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PRESENTATION

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Good afternoon, all. This is Nathan Scholz, Domino's Chief Communications and Investor Relations Officer, joining from Brisbane. With me on this call today is our Group CEO and Managing Director, Mark Van Dyck, as well as our Group CFO, Richard Coney.

(Event Instructions)

So, the next person you're going to hear from is going to be our Group CEO and Managing Director, Mr. Mark Van Dyck. Mark, over to you.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Thank you. Good afternoon, everybody, and thanks for joining this call today. I'm going to break convention and start with an apology. Firstly, for not being on video and secondly, for my voice. I just got back from a business trip this week and unfortunately, came down with COVID.

So not looking my best at the moment. We've released to the market today a trading update and announced that as the first part of a comprehensive review, we made the decision to close 205 loss-making stores, the majority of those being the 172 in Japan. I wanted to just start by giving you some context on the rationale for this, and also, on the timing.

When I was appointed to this role in November, I said we would move decisively to reshape our business for long-term success. I said that where change is required, we would act quickly and transparently, and we hope that you are seeing that today. The priority for us obviously remains clear, which is creating value for customers, franchise partners, and shareholders.

And so, one of my first steps as CEO was to undertake a comprehensive strategy review, which I obviously sort of foreshadowed when I took over. And that has two parts of, in my view, very powerful equation, cost efficiency and strategic growth.

Both parts of that work is ongoing, and we'll provide an update at our half year results on February 25 and then plan to hold a detailed strategy day later in this half. So, on the subject of timing and why now, frankly, as we proceeded with this work, it has become clear that we have a significant number of loss-making stores, particularly in Japan, and that they have a limited ability to reach profitable weekly order counts in the near term or foreseeable future.

And as our plan reached this level of certainty on that particular aspect, we felt we had an obligation in line with our continuous disclosure requirements. At the same time, given we're well progressed on finalizing our H1 numbers, we thought you'd welcome that, and we provided somewhat of an update on that today.

As we've been carefully working on the turnaround plan for Japan, it became clear that we opened a large number of stores during the extraordinary period of COVID trading, and that those were not really sustainable when sales normalized.

And that was coupled, as you'll recall, in Japan with historic levels of cost inflation. Something that had a major impact in Japan because Japan economically was very unused to that. Some of these were in under penetrated prefectures where we really didn't have the benefits of scale.

And in other prefectures, we had simply over fortified during that time of extraordinary demand. So our action here is to set the right base for stronger sustainable growth, a market leadership position in Japan, a strong brand, and a network of experienced franchise partners unburdened really by this additional drag of loss-making stores that we feel would not achieve sustainable sales in the near term.

So as the focus of today's announcement relates particularly to Japan, I thought I might maybe anticipate and answer a few obvious questions. I think some of the expected questions would be these, and so I'll just give you some headlines on each. But an obvious one is, are we done with store closures either for Japan or the network.

I've made a real commitment to transparency, and today's announcement is based on what we can see in front of us. Obviously, our announcement today also includes 33 stores in other markets outside of Japan that have been subject to the same sort of review, and I believe that we've made the necessary decisive actions on store closures for all our markets.

Which will allow us to focus now on sustainable growth of a right size base in our regions overall, and focus on that critical dimension of our growth, which is the same store growth, which is the sort of focus that, other retailers have as a sign of, health in the business.

Number 2, I guess an obvious question also is, do we still believe that Japan can deliver long-term growth. Our feeling is yes. I mean, in terms of the kind of structure of Japan, it's a very large QSR market worth AUD105 billion. And still in our view, an untapped QSR pizza category worth [\$2.2 billion] of which we have significant share and leverage and still with the average consumption of two times a year which benchmarks really significantly lower than many of our other markets or other international markets.

We're still working as part of the full potential plan for the business, on a full potential plan for Japan, but already through that process, we believe there is an upside, and at the center of that is improving our customer proposition, including pricing. We obviously still need to demonstrate that we can achieve that long-term growth, and there are really 5 areas that are our immediate focus for us.

The first one is resizing and reshaping the network, which obviously we're announcing and talking about, and most importantly, taking action on from today. The other 4 are reset our pricing and promotion strategy. There is really significant opportunity in that, tailoring our propositions to win in incremental occasions and aggregators. Accelerate the conversion on our online ordering platforms that are very important to our business as you will know, and continue to work to improve our food margins.

We are really committed to being disciplined in expansion and prioritizing locations in higher density prefectures where we can really drive incremental, sustainable, profitable growth. A third question that I might anticipate, if I may, is, would we exit Japan or another market? I mean, look, we generally operate in large attractive markets, which typically are markets where we have leadership position.

Clearly that said, our performance in the past few years is not delivered on the returns that we expect, and I didn't come in with any preconceived views on our network, and I believe that it is appropriate that we approach this process by considering all of the options on the table as we refresh and review our strategy. And that's a very important piece of work. We'll continue to work through our cost efficiency program. On our strategic growth plan, and we'll provide an update at a strategy day later this half.

And then the fourth question that I would imagine would be in your minds is, what does that mean for long term store network targets, including Japan? I mean, what I'd say up front, of course, is there is still significant opportunity, as I said at the beginning in this business, and that remains. I mean, we've previously advised prior to my appointment that the time frame for the longer-term targets would not be achieved.

When we look at the market opportunity across our portfolio and our position and strength in market, it is sizable. But the opportunity in our view, is not just in stores, but also in building out our consumer value propositions, growing sales in our existing network, which is incrementally more profitable, and then obviously adding on that solid base, new store growth.

And we'll again provide an update on the full potential of our markets at the strategy day that we expect to hold later this quarter. So, I hope that's given you some answers to the obvious questions. And I'm sure you will have some others. We might just -- I might just hand back to Nathan, to orchestrate that.

Thank you.

QUESTIONS AND ANSWERS

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Shaun Cousins.

Shaun Cousins - UBS Investment Bank - Analyst

Great. Thank you. Maybe just a question regarding the store closures. 172 of the 205 are in Japan. Could you outline where the rest are by region, particularly in terms of France, Germany, other Asian markets, please?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Shaun, we haven't provided a breakdown on that granularity yet today. We have a European versus APAC split. Perhaps if I hand over to Richard for that split.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Yes. It's largely the outside of Japan, there's -- so I won't go into detailed numbers by country, but the difference is predominantly in Europe, approximately 30-odd stores, and then the rest is a small number in ANZ and a few of our new Asian markets.

Shaun Cousins - UBS Investment Bank - Analyst

Great. And my second question is just around cost savings. In '23, the company guided to cost savings of \$80 million to \$94 million in total across '24 and '25, you realized \$50 million in fiscal '24, hence there's another \$30 million to \$44 million to go. What level of cost saving realization occurred in the first half?

And conscious that we also need to factor in that the third was shared with franchisees please, but maybe just the first half in impact profit before tax that you've provided, how much of that was driven by net cost savings, please?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

So, I'll leave that one to Richard to answer. I mean, obviously Shaun, while Richard comes back to you in a moment, we have previously shared that obviously we've been dealing with inflation as well, which has eroded some of the benefits of those savings that we achieved.

And also, obviously, we've recognized in this announcement today that our sales in the first half, on the same store basis were not where we needed them to be, and so obviously that has also led to some deleveraging and pulled some of those earnings away as well.

Richard, and apologies and bear with us, Shaun, at the moment because I'm masked up and we're in some different locations as a result of an unfortunate COVID case. Perhaps if I then hand back to Richard for some further.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Shaun, look, I just say it's really a mixture, and we'll probably go into that in more detail at the half year. So if you could, bear with us on that one, mate.

Shaun Cousins - UBS Investment Bank - Analyst

Okay. We'll take it on notice for a few weeks' time. Thank you very much.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Michael Simotas.

Michael Simotas - Jefferies - Analyst

Good afternoon, everyone. The first one for me, Mark, I was hoping to pick up on some of the comments you made, around the store closures and the extent to which, you've completed the review and being comfortable with what you've put forward so far.

Do you have any additional stores that are losing money, and you are reliant on increased sales per store to lift the economics? And are there any that are profitable but pretty marginal unless they lift their [AUs], they're not likely to generate a reasonable return?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes. So, look, Michael, it's a good question. I'll answer you very directly. I mean, we went through a very extensive exercise on this, because I mean, obviously, every store and every franchisee relationship is really important to us.

And I mean, clearly, as I said before, as a business, we need to improve franchisee economics overall. And that's a combination, obviously, of some of the cost efficiency work we're doing. But we have to increase top line growth. But we have gone through very rigorous assessment.

I mean, in the case of Japan, there's about 2 to 3 months almost of work that the Japan team have done on this, making sure that we really understand whether there is sort of a short term salvageability, because we don't want to close doors that could have been grown, but I think we also want to make sure that we now have a very solid base to grow off.

But to your question, clearly, we believe we've achieved that. But the second part of the equation is to make sure that we kind of get back into that virtuous circle of driving top line growth, so we improve, A levels and franchisee economics overall. And that is a very strong part of our focus right now, both short term and also the kind of longer-term growth plan that we're putting together that we hope to be able to share you at a strategy day later in the quarter.

Michael Simotas - Jefferies - Analyst

Okay, just to clarify to make sure I'm interpreting what you've said correctly. So there probably are some that are marginal or even loss making, but you're pretty confident that they will be viable?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes, we are based upon what we can see in front of us right now, absolutely.

Michael Simotas - Jefferies - Analyst

Yes, okay, after a comprehensive review, that makes sense. And then the second one from me is on the cost efficiency piece. How far through your program of looking for cost efficiency are you and how much bigger do we think that number can get over time?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Let me answer that as follows, because I think there's kind of, two measures. In terms of the process, we are well underway on the cost efficiency program, but you will understand that inevitably these programs become sort of multi, multi-phase and multi-year in terms of delivery. And I'm actually very comfortable with that because I think any food business in the current economic context of, like 3% to 5% inflation in food and labor inflation has to focus very hard on continuous efficiency.

We've shown you today, a snapshot of where we believe that we are at right now. I do not believe that to be the full extent of it, but I cannot give you the full extent of it because we're still in play, particularly in terms of vendor collaboration, workshops and stuff like that, to understand the art of the possible.

We may be able to give you a little bit more on that at the half year. And we'll certainly be able to do it later in the half of the strategy day, but it is a very robust process that we have underway, and it's pretty multifaceted. But I also don't want to indicate that we are seeking to just cut ourselves to victory here, the equal focus. I mean, you kind of do the cost work, obviously.

To create the venture capital to be able to drive growth, which will be, articulated in our longer-term growth plan, but also as a way to be able to enhance franchisee economics in the sort of short to midterm as well. But the focus on getting top line growth is equal energy in the business right now, and I hope that answers your question.

Michael Simotas - Jefferies - Analyst

No, that's really helpful. Thank you and well done. It looks like you've done a lot of work in a few months.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Ben Gilbert.

Ben Gilbert - Jarden Australia Pty Limited - Analyst

Hi, good afternoon, Mark and team, thanks for taking the time today. So Mark, it seems like you've obviously, as you said, been pretty busy. Obviously, the concern when it comes in new CEO can have periods of rebasing it probably looks like it's the other way.

Are you pretty confident in terms of the broader length of the business and where it's sitting? Appreciate obviously you've got more work to do around cost out, but there's nothing material you see in terms of need to put cost in or any major impairments, etcetera. Over and above what you've already come out with.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Based upon what I can see in front of me at the moment, no, when I came in, I had a period of, how do I describe it, almost amnesty in the business so that we could get clear visibility on any, kind of significant issues that we need to deal with.

Richard and I have been working on that since, and, frankly, we feel we've got a good handle on that. So, I think my simple answer to you is based upon what we can see right now, we have a good handle on it, and you're seeing the kind of, majority of that and the first phase of it, certainly.

Ben Gilbert - Jarden Australia Pty Limited - Analyst

That's great. Thank you. And just like one for me, just interested in how you're thinking around managing to the prioritization of franchisee profitability versus shareholder profit growth, because obviously the franchisees are the core of the business, and they need to be hungry, and you need to create that demand within the system. So how are you thinking around managing that?

And I suppose specifically as we look at the incremental savings you've announced today, should we assume that a third plus of those are going to be handed back? Because we add these up now in terms of 10 mil foreclosures, 20 mil from your prior announcement, and say 10-odd, it's a pretty decent tailwind from a cost out and consolidation standpoint to next year and obviously you've got to try and find that balance between shareholders and your franchisees.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes, well, you -- I think without being cheeky, you've answered the question for me. That's my challenge, right? Which, you have to manage them in tandem. It's obviously appropriate that shareholders would see a benefit from the efficiencies we drive in the business.

Look, I, my philosophy on it is that as much as we can, we share this with franchisees on a collaborative basis. I'm much more of a fan of being able to align with franchisees on value share that's particularly focused on driving growth, rather than just kind of redividing an existing pie.

And so, we're putting a lot of thought into that right now. And I think that will create us a more sustainable growth platform for the future. So, that's my focus. And I suppose what I'd also say to you is that we haven't fully completed. The strategic or value creation plan, or strategic growth plan for the business, as we said, we'll have that and hold a strategy day later on in the half.

But I think as a result of that, we've yet to decide and we'll definitely share what we have decided where we're best to invest those efficiencies in terms of a maximizing return on investment way. And that is part of the exercise. So we'll be able to give you more granularity and more color on that at a later point. Does that answer your question?

Ben Gilbert - Jarden Australia Pty Limited - Analyst

Yes, that's really, it's good to hear you talk about the Roy as well because obviously these sorts of businesses have got opportunities to generate some pretty material returns, and it feels that Domino's is hopefully going to be in that position to do that again soon.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes. And that is the nature of the reason we call it the kind of, value creation plan is, obviously, one of the things that we're looking at is where we will get maximal return and make those active choices, which I think is one of the critical aspects of strategy.

Ben Gilbert - Jarden Australia Pty Limited - Analyst

No, that's great. Thanks, Mark, appreciate it.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Craig Woolford.

Craig Woolford - MST Financial Services Pty Ltd - Analyst

Good afternoon, Mark and Richard. My first question just follows on from the issue around franchising. Can I just get a sense on franchisee profitability or health in the other regions, given the slowdown in comp store sales, particularly in Australia, has there been, any deterioration in franchisee profitability in the last 6 months?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Craig, maybe if I can defer that, I mean, we're 3 weeks or 2.5 weeks away from the half year results of which we'll provide an update, as standard on the franchise profitability. I think, we, yeah, it's probably appropriate we defer some of those questions for that granularity until then, if that's okay.

Craig Woolford - MST Financial Services Pty Ltd - Analyst

I'll try a different way then Japan (multiple speakers), On Japan you've said that one of your action items to come is investment in price. And promotion, promotional activity or whatever. Do you, is that part of what you've been talking about in the prior question just around collaboration?

Like, is that where some of these cost savings go that you invest in price, which hopefully delivers a better sales outcome? Is that a good way of understanding what you need to do there, that there is some margin impact on your price investment?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Look, I think if I kind of give you a macro picture first, Craig, that talks specifically about Japan. I mean, I think if you think about the attributes of a great food company, there's sort of three dimensions, right? Number one is quality, the second one is value, and the third one's experience, and those that deliver them tend to endure.

On the value piece, we feel as though we could be more effective, and I feel as though we could be more effective on pricing and promotions. So, it's actually not in my view, using savings to discount price lower. I think actually we need to get better at what I call revenue management, where you specifically understand consumer occasions and consumer cohorts and tailor the offer accordingly.

Because if, Mark Van Dyck's ordering a single pizza on a Friday night, I probably don't need a 50% voucher. But if a family, of 8 is ordering 3 pizzas, Obviously, they got more of a value or price focus, and we've got to match that. And I think we feel that we have the apt, we have the capability and the data and the systems to be able to do that better, but we don't believe that we are really optimizing it.

So, we have been doing work as you possibly know and continue to test in Japan a new approach to pricing and promotion. That will kind of meet, more that ethic than we have done before. Because, quite honestly, I think sometimes we discount too much and give away revenue that we don't need to.

And you can, if you're not careful, unintentionally communicate to consumers in the process that it's not quality, which, as I said, is the number one attribute of any kind of great food company. Does that make sense?

Craig Woolford - MST Financial Services Pty Ltd - Analyst

Makes a lot of sense. Yes, so there's certainly some efficiency and effectiveness of the price investment for sure.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes. And we've just done, Craig, as you possibly remember, we've just done a fairly significant piece of work in Japan. With an external consultancy that specialize in this around sort of price elasticities and pricing strategy and part of our plan for Japan, our full potential plan for Japan is actually, leveraging that insight to do, basically what I just said.

Craig Woolford - MST Financial Services Pty Ltd - Analyst

Okay, very clear. Hopefully this question can be answered at very different, tack here, but just the half to trading started positively 4.3%, same store sales growth, which is a good number. But then there is a footnote suggesting that there was some, benefits from seasonality in particularly in Asia. So is there more clarity you can provide on the performance in same store sales thus far in the second half?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

I mean, I think what we can say is that, I mean, that 4% across the group in the first 4 weeks was obviously positive. But I have to say that the results are somewhat flattered by the timing of seasonal celebrations in Asia, which, always happens. It's one of those things that you kind of have to live with and it it shouldn't be a surprise if the number comes down a little bit.

On our next update at the half year. But we are very strongly focused at the moment on making sure, as I said before, that we're doing what we need to do to drive short term same store sales growth and top line health. And there's a lot of the teams focused on that right now. And I think, we'll be able to give you a bit more color on that at the half year, and then full of color at the strategy day later in the, in this half.

Craig Woolford - MST Financial Services Pty Ltd - Analyst

So is it possible to -- for us to understand what, the ex-Asia same store sales performance is? Appreciate you want to give more away on the result day, but I would say that the delta is quite meaningful. So understanding the underlying trend versus the, reported number is probably quite important.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes, we are not being evasive. We're reluctant to give that right now, only because it's literally, we're talking about, one month of trading, and we haven't even got the effect fully washed through yet. So it's actually hard, honestly, to give an educated view on that right now, Craig.

Craig Woolford - MST Financial Services Pty Ltd - Analyst

Okay. Thank you.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Brian Raymond.

Bryan Raymond - JPMorgan Chase & Co. - Analyst

Thanks guys. So, first one just for me is just around the benefits from store closures, \$15.5 million. Just going to understand if that is simply the sum of the losses coming out of those 205 stores or if you've made any adjustments or.

Thought much about the dyssynergies of having a network that's materially smaller in Japan. And I'm sure there's some fixed costs and some other impacts, which would be a bit of an offset to some of those losses that you no longer need to bear. So, yeah, maybe if we could start there, that'd be great.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Sure, I might hand over to Richard Toney for that one.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

That's a really good question. And in fact, we, the exercise I think Mark alluded to, was a very comprehensive process that that my team in Australia reviewed, but ultimately it was the team in Japan where they went through and looked at exactly that, if we, how much impact would that be to our advertising funds, how much impact.

Would that be in terms of, like you said, inefficiencies if we remove stores below a certain criteria. So, all of those factors were taken into account. In addition to that, we've even looked at very scientifically how much of those sales, the delivered sales, digital delivered sales would be passed through the surrounding stores. So we took a very, let's call it very scientific approach to it.

And looked at all of those factors, and then from there, that's how we got to the net number that takes into account some of those dis-synergies. And, but to answer your question, the majority piece of it is just the profitability of those corporate stores. There are, let's call it unprofitability, that is being removed along with all of those other points that we looked at. Is that, does that answer your question?

Bryan Raymond - JPMorgan Chase & Co. - Analyst

It, yes, no, it does, but it sounds like it's a holistic figure rather than just simply the operating losses, which is, which is comforting. Okay, great. Just in terms of the nature of the exit within those within Japan, could you help us understand how much of that is sort of exiting entire prefectures where there is no sales transferability versus, taking out stores in certain areas of major cities where you're going to continue to have a strong presence, and that sales transfer is more significant?

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Yes. I'm not sure if I can start that one, but I'll let, maybe let Mark as well, but fundamentally, it's actually a mixture across all of those points you've raised, Bryan. So, there's some where we've come out of a whole prefecture.

There's some where we've Maybe even not that the whole prefecture, but there's, a certain city that we might keep stores open at, and then there's just ones where we've over penetrated and we've split the market too many times, even in a city like Tokyo. So, there is a mixture, so it wasn't just one predominant thing I would say it's yeah, it's a mixture.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

If I could add some additional cover there, Bryan, before we move on, there was one prefecture we've mentioned in the release that we've exited, and I apologize to all of our, Japanese speaking attendees at the Owa prefecture that we've exited.

The majority when we look at them, in terms of bulk, the majority are in prefectures where there is some transferability and we we'll be able to give you, some level of that capture, and some additional color at the half year as well.

Bryan Raymond - JPMorgan Chase & Co. - Analyst

Okay, final one for me, if I can sneak one more in, is, just, I noticed on your website, on the store's page, France has closed 12 stores in January, so I track it, sort of each month. Is that, is that part of the 33 non-Japan stores which are set to close, or is that, are those 33 in addition to what's happened in France?

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

So, Bryan, I don't think we said there was 33 in France.

Bryan Raymond - JPMorgan Chase & Co. - Analyst

No outside of Japan, sorry, 33 non-Japan stores, so those.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Ones that have closed already. Aren't part of the 100 of the 200 odd stores.

Bryan Raymond - JPMorgan Chase & Co. - Analyst

Okay, so there's 12 in France, 2 in Germany, I think, and then just since the new year. So yes, okay, great. So it's not incremental. Okay, thanks a lot.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Richard Barwick.

Richard Barwick - CLSA Australia Pty Ltd - Analyst

Okay, yes, good afternoon, guys. I sort of had a similar question just going along, thinking about the store closures mentioned in the text that they'd be done in the 4th quarter, or starting in the 4th quarter. Will all this, the 205 be completed in this financial year? Is that the expectation?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Richard, if you're just to clarify --

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

I would say the majority, except for maybe. A few of, a couple of our European markets where there may be, sort of challenges with unions and whatnot. So there may be some delays, but I -- it, for your exercise, I'd assume they'll all be closed, but there may be a handful that we take a little bit longer.

Richard Barwick - CLSA Australia Pty Ltd - Analyst

Okay, thank you. And then looking ahead, what are you thinking now? So once that exercise is complete, the stores are closed. There, how quickly can we be moving into, a store opening? Because, I mean, if I'm actually looking at the Japanese store numbers that you've disclosed to date on the website, there's actually looks like they are, have the stores have been opened recently.

And certainly, some other regions you're seeing some store openings, particularly I think in Malaysia. So if we think about the sort of the store growth profile, if there is one, into FY26, what can you say there? Or should we be thinking this more of a case of you'll be pausing let things settle with the with the store closures and reassessing before moving into store opening?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

I mean, let me try and answer that one for you, Richard, if I may. I mean, I think, look, it is to a certain degree specific by market. We obviously have some markets where we're still building sort of scale, some of the sort of emerging Asian markets, for example.

And we do have a sort of natural level. I mean, I think we've opened something in the region of 20 this year already. And so, we do have a kind of natural level of store openings, because we don't want to miss opportunities. And certainly, as I've gone around our stores and regions, one of the things that's quite striking is this sort of growing emergence of constant of population clusters. I was out west recently and one of our stores had got an incredible uptick because somebody built a 30,000-housing estate, in the vicinity of our catchment.

So, you've got to make sure that you are seizing on those. But to be frank with you, I think it's back to the point I made before about the fundamentals of this business, which haven't changed and getting back to the virtuous cycle. We've got to get the customer propositions driving same store sales growth. To get, healthy economics, to then be able to expand the store network.

So I've certainly got a focus on same store sales growth. As important, maybe if not more than just, numbers of store openings because we want to make sure we have a very strong foundation to grow on and clearly want to get back to store growth, store opening growth as quickly as possible, but do not want to repeat history, right? So I think that's really our kind of philosophy and focus and mood on it overall.

Richard Barwick - CLSA Australia Pty Ltd - Analyst

Okay. And then just the last one for me is on France. I was a little bit surprised at how little you've said about France. I mean, we all know there's two problem markets for you guys, Japan and France. And so there's a lot of detail here on Japan, and I think you've given some confidence there that has largely been dealt with.

But France, I mean, the disclosure is, it's still negative like for likes, the suggestion would be some of those 33 stores will be closing in France and you think that's it. Are you any closer to, I don't know, having the answer in France, and I guess what I'd be interested to hear from you, particularly Mark.

Has your attention been mainly on Japan? Because the impression we've had, was that perhaps, Jack Cowan was a bit more involved on France. And so, is he overseeing that more so than you? Just a little bit of, context there, I think would be helpful for everybody.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

So look, let me ask as follows, Richard. I think back to the context of this call, the reason that we felt it was important to jump on a call is that we felt that this level of store closures was material, and we really should disclose.

We'll talk about France in our mid-year in a couple of couple of weeks. But to answer just a couple of implicit questions. Nothing, nothing's off the table, and France is part of the broader strategic review and also full potential growth plan for the business. So no, I haven't focused just on limited geographies. I've got a purview across the whole business and the whole exercise, both costs.

And growth creation is focused on all of our geographies, and France is included within that. So you're right, we've got to find the way forward in France, and we're certainly not shying away from that. We'll be able to give you a bit of an update on that in a couple of weeks' time and then I think the strategy day will probably complete the picture.

Richard Barwick - CLSA Australia Pty Ltd - Analyst

Okay. All right, that's great. Thank you, Mark. I look forward to that.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

No worries.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Caleb Wheatley.

Caleb Wheatley - Macquarie Securities (Australia) Ltd - Analyst

Afternoon, Mark and team, thanks for taking my questions. Just to follow up to the network savings, and the sharing of that, just as we, work through this turnaround phase, I suppose, would it be unreasonable to think that initially anyway there's, more of that savings reinvested into The franchisees to get that momentum back and then, arguably over time that begins to come back to DMP shareholders or it has to be think about I guess the timing within those or the sharing of those savings?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

So, not to in any way give you a sort of overly complex response, but I think that what our view and our focus has been to create the oxygen to be able to drive growth. And in a sense, franchisees benefit from both choices for us. We're either going to put it into Aside from sharing with stakeholders and shareholders the benefit, we're either going to be putting it into driving top line growth, which of course benefits franchisees, or more directly into improving their economics.

And the exact algorithm for that actually does vary by market. And we're obviously working through that as part of the growth plan. But I have very firmly in my sights, and it's one of my top priorities, as I said when I joined, it remains the same, that we have to improve our franchisee unit economics overall.

And as I said previously, we've, we are very focused on that. And ideally, we do it in a way that it has a kind of perpetuity or a multiplier effect. Where we are aligned around things that will join drive growth together rather than just a straight transfer of value, if that makes sense.

Caleb Wheatley - Macquarie Securities (Australia) Ltd - Analyst

Yes. I guess what I'm getting at is, I imagine it is that initial kind of reinvestment today, and it ultimately comes back to DMP one way or another in, whatever time frame it is. I know it's early days still, but that doesn't sound like an unreasonable way to be thinking about how those savings are going to be thought about, at least in a sort of near to medium term?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes, I mean, look, we have done, as you know and continue to focus on making sure that franchisees are supported and that we're advancing franchisee economics, made some good progress recently in Australia, for example, but it is back to the kind of virtuous cycle where, the other way to do it is to make sure, for example, in some markets we're putting more into the ad fund.

Because that raises all ships, and sometimes that's a better outcome. So, I think that's the essence of our business is, our challenge is to make sure that we're making the right decisions, for the whole system, and our shareholders in how and where we reinvest it. I'm not being evasive.

I mean, ultimately, when you see our strategic growth plan, I think it will answer some of those questions as to what's the best return. And the best outcome, not only for franchisees, but the system as a whole on where we'll invest. But obviously, the focus right now is to make sure that we are driving as much efficiency in the business and, hopefully, the announcement today, proves a good first step.

Caleb Wheatley - Macquarie Securities (Australia) Ltd - Analyst

No, I got it. Thank you. That's helpful. And then my final question, just on your earlier comments, around key things in food being quality, value and experience and obviously sticking with Japan, as a growth market. I know you've obviously spoken through the value portion, but just kind of get your thoughts on, where you think that Japan network is sitting from a quality and experience perspective.

There's been some press over the last couple of Christmases around some challenges there, but just keen to hear how you're thinking about those three major pillars, in a holistic sense in Japan right now.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Yes, I was -- so to answer that directly, I mean, obviously, there's always work to do. I was in Japan a couple of months ago, which was the preparation for December, which is a critical month. One of the challenges is that Japan is quite seasonal, and the team did a very good job overall, in my view. We do actually have a challenge that our system does still struggle.

To deal with the massive surge in demand that we get over the Christmas period, and we're still honestly kind of working on resolving that. This year was the first time that we also introduced delivery as a service, because some of the constraints before had been, adequate delivery drivers and stuff like that.

And so, that was a really big, this DAS model was a really big game changer because it allows our franchisees the ability to flex up and flex down on deliveries. But I think it's probably fair to say that there's still, more to do and we've got to work on that. In terms of overall, quality delivery, clearly work on on developing the product portfolio still, but I was really impressed actually by what I saw in our teams and the commitment to that. I hope that answers your question.

Caleb Wheatley - Macquarie Securities (Australia) Ltd - Analyst

That's great. Thank you very much, really appreciate it again.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Lisa Deng.

Lisa Deng - Goldman Sachs & Co. LLC - Analyst

Okay, thank you, Mark. Just a couple of questions from me. Looking at the Asia same store at 4.2, it sounds like most of the regions except Japan exited on a better rate than entry into the half. So can we talk more about Japan specifically? Did the same store sales through the half improve, flat or deteriorate, please? And what exactly is the reason, for that now that you've had time to really dissect?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Yes, perhaps if I hand that one over to Richard, then I can come back for any additional color.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Yes, so Lisa, we don't generally give this much detail, but I can say that in the, in Japan specifically, that the, let's call it the first few months pre-Christmas, weren't to expectations, around, we weren't executing, or the promotions weren't as successful. And then as we hit that Christmas New Year period, and Mark talked about and a lot of that is around execution and being able to deal with the volumes, that was where we, where our same store sales lifted.

Lisa Deng - Goldman Sachs & Co. LLC - Analyst

Okay, so your Christmas --

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Yes, so I can also share some additional color that we previously advised, and that was in that last half of the of the last calendar year, one of the things we were doing is we were also rolling a period of discounting which had delivered us higher.

Volume of sales but at lower margins and so the management team at the start of CY '24 had been, and this is what we previously had been pulling back on that level of discounting and so we chaired it while we were having lower same store sales, that was at a higher margins as they've been

rolling through, and that also in many of those periods also had a higher level of customer account as well. So the same store sales picture is a bit more nuanced than just looking at that one negative number, albeit we obviously always want to be printing positive numbers.

Lisa Deng - Goldman Sachs & Co. LLC - Analyst

Got it. And then my second question is, if I just average \$100 million loss in network sales across, call it 205 stores of closure, it's roughly averaging 500 per \$500,000 sorry, per store. If I look at the average Japan store, sales per store that I have, is around 7,300, so 730. So, if I think about like, what would an average sales per store need to be for break even, in Japan, like, how should we think about that?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Perhaps least if I go back to our previous commentary that we've shared what we were aiming for, not in terms of a break even, but the target we're aiming for was an average weekly order count of about 600, to make it a really profitable and sustainable growth business. That was 600 weekly order counts in there, we hadn't given a sales number though.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

But like -- The other thing is that what we find in Japan is that it is the maturation profile of these stores and obviously that got really accelerated through the COVID period. But we also have a lot of stores that are very profitable because they've been a for long and they're in our markets where we, we're highly penetrated.

So it's not, it's not like a simple question of, what's a break even. It's very dependent on maturation profile. How long have we had the store, and then the location. So, yes, it's a very complex dynamic in Japan.

Lisa Deng - Goldman Sachs & Co. LLC - Analyst

Yes, but did I hear earlier that the 170-odds that we're closing in Japan is largely what's loss making at this point and there may be some left, but like we, we're confident that it'll go back. Like we could, it's a feasible profitability profile from here. So largely most of the lo loss-making stores in Japan are now cut with this announcement. Is that right?

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Correct.

Lisa Deng - Goldman Sachs & Co. LLC - Analyst

Okay. Final, with the amount of number of stores that we're cutting, like, have we been communicating, I'm sure we have with DPZ, how do they feel about it and does it get us, to any sort of potential breaching of master franchise agreement conditions, etcetera.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Do you want me to answer.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

That? Alright, well, perhaps Lisa, without going into the conversation, but obviously you can imagine we have regular conversations with DPZ on a weekly basis right across the business, but we, yeah, I can't provide more color on that other than to say that we have regular conversations with them.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

But I'll just say that that that they've been very much part of the strategy and the turnaround plan for Japan and the market research that we've been doing, and they're completely aligned with and and agreeing to the strategy.

Lisa Deng - Goldman Sachs & Co. LLC - Analyst

Okay, so that's supportive there. Got it. Thank you.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Lisa, so I just say one of the things that we have focused on since I started is to work very collaboratively with DPZ because clearly there's an awful lot of resource there and knowledge. And one of the benefits of a kind of, global entity like that is that if you're facing challenges in markets, there's a likelihood, when I saw this in my Coca-Cola days being a sort of headquarters, if you see an issue in the market, the chances are they've seen it 3 times somewhere else. And so, we have very regular sessions with DPZ, to work together and that's working well for us, so they've been very supportive.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

[Billy Boulton].

Billy Boulton - - Analyst

Hi Mark, Richard, and Nathan. I just wanted to ask about the French marketing spend step up. At the time of the AGM, you hadn't really seen much improvement in sales or anything as you would have expected. Now that that's been running a little bit longer, has that improved at all? And if it hasn't, what are you doing about that?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

I think the short answer is that we still feel it's a bit early to make a call on that. I think that to give you a sense, there's a few levers that are fairly fundamental opportunities in France that we're focused on. From the advertising standpoint, I think one of the big challenges or big opportunities, I should probably say in France is to just broaden consideration, and that is clearly a focus, but equally, there's some other levers that are that are common to the rest of our business.

I think accelerating aggregator uptake, improving our promotional and pricing strategy and strengthening online ordering. We've just also started to introduce kiosks because France is more of a pickup market, and that's quite a key enabler. So there's a plan in place. But I do feel it's too early to make a kind of comprehensive call on that, frankly, and I'd be reluctant to, make a sort of rash judgment or give you a rash response.

Billy Boulton -- Analyst

Okay, thanks. And in July, when you talked about the store closures, the guidance roughly implied that you're going to open around 110 stores. I was just wondering if that's still the plan considering store openings were running a bit behind in the first half.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

I mean I think I go back to my point before we've opened 20. I think the focus, honestly, Billy for us is to make sure that we are opening stores. Kind of learning from this is obviously fully sustainable and in the right areas.

And so, I honestly think that has to be our focus. And if that's what we've achieved by the half year. You're right. I think, we're not going to be looking at 100 for this year because as I said before, it is about getting it right but also getting a balanced focus on the same store sales growth, which is obviously a very strong economic contributor overall.

Billy Boulton -- Analyst

Yes, okay, thank you very much.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

[Philip Kimball].

Philip Kimball -- Analyst

I had a question on the \$97 million of non-recurring costs. Are they largely cash, or are there some sort of write downs, non-cash write downs within that? If you could, give a little bit of color around that'd be awesome. Thanks.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Richard if I hand over here for you that one?

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Yes, so. I'm just trying to pull the number, I thought we'd actually disclose that. It's 30 -- \$34 million in cash, was the number \$37.4 million was the cash component in the trading update page 3 bullet point.

Philip Kimball -- Analyst

Thank you. Sorry, I had missed that. But then I guess the flow on question, you talked about your -- where you sat versus covenant, so less than 2.5 times the threshold is 3.

Just wondering then, why did you decide to effectively have the capital raising and underwrite the dividend, the interim dividend, and should we assume, the full year will be the same, just if you're comfortably under it, and the cash cost is only 30 mil, I just want to get that understanding behind that.

Richard Coney - Domino's Pizza Enterprises Ltd - Group Chief Financial Officer

Yes, so we had actually already. Position I'm pretty sure, Nathan, correct me if I'm wrong, that we were still likely to have an underwritten for this final dividend, and then the question will be, will we do it going forward. And my answer to that is we'll probably be giving.

Yes, probably updating you, at the half year or perhaps later once we've finished our strategic review. So yes, depending on how that, where we go with that, but I would say that, per your point, it's not something. That's a definite but remembering that we've always said that we would like to be, in terms of our Board's comfort on on debt levels is more like two times.

Philip Kimball - - Analyst

Okay. That's great, thank you.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Ken (inaudible).

Unidentified Participant

I was just wondering about, so in July last year, you decided to shut down 80 stores, right? And so, 6 months later you decide to double the number of stores, in addition to the 80. So, what's changed between last July and today?

Is it a different underwriting standard or have the prospects changed? Can you help me just understand, the reason why you decided after a first review to double the amount of store shutdowns in Japan?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

If I hand over to Mark for that.

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

Look, Ken, I think the honest answer is new CEO and a more fundamental look at the business. We don't undertake these lightly ever, and I think, at the time, That the inevitably in these situations, you kind of have a core of stores that, really aren't going to get there.

And then, some sort of fringe stores that you hope you could improve. I think we've taken a much more, how do I say it, focused, analytical and critical look at that. And that's the reason for the outcome that we've announced today. And we believe that it strengthens the base of our store universe, particularly in Japan, but overall, to give a very good platform to grow from.

Unidentified Participant

So, You're clearly underwriting to a different standard. So, does that mean that the payback of new stores in Japan, your expectations and the threshold has changed, and can you give me a sense of how you view the paybacks? And then, I guess on a related question, where is the biggest opportunity to invest today within the network? Not just Japan, just within the entire network?

Mark Van Dyck - Domino's Pizza Enterprises Ltd - Group Chief Executive Officer and Managing Director

So, on the first part, I mean, Ken, I, we normally look for a sort of 3-to-4-year payback on stores. They can go longer in Japan because you've got a lower cost of capital there overall and sometimes lower expectation of returns in terms of financing. And so, we, we're still kind of with that program.

As I said before, though, in terms of where we will invest against our growth plan, I'm afraid that you'll have to wait until we do the investor strategy day later on. In the second half, because as I think I mentioned, that's a very key part of our thinking.

Where are the opportunities, where's the best return on investment, and that will all be synthesized into a growth plan for the business, and we do look forward to sharing that, but that is still in play, as is indeed our cost work, we've chosen to jump on a call today because obviously, the store closes, we felt was something that we really should share. In terms of disclosure, so more news follows on the rest.

Unidentified Participant

Understood. Are you still sticking to your expectation of positive same store sales in Japan and FY25?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Yes, Ken, we -- obviously our expectation is always to be delivering, positive same store sales. There will be a number of stores that as we shared earlier on this call that we'll be able to pick up, sales from neighboring stores that have closed, which will benefit, some of those stores, but, the work is still underway and we'll be able to provide an update on that at the half year and give you more indication, so far with a 4-week, trading update, which is the devil is in the detail, unfortunately having to provide that in this period of time, it's a bit premature for us to be able to give you an outlook over the rest of the half.

Unidentified Participant

Okay. And just finally, is there any change in management, in Japan to drive this turnaround strategy?

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

No, there has not been any change in the leadership in Japan. No.

Unidentified Participant

Okay. Thanks so much.

Nathan Scholz - Domino's Pizza Enterprises Ltd - Chief Communications and Investor Relations Officer

Okay, thank you so much. I appreciate all of your questions. We've gone through the people who had their hands raised on this Q&A call. We will be coming back for our half year results, on February 25, and as we shared, we'll be hosting an Investor Day, later in this half with a date to be confirmed.

I appreciate I'll get any questions and in terms of exactly when that will be, and I can only commit to you that as we're working through a very significant piece of work that will provide an update on that at the first available opportunities as to when that date will be.

Thank you all for your attendance. A recording of this Q&A call will be placed on the investor website as well as a transcript as soon as that's available. Thanks very much for your time. Have a good day.

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