

Domino's Pizza Inc.



Company Overview:

Domino's Pizza Inc., commonly known as Domino's, is a multinational franchising pizza restaurant headquartered in Ann Arbor, Michigan. Starting their first pizza restaurant in 1960, Domino's becomes one of the largest pizza suppliers across the globe by operating more than 16,300 restaurants in more than 85 countries and delivering around 1.5 million pizzas daily. Although menus and operating hours vary with individual restaurants, Domino's opens from morning to past midnight, serving various kinds of pizza, chicken, pasta, sandwiches, drinks, and desserts. They also offer customization services, including gluten-free options as well as "build your own pizza" styles. While the in-store purchase is an option, customers, including businesses that order in bulk, can order online for delivery and carryout services. Food price is rated as "cheap" on Yelp.

Domino's is 93% franchise-owned in the U.S., with 90% of their owners starting their careers working for Domino's (either as drivers or hourly makers). More than 50% of the sales come from outside the U.S., while global retail sales are \$13.5 billion in 2018. Domino's revenue in FY 2018 is \$3.43 billion with a net income of \$361.72 million, increased from last year. Although Domino's total asset increases to \$907.38 million, its total equity decreases to \$3.03 billion in FY2018. Until Quarter 2 in 2019, Domino's International has experienced 102 quarters of consecutive positive same-store sales growth. Domino's largest market is in the U.S. (5945 stores), following India (1236) and U.K./Ireland (1156). Domino's market capitalization is \$10.56 billion.

Domino's pioneered important technology in the food industry, ranging from online order technology, such as Pizza Builder, Domino's Tracker, and Domino's Anyware, to delivery products, such as insulating pizza bags, 3D car-top signs, and a corrugated pizza box. More than 65% of sales generates via digital ordering channels. Since becoming a publicly-traded company in 2004, Domino's has consistently returned cash through dividends with its stock price around \$240 in NYSE, signaling a drop in stock price same time in 2018.

Competitor Analysis:

Company Name	Company Overview	Implications for Domino's
Pizza Hut	An American chain and international franchise company, which is known for its Italian-American cuisine. It is the world's largest pizza chain, location wise. They serve pizza, pasta, side dishes, and desserts. They also provide delivery services. It is a subsidiary of the world's	Strong competitor. Both companies sell similar products with similar services (delivery) provided. As both companies go international, they compete not only for consumers but also for employees. However, Pizza Hut does sit-down, take-out, and

	largest restaurant companies – Yum! Brands, Inc., with a market cap of \$18.24 billion	delivery while Domino’s only does the latter two.
Papa John’s	An international pizza franchise restaurant. It primarily does takeout and delivery with only a few restaurants having tables. Rated #1 in customer satisfaction and product quality by ACSI 2017. The fourth-largest pizza restaurant chain in the U.S. They have a new investment (director boards) in recent years which may bring a positive prospect in the market thus causing speculation to occur in the market. Market cap: \$1.75 billion	Strong competitor but slightly weaker compared to Pizza Hut. The number of restaurants they have is less than what Domino's has, so the market shares for Domino's seem to be higher. Domino's also seem to be more famous, especially in China because of different advertising strategies. Both companies sell homogeneous products and services but the focus on Domino's seems to be pioneering in technology, making it hard to make Papa John's a direct substitute.
Little Caesars Enterprises Inc.	The third-largest pizza chain in the U.S. Sells homogeneous but slightly differentiated products as the other companies listed. It is a subsidiary of Ilitch Holdings, Inc. They start to experiment with different pizza styles with meatless sausage which may indicate a new product that draws market attention. Market cap: \$3.82 billion	Medium-level competitor. They sell predominantly homogeneous products but may differ in the company’s culture (with a focus on quality more) that may result in better quality. They are currently developing a new product with meatless sausage that may shift consumers’ tastes in the future, making them a stronger competitor. However, the delivery method and takeout culture are what the company emphasizes as well, which makes it a strong substitute. In terms of market share, it is lower than Domino’s.

Valuation with Financial Metrics, Opportunities, and Risks

Income Statement:

Domino's income statement shows a positive outlook in most of the factors and sheds a positive prospect for Domino's future growth. First of all, Domino's revenue is growing at an increasing rate through the past five years: its revenue growth increases at near double the rate from the previous year, showing Domino's is gaining liquidity and reputation among consumers in the past year. However, COGS also increases steadily in the past five years, which may be the result of inflation in the market or the company expanding to acquire larger markets. When looking at the continuous growth of income and revenue, it is salient to take a grain of salt in the evaluation by considering the factor of the increase in COGS as well. The bright side is Domino's EBIT also increases dramatically from 2017 to 2018 compared to previous years, signifying Domino's investment (COGS) is giving fair returns. The P/E ratio for Domino's equals to 30.01, meaning that the market has a high opinion for Domino's. However, as the EPS growth rate is 26% over the 5 years, this high P/E ratio above average (18.9) may be the result of only growth in EPS.

(dollars in millions, except per share data)	Fiscal year ended (8)				
	December 30, 2018 (4) (5)	December 31, 2017 (6)	January 1, 2017	January 3, 2016 (7)	December 28, 2014
Income statement data:					
Revenues:					
U.S. Company-owned stores	\$ 514.8	\$ 490.8	\$ 439.0	\$ 396.9	\$ 348.5
U.S. franchise royalties and fees	391.5	351.4	312.3	272.8	230.2
U.S. franchise advertising (1)	358.5	—	—	—	—
U.S. stores	1,264.8	842.2	751.3	669.7	578.7
Supply chain	1,943.3	1,739.0	1,544.3	1,383.2	1,262.5
International franchise royalties and fees	224.7	206.7	177.0	163.6	152.6
Total revenues	3,432.9	2,788.0	2,472.6	2,216.5	1,993.8
Cost of sales	2,130.2	1,922.0	1,704.9	1,533.4	1,399.1
Operating margin	1,302.7	866.0	767.7	683.1	594.8
General and administrative expense	372.5	344.8	313.6	277.7	249.4
U.S. franchise advertising (1)	358.5	—	—	—	—
Income from operations	571.7	521.2	454.0	405.4	345.4
Interest income	3.3	1.5	0.7	0.3	0.1
Interest expense	(146.3)	(122.5)	(110.1)	(99.5)	(86.9)
Income before provision for income taxes	428.7	400.2	344.7	306.2	258.6
Provision for income taxes	66.7	122.2	130.0	113.4	96.0
Net income	\$ 362.0	\$ 277.9	\$ 214.7	\$ 192.8	\$ 162.6
Earnings per share:					
Common stock – basic	\$ 8.65	\$ 6.05	\$ 4.41	\$ 3.58	\$ 2.96
Common stock – diluted	8.35	5.83	4.30	3.47	2.86
Dividends declared per share	\$ 2.20	\$ 1.84	\$ 1.52	\$ 1.24	\$ 1.00

(Income Statement Selected Data from Form 10-K)

	2018	2017	2016	2015	2014
Sales/Revenue	3,433	2,788	2,473	2,217	1,994
Sales Growth	23.13%	12.75%	11.55%	11.17%	-
Cost of Goods Sold (COGS) incl. D&A	2,130	1,922	1,705	1,533	1,399
COGS excluding D&A	2,077	1,878	1,667	1,501	1,363
Depreciation & Amortization Expense	54	44	38	32	36
Depreciation	35	30	27	24	28
Amortization of Intangibles	19	15	11	8	7
COGS Growth	10.83%	12.73%	11.19%	9.60%	-
Gross Income	1,303	866	768	683	595
Gross Income Growth	50.43%	12.80%	12.38%	14.86%	-
Gross Profit Margin	37.95%	-	-	-	-
SG&A Expense	378	345	314	277	248

Other SG&A	378	345	314	277	248
SGA Growth	9.75%	9.92%	13.03%	11.71%	-
Other Operating Expense	359	-	-	-	-
EBIT	566	521	454	406	-
Unusual Expense	-	-	-	8	1
Non-Operating Income/Expense	6	-	-	1	(0)
Non-Operating Interest Income	3	1	1	0	0
Interest Expense	146	123	110	93	87
Interest Expense Growth	19.43%	11.33%	18.82%	6.63%	-
Gross Interest Expense	146	123	110	93	87
Pretax Income	429	400	345	306	259
Pretax Income Growth	7.13%	16.10%	12.55%	18.40%	-
Pretax Margin	12.49%	-	-	-	-
Income Tax	67	122	130	113	96
Income Tax - Current Domestic	68	116	133	112	96
Income Tax - Deferred Domestic	(1)	6	(3)	2	(0)
Consolidated Net Income	362	278	215	193	163
Net Income	362	278	215	193	163
Net Income Growth	30.25%	29.45%	11.35%	18.58%	-
Net Margin	10.54%	-	-	-	-
Net Income After Extraordinaries	362	278	215	193	163
Net Income Available to Common	362	278	215	193	163
EPS (Basic)	8.35	5.83	4.30	3.47	2.86
EPS (Basic) Growth	43.29%	35.58%	23.92%	21.33%	-
Basic Shares Outstanding	42	46	49	54	55
EPS (Diluted)	8.35	5.83	4.30	3.47	2.86
EPS (Diluted) Growth	43.32%	35.55%	23.86%	21.56%	-
Diluted Shares Outstanding	43	48	50	56	57
EBITDA	619	566	492	438	382
EBITDA Growth	9.52%	14.92%	12.35%	14.63%	-
EBITDA Margin	18.04%	-	-	-	-
EBIT	566	521	454	406	-

(Exhaustive list with financial metrics of DPZ Income Statement)

Balance Sheet

The company has a negative shareholders' equity, meaning the stockholders of Domino's may not gain their money back from investing. Shareholders' equity values continue to drop ever since 2010, which raises a red flag for investors. The ROE for Domino's is -0.119, which decreases from -0.102 in 2017, meaning that the firm is performing worse in generating profit from every dollar of stock investment. Further, the debt-to-asset ratio here is 3.85, meaning the company has nearly four times debt as its assets. However, with all these being said, the high level of debt and low possession of assets is the nature of the industry (franchising restaurants). Domino profits back from selling pizza doughs and other branding materials through its supply chain to the franchisers, which is not reflected in the balance

sheet. Besides, the ROI ratio seems to decrease from 2017 to 2019, signaling concern for shareholders' returns further.

Annual Data Millions of US \$ except per share data		2018-12-31	2017-12-31	2016-12-31	2015-12-31	2014-12-31
Cash On Hand	[Link]	\$192.431	\$227.53	\$169.311	\$314.389	\$151.809
Notes And Loans Receivable	[Link]	-	-	-	-	-
Inventory	[Link]	\$45.975	\$39.961	\$40.181	\$36.861	\$37.944
Other Current Assets	[Link]	\$112.744	\$120.223	\$118.377	\$99.159	\$77.787
Total Current Assets	[Link]	\$566.951	\$579.78	\$495.873	\$602.637	\$428.361
Property, Plant, And Equipment	[Link]	\$234.939	\$169.586	\$138.534	\$131.89	\$114.046
Long-Term Investments	[Link]	\$8.718	\$8.119	\$7.26	\$6.054	\$4.586
Goodwill And Intangible Assets	[Link]	\$14.919	\$15.423	\$16.058	\$16.097	\$16.297
Other Long-Term Assets	[Link]	\$12.523	\$8.272	\$9.379	\$8.797	\$10.006
Total Long-Term Assets	[Link]	\$340.434	\$256.973	\$220.422	\$197.208	\$167.972
Total Assets	[Link]	\$907.385	\$836.753	\$716.295	\$799.845	\$596.333
Total Current Liabilities	[Link]	\$379.743	\$398.285	\$403.698	\$375.983	\$265.608
Long Term Debt	[Link]	\$3,495.691	\$3,121.49	\$2,148.99	\$2,181.46	\$1,500.599
Other Non-Current Liabilities	[Link]	\$71.872	\$52.362	\$46.75	\$42.653	\$44.003
Total Long Term Liabilities	[Link]	\$3,567.563	\$3,173.852	\$2,195.74	\$2,224.113	\$1,550.19
Total Liabilities	[Link]	\$3,947.306	\$3,572.137	\$2,599.438	\$2,600.096	\$1,815.798
Common Stock Net	[Link]	\$0.41	\$0.429	\$0.481	\$0.498	\$0.556
Retained Earnings (Accumulated Deficit)	[Link]	\$-3,036.471	\$-2,739.437	\$-1,881.52	\$-1,804.143	\$-1,246.921
Comprehensive Income	[Link]	\$-4.429	\$-2.03	\$-3.11	\$-3.548	\$-2.661
Other Share Holders Equity	[Link]	-	-	-	-	-
Share Holder Equity	[Link]	\$-3,039.921	\$-2,735.384	\$-1,883.143	\$-1,800.251	\$-1,219.465
Total Liabilities And Share Holders Equity	[Link]	\$907.385	\$836.753	\$716.295	\$799.845	\$596.333

(Balance Sheet for Domino's)

Domino's Pizza Inc ROI - Return on Investment Historical Data

Date	TTM Net Income	LT Investments & Debt	Return on Investment
2019-09-30	\$0.61B	\$0.67B	96.96%
2019-06-30	\$0.60B	\$0.70B	103.93%
2019-03-31	\$0.58B	\$0.67B	110.91%
2018-12-31	\$0.57B	\$0.46B	128.75%
2018-09-30	\$0.57B	\$0.46B	132.86%
2018-06-30	\$0.55B	\$0.51B	137.49%
2018-03-31	\$0.54B	\$0.35B	146.20%
2017-12-31	\$0.52B	\$0.39B	143.53%
2017-09-30	\$0.50B	\$0.36B	149.25%
2017-06-30	\$0.48B	\$0.38B	161.68%
2017-03-31	\$0.47B	\$0.33B	177.61%

(Return on Investment (ROI) ratio from 2017-2019)

Statement of Cashflows

Market Capitalization in the market has been consistently growing, with an increasing rate of 26.4% from 2017 to 2018. Net income margin is rising consistently, though the rate seems to slow down. Nevertheless, it means that Domino's has more income to invest for growth.

For the period ending	Restated:2012 A 2012-12-30	Original:2013 A 2013-12-29	Restated:2014 A 2014-12-28	Original:2015 A 2016-1-3	Restated:2016 A 2017-1-1	Restated:2017 A 2017-12-31	Original:2018 A 2018-12-30
Market Capitalization	2,400.63	3,914.96	5,302.55	5,544.50	7,659.47	8,106.07	10,242.34
- Cash & Equivalents	56.91	17.65	35.44	139.50	50.08	43.89	34.16
+ Preferred & Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
+ Total Debt	1,560.79	1,536.44	1,501.16	2,240.79	2,187.88	3,153.81	3,531.58
Enterprise Value	3,904.52	5,433.75	6,768.27	7,645.79	9,797.27	11,216.00	13,739.77
Revenue, Adj	1,678.44	1,802.22	1,993.83	2,216.53	2,472.63	2,787.98	3,432.87
Growth %, YoY	1.59	7.37	10.63	11.17	11.55	12.75	23.13
Gross Profit, Adj	501.34	548.97	594.77	683.13	767.69	865.99	1,302.68
Margin %	29.87	30.46	29.83	30.82	31.05	31.06	37.95
EBITDA, Adj	316.26	339.96	388.58	438.19	493.05	562.45	620.62
Margin %	18.84	18.86	19.49	19.77	19.94	20.17	18.08
Net Income, Adj	119.96	141.87	166.91	197.30	215.24	279.31	360.68
Margin %	7.15	7.87	8.37	8.90	8.70	10.02	10.51
EPS, Adj	2.04	2.46	2.94	3.55	4.31	5.86	8.32
Growth %, YoY	20.78	20.72	19.31	20.96	21.40	35.91	41.99
Cash from Operations	176.32	193.99	192.34	291.79	292.46	341.26	394.17
Capital Expenditures	-29.27	-40.39	-70.09	-63.28	-58.56	-90.01	-119.89
Free Cash Flow	147.05	153.60	122.25	228.50	233.91	251.25	274.28

(DPZ Cashflow Chart from 2010-2018)

Investment Opportunities

Dominant Position (Reputation)

Arguably, Domino's is one of the largest and most well-known pizza chain restaurants around the world. This means that Domino's has a large market share internationally. Although foreign markets may be uncertainty to investors, it is salient to note that their international stores have a sales growth of 1.7% in 2018, with the global retail sales growth being similar (around 7-8%) for U.S. and International stores. Analysts have predicted positive growth in sales both domestically and internationally for Domino's.

Positive Outlook of Financial Metrics

One can easily tell the continuous growth of DPZ's revenue, EBIT, and earnings. Domino's has a high P/E ratio of 30.0, which is above the average of 18.9 in the industry, meaning that investors have a stronger faith in DPZ than its peers in the franchising pizza industry. Further, the net debt for DPZ is 29% which is accompanied by increased earnings per share by an impressive 15%, making the high P/E ratio to be a reliable measure of buyers' confidence. Further, as DPZ issues a large number of stocks, it is salient to note that the DPZ insiders also hold a substantial amount of the stocks. This means the insiders will work hard to profit their shareholders as well as themselves. The market is giving DPZ stock positive speculation, which can act as a factor for consumers to invest as a result of market speculations.

Technology

Domino's has been working on a new program that allows pizza to be delivered to areas without addresses (somewhere within a park). Their R&D will result in a positive externality for the industry or maybe the technology industry as a whole. If their technology manages to work, it will be a great success for society and the market, which can lead to substantial growth in DPZ.

Investment Risks

Financial Metrics:

One can see that the ROE, shareholder equities, and debt-to-asset ratios are not looking good, though DPZ claims that having high debt is the nature of the pizza chain industry. Although the high debt-to-asset ratio may be attributable to the nature of the industry, from the balance sheet, one can see that retained earnings are becoming increasingly negative each year. This may cause concern to investors as it is generally a risk to invest in a company with negative shareholder equities as it seems uneasy to earn a promising profit, especially in the long-term. Moreover, ROI is decreasing each year in the past five years, thus it also signals a concerning yield on investors.

Low Product Differentiation

Domino's has homogeneous (or slightly differentiated) products in the franchising pizza industry. Admittedly, Domino's has a signature pizza and varied pizza entrees in different stores. Yet Pizza Hut, Papa John, and Little Caesars all seem to be strong competitors for Domino's because they serve similar products. Although Domino's is a *large* pizza delivery company, they are still susceptible to relatively elastic demand for their products because of the close substitutes available. This may make the price of DPZ to be pretty volatile.

Competitor Increase

Domino's differentiates themselves in the franchising pizza industry by their patent technology (delivery applications). They use their advanced technology to gain a larger market share than their competitors. However, with the rise of delivery applications, such as DoorDash and Uber Eats, there is an uncertainty around the extent to which Domino's independent delivery service can take over the pizza market as these third-party delivery companies allow other pizza restaurants to deliver to customers afar, expanding Domino's competitors' markets, thus consequently taking away the advantage Domino's has over its technology. They present a challenge to Domino's in an increasing number of competitors available in different areas (tastes and preferences) and a smaller market share.

Market Contraction

Domino's is planning to exit the international market, which makes the market for Domino's to be smaller. With an increase in competitors even in the local market, Domino's may face a significant decrease in sales revenue.

Investment Recommendation:

Although the figures from the financials indicate that Domino's is performing fairly well in terms of its growth in retail (sales) and EPS in its 2018 report, it seems that Domino's consistently high growth may not continue in the next year or so.

From their most recent third-quarter report, the company has lowered its retail growth target both globally and domestically. For instance, their previous three-to-five-year plan targets for 8-12% average annual global retail sales growth, but in their third-quarter report, they have lowered this estimation to 7-10%. Similarly, their growth expectation for U.S. and International company growth has also dropped. It means the market may not be doing as well as the company has predicted, thus implying a potential downward trend in their stock prices as investors are hit by this negative outlook for revenue growth.

The reason behind the decrease in expectations for sales growth may be the rise of the delivery competitors (e.g. Uber Eats) is taking over some of their markets gradually. As Domino's used to have patents for their delivery applications making their independent pizza delivery service to be a variation of monopoly, they have an advantage in having access to a larger number of consumers in the market, thus contributing to their continuous growth. And those delivery applications take away this advantage in which they only bring more competition (local pizza restaurants) into the game.

Although it is said that insiders also hold Domino's stocks themselves, recently the independent director of Domino's has sold some shares, which reduced the shareholder's total holdings by 32%. This sold of stocks should imply certain issues happening within the company, but the buyers may be reluctant to exit the market by selling their stocks since there is not yet a piece of news about the reason for this selling in stocks.

Further, there is also a heated discussion in the market regarding the behavior (outcome) of the International market as when the foreign currency exchange factor is adjusted, the international sales growth is only 1.7% in 2018, compared to their 4.9% growth year-ago. Domino's executive board has decided to exit its international market in an orderly manner as its yield is not giving them fair returns. The exit from the international market leaves questions for Domino's to solve: how to compensate for the losses of their franchise owners? Are they able to gain back their debt in the expansion? A more detailed plan regarding their exit needs to be presented to buyers before the uncertainty over its cash flow can be taken away.

As there is still a projection of growth (even slower) and not a recent withdrawal of buyers from the market, there may be opportunities for short-term investment (speculation). Unless Domino's has come up with strategies to rectify the problem with their now-not monopolized delivery service to fight back for their market share and their detailed plan in recovering for the losses in expansion from international markets, investors should keep their money in their pockets in the long-term.