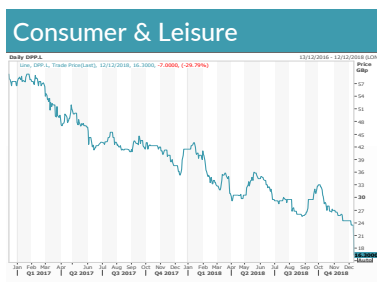




12 December 2018

**Market data**

EPIC/TKR	DPP.L
Price (p)	18
12m High (p)	45.2
12m Low (p)	18
Shares (m)	153
Mkt Cap (£m)	28
EV (£m)	27
Free Float*	66%
Market	AIM

\*As defined by AIM Rule 26

**Description**

DP Poland (DPP) has the master franchise for Domino's Pizza in Poland. It has 60 stores, of which 36 are corporately owned. It is rolling out steadily on the back of very strong revenue performance.

**Company information**

CEO	Peter Shaw
CFO	Maciej Jania
Chairman	Nicholas Donaldson
	+44 20 3393 6954
	<a href="http://www.dppoland.com">www.dppoland.com</a>

**Key shareholders**

Directors	5.2%
Cannaccord Genuity	14%
Pageant Holdings	10%
Fidelity	10%
Octopus Investments	5%

**Diary**

29 Jan'19	Trading update
Mar'19	Final results
May'19	AGM

**Analyst**

Jason Streets	020 7194 7622
	<a href="mailto:js@hardmanandco.com">js@hardmanandco.com</a>

**DP POLAND****Slowing revenue growth**

DPP announced this morning that, while EBITDA for 2018 will be broadly in line with expectations, revenue will be lower, due to unseasonably warm weather and competitive marketing activity by delivery aggregators. The company is cautious about the impact of the above issues continuing into 2019, and so we have cut our forecasts for the next few years, effectively pushing back the path to profitability by a year. This means, in our view, that the company is likely to need some additional funding during 2019.

- **Strategy:** DPP has spent its first few years proving the Domino's Pizza model in Poland. With the new commissary up and running, it has scope to double the number of operations over the next few years. As the stores mature, the success should show up in reported profits. DPP's marketing is smarter than that of its competitors – using digital media, rather than expensive display advertising.
- **Competitive market:** DPP has neither the pizza market nor the food delivery market to itself in Poland. While the Domino's formula of focusing on high-quality pizza, delivered swiftly, is hard to beat, the new food delivery aggregators have money to spend and are impacting DPP's above-the-line promotional activity, with aggressive (and possibly unsustainable) marketing activity.
- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis. In our initiation research (*'Fully proven model rolls out'*, 18 September 2018), we derived a central value of around £80m, to reflect the delay in the maturing of the business; we now discount that for a further year, to £72m, or 47p per share.
- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors: the food delivery aggregators. This has already impacted DPP's growth, as it struggles to get its message across, against competitors spending 20x or even 25x what DPP is spending. With additional financing now required, in our view, current shareholders may get diluted if they do not fully participate.
- **Investment summary:** The story for DPP is quite simple: it has a powerful retail consumer franchise in a fast-developing economy. The nature of a Domino's Pizza franchise is that it takes time to get to profitability, which leaves management with a fine line to draw between growth and short-term losses. Disruptive competitive activity pushes the path to profitability further into the future, but also grows the delivery market. The model remains sound, in our view.

**Financial summary and valuation**

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Revenue	7.6	10.4	12.9	15.0	20.0
Store EBITDA	1.5	0.7	0.8	0.8	1.1
Group EBITDA	-1.6	-1.8	-2.0	-1.5	-0.5
EBIT	-2.5	-2.7	-3.1	-2.6	-1.7
Finance costs	0.1	0.1	0.0	0.0	0.0
PBT	-2.5	-2.6	-3.1	-2.6	-1.7
PAT	-2.5	-2.6	-3.1	-2.6	-1.7
EPS (p)	-1.9	-1.9	-2.0	-1.7	-1.1
EPS adjusted (p)	-1.81	-1.85	-1.95	-1.68	-1.07
Net cash	6.0	4.1	1.1	-2.3	-4.7
Shares issued (m)	129	142	153	153	153
EV/Sales (x)	3.6	2.6	2.1	1.8	1.4

Source: Hardman &amp; Co Research

## Forecast changes

### Key forecast changes from Sep' 18 report

£m	New	Old	Change
Revenue FY18	12.9	13.9	-0.9
EBITDA FY18	-2.0	-1.7	-0.3
Revenue FY19	15.0	18.4	-3.4
EBITDA FY19	-1.5	-0.4	-1.1
Revenue FY20	20.0	23.6	-3.6
EBITDA FY20	-0.5	0.5	-1.0

Source: Hardman & Co Research

## Profit & Loss

### Profit & Loss account

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Core revenue	6.031	9.663	12.931	15.005	19.998
Other	1.526	0.715	0.000	0.000	0.000
Total revenue	7.557	10.378	12.931	15.005	19.998
Direct costs	-7.023	-9.659	-11.725	-13.503	-17.457
S,G&A	-2.114	-2.504	-3.204	-3.011	-3.074
Pre-opening expenses	-0.048	-0.143	-0.075	-0.084	-0.084
Share-based payments	-0.353	-0.254	-0.209	-0.211	-0.211
Exceptionals (including FX)	-0.107	0.136	0.000	0.000	0.000
Depreciation, amort., impairment	-0.459	-0.657	-0.789	-0.833	-0.875
EBIT	-2.546	-2.703	-3.071	-2.636	-1.702
Finance income	0.065	0.093	0.037	0.016	0.002
Finance expense	-0.012	-0.024	-0.025	-0.025	-0.025
PBT	-2.493	-2.635	-3.059	-2.645	-1.725
Tax			0.000	0.000	0.000
PAT	-2.493	-2.635	-3.059	-2.645	-1.725
<b>No. of shares (m)</b>					
- weighted	128.9	142.2	153	153	153
- fully diluted	128.9	142.2	153	153	153
EPS – basic (p)	-1.93	-1.85	-2.00	-1.73	-1.13
EPS – FD (p)	-1.93	-1.85	-2.00	-1.73	-1.13
EPS – FD adjusted (p)	-1.81	-1.85	-1.95	-1.68	-1.07
Group EBITDA	-1.580	-1.785	-1.997	-1.508	-0.532

Source: Hardman & Co Research

## Balance sheet

Balance sheet					
Year-end 31 Dec (£m)	2016	2017	2018E	2019E	2020E
<b>Non-current assets</b>					
Intangibles	0.443	0.558	0.608	0.658	0.708
P,P&E	2.766	6.618	7.579	8.246	8.871
Trade receivables	1.217	1.767	1.967	2.167	2.367
Total	4.426	8.944	10.155	11.072	11.946
<b>Current assets</b>					
Inventories	0.272	0.526	0.704	0.817	1.088
Trade receivables	1.818	2.581	1.961	2.202	2.782
Cash	6.308	4.506	2.034	-1.189	-2.255
Total	8.398	7.613	4.698	1.830	1.616
<b>Total assets</b>	<b>12.824</b>	<b>16.556</b>	<b>14.853</b>	<b>12.902</b>	<b>13.562</b>
<b>Current liabilities</b>					
Trade payables	-1.219	-1.649	-2.207	-2.561	-3.413
Provisions	-0.037	-0.037	-0.247	-0.457	-0.668
Borrowings	-0.073	-0.130	-0.118	-0.127	-0.151
Total	-1.329	-1.816	-2.571	-3.145	-4.231
<b>Non-current liabilities</b>					
Provisions	-0.051				
Borrowings	-0.234	-0.243	-0.843	-0.963	-2.263
Total	-0.285	-0.243	-0.843	-0.963	-2.263
<b>Total liabilities</b>	<b>-1.614</b>	<b>-2.059</b>	<b>-3.415</b>	<b>-4.109</b>	<b>-6.494</b>
<b>Net assets</b>	<b>11.210</b>	<b>14.497</b>	<b>11.438</b>	<b>8.793</b>	<b>7.068</b>
<b>Equity</b>					
Share capital	0.685	0.763	0.763	0.763	0.763
Share premium	26.879	31.829	31.829	31.829	31.829
Retained earnings	-16.117	-18.500	-21.559	-24.204	-25.929
Other reserves	-0.237	0.405	0.405	0.405	0.405
<b>Total equity</b>	<b>11.210</b>	<b>14.497</b>	<b>11.438</b>	<b>8.793</b>	<b>7.068</b>

Source: Hardman & Co Research

## Cashflow

Cashflow					
Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Loss before tax	-2.493	-2.635	-3.059	-2.645	-1.725
Depreciation, amort., impairment	0.459	0.657	0.789	0.833	0.875
Share-based payments	0.353	0.254	0.209	0.211	0.211
Finance	-0.053	-0.068	-0.012	0.009	0.023
Op. cashflow pre-working capital	-1.735	-1.792	-2.072	-1.592	-0.616
Tax paid			0.000	0.000	0.000
Working capital changes	0.123	-0.445	1.000	0.000	0.000
Cash used in operations	-1.611	-2.237	-1.072	-1.592	-0.616
Capex – P,P & E	-1.714	-4.132	-1.750	-1.500	-1.500
Capex – intangibles	-0.049	-0.050	-0.050	-0.050	-0.050
Lease deposits	-0.062	-0.050	0.000	0.000	0.000
Loans to sub-franchisees	-1.215	-0.502	-0.200	-0.200	-0.200
Disposal assets	0.699		0.000	0.000	0.000
Cash used investing	-2.341	-4.734	-2.000	-1.750	-1.750
Share issues	3.055	5.029	0.000	0.000	0.000
Net finance	0.024	0.068	0.600	0.120	1.300
Cash from financing	3.080	5.097	0.600	0.120	1.300
Increase/decrease in cash	-0.873	-1.874	-2472	-3.222	-1.066
FX	0.193	0.071	0.000	0.000	0.000
Cash beginning	6.988	6.308	4.506	2.034	-1.189
Cash end	6.308	4.506	2.034	-1.189	-2.255

Source: Hardman & Co Research

## Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legals/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

## Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

