

Dominos Pizza, Inc.(DPZ)

\$338.51 (As of 03/26/20)

Price Target (6-12 Months): **\$350.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: D

Summary

Shares of Domino's have outperformed the industry in the past year. The company reported fourth-quarter 2019 results, with earnings and revenues surpassing the Zacks Consensus Estimate and increasing year over year. Moreover, the fourth-quarter results marked the company's 35th and 104th consecutive quarter of positive same-store sales on the domestic and international front, respectively. The company has been benefitting from solid digital ordering system and robust international expansion. Moreover, increased store count and company's efforts on the digital front bode well. Notably, earnings estimates for 2020 have witnessed upward revision in the past 30 days. However, high costs and negative currency translation are concerns.

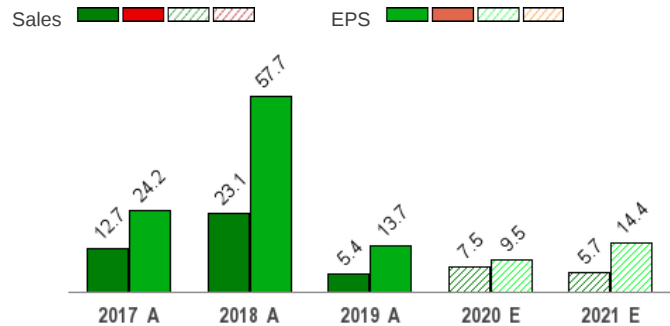
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$379.58 - \$220.90
20 Day Average Volume (sh)	1,111,329
Market Cap	\$13.2 B
YTD Price Change	15.2%
Beta	0.26
Dividend / Div Yld	\$3.12 / 0.9%
Industry	Retail - Restaurants
Zacks Industry Rank	Bottom 40% (151 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.8%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	-3.6%
Expected Report Date	04/22/2020
Earnings ESP	0.1%
P/E TTM	35.4
P/E F1	32.3
PEG F1	2.2
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	932 E	921 E	944 E	1,319 E	4,114 E
2020	875 E	856 E	878 E	1,292 E	3,892 E
2019	836 A	812 A	821 A	1,150 A	3,619 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.66 E	\$2.55 E	\$2.69 E	\$4.04 E	\$11.99 E
2020	\$2.34 E	\$2.09 E	\$2.28 E	\$3.70 E	\$10.48 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 03/26/2020. The reports text is as of 03/27/2020.

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.

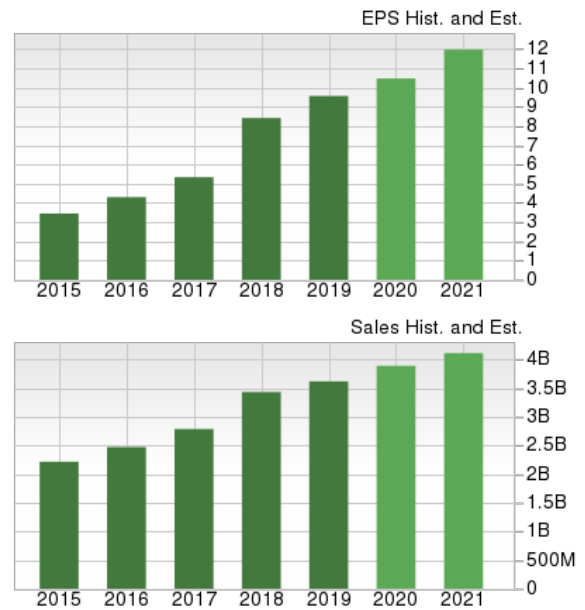
Through its subsidiaries, the company operates as a pizza delivery company in the United States and internationally, with over 15,900 locations in more than 85 markets.

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:

▲ **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 fourth quarter of 2019 marked the 35th 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 fourth quarter of 2019 marked the 104th consecutive quarter of positive same-store sales in its international business. Improvement in comps can be attributed to ticket growth. The company inaugurated 492 global net store openings during the fourth quarter, 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.

▲ **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.

▲ **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. The company also initiated the Pie Pass technology, thus bringing personalization to the carryout customer by greeting them by name on its digital menu boards.

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.

Reasons To Sell:

▼ **Valuation Looks Stretched:** 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 25.58. The stock is also quite overvalued right now compared with its peers as the industry's average stands at 14.05x.

▼ **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.

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 Q4 Earnings and Revenues Beat Estimates

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	2.48%
EPS Surprise	6.83%
Quarterly EPS	3.13
Annual EPS (TTM)	9.57

Domino's Pizza reported better-than-expected fourth-quarter 2019 results. Notably, this marked the company's fourth straight quarter of earnings beat. Both earnings and revenues have improved year over year. The company also reported robust U.S. same-store sales. The fourth quarter also marked the 35th straight quarter of positive U.S. comparable sales and the 104th consecutive quarter of positive international comps.

Domino's robust results can primarily be attributed to solid digital ordering system, robust international expansion and other sales initiatives.

Adjusted earnings in the quarter under review came in at \$3.13 per share, which outpaced the Zacks Consensus Estimate of \$2.93. The metric also improved 19.5% on a year-over-year basis. The bottom line was driven by higher net income and share repurchase program, which offset higher effective tax rate.

Quarterly revenues improved 6.3% year over year to \$1,150.4 million, which surpassed the consensus mark of \$1,123 million. Higher supply chain volume, and increase in same-store sales and in-store count both in the United States and international markets drove fourth-quarter revenues. International franchise revenues also increased but were marginally overshadowed by foreign currency headwinds. However, the company recorded lower U.S. company-owned store revenues thanks 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 6.9% year over year in the fourth quarter. This compared favorably with an improvement of 6.5% in the year-ago quarter. The uptick can primarily be attributed to solid comps at international stores (up 7%) and domestic stores (up 6.8%). Excluding foreign currency impact, global retail sales increased 7.6%.

In the fourth quarter, comps at Domino's domestic stores (including company-owned and franchise stores) improved 3.4%. However, it was lower than the prior-year quarter's improvement of 5.6%.

At domestic company-owned stores, Domino's comps grew 3.9% year over year, higher than 3.6% in the year-ago quarter. Moreover, domestic franchise stores comps increased 3.3% compared with growth of 5.7% in the prior-year quarter.

Comps at international stores, excluding foreign currency translation, were up 1.7%. This was lower than improvement of 2.4% in the year-ago quarter.

Margins

Domino's operating margin expanded 70 basis points (bps) year over year to 38.9% in the reported quarter. Operating margin expansion was driven by rise in supply chain margin owing to the positive impact of procurement savings and lower insurance costs. Moreover, the net income margin expanded 90 bps to 11.2%.

Balance Sheet

As of Dec 29, 2019, cash and cash equivalents totaled \$190.6 million, up from \$25.4 million as of Dec 30, 2018. Long-term debt at the end of the fourth quarter was \$4,071.1 million, up from \$3,495.7 million as of Dec 30, 2018. Inventory amounted to \$53 million at the end of the fourth quarter.

Cash flows from operating activities totaled \$497 million as of Dec 29, 2019. In the quarter under review, Domino's incurred capital expenditures of \$85.6 million.

Share Repurchases

During fourth-quarter 2019, the company repurchased 2,063,378 shares of its common stock for approximately \$593.9 million. As of Dec 29, 2019, the company had nearly \$406.1 million remaining under current authorization.

Long-term View

Domino's has reaffirmed two to three-year outlook. The company continues to expect global retail sales growth of 7-10% in the said time period. The company expects same-store sales growth in the range of 2-5%. International same-store sales growth is anticipated to be in the range of 1-4%. The company anticipate global net unit growth in the range of 6-8%.

Valuation

Domino's shares are up 15.3% in year-to-date period and 33.3% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 23.2% and 14.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 18.3% and 14.4%, respectively.

The S&P 500 index is down 18.3% in the year-to-date period and 7.5% in the past year.

The stock is currently trading at 30.14X forward 12-month earnings, which compares to 21.11X for the Zacks sub-industry, 23.01X for the Zacks sector and 15.91X 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 28.83X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$350 price target reflects 35.15X 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	30.14	21.11	23.01	15.91
	5-Year High	38.3	26.59	26.19	19.34
	5-Year Low	21.71	20.49	19.06	15.18
	5-Year Median	28.83	23.1	23.01	17.42
P/S F12M	Current	3.31	2.88	0.91	2.85
	5-Year High	3.93	3.92	1.11	3.43
	5-Year Low	2.38	2.88	0.8	2.54
	5-Year Median	2.91	3.29	0.92	3
EV/EBITDA TTM	Current	25.58	14.05	13.79	9.74
	5-Year High	27.62	17.71	16.22	12.88
	5-Year Low	16.67	11.91	10.88	8.27
	5-Year Median	20.94	14.2	12.51	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (151 out of 253)



Top Peers

Jack In The Box Inc. (JACK)	Neutral
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)	Underperform
Yum China Holdings Inc. (YUMC)	Underperform

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	DPZ Neutral	X Industry	S&P 500	MCD Neutral	PZZA Neutral	YUM Underperform
VGM Score	C	-	-	D	C	C
Market Cap	13.21 B	256.81 M	18.50 B	124.75 B	1.69 B	22.79 B
# of Analysts	11	6	13	15	5	11
Dividend Yield	0.92%	0.00%	2.35%	2.99%	1.72%	2.48%
Value Score	F	-	-	F	D	F
Cash/Price	0.03	0.08	0.07	0.01	0.02	0.03
EV/EBITDA	24.47	10.56	11.16	15.87	29.37	16.39
PEG Ratio	2.14	1.96	1.74	2.52	4.75	1.60
Price/Book (P/B)	NA	1.53	2.44	NA	NA	NA
Price/Cash Flow (P/CF)	29.72	5.56	9.87	16.56	17.24	18.76
P/E (F1)	31.40	15.11	15.29	20.92	38.03	20.76
Price/Sales (P/S)	3.65	0.51	1.93	5.92	1.04	4.07
Earnings Yield	3.10%	5.63%	6.47%	4.78%	2.64%	4.82%
Debt/Equity	-1.25	0.96	0.70	-5.71	-1.52	-1.26
Cash Flow (\$/share)	11.39	1.81	7.01	10.11	3.04	4.04
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	31.17%	7.72%	10.85%	12.23%	-13.64%	0.67%
Proj. EPS Growth (F1/F0)	9.52%	-1.19%	2.89%	2.06%	17.61%	2.77%
Curr. Cash Flow Growth	9.16%	5.49%	5.93%	-0.99%	8.17%	3.60%
Hist. Cash Flow Growth (3-5 yrs)	17.68%	5.87%	8.55%	1.88%	-2.98%	-6.71%
Current Ratio	1.74	0.60	1.23	0.98	0.87	0.99
Debt/Capital	NA%	63.25%	42.57%	NA	NA	NA
Net Margin	11.07%	4.05%	11.64%	28.59%	0.30%	23.12%
Return on Equity	-13.12%	7.33%	16.74%	-79.57%	-15.60%	-13.90%
Sales/Assets	2.97	1.07	0.54	0.45	2.21	1.14
Proj. Sales Growth (F1/F0)	7.54%	0.88%	2.37%	0.46%	2.00%	1.31%
Momentum Score	D	-	-	D	D	C
Daily Price Chg	5.31%	1.80%	6.21%	2.68%	-1.80%	3.95%
1 Week Price Chg	-5.27%	-32.16%	-16.96%	-16.17%	2.70%	-25.98%
4 Week Price Chg	-2.69%	-35.16%	-15.70%	-16.74%	-10.06%	-18.26%
12 Week Price Chg	15.38%	-42.12%	-23.67%	-16.65%	-16.67%	-25.86%
52 Week Price Chg	33.31%	-48.02%	-13.99%	-11.64%	0.71%	-23.59%
20 Day Average Volume	1,111,329	583,730	4,286,768	8,724,066	1,390,520	4,047,811
(F1) EPS Est 1 week change	-2.33%	0.00%	-0.15%	-5.59%	0.00%	-4.86%
(F1) EPS Est 4 week change	-3.56%	-8.69%	-2.28%	-6.29%	-12.69%	-6.46%
(F1) EPS Est 12 week change	-0.73%	-12.24%	-3.22%	-5.63%	-12.58%	-12.24%
(Q1) EPS Est Mthly Chg	-1.72%	-5.13%	-1.60%	-3.55%	-7.79%	-3.66%

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	F
Growth Score	A
Momentum Score	D
VGM Score	C

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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