ASX/MEDIA ANNOUNCEMENT
15 August 2017

Higher sales and network growth deliver Domino's boost in FY profit

Domino's Pizza Enterprises Ltd (ASX:DMP) has reported a record Full Year underlying Net Profit After Tax (NPAT) of $118.5m, +28.8% on the prior corresponding period (pcp), lifting Network Sales +18% to $2,318.5m.

Menu enhancements in all regions, the continued roll-out and optimisation of digital platforms, and the opening of 178 new stores for the year, drove the strong Network Sales growth, which was +8% higher on a Same Store Sales (SSS) basis.

Australia and New Zealand (ANZ) recorded its fourth consecutive year of double digit network sales growth at 16.6% (+13.6% on a SSS basis), Europe recorded network sales of +26.9% (+2.8% SSS), and Japan lifted network sales +8.4% (-0.6% SSS).

Group revenue for the Financial Year (FY17) exceeded $1 billion for the first time, at $1,073.1m, a +15.4% increase. This result came from Half Year network sales of more than $1 billion, for the first time in H117, repeated in H217 with $1,162.9m. Operating cashflow in H217 increased +69.8% (+$34.4m) on H1 to $83.6m.

The results delivered a +28.3% increase in EBITDA, a record at $230.9m, building on the previous strong result to deliver a two-year EBITDA increase of $103.1m, +80.7% on FY15.

The Company will pay shareholders a dividend of 44.9 cents per share (50% franked). This will provide shareholders a full year dividend of 93.3 cents per share, up 26.9% on the final dividend paid in the pcp. This is to be paid on Wednesday 6 September 2017 with a record date of Tuesday 22 August 2017.

Group CEO and Managing Director Don Meij said the Company achieved records on multiple metrics, but Management recognised they also did not reach the targets affirmed at the Half Year results.

"We significantly lifted sales, revenue, EBITDA and margins for the group, which demonstrates that we are leveraging our competitive advantages; our scale, digital platforms, and market-leading customer-focused improvements including Project 3/10.

"I acknowledge our results, while strong, did not reach the guidance we set. This was largely due to the delay in rectifying some issues with our online platform in France, and the initial response in H2 to our value range offering in France, which did not meet our expectations – both have now been addressed.

"We set high standards and we did not reach those high standards. I am confident we have the right strategy, and structure, in place – this has delivered, and will continue to do so, increasing sales and improving profitability in what is a high-growth business."

Mr Meij said the Group-wide results demonstrated the value of a multi-region strategy.

This Financial Year Domino's has completed the conversion of its German acquisition, Joeys, and significantly progressed the conversion of its French acquisition, Pizza Sprint. Domino's has also confirmed it will acquire the interests of the minority holder, Bain Capital, in Japan.

Australia and New Zealand (ANZ)

The ANZ region continued to deliver very strong performance. The Company grew EBITDA in ANZ +25.8% to $115.4m on revenues of $329.5 million – an EBITDA margin of 35%.

The region delivered its sixth consecutive half of double digit SSS growth: +10% for H2 and +13.6% for the full year.

Mr Meij said the sustained, high rate of growth in SSS followed investment in customer-facing initiatives, predominantly in food and technology.

"In part, this reflects the exceptional performance of the launch of 'Taste the Colour' in H1, which lifted SSS to a record level in October.

"Our guidance of 7-9% SSS in FY18 reflects that recent SSS growth has been led largely from online sales growth. The growth in online sales continues to be exceptional, however our focus on online has sometimes come at the expense of offline sales, which have performed lower in H217 than H117.

In H217, Domino's launched DRU Assist, the first virtual assistant for the Australian QSR market, more digital wallet and electronic payment options, and a Facebook Messenger Bot for special offers. In the first weeks of H118, Domino's launched innovations including: PayPal Bill Share (a market-first), Social Logins to our website, and Domino's Anywhere (initially to a limited audience). Digital innovations, as well as an ongoing and intensive program of A/B testing and incremental improvements to our digital platforms, delivered +30% online sales growth for the full year.

Food is at the core of our business, and Domino's 'Taste the Colour' launch in H117 delighted customers, resulting in record SSS growth for the launch. This was followed by the launch of Thick Shakes, a premium dessert offering that meets customers' tastes for more meal opportunities and has one of the highest return on investment (ROI) for any new product.

The roll-out for Thick Shake machines is expected to be completed by the end of September, and Domino's plans to introduce two new Thick Shake flavours, and new sundaes, adding sales, further improving stores' ROI and becoming a new pillar for growth.

"Our enhanced menu, with 20 pizzas and sides, to be released over 20 weeks, is designed to give customers more of what they love, particularly in the amount and types of high-quality toppings."

Domino's opened 66 new organic stores in FY17, ending the year with a store count of 777.

Industrial Relations

Deloitte has completed its independent assessment of the design of Domino's monitoring and supervision framework for wage underpayment by Franchisees and has identified both strengths and opportunities for improvement in the current process in light of the proposed legislative changes. The current framework built upon recommendations made by our previous advisors.

Deloitte found that:

> *"Domino's current Monitoring and Supervision Framework uses a combination of processes to identify potential instances of underpayments in its network. These include employee complaints, store visits and the results of monthly business reviews. Once a potential instance of underpayment has been identified, Domino's Industrial Relations function performs a preliminary two-week assessment using data from various underlying business systems. Based on the results of the preliminary assessment, a decision is made whether to proceed to a full external audit. The results of the full external audit, in instances where underpayments are detected, includes the amount that needs to be paid to employees by the franchisee. Domino's requires a franchisee to pay all underpayments to its employees. Thereafter, the franchisee is subjected to increased monitoring over the following one, three and six months."*

The high-priority recommendations by Deloitte are:

- Enhance and formalise an overarching Monitoring and Supervision framework
- Develop a predictive risk based data analytic tool
- Enhance the employee complaints management process
- Set up an independent whistle-blowing function to complement the existing employee complaints process

Domino's has developed an action plan to address the recommendations from Deloitte's report, including a heightened focus on reporting to senior management and to the Board. These recommendations will complement existing identification and auditing processes, and training on Employment Law compliance both as part of an initial six-week intensive induction programme, and ongoing training modules presented during market tours.

We have recruited and trained an additional seven staff to conduct the nationwide audit, taking the internal team to 14 people. The introduction of intelligent rostering solution Tanda, and the improvements suggested by Deloitte (while slowing the progress of the nationwide audit in the short term) are providing more detailed insights into the activities of Franchisees. It is therefore expected that the nationwide audit will provide a more comprehensive result.

While the process is not as advanced as we had anticipated six months ago, in that period Domino's has completed 15 full store audits, with 41 ongoing, recovering $770k in unpaid wages and superannuation. In addition, Domino's investigated 55 individual complaints, with 19 ongoing, recovering an additional $249k in wages and superannuation. Following full audits, three Franchisees, operating a total of six stores, have exited the system. Domino's is withholding a total of $487K for wage back-payments relating to these stores.

It is important to note that we have prioritised the performance of preliminary assessments based on stores we consider to be a higher risk. It would therefore be inaccurate to extrapolate these results across the nationwide network.

Europe

Continued improvements in EBITDA margin in our European markets to 18.4% (+2.8% pcp) delivered EBITDA of $60m, which, at +47.1% on the pcp, was the largest increase in EBITDA in the Group. This lift in profit was on revenues of $325.6m, an increase of +24.8%.

Stronger sales, particularly in Belgium, the Netherlands and Germany, underpinned the performance of the European operations, with H2 sales +8.1% and FY17 sales +26.9%, an increase of +2.8% on a SSS basis.

"Our European markets delivered new initiatives in technology and food tailored for local preferences, including our first deliveries in Europe (in Hamburg) using an autonomous ground-based vehicle, in partnership with Starship Technologies."

Domino's added 72 organic new stores in Europe, a record for the market, finishing the full year at 865 stores.

Netherlands and Belgium successfully launched their own Offers App, Germany has fully embedded the Company's point of sale and online ordering platforms, and France launched OneDigital online ordering.
The rectification of the OneDigital issues in France, highlighted at the Half Year, were delayed by four months, in order to ensure it was customised for local markets.

"The online platform has lifted online sales above 45% in France, and 55% in Germany (the highest in Europe), with the Netherlands/Belgium growing online sales by +42%.

"The Netherlands is delivering on Project 3/10, reducing average delivery times and setting a new record for Domino's globally, with the Netherlands' Winschoten store recording a global weekly record average delivery time of 9m:26s. Customers are rewarding us for this focus on making their orders easier and faster."

Continued enhancements to Domino's menu, at all price points, are delivering improved operational efficiencies and higher customer satisfaction.

The Netherlands and Belgium menu has added more meal options, including sandwiches, and the French menu now includes a value range "Bons Plans", increasing value perception.

"We believe this new French value-range will deliver stronger sales. Initially its message did not resonate as strongly with customers as we would have liked - we have learnt from that and adjusted it.

"European sales more closely reflect seasonal impacts than in Australia/New Zealand. A hotter summer, after high sales growth related to the 2016 UEFA Euro Championship, impacted Same Store Sales this Financial Year.

"We believe we have addressed these issues, as reflected by our trading update for the first weeks of H118."

Japan

Network sales in Japan grew +8.4% on FY16, achieving revenue of $418.1m (+4.2%) and increasing EBITDA by $8.1m or +17%.

Mr Meij said the Japan performance did not match the strong performance of the European and ANZ operations, with -0.6% SSS.

"We are pleased with the SSS improvement in H2; at +3.6% the strongest in more than two years, but this did not meet our expectations from the previous half.

"The results in Japan were not where we wanted them to be. The reasons for this are clear to us, and we are actively addressing each of these areas.

"We look forward to our new menu launch in H118 and from leveraging the implementation of the OneDigital online ordering system. With positive customer count in the first weeks of trading of FY18, we anticipate positive Same Store Sales growth for FY18."

More than 300 stores have now been converted to the Mugen design (new image), with brighter images, a repositioned make-line, and more dine-in areas, and an additional nine stores have been converted to carry-out friendly locations.

The changes are reflected in the Japan market's sales; carry-out sales reached 49% (+4% pcp) and digital sales reached 58% (+3% pcp). Japan opened 40 new stores in the Financial Year, to 493 stores, and continues to add more Franchisee-owned stores, up +50 to reach 183 stores. This means Franchisee stores now account for 37% of the network.

Share buyback

The Company today announced a share buyback of up to A$300m. Details are set out in a separate announcement.

Looking Forward – DMP Group

In ANZ, the Quality Fresh menu (launching 20 pizzas and sides over 20 weeks), supported by new, premium ice-cream offerings, is expected to drive both sales and, particularly in the case of the new ice cream offerings, additional occasions.

All pizzas on the new national menu in Australia are now the same size, across the range. Premium pizzas, which will account for more than 40% of the national menu, are larger than the previous Chef's Best pizzas. Traditional and Value Range pizzas are the same size. As part of an ongoing programme of tests in live markets, the Company is testing incrementally smaller pan sizes in some stores, which would also provide stores with more pricing options. However, no decision has been made to expand beyond trial stores.

In Japan, new product developments will focus on the individual customer, a market in which Domino's currently has a small share. Domino's has launched a new, simplified menu, with tiered pricing. These initiatives have delivered a +5.1% increase in customer counts in the first four weeks of trading.

In Europe, Domino's will launch "Taste the Colour" menus in France and Germany. As with the successful ANZ launch, these menus concentrate on increased quality in new pizza recipes. Germany's menu will benefit from the launch of Garlic Bread and Cheesy Garlic Bread, at affordable price points. New products are also being added to the menu: pasta will be reinvented and relaunched in Germany, and sandwiches will be added in the Netherlands and Belgium, increasing lunchtime customers. The Netherlands is currently testing additional new products, which are expected to launch in H218.

Domino's has seen significant improvements across its operations through its implementation of Project 3/10, and is committed to ensuring more stores are 'Project 3/10 ready' in FY18. More than one in four stores are now using E-bikes and Domino's will expand their use in ANZ and Europe. The improved use of data by managers (for example when drivers are near to returning to stores), is allowing process changes that ensure meals are hotter and fresher when the customer receives them.

Domino's will increasingly use our digital platforms for automated and targeted digital marketing activity, including opening up our successful Offers App to offline customers. The Company anticipates FY18 will be another significant year for launching market-firsts for our industry in ANZ, including using A.I. technology to enhance quality control in-store, and will announce further details throughout the year.

In Japan, Domino's will leverage the implementation of OneDigital, this month, to drive increased sales, including through targeted offerings and an improved ordering experience, as it has in other markets.

Europe is expected to be the largest growth engine in the Group's future, forecasting to pass the landmark of 1,000 stores during the next 18 months.

Our European operations will benefit from the successful development of technology innovations. These include rolling-out intelligent rostering system Tanda and 20-minute delivery guarantees (both launching in Germany), GPS Driver Tracker (Germany and Netherlands/Belgium), and daily deliveries using autonomous ground-based delivery units, in partnership with Starship Technologies (Netherlands/Belgium).

FY18 Group Guidance and Trading Update

Domino's operations in FY18 have started well for both sales (+6.3% for the Group) and organic store openings, which were strong at +12. ANZ SSS growth has started strongly, but will be lower in H118 following double digit SSS growth in consecutive years, and the company's highest SSS growth in October 2017.

Europe has started FY18 well, and is already benefiting from the OneDigital implementation. In Japan, SSS started FY18 in line with FY17, and the Company expects positive SSS growth this financial year.

CAPEX Guidance

$80-90m, excluding CAPEX associated with Japan buy-out, as this is still to be determined.

FY18 NPAT Guidance

Domino's is confident in its multi-region strategies and its ability for Management to execute on these strategies in all markets. The Company is offering FY18 guidance of NPAT growth to be in the region of **20%.**

FY17 SSS Guidance

- SSS Guidance for ANZ 7-9%
- SSS Guidance for Europe 5-7%
- SSS Guidance Japan 0-2%

DMP is also set to open between 180-200 new stores in its markets.

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 more than 2,000 stores. For more information, visit www.dominosinvestors.com.au

Nathan Scholz, DMP Communications Manager: M: 0419 243 517 **|** E: media@dominos.com.au