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Jul 03, 2020

Dominos Pizza, Inc.(DPZ)

$374.09 (As of 07/02/20)

Price Target (6-12 Months): **$430.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/01/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: A | Momentum: C	

Summary

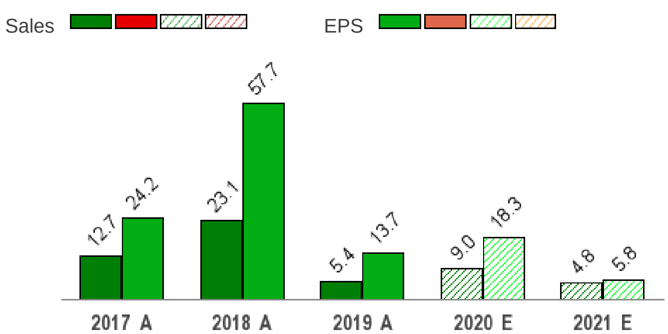
Shares of Domino's have outperformed the industry so far this year. The outperformance is primarily attributed to the company's solid digital ordering system, robust international expansion and other sales building initiatives. Notably, the company is investing heavily in technology-driven initiatives like digital ordering to boost sales. Also, its digital loyalty program -- Piece of the Pie Rewards, continues to contribute significantly to traffic gains. The extended ways to order a pizza has thus kept Domino's at the forefront of digital ordering and customer convenience. Moreover, the company's remodeling efforts have gained momentum leading to sales improvement over the past few quarters. Earnings estimates for 2020 have increased over the past 30 days, depicting analysts optimism regarding the stock growth potential.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$394.99 - $220.90**
20 Day Average Volume (sh)	**675,919**
Market Cap	**$14.6 B**
YTD Price Change	**27.3%**
Beta	**0.37**
Dividend / Div Yld	**$3.12 / 0.8%**
Industry	**Retail - Restaurants**
Zacks Industry Rank	**Top 18% (45 out of 252)**
Last EPS Surprise	**34.1%**
Last Sales Surprise	**0.7%**
EPS F1 Est- 4 week change	**1.1%**
Expected Report Date	**07/16/2020**
Earnings ESP	**5.4%**
P/E TTM	**35.8**
P/E F1	**33.1**
PEG F1	**2.3**
P/S TTM	**4.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	928 E	947 E	951 E	1,316 E	4,134 E
2020	873 A	898 E	884 E	1,281 E	3,944 E
2019	836 A	812 A	821 A	1,150 A	3,619 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$2.64 E	$2.69 E	$2.74 E	$3.97 E	$11.98 E
2020	$3.07 A	$2.24 E	$2.38 E	$3.66 E	$11.32 E
2019	$2.20 A	$2.19 A	$2.05 A	$3.13 A	$9.57 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 07/02/2020. The reports text is as of 07/03/2020.

Overview

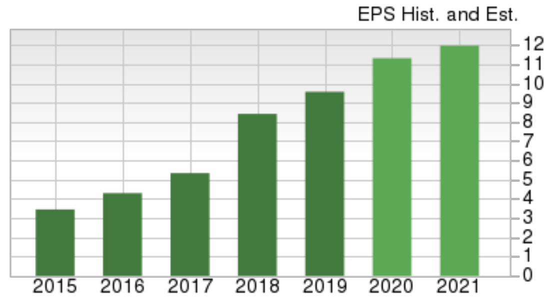
Founded in 1960, Domino's Pizza Inc., which delivers pizzas under the Domino's Pizza brand, is a top player in the Quick-Service Restaurant or QSR Pizza category.

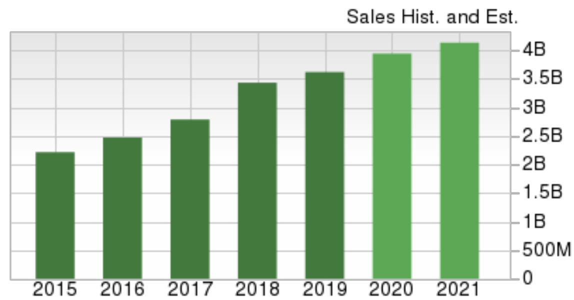
Through its subsidiaries, the company operates as a pizza delivery company in the United States and internationally, with over 15,900 locations in more than 85 markets.

The company operates and reports through the following three business segments: U.S. stores, international franchise and supply chain.

U.S. stores (35.2% of total revenues in fiscal 2019): The segment primarily consists of franchised stores but also have company-owned stores, which are used as sites for promotion of new products and improvement of operational efficiencies. As of Dec 29, 2019, the company owned and operated 6,126 stores across U.S.

International franchise (6.6%): Domino's has a network of franchised stores in more than 85 international markets. As of Dec 29, 2019, the company had 10,543 international franchise stores. Revenues at this segment primarily gains from royalty payments generated by retail sales from franchised stores. Notably, most of the company's international stores operate under master franchise agreements.





Supply chain (58.2%): The segment operates 19 regional dough manufacturing as well as food supply chain centers in the United States. It also has a center each for thin crust manufacturing, vegetable processing, and providing equipment and supplies to our U.S. and certain international stores.

Reasons To Buy:

> Domino’s solid digital ordering system, robust international expansion and other sales initiatives should continue to drive growth.

▲ **Strong Brand Image:** The pizza category is a fast-growing segment in the U.S. quick-service restaurant industry and Domino’s is one of the largest pizza chains globally. In the United States, the company is the market leader in the delivery segment and ranks second in the carry-out division. Domestically, first-quarter 2020 marked the 36th consecutive quarter of positive same-store-sales. During the quarter, the U.S comps benefited from increase in ticket growth. The company has enhanced brand strength through marketing affiliations with the likes of Coca-Cola and others. Domino’s strong brand positioning through its versatile promotions portray it as a brand producing fresh high-quality pizzas, which are delivered on time.

▲ **Solid International Expansion:** Since Domino’s generates a chunk of its revenues from outside the United States, the company remains committed to accelerating presence in high-growth international markets to boost business. Meanwhile, the company’s international growth continues to be strong and diversified across markets, courtesy of exceptional unit level economics. Notably, first-quarter 2020 marked the 105th consecutive quarter of positive same-store sales in its international business. During the quarter, international comps benefited from increase in orders. Improvement in comps can be attributed to ticket growth. The company inaugurated 69 (30 net U.S. stores and 39 net new international stores) global net store openings during first-quarter 2020, and 856 net new international stores in 2019.

Many international franchisees continue generating robust returns. Apart from the established markets such as Canada, Japan, Italy, the U.K., Ireland, Switzerland and South Korea, the emerging markets like Brazil, China, India, Indonesia and Turkey have been posting solid growth. Australia, Russia, Mexico, Germany, Spain, New Zealand and Saudi Arabia are also gaining momentum. During the fourth quarter, the company opened new Domino's stores in three countries namely Bangladesh, the Czech Republic and Luxembourg. This should further drive revenues. Meanwhile, India remains a market of immense growth potential. In fact, Domino’s India operations are one of the fastest growing operations in its global system. Moreover, the company’s entry into Slovakia and Malta is proof of its ever-expanding base.

▲ **Impressive Margin Growth:** Domino’s continues to impress investor with robust margin growth. In first-quarter 2020, the company’s operating margin expanded 40 basis points (bps) year over year to 39% in the reported quarter. Operating margin expansion was primarily driven by the New York store sale and increase in revenues in its global franchise business. In fourth-quarter 2019, Domino’s operating margin expanded 70 bps year over year to 38.9% in the reported quarter.

▲ **Franchising Strategy Safeguards Earnings:** Domino’s has a wide franchise network, both domestically and internationally. Reducing its ownership of restaurants and focusing more on re-franchising minimizes the company’s capital requirements and facilitates earnings per share growth and ROE expansion. In addition, free cash flow continues to grow, thus allowing reinvestment for increasing brand recognition and shareholder return. In fact, the company has increased dividend by 25%, 24%, 23%, 21%, 20% and 20% in 2014, 2015, 2016, 2017, 2018, and 2019, respectively, after initiating regular dividends in 2013. Moreover, Domino’s is less susceptible to food inflation courtesy of franchising compared to other pizza companies with global operations. Meanwhile, the company’s recapitalization deal also makes cash available for potential special dividend and share repurchases, subject to the board’s approval. During the fourth quarter of 2019, the company repurchased and retired 2,063,378 shares of its common stock in open market repurchases under its Board of Directors-approved share repurchase program for approximately $593.9 million. As of Dec 29, 2019, the company's total remaining authorized amount for share repurchases under such program was approximately $406.1 million.

▲ **Impressive EBITDA Growth:** Domino’s continues to report robust EBITDA growth. The company announced that in 2019 its U.S. franchisees averaged an estimated $143,000 in EBITDA per store and over $1 million in average EBITDA at the enterprise level. Both the figures increased from the 2018 levels.

▲ **Initiatives to Boost Sales:** Domino’s continues bolstering sales through regular limited time offers (LTO). Meanwhile, the company’s remodeling efforts have gained momentum leading to sales improvement over the past few quarters. The company is on track to convert all of its restaurants to the “Pizza Theater” prototype, which offers a comfy lobby, open-area viewing of the food preparation process and the ability to track carryout orders electronically on a lobby screen. Domino’s remodeling initiative is thus anticipated to continue enhancing its potential as a brand and augment guest experience. Notably, the company continues to innovate aggressively across all aspects of its business - including GPS, e-bikes, AI in-store technology, great food, and an evolving digital experience.

Domino’s is investing heavily in technology-driven initiatives like digital ordering to boost sales. It has started driverless pizza delivery services in Houston, TX. To this end, the company has partnered with Nuro — a robotic company for the delivery services. The driverless pizza delivery services can be only be availed by select residents of Texas. The service has been underway in the Houston metro area since March 2019 and will further expand Nuro's autonomous delivery operations. During the first-quarter 2020 conference call, the company announced that it moved to 100% contactless delivery model across the United Sates. Meanwhile, Domino’s digital loyalty program -- Piece of the Pie Rewards – continues to contribute significantly to traffic gains. The extended ways to order a pizza has thus kept Domino’s at the forefront of digital ordering and customer convenience.

Risks

- **Coronavirus Impact:** In view of the unprecedented impact of coronavirus (COVID-19) on its business and the Retail - Restaurants industry, the company has withdrawn fiscal 2020 guidance. For the first four weeks of the second-quarter, U.S. stores same store sales are anticipated to have improved 7.1% year over year. However, for the first three weeks of the second quarter (Mar 23 to Apr 12), international same store sales are expected to have declined 3.2% year over year. As of Apr 21, almost all of the U.S stores are operational but dine-in services have not been resumed. However, as of Apr 21, there are nearly 1,750 international stores that are still closed.

- **High Debt a Concern:** A strong balance sheet will help a company tide over the ongoing crisis. At the end of Mar 22, 2020, the company's long-term debt stands at $4.3 billion, almost flat sequentially. As a result, the company's debt-to-capitalization of 472.1%, compared with 478.9% at the end of Dec 29, 2019. Moreover, the company ended first-quarter fiscal 2020 with cash and cash equivalent of $390 million, which may not be enough to manage the high debt level.

- **Industry Susceptible to Consumer Discretionary Spending:** Domino's operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

- **Currency Fluctuations May Hurt:** Domino's has considerable international presence and is therefore highly vulnerable to fluctuations in exchange rates. Strengthening of the dollar against certain currencies, including the British pound, is likely to impact the company's results. In 2017 and 2018, foreign currency had a respective $1 million and $1.1 million negative impact on royalty revenues. For 2020, the company expects foreign currency impact to be flat to negative $5 million on royalty revenues, compared to 2019.

Last Earnings Report

Domino's Beats on Q1 Earnings, Withdraws Guidance

Quarter Ending	03/2020
Report Date	Apr 23, 2020
Sales Surprise	0.73%
EPS Surprise	34.06%
Quarterly EPS	3.07
Annual EPS (TTM)	10.44

Domino's reported first-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. Notably, this marked the company's fifth straight quarter of earnings beat. Domino's robust results can primarily be attributed to solid digital ordering system, robust international expansion and other sales initiatives.

Earnings & Revenues Discussion

Adjusted earnings in the quarter under review came in at $3.07 per share, which outpaced the Zacks Consensus Estimate of $2.29. The reported figure also improved 39.5% on a year-over-year basis. The bottom line was primarily driven by higher net income and share repurchase program.

Quarterly revenues improved 4.4% year over year to $873.1 million, which beat the consensus mark of $867 million. Higher supply chain volume, and increase in same-store sales and store count both in the United States and international markets drove first-quarter revenues. The company opened 178 gross new stores and 69 net new stores. International franchise revenues also increased. However, the company recorded lower U.S. company-owned store revenues due to the sale of 59 U.S. company-owned stores to existing U.S. franchisees.

Comps

Global retail sales (including total sales of franchise and company-owned units) improved 4.4% year over year in the first quarter. The upside can primarily be attributed to solid comps at international stores (up 3.9%) and domestic stores (up 4.9%). Excluding foreign currency impact, global retail sales increased 5.9%.

In the first quarter, comps at Domino's domestic stores (including company-owned and franchise stores) improved 1.6%. However, it was lower than the prior-year quarter's improvement of 3.9%.

At domestic company-owned stores, Domino's comps grew 3.9% year over year, higher than 2.1% in the year-ago quarter. Moreover, domestic franchise stores comps increased 1.5% compared with growth of 4.1% in the prior-year quarter.

Comps at international stores, excluding foreign currency translation, were up 1.5%. This was lower than improvement of 1.8% in the year-ago quarter.

Margins

Domino's operating margin expanded 40 basis points (bps) year over year to 39% in the reported quarter. Operating margin expansion was primarily driven by the New York store sale and increase in revenues from the company's global franchise business. Moreover, the net income margin expanded 280 bps to 13.9%.

Balance Sheet

As of Mar 22, 2020, cash and cash equivalents totaled $200.8 million, up from $190.6 million as of Dec 29, 2019. Long-term debt at the end of the first quarter was $4,061.2 million, compared with $4,071.1 million as of Dec 29, 2018. Inventory amounted to $49 million at the end of the first quarter.

Cash flows from operating activities totaled $95.4 million at the end of first quarter. In the quarter under review, Domino's incurred capital expenditures of $17.5 million.

Share Repurchases

During first-quarter 2020, the company repurchased 271,064 shares of its common stock for approximately $79.6 million. As of Mar 22, 2020, the company had nearly $326.6 million remaining under current authorization.

Preliminary Estimates

Domino's, which has withdrawn its two to three-year guidance citing the coronavirus-induced crisis, provided preliminary estimates for the available period of second quarter. For the first four weeks of the second-quarter, U.S. stores same store sales are anticipated to have improved 7.1%, year over year.

However, for the first three weeks of the second quarter (Mar 23 to Apr 12), international same store sales are expected to have declined 3.2% year over year.

As of Apr 21, almost all of the U.S stores are operational but dine-in services have not been resumed. However, as of Apr 21, there are nearly 1,750 international stores that are still closed.

Valuation

Domino's shares are up 27.3% in year-to-date period and 33.2% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 9%, but the Zacks Retail-Wholesale sector is up 14.6%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 12.4%, but the sector is up 20.8%.

The S&P 500 index is down 3.2% in the year-to-date period, but up 4.7% in the past year.

The stock is currently trading at 32.11X forward 12-month earnings, which compares to 31.46X for the Zacks sub-industry, 32.63X for the Zacks sector and 22.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38.3X and as low as 21.71X, with a 5-year median of 28.9X. Our Outperform recommendation indicates that the stock will perform better-than with the market. Our $430 price target reflects 36.90X forward 12-months earnings.

The table below shows summary valuation data for DPZ.

Valuation Multiples - DPZ

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32.11	31.46	32.63	22.16
	5-Year High	38.3	34.04	32.63	22.16
	5-Year Low	21.71	20.49	19.06	15.25
	5-Year Median	28.9	23.07	23.38	17.52
P/S F12M	Current	3.62	3.54	1.14	3.47
	5-Year High	3.93	3.93	1.14	3.47
	5-Year Low	2.38	2.81	0.81	2.53
	5-Year Median	2.96	3.31	0.95	3.02
EV/EBITDA TTM	Current	26.22	16.67	18.14	11.57
	5-Year High	27.62	17.84	18.14	12.86
	5-Year Low	16.67	11.94	11.05	8.25
	5-Year Median	21.34	14.33	12.81	10.86

As of 07/02/2020

Industry Analysis **Zacks Industry Rank:** Top 18% (45 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Jack In The Box Inc. **(JACK)**	Outperform	1
Yum China Holdings Inc. **(YUMC)**	Outperform	1
McDonalds Corporation **(MCD)**	Neutral	3
Papa Johns International, Inc. **(PZZA)**	Neutral	3
Red Robin Gourmet Burgers, Inc. **(RRGB)**	Neutral	3
Starbucks Corporation **(SBUX)**	Neutral	3
The Wendys Company **(WEN)**	Neutral	2
Yum Brands, Inc. **(YUM)**	Neutral	3

Industry Comparison Industry: Retail - Restaurants

	DPZ	X Industry	S&P 500	MCD	PZZA	YUM
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	B	-	-	D	B	B
Market Cap	14.63 B	263.72 M	21.98 B	136.46 B	2.72 B	26.05 B
# of Analysts	12	6	14	15	8	8
Dividend Yield	0.83%	0.00%	1.91%	2.72%	1.08%	2.17%
Value Score	C	-	-	D	D	D
Cash/Price	0.03	0.15	0.07	0.04	0.01	0.05
EV/EBITDA	26.50	11.93	12.74	16.88	43.22	18.24
PEG Ratio	2.25	4.84	2.89	4.30	8.23	2.51
Price/Book (P/B)	NA	1.69	2.98	NA	NA	NA
Price/Cash Flow (P/CF)	32.85	8.31	11.75	18.16	27.56	21.44
P/E (F1)	33.05	41.53	21.41	31.58	65.87	30.90
Price/Sales (P/S)	4.00	0.59	2.30	6.55	1.67	4.65
Earnings Yield	3.03%	0.52%	4.42%	3.17%	1.52%	3.23%
Debt/Equity	-1.26	1.30	0.76	-5.44	-1.45	-1.34
Cash Flow ($/share)	11.39	1.81	6.94	10.11	3.04	4.04
Growth Score	A	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	31.51%	5.16%	10.93%	12.05%	-16.86%	0.51%
Proj. EPS Growth (F1/F0)	18.29%	-80.54%	-9.56%	-25.87%	8.55%	-21.09%
Curr. Cash Flow Growth	9.16%	3.07%	5.51%	-0.99%	8.17%	3.60%
Hist. Cash Flow Growth (3-5 yrs)	17.68%	5.87%	8.62%	1.88%	-2.98%	-6.71%
Current Ratio	1.76	0.97	1.30	1.89	0.86	1.33
Debt/Capital	NA%	69.71%	44.46%	NA	NA	NA
Net Margin	11.75%	2.52%	10.62%	27.86%	0.92%	19.89%
Return on Equity	-13.60%	1.11%	15.75%	-70.25%	-14.40%	-12.97%
Sales/Assets	2.86	1.03	0.55	0.44	2.24	1.07
Proj. Sales Growth (F1/F0)	8.98%	-10.96%	-2.54%	-12.33%	8.08%	-2.04%
Momentum Score	C	-	-	A	B	A
Daily Price Chg	-0.43%	-0.43%	0.47%	-0.62%	1.15%	0.13%
1 Week Price Chg	-3.33%	-5.21%	-3.90%	-3.66%	-4.91%	-3.93%
4 Week Price Chg	-2.27%	-8.85%	-3.77%	-5.03%	4.08%	-8.87%
12 Week Price Chg	8.86%	11.62%	8.02%	-0.10%	41.80%	7.70%
52 Week Price Chg	33.15%	-38.56%	-7.59%	-13.76%	84.48%	-22.00%
20 Day Average Volume	675,919	360,516	2,649,865	3,900,663	800,373	2,309,275
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.14%	0.00%
(F1) EPS Est 4 week change	1.09%	2.96%	0.00%	6.86%	7.76%	2.85%
(F1) EPS Est 12 week change	11.47%	-66.87%	-9.53%	-17.67%	-2.61%	-13.20%
(Q1) EPS Est Mthly Chg	2.10%	4.63%	0.00%	18.11%	25.71%	5.21%

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	C
Growth Score	A
Momentum Score	C
VGM Score	B

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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