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Domino's Upgrades Guidance and Delivers Strong NPAT Growth of 30.8%

Domino's Pizza Enterprises Limited **(ASX: DMP)** today lifted its earnings forecasts, after continuing investment in menu enhancements and market-leading technology delivered record earnings and strong Same Store Sales (SSS) growth for the Group.

Domino's has upgraded both underlying[1] EBITDA[2] and NPAT[3] guidance for the Full Year to be in the region of +32.5% growth, following a +33.6% lift on the prior corresponding period (pcp) in underlying EBITDA to $116.2m, and a +30.8% increase (pcp) in NPAT to $59.7m.

A +26.8% lift in H1 17 Network Sales, to more than $1 billion ($1,166.1m) for the first time in the Company's history, driving a +21.1% increase in Group revenue to $539.4m.

Across the Company's seven markets in Australia, New Zealand, Belgium, France, the Netherlands, Japan and Germany, Group SSS grew +9.4% for the Half Year, on increased customer counts due to the Taste the Colour menu launch in Australia and New Zealand and improved technology across all markets.

The Company's focus on customers, through high-quality meals, market-leading customer service and continuous technology enhancements and innovation, has seen Domino's results significantly surpass expectations.

The Company will pay shareholders an interim dividend of 48.4 cents (50% franked), up +39.5% on the interim dividend paid in the pcp. The interim dividend will be paid on 9 March 2017 with a record date of 22 February 2017.

Australia and New Zealand (ANZ)

Domino's ANZ network delivered again in H1 17, with +23.9% growth in underlying EBITDA to $55.2 million, with 17.2% growth in revenue to $150.1m.

Group CEO and Managing Director Don Meij said customers had supported the most significant menu upgrade in eight years, and a focus on premium ingredients, with +17.4% growth in SSS.

Trading results following the introduction of a Sunday surcharge, to allow for higher wages for employees working on Sunday, were also positive. The Sunday surcharge followed extensive testing of the new pricing model in multiple markets, which saw stable or increasing sales, prior to a national roll-out.

"It is refreshing our customers have given us credit for the surcharge as part of the introduction of these penalty rates as we continue the award modernisation process," Mr Meij said.

"Ultimately this is our core business - high quality food at an affordable price.

"It complements investments we have made across our business to grow through increased, network-wide upgrades, including faster cooking ovens, and adding more e-bikes to our delivery fleet.

"The Taste the Colour launch in September powered the highest SSS growth in the Company's history in October.

"These were augmented by increased volumes across a higher number of organic store openings than in any other first half.

"We have opened 27 new stores this financial year and are set to open an additional 35 new stores before 02 July."

A persistent focus on digital innovation, including the implementation of frictionless payment options such as Android Pay complemented the Company's investment in quality and productivity initiatives.

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[1] H1 17 Underlying comparison to H1 16, including acquisitions from the date of DMP ownership
[2] Earnings before interest, taxation, depreciation and amortisation
[3] Net profit after tax

Mr Meij said the new menu offerings, including new Pizzas, Sides, ingredients and Desserts, were matched by equally important changes behind the counter.

"In June, we announced Project 3/10, an initiative which in the next 3-5 years aims to have fresh-made pizzas ready for pick up in three minutes or delivered to a customer's house in 10 minutes.

"Ultimately, reducing time between ordering and pickup, or delivery, provides hotter, fresher food for our customers, which will grow our market share.

There are now 123 stores which are Project 3/10 enabled in ANZ, allowing us to improve our benchmark delivery times against which we measure all stores.

"Food is at the heart of our business; our menu additions and limited time offerings, including our seasonal Summer Prawn range, continue to support repeat customer visits.

"Our Thickshakes, handcrafted and made from real ice-cream as opposed to soft serve, are performing to our very high expectations. We are delighted that the roll-out is on schedule to be in all stores by 2 July."

Regions where Thickshakes have been introduced have seen above average SSS growth.

"Our focus on finding exciting new flavours for our loyal customers continues in our dedicated test kitchen, the Luv Lab, with a new food product currently in test, ready to roll out in 2017," Mr Meij said.

In H1 17 Domino's continued its investment in the Internet of Food™, removing barriers to make it easier for customers to order and pay for their meals online.

Online sales increased +32% (pcp), with strong growth in pickup orders following the launch of initiatives including On-Time Cooking, which allows for stores to start cooking customers' orders when they reach the 'cook zone', so their order is as hot and fresh as possible when they arrive.

Domino's is adding to its "mobile first" development, with its "Artificial Intelligence first" initiative, to improve the customer experience even further.

"Our focus on innovation is always with our customers as our first priority; we continuously work on streamlining the order experience, and ceaselessly conduct testing to ensure this is as smooth as possible.

"Our team constantly tests and implements changes to our online environment, including incremental changes such as varying aspects of our ordering process, to make it easier for our customers and increase online conversion rates.

"Our investment in technology is also helping our store managers and franchisees become more efficient and productive."

The Company has rolled out a new time and attendance management solution in Australia, TANDA, which (among other benefits) builds and analyses rosters, helping ensure maximum productivity of one of a store's largest costs, labour.

Other software enhancements have empowered store managers and franchisees to identify areas of concern regarding wastage and cash handling, as well as improving communication between employees and the Company's corporate office.

The Company continues to forge the way with its commitment to supreme quality with 96% of the menu now free from all artificial colours, flavours and preservatives in ANZ. The Company is taking its time to get this right, and will achieve these targets this calendar year.

The Company announced a trading update for the first 6 weeks of trading[4] in H2 17, showing SSS in ANZ were up +15.4% (pcp). Domino's has lifted guidance to +14-16%, up from +12-14%.

[4] 2 January – 12 February, 2017

ANZ Franchisees

Franchisee profitability remains a key Company focus.

Average weekly sales records have driven same store franchisee profitability, to record levels.

Average Same Store EBITDA has increased +31.7% over the past two financial years.

Domino's expects franchisee profitability to break a new record this financial year, and the current store payback is 3-5 years.

"We have been acutely aware of the likely impact of a new enterprise agreement and have been implementing changes to our business to prepare for this. These include improving our menu and product offering (including sides), volume purchasing, and appropriate pricing models," Mr Meij said.

"Each change has been extensively tested and endorsed by our customers and franchisees and we are confident these solutions will more than offset the impact of the Modern Award."

"We are seeing average order prices increase because of these initiatives, ensuring continued growth in SSS as well as increased profits at the store level.

"As a sign of the success of this approach, most of our new franchisees are now internal rather than external, a trend we expect to continue as more of our successful franchisees become multi-unit owners."

Evidence of our strong profitability is demonstrated by that fact that 87% of our new stores in H1 17 were opened by either existing franchisees or store managers.

The Company aims for the average franchisee to operate five stores in the next four to five years.

Industrial relations

Domino's has zero tolerance for unethical behaviour in our business, including under-payment of wages or under-reporting of sales.

"I make no apologies for expecting the highest standards from our franchisees," Mr Meij said.

"We work collaboratively with the Fair Work Ombudsman, and our compliance program has been independently audited by Ernst & Young and, as a result, we are confident that our compliance program is industry-leading.

"Due to our investment in proactive compliance we have identified some franchisees who have wilfully breached their obligations to their team members."

Over the past three years, Domino's has conducted 456 store spot checks, completed 102 store audits (via third party audit process), with 42 ongoing, and investigated 88 individual complaints, with 25 ongoing. This process has recovered a total of $4.5m in unpaid superannuation and wages owed to team members by franchisees. This amount represents 0.8% of the labour costs in our franchise network for the period.

"I would prefer all of our franchisees lived up to our expected standards, and I am disappointed some individuals have tried to take advantage of our business, and team members. But I am proud that our proactive team has uncovered this wrongdoing and corrected it.

"Our priority is to ensure team members receive their correct entitlements, and our efforts to prevent, identify and address any breaches of this expectation are unrelenting."

Domino's has removed four franchisees from our system, operating seven stores for wilful breaches of their employment obligations. In addition, after conducting IR compliance audits, an additional 22 franchisees chose to exit the system.

"Our franchisee profitability figures clearly show there is no reason, nor excuse, for this behaviour. The findings from our compliance program demonstrate no correlation between store profitability and underpayment of wages.

Europe

With the successful integration of acquired stores, Europe has the largest store count in the DMP Group.

Europe has delivered an impressive EBITDA growth with +99.7% increase pcp (to $29.9 million), in the first half.

H1 17 sales lifted +64.7% (+€103.9m) because of the store integrations, digital innovation, strong margin growth and record franchisee profitability.

Online sales are an increasing proportion of Domino's European orders, with record growth across all countries and the Netherlands/Belgium and France leading the way with +38% and +31% digital sales growth (pcp) respectively.

The new, highly automated, French commissary is now open and Domino's expects logistics and labour synergies in the second half of the year. The conversion of the acquired Pizza Sprint stores is expected to be finalised by 2 July.

Management is bringing a high volume mentality to the German network, which is delivering results.

Online sales in Germany are growing at an incredible rate and are targeted to reach 60% of orders in the next six months. Pizza Chef was launched in the German market, with several further digital tools to be launched in the coming months.

Order Anywhere was successfully launched in The Netherlands which helped it remain the standout performer in Europe, now into its third year of double digit growth.

Domino's is the second largest quick service restaurant in the country, by both store count and sales.

The Company recently engaged another National Development Chef in The Netherlands to assist with innovation.

Following store trials in Belgium and The Netherlands, 'Fast Lane' will roll out in FY17, helping to grow online pickup sales.

"The next six months is expected to be just as strong for Europe, with a record number of organic store openings.

"All Domino's stores in Europe will be using Pulse and OneDigital within the next four weeks, enhancing efficiencies across our network, including at a store level."

The first 6 weeks of trading[5] in H2 17 show SSS in Europe were up +2.7% (pcp), with an expectation that sales will accelerate in the second half, achieving full year SSS of +5-7%.

Japan

Japan network sales continued to grow, up +10.9%, powering EBITDA growth of +13.2%.

Japan delivered SSS of -4.7%, in line with management expectations. The first 6 weeks of trading[6] in H2 17 show SSS in Japan were up +12.7% (pcp) as a result of the timing of the New Year's Day holiday period. Management maintains its full year SSS and profit guidance.

Pick up sales in Japan continued to grow, due to the focus on relocating another nine stores to carry-out friendly locations. The first half of this year also saw Japan achieve digital sales growth of +19%, and the highest digital sales volumes in Domino's Pizza Japan history.

Japan constructed 19 new stores during the first half of the year, taking the store count to 312 corporate and 160 franchised stores (network total of 472 stores).

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[5] 2 January – 12 February, 2017
[6] 2 January – 12 February, 2017

The commitment to the 'Mugen 3.0' store design saw 60% of all stores now converted to this design.

Mr Meij said new items were added to the menu including the Quattro Classics in Autumn and the Chef's Quattro in Winter, the result of significant consumer testing.

"The new items are important additions to our menu and are currently setting us apart from competitors in the market."

Other innovative products added to the menu included an expanded chicken range and Quattro Fiesta featuring Tex-Mex and Honey Mustard Canadian Bacon quadrants.

Looking forward, a key milestone for the next six months is the completion of the PULSE roll out and the commencement of the implementations of the OneDigital Platform and Project 3/10. Project 3/10 is yielding positive customer feedback and improved operational efficiencies in the ANZ market and is another example of DMP leveraging platforms globally.

"We are confident that by capitalising on the strong global platforms, OneDigital, Pulse and Project 3/10, we will continue to see great results from this market."

We look forward to opening our 500th store in Japan by August.

Guidance Update

The ongoing positive outlook for sales, the successful growth of the network by adding new stores, and margin improvement has resulted in the Company upgrading underlying EBITDA and NPAT Growth Guidance to be in the region of +32.5% for FY17.

Domino's has increased SSS guidance for ANZ to be in the region of +14-16% SSS (up from +12-14%). SSS Guidance for Europe and Japan have been confirmed and are on track at +5-7% and 0-+2% respectively.

The Group store count target remains at 4,650 stores by 2025. This number includes 1,200 stores in ANZ, 2,600 throughout Europe and 850 stores in Japan.

FY17 Guidance on new store openings is between 175-195 for the Group.

Domino's is committed to the forward EBITDA margin guidance provided at the AGM, of 45% in ANZ within six years, and 25% in Europe and 20% in Japan, both within five years.

Management also remains active in pursuing acquisitions that are strategic and value accretive for the Group.

~ENDS

Domino's Pizza Enterprises Limited (DMP) is Domino's largest franchisee outside of the USA. It holds the master franchise rights to the Domino's brand and network in Australia, New Zealand, Belgium, France, The Netherlands, Japan and Germany. Today, DMP has a network of over 2,000 stores. For more information visit www.dominosinvestors.com.au

DMP Group CEO & Managing Director Don Meij (pronounced May) will be available for interviews on Wednesday 15 February 2017.

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