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Jul 30, 2020

Dunkin Brands Group (DNKN)

$71.68 (As of 07/29/20)

Price Target (6-12 Months): **$75.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/24/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: C	

Summary

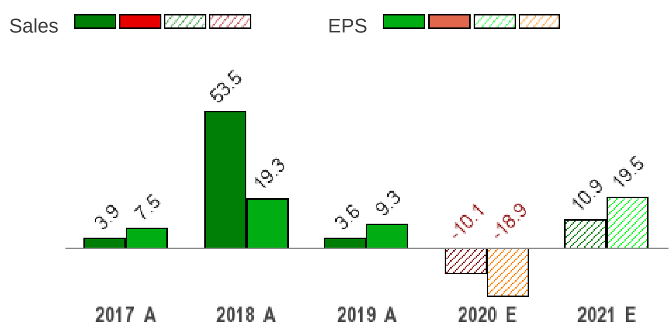
Shares of Dunkin' Brands have underperformed the industry in the past year. The dismal performance was primarily due to coronavirus induced woes. Due to the same, the company had revoked its fiscal 2020 and long-term targets. Also, intense competition from larger fast-casual companies is a potent headwind. Moreover, the company has been facing margin pressure owing to higher costs of operations. Notably, earnings estimates for 2020 have declined over the past 30 days, depicting analysts concern regarding the stock growth potential. However, strong brand recognition, various sales-building initiatives like product launches, focus on beverage portfolio and aggressive expansion along with enhanced digital offerings are likely to benefit the company going forward.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$84.74 - $38.51**
20 Day Average Volume (sh)	**744,662**
Market Cap	**$5.9 B**
YTD Price Change	**-5.1%**
Beta	**0.90**
Dividend / Div Yld	**$1.61 / 2.2%**
Industry	**Retail - Restaurants**
Zacks Industry Rank	**Top 43% (108 out of 253)**
Last EPS Surprise	**8.1%**
Last Sales Surprise	**4.7%**
EPS F1 Est- 4 week change	**-0.2%**
Expected Report Date	**07/30/2020**
Earnings ESP	**-1.3%**
P/E TTM	**22.7**
P/E F1	**27.9**
PEG F1	**2.6**
P/S TTM	**4.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	325 E	347 E	358 E	341 E	1,366 E
2020	323 A	271 E	318 E	319 E	1,232 E
2019	319 A	359 A	356 A	336 A	1,370 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.69 E	$0.79 E	$0.86 E	$0.78 E	$3.07 E
2020	$0.67 A	$0.47 E	$0.72 E	$0.70 E	$2.57 E
2019	$0.67 A	$0.86 A	$0.90 A	$0.73 A	$3.17 A

*Quarterly figures may not add up to annual.

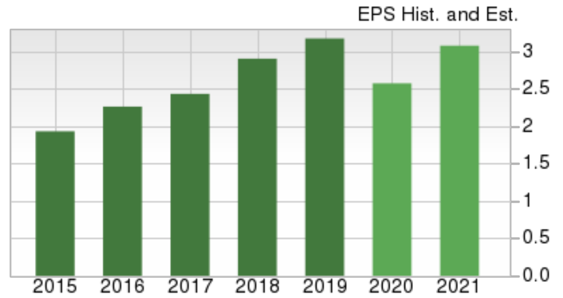
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

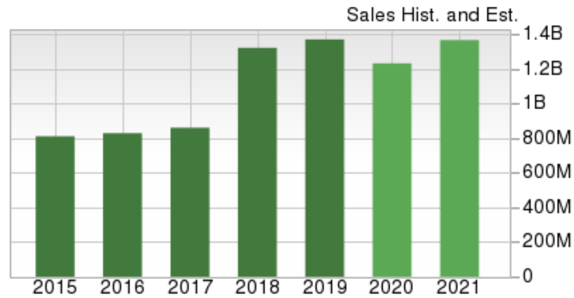
Overview

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 five segments: Dunkin' U.S. (47% of total revenues in the first quarter of fiscal 2020), Baskin-Robbins U.S. (3.4%), Dunkin' International (1.7%), Baskin-Robbins International (8.4%), U.S. Advertising Funds (33.6%) and Other (5.9%).

The company generates revenues from five primary sources: (i) royalty income and franchise fees associated with franchised restaurants; (ii) continuing advertising fees from Dunkin' and Baskin-Robbins franchisees and breakage and other revenues related to the gift card program; (iii) rental income from restaurant properties that are leased to franchisees; (iv) sales of ice cream and other products to franchisees in certain international markets; and (v) other income including fees for the licensing the Dunkin' Donuts brands for products sold in certain retail outlets, the licensing of the rights to manufacture Baskin-Robbins ice cream products sold to U.S. franchisees, refranchising gains, 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:

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

▲ **Robust Earnings Trend:** Dunkin' Brands reported better-than-expected earnings in the trailing 10 quarters. Moreover, the company has a trailing four-quarter positive earnings surprise of 7.1%, on average. However, in the first quarter, the bottom line was flat on a year-over-year basis. Given its progress on the fundamentals, the company is likely to perform well in the quarters ahead.

▲ **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. Notably, this premium food innovation along with premium-priced Cold Brew and espresso beverages brought in huge media buzz, supporting high consumer trial and repurchase rates. It also reached a new consumer base and drove incremental sales by offering on-trend choices to its customers. During first-quarter 2020, the company limited certain varieties of products, to improve speed and accuracy of its services. Toward that, the company developed a radically reduced menu called The Essentials Menu -- an alternative for a franchisee willing to serve its guests with access to a limited staff.

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. In fourth-quarter 2019, the company enhanced its digital ecosystem by allowing customers to use mobile on-the-go ordering, previously exclusive only to DD Perks members. During the first quarter of 2020, the company opened 38 net new restaurants globally, including seven net new Dunkin' U.S. locations, 14 Baskin-Robbins International locations and 23 Dunkin' International locations, offset by net closures of 6 Baskin-Robbins U.S. locations.

▲ **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. 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.

Meanwhile, in January 2019, 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 third quarter 2019, 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. During the first quarter 2020, the company doubled its delivery footprint from 2,000 to 4,000 stores. In May 2020, the company also partnered with Uber Eats.

Reasons To Sell:

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

- **Coronavirus Impact to Show on 2020 Results:** The coronavirus pandemic had an unfavorable impact on the company's business, financial condition and operational results for the three months ended Mar 28, 2020. Although the company's domestic footprint and high drive-thru mix positioned it well to weather the storm, sales are challenged by temporary closures of restaurants and drop in traffic. The impact on system-wide sales of COVID-19 had a corresponding unfavorable impact on royalty income, primarily for the Dunkin' U.S. segment.

  Nonetheless, in response to the pandemic, the company has taken a series of actions to preserve financial flexibility and support franchisees. These include temporary extension of payment terms for royalties and advertising fees for franchisees in the United States and Canada from 12 to 45 days through mid-May, enabling more financial flexibility to support employees and guests. Additionally, it waived up to one month of rental payments and allowed franchisees to defer two months of rent on approximately 900 properties leased by the company to franchisees. However, due to the uncertainty revolving around the duration and impact of the crisis, the company has revoked its fiscal year 2020 and long-term targets.

- **High Debt a Concern:** At the end of Mar 28, 2020, the company's long-term debt stood at $3 billion, almost flat with the December-end level. As a result, the company's debt-to-capitalization was 121.8% compared with 120.5% at December-end. Moreover, the company ended first-quarter fiscal 2020 with cash and cash equivalent of $675 million, which may not be enough to manage the high debt level.

- **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.

- **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 the first quarter of 2020, total operating costs and expenses increased 2.8% year over year.

Last Earnings Report

Quarter Ending	03/2020
Report Date	Apr 30, 2020
Sales Surprise	4.74%
EPS Surprise	8.06%
Quarterly EPS	0.67
Annual EPS (TTM)	3.16

Dunkin' Brands reported first-quarter fiscal 2020 results, with earnings and revenues surpassing the Zacks Consensus Estimate. The top line grew year over year, while the bottom line remained on par with the prior-year level.

Adjusted earnings of 67 cents per share surpassed the consensus mark of 62 cents by 8.1% but remained flat on a year-over-year basis.

Revenues were up 1.3% year over year to $323.1 million, which beat the consensus mark of $309 million by 15%. The top-line improvement can be attributed to rise in sales of ice cream and other products, as well as an increase in other driven primarily driven by license fees related to Dunkin K-Cup pods and retail packaged coffee.

Due to the uncertainty related to the duration and impact of the COVID-19 pandemic, the company has revoked its fiscal year 2020 targets and long-term targets.

Segmental Performance

Dunkin' U.S. reported revenues of $151.8 million, up 1.4% from the prior-year quarter's figure. The increase was primarily backed by an increase in franchise fees and royalty income.

However, comps declined 2% in the quarter owing to decline in traffic due to the impact of COVID-19, partially offset by an increase in average ticket sales.

Dunkin' International division reported revenues of $5.5 million, down 20% from the prior-year quarter's level. Additionally, comps declined 7.1% compared with 2.9% gain in the year-ago quarter.

Baskin-Robbins U.S. revenues inched up 5.5% from the prior-year quarter to $10.8 million. Comps grew 1.8% against 2.8% loss reported in the year-ago quarter.

Baskin-Robbins International division revenues amounted to $27.3 million, up 6.7% year over year. Comps rose 2.5% against 2% decline in the year-ago quarter.

Operating Performance

Adjusted operating income declined 0.4% from the year-ago quarter's level to $106 million, mainly owing to a rise in reserves for uncollectible receivables and training expense associated with the rollout of new high volume brewers. This was offset by increase in net margin on ice cream and other products, net income from its South Korea and Japan joint ventures as well as increase in other revenues. Adjusted operating income margin contracted 50 basis points (bps) to 32.8%.

Balance Sheet

Dunkin' Brands ended first-quarter fiscal 2020 with cash and cash equivalents of $601.2 million compared with $621.2 million at the end of 2019. Restricted cash totaled $72.8 million, down from $85.6 million as of Dec 28, 2019. Long-term debt was approximately $3,005 million.

In the fiscal first quarter, the company returned $97.4 million to shareholders, of which $33.1 million was returned through dividends and $64.3 million through repurchases of approximately 881,000 shares. As of Mar 28, 2020, it had 82,087,373 shares outstanding.

Recent News

Dunkin' Brands Expands Delivery Partnership With Uber Eats – Jun 15, 2020

Dunkin' Brands recently announced an expansion of the brand's partnership with Uber Eats in a bid to expand delivery services. Per the deal, the companies have expanded their partnership to 1,000 additional restaurants across the United States.

Dunkin' Brands to Hire 25K Employees as U.S. Stores Reopen – Jun 8, 2020

With U.S. stores reopening after the coronavirus-induced shutdowns, Dunkin' Brands is ramping up preparations to make it a success. Notably, the company announced plans of hiring up to 25,000 new employees to meet the spike in demand upon reopening.

Dunkin Brands Boosts Delivery Services With Uber Eats Partnership – May 4, 2020

In a bid to expand its delivery footprint, Dunkin Brands announces partnership with Uber Eats. With this new partnership, Dunkin' is now available for delivery through Uber Eats website or mobile app, at over 1,700 restaurants, with over 4,000 total locations nationwide. The service is likely to begin by the end of May.

Valuation

Dunkin' Brands shares have declined 5.1% in the year-to-date and 10.6% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 5.5%, but Zacks Retail-Wholesale sector are up by 21.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 10.5%, but the sector is up 29.4%.

The S&P 500 index is up by 0.1% in the year-to-date period and 8.4% in the past year.

The stock is currently trading at 25.06X forward 12-months earnings, which compares to 31.22X for the Zacks sub-industry, 34.02X for the Zacks sector and 22.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.23X and as low as 12.12X, with a 5-year median of 22.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $75 price target reflects 26.22X forward 12-month earnings.

The table below shows summary valuation data for DNKN.

Valuation Multiples - DNKN

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.06	31.22	34.02	22.44
	5-Year High	27.23	34.04	34.02	22.44
	5-Year Low	12.12	20.49	19.07	15.25
	5-Year Median	22.61	23.09	23.42	17.52
P/S F12M	Current	4.49	3.63	1.21	3.54
	5-Year High	7.09	3.93	1.21	3.54
	5-Year Low	2.3	2.81	0.82	2.53
	5-Year Median	4.67	3.32	0.97	3.02
EV/EBITDA TTM	Current	16.78	17.1	18.12	11.95
	5-Year High	22.67	17.83	18.46	12.85
	5-Year Low	11.57	11.94	11.12	8.25
	5-Year Median	15.81	14.35	12.91	10.88

As of 07/29/2020

Industry Analysis **Zacks Industry Rank:** Top 43% (108 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Jack In The Box Inc. **(JACK)**	Outperform	2
Papa Johns International, Inc. **(PZZA)**	Outperform	2
BJs Restaurants, Inc. **(BJRI)**	Neutral	3
DaveBusters Entertainment, Inc. **(PLAY)**	Neutral	3
Red Robin Gourmet Burgers, Inc. **(RRGB)**	Neutral	4
Starbucks Corporation **(SBUX)**	Neutral	4
Carrols Restaurant Group, Inc. **(TAST)**	Neutral	3
The Wendys Company **(WEN)**	Neutral	3

Industry Comparison Industry: Retail - Restaurants

	DNKN	X Industry	S&P 500	PLAY	RRGB	TAST
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	D	F	D
Market Cap	5.89 B	332.38 M	22.69 B	644.40 M	119.06 M	346.92 M
# of Analysts	11	6	14	6	4	3
Dividend Yield	2.25%	0.00%	1.8%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	C
Cash/Price	0.12	0.14	0.07	0.25	0.77	0.15
EV/EBITDA	17.36	12.46	13.11	8.85	9.60	27.23
PEG Ratio	2.46	4.49	3.05	NA	NA	NA
Price/Book (P/B)	NA	1.66	3.15	2.59	0.65	1.21
Price/Cash Flow (P/CF)	19.00	8.18	12.28	1.77	1.19	5.61
P/E (F1)	26.52	38.27	22.27	NA	NA	NA
Price/Sales (P/S)	4.28	0.67	2.46	0.56	0.10	0.23
Earnings Yield	3.59%	0.46%	4.25%	-25.18%	-118.00%	-4.86%
Debt/Equity	-5.31	1.30	0.75	10.36	3.99	4.70
Cash Flow ($/share)	3.77	1.81	6.94	7.69	7.72	1.17
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	13.06%	5.16%	10.85%	7.70%	-22.89%	-26.49%
Proj. EPS Growth (F1/F0)	-18.90%	-77.00%	-7.70%	-216.27%	-1,854.35%	12.04%
Curr. Cash Flow Growth	5.44%	3.07%	5.31%	-0.07%	-15.30%	-14.11%
Hist. Cash Flow Growth (3-5 yrs)	5.81%	5.23%	8.55%	16.47%	-0.74%	18.25%
Current Ratio	1.48	0.96	1.31	0.73	0.80	0.54
Debt/Capital	NA%	69.35%	44.23%	91.19%	79.95%	82.46%
Net Margin	17.59%	0.92%	10.45%	1.24%	-15.10%	-2.81%
Return on Equity	-42.33%	-5.55%	14.99%	8.89%	-25.04%	-8.11%
Sales/Assets	0.36	0.94	0.53	0.49	1.00	0.87
Proj. Sales Growth (F1/F0)	-10.07%	-11.30%	-1.97%	-48.60%	-29.38%	6.69%
Momentum Score	C	-	-	B	A	C
Daily Price Chg	2.81%	2.50%	1.52%	8.12%	5.49%	11.72%
1 Week Price Chg	3.01%	1.46%	0.37%	0.38%	9.95%	6.00%
4 Week Price Chg	8.29%	3.30%	5.44%	2.80%	-10.66%	27.89%
12 Week Price Chg	12.86%	14.50%	15.38%	25.62%	-27.46%	118.61%
52 Week Price Chg	-10.58%	-31.36%	-1.61%	-66.59%	-72.08%	-29.40%
20 Day Average Volume	744,662	255,866	1,846,377	6,248,866	1,293,489	528,769
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.25%	0.00%	0.27%	0.00%	6.73%	0.00%
(F1) EPS Est 12 week change	0.11%	3.72%	-0.85%	20.66%	-78.91%	58.33%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.13%	0.00%	10.95%	0.00%

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.

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

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.

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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