

Domino's Pizza

4Q23: Traffic momentum continues to build

Reiterate Rating: BUY | PO: 550.00 USD | Price: 459.00 USD

US traffic drivers gain traction, should help int'l over 2024

Sales tailwinds from the loyalty revamp (launched Sept 2023) and Emergency pizza (launched Oct 2023) should persist at least through the first half, and likely longer as awareness builds. And given that UberEats contributed ~0.4ppts to SSSG in the quarter – despite being in pilot for most of the quarter and lacking marketing support – we believe the 3% mix target is very achievable (and may even prove conservative under the assumption that the 4Q exit rate was greater than the 0.4ppt average over the quarter). With Uber Eats accounting for less than ~25% of the delivery market, expansion to other platforms should support [continued growth in 2025E and beyond](#) (see report). Outside the US, the adoption of the Hungry for MORE strategy (food, ops, value, franchisee strength) should help support SSSG acceleration.

See upside to supply chain, co-op margin dollars

We believe DPZ's outlook for minimal margin expansion (operating profit growth of ~8%+ on 7%+ retail sales, both in constant currencies) continues to look appropriately conservative, affording the company the opportunity to invest behind the brand – marketing, food, value – further widening its traffic share gap with the industry. We see upside for company operated restaurants – pricing expected to be in-line with commodity costs and labor should lever on higher transaction growth – as well as the supply chain, where we see some opportunity to [lever fixed costs as case volumes grow](#) (see report).

F24 down as faster US partly offsets int'l

Our 1Q24 EPS ticks up from \$3.40 to \$3.44. We expect slightly slower topline as DPZ reduces its tech fee per digital transaction from \$0.395 to \$0.355, but believe the higher ad spend (from 5.75% to 6%) could translate into SSSG upside. We also increase SG&A expense. We lower share count to reflect the increased buyback authorization (\$1bb increase). F24E EPS edges down from \$16.15 to \$16.00.

Raise PO to \$550 on mult. expansion, rolled-fwd ests

Relative to the S&P 500, DPZ is trading at a 1.7x multiple, ahead of its 10-yr average (1.5x). We believe, however, that DPZ's growth rate will likely continue to surprise to the upside as unit growth reaccelerates and traffic drivers (loyalty, 3P) gain traction. We therefore use the current multiple (29.2x absolute, up from our prior target rel. multiple of 1.5x); applying this multiple to DPZ's 12-month forward earnings (F25E, \$18.79) to arrive at our \$550 PO (vs \$491 prior).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.53	14.67	16.00	18.79	21.39
EPS Change (YoY)	-7.5%	17.1%	9.1%	17.4%	13.8%
Consensus EPS (Bloomberg)			15.69	17.61	19.67
DPS	4.36	4.80	6.05	6.66	7.32
Valuation (Dec)					
P/E	36.6x	31.3x	28.7x	24.4x	21.5x
Dividend Yield	1.0%	1.0%	1.3%	1.4%	1.6%
EV / EBITDA*	24.8x	23.3x	21.5x	19.5x	18.1x
Free Cash Flow Yield*	2.4%	3.0%	5.4%	4.0%	4.5%

* For full definitions of *IQmethod™* measures, see page 5.

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12664177

Timestamp: 27 February 2024 05:00AM EST

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	491.00	550.00
2024E Rev (m)	4,829.2	4,803.0
2025E Rev (m)	5,099.7	5,089.5
2026E Rev (m)	5,407.0	5,404.0
2024E EPS	16.15	16.00
2025E EPS	18.36	18.79
2026E EPS	20.53	21.39
2024E DPS	5.32	6.05

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Stock Data

Price	459.00 USD
Price Objective	550.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-1-7
52-Week Range	285.84 USD - 476.18 USD
Mrkt Val (mn) / Shares Out (mn)	15,979 USD / 34.8
Free Float	99.4%
Average Daily Value (mn)	228.36 USD
BofA Ticker / Exchange	DPZ / NYS
Bloomberg / Reuters	DPZ US / DPZ.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

SSSG- same store sales growth^w

iQprofileSM Domino's Pizza

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	53.7%	56.6%	60.5%	70.2%	76.3%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	16.9%	18.3%	18.5%	19.3%	19.6%
Free Cash Flow	388	485	855	646	716

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.1x	1.8x	1.2x	1.2x
Asset Replacement Ratio	1.1x	1.3x	1.3x	1.2x	1.1x
Tax Rate	21.0%	20.4%	22.1%	22.0%	22.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	3.9x	4.4x	4.8x	5.3x	5.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,537	4,479	4,803	5,089	5,404
% Change	4.1%	-1.3%	7.2%	6.0%	6.2%
Gross Profit	1,649	1,727	1,866	2,023	2,165
% Change	-2.3%	4.8%	8.0%	8.4%	7.0%
EBITDA	848	900	977	1,076	1,163
% Change	-0.6%	6.1%	8.5%	10.2%	8.0%
Net Interest & Other Income	(195)	(185)	(185)	(186)	(186)
Net Income (Adjusted)	452	519	548	621	682
% Change	-11.4%	14.8%	5.6%	13.1%	9.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	452	519	548	621	682
Depreciation & Amortization	80	81	88	95	102
Change in Working Capital	(74)	(14)	287	(1)	1
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	17	5	42	42	42
Capital Expenditure	(87)	(105)	(110)	(110)	(110)
Free Cash Flow	388	485	855	646	716
% Change	-30.7%	25.1%	76.2%	-24.5%	10.9%
Share / Issue Repurchase	(170)	(245)	(481)	(471)	(461)
Cost of Dividends Paid	(158)	(170)	(207)	(220)	(233)
Change in Debt	(176)	(56)	2	2	2

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	60	114	296	266	303
Trade Receivables	257	283	289	306	325
Other Current Assets	473	420	518	535	554
Property, Plant & Equipment	302	304	314	318	314
Other Non-Current Assets	509	553	540	527	514
Total Assets	1,602	1,675	1,958	1,951	2,009
Short-Term Debt	55	56	57	58	59
Other Current Liabilities	482	491	851	879	914
Long-Term Debt	5,163	5,114	5,142	5,179	5,227
Other Non-Current Liabilities	92	84	117	121	127
Total Liabilities	5,791	5,745	6,166	6,239	6,328
Total Equity	(4,189)	(4,070)	(4,209)	(4,287)	(4,318)
Total Equity & Liabilities	1,602	1,675	1,958	1,951	2,009

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Restaurants

Company Description

Domino's Pizza is the No.1 pizza delivery company in the world with roughly 16,000 stores in 50 states and more than 70 countries. DPZ's system is more than 97% franchised and 63% of stores are located internationally. The company has been benefitting from a steadily growing online/digital ordering mix that currently represents over 60% of domestic orders and has a long runway for growth.

Investment Rationale

We rate DPZ Buy. We believe DPZ will continue to be a beneficiary of the fast growing pizza segment with its large scale, first mover advantages, and a long growth runway in the US and internationally.

Stock Data

Average Daily Volume

497,521

Exhibit 2: We forecast F24 EPS of \$16.00 and F25 EPS of \$18.79

DPZ Income Statement F23-F25E

DPZ - Income Statement	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	1Q25E	2Q25E	3Q25E	4Q25E	2025E
Revenues:											
Domestic Company-owned Stores	376.2	88.0	93.1	92.6	122.7	396.4	95.1	99.5	97.4	129.0	421.0
Domestic Franchise, and other	604.9	143.9	148.1	149.5	200.8	642.2	150.5	158.6	161.4	211.9	682.5
Supply Chain	2,715.0	648.8	670.7	679.6	920.5	2,919.5	687.7	701.9	710.0	962.5	3,062.1
International Franchise	310.1	73.7	74.7	77.1	108.1	333.6	85.9	84.0	87.5	118.6	376.0
Domestic Franchise advertising	473.2	118.0	121.2	123.4	148.6	511.2	127.3	129.7	132.0	159.1	548.0
Domestic Distribution	-	-	-	-	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	4,479.4	1,072.3	1,107.9	1,122.1	1,500.6	4,803.0	1,146.5	1,173.7	1,188.3	1,581.0	5,089.5
		5%	8%	9%	7%						
Cost of Sales:											
Domestic Company-owned Stores COGS	314.7	71.7	74.3	76.5	102.7	325.3	76.5	78.4	79.4	106.7	341.1
Supply Chain COGS	2,437.3	586.2	596.3	611.3	818.1	2,611.8	618.8	620.3	635.4	850.5	2,724.9
Domestic Distribution	-	-	-	-	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-	-	-	-	-
<u>Total cost of sales</u>	<u>2,751.9</u>	<u>657.9</u>	<u>670.6</u>	<u>687.8</u>	<u>920.8</u>	<u>2,937.1</u>	<u>695.3</u>	<u>698.7</u>	<u>714.9</u>	<u>957.2</u>	<u>3,066.1</u>
Gross profit	1,727.4	414.4	437.3	434.4	579.8	1,865.9	451.2	475.0	473.4	623.9	2,023.4
		5%	8%	9%	7%						
SG&A	434.6	99.6	105.7	106.2	154.4	466.0	106.5	112.0	112.4	162.7	493.7
Franchise advertising expense	473.2	118.0	121.2	123.4	148.6	511.2	127.3	129.7	132.0	159.1	548.0
Restructuring charge	-	-	-	-	-	-	-	-	-	-	-
EBIT	819.7	196.8	210.3	204.8	276.8	888.8	217.4	233.3	229.0	302.1	981.7
Margin	18.3%	18.4%	19.0%	18.3%	18.4%	19%	19%	20%	19%	19%	19%
Interest Income	-	-	-	-	-	-	-	-	-	-	-
Other expense (income)	(17.7)	-	-	-	-	-	-	-	-	-	-
Interest Expense	184.8	44.4	42.4	42.1	56.2	185.1	45.0	42.4	42.1	56.2	185.7
Pretax Income (excl. non-recurring items)	652.6	152.4	167.9	162.7	220.7	703.7	172.3	190.9	186.9	245.9	796.1
Provision for Income Taxes	133.3	32.6	36.0	34.9	51.8	155.2	36.9	40.9	40.0	57.7	175.5
Tax Rate	20.4%	21.4%	21.4%	21.4%	23.5%	22.1%	21.4%	21.4%	21.4%	23.5%	22.0%
<i>Total Other Items (pre EBC)</i>	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	519.3	119.7	132.0	127.9	168.9	548.5	135.4	150.0	146.9	188.2	620.5
GAAP EPS	\$14.67	\$3.44	\$3.83	\$3.75	\$4.99	\$16.00	\$4.04	\$4.52	\$4.46	\$5.77	\$18.79
Pro-forma Net Income	519.3	119.7	132.0	127.9	168.9	548.5	135.4	150.0	146.9	188.2	620.5
Pro-forma EPS	\$14.67	\$3.44	\$3.83	\$3.75	\$4.99	\$16.00	\$4.04	\$4.52	\$4.46	\$5.77	\$18.79
Equity based comp excess tax benefit	(3.4)	0.3	(0.4)	(2.8)	(0.4)	(3.4)	0.3	(0.4)	(2.8)	(0.4)	(3.4)
Equity based compensation tax impact	(3.4)	0.3	(0.4)	(2.8)	(0.4)	(3.4)	0.3	(0.4)	(2.8)	(0.4)	(3.4)
Tax Rate ex-stock comp changes	21.0%	21.2%	21.1%	17.5%	23.7%	21.0%	21.2%	21.1%	17.5%	23.7%	21.0%
Pro-forma EPS ex-EBC benefit	\$14.57	\$3.45	\$3.82	\$3.66	\$4.98	\$15.90	\$4.05	\$4.51	\$4.38	\$5.76	\$18.69
Diluted Shares Outstanding	35.4	34.8	34.5	34.1	33.8	34.3	33.5	33.2	32.9	32.6	33.0
Actual Shares Out.	35.1	34.5	34.2	33.8	33.5	34.0	33.2	32.9	32.6	32.3	32.7

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Domino's Pizza (DPZ)

We apply the current relative P/E multiple of 1.7x to our EPS estimates 12 months from now (F25E: \$18.79) to arrive at our \$550 PO, or PE of 29.2x. We view this multiple as appropriate given our expectation for unit growth acceleration and impacts from US traffic drivers.

Downside risks: Market share gains for other larger competitors in the pizza category that impedes Domino's growth, global economic or social issues could disrupt same store sales growth or affect expansion in international markets, and competitive activity in the pizza category remaining high.

Analyst Certification

I, Sara Senatore, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa Johns International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK.US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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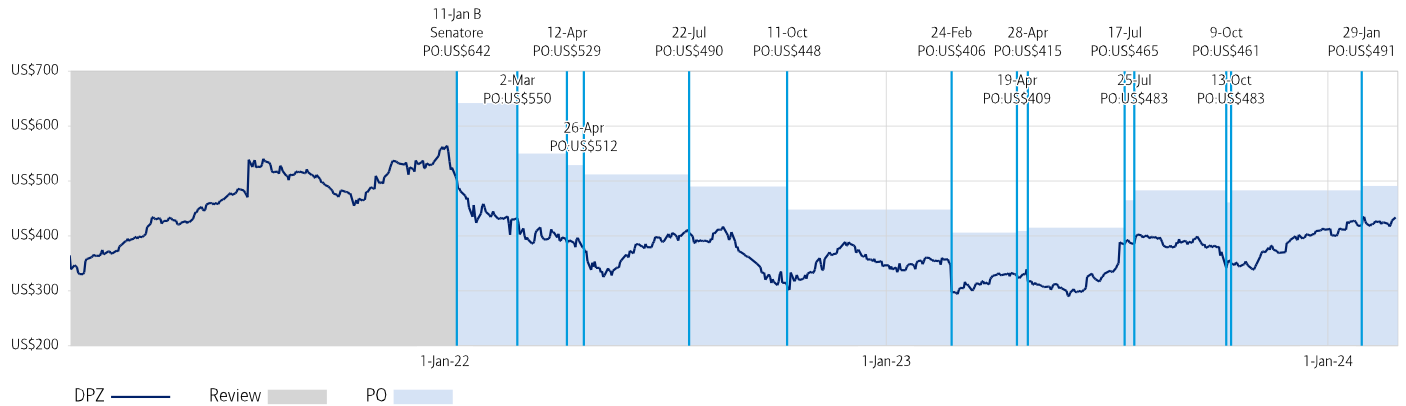
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Domino's Pizza (DPZ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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