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# Building steady growth

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| **Company/ASX Code** | Dominos Pizza  Enterprises Limited / DMP |
| **AGM date** | Monday 28 October 2019 |
| **Time and location** | 3pm Dexus Pace, Waterfront Place, Brisbane |
| **Registry** | Link Market Services |
| **Webcast** | No |
| **Poll or show of hands** | Unknown |
| **Monitor** | Kelly Buchanan, Mike Stalley and Sally Mellick |
| **Pre AGM Meeting?** | Yes with Chair Jack Cowin and Nathan |

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| **Item 1** | **Consideration of accounts and reports** |
| **ASA Vote** | No vote required |

**Summary of ASA Position**

The company displays a strong internal culture of belonging.  Former franchisees are moving into some of the management positions worldwide to enculturate the business to the Domino's way.

With geographic expansion of the company into Denmark and Luxembourg in 2019, the pizza baking and delivery business has also continued to expand over the last financial year with additional shops.   A review of their Australasian business has focussed on assisting franchisees to understand the 3TEN target and review their business catchment.  With an aim of instore order completion in 3 minutes or address order delivery in 10 minutes, the company's very clear vision and mission statement (Corporate Governance statement) is achieved.  The digital Pizza Checker ensures the pizza is produced to company standard.

Domino's has had a successful year with revenue growing by $281.5m or 24% to $1,435m.

Net profit after tax (NPAT) was down 5% to $115.9m for 2019 compared to $121.5m in 2018. The growth in revenue is not reflected in the NPAT due to an increase in total costs of $296.5m or 30%. Most costs have increased by or less than the revenue growth except for the marketing costs which have increased by $101m or 204%. The significant increase in these costs is attributable to the change in the Accounting Standards, which has required the expensing of certain capital items. This matter was discussed with the Chair, and ASA monitors at the pre-AGM meeting by and further advice was given that the marketing costs in the future will remain at around the 2019 level.

It is noted that the net effect of the NPAT as a result of the required accounting changes is an increase of $1m for 2019 when other offsets and revenue changes are included. See note 33 for further details.

The Consolidated Statement of Financial position remains robust with borrowings increasing by $52.95m or 8.8% to $651.5m for financial year 2019 (FY19). Equity increased by $38.3m or 12.5% to $346m 2019, with a Debt/Equity ratio of 1.71 for FY19 compared to 1.65 in FY18.

The Consolidated Statement of Cash Flows appears to remain in a sound position for FY19. There was a small decrease in operating cash of $9m or 5% $176.4m 2019, cash from investing activities decreased 2019 by $62.5m or 40.6% to $91.5m, and cash used in financing activities increased by $56.3m from $8.15m 2018 to $64.5m 2019.

The net cash position for 2019 is $101.4m compared to $75.99m 2018, an increase of $25.4m or 33.4%. The end of year figure cash figure appears to provide a strong liquidity position for the FY20 year.

In summary, given the change in the cost classification of significant marketing costs and the expansion and transition of the company, Domino's appears to be in a sound financial position and is well placed to implement the future strategies.

The Chair indicated at the pre-AGM meeting that a policy on share ownership by Directors, although not yet formalised, was in the pipeline.

**Summary**

| (As at FYE) | **2019** | **2018** | **2017** | **2016** | **2015** |
|---|---|---|---|---|---|
| NPAT ($m) | 115.9 | 121.5 | 102.9 | 82.4 | 64.0 |
| Share price ($) | 37.64 | 52.22 | 52.08 | 68.82 | 36.16 |
| Dividend (cents) | 115.5 | 107.8 | 93.3 | 73.5 | 51.8 |
| TSR (%) | -14.5 | 0.13 | -16.9 | 32.49 | |
| EPS (cents) | 227.3 | 179.6 | 137.4 | 106.4 | 72.8 |

For 2019, the CEO's total actual remuneration was 10.79 the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was $88,145 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings", Trend(a)).

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| **Item 2** | **Adoption of Remuneration Report** |
| **ASA Vote** | **Against** |

**Summary of ASA Position**

DMP's remuneration structure consists of fixed salary, short term (yearly) cash bonuses, and a longer term option program. Some cash bonuses are deferred for one year into an equity component but the details are unclear. The longer-term option program gives KMPs unvested options to buy shares in the company at a stated price three years in the future. The number of options received is based on a fair value calculation. If hurdles are cleared over the three-year period, the options will vest and the KMP will then have the right to exercise the options which by then, may or may not be in the money.

There have been no significant changes to the Rem structure this year even though last year saw an 11% vote against the company's Remuneration Report. This is significant given that over 30% of the company is owned by entities associated with board and management.

The report makes the remuneration structure difficult to comprehend and the payment amounts for LTI impossible to see. Shareholders' understanding of the company would be greatly enhanced by the inclusion of a table of actual take home pay for KMP, the amount of which is a mystery to shareholders. The disclosure of the market value of the options on the date of exercise and the grant gives an indication of the gains, but the complexity of many series of options in existence which are attributable to different employees over the years clouds rather than clarifies.

The CEO holds a significant ownership interest in the company (in excess of $52m value of shares) and received $1.1m in fixed salary and STI of $150k out of a maximum STI of $1m.

The Remuneration Report is rather unclear but seems to indicate that the CEO and KMP's have slightly different short term and long-term performance hurdles. For the CEO, 95% of STI is based on various measures of EBIT and 5% is based on new store openings. The performance metrics are not disclosed and all is paid in cash. For other KMP, the board believes the most relevant performance condition hurdles are achievement of forecasts and budgets. Actual hurdles and quantity of metrics are not disclosed. ASA would be in favour of the short-term incentive plan if the STI's were based on quantifiable and disclosed performance metrics. Also, ASA prefers 50% of STI's to be paid in equity with a minimum 12 month holding lock.

Under the company's LTI plan, the CEO's options to purchase shares have only one vesting hurdle: EPS growth as calculated by the board. Options vest on a sliding scale if hurdles related to EPS growth are met. The hurdles are quite high for the CEO at 12%. Other KMP have different EPS and EBIT vesting hurdles depending on geographic location. ASA would support a long term remuneration structure if improvements were implemented, to wit: (a) The number of options granted should be based on a VWAP valuation rather than the current fair value methodology; (b) vesting hurdles should be measured over four years rather than three; (c) vesting should be based on two hurdles, one of which is Total Shareholder Return with no payment if absolute TSR is negative; (d) shares earned via a long term incentive plan should be purchased on market by the company rather than issued to avoid dilution of shareholders' interests; and (e) any hurdles based on earnings to be based on statutory rather than underlying earnings.

The Chairman indicated that the remuneration structure will be reviewed.

| Item 2 | Re-election of Ursula Schreiber as a Director |
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| **ASA Vote** | **For** |

**Summary of ASA Position**

Appointed November 2018, Ursula Schreiber comes to the Company following lengthy service for EY/Professional and as Director General of Queensland Health. She has a strong digital focus, particularly where disruption has occurred. She has Australian and international experience which supports the global expansion and digital development the company is developing. She appears to hold no other Directorships. At this stage Ms Schreiber does not own any shares in the company, a situation we would like to see remedied with the purchase of shares to the value of three times her fees by the time her re-election comes up again.

| Item 3 | Re-election of John James Cowin as a Director |
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| **ASA Vote** | **For** |

**Summary of ASA Position**

Appointed to the Board as Chairman in 2014, Mr Cowin is also the Managing Director of Competitive Foods Australia (CFAL) Group which operates Hungry Jack's and KFC franchises in Australia. He began his association with the fast food industry in Australia in 1969 with a KFC franchise. CFAL remains a family company, however he has had experience with Directorships of ASX listed Fairfax and Livetiles Ltd. The similarities of operation between CFAL and Domino's are obvious, Mr Cowin demonstrates his commitment to the company through the shareholding of Somad Holdings which holds 26.92% of Domino's shares. Somad Holdings is a trustee for a trust for the benefit of his children over which he has no direct control. The company does not view Mr Cowan as an independent director, and if there is a perceived conflict of interest, the independent director Ross Adler will step into the role of Chair.

| Item 4 | Renewal of proportional takeover provisions |
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| **ASA Vote** | **For** |

**Summary of ASA Position**

The company is required by the Corporations Act to refresh the proportional takeover provisions every three years. Proportional takeover provisions would permit a predator to bid for a proportion of shareholders' interest. ASA prefers full takeovers so that shareholders are not left with a controlling shareholder.

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.