



Domino's Pizza, Inc. (DPZ)

Updated May 2nd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$311	5 Year CAGR Estimate:	14.6%	Market Cap:	\$11.2 B
Fair Value Price:	\$328	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	6/14/2023
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	6/30/2023
Dividend Yield:	1.6%	5 Year Price Target	\$577	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Domino's Pizza was founded in 1960. It is the largest pizza company in the world based on global retail sales. The company operates more than 20,000 stores in more than 90 countries. It generates nearly half of its sales in the U.S. while 99% of its stores worldwide are owned by independent franchisees. It has a market capitalization of \$11.2 billion.

Domino's proved to be one of the most resilient companies to the pandemic. Due to the lockdowns imposed in this crisis, the company faced a steep increase in its delivery orders. Domino's has also benefited from its leading position in digital orders. Its resilience to the pandemic is clearly reflected in its record earnings-per-share in 2020 and 2021.

In late April, Domino's reported (4/27/23) financial results for the first quarter of fiscal 2023. Its international same store sales grew 1.2% over the prior year's quarter and its U.S. same-store sales grew 3.6%, mostly thanks to price hikes. Earnings-per-share grew 17%, from \$2.50 to \$2.93, and exceeded the analysts' consensus by \$0.21 thanks to price hikes, the opening of new stores and share repurchases. Due to staffing shortages and a slowing economy, management expects ~5% global unit growth and 4% global sales growth in 2023, both at the low end of the 3-year outlook. We view the current headwinds as temporary and remain confident in the bright future prospects of this best-of-breed stock.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.48	\$2.86	\$3.47	\$4.30	\$5.91	\$8.42	\$9.57	\$12.01	\$13.60	\$12.53	\$13.10	\$23.09
DPS	\$0.80	\$1.00	\$1.24	\$1.52	\$1.84	\$2.20	\$2.60	\$3.12	\$3.76	\$4.40	\$4.84	\$9.68
Shares¹	55.8	55.6	49.8	48.1	44.6	42.6	41.4	39.5	36.7	36.1	35.0	31.0

Despite heating competition in the U.S., the growth potential of Domino's is exciting, as the pizza chain has ample room to keep growing for years. Its management sees potential for the addition of more than 5,500 new stores in its top 15 markets. As the current store count in these countries is approximately 10,000, it is evident that there is still tremendous growth potential even without taking into account the growth potential in the other ~75 markets where the company is present. Overall, Domino's aims to increase its store count to 25,000 by 2025. The company grows its earnings-per-share at a fast pace thanks to three factors: many new stores, high same-store sales growth, and share repurchases. Domino's recently revised downwards its 3-year outlook, expecting 4%-8% annual global sales growth (vs. 6%-10% previously), mostly thanks to 5%-7% store count growth (vs. 6%-8% previously). Despite short-term headwinds, we still expect 12% annual earnings-per-share growth over the next five years thanks to the exemplary management of Domino's.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.8	27.3	30.7	32.2	31.9	30.2	27.6	30.6	33.3	30.6	23.7	25.0
Avg. Yld.	1.4%	1.3%	1.2%	1.1%	1.0%	0.9%	1.0%	0.8%	0.8%	1.1%	1.6%	1.7%

Domino's is currently trading at a price-to-earnings ratio of 23.7, which is much lower than its 10-year average of 29.8. Due to business deceleration, we assume a fair earnings multiple of 25.0 for the stock. We also note that Domino's is

¹ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Domino's Pizza, Inc. (DPZ)

Updated May 2nd, 2023 by Aristofanis Papadatos

trading at a nearly 10-year low valuation level due to current business headwinds. If Domino's trades at its fair valuation level in five years, it will enjoy a 1.0% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32.3%	35.0%	35.7%	35.3%	31.1%	26.1%	27.2%	26.0%	27.6%	35.1%	36.9%	41.9%

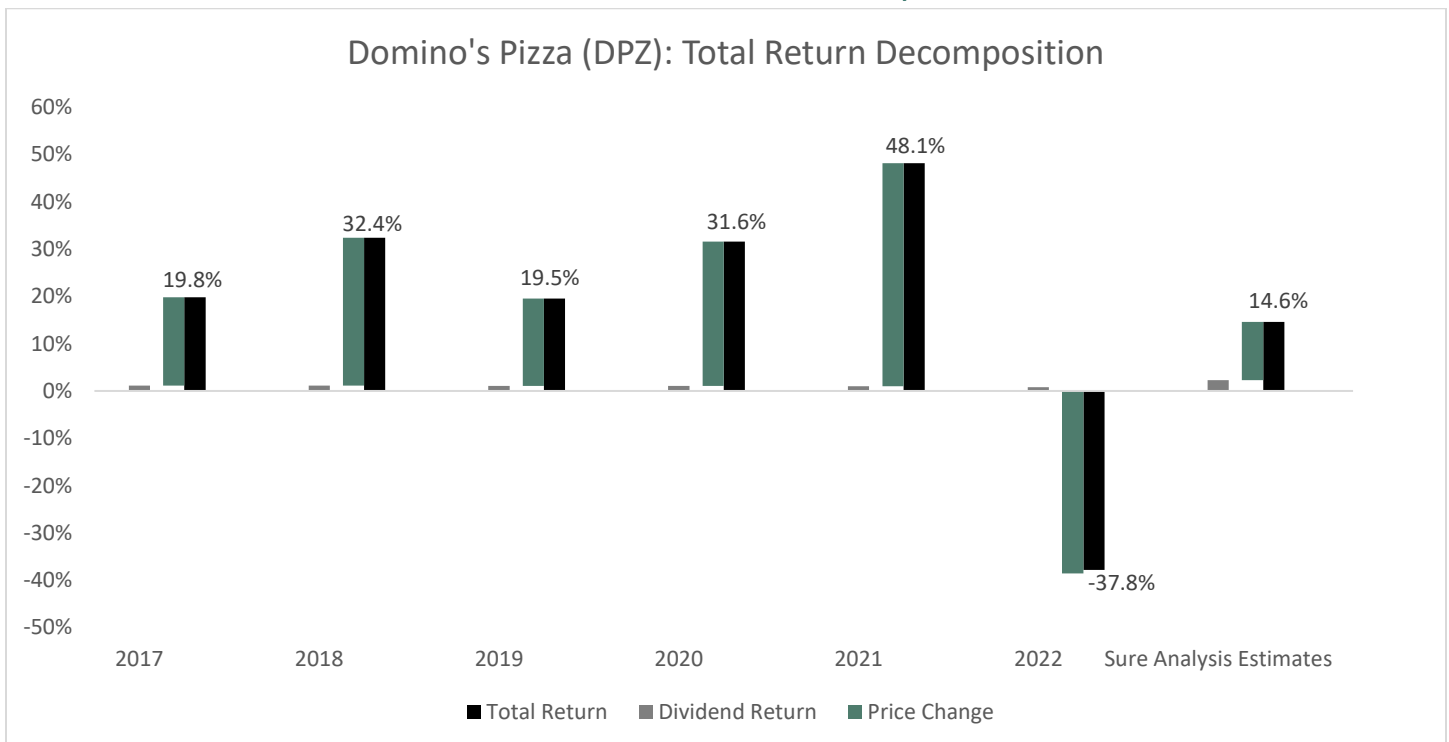
Domino's has greatly increased its debt load in recent years in order to boost its shareholder returns. Consequently, its debt/assets ratio has skyrocketed to 362%, its book value has collapsed to negative levels and its net debt has climbed tremendously. Still, as its interest expense consumes only 25% of its operating income and the company grows at a fast pace, the debt will be manageable moving forward.

Despite the strong competition in the fast-food sector, the unparalleled decades-long growth record of Domino's reveals the existence of a moat in its business. Indeed, the superior taste and value proposition have contributed to a strong brand name. Moreover, Domino's is certainly the digital leader, as it generates more than 80% of its U.S. sales and about two-thirds of its global retail sales from digital channels.

Final Thoughts & Recommendation

Domino's has better growth potential than most of the other stocks in our investment universe. The stock has shed -11% in the last 12 months due to business deceleration and the impact of inflation on the margins of the company and its valuation, as it has reduced the present value of future cash flows. We view the decline of the stock as a great investing opportunity for patient investors. We expect the stock to offer a 14.6% average annual return over the next five years thanks to 12.0% growth of earnings-per-share, its 1.6% dividend and a 1.0% valuation tailwind. We view the headwinds from excessive cost inflation, staffing shortages and tough comparisons vs. blowout results in 2021-2022 as temporary and remain confident in the long-term prospects of this best-of-breed pizza chain. We maintain our buy rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Domino's Pizza, Inc. (DPZ)

Updated May 2nd, 2023 by Aristofanis Papadatos

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1802	1994	2217	2473	2788	3433	3619	4,117	4,357	4,537
Gross Profit	549	595	683	768	866	1303	1402	1,594	1,688	1,649
Gross Margin	30.5%	29.8%	30.8%	31.0%	31.1%	37.9%	38.8%	38.7%	38.7%	36.3%
SG&A Exp.	235	249	278	314	345	731	773	869	908	902
D&A Exp.	26	36	32	38	44	54	60	65	73	80
Operating Profit	314	345	405	454	521	572	629	726	780	768
Operating Margin	17.4%	17.3%	18.3%	18.4%	18.7%	16.7%	17.4%	17.6%	17.9%	16.9%
Net Profit	143	163	193	215	278	362	401	491	510	452
Net Margin	7.9%	8.2%	8.7%	8.7%	10.0%	10.5%	11.1%	11.9%	11.7%	10.0%
Free Cash Flow	154	122	229	234	251	274	411	504	560	388
Income Tax	82	96	113	130	122	67	82	64	115	121

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	525	596	800	716	837	907	1382	1,567	1,672	1,602
Cash & Equivalents	14	31	133	43	36	25	191	169	148	60
Accounts Receivable	106	118	132	150	174	190	210	245	255	257
Inventories	30	38	37	40	40	46	53	67	68	82
Goodwill & Int. Ass.	31	37	45	56	68	79	88	96	111	120
Total Liabilities	1815	1816	2600	2599	3572	3947	4798	4,868	5,881	5,791
Accounts Payable	83	87	107	112	107	93	111	94	92	90
Long-Term Debt	1536	1501	2241	2188	3154	3532	4095	4,119	4,994	4,948
Shareholder's Equity	-1290	-1219	-1800	-1883	-2735	-3040	-3416	-3,300	-4,210	-4,189
LTD/E Ratio	-1.19	-1.23	-1.24	-1.16	-1.15	-1.16	-1.20	-1.25	-1.19	-1.18

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	28.5%	29.0%	27.6%	28.3%	35.8%	41.5%	35.0%	33.3%	31.5%	27.6%
Return on Equity	-10.9%	-13.0%	-12.8%	-11.7%	-12.0%	-12.5%	---	---	---	---
ROIC	60.6%	61.6%	53.4%	57.6%	76.9%	79.5%	69.5%	64.8%	66.2%	58.6%
Shares Out.	55.8	55.6	49.8	48.1	44.6	42.6	41.4	39.5	36.7	36.1
Revenue/Share	31.22	35.02	39.91	49.53	58.48	79.22	86.32	103.87	115.61	125.70
FCF/Share	2.66	2.15	4.11	4.69	5.27	6.33	9.81	12.71	14.86	10.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.