

Domino's Pizza

4Q Quick Take: EPS beat ex-tax, DPC on US sales/franchise fees, supply chain profit

Reiterate Rating: BUY | PO: 491.00 USD | Price: 433.65 USD

Positive US txns drive co-op sales, franchise fees...

Excluding the tailwind from the DPC remeasurement (+\$0.10) and headwind from a higher than expected tax rate (\$0.11), DPZ's EPS (\$4.49) beat consensus (VA consensus: \$4.38) and was in-line with our above consensus estimate (BofAE: \$4.47). Even more important than the beat, in our view, was the underlying composition of the quarter. Excluding the impact of lower advertising fees (\$138 mm vs BofAE/VA cons of \$158 mm/\$156 mm), which are a pure pass-through line, revenue beat our expectations and consensus, on better than expected company sales (\$117 mm vs BofAE/VA cons of \$115 mm/\$113 mm) and domestic franchise fees (\$194 mm vs BofA/VA cons of \$189 mm/\$190 mm), both of which benefited from positive transaction growth in the quarter (as well as a full quarter of the higher technology fees).

... and supply chain profit

The positive transaction growth – along with 3% domestic unit growth – also underpinned the much better than expected supply chain profit growth (\$93 mm vs BofA/VA cons of \$86 mm/\$83 mm), a business that that accounted for ~17% of total gross profit in the quarter. While supply chain revenues were only slightly below consensus (\$857 mm vs BofA/VA cons of \$856 mm/\$861 mm), revenues are affected by changes in commodity prices, which were deflationary in the quarter. Instead, we focus on gross profit dollars, which are a function of a fixed dollar mark up on case volume; as transactions grow, so too do case volumes and margin dollars.

LT guidance reaffirmed and dividend increased

DPZ reiterated its long-term (LT) guidance of 7%+ annual global retail sales growth, 1,100+ annual global net store growth and 8%+ annual income from operations growth. DPZ also announced that i) it is increasing its quarterly dividend by 25% to \$1.51 and ii) a new authorization for an additional share repurchase program to repurchase up to \$1.0 bb in addition to the \$141 mm that was previously remaining for a total authorization of \$1.14 bb.

Focus on SSSG run-rates, Uber Eats impact

We believe investors will be looking for conference call commentary on the impact of the Uber Eats partnership (nationwide rollout late last year) as well as other sales and operational initiatives will inform the stock. But the early signs of traction apparent in 4Q results should be well received. We reiterate our Buy rating and \$491 PO.

26 February 2024

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Stock Data

| | |
|---------------------------------|-------------------------|
| Price | 433.65 USD |
| Price Objective | 491.00 USD |
| Date Established | 29-Jan-2024 |
| Investment Opinion | B-1-7 |
| 52-Week Range | 285.84 USD - 439.16 USD |
| Mrkt Val (mn) / Shares Out (mn) | 15,126 USD / 34.9 |
| Free Float | 99.4% |
| Average Daily Value (mn) | 208.10 USD |
| BofA Ticker / Exchange | DPZ / NYS |
| Bloomberg / Reuters | DPZ US / DPZ.N |
| ROE (2023E) | NA |
| Net Dbt to Eqty (Dec-2022A) | NA |
| ESGMeter™ | Medium |

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Glossary:

Txns: transactions
VA consensus: Visible Alpha consensus
SSSG- same store sales growth

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Timestamp: 26 February 2024 08:59AM EST

Exhibit 1: Excluding a \$0.10 unrealized gain from DASH, DPZ 4Q EPS was in line with consensus of \$4.38

4Q23 reported results vs BofAE and Visible Alpha consensus

| | 4Q22 | 4Q23 | y/y change | BofAE | Consensus 4Q23E | Variance (vs BofAE) | Variance (vs Consensus) |
|--------------------------------|-----------|-----------|------------|-----------|-----------------|---------------------|-------------------------|
| Systemwide Units | 19,880 | 20,591 | 4% | 20,650 | 20,628 | 0% | 0% |
| Domestic Units | 6,686 | 6,854 | 3% | 6,827 | 6,536 | 0% | 5% |
| U.S. SSSG | 0.9% | 2.8% | 1.9 ppt | 2.0% | 2.3% | 0.8 ppt | 0.5 ppt |
| U.S. Franchised | 0.8% | 2.6% | 1.8 ppt | 2.0% | 2.3% | 0.6 ppt | 0.3 ppt |
| U.S. company-owned | 3.4% | 5.9% | 2.5 ppt | 3.0% | 2.7% | 2.9 ppt | 3.2 ppt |
| International SSSG | 2.6% | 0.1% | -2.5 ppt | 6.0% | 3.5% | -5.9 ppt | -3.4 ppt |
| Total Revenue | \$1,392.2 | \$1,403.0 | 1% | \$1,420.0 | \$1,419.6 | -1% | -1% |
| Company sales | \$117.0 | \$117.3 | 0% | \$114.7 | \$112.6 | 2% | 4% |
| Domestic Franchise, and other | \$177.0 | \$194.4 | 10% | \$188.8 | \$189.5 | 3% | 3% |
| Supply Chain | \$852.5 | \$857.0 | 1% | \$856.3 | \$861.0 | 0% | 0% |
| International Franchise | \$92.2 | \$96.8 | 5% | \$102.3 | \$100.6 | -5% | -4% |
| Domestic Franchise advertising | \$153.5 | \$137.5 | -10% | \$157.9 | \$155.7 | -13% | -12% |
| COS- Company stores | \$98.0 | \$100.1 | 2% | \$92.3 | \$92.8 | 8% | 8% |
| Gross Profit- Company stores | \$19.0 | \$17.2 | -9% | \$22.4 | \$19.8 | -23% | -13% |
| Gross Margin- Company stores | 16.3% | 14.7% | -157 bps | 19.5% | 17.6% | -484 bps | -287 bps |
| COS- Supply Chain | \$782.4 | \$763.9 | -2% | \$769.9 | \$778.2 | -1% | -2% |
| Gross Profit- Supply Chain | \$70.2 | \$93.1 | 33% | \$86.3 | \$82.8 | 8% | 12% |
| Gross Margin- Supply Chain | 8.2% | 10.9% | 264 bps | 10.1% | 9.6% | 78 bps | 125 bps |
| G&A | \$130.8 | \$144.4 | 10% | \$137.7 | \$139.1 | 5% | 4% |
| as % of Total Revenue | 9.4% | 10.3% | 90 bps | 9.7% | 9.8% | 59 bps | 50 bps |
| Tax rate | 16.6% | 23.5% | 687 bps | 22.0% | 21.5% | 146 bps | 191 bps |
| Diluted EPS | \$4.43 | \$4.48 | 1% | \$4.47 | \$4.38 | 0% | 2% |
| EPS ex- DPC Remeasurement | | \$4.38 | | | | | |
| EBITDA | \$273.0 | \$282.8 | 4% | \$286.6 | \$278.0 | -1% | 2% |
| EBITDA % of total revenue | 19.6% | 20.2% | 55 bps | 20.2% | 19.6% | -2 bps | 58 bps |

Source: BofA Global Research estimates, Company filings, Visible Alpha

BofA GLOBAL RESEARCH

Price objective basis & risk

Domino's Pizza (DPZ)

Given that Domino's returns and growth have consistently outpaced those of the broader market, we believe its historical range remains relevant and we expect the multiple to be stable. We apply the current relative P/E multiple of 1.5x to our EPS estimates 12 months from now (4Q24-3Q25: \$17.77) to arrive at our \$491 PO, or PE of 27.7x.

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.

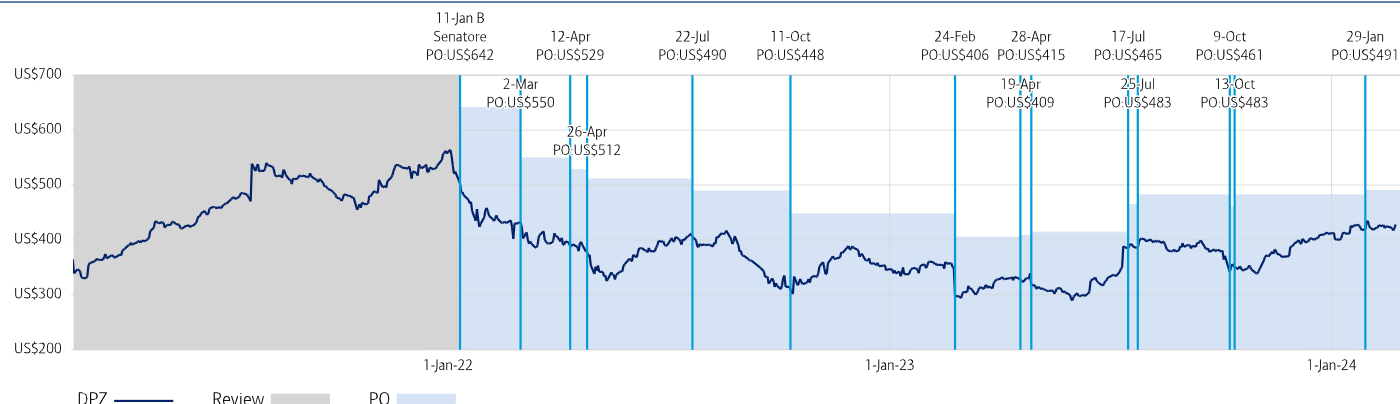
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Domino's Pizza (DPZ) Price Chart



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

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| 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)

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|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

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|-------------------|---|--|
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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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