

## Dominos Pizza, Inc.(DPZ)

**\$285.11** (As of 01/21/20)

Price Target (6-12 Months): **\$299.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: B

### Summary

Shares of Domino's have outperformed the industry in the past three months. Domino's solid digital ordering system, robust international expansion and other sales initiatives bode well. Moreover, the third quarter marked the company's 34th and 103rd consecutive quarter of positive same-store sales on the domestic and international front, respectively. The company announced a new \$1 billion share repurchase program as well. Meanwhile, the company's initiatives on the digital front, increased store count and focus on re-imaging are commendable. However, the company lowered its long-term view. The company now expects global retail sales growth of 7-10% in two to three-year period compared with the prior guidance of 8-12% in three to five-year period. Of late, estimates for the current year have witnessed downward revision.

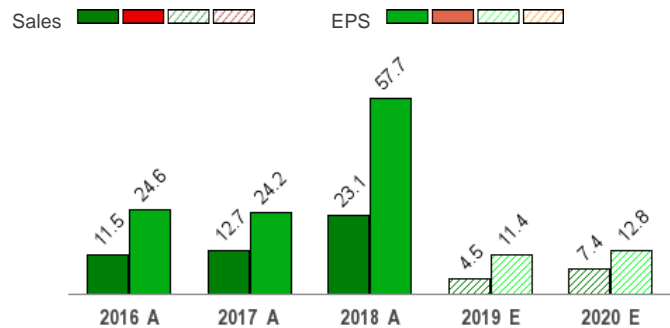
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$302.05 - \$220.90
20 Day Average Volume (sh)	496,315
Market Cap	\$11.7 B
YTD Price Change	-3.0%
Beta	0.48
Dividend / Div Yld	\$2.60 / 0.9%
Industry	<a href="#">Retail - Restaurants</a>
Zacks Industry Rank	Top 35% (88 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.5%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	02/20/2020
Earnings ESP	-1.4%
P/E TTM	31.5
P/E F1	27.0
PEG F1	1.8
P/S TTM	3.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	868 E	858 E	870 E	1,253 E	3,856 E
2019	836 A	812 A	821 A	1,121 E	3,589 E
2018	785 A	779 A	786 A	1,082 A	3,433 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.35 E	\$2.31 E	\$2.39 E	\$3.62 E	\$10.58 E
2019	\$2.20 A	\$2.19 A	\$2.05 A	\$2.95 E	\$9.38 E
2018	\$2.00 A	\$1.84 A	\$1.95 A	\$2.62 A	\$8.42 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 01/21/2020. The reports text is as of 01/22/2020.

## Overview

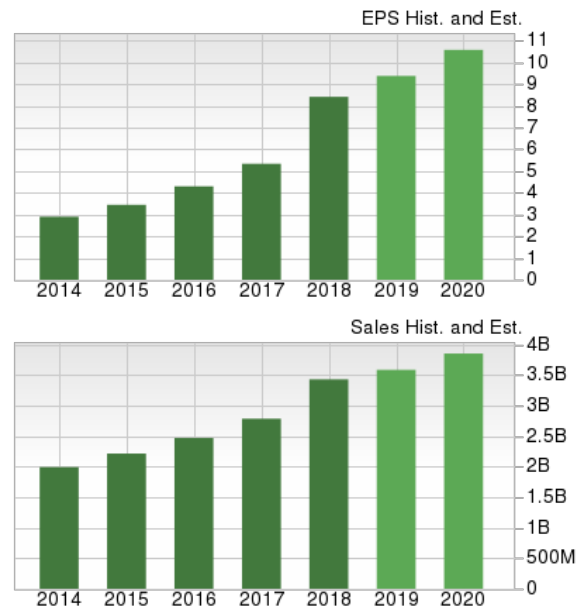
Headquartered in Ann Arbor, MI, and founded in 1960, Domino's Pizza Inc., through its subsidiaries, operates as a pizza delivery company in the United States and internationally, with over 15,900 locations in more than 85 markets. The company sells and delivers pizzas under the Domino's Pizza brand.

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

**U.S. stores** (37% of total revenues in 2018): 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 30, 2018, the company's 5,486 U.S. franchise stores were owned and operated by 793 independent U.S. franchisees.

**International franchise** (6% of total revenues in 2018): Domino's has a network of franchised stores in more than 85 international markets. As of Dec 30, 2018, the company had 10,038 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** (57% of total revenues in 2018): 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. In 2018, Domino's chain service delivered nearly 766,000 full-service deliveries.



## 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 in the world. In the United States, the company is the market leader in the delivery segment and ranks second in the carry-out division. Domestically, the third quarter of 2019 marked the 34th consecutive quarter of positive same-store-sales. 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.

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, the third quarter of 2019 marked the 103rd consecutive quarter of positive same-store sales in its international business. Improvement in comps can be attributed to ticket growth. While Domino's inaugurated 829 net new stores in international markets during 2017, it opened 1,058 net new stores last year. In first, second and third-quarter 2019, the company opened 574 net new stores.

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, Indonesia and Turkey have been posting solid growth. Australia, Russia, New Zealand and Saudi Arabia are also gaining momentum. Additionally, the company has completed the conversion of Pizza Sprint stores to Domino's stores in South Africa and Germany. 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.

▲ **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% and 20% in 2014, 2015, 2016, 2017 and 2018, 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 third-quarter 2019, the company announced a new \$1 billion share repurchase program.

▲ **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.

Domino's is investing heavily in technology-driven initiatives like digital ordering to boost sales. By the end of 2019, the company will launch GPS tracking technology. Meanwhile, 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. Meanwhile, 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. On the delivery front, Domino's, in conjunction with Ford Motor Co., initiated a research on consumers' responses to Pizza delivery, using self-driving vehicles. Notably, digital leadership is helping the company expand its brand in the domestic market as well as overseas. In 2017, Domino's invested \$90.3 million in its proprietary point-of-sale system — Domino's PULSE, digital ordering platform, supply chain centers, new Company-owned stores, reimaging existing Company-owned stores internal enterprise systems, and other technology initiatives.

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## Reasons To Sell:

- ▼ **Dismal Top-Line Trend:** Domino's top-line performance has disappointed investors over the past few quarters. The company's revenues have missed the consensus estimate in five of the trailing six quarters. Additionally, shares of the company have underperformed the industry year to date.
- ▼ **Lowers Long-term View:** Domino's has lowered long-range outlook from three to five-year to two to three-year. The company now expects global retail sales growth of 7-10% in two to three-year period, compared with the prior guidance of 8-12% in three to five-year period. The company expects same-store sales growth in the range of 2-5% in two to three-year period compared with earlier guided range of 3-6% in three to five-year period. International same-store sales growth is anticipated to be in the range of 1-4% in two to three-year period, lower than the earlier provided range of 3-6% in three to five-year period.
- ▼ **Valuation Looks Irrational:** Domino's valuation looks a bit stretched when compared with its own range as well as the industry average. Looking at the company's EV/EBITDA ratio, investors might not want to pay any further premium. It currently has a trailing 12-month EV/EBITDA ratio of 22.61, which is lower than its high of 24.21 in the past year. The stock is also quite overvalued right now compared with its peers as the industry's average stands at 13.93x.
- ▼ **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 the current year, the company expects foreign currency impact of \$5-\$10 million on royalty revenues.

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

## Last Earnings Report

### Domino's Beats on Q3 Earnings, Lowers Long-term View

Domino's Pizza reported mixed third-quarter 2019 financial numbers, wherein earnings surpassed the Zacks Consensus Estimate but revenues came almost in line with the same. Notably, this marked the company's third straight quarter of earnings beat. However, the company reported disappointing same-store sales. Domino's also lowered its long-term view.

Adjusted earnings in the quarter under review came in at \$2.05 per share, which outpaced the Zacks Consensus Estimate of \$2.04. The metric also increased 5.1% on a year-over-year basis. The bottom-line improvement was driven by higher net income, overshadowed by a higher effective tax rate.

Quarterly revenues improved 4.4% year over year to \$820.8 million, which came almost in line with the consensus mark of \$821 million. Higher supply chain volume, increase in same-store sales and in-store count both in the United States and international markets drove the company's revenues. International franchise revenues also increased but were marginally overshadowed by foreign currency headwinds.

However, the company-owned store revenues declined in the quarter 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) rose 5.8% year over year in the third quarter. This compared unfavorably with 8.3% growth registered in the year-ago quarter. The uptick can be attributed to solid comps at international stores (up 5.7%) and domestic stores (up 6%). Excluding foreign currency impact, global retail sales increased 7.5%.

In the third quarter, comps at Domino's domestic stores (including company-owned and franchise stores) improved 2.4%. This compared unfavorably with a 6.3% increase in the year-ago quarter.

At domestic company-owned stores, Domino's comps grew 1.7% year over year, lower than 4.9% registered in the year-ago quarter. Also, domestic franchise stores comps increased 2.5% compared with a 6.4% rise in third-quarter 2018.

Comps at international stores, excluding foreign currency translation, were up 1.7%. This was comparatively lower than the 3.3% increase recorded in the year-ago quarter.

Notably, the third quarter marked the 34th consecutive quarter of positive U.S. comparable sales and the 103rd consecutive quarter of positive international comps.

### Margins

Domino's operating margin expanded 90 basis points (bps) year over year to 38.5% in the reported quarter. Operating margin expansion was driven by a rise in supply chain margin owing to the positive impact of procurement savings as well as lower insurance costs. Moreover, the net income margin expanded 40 bps to 11%.

### Balance Sheet

As of Sep 8, 2019, cash and cash equivalents totaled \$66.7 million, up from \$25.4 million as of Dec 30, 2018. Long-term debt at the end of the third quarter was \$3,407.1 million, down from \$3,495.7 million as of Dec 30, 2018. Inventory amounted to \$51 million at the end of the third quarter.

Cash flows from operating activities summed \$324.6 million as of Sep 8, 2019. In the quarter under review, Domino's has spent \$42.7 million on capital expenditures.

### Long-term View

Domino's has lowered its long-range outlook from three- to five-year to two- to three-year. The company now expects global retail sales growth of 7-10% in two- to three-year period, compared with the prior guidance of 8-12% in three- to five-year period. The company expects same-store sales growth in the range of 2-5% in two- to three-year period compared with earlier guided range of 3-6% in three- to five-year period. International same-store sales growth is anticipated to be in the range of 1-4% in two- to three-year period, lower than the earlier provided range of 3-6% in three- to five-year period.

Quarter Ending **09/2019**

Report Date	Oct 08, 2019
Sales Surprise	0.03%
EPS Surprise	0.49%
Quarterly EPS	2.05
Annual EPS (TTM)	9.06

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## Valuation

Domino's shares are up 8.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up by 21.5% and 20.6%, respectively.

The S&P 500 index is up 25.3% in the past year.

The stock is currently trading at 26.74X forward 12-months Price to Earnings value, which compares to 25.39X for the Zacks sub-industry, 25.63X for the Zacks sector and 19.18X 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 28.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$299 price target reflects 28.04X forward 12-months Price to Earnings value.

The table below shows summary valuation data for DPZ.

Valuation Multiples - DPZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.74	25.39	25.63	19.18
	5-Year High	38.3	26.41	26.23	19.34
	5-Year Low	21.71	20.45	19.07	15.17
	5-Year Median	28.93	23.25	22.95	17.44
P/S F12M	Current	3.01	3.66	1.09	3.57
	5-Year High	3.67	3.85	1.11	3.57
	5-Year Low	2.38	2.91	0.8	2.54
	5-Year Median	2.88	3.25	0.91	3
EV/EBITDA TTM	Current	22.61	16.77	15.6	12.38
	5-Year High	25.85	17.48	15.6	12.86
	5-Year Low	16.67	12.08	10.37	8.48
	5-Year Median	20.67	13.93	12.38	10.67

As of 01/21/2020

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## Industry Analysis Zacks Industry Rank: Top 35% (88 out of 255)



## Top Peers

McDonalds Corporation (MCD)	Neutral
Papa Johns International, Inc. (PZZA)	Neutral
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral
Starbucks Corporation (SBUX)	Neutral
The Wendys Company (WEN)	Neutral
Yum! Brands, Inc. (YUM)	Neutral
Yum China Holdings Inc. (YUMC)	Neutral
Jack In The Box Inc. (JACK)	Underperform

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	DPZ Neutral	X Industry	S&P 500	MCD Neutral	PZZA Neutral	YUM Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Market Cap	11.66 B	431.84 M	24.43 B	159.02 B	2.06 B	31.94 B
# of Analysts	11	5.5	13	10	5	9
Dividend Yield	0.91%	0.00%	1.75%	2.37%	1.40%	1.59%
<b>Value Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Cash/Price	0.02	0.03	0.04	0.01	0.01	0.02
EV/EBITDA	23.60	14.91	14.00	19.71	32.31	17.19
PEG Ratio	1.83	2.09	2.06	2.96	4.68	2.09
Price/Book (P/B)	NA	2.78	3.39	NA	NA	NA
Price/Cash Flow (P/CF)	27.79	11.89	13.69	21.17	22.69	27.97
P/E (F1)	26.95	22.29	19.00	24.92	40.98	25.56
Price/Sales (P/S)	3.28	0.96	2.68	7.61	1.31	5.85
Earnings Yield	3.71%	4.44%	5.26%	4.01%	2.43%	3.91%
Debt/Equity	-1.23	0.94	0.72	-5.20	-1.46	-1.30
Cash Flow (\$/share)	10.26	1.53	6.94	9.97	2.84	3.77
<b>Growth Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	30.90%	7.71%	10.60%	11.79%	-10.52%	0.29%
Proj. EPS Growth (F1/F0)	12.79%	8.29%	7.57%	8.14%	40.04%	11.98%
Curr. Cash Flow Growth	37.70%	7.73%	14.00%	13.21%	-35.21%	-9.66%
Hist. Cash Flow Growth (3-5 yrs)	19.72%	6.24%	9.00%	1.40%	-2.72%	-11.09%
Current Ratio	1.44	0.63	1.23	0.84	0.88	1.57
Debt/Capital	NA%	61.12%	42.99%	NA	NA	NA
Net Margin	10.79%	3.14%	11.15%	28.09%	-0.43%	20.88%
Return on Equity	-12.92%	8.47%	17.16%	-85.71%	-12.34%	-11.69%
Sales/Assets	3.23	1.17	0.55	0.49	2.28	1.18
Proj. Sales Growth (F1/F0)	7.38%	3.15%	4.05%	2.90%	2.63%	4.76%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>D</b>	<b>D</b>	<b>C</b>
Daily Price Chg	-0.47%	-0.09%	-0.27%	-0.39%	-0.86%	0.19%
1 Week Price Chg	-0.91%	1.65%	2.29%	2.27%	0.35%	3.65%
4 Week Price Chg	-1.56%	3.33%	2.13%	7.37%	0.42%	5.25%
12 Week Price Chg	8.33%	0.70%	6.99%	9.63%	8.55%	-3.76%
52 Week Price Chg	8.23%	1.73%	21.25%	14.41%	54.94%	14.72%
20 Day Average Volume	496,315	166,140	1,415,064	2,818,895	496,530	1,443,195
(F1) EPS Est 1 week change	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.28%	0.00%	0.00%	-0.06%	0.00%	-0.60%
(F1) EPS Est 12 week change	0.54%	0.15%	-0.34%	-0.63%	-4.61%	-2.55%
(Q1) EPS Est Mthly Chg	0.31%	0.00%	0.00%	-0.08%	-0.81%	-0.08%

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## 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.

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### 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	B
Momentum Score	B
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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