

Dunkin' Brands Group (DNKN)

\$78.18 (As of 01/13/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

Although, shares of Dunkin' Brands have underperformed the industry in the past year, but its strong brand recognition, various sales-building initiatives like product launches, focus on beverage portfolio, aggressive expansion along with enhanced digital offerings bode well. Moreover, earnings estimates for 2020 have been revised upward over the past 60 days. With the demand for coffee expected to grow going forward, Dunkin' Brands is continuously adding new coffee beverages to the menu. However, it is experiencing dismal sales performance at Baskin-Robbins International, which is worrisome. Intense competition from larger fast-casual companies, a soft consumer spending environment, challenging international markets and a shift in ice cream consumption remain added headwinds. Also, high costs of operations raise concern.

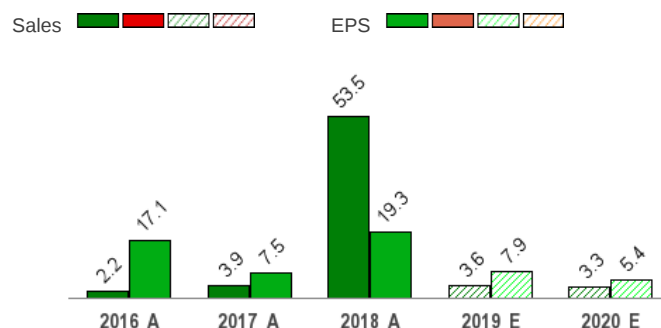
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.74 - \$64.11
20 Day Average Volume (sh)	564,853
Market Cap	\$6.5 B
YTD Price Change	3.5%
Beta	0.39
Dividend / Div Yld	\$1.50 / 1.9%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 32% (81 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.1%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	02/06/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	328 E	370 E	367 E	345 E	1,414 E
2019	319 A	359 A	356 A	335 E	1,369 E
2018	301 A	351 A	350 A	320 A	1,322 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.70 E	\$0.90 E	\$0.90 E	\$0.78 E	\$3.30 E
2019	\$0.67 A	\$0.86 A	\$0.90 A	\$0.70 E	\$3.13 E
2018	\$0.62 A	\$0.77 A	\$0.83 A	\$0.68 A	\$2.90 A

*Quarterly figures may not add up to annual.

P/E TTM	25.1
P/E F1	23.7
PEG F1	2.2
P/S TTM	4.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

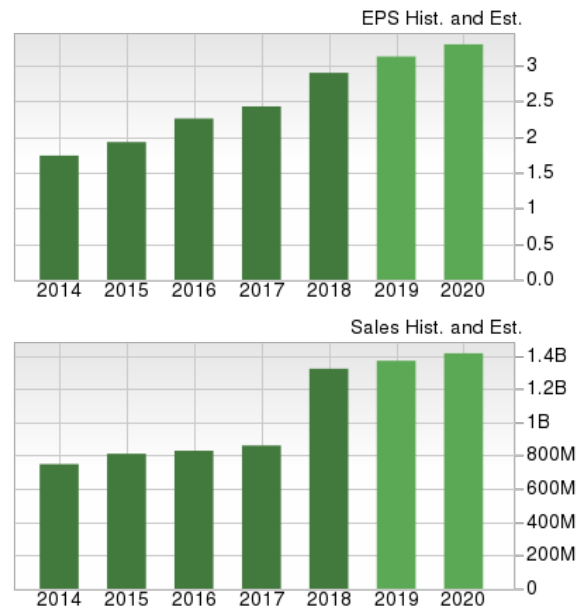
Overview

Headquartered in Canton, MA, Dunkin' Brands is a franchisor of quick-service restaurants under the Dunkin' Donuts and Baskin-Robbins brands.

Dunkin' Brands operates under four segments: Dunkin' U.S. (44.8% of total revenues in the third quarter of 2019), Dunkin' International (2.1%), Baskin-Robbins International (0.8%), Baskin-Robbins U.S. (4.1%), U.S. Advertising Funds (40.6%) and Other (7.5%).

The company generates revenues from five primary sources: (i) royalty income and fees associated with franchised restaurants; (ii) rental income from restaurant properties that are leased to franchisees; (iii) sales of ice cream products to franchisees in certain international markets; (iv) retail store revenues at the company-owned restaurants, and (v) other income including fees for licensing the Dunkin' Donuts brand for products sold in non-franchised outlets (such as retail packaged coffee), the licensing of the rights to manufacture Baskin-Robbins ice cream to a third party for ice cream and related products sold to U.S. franchisees, refranchising gains, transfer fees from franchisees, and online training fees.

Dunkin' Brands has a multi-year partnership with Keurig Green Mountain and J.M. Smucker to manufacture, market, distribute and sell Dunkin' K-Cup pods at retailers across the U.S. and Canada, as well as online. Keurig has the right to distribute Dunkin' K-Cup packs with five varieties of signature Dunkin' Brands coffee to specialty stores and office supply retailers. J.M. Smucker, on the other hand, distributes and sells Dunkin' K-Cup packs to grocery chains, mass merchandisers, club stores, drug stores, dollar stores and home improvement stores.



Reasons To Buy:

- ▲ **Robust Earnings Trend Driving Share Price:** Shares of Dunkin' Brands have gained over the past year. This gain can primarily be attributed to its better-than-expected earnings in the trailing eight quarters. Moreover, in the preceding four quarters, the company's bottom line surpassed the Zacks Consensus Estimate by average of 8.4%. In the third quarter, the bottom line also improved 8.4% on a year-over-year basis, driven by a rise in net income.

Following robust third-quarter 2019 earnings, the company raised its full-year view. The company now expects adjusted earnings within \$3.10-\$3.12 per share, up from prior expectation of \$3.02-\$3.05. Estimates for 2020 have been upwardly revised over the past 60 days, depicting analysts' optimism. Given its progress on the fundamentals, the company is likely to perform well in the quarters ahead.

Dunkin' Brands' focus on beverage portfolio, strong digital initiatives and aggressive expansion strategies coupled with efforts to boost sales bode well

- ▲ **Strong Brand Recognition & Expansion:** Dunkin' Brands ranks among the well-established global quick-service restaurant brands. As a result, it enjoys enormous customer trust and brand loyalty making it easier for the company to launch new product lines. The company's increased focus on menu innovation, especially on premium products to offer great beverages, is likely to drive growth. Markedly, the company started serving Beyond Breakfast Sausage from Nov 6, 2019, thereby becoming the first U.S. restaurant to offer the same nationwide. Banking on its already established namesake, the company has undertaken the implementation of a six-part plan to fuel Dunkin' Brands' strategic growth in the United States and better position itself as a beverage-led On-the-Go brand. That plan includes building its coffee culture; faster and improved product innovation; targeted values and smart pricing; being a leader in digital innovation; improving the restaurant-like experience; and driving consumer packaged goods and new channels. In fact, the company simplified its branding in the third quarter of 2018 and changed the logo of Dunkin Donuts to Dunkin' that marks its commitment to the beverage-led strategy.

Moreover, given its growing popularity, the company is expanding its footprint in the emerging markets of Asia and the Middle East. The company also considers the untapped market of South Africa a great potential and has inked a franchise agreement to develop more than 250 Dunkin' restaurants and more than 70 Baskin-Robbins shops in here, over the coming years. Notably, at the end of the third quarter, the company had more than 13,000 Dunkin' restaurants and 8,000 Baskin-Robbins restaurants. It opened its 400th next-gen restaurant in Pennsylvania on Oct 14. Such expansion strategies should boost the company's top line. The company sees Chile, Philippines, Thailand and Germany on the top of its priority list as they are driving positive results. Meanwhile, Dunkin' is working on the design of its restaurant image and plans to have beta locations in the market by later this year. The new design is believed to be transformational from a design, equipment and technology perspective.

- ▲ **Efforts to Boost Sales:** Dunkin' Brands continues to boost sales through regular product launches. With the demand for coffee expected to keep growing, Dunkin' is continuously adding new coffee beverages to the menu, both in the value and premium offering segment, like the Macchiato's line of products and the recent — Cold Brew coffee. In the fourth quarter of 2018, the company introduced an entirely new handcrafted espresso beverage in more than 9,000 Dunkin' U.S. restaurants.

After the successful addition of cold brew in the beverage portfolio, launch of handcrafted espresso beverage drove incremental sales and traffic, and boosted 200-basis point sales mix. In the third quarter of 2019, espresso sales grew more than 40% year over year. In fact, Dunkin' U.S. comps also grew 1.5% in third-quarter 2019, owing to increase in average ticket, which was driven by strong performance of premium beverages like espresso and cold brew, as well as sales of breakfast sandwiches backed by the success of national Go2s value platform. Moving forward, espresso and other frozen beverages are expected to continue the momentum across the beverage portfolio. The company has already introduced ready-to-drink bottled iced coffee and Fruited Iced Teas, Dunkin' Energy Punch powered by Monster Energy and frozen coffee last year. Recently, the company launched Donut Fries and a Dunkin' Run platform, a \$2 snacking menu, which helped drive sales.

Meanwhile, in January, the company added the Power Platform, which has been driving incremental sales. In April, Dunkin' Brands launched the Dunkin' Bowls, which comprises an egg white bowl containing 14 grams of protein and only 250 calories. Power breakfast sandwiches have also been driving the company's sales. The company highly focuses on building new restaurant designs. It designed a Next Generation restaurant involving technology that aims to provide a rich and faster restaurant experience, and deliver quality food and beverages. Dunkin' U.S. franchisees expect to open between 200 and 250 net new units of next-gen restaurants annually over the next 3 years.

- ▲ **Strong Digital Initiatives:** The digital wave has hit the U.S. fast-casual restaurant sector as an increasing number of restaurants are deploying technology to enhance guest experience and drive traffic. Dunkin' Brands is also not far behind in this race. The company is growing in terms of its use of digital technology through DD card, DD mobile app, DD Perks rewards program, On-the-Go ordering and delivery. During the last reported quarter, the company added guest ordering for mobile on-the-go app. These initiatives make Dunkin' more convenient and accessible to customers. It also introduced multi-tender payment flexibility for the DD Perks program, which will provide more choice and convenience for Dunkin's on-the-go guests.

Additionally, the company expects to see a larger percentage of Dunkin' restaurants to open with drive-thrus. This increased emphasis on drive-thrus is huge part of the company's strategy to be an On-the-Go brand and offer frictionless experience to guests. Furthering its delivery program, Dunkin' has also expanded its delivery service to Miami, in partnership with DoorDash, covering over 70% of Baskin-Robbins stores across the United States. Meanwhile, the company also partnered with Grubhub to create a Dunkin' delivery system with POS integration.

Reasons To Sell:

- ▼ **Baskin-Robbins International Witnesses Dismal Performance:** Dismal sales performance at Baskin-Robbins International has been a major concern. In third-quarter 2019, Baskin-Robbins International revenues decreased 0.5% due to a decline in sales of ice cream and other products, and low royalty income.
- ▼ **Competition with Larger Companies:** The company is facing competition from larger fast-casual companies which offer healthier menu options and are gaining popularity among consumers. Further, the company's coffee offerings face intense competition from one of the coffee giants — Starbucks — boasting a much larger scale of operations. Additionally, Dunkin' generates a chunk of revenues from the breakfast segment, which is gradually becoming more competitive. Companies like Jack in the Box and McDonald's are gaining traction with their breakfast platter, which is denting the company's top line.
- ▼ **Shift in Ice Cream Consumption:** The U.S. ice cream industry is shrinking gradually. In recent times, the trend of ice cream consumption at home has increased as several key brands are now available at grocery stores. Further, consumers are shifting more toward healthy frozen yogurt and fruit and vegetable-based flavors. Thus, declining sales at ice cream parlors would hurt Dunkin' Brand's revenues in the near term. Moreover, the company is experiencing lower than expected sale in ice cream products in its international segment too. The company's ice-cream sales continued to decline even in the first quarter.
- ▼ **High Costs of Operations:** The restaurant industry is plagued with high costs of operations, owing to increased labor costs and other administrative expenses. Dunkin' Brands have also been facing margin pressure, owing to higher costs of operations. In 2018, total operating costs and expenses increased 2.5% year over year. In the nine months ended Sep 28, 2019, total operating costs and expenses increased 0.8% from the comparable year-ago period.

Intense competition, a soft consumer spending environment, challenging international markets and a shift in ice cream consumption remain potent headwinds

Last Earnings Report

Dunkin' Brands Up on Q3 Earnings Beat, Upbeat View

Dunkin' Brands Group, reported mixed results in third-quarter 2019, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same. Notably, this marked its eighth straight quarter of earnings beat.

Its adjusted earnings of 90 cents per share surpassed the consensus estimate of 81 cents by 11.1%. The bottom line also improved 8.4% on a year-over-year basis, driven by a rise in net income.

Revenues were up 1.7% year over year to \$355.9 million but missed the consensus mark of \$359 million. The top-line improvement was primarily owing to a rise in royalty income from higher system-wide sales at Dunkin' U.S. and rental income growth. The revenue growth was partially offset by a decline in advertising fees and related income.

The company's global system-wide sales rose 4.7% from the prior-year quarter. Its system-wide sales were favored by global store development, and comps growth at Dunkin' U.S. and Dunkin' International.

Segmental Performance

Dunkin' Brands operates through Dunkin' and Baskin-Robbins brands.

Dunkin' U.S. reported revenues of \$166.4 million, which reflect an improvement of 5.8% from the prior-year quarter. This upside can be attributed to higher royalty income, driven by system-wide sales growth and increase in rental income, offset by a decrease in franchise fees. Comps also grew 1.5% in the third quarter of 2019, owing to increase in average ticket, which was driven by strong performance of premium beverages like espresso and cold brew, as well as sales of breakfast sandwiches backed by the success of national Go2s value platform.

Dunkin' International division reported revenues of \$6.7 million, mirroring a gain of 7.9% from the prior-year quarter. The improvement was primarily backed by a rise in royalty income, driven by system-wide sales, partially offset by a decrease in franchise fees. Additionally, comps rose 7.3% compared with 2.5% gain in the year-ago quarter.

Baskin-Robbins U.S. revenues grew 4.7% from the prior-year quarter to \$14.3 million, owing to rise in ice cream sales, rental income and other products. Comps grew 3.6% year over year due to an increase in average ticket and flat traffic.

Baskin-Robbins International division revenues were \$31 million, marking a year-over-year decrease of 0.5% due to a decline in sales of ice cream and other products. However, comps grew 3% compared with 7.5% growth in the year-ago quarter.

Operating Performance

Adjusted operating income rose 7.8% from the year-ago quarter to \$126 million, mainly owing to increase in royalty and other operating income. Adjusted operating income margin expanded 200 basis points to 35.4%.

Balance Sheet

Dunkin' Brands ended third-quarter 2019 with cash and cash equivalents of \$523.4 million compared with \$517.6 million at the end of 2018. Restricted cash totaled \$93.9 million, up from \$79 million as of Dec 29, 2018. Long-term debt was approximately \$3 billion.

2019 Guidance

The company expects adjusted earnings within \$3.10-\$3.12 per share, up from prior expectation of \$3.02-\$3.05.

The company continues to expect low-single digit comparable store sales growth for Dunkin' U.S. and flat to slightly negative comparable store sales improvement for Baskin-Robbins U.S. It expects to open at the low end of 200-250 net new Dunkin' U.S. units. It also anticipates that the new Dunkin' U.S. restaurants opened during the year will contribute nearly \$130 million to systemwide sales.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-0.81%
EPS Surprise	11.11%
Quarterly EPS	0.90
Annual EPS (TTM)	3.11

Valuation

Dunkin' Brands shares are up 16.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 20.5% and 19.8% over the past year, respectively.

The S&P 500 index is up 24.2% in the past year.

The stock is currently trading at 23.64X forward 12-months Price to Earnings value, which compares to 24.81X for the Zacks sub-industry, 25.5X for the Zacks sector and 18.87X for the S&P 500 index.

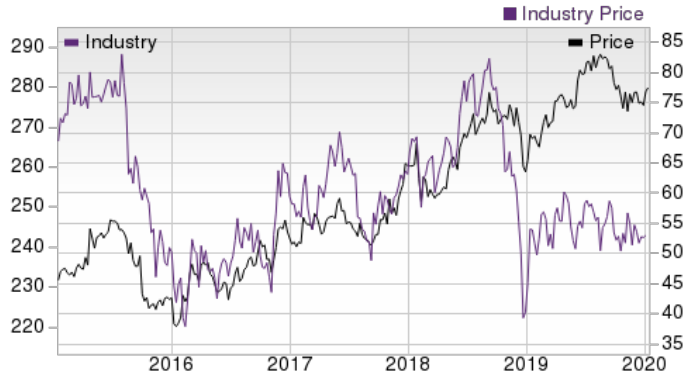
Over the past five years, the stock has traded as high as 27.23X and as low as 17.13X, with a 5-year median of 22.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$82 price target reflects 24.84X forward 12-months Price to Earnings value.

The table below shows summary valuation data for DNKN.

Valuation Multiples - DNKN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.64	24.81	25.5	18.87
	5-Year High	27.23	26.41	26.23	19.34
	5-Year Low	17.13	20.45	19.07	15.17
	5-Year Median	22.77	23.25	22.95	17.44
P/S F12M	Current	4.58	3.57	1.08	3.5
	5-Year High	7.09	3.85	1.11	3.5
	5-Year Low	3.59	2.91	0.8	2.54
	5-Year Median	4.89	3.25	0.91	3
EV/EBITDA TTM	Current	17.92	16.42	15.47	12.12
	5-Year High	22.67	17.48	15.47	12.86
	5-Year Low	12.4	12.08	10.32	8.48
	5-Year Median	16.4	13.93	12.38	10.67

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 254)



Top Peers

BJs Restaurants, Inc. (BJRI)	Neutral
Dave & Busters Entertainment, Inc. (PLAY)	Neutral
Papa Johns International, Inc. (PZZA)	Neutral
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral
Starbucks Corporation (SBUX)	Neutral
The Wendys Company (WEN)	Neutral
Jack In The Box Inc. (JACK)	Underperform
Carrols Restaurant Group, Inc. (TAST)	Underperform

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	DNKN Neutral	X Industry	S&P 500	PLAY Neutral	RRGB Neutral	TAST Underperform
VGM Score	D	-	-	B	D	D
Market Cap	6.48 B	435.29 M	24.31 B	1.27 B	442.92 M	305.38 M
# of Analysts	12	5.5	13	5	5	3
Dividend Yield	1.92%	0.00%	1.76%	1.55%	0.00%	0.00%
Value Score	D	-	-	A	B	B
Cash/Price	0.10	0.03	0.04	0.02	0.05	0.01
EV/EBITDA	19.78	14.87	14.12	10.95	12.91	17.11
PEG Ratio	2.20	1.98	2.05	0.98	4.80	NA
Price/Book (P/B)	NA	2.78	3.34	8.61	1.21	0.82
Price/Cash Flow (P/CF)	21.79	11.56	13.66	6.79	3.77	3.04
P/E (F1)	23.69	22.13	18.82	14.51	46.38	65.44
Price/Sales (P/S)	4.78	0.94	2.64	0.94	0.34	0.22
Earnings Yield	4.22%	4.44%	5.29%	6.89%	2.16%	1.53%
Debt/Equity	-5.47	0.94	0.72	12.25	1.82	3.92
Cash Flow (\$/share)	3.59	1.53	6.94	6.09	9.09	1.94
Growth Score	C	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	13.28%	7.71%	10.56%	30.41%	-15.50%	-26.49%
Proj. EPS Growth (F1/F0)	5.46%	8.29%	7.49%	-2.66%	-4.90%	134.62%
Curr. Cash Flow Growth	7.69%	7.73%	14.83%	10.22%	-5.58%	13.86%
Hist. Cash Flow Growth (3-5 yrs)	6.16%	6.24%	9.00%	18.57%	4.85%	26.29%
Current Ratio	1.62	0.63	1.23	0.25	0.38	0.29
Debt/Capital	NA%	61.12%	42.99%	92.46%	64.57%	79.68%
Net Margin	17.54%	3.14%	11.08%	7.82%	-0.82%	-1.48%
Return on Equity	-38.96%	8.47%	17.16%	37.48%	4.89%	-3.00%
Sales/Assets	0.37	1.17	0.55	0.67	1.14	1.07
Proj. Sales Growth (F1/F0)	3.29%	3.15%	4.23%	8.15%	-2.14%	16.20%
Momentum Score	D	-	-	D	D	C
Daily Price Chg	1.10%	0.00%	0.73%	0.88%	3.70%	-13.26%
1 Week Price Chg	0.86%	0.78%	0.39%	1.33%	0.95%	-4.16%
4 Week Price Chg	5.26%	1.00%	1.84%	5.40%	18.24%	-13.38%
12 Week Price Chg	3.21%	1.35%	6.48%	1.15%	6.60%	-22.19%
52 Week Price Chg	15.87%	0.00%	23.15%	-18.50%	6.90%	-38.07%
20 Day Average Volume	564,853	174,934	1,578,594	668,898	244,623	453,822
(F1) EPS Est 1 week change	0.05%	0.00%	0.00%	0.00%	0.00%	-20.00%
(F1) EPS Est 4 week change	0.08%	0.00%	0.00%	0.00%	-3.40%	-20.00%
(F1) EPS Est 12 week change	1.08%	-0.10%	-0.48%	4.64%	-27.41%	-72.31%
(Q1) EPS Est Mthly Chg	-0.30%	0.00%	0.00%	0.00%	-6.77%	-34.21%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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