



Media Announcement – ASX

16 December 2015

## **DOMINO'S PIZZA ENTERPRISES TO ENTER GERMAN MARKET WITH FORMATION OF A TWO-THIRDS OWNED JOINT VENTURE AND ACQUISITION OF LEADING JOEY'S PIZZA BUSINESS**

### **Highlights**

- **Domino's Pizza Enterprises Limited ("DPE") has entered into binding agreements for a two-thirds equity interest in a newly formed joint venture by partnering with UK-listed Domino's Pizza Group plc ("DPG"), the existing holder of the Domino's Pizza Master Franchise Agreement for Germany, to acquire the "Joey's Pizza" chain of 212 stores in Germany**
- **Joey's Pizza is the largest pizza delivery chain in Germany by system sales (€143 million) and number of stores**
- **Initial consideration for the Joey's Pizza transaction of €45 million (A\$69 million) is payable by the joint venture on completion of the transaction, with subsequent tiered payments for up to a further €34 million (A\$52 million) contingent on earn-out criteria<sup>1</sup>**
- **The joint venture will also acquire selected Domino's Pizza stores currently operated in Germany by DPG for cash consideration of €2 million to €3 million**
- **DPE will make payments to DPG of up to €25 million in return for transferring to the JV access rights to the German market and the existing franchise system, with such payments determined annually over up to six years contingent on profits exceeding certain thresholds**
- **DPE will have Board, management and operational control of the joint venture, with DPG holding minority protection rights in respect of its shareholding interest**
- **Immediately EPS accretive on a FY15 underlying, full year pro forma basis by 4-5%, with the business expected to generate pro forma underlying EBITDA of approximately €7 million<sup>2</sup> for the year ended 31 December 2015**
- **Entry into the German market brings DPE's total number of stores to approximately 1,870 and establishes another long term platform for growth**
- **Transactions are expected to close during the first quarter of calendar 2016, following regulatory approval**
- **Upgraded underlying EBITDA and underlying NPAT guidance to be in the region of 30%, contingent on both transactions completing in early 2016**

<sup>1</sup> Purchase price converted to A\$ assuming an AUD : EUR exchange rate of 1.00 : 0.66

<sup>2</sup> Pro forma, underlying adjustments include the removal of expenses relating to vendor salaries and other general and administrative costs which are non-recurring in nature and other items which differ under the future ownership structure. Total normalisation adjustments comprise approximately €3.2 million in the 2015 calendar year

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## Overview

DPE and DPG today announce that a newly formed joint venture has executed a sale and purchase agreement with the owners of Joey's Pizza, Carsten Gerlach and Christian Niemax, to acquire the Joey's Pizza chain of pizza stores in Germany for up to €79 million (A\$120 million).

Joey's Pizza is the largest pizza chain in Germany with 212 stores, comprising 209 franchise stores and 3 corporate stores.

The Joey's Pizza business is expected to generate system sales of approximately €143 million and pro forma, underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of approximately €7 million for the year ended 31 December 2015.

The acquisition represents a significant expansion in the footprint of DPE's European operations. Following transaction completion, the store count of DPE in Europe is expected to increase to approximately 775 stores, and will leverage the operational and management expertise of DPE in the Netherlands, Belgium and France as well as facilities in these existing territories.

The transaction is subject to regulatory and other customary approvals and is expected to complete in the first quarter of 2016. The existing CEO's of Joey's Pizza, Friedrich Niemax and Karsten Freigang, have been retained by the JV to assist with conversion of Joey's Pizza stores to Domino's Pizza stores.

Commenting on the acquisition, Mr Don Meij, DPE's CEO, said:

*"Germany is the fourth largest pizza market in the world and our entry into this market represents an exciting long term growth opportunity for DPE."*

*"The acquisition of the market leading Joey's Pizza business provides immediate scale and marketing presence which we can build from. We look forward to partnering with the existing Joey's Pizza franchisees to leverage the expertise that our regional, and increasingly global, platform provides in terms of our digital offering, procurement and product innovation."*

*"We will ensure that our offering reflects the unique tastes of German customers"*

The owners of Joey's Pizza, Mr Gerlach and Niemax, jointly commented:

*"We see the benefits which Joey's Pizza customers and franchisees will obtain from the association with a sophisticated global pizza operator who recognises the importance of our culture and the 27 year history of our business in the German market"*

## Partnership with DPG

DPG currently holds Master Franchise Agreements ("MFAs") with Domino's Pizza International Franchising, Inc. in respect of the UK, Ireland, Germany and Switzerland.

DPE and DPG will form a joint venture company ("JV") which will be owned two-thirds by DPE and one-third by DPG.

DPE will have full operating, Board and management control over the JV, subject to certain minority protections for DPG. The JV will be able to leverage DPE's regional expertise, including DPE's management and infrastructure in the Netherlands.

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The JV will acquire the Joey's Pizza business and approximately 10 to 15 of DPG's stores in Germany.

As consideration for the transition of the MFA for the Domino's Pizza brand in Germany and the existing franchise system to the JV, DPG will be entitled to receive payments on an annual basis, for up to six years, which are contingent on the JV exceeding certain levels of profitability. The total amount of these payments is capped at €25 million.

The JV agreements provide DPE with a pathway to full ownership of the business at a future date as well as provide DPG with clearly defined exit rights. In particular:

- DPG is to hold a put option over its interest to DPE which is exercisable any time after 31 December 2019;
- DPE is to hold a call option over DPG's interest which is exercisable any time after 31 December 2021; and
- The price paid on exercise of either option is equivalent and based on an enterprise valuation determined from capitalisation of future adjusted EBITDA at a multiple of between 10 and 12 times

DPG will be responsible for the closure costs of any of its stores which are not transferred to the JV and for the closure of its commissary in Berlin and head office in Dusseldorf.

#### **Acquisition consideration and funding**

The purchase price for Joey's Pizza comprises initial consideration of €45 million, payable on completion of the transaction, with subsequent tiered payments for up to a further €34 million subject to earn-out criteria which will be assessed progressively over up to 36 months following closing.

The JV expects that the majority of the earn-out criteria will ultimately be satisfied and accordingly that most if not all of the full amount of €79 million may be payable.

Consideration for DPE's share of the initial portion of the purchase price for Joey's Pizza, its share of brand conversion costs and payment for DPG stores, will largely be paid in cash from new debt facilities. DPE's share of these initial amounts is €39 million in aggregate.

The vendors of Joey's Pizza have elected to have the equivalent of €5 million of the initial payment be satisfied through the issue of 148,206 new DPE shares<sup>3</sup> and for these shares to be subject to a twelve month voluntary escrow. Accordingly, initial cash funding is €34 million.

The transaction, including both the formation of the JV and acquisition of Joey's Pizza, is conditional on regulatory clearance and other customary approvals. Closing is expected in the first quarter of 2016.

#### **Master franchisor approval and extension of the term of DPE MFA**

The transaction has received the full support of Domino's Pizza, Inc. ("DPI").

Additionally, DPE and Domino's Pizza International Franchising Inc., a wholly-owned subsidiary of DPI, have agreed to extend the terms of the MFAs of DPE in certain of its European markets. Specifically, inclusive of the exercise of options to renew, the term of the MFA is to extend as follows:

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<sup>3</sup> Based on 10 day market volume weighted average price of DPE shares up to and including 15 December 2015



- France and Belgium until 2041
- Netherlands and Germany until 2043

## Outlook

The transaction is EPS accretive on a FY15 underlying, full year pro forma basis by approximately 4 - 5%, with the business expected to generate pro forma underlying EBITDA of approximately €7 million for the year ended 31 December 2015.

The transaction will have a small positive impact on DPE's underlying FY16 forecast EPS as the earnings contribution from the JV will only be for part of the year. Reported FY16 EPS will be impacted by transaction costs and brand conversion costs, which are expected to be approximately €5 - 8 million in the second half of DPE's FY16 financial year relating to both the acquisition of Pizza Sprint and the transactions in respect of Germany.

As a result of the acquisition of Joey's Pizza, German stores of DPG and Pizza Sprint, DPE is upgrading its store opening targets for FY16 to be in the range of an additional 480 – 500 stores.

Additionally DPE is upgrading its Europe long term store count guidance from 1,500 to 2,500 stores.

Contingent on the Pizza Sprint and German transactions completing early in calendar 2016, DPE advises of upgraded guidance for underlying EBITDA growth and underlying NPAT growth to each be in the region of 30% relative to the prior corresponding period.

~ ENDS

### Craig Ryan- Company Secretary

Flagstaff Partners and DA Partners acted as financial advisers to DPE. Thomson Geer Brisbane and DLA Piper Hamburg acted as legal advisers.

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