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Domino's Pizza, Inc. (NYSE:DPZ) Q3 2024 Earnings Conference Call October 10, 2024 8:30 AM ET

Company Participants

Greg Lemenchick - VP of IR
Russell Weiner - CEO
Sandeep Reddy - CFO

Conference Call Participants

David Tarantino - Baird
David Palmer - Evercore ISI
Brian Bittner - Oppenheimer
Dennis Geiger - UBS
John Ivankoe - JPMorgan
Peter Saleh - BTIG
Sara Senatore - Bank of America
Gregory Francfort - Guggenheim
Jon Tower - Citi
Danilo Gargiulo - Bernstein
Christine Cho - Goldman Sachs
Chris O'Cull - Stifel
Jim Salera - Stephens
Logan Reich - RBC Capital Markets
Alexander Slagle - Jefferies
Brian Mullan - Piper Sandler
Jeffrey Bernstein - Barclays
Brian Harbour - Morgan Stanley
Andrew Strelzik - BMO Capital Markets
Jeffrey Farmer - Gordon Haskett

Operator

Thank you for standing by, and welcome to Domino's Pizza's Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen only mode. After the speaker's presentation there will be a question-and-answer session. [Operator Instructions] As a reminder, today's program is being recorded.

And now, I'd like to introduce your host for today's program, Greg Lemenchick, Vice President, Invest Relations. Please go ahead, sir.

Greg Lemenchick

Good morning, everyone. Thank you for joining us today for our third quarter conference call. Today's call will begin with our Chief Executive Officer, Russell Weiner, followed by our Chief Financial Officer, Sandeep Reddy. The call will conclude with a Q&A session.

The forward-looking statements in this morning's earnings release and 10-Q, both of which are available on our IR website, also apply to our comments on the call today. Actual results or trends could differ materially from our forecast. For more information, please refer to the risk factors discussed in our filings with the SEC. In addition, please refer to the 8-K earnings release to find disclosures and reconciliations of non-GAAP financial measures that may be referenced on today's call.

This morning's conference call is being webcast and is also being recorded for replay via our website. We want to do our best this morning to accommodate as many of your questions as time permits. As such, we encourage you to ask one question only.

With that, I'd like to turn the call over to Russell.

Russell Weiner

Thanks, Greg, and good morning, everybody. What I'd like to do is begin today's call by giving an overview on the restaurant space as I see it across the globe. When we introduced our Hungry for MORE strategy back in December, we knew consumer spending would be pressured in 2024 and that the QSRs that offered the strongest value would win. That proved to be right, and had Domino's leaning into our strategic pillar of renowned value has been key to our success in 2024, especially in the US.

As the year has progressed, competitors have followed our lead, and we've seen increased intensity around value within QSR pizza. I believe value will continue to be in demand from customers around the world and know that you're hearing the same thing from my peers as macroeconomic and geopolitical issues continue to pressure the industry. In these times, I believe the best measure of a company's current and future success are the share gains that it achieves.

In Domino's US business, we are doing just that, gaining share. Our team and franchisees are delivering incredible results despite a more challenging environment. Through the first three quarters of the year, our retail sales are up 6.6%, in the QSR pizza category that's growing at less than 2%. Hungry for MORE is driving the critical metric to long-term success in this business, more market share. This was our fourth consecutive quarter of same store sales growth since launching Hungry for MORE, proof that our strategy is working.

Importantly, and something I think continues to be unique in the industry right now, it was also our fourth straight quarter of positive order count growth. Profitable order count growth is the key to improving what are already best-in-class economics for our US franchisees. These economics have been a proven driver of store growth as well, which, of course, is another way we drive market share. For example, from 2015 to 2023, Domino's opened approximately 1,750 stores. If you look at our top QSR pizza competitors in aggregate, they closed almost as many stores as we opened during that same time period.

Today's order count growth drives tomorrow's order count growth as well, because the strength of Domino's Rewards brings members back for repeat purchases in the future. Domino's Rewards continues to perform well and was a key driver of our US comp performance in Q3. We've officially passed the one-year anniversary of the program, happy anniversary, Sadeep. And I expect it to continue to play a critical role driving the business for the next several years. That's because Domino's Rewards is achieving our goals of driving more light users and carryout customers. In addition, we have grown our overall active members significantly in 2024, allowing us to engage more customers and drive frequency with targeted marketing efforts.

Looking to Q4, Domino's will give customers what they are demanding from their QSR brands, more. We opened the quarter with our more [inflation] (ph) deal. At a time where consumers are feeling that they're getting less and paying more, more inflation showed them that Domino's was in their corner, giving them more for less. We follow this up with a 50% off boost week. And next week, one of our biggest renowned value promotions ever will go back on air, Emergency Pizza.

While providing value through our own channels is one part of our renowned value barbell strategy, tapping into the aggregator marketplace is the other. In Q3 we saw a nice acceleration as we grew our percentage of US sales coming through Uber to 2.7%. Importantly, incrementality in this channel has continued as expected since these customers have been less sensitive to the economic pressures that I discussed earlier.

As you know, Hungry for MORE drives more, though, than just renowned value. New products are an important way that we can bring to life the most delicious food pillar of our strategy. We launched our new mac and cheese in late September. This offering in our pasta lineup is available in five cheese and spicy buffalo, and for those who care, I add a little bacon to mine. We originally launched our pasta platform in 2009, and this is the first time we brought product news to the line since then. I'm excited at what this can mean for mac and cheese and frankly the entire pasta portfolio.

A year into Hungry for MORE, I hope our innovation with intent approach to new products is becoming clear to all of you. With mac and cheese and last year's pepperoni stuffed cheesy bread, we're bringing news to reignite our existing non-pizza platforms. And with New York style pizza, we brought in customers who preferred a pizza offering we didn't had in our portfolio. In summary, we're delivering against our Hunger for MORE goals for both sales and stores in the US. With the slate of initiatives we got out in front of us, I continue to believe that we will deliver US same store sales growth of 3% or more annually. And that's why I expect Domino's to continue to drive additional market share gain.

Now, I'd like to talk about our international business. Retail sales were up 6.5% through the first three quarters of this year. While that growth is inline with the global pizza category, it is not in line with our expectations, nor our historical performance. Recall, Domino's International has averaged more than 10% global retail sales growth over the past decade through 2023. And while we remain on track for a remarkable 31st straight year of international same store sales growth, the combined impact of macroeconomic pressures, geopolitical issues, and the underperformance we are experiencing is creating a drag on our international sales. Given this performance, we believe planning for approximately 1% to 2% same store sales growth for 2024 and 2025 is a more realistic expectation before we return the business to a more normalized level in 2026.

As you know, our international business, which is approximately half our global retail sales, represents less than a third of our profits due to our asset-light master franchising model. As a result of this dynamic, shifts in international sales have less impact on company profits. Therefore, I don't expect the softness in our international business to significantly impact our operating profit goals. And Sandeep will go more into this during his remarks.

You should know our team is hard at work with our international master franchisees to create momentum in their markets, even in the face of headwinds. We know what works in today's challenging environment. It's evident in the results that we're achieving in the US. So we're engaging with our master franchisees to implement the strategies and tactics we know will drive incremental sales and profits. In some cases, they've simply been a little bit too slow to react to shifting consumer behaviors. So we're focusing on three key areas, all of them, are centered around renowned value.

First, more aggressive promotional pricing that drives a consistent value message to customers. Second, maximizing orders from aggregators, where many of our markets have opportunities remaining to gain their fair share on these platforms. These orders continue to be incremental due to the higher income customer that uses them. And finally, taking a page out of the US playbook, diversify beyond delivery to drive another growth lever in carryout or in some places, dine-in. Our international business has so much potential, and by implementing the plans and strategies I've outlined, we expect to continue to create sales momentum that will produce the same kind of market share gains and net store growth we've achieved in the past.

In closing, what I want to do is reinforce with you the same message that I repeatedly share with our team. In the 16 years I've been at Domino's Pizza, we have always been in the business of creating our own tailwinds and driving share growth. That has been, and through our Hungry for MORE strategy, will continue to be how we drive best-in-class results and long-term value creation for our shareholders.

With that, I'd like to hand it over to Sandeep.

Sandeep Reddy

Thank you, and good morning, everyone. As Russell noted, while our third quarter financial results were impacted by a more challenging backdrop, we still delivered profitable growth. Income from operations increased 5.7% in Q3, excluding the impact of foreign currency of $1.4 million. This increase was primarily due to higher franchise royalty revenues resulting from global retail sales growth and supply chain profit dollar growth as a result of increased auto volumes and procurement productivity. This was partially offset by higher G&A, which was primarily driven by higher labor expenses.

Year to date, our operating profit growth, excluding FX, is up a strong 8.6%, which is in line with our expectations. Excluding the impact of foreign currency, global retail sales grew 5.1% in the third quarter from positive US and international comps and global net store growth.

Let's take a look at the details. During Q3, total retail sales grew 5.1% in the US, driven by same store sales that came in at 3% with positive order counts for the fourth consecutive quarter. These comps were driven by another strong quarter for carryout of 5.4% and delivery of 1.3%, fueling continued market share gains. We did begin to see macro and competitive pressures impact our results in August, and particularly the low-income customer.

Our US same store sales continue to be fueled by transaction growth from Domino's Rewards and our marketing programming. We also benefited from 1.6% of pricing, which was inclusive of high single digits in California. Our sales mix from Uber grew to 2.7% for the quarter. Our comp tailwinds were partially offset by a higher carryout mix, which carries a lower ticket than delivery.

Shifting to US unit count, we added 24 net new stores, bringing our US system store count to 6,930. Moving to international, where total retail sales grew 5.1%, excluding the impact of foreign currency. This was driven by net store growth, which was in line with the updated 2024 guidance that we provided on our last call. Same store sales were up 0.8% in the quarter, with a slowdown beginning in August.

In the quarter, we saw pressure in our Asia, Europe, and Middle East markets. In Europe and Asia, we continued to see macro impacts in addition to comp impacts in Japan as DPE continues to work through the plans they discussed in their August trading update. Softness in the Middle East was driven by an increased impact from geopolitical tensions.

Now turning to our outlook, let me start off by saying that the long-term algorithm of what we believe the Domino's business can and should achieve has not changed. We continue to expect that our algorithm of 7% or more annual global retail sales growth and operating profit growth of 8% or more is the right one as we look out to 2026 to 2028.

In evaluating our business in light of increased macro and competitive pressures over the last quarter, we now believe that our global retail sales growth will be approximately 6% in 2024. I'm very proud of how the team has come together to manage our P&L, which is allowing us to maintain a very strong operating profit growth outlook of approximately 8% excluding FX.

As we look ahead to 2025, we expect to be slightly below our long-term guidance algorithm, driven primarily by our international business. Our expectations for global retail sales growth are generally in line with our updated expectations for 2024, while still delivering an operating profit growth of approximately 8%.

As we noted in our disclosures this morning, we repurchased approximately 443,000 shares at an average price of $429 for a total of $190 million in the third quarter. As we continue to plan for our debt maturity in October 2025, the lower interest rate environment was the driver of the increase in share repurchases in Q3 as we now have more certainty on where we believe the interest rate range will be.

In closing, our resilient asset-light model has delivered outsized retail sales and extremely profitable growth over time. I am confident that this model can continue to drive outsized returns for investors.

Thank you. We will now open the line for questions.

Question-and-Answer Session

Operator

Certainly. And as a reminder, ladies and gentlemen, please limit yourselves to one question each. Our first question comes from the line of David Tarantino from Baird. Your question please.

David Tarantino

Hi, good morning. My question first is on the unit growth update you gave. It came down for the second straight quarter and I assume most of that's related to international, but could you just maybe explain the moving parts related to the change versus what you shared last quarter? And then, I guess, more importantly, how are you feeling about the ability to kind of ramp back towards your targets in 2025 and beyond?

Sandeep Reddy

Good morning, David. So yes, I think from a guidance perspective, we've updated to 800 to 850 in terms of global net store growth, relative to what we had last time of 825 to 925. I think the biggest driver, honestly, of this was working more closely with DPE and getting much better visibility that enabled us to do two things. One is, tighten the range, and the other is, as we actually get better understandings of what the expectations are in the fourth quarter. I think it made sense to actually update it to a little bit lower than what we had previously, but our visibility continues to get better as we move forward. And this is the kind of effort we'll continue to make as we move into 2025 and continue to update on what our expectations are in 2025 as well as we come into next year.

David Tarantino

And maybe just to follow up. 2025 retail sales being a little below your outlook longer term, is that related to the carryover impacts of the unit growth from this year. I guess the shortfall from unit growth, or are you expecting something lower on the comps and unit growth for next year? I guess I just wanted to clarify that.

Sandeep Reddy

So David, really good question. I think a couple of things going on there. I think Russell talked about in the prepared remarks as well, same store sales expectations for 2024 and 2025 for international we think is somewhere in the 1% to 2% range, which is below what we had initially talked about back in December at the Invest Day. And that's really given the macro pressures that we're dealing with and that we're seeing right now. And that's, I think, a big driver of that lower retail sales expectation.

The other driver, of course, is definitely unit growth that we actually are seeing in 2024 that will rollover partially into 2025. And I think as we continue to work through where unit growth is expected to go in 2025, that will have a partial impact in 2025 as well. So, all this is in the consideration set, but really 2025 is really driven by the international business primarily, and that's what we talked about in the prepared remarks.

Russell Weiner

And David, I think I'll maybe just add a little context on how I think about international. And to me that business is judged when you look at three things, when you look at the past, the present, and the future. So in the past, we've got a business that has averaged more than 10% retail sales growth over the last decade. We're about to hit our 31st straight year of positive same store sales. When you think about the present, not a year-to-date that Domino's normally has, but actually in line with the category. We normally do better than the category. We expect to do better than the category, but when there are headwinds, including ones that are self-created, and that's a low point for us. It says a lot about who we are. And the great news is, we're focused on turning things around. We know what we need to do with our master franchisees, really three things. It's all about renowned value, getting that right. We need to make sure that our promotional prices are consistent and they don't go above the CPI in a market. We need to make sure we're getting our fair share of aggregators, the delivery business.

And then reminding everyone, we're more than just a pizza delivery company and there are carryout opportunities, there are sit down opportunities and so those are all part of the renowned value strategy that we've been discussing. Which then is why I'm so bullish about the future, a future where we've got 10,000 stores to build in our top 15 international markets alone and we've got these great franchise partners who have a really tremendous history together. So I just wanted to give that aspect, that opinion of our international business to start off.

Operator

Thank you. And our next question comes from the line of David Palmer from Evercore ISI. Your question, please.

David Palmer

Thanks, guys. I want to ask about the fourth quarter, and really I'm asking about the fourth quarter, but I really have my eye on the general question of your confidence and ability to drive same store sales, excluding these third-party marketing. It looks like your guidance implies 3% US same store sales growth in the fourth quarter. Maybe you can confirm that that's roughly true. And I know people are going to be curious about your confidence in driving that same store to -- that sort of same store sales growth. And just to level set, people see the 3 points tougher comparison on a one-year basis. Obviously, Loyalty launched last year, Emergency Pizza, and I think people are also looking at data, whatever third-party data that they see out there that speaks to a slower start to the quarter. So you clearly feel like you have some growth drivers ahead, so I wanted to get your feeling about that. Thank you.

Russell Weiner

Thanks, David. I can tell you, I am so excited about what we are doing for Q4. All you can do is control what you can control. And when I think about our lineup for Q4, it's one of the strongest quarters of marketing since I've been here. You talked about Emergency Pizza. We've got Emergency Pizza 2.0 coming back. We've got the pasta launch. Loyalty is just getting started into its second year. We had a boost. We've got so many things going on here. And that's all you can do is you can lean in with all your marketing programs and with your franchisees. And like I said, I cannot imagine having a better quarter of -- or a better lineup in a quarter than we have right now.

Sandeep Reddy

And I think, David, I'm just going to add on to that, because I think you asked a question on the full year guide for same store sales. As Russell talked about in the prepared remarks, yes, we expect to do on a full year basis 3% or more, and that's specifically what we're talking about. And we aren't talking specifically to Q4. All the initiatives that Russell just mentioned are definitely going to be drivers, and we're really confident in this not just for this year, but across the next five years with the five-year plan. That's why we're reiterating that we're expecting to be 3% or more over Hungry for MORE.

Operator

Thank you. And our next question comes from the line of Brian Bittner from Oppenheimer. Your question, please.

Brian Bittner

Thanks. Good morning. Your Uber sales mix grew to 2.7% this quarter, which is very encouraging. It seems like you're on track with your original projections. And I know you have not made a firm decision on DoorDash yet, or at least publicly made a decision, but it does appear it's a matter of if not when. That's what you guys have said. And the question is, do you believe DoorDash has the characteristics and the ability to be a stronger mix than Uber?

And number two, is the launch of DoorDash contemplated at all in your 2025 outlook?

Russell Weiner

Yes. Thanks, Brian. As we've said on prior calls, the $1 billion that we think is out there for us contemplates us being on all aggregators, and so that's absolutely on our future. The Uber exclusivity, it's our decision at the end of Q1 what we'd like to do there. You're right though on DoorDash. DoorDash is bigger than Uber, so that would certainly be an incremental and most likely more significant impact on our business than Uber, but we'll take one step at a time. I'm just excited that we've essentially achieved our goal of the 3%. That's our fair share, and our goal remains to exit the year at 3%.

Operator

Thank you. And our next question comes from the line of Dennis Geiger from UBS. Your question please.

Dennis Geiger

Great. Thanks, guys. I want to ask a little bit more on the 2025 guide, specific to the US where it sounds like not a whole lot has changed, and it's really more that international business that has tweaked the 2025 guide. Russell, you just mentioned a bunch of initiatives that you have for 4Q. Can you touch on those some for 2025? I guess you just touched on third party. But I guess thinking about some of those other drivers, loyalty, which I think you have said is a multi-year driver, as well as just high level thinking about marketing and new products next year, any color you can give there specific to the US? Thank you.

Russell Weiner

Yes, thanks. I mean, obviously I can't go into -- for competitive reasons, I'm not going to go into the specifics, but I guess what I would do is, I'd point you to our Hungry for MORE strategy, which is really the -- kind of the roadmap. And so, we're going to be leaning into renowned value with programs we certainly have in our pocket like, Emergency Pizza, more [inflation] (ph), all those kinds of things can come back, carry out tips if we wanted to. But we also have a really creative team that's inspired by Hungry for MORE and I'm sure they're -- they've got a bunch of other things in their pocket.

On products, we talk about having two new products every year, so you should expect that. I think -- I understand why there's the desire to talk about specific programs for next year, but I guess what I would just do is just think about the track record of this team, especially since Hungry for MORE came out, and the roadmap is going to be pretty similar as far as the M, the O, and the R to where it was this year.

Operator

Thank you. And our next question comes from John Ivankoe from JPMorgan. Your question please.

John Ivankoe

Hi. The question is on US unit development. And I do want to ask this context in terms of a slower overall delivery business, the majority of new US stores would open in existing delivery trade areas. So is there any kind of rethinking or maybe repositioning from previous US unit development expectations, especially in 2025. I think the average number was something like 170 or so per year, correct me on that, that's not the true number, but around 170 units per so, is that the number that we should still be kind of thinking about on a year to year to year basis going forward.

Sandeep Reddy

Yes, John, I think we talked about 175 to be precise on the US unit development and I think we're committed to that plan. I mean, we continue to go for the 175. And I think you're right about the delivery was this carryout business and kind of like how that informs the location decisions. But I think Russell is going to add a bit more on that.

Russell Weiner

Yes, John. Hi. Store growth is a critical part to us gaining share. I talked about the first three months -- I'm sorry, first three quarters of this year, essentially us being up 3 times the category in the US. You know what our same store sales are. That means for us to be growing that high, we're getting significant contributions from new stores. And that's a key part of our strategy. When we open up a new store, a significant part of that volume is incremental on the carryout side, especially when we split a store. And then that new store helps us get more efficient on the delivery business. So new stores are absolutely positively part of our overall share growth plan, and I love the progress we're making.

Operator

Thank you. And our next question comes from the line of Peter Saleh from BTIG. Your question please.

Peter Saleh

Great, Thanks. I was hoping you could elaborate a little bit on the weakness you saw by income cohorts, maybe more specifically on the lower income guests. And then just when you think about Emergency Pizza last year, can you just talk about how that resonated with different income cohorts, just so we have an idea how we trend going into 4Q? Thank you.

Russell Weiner

Yes, Peter. We had another great quarter of not only same store sales growth, but order count growth. Where we saw maybe a little softness was with lower income customers on the delivery side. So just to help give some color there. On Emergency Pizza, you're right, Emergency Pizza 2.0 has some big shoes to fill. But what I'd say is, I've seen the program and if we have big shoes to fill, the program has big feet, maybe with a little bit nail polish on it as well. And so you're going to be more exposed to that, but we're excited about how we're going to lap, I think, one of the better programs in our history.

Operator

Thank you. And our next question comes from the line of Sara Senatore from Bank of America. Your question, please.

Sara Senatore

Great. Thank you. Just, I guess, one clarification on a question. The clarification is just on the lower income consumer. I'm trying to understand if things got worse from an aggregate spending perspective or if it's just there's more competition and maybe from other categories pursuing that consumer. And then the real question is this, if I look at the US and like your retail sales growth over the last, call it decade, it's been sort of like $600 million a year in growth. And trying to understand how to think about that in the context of market share and a slower growing category, kind of 2% as you said or less than 2%, you're growing 6%. Should I be thinking about this as like kind of dollar increases every year or is there a reason to think you can accelerate those dollar share gains so that you maintain kind of the market share gain growth that you've seen over time? I know there's a lot in there, but as your store base gets bigger it's just it's harder to sort of grow at that same pace, given the slower growth industry. Thank you.

Russell Weiner

I think there -- what I'll do is, I'll take the first question and maybe have Sandeep lean in on the second one. I think on the lower income customer we're going to have to continue to watch, but my guess is, it's a little bit about both of what you talked about. It's going to be softness on spending. We see what's happening with credit card debt and payments are taking a little bit longer to go through. But we also saw more competitive activity, particularly in August. And I think it was both external and internal. So in August, we saw really through two of our competitors, major competitors, one of them had free delivery. The other one did their version of our Emergency Pizza, obviously qualitatively my preferences for ours. But those were two really good value promotions.

Now at the same time, and I know this wasn't part of your question, but I think it's important to explain to everyone on the call, in August we did what we intended to do, which was -- actually we went with a quality message. You remember the [Simon Cowell] (ph) spot that we put on there. And we wanted that quality message for a couple of reasons. One, with Hungry for MORE, in order to deliver on our promise on the M, which is that we're going to have the most delicious food, we have to continue to beat the best, which is us, in operations. And so you'll remember last year we had Summer of Service. This year we've got three product sprints. And so the intent of that ad in August was not only to tell consumers, you know what, we've changed our stores, we've got these quality captains here now to make sure the product is great before it goes in the oven. But it was also the bar was raised for our franchisees. We let them know last year, hey, when we're all done with this training, we're going to go on and we're going to make a promise to customers. And I think that was a little bit added motivation.

So in August, what you saw is steps of competitive activity. We went a little bit more towards product quality, but then we very quickly, after about three, four weeks, went into more inflation back to value.

Sandeep Reddy

Yes. And so, I think, Sara, I'm going to just add on the second question that you had on the assumptions in Hungry for MORE. So let's go back to what Russell talked about in the prepared remarks. We are on track for Hungry for MORE. Everything we talked about in December for the US business is very much on track. And what is that? We talked about 3% same store sales annually, which we have again reiterated on this call. We talked about 175 stores annually, which we're again saying is there. You take the math of that, that's roughly mid-single digits growth annually, that's embedded in that. And we talk about a category that's growing 2% that implies significant market share annually. If you run the math based on these assumptions versus let's say a 2% or less category growth, you will see that the rate at which we are going to be increasing market share calibrates very much to what we achieved 2015 to 2023 as you look forward into Hungry for MORE. That is our plan. That's what we're going to be doing.

Russell Weiner

Yes, I agree. Just maybe there's a little bit more context on the category. I think this is achievable not only because of our track record and the programs we have and the franchisees we have, but it's also part and parcel to how the category is made up. So you know, when you think about all the share we've been gaining, we're still slightly south of one in four pizzas delivered in the US. When you think of other categories, the dominant number one player is potentially twice that size and I think we have every right to be there. And then you think, well, about half of the competition in pizza are the independents and some of the regional brands that don't have the marketing budgets we have. They don't have the supply chain efficiencies we have. And so, I think the past, but also the composition of the present, gives us a really nice sense of what the future can look like from a market share perspective.

Operator

Thank you. And our next question comes from the line of Gregory Francfort from Guggenheim. Your question, please.

Gregory Francfort

Hey, thanks for the question. Just to move from 7% retail sales growth with 8% operating profit growth to 6% and 8%, maybe can you talk about where you're finding cost efficiencies? I mean, do you expect more out of the supply chain? Do you expect more out of G&A? And maybe what are you looking at for G&A controls? Thanks, appreciate it.

Sandeep Reddy

Thanks, Greg, for the question. Look, I mean, I think when we look at the business and everything we talked about in the remarks earlier, the US business is very much on track. And I think if we look into what's actually happened from a performance perspective, that's actually a significant part of our profit that Russell talked about earlier. And so, where we have seen softness in relative terms is both international business, which obviously is going to have a profit impact, but we've done a lot already during the course of the year to find procurement productivity and supply chain, which we talked about through the first three quarters. And I think as we move into the fourth quarter, we're still very focused on making those critical investments.

So we talked about consumer spending, store technology -- sorry, consumer technology, store technology, and capacity investments. All those three buckets are going to be priorities for us, but within that, some may be more urgent from a timing perspective, some may be less urgent. So we're just adjusting our phasing a little bit, and we have levers to pull that we actually have not only pulled in 2024, but also expect to continue pulling in 2025 and that's why we feel very confident that we get to the 8% with the expectation that we have on retail sales in 2025 as well.

Operator

Thank you. And our next question comes to the line of Jon Tower from Citi. Your question please.

Jon Tower

Great. Thanks for taking the question. I was just curious, it looks as if at the current moment consumers are really pivoting aggressively to deal activity within the category and broadly across limited service. And I'm just curious, you mentioned earlier in the US that the category is growing at about 2% or so, and you're growing your retail sales north of 6%. And I was wondering if you could comment on the category and specifically Domino's pricing power over the long term and how you're thinking about that trickling into that 3% annual comp number that you outlined?

Russell Weiner

Yes, Jon, that's a great question. And I think really speaks to our ability to continue to do what we're doing. If you think about having to lean into value, what do you want to make sure you've got? You've got a system with capacity in advertising to get the word out there, right? Because if there's a little bit of a squeeze in store margin, well, the way to make that up is through volume. The way to drive volume is through great advertising. You're going to want to have a great supply chain and make sure that when everyone else is trying to deal the same way, look, I'll be frank [indiscernible] if you look at the competitors' marketing, it's very similar to our marketing, which, I guess it's the serious form of flattery is what they say. But I know our budget is bigger than them from a marketing perspective. I know our supply chain has got fantastic efficiencies on food costs.

And most importantly, our franchisees are a really good place from a profit perspective. We ended last year at 162. We're continuing to drive that. And so if you're going to have to lean into value, you want to have the biggest voice, you want to have the best food basket, and you want to have economics that's sustainable through these times, and I think we've got that.

Sandeep Reddy

And Jon, I'm just going to add something, which I think we talked about on previous calls, but I think the question had come up on pricing and what are we doing about pricing. I think what's been incredible about the journey from 2023 to 2024 has been exceptionally smart pricing. 2023 was all about getting the flow through back, after 2022 was very tough year, but 2024, the best pricing we did was almost no pricing, which is inclusive of California, we're at 1.6% in the quarter. This is why we're winning on value, and this is why we'll continue to win on value because not just is it what we've done, this is our intention to be highly disciplined on pricing as we go forward into the rest of Hungry for MORE.

Operator

Thank you. And our next question comes from the line of Danilo Gargiulo from Bernstein. Your question, please.

Danilo Gargiulo

Good morning. I have a question and a quick clarification. So, expanding on a previous question, bearing any brand specific leaders that you're deploying to gain market share, why do you think that in a decelerating macro environment the pizza category wouldn't be as resilient despite the fact that it's considered the cheapest product per category? So, in other words, why is the category not growing relevance in the low income consumer because of and not in spite of the macro challenges?

Sandeep Reddy

Yes. So I think, Danilo, what we're seeing is the low-income customer definitely has been impacted by the accumulation of all the pricing that's been taken across multiple years, as we've come out the last couple of years at least. What we are seeing is, we continue to win, but I think we definitely are winning clearly in the carryout business, where our value is very, very compelling. We're definitely winning in 3P, because we've been newly entered over there, and as Russell said, it's a different consumer, a different income cohort potentially where we see good incrementality.

What happens with the 1P customer is, you will see some impact when this general pricing levels get high to compress 1P in general. And I think that's one thing we saw in early 2023. We are seeing some of it right now as well. And we acknowledge it, but I think over time, as long as we stay to our principles of continuing to price very well for value to those customers, they will come back and we need to keep focusing on that.

Russell Weiner

Yes, Danilo, I'll just add to that. I think our category does respond to value. I just talked about how in August there was a lot of value and we saw consumers lean into it. I think what we're able to do that other folks can't do in the category is sustain that value. And our ability to sustain that value is why we're significantly outgrowing the category.

Operator

Thank you. And our next question comes from the line of Christine Cho from Goldman Sachs. Your question, please.

Christine Cho

Yes, thank you so much. So I wanted to double-click on the international markets. I think you mentioned Asia, Europe, and Middle East as pressure points. But I was wondering if you were able to provide a little bit more color on the same store sales growth slow down. So any particular markets that have dragged on overall growth, and how do you expect the trajectory to evolve in the next few quarters?

And just on unit growth, outside of what is happening at DPE, is it fair to say that you're seeing mostly inline trends versus your expectations earlier? Thank you so much.

Sandeep Reddy

Thanks for the question, Christine. So, look, I think with same-store sales in the third quarter, as we said earlier in the comments, it was really a slowdown that happened starting in August. And I think we saw just macro pressures in Europe and Asia in particular that we actually called out. We're not going to get into specific market by market trends because so many of our markets are public masters where they're going to have their own disclosures later. But overall across these regions, that's what we saw. And what I will say is, from an expectation standpoint, Russell talked about in the prepared remarks, we're just resetting our expectations for the next 15 months essentially, to say 1% to 2% same store sales growth, because we don't see this macro environment necessarily ameliorating in a very rapid pace. And so that's kind of what's built into our expectations when we talk about lower retail sales growth as well.

So coming to your second question on unit growth, look, I think for the -- we talked on the last call about the adjustment and net store guidance being primarily DPE. Essentially, the story hasn't changed. So I think ex DPE, the story is not that much different. And I think really when you think about our overall guidance, DPE is the primary driver.

Operator

Thank you. And our next question comes from the line of Chris O'Cull from Stifel. Your question, please.

Chris O'Cull

Yes, thanks. Good morning, guys. I had a follow-up on the 2025 outlook. The full-year comp guide for this year seems to imply flat-ish comps in the fourth quarter, but I believe you mentioned targeting 3% comps for next year. So I'm just curious, what gives you confidence that comps could accelerate in 2025 from the current trend or what you're currently targeting?

Sandeep Reddy

Yes, so just a clarification before I get into 2025, Chris. We are saying 3% or more on a full year basis for 2024. And so, we aren't being specific on what that means for Q4. Russell gave you this Freedom initiative that we got lined up. The decks are stacked. I mean, we've got every week spoken for, and I think there's a ton of initiatives that we've got going on. And I think to Russell's point on the fourth quarter, our marketing team is already working on 2025. We can't get into very much of the specifics on exactly what all those things are, but we will have an amazing slate of initiatives in 2025. And all that's embedded in the expectations of same stores sales that we have for next year.

Operator

Thank you. And our next question comes from the line of Jim Salera from Stephens. Your question, please.

Jim Salera

Yes. Thanks for taking our question. I wanted to drill down maybe a little bit on -- we talked a lot about the low-income consumer and some of the competitive QSR values that have been in the channel. But anything you can talk about from grocery, we've seen some increase in promo from kind of like frozen pizza and grocery pizza. Just any comments on how that might pull people with the lower income and anything you can think about to kind of retain those consumers?

Russell Weiner

Yes, Jim, I can tell you even when we were seeing some of the macro headwinds back kind of post-COVID against that segment, there really wasn't a lot of interaction with frozen pizza. I think what happens is, at least on the delivery side, a customer will just opt to eat at home, but it has nothing to do really with a frozen pizza promotion. It may be cheaper for them to make the meal at home.

Operator

Thank you. And our next question comes from the line of Logan Reich from RBC Capital Markets. Your question, please.

Logan Reich

Hey, good morning. Thanks for taking the question. Just had a quick follow up on the 2025 outlook. Is there any sort of assumption on the consumer either improving or maybe just stabilizing into 2025? Or is there sort of expectation that the softness could continue to get worse? I just sort of wanted to get your sense on expectations on the consumer and underlying operating environment in the US for the 2025 guide.

Russell Weiner

Yes, I'll tell you, we really always are leaning in to all the pillars of the Hungry for MORE strategy, no matter what the consumer environment is, because sometimes it's predictable, sometimes it's not predictable. And so, yes, that's what you should expect from us the rest of this year and through next year.

Operator

Thank you. Our next question comes from the line of Alexander Slagle from Jefferies. Your question, please.

Alexander Slagle

Hey, thanks. Just on delivery, just with the transactions seemingly turning negative and all the headwinds you're facing there in the first party channel, does this alter your view on where you really want to put your focus, where you're getting the biggest return and share gain? And does it make more sense to really expand the carryout share gains and growth that you're seeing there, even if first party delivery does continue to get weaker?

Russell Weiner

Well, part of our Hungry for MORE strategy was to compete in the full delivery segment, right? We don't do that, or we didn't do that a couple years ago. And so now that we're competing in that area, I really, I kind of look more globally at how are we doing in delivery, First Channel and Uber and about to be others kind of moving forward. But you're right too is no matter how delivery is doing, we're going to be leaning into carryout. Carryout is bigger than delivery for pizza in States. And so, it would make no sense, especially when every other concept seems to be coming towards delivery. Us really leaning into carryout is -- there are not a lot of people doing the opposite. So we're really bullish. We've seen the results in the US. And as I said earlier, now we're taking those results and we're working with our international master franchisees because there's a lot of non-delivery volume out there, whether it's carryout or in places like China and India, sit down. We're a pizza company, and so we're going to compete in every occasion.

Operator

Thank you. Our next question comes from the line of Brian Mullan from Piper Sandler. Your question, please.

Brian Mullan

Hey, thank you. Just a question on the menu innovation pipeline. I just want to ask about the potential for a stuffed crust pizza product in the domestic business. If that were a product that Domino's wanted to launch one day, what are some of the operational factors considered at the store level that you'd want to see before you would be ready to launch a product like that? Definitely, do you think a product like that would be well received from a Domino's consumer? Any thoughts would be great.

Russell Weiner

I think it's interesting, Brian. We're the number one pizza company in the world, and we don't have one of the most important, or sorry, one of the larger crust types. So I understand the reason for the question. And just in case you didn't know, we've got stuffed crust in Domino's markets all around the world. So it's not that we're adverse to doing it. It's just -- US got really significant volumes going through the store and operational excellence and quality is a big pillar for us. And so we've chosen so far not to do stuff crust, but that doesn't mean it's off the table. We just need to make sure that the circumstances would be right in the store.

Operator

Thank you. And our next question comes from a line of Jeffrey Bernstein from Barclays. Your question, please.

Jeffrey Bernstein

Great. Thank you very much. I just wanted to follow up on a couple of comments you made about the international system. And I know Russell, you mentioned that you've got kind of three big initiatives that you're working with those franchisees on. Just wondering how you find you're able to influence their behavior. I mean, obviously you're in a hundred international markets, six publicly traded franchisees, just their acceptance or willingness to work with you to kind of presumably reaccelerate that comp trend? And then just to clarify, did you say anything about the 2025 unit outlook? I think you had pulled kind of the long-term component of unit growth and you had said it wouldn't necessarily apply yet in 2025. I'm just wondering whether you've said directionally whether you think 2025 should see more openings than the 800 to 850 that you've now reduced to in 2024. Thank you.

Russell Weiner

Thanks, Jeff. And you know, you're right, obviously the US, we directly run these international markets. We work with those markets to influence them. And I think when you look at our US results under Hungry for MORE, essentially that started here in Q4. We started rolling out Hungry for MORE at our rally, which I think is pretty much five months ago. And so folks are already in line with their plans for the year. And one of the things they're also going to be looking at is, is this successful? And the beauty is, it is successful in the US. And that's why you're seeing markets, for example, India just talked about on their last call about how they've leaned into value specifically around their delivery fee and how that's really turned the business. I point out to Mexico who's doing a really, really good job leaning into renowned values. So, it's going to happen over time and it's going to happen because we're proving it works.

Sandeep Reddy

Yes. And this second add-on that you had, Jeff. We didn't specify a 2025 store outlook, but we'll get through Q4, come back in February, and then we'll continue to have incremental visibility at that point.

Operator

Thank you. And our next question comes from the line of Brian Harbour from Morgan Stanley. Your question, please.

Brian Harbour

Yes, thanks. Good morning, guys. Could you just comment on -- is franchise store EBITDA for this year still kind of on track with your expectations And if I look at kind of corporate owns store margins, you're kind of back to nice year-over-your growth there, is that directionally consistent with what your franchisees are seeing still?

Sandeep Reddy

Yes. So Brian, thanks for the question. I think when we talk about corporate store margins and corporate store profitability, I think we've addressed this a couple of times before as well. The sample size is so small on corporate stores. It's really not necessarily an analog to what's going on in the franchisees and the franchisee P&L. But we're happy with how much progress we've made on the corporate stores and we expect to continue to make progress for the rest of the year on the corporate stores.

But in terms of the franchisees, look, coming into this year, we had best-in-class store profitability and best-in-class returns for franchisee stores. And as we've gone through this year, we've actually continued to do it really well, and franchisee profitability is expected to continue to grow. But I think as far as we're concerned, we're committed to continuing to drive profit growth not just in 2024, but beyond.

Russell Weiner

Yes, I'd also point to, we never stop thinking about franchisee profitability, and we work with them together to do that. So actually next week, you should know we have something we call an economic summit where we bring our franchisees that are part of all of our committees, our marketing, our technology, supply chain operations. And we talk about their business and how to drive the top line and the bottom line. And I think that's really important to be working together so they understand and we can share all the data that over time has proven to be true on how together we can drive their profitability. And I think it's important, I know, I hear from franchisees that it's important that they see us acting in partnership with them and next week's economic summit is going to just do that -- do just that.

I'd like to, if you don't mind, since you talked about franchisees, just for a moment, given all that's going on with Hurricane Milton, and we've got franchisees, and stores, and team members in some of these affected areas that we are thinking about them. And Domino's is there for our customers, and we are there for each other. We come together in times like this. We've got this saying at Domino's for decades that this line is, we are the last to close, and we're the first to open. And sometimes when we reopen in times like this, it's not just the heroics of an individual franchisee. It's about the entire Domino's system coming together. So in North Carolina, we have stores that had no electricity and we have franchisees all over the country sending people, sending generators, sending mobile trucks. And so we are there thinking about our team members, our customers. And I'm just so proud of how our team comes together during times like this.

Operator

Thank you. And our next question comes from the line of Andrew Strelzik from BMO Capital Markets. Your question, please.

Andrew Strelzik

Hey, and good morning. Thanks for taking the question. I had something along the same lines as the prior question, and it's on labor specifically. As a percent of sales, labor was favorable year-over-year for the first time in a while, so I'm curious what drove that shift, if you're expecting that to continue, if you'll continue to see leverage there. And if you think your franchisees are also seeing that benefit, I know you said it's hard in small sample to draw those lines between your profitability and the franchisees, but labor may be a little bit more in your control, so I'm curious what's going on there. Thanks.

Sandeep Reddy

Thanks, Andrew. I think you answered the question yourself, which is, I think it's so difficult because there's so many legislative rules in different DMAs and states that I don't think there's a one size fits all in terms of what's going on. Now I'll talk about company stores specifically and if you have been looking at our quarterlies, which I'm sure you have, you've been seeing that we've been dealing with labor pressure for quite a few quarters, but I think now we've started lapping some of those increases that we have to take on labor, and that's why you kind of saw it stabilizing. So there's nothing more to read into that besides we've kind of lapped some of the big increases that we took. But overall we're committed to continuing to drive profit dollar growth on our company stores and I think including any one-time things like insurance, etc., we expect to actually continue to drive margin over time as well.

Operator

Thank you. And our final question for today comes from the line of Jeffrey Farmer from Gordon Haskett. Your question, please.

Jeffrey Farmer

Thank you. You did touch on the competitive environment in the US with a couple of questions, but do you expect to see the peer promotional and value efforts sort of further intensify as we get through the balance of 2024 moving into 2025. Meaning, are we sort of in the middle of this surge of promotional activity for the peer group, or do you think it's going to further intensify?

Russell Weiner

Thanks, Jeff. And I'll tell you, first it's funny to see your name pop up there only because we have a franchisee named Jeff Farmer whose brother Pat was actually in the more [indiscernible] I have no idea if you're any related, but it's always nice to see the name Jeff Farmer up on the screen.

As far as the competitive activities for the rest of the year, I mean, it's funny that you see a lot of talking about kind of the burger wars. I think we're in the pizza wars right now and again clearly we are winning that. And what the competition is going to have to do to keep up with us is to continue to lean into value. So I'm not sure what they're doing. Obviously, we don't have their plans, but I know what we're doing, and if they want to match us, they're going to have to continue to do that.

Greg Lemenchick

Thank you, Jeff. That was our last question of the call. I want to thank you all for joining our call today, and we look forward to speaking to you all again soon. You may now disconnect. Thank you.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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