

Dominos Pizza, Inc.(DPZ)

\$385.93 (As of 08/10/20)

Price Target (6-12 Months): **\$403.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Shares of Domino's have underperformed the industry in the past three months. The decline can be primarily attributed to the coronavirus induced woes. Owing to the pandemic, markets in France, Spain, New Zealand, Panama and several others were completely closed, while markets in India and Saudi Arabia were temporarily shut down. Also, the company's high debt level remains a major headwind to tide over the ongoing crisis. However, 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. Earnings estimates for 2020 have increased over the past 30 days.

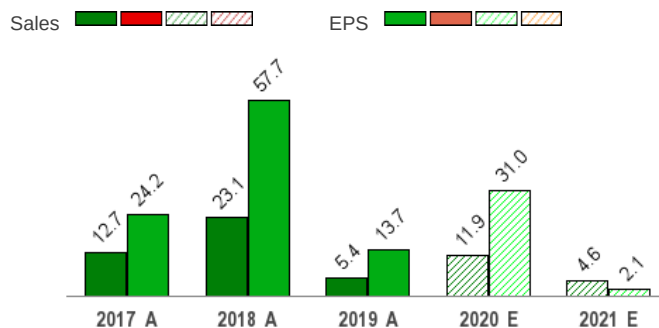
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$422.15 - \$220.90
20 Day Average Volume (sh)	650,922
Market Cap	\$15.2 B
YTD Price Change	31.4%
Beta	0.38
Dividend / Div Yld	\$3.12 / 0.8%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 49% (124 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	32.9%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	10.6%
Expected Report Date	10/13/2020
Earnings ESP	0.0%
P/E TTM	34.3
P/E F1	30.8
PEG F1	2.1
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	962 E	947 E	990 E	1,353 E	4,238 E
2020	873 A	920 A	933 E	1,329 E	4,050 E
2019	836 A	812 A	821 A	1,150 A	3,619 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.86 E	\$2.88 E	\$3.03 E	\$4.29 E	\$12.80 E
2020	\$3.07 A	\$2.99 A	\$2.67 E	\$3.97 E	\$12.54 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 08/10/2020. The reports text is as of 08/11/2020.

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.

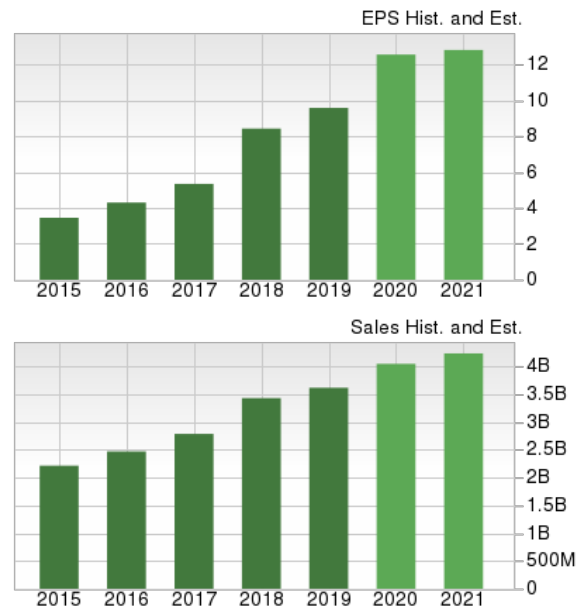
Through its subsidiaries, the company operates as a pizza delivery company in the United States and internationally, with over 15,900 locations in more than 85 markets.

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

U.S. stores (36.2% of total revenues in fiscal second quarter 2020): 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 Jun 14, 2020, the company owned and operated 6,195 stores across the United States.

International franchise (5.2%): Domino's has a network of franchised stores in more than 90 international markets. As of Jun 14, 2020, the company had 10,978 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 (58.6%): 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:

▲ **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, second-quarter 2020 marked the 37th consecutive quarter of positive same-store-sales. During the quarter, U.S comps benefited from increase in both ticket and order growth. Domino's strong brand positioning through its versatile promotions portray it as a brand producing fresh high-quality pizzas, which are delivered on time.

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

▲ **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, second-quarter 2020 marked the 106th consecutive quarter of positive same-store sales in its international business. Improvement in comps can be attributed to ticket growth. The company inaugurated 84 (39 net U.S. stores and 45 net new international stores) global net store openings during second-quarter 2020.

Many international franchisees continue generating robust returns. Countries like China, Japan and South Korea have been posting solid growth. The company recently opened its 300th store in China. It also acquired a minority stake in Dash Brands. Notably, these initiatives are likely to boost company's business in China.

▲ **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.

▲ **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.

In terms of menu additions, the company rolled out chicken wings with new variety of sauces. Priced at \$7.99, the 10-piece wing option has been renovated in accordance with customer feedback. Nonetheless, additional new products have been incorporated into the pipeline that are expected to be launched in the upcoming months.

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 States. 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.

During the second quarter, the company initiated car-side delivery, enabling convenient and contact-free carryout experience for its customers. Moreover, other digital enhancements in terms of make ordering, selecting service methods, paying and tipping were implemented to boost consumer experience.

Reasons To Sell:

▼ **Coronavirus Impact:** In view of the unprecedented impact of coronavirus on its business and the Retail - Restaurants industry, the company has withdrawn fiscal 2020 guidance. Owing to the pandemic, markets in France, Spain, New Zealand, Panama and several others were completely closed, while markets in India and Saudi Arabia were temporarily shut down. Resultantly fewer than 600 stores were fully closed as on Jul 8, 2020. Moreover, unit developments slowed down due to the pandemic. Nonetheless, owing to the uncertain and dynamic nature of the crisis, the company continues to regularly monitor the pandemic, so as to operate and survive amid such trying times.

The coronavirus pandemic, high costs, negative currency translation along with a tricky consumer spending environment in the U.S. restaurant space remain potent headwinds.

▼ **High Debt a Concern:** A strong balance sheet will help the company tide over the ongoing crisis. At the end of Jun 14, 2020, the company's long-term debt stood at \$4.1 billion, almost flat sequentially. As a result, the company's debt-to-capitalization of 401.9% compared with 478.9% at the end of Dec 29, 2019. Moreover, the company ended second-quarter fiscal 2020 with cash and cash equivalent of \$248 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 Q2 Earnings and Revenues Beat Estimates

Domino's reported second-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. While the company beat earnings estimates for the sixth straight quarter, it surpassed the same for revenues for the third consecutive quarter. Further, both earnings and revenues have improved year over year. The company also reported robust U.S. same-store sales. The second quarter also marked the 37th straight quarter of positive U.S. comparable sales and the 106th consecutive quarter of positive international comps.

Domino's robust results can primarily be attributed to solid digital ordering system and higher global retail sales.

Quarter Ending 06/2020

Report Date	Jul 16, 2020
Sales Surprise	2.31%
EPS Surprise	32.89%
Quarterly EPS	2.99
Annual EPS (TTM)	11.24

Earnings & Revenues Discussion

Adjusted earnings in the quarter under review were \$2.99 per share, which outpaced the Zacks Consensus Estimate of \$2.25. The reported figure also improved 36.5% on a year-over-year basis. The bottom line was primarily driven by higher net income.

Quarterly revenues improved 13.4% year over year to \$920 million, which beat the consensus mark of \$899 million. Robust same-store sales and increase in store count (during the trailing four quarters) both in the United States and international markets drove second-quarter revenues. The company opened 859 stores in the trailing four quarters. In the second quarter, the company opened 84 stores, comprising 39 net new U.S. stores and 45 net new international stores. International franchise revenues also improved.

Comps

Global retail sales (including total sales of franchise and company-owned units) improved 5.7% year over year in the second quarter. The upside can primarily be attributed to growth in sales at domestic stores (up 19.9%). However, sales declined 8.1% at international stores owing to store closure due to the pandemic. Excluding foreign currency impact, global retail sales increased 8.1%.

In the second 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 16.1% year over year, higher than 3% in the year-ago quarter. Moreover, domestic franchise stores comps increased 16% compared with growth of 3.1% in the prior-year quarter.

Comps at international stores, excluding foreign currency translation, were up 1.3%. This was lower than improvement of 2.4% in the year-ago quarter.

Margins

Domino's operating margin contracted 20 basis points (bps) year over year to 38.8% in the reported quarter. Moreover, the net income margin expanded 150 bps to 12.9%.

Balance Sheet

As of Jun 14, 2020, cash and cash equivalents totaled \$248 million, up from \$190.6 million as of Dec 29, 2019. Long-term debt at the end of the second quarter was \$4,128.6 million, compared with \$4,071.1 million as of Dec 29, 2018. Inventory amounted to \$66.9 million at the end of the second quarter.

Cash flows from operating activities totaled \$211.8 million at the end of second quarter. In the quarter under review, Domino's incurred capital expenditures of \$33.7 million.

The company declared quarterly cash dividend of 78 cents, to be paid on Sep 30, 2020 to shareholder as record of Sep 15.

Valuation

Domino's shares are up 31.4% in year-to-date period and 60.7% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 2.9%, but the Zacks Retail-Wholesale sector is up by 26.7%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 9.5%, but the sector is up 40.1%.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 30.39X forward 12-month earnings, which compares to 31.32X for the Zacks sub-industry, 33.63X for the Zacks sector and 22.75X 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 28.89X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$403 price target reflects 31.95X 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	30.39	31.32	33.63	22.75
	5-Year High	38.3	34.04	34.76	22.75
	5-Year Low	21.71	20.49	19.08	15.25
	5-Year Median	28.89	23.09	23.46	17.58
P/S F12M	Current	3.65	3.68	1.25	3.66
	5-Year High	4	3.93	1.25	3.66
	5-Year Low	2.38	2.81	0.82	2.53
	5-Year Median	2.98	3.32	0.97	3.05
EV/EBITDA TTM	Current	25.9	22.31	19.53	12.62
	5-Year High	27.62	22.31	19.75	12.84
	5-Year Low	16.67	11.94	11.13	8.24
	5-Year Median	21.49	14.36	12.94	10.9

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



Top Peers

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	DPZ	X Industry	S&P 500	MCD	PZZA	YUM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	D	B	B
Market Cap	15.19 B	371.35 M	23.56 B	151.77 B	3.09 B	27.53 B
# of Analysts	12	6	14	16	8	9
Dividend Yield	0.81%	0.00%	1.71%	2.45%	0.96%	2.06%
Value Score	C	-	-	D	D	C
Cash/Price	0.03	0.13	0.07	0.04	0.02	0.05
EV/EBITDA	27.25	12.32	13.39	18.30	47.55	19.05
PEG Ratio	2.11	4.52	2.92	4.52	8.46	2.38
Price/Book (P/B)	NA	2.23	3.18	NA	NA	NA
Price/Cash Flow (P/CF)	33.89	8.36	12.69	20.19	31.03	22.62
P/E (F1)	31.06	34.72	22.16	34.72	67.65	29.33
Price/Sales (P/S)	4.03	0.80	2.55	7.88	1.83	5.01
Earnings Yield	3.25%	0.59%	4.33%	2.88%	1.48%	3.40%
Debt/Equity	-1.32	1.29	0.77	-5.44	-1.55	-1.39
Cash Flow (\$/share)	11.39	1.81	6.94	10.11	3.04	4.04
Growth Score	A	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	31.80%	3.47%	10.41%	10.16%	-18.64%	0.02%
Proj. EPS Growth (F1/F0)	31.07%	-66.06%	-6.51%	-25.02%	19.02%	-12.27%
Curr. Cash Flow Growth	9.16%	3.07%	5.26%	-0.99%	8.17%	3.60%
Hist. Cash Flow Growth (3-5 yrs)	17.68%	5.23%	8.55%	1.88%	-2.98%	-6.71%
Current Ratio	2.02	0.95	1.34	1.89	0.98	1.63
Debt/Capital	NA%	70.06%	44.59%	NA	NA	NA
Net Margin	12.11%	0.24%	10.13%	24.78%	1.32%	18.78%
Return on Equity	-14.01%	-8.26%	14.59%	-53.94%	-15.73%	-12.42%
Sales/Assets	2.73	0.89	0.51	0.40	2.30	0.97
Proj. Sales Growth (F1/F0)	11.91%	-7.96%	-1.54%	-9.63%	10.42%	-0.20%
Momentum Score	B	-	-	C	A	A
Daily Price Chg	-0.82%	0.58%	0.91%	-0.23%	-3.99%	0.57%
1 Week Price Chg	0.65%	3.68%	2.30%	5.31%	3.63%	-0.25%
4 Week Price Chg	-3.85%	7.18%	8.54%	10.38%	7.18%	4.47%
12 Week Price Chg	5.88%	14.79%	13.68%	13.51%	20.60%	5.28%
52 Week Price Chg	60.72%	-30.59%	3.71%	-5.97%	109.61%	-21.68%
20 Day Average Volume	650,922	298,744	2,015,804	3,194,621	543,107	1,764,274
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	9.43%	0.00%
(F1) EPS Est 4 week change	10.63%	4.41%	1.67%	1.14%	9.43%	11.18%
(F1) EPS Est 12 week change	14.74%	14.74%	2.27%	6.24%	15.72%	11.19%
(Q1) EPS Est Mthly Chg	12.02%	9.76%	0.67%	8.19%	14.86%	6.94%

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	B
VGM Score	A

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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