Australian Shareholders' Association

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## Rising costs take their toll as profit growth slips from a piping hot previous year…

| | |
|---|---|
| **Company/ASX Code** | Domino's Pizza Enterprises Limited / DMP |
| **AGM date** | Wednesday, 2 November 2022 |
| **Time and location** | 3pm AEST, Dexus Place Brisbane, Level 31, Waterfront Place, 1 Eagle St, Brisbane, Q, 4000. |
| **Registry** | Link Market Services |
| **Webcast** | Yes - https://meetings.linkgroup.com/DMP22 |
| **Type of meeting** | AGM |
| **Poll or show of hands** | Poll |
| **Monitor** | Steven Mabb assisted by Peter Cory |
| **Pre AGM Meeting?** | Yes with Directors Tony Peake and Uschi Schreiber and Head of IR Nathan Scholz |

An individual involved in the preparation of this voting intention has a shareholding in this company.

**Matters for the AGM**

Domino's has been on somewhat of a roller coaster ride since 2019 due to the significant impacts of COVID-19, lockdowns and now inflation on its business. It has led to big surges followed by more normal periods and makes lining up year over year metrics and performance more difficult for both the company and in turn shareholders. We will ask what impact inflation is likely to have in the year ahead and any concerns about international markets.

The Board has proposed some changes to the remuneration structure going forward which needs to be reviewed.

Four Directors are yet to hold at least one year's fees in shares.

Chair Jack Cowin is seeking re-election and has huge skin in the game and a wealth of experience. Re-election would see him notch up 12 years at the end of this term, so we will ask about his future plans and succession.

The company has stated they wish to be the most efficient, sustainable food delivery business on the planet and that delivery is the future of the company. We will dig into the measurements being used and plans to achieve these goals.

**Proposed Voting Summary**

| No. | Resolution description | |
|---|---|---|
| 1 | Remuneration Report | For |
| 2 | Re-election of John James Cowin as Non-Executive Director | For |
| 3 | Re-election of Ursula Schreiber as Non-Executive Director | For |
| 4 | Grant of a Right to the Managing Director in respect of the FY23 Short Term Incentive Plan | For |
| 5 | Grant of a Right to the Managing Director in respect of the FY23 Long Term Incentive Plan | For |
| 6 | Renewal of proportional takeover bid provisions | For |

**Summary of ASA Position**

**Consideration of accounts and reports - No vote required**

**Governance and culture**

No significant changes noted in this area

**Financial performance**

Net revenue increased 4.1% to $2.285 billion during the year, while net profit after tax fell 12.46% to $165 million. The addition of 294 new stores for the year as well as the acquisition of 156 stores in the new market of Taiwan helped drive revenue growth. However challenges in the Japan and France markets and inflation, labour and other cost increases saw profit fall year over year. Since January 2022, DMP and its Franchisees have seen significant increases in key costs, including more expensive ingredients, staff shortages and higher energy bills. Domino's is trying to offset the cost pressure via selected price increases and implementing a six per cent delivery fee.

Earnings per share declined to $1.90 compared to $2.17 in FY21 but were higher than the $1.75 achieved in FY20 which is a similar pattern to revenue and net profit comparisons.

The dividend declined year over year by 17 cents to $1.565 per share and was an 82% pay-out ratio. This decline is understandable given the reduction in profit for the year and managements desire to keep investing in technology and store growth moving forward. Franking was at 70%.

Total shareholder return declined 43% for the year most likely due to a significant run up in the share price in the boom FY21 year, combined with this year's profit decline. As the summary table below shows the business performance has improved each year since 2018, if you remove the FY21 outlier, whilst the share price and price multiples have moved around more significantly.

**Key events**

- Acquisition of Taiwan market for $79.4 million with 156 new stores added to the group
- Total of 450 new stores added to the group which is an increase of 15%

**Key Board or senior management changes**

- Retirement of long serving Director and inaugural Chair Ross Adler

**ASA focus issues (not discussed under remuneration report or re-election of directors)**

**ESG**

DMP introduced its first Sustainability report in 2021 and will use the GRI (Global Reporting Initiative) and SASB (Sustainability Accounting Standards Board) framework. They plan to produce the 2022 report by the end of the calendar year. They have lofty goals to be a world leader in their industry on Sustainability moving forward.

**Summary**

| (As at FYE) | **2022** | **2021** | **2020** | **2019** | **2018** |
|---|---|---|---|---|---|
| NPAT ($m) | 166.7 | 184.0 | 142.9 | 114.4 | 121.5 |
| Share price ($) | 68.00 | 120.51 | 68.69 | 37.64 | 52.22 |
| Dividend ($) | 1.565 | 1.735 | 1.193 | 1.155 | 1.078 |
| Simple TSR (%) | -43.1 | 76.7 | 83.3 | -25.7 | 2.1 |
| EPS (cents) | 190.66 | 217.08 | 175.31 | 135.5 | 139.4 |
| CEO total remuneration, actual ($m) | 1.563 | 3.167 | 1.335 | .950 | 1.092 |

CEO's total actual remuneration compared to annualised Australian Full time Adult Average Weekly Total Earnings was **16.9x** (based on data from the Australian Bureau of Statistics http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0). Actual earnings are ASA defined as the cash payments made during the year (FR, STI, deferred STI from prior year(s), plus any vesting of equity incentives at share price on date of vesting.)

Simple TSR is calculated by dividing (change in share price as at 30 June plus dividend paid during the year, excluding franking by the share price at the start of the year.

**Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

The DMP remuneration framework is mostly in alignment with ASA guidelines.

The remuneration report is 24 pages making it a long read for shareholders and a complex document. We appreciate the comprehensive information and the breakdown by market of the report adds to its length but equally would encourage the Board to simplify how remuneration plans and results are shared with shareholders.

We note Group CEO Short-term incentive (STI) is now paid all in equity with half held in escrow for 1 year and the other half for 2 years which is a change we support.

Long-term incentive (LTI) measures are over 3 years and we prefer 4 or more years. We would also like to see positive Total Shareholder Return as a gateway measure before LTI is paid. There is an exercise price for the options each year though, so both EPS growth and share price growth above this exercise price needs to occur for the options to vest. And because both conditions have not been met in the last 3 years, no LTI has been paid.

LTI measures are based on compound annual growth rate of earning per share of at least 8% with 15% growth required to achieve 100% of LTI. This is a challenging target and is likely to lead to above average returns for shareholders over the long term if achieved.

The current plans have been effective in producing a variation in remuneration. In FY20 the Group CEO achieved 15% of STI and no LTI. In the boom year of FY21 he received 96% of STI and no LTI and in the declining year of FY22 he received 23% of STI and no LTI.

Total shareholder return for the year declined 43% and similarly total KMP remuneration also declined 42%. So while longer term shareholders may be disappointed with returns for the year it appears management are also sharing in the pain.

In addition the Board has noted that LTI has been low or not paid for most KMP for the last few years despite good growth in the business during that time. Particularly during COVID-19, demands and challenges for KMP have increased.

As a result of consultations with management and shareholders the Board has committed to changes to remuneration from FY23. Specifically, simplifying the plan, aligning it more for both executives and shareholders, incentivising entrepreneurship and making it more suitable for international markets. We will review these changes once published for their fit with ASA guidelines.

We will vote undirected proxies in favour of resolutions 1, 4 and 5.

**Election or re-election of directors**

The Board of Directors at Domino's is comprised of seven members, five of whom are independent directors with a CEO/Managing Director and a non-independent but very aligned Chair. There have been a number of skilled and suitable directors added over the last few years and this year the retirement of inaugural Chair Ross Adler.

Regarding gender diversity, the board has three female Independent Non-Executive Directors out of seven directors (42%).

All Directors hold shares in the company but four are yet to achieve at least one year's fees in shares, so we will ask for their intentions at the AGM.

We will vote undirected proxies in favour of the re-election of directors.

**Mr John James (Jack) Cowin** was appointed in March 2014 and has more than more than five decades experience in the quick service restaurant industry including as the Founder of Hungry Jacks. He seems a very well qualified and skilled person to Chair the Board and holds over $1 billion or 26% of the shares in the company. The company believes and we agree that he is not independent due to his relationship with major shareholder, Somad Holdings Pty Ltd.

**Ms Ursula Schreiber** joined the Board in 2018 and is the Chair of the Company's Nomination, Culture and Remuneration Committee and a Member of the Company's Audit and Risk Committee. She appears to have excellent experience in international markets and previous executive and government roles that are of benefit to the Board and the oversight of remuneration and risk.

### Renewal of proportional takeover bid provisions

The existing proportional takeover bid provisions expire 1 December 2022 and the company is looking to extend them to 1 December 2025. The resolution would mean Directors have to provide shareholders at least 14 days' notice in the event of a bid and at least 50% of shareholders are required to vote in favour of the bid.

We will vote undirected proxies in favour of resolution 6.

**Appendix 1**

**Remuneration framework detail**

| **CEO rem. Framework for FY22** | **Target* $** | **% of Total** | **Max. Opportunity $** |
|---|---|---|---|
| Fixed Remuneration | 1.29m | 31% | 1.29m |
| STI – Deferred Equity | 1.80m | 6% | 1.80m |
| LTI | Options granted were $3.10m | 38% | Technically uncapped but tied to high financial performance and positive shareholder returns as listed in explanation above |
| **Total** | **$6.19m** | **100.0%** | **Uncapped** |

The amounts in the table above are the 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.