EBITDA, it is about the greater influence of the whole Irish market as well. So that is important for us as well. It is a leadership thing as well to lead the market to greater growth. So, it is a knock-on effect, if you like, a domino effect.

No more questions? No? Well, with that, I think probably I would like to thank everyone for coming today. Obviously, we have a lot of one-on-ones over the next few days. And anyone who has any more questions, please feel free to reach out to us. But look, we really appreciate your time there. We feel very excited about where the business is going. We have got an incredible team, an incredible bunch of franchisees and a brand that is so strong. I feel very privileged to be part of it. So, thanks very much for your time today. Cheers.

[END OF TRANSCRIPT]