



QUARTERLY INVESTMENT COMMENTARY

30 SEPTEMBER 2025

CONTRARIUS AUSTRALIA EQUITY FUND

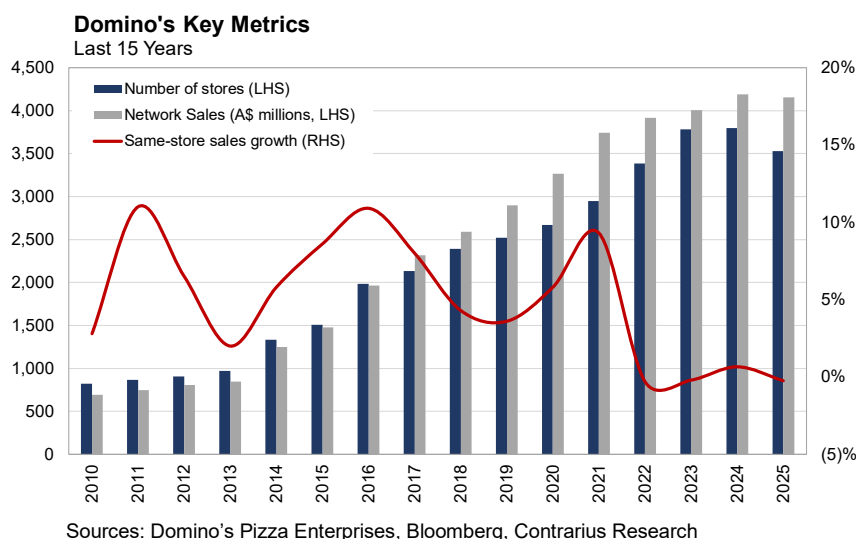
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The Fund's Class A units returned 22.4% for the quarter versus 5.0% for the benchmark S&P/ASX300 Accumulation Index. As we have highlighted previously, our investment philosophy is not benchmark cognisant and our portfolios would normally vary materially from the benchmark S&P/ASX300 Accumulation Index. The Fund's returns are therefore likely to deviate from those of the benchmark. Investors are reminded that given the long-term, contrarian, valuation-based investment philosophy, there will be times when the Fund will materially underperform its benchmark in the short-term in order to achieve its objective of long-term outperformance.

In this quarter's commentary we discuss Domino's Pizza Enterprises.

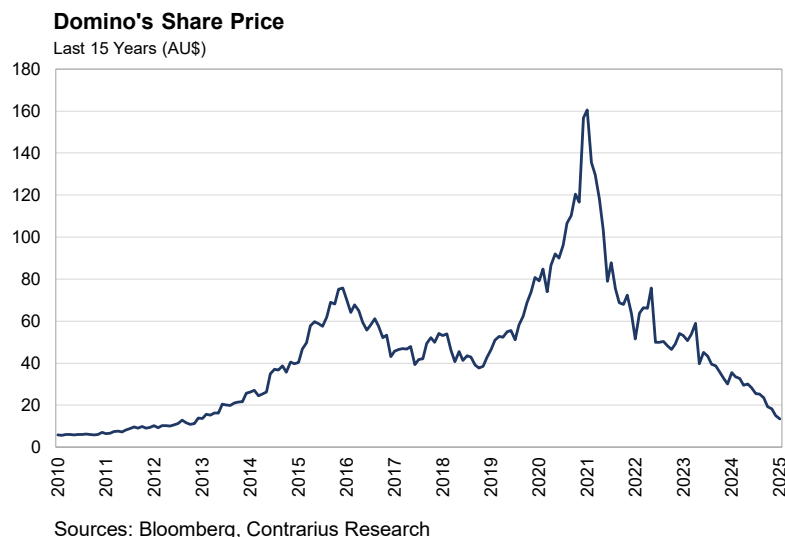
DOMINO'S PIZZA ENTERPRISES

A few years ago, Domino's Pizza Enterprises ("Domino's") was a market darling. Its focus on digital ordering, a creative menu, efficient logistics, and affordable prices produced consistent growth in same-store sales, franchisee and company profits, and store roll-out. After conquering the Australian market, Domino's expanded by acquiring franchise rights and operations across Europe and Asia, seeking to replicate its domestic success on a global scale. By 2021, Domino's held the exclusive master franchise rights in ten countries, and in that financial year Domino's grew its network of stores by 10% and grew same-store sales by 9%, as the stay-at-home impact of Covid helped to turbo-charge growth. With high returns on capital and a scalable business model, the market valued Domino's at \$13.9 billion or \$160 per share in September 2021.



Over the past four years, this bullish story has unravelled. Store growth has stalled, same-store sales have been effectively flat, costs have risen, and profitability has been squeezed. After repeatedly failing to turn around key markets such as Japan and France, year after year, the much-hyped management team has been ousted. At quarter-end, shares of Domino's changed hands at \$13.48 per share, a stunning 92% decline from its peak.

Notices: Past performance is not indicative of future performance. The Fund's unit prices fluctuate and are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in the Fund, an investors capital is at risk.



The market was excessively optimistic about the company's future in 2021, and we believe it is being unduly pessimistic today.

Short-term concerns

At present, a key market concern is the risk of a dilutive equity capital raise. The bearish argument goes like this: Domino's is a struggling, loss-making business with a rising leverage ratio (measured as net debt divided by adjusted EBITDA) that is steadily approaching bank loan covenant levels, and thus a dilutive equity capital raise is imminent. A superficial scan of the company's recent results finds support for this view. Firstly, Domino's reported a net loss of \$4 million in the financial year to June 2025 ("FY25"), its first loss since going public twenty years ago. Secondly, its leverage ratio rose from 2.35x to 2.57x over the past year, with its bank loan covenant level lurking nearby at 3.0x. A more detailed review, however, leads us to a different conclusion.

The reported loss in FY25 was partly driven by the closure of over 300 unprofitable stores, or about 8% of Domino's store network. Closing stores means exiting leases, retrenching staff, and impairing assets, with hefty associated upfront costs. Excluding these sorts of one-off costs, Domino's reported underlying net income of \$117 million in FY25 and underlying free cash flow in excess of \$100 million.

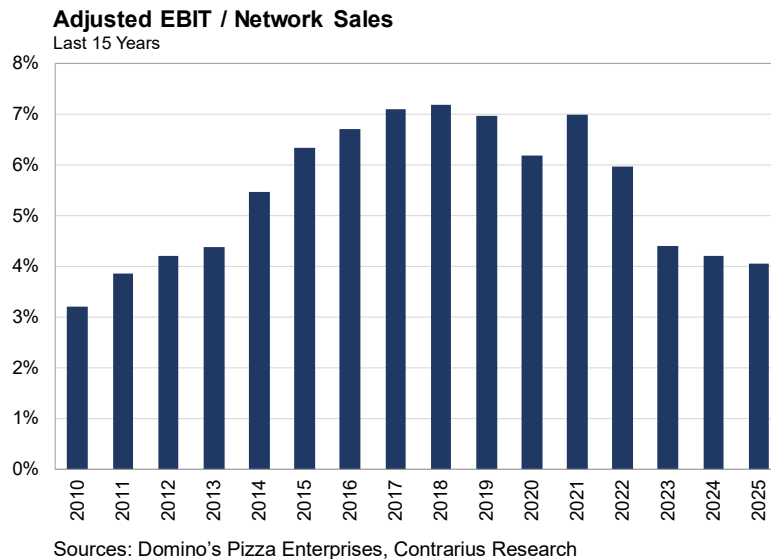
The rising leverage ratio is also somewhat misleading, although this requires some background. One of the benefits of having operating businesses in Japan and Europe is that Domino's can borrow money in these markets at very low interest rates, helping lower the company's cost of capital. This is reflected in the interest rate it pays on its bank loans, which averaged 2.7% in FY25. There is a risk that a strengthening Yen or Euro increases the principal amount borrowed (when translated back into Australian dollars), however this is offset by a similar impact on profits being generated by Domino's businesses in those regions. In FY25, both the Yen and Euro strengthened meaningfully, but this only occurred towards the end of the financial year. This meant that overseas borrowings (which are translated into Australian dollars at period-end exchange rates) increased sharply while overseas earnings (which are translated at average exchange rates over the period) saw only a modest benefit. This effect drove much of the increase in the leverage ratio in FY25. In fact, if one excludes the impact of currency movements, Domino's actually reduced net debt by about \$50 million during the year (in addition to taking the large upfront losses related to store closures discussed above).

The Executive Chair Report in the company's latest Annual Report could not be clearer: "We are paying down debt and have no need to raise capital". As a holder of over a quarter of the company's shares, we believe the Chair is well aligned with the interests of shareholders.

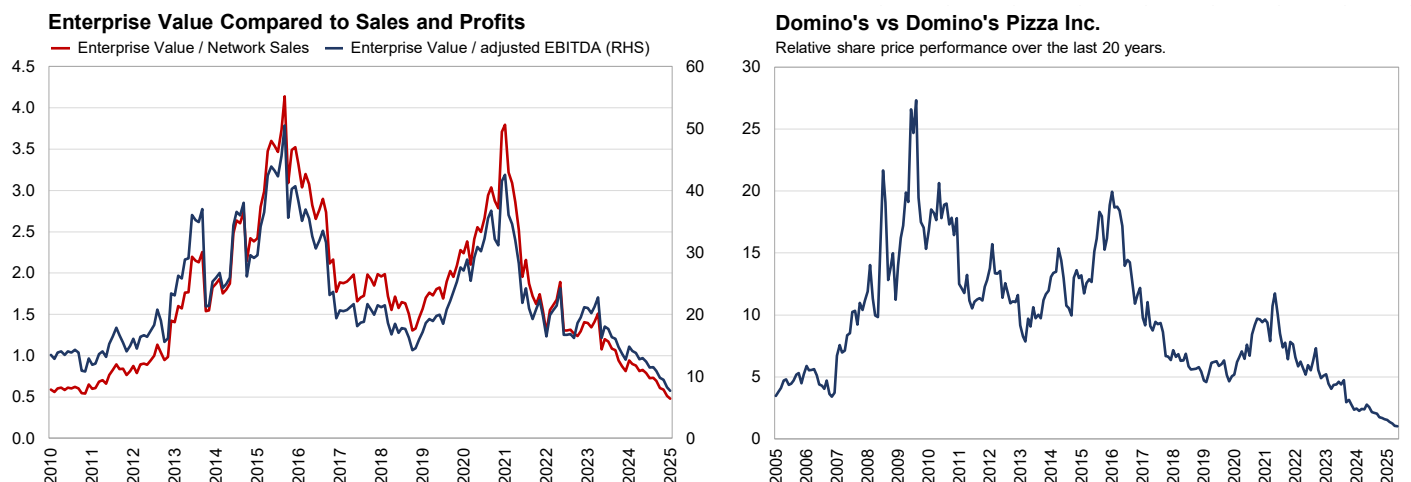
To be clear, we aren't ruling out the possibility of a dilutive equity capital raise. Instead, we are suggesting that the probability may be significantly lower than the market believes.

Trading at a discount

Domino's is operating at its lowest level of profitability in 15 years—see the Chart below. Despite depressed profitability, at the current share price, the market is valuing Domino's at about 11x underlying earnings. It seems that the market is expecting very little in the way of improvement.



A handful of other valuation methods tell the same story. Domino's Enterprise Value is at its lowest level relative to its network sales and adjusted EBITDA. Compared to the US-based brand owner, Domino's Pizza Inc. (a rough proxy for the strength of the Domino's brand and operating model more broadly), Domino's is trading at its lowest level.



Note: Enterprise value is calculated as the market capitalisation plus net debt excluding lease liabilities. Adjusted EBITDA includes right-of-use asset depreciation expense.

Sources: Domino's Pizza Enterprises, Bloomberg, Contrarius Research

Strategic changes

New management have been refreshingly transparent about the company's missteps and headwinds. Aggregators such as Uber Eats and DoorDash have increased competition in the home delivery space, and trying to "out-tech" them is folly. In Japan, Domino's mistook a cyclical upswing for a structural one and expanded far too quickly. In France, the operating model is not working as desired. More broadly, the company needs to simplify, cut costs, and improve store profitability in order to restart growth.

Recent strategic moves by the company are encouraging. Domino's closed 233 loss-making stores in Japan, about 23% of its network, with a renewed focus on store profitability. France also saw selective store closures and new leadership. Domino's is shifting more of the critical decision making to country head offices and thus empowering them to make decisions faster and closer to end customers. In Malaysia, Domino's recently saw a notable rebound after elevating locally tailored products and

promotions and implementing more targeted advertising. Domino's is in the process of reducing complexity, "looking top-to-bottom, at everything" to reduce costs and produce a more efficient business. A focus on pizza volumes is shifting to a focus on store profitability. These all seem like sensible changes. After four years of repeated disappointment, it is easy to forget that Domino's has a powerful business model that can be exceptionally rewarding when functioning well. Based on the current share price, it appears that market has indeed forgotten this.

Summary

Domino's is a former market darling that has fallen out of favour. Its underlying fundamentals are clouded by four years of repeated disappointment, short-term concerns and excessive market pessimism. For long-term, contrarian, bottom-up stock pickers like ourselves, this combination of factors presents a compelling investment opportunity, and Domino's is now a top-10 position in the Fund.

CONCLUSION

At quarter-end the Fund is overweight selected Materials, Consumer Discretionary and Communication Services shares. The Fund's portfolio composition is extremely different to the current composition of the S&P/ASX 300 Accumulation Index. We believe that valuation disparity within the market creates meaningful opportunities for contrarian investors like ourselves.

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