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Domino's Pizza records another piping hot year

Company/ASX Code	Dominos Pizza Enterprises Limited / DMP
AGM date	Wednesday 3 November 2021
Time and location	3.00pm AEST as a virtual only meeting via www.agmlive.link/dmp21
Registry	Link Market Services
Webcast	Yes virtual only meeting with text questions for virtual attendees or voice questions by phone, requiring registration at least the day before by calling 1800 990 363.
Poll or show of hands	Poll
Monitor	Steven Mabb assisted by James Hart
Pre AGM Meeting?	Yes with David Klages Chief of People and Culture and Nathan Scholz, Head of Investor Relations.

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention do not have a shareholding in this company.

Summary of issues for meeting

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

Summary of ASA Position

COVID-19 continues to be a challenge for companies globally, however Domino's Pizza Enterprises Ltd (DMP) has capitalized on the opportunity presented to deliver solid growth in FY21. Total group sales for the year were $3.74 billion which was an increase of 14.6% over FY20 and online sales were $2.92 billion which was a 21.5% increase. This strong sales growth also saw profit increase with underlying net profit after tax of $184 million, up 32.9% on FY20. Furthermore, across the nine countries DMP now operates in they grew their store network by more than 10 per cent and opened 285 new stores. The Board has also decided to increase the dividend payout ratio from 70% to 80% and total dividends for FY21 increased 45.4% to 173.5cps.

These were strong overall numbers and we congratulate the company on another year of above market growth and above market shareholder returns.

Internationally, DMP acquired the rights to Denmark in 2019 and have been rebuilding the brand name there over the past couple of years. 6 new stores were opened in FY21 and feedback is positive with all stores earning higher customer satisfaction and product quality scores, as assessed by their customers.

DMP opened their 800th store in Japan in FY21 and this market is delivering good growth and with ongoing potential given its large and affluent population.

Finally we didn't get to meet with any Board members this year prior to the AGM, as we do with almost all other ASX200 companies. Whilst the staff members we did meet with, namely the head of Investor Relations and Chief People and Culture Officer were very knowledgeable, professional and helpful, we like to also engage with the Chair and the Director that heads up Remuneration. ASA is the peak body and voice representing retail shareholders and we believe it is not an unreasonable request for the Board to engage with us on matters shareholders are requested to vote on. We do hope DMP will take this request on board in future years.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	184.0	142.9	114.4	121.5	105.8
Share price ($)	120.51	68.69	37.64	52.22	52.08
Dividend ($)	1.735	1.193	1.155	1.078	0.933
TSR (%)	76.7	83.3	-25.7	2.1	-22.8
EPS (cents)	217.08	175.31	135.5	139.4	116.0
CEO total remuneration, actual ($m)	3.167	1.335	.950	1.092	4.662

For 2021, the CEO's total actual remuneration was **35 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was $90, 017 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Governance and culture

A revised charter for one of the Board committees was created in the past year and it will now be known as the Nomination, Culture and Remuneration Committee and they plan to have a larger focus on company culture moving forward, in particular further improving diversity and inclusion.

In our meeting with company we were impressed with the attitudes and culture around the office. We dug into ways the company is trying to keep improving culture and noted that labour is tight in Australia, especially for delivery staff. DMP is competing hard with other businesses for staff and one novel way they are attracting and retaining younger talent is by making their training programs more enjoyable and similar to video games that many young people love to play.

They are also actively measuring employee engagement globally with the use of the Glint survey, which gives management a better picture of how committed the team is year over year.

Key Board or senior management changes

Mr. Tony Peake was added as a new Non-Executive Director this year and brings extensive accounting, audit and operational experience to the Board from his senior executive roles at PwC.

The current Board appears to have an appropriate mix of Executive and Independent Directors, male and female members and it appears a good mix of industry and outside skills at this time. Some of the recent appointments, particularly Ms. Doreen Huber last year, have likely contributed to a well-balanced and competent Board.

Risk management

Key risks for DMP include cyber threats given the increasing share of the business transacted online and how sophisticated their software and systems are. To combat this they now have a global team monitoring for issues 24 hours a day, use outside companies to test for issues and regularly conduct phishing tests internally. Another potential issue could be modern slavery breaches in the global supply chain, so they have recently introduced ethics consultants to survey suppliers and implemented a new code of conduct for partners to minimize the chance of modern slavery issues.

Item 2	**Resolution 1 – Adoption of the Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

The remuneration report is detailed and requires time to understand however it is well laid out. This year they have included both an actual and statutory remuneration table for KMP which is appreciated by retail shareholders.

The company undertook a review of their remuneration structure in the past year and began introducing a new structure in FY21 which saw all Executive KMP now have both a cash and equity component of their STI that includes a 2 year escrow on the equity. Fixed remuneration increases were on average up 2.5% for most Executive KMP. STI for the group were paid at an average of 89% with the CEO receiving 97% of his STI.

STI is now paid as a combination of cash and equity and is based on financial measures including EBIT growth, Same Store Sales growth and Franchisee Profitability compared to previous years and budget. The deferral of 33% of any STI earned has been extended to include all KMP going forward. No discretion was exercised in FY21 in relation to STI. The CEO STI was a maximum of $1.259 million which is the same amount as his fixed remuneration and is now paid as 2/3 cash and 1/3 equity. It is based on achieving group EBIT targets as 80% of the measure and achieving new store growth targets as 20% of the measure which was increased based on shareholder feedback in previous years. The company does not disclose the current year targets as they consider this commercially sensitive information however they do share previous years metrics. To achieve a 100% STI award in FY20 Group EBIT needed to increase at least 12% over FY19 and at least 227 new stores needed to be opened. These are high levels of growth for a mature company and we believe are challenging. If achieved they are likely to lead to above market TSR over the long term.

The LTI plan has been changed with options now being net-settled options where only the value above the exercise price is provided to participants in shares. This is the same cost to the company but simpler for participants and doesn't require a cash outlay. The LTI for the CEO was based on EPS growth of at least 12% year over year, which is a challenging goal and well above the average rate of growth of the ASX200 at around 4%. While it doesn't have a total shareholder return measure (TSR) as ASA recommends, there is also an exercise price for the options set each year so both EPS growth and share price growth above this exercise price need to be achieved for LTI options to vest. Because both conditions were not met in FY20 or FY21, no LTI was received, despite TSR increasing about 40% p.a. during this period. So as long as the exercise prices set continue to increase, then LTI won't be awarded when shareholders haven't done well that year.

The company received $792 000 in Jobkeeper support during the year however given the strong sales and profit growth overall for FY21, has returned all of these funds. We applaud the company for acting as a good corporate citizen in this regard.

So, as noted last year, there are still some issues with the remuneration structure we would like to see addressed. In particular, we would still like to see the performance period for LTIs measured over at least four years rather than three. And we also encourage at least two hurdles for LTI schemes, one of which is Total Shareholder Return (TSR), with no pay-out if the TSR is negative.

However, given the strong performance of the business, excellent TSR for the year and improvements made to reporting and the STI structure, we will support the remuneration report in FY21.

CEO Rem. Framework for FY21	**Target* $**	**% of Total**	**Max. Opportunity $**
Fixed Remuneration	$1.259m	25%	$1.259m
STI - Cash	$0.843m	16%	$0.843m
STI - Equity	$0.416m	8%	$0.416m
LTI	Options granted $2.62m	51%	Technically uncapped^
Total	**$5.138m**	**100.0%**	**Uncapped**

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. ^tied to high performance and positive shareholder returns as listed in explanation above.

Item 3	**Resolution 2 - Election of Tony Peake as Non-Executive Director**
ASA Vote	**For**

Summary of ASA Position

Mr. Tony Peake was elected to the Board in May 2021 so now stands for election by shareholders at the AGM. He brings skills in accounting, auditing and operational areas. Previously at PwC Australia, he was the lead audit partner at companies including Nike, Kmart, Target and CSL and is a fellow of Chartered Accountants Australia. He is a member of the DMP Audit and Risk committee and adds extensive financial skills to the Board. He has already acquired more than one year's fees in shares.

Item 4	**Resolution 3 – Re-election of Lynda O'Grady as Non-Executive Director**
ASA Vote	**For**

Summary of ASA Position

Ms. Lynda O'Grady was first elected to the Board in 2015 and has now served two terms. She is an independent member of the DMP Board, bringing executive experience in IT and telecommunications from past roles including as Executive Director and Chief of Product at Telstra. She holds several other Directorships including at Wagner Holdings and Avant Mutual Group and is a member of the DMP Audit and Risk committee as well as the Nomination and Remuneration committee. Given how important technology and cybersecurity risks are to DMP, she has an important oversight role in these areas. She has more than one year's fees in shares.

Item 5	**Resolution 4 - Approval for grant of an equity short term incentive to Managing Director**
ASA Vote	**For**

Summary of ASA Position

ASA supports the use of equity when paying out STI's and recognize the company revising the remuneration structure to include equity rather than just cash payments as was the case in past years.

Item 6	**Resolution 5 – Approval for grant of LTI Options to Managing Director**
ASA Vote	**For**

Summary of ASA Position

ASA prefers LTI to be paid in equity rather than options and we would like to see TSR included as a second measure. However only one year of options is being approved and the hurdles for these options to vest are 8% compound EPS growth to vest at 30% and a sliding scale up to 15% compound EPS growth to vest at 100% which are challenging goals. We will support this year and hope the company adds TSR as an additional measure in future years.

Item 7	Resolution 6 – Approval for an increase in Non-Executive Directors Fees
ASA Vote	For

Summary of ASA Position

We did question the necessity of this increase given total Director fees paid in FY21 were $1.08 million and the current cap is $1.4 million meaning there is still around $320 000 of room to move. The last increase was approved in 2018 and the company advised that they are considering adding more geographical and skills diversity to the Board moving forward, so may need this increased fee pool.