# Investment Research Report

Domino's Pizza, Inc. (NYSE: DPZ)

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## Domino's Pizza Inc, Investment Research Report

*"When you find a really good business run by first class people, chances are a price that looks high isn't high. The combination is rare enough, it's worth a pretty good price."*

*Warren Buffett*

*"We are looking at investing in very, very high-quality companies that have great franchises and that have had these great franchises for many years."*

*David Polen*

*"Time is on your side when you own shares of superior companies."*

*Peter Lynch*

*"By owning great companies, you can just forget about all the noise and the irrational market fluctuations. And slowly get rich."*

*Francois Rochon*

*"One characteristic that makes owning a high-quality company so attractive is the growth that comes from reinvesting cash flows at high rates of return. Clearly compounding is a powerful force and is often the reason a stretched valuation can be made palatable."*

*Marathon Asset Management*

## Executive Summary and Overview

**Domino's Pizza, Inc. (NYSE: DPZ)** **Recommendation: HOLD**

**Industry**: Quick-Service Restaurant Target Price: $ 410.86 (↑20.21%)

### Business Description

Domino's is the largest pizza company in the world with a market presence in over 90 countries. It provides convenient pizza delivery at an affordable price through two distinct services: **1) delivery and 2) carryout**, with each covering similar portion of sales. Domino's is primarily a franchisor with 98% of its stores owned by independent franchisees who previously worked as either employees or delivery drivers.[1] The few company-owned stores allow Domino's to test new technology, efficacy of promotions, and operational improvements. The business model is straightforward: franchised stores handcraft and serve quality foods at competitive prices, with end-customer experience enhanced by efficient delivery arising from Domino's dedicated drivers and innovative mobile app. Two drivers of revenues are **1) royalty fees** collected as a percentage of franchisee sales, and **2) supply chain operations** where Domino's sells ingredients. Thus, the financial health of the franchisees is critical to Domino's, and they benefit from the economies of scale provided by supply chain operations. The royalty fee segment is a high margin business and is indicative of future financial performance, while the supply chain segment brings stable revenue stream with moderate capital expenditure.

### Investment Thesis – Summary

Domino's uniqueness lies in its choice of not having dine-in options for customers and only focus on delivery and carryout, thus taking capital intensity out of the equation. Since it has vertical integration in supply chain, manufacturing, and delivery, it outperformed its competitors during the pandemic who do not have similar structure. Although it is facing headwinds during the inflationary environment, it presents an ideal holding opportunity for investors who are focusing on the long-term. While Mr. Market has priced in short-term factors such as rising rents and tightened consumer spendings, it ignores the following drivers which are critical in sustaining Domino's moat:

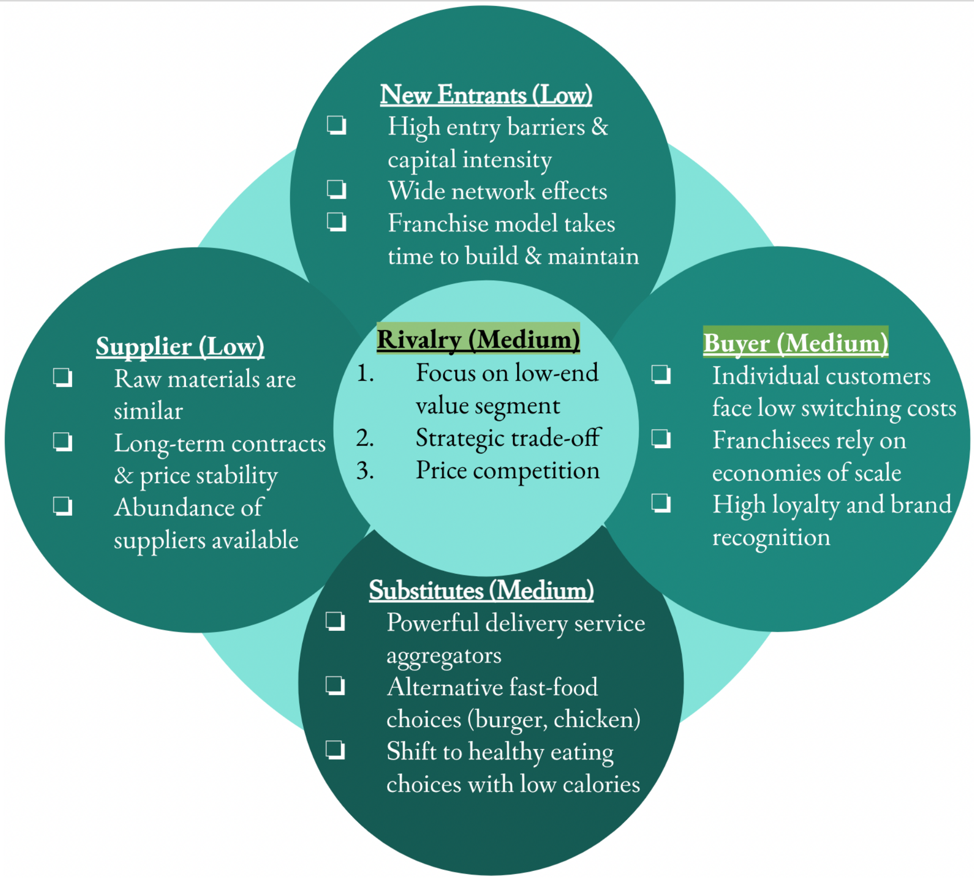
1. **Expanding the Carryout Segment:** Carryout provides high-margin with low capital-intensity and greater average ticket per customer. To incentivize customers, Domino's decided to reward carryout customers a $3 tip for their next purchases. Such a shift in strategy is not evident in competitors' investor presentations, providing Domino's an opportunity to outperform in the current environment where driver shortage is a problem.
2. **Increasing Market Penetration in Emerging Markets:** With two-thirds of franchised stores located overseas, 113 consecutive positive comparable sales abroad (8% in 2021) suggest strong growth potential with more stores openings in China and Europe. While inflation and labor shortage have impacted its U.S. segment, emerging markets bring excess labor for Domino's to leverage its delivery-centered and asset-light franchisee model.
3. **Pricing Power in Raising Ingredient Prices:** Since supply chain operations occupies significant share of revenues, Domino's raised market basket pricing to stores by 12% in January, contributing to 2022 first quarter revenue increase of 2.8% YoY.[2] Such price hike is not observed in its competitors' strategy, and franchisees will continue to procure ingredients from Domino's due to existence of economies of scale and inventory management.

[1] Domino's Pizza Inc., Annual Report 2021, https://dominos.gcs-web.com/static-files/2dc8ddca-37ad-476d-9722-cf68a2ac4336

[2] Domino's Pizza, "Domino's Pizza® Announces First Quarter 2022 Financial Results"

## Industry Review and Analysis

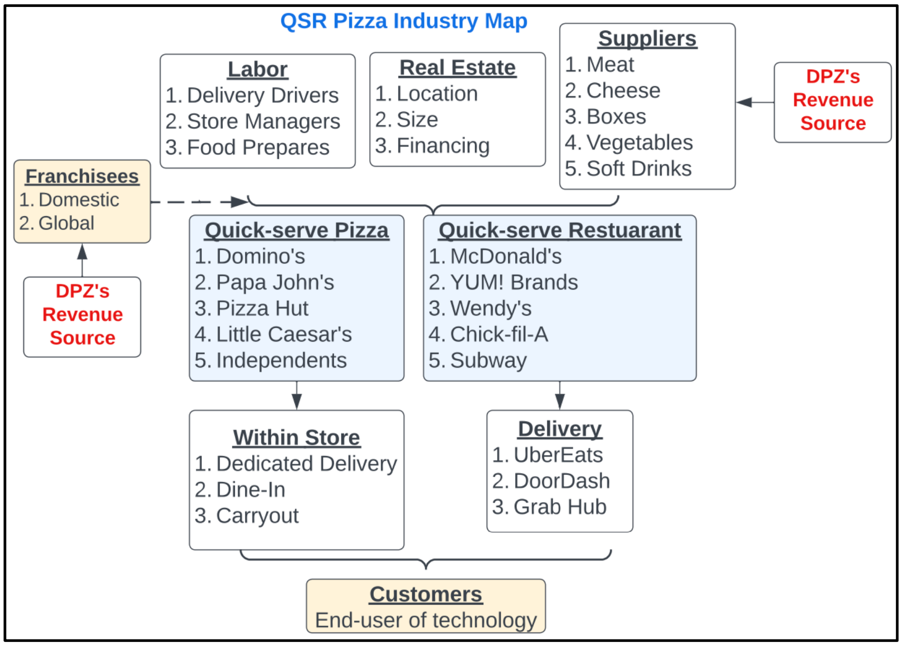
### Porter's Five Forces Analysis




**Buyer Power (Medium)** – In an undifferentiated industry such as the quick-serve fast-food sector (QSR), customers value price and delivery time, therefore facing low switching cost regarding restaurant choices. The only way for QSR companies to amass loyalty is to provide superior and differentiated end-user experience, which is Domino's focus but not its competitors'. Franchisees are also buyers because they procure food ingredients from Domino's supply chain business to lower production costs. Due to the existence of profit-sharing agreements and better inventory management provided by the master brand, franchisees have low bargaining power, and they rely on Domino's to achieve an asset-light franchisee model. Thus, buyer power is medium on average.

**Industry Rivalry (Medium)** – There are several well-known pizza brands in the concentrated QSR industry that cater to the same set of customers, such as Papa John's, Pizza Hut, and Little Caesar. As mentioned, there is little differentiation in pizza as a product, so the real challenge for QSR companies to build a wide 'moat' is either through competitive prices or efficient delivery methods. While Domino's faces some rivalry when it comes to the taste of pizzas, none can beat it in terms of prices: a large three-topping pizza is priced at $7.99 for over a decade. In addition, integrating pizza delivery into its model differentiates itself from rivals who rely on third-party delivery aggregators (e.g., UberEats and DoorDash), further aligning drivers' incentives with the company's. This means all the customer data collected from the delivery channel is controlled and managed by Domino's, which is a key differentiator that separates itself from industry rivals in predicting consumer needs. Therefore, industry rivalry is medium but do not exert downward pressure on profitability.

***Figure 1 Revenue Model of QSR***




**Industry Map Overview** – The value chain activity within the QSR industry is simple: On the supply side, human labor is a key component in ensuring food quality and consistency, as well as managing orders efficiently. Real estate is critical since prime locations around busy neighborhoods provide ideal traffic per store, and this is where competition is likely to occur when different brands are in the proximity. Suppliers provide undifferentiated food ingredients listed above, and have low bargaining power due to the existence of contracts. On the product side, companies are categorized into QSR pizza and QSR restaurants, and customers face low switching cost. Finally, a reliable distribution platform is key to ensuring customer loyalty and competitive advantage since it is the only way to differentiate.

So how is Domino's different? First, it occupies all three value chain segments regarding supply chain, distribution, and delivery, with the last one focusing on guaranteeing fast delivery and customer satisfaction. Second, its revenue is derived from supply chain, which is the bulk of it, and royalty fees from franchisees, which is capital-light. Competitors like Papa John's, however, obtain most of the revenues from company-owned stores which caters to dine-in customers, incurring high capital intensity and low inventory turnover, which is heavily disrupted during the pandemic when physical stores were closed. As the largest pizza franchisor in the world, Domino's competitive advantage stems from its control over product quality and customer experience from end-to-end: **1) integrated supply chain** provides high-quality ingredients at competitive costs, freeing time for franchisees to manage other parts of the business, **2) rigorous franchisee selection process** guarantees brand image, and **3) efficient delivery system** ensures quality products delivered in a timely manner. By taking ownership over the entire process, Domino's eliminates cost inefficiencies and maintains a consistent quality level across its entire business.

## Five Tests of a Good Strategy

**Distinct Value Proposition** – Domino's is committed to providing fast delivery and consistent pizza quality at a competitive price for customers who value convenience and reliability. Because the first opened store did not have enough seating for dine-in, fast delivery quickly became the differentiator. Since then, Domino's has launched successful campaigns to raise customer awareness, such as the

"*30 minutes or it's free*" delivery guarantee and the slogan of "*One Call Does It All*[3]." Incorporating technology is another differentiator. For example, because it owns the distribution channel to guarantee delivery quality, it engineered its app in a way that allows customers to track their orders in real time, an innovation that got adopted by aggregators like Uber Eats and DoorDash. The unique focus on satisfying customers and providing superior delivery service in a relatively undifferentiated industry has enabled Domino's to surpass Pizza Hut and Papa John's in terms of global sales. Without a strong proposition, Domino's would not sustain its competitive advantage.

**Tailored Value Chain** – To achieve its proposition, Domino's has a unique configuration of activities to ensure product relevance and delivery efficiency. First, it focuses on pizza as the core product because it is operationally manageable and provides higher volume and revenue. Second, owning distribution is vital and it adheres to the proposition of convenience and reliability at a competitive price. The founder Tom Monaghan understood that in industries where goods must be physically delivered, controlling distribution is a core competency because it relates to customer perceptions. Over time, this vertical integration renders itself monopoly power in the low-end value segment where customers value price and delivery develop strong attachment. Third, "*fortressing*" increases density in existing markets to provide better services, including shrinking delivery area to get closer to carryout customers and allow drivers to earn more tips per trip. Lastly, its relentless pursuit for technological innovation helps it reach time-constrained customers. When online orders surpassed non-online orders in 2015, management saw the coming of mobile technology and quickly invented the "zero-click" ordering[4]. As its Chief Digital Officer Dennis Maloney commented, Domino's is "an e-commerce company that sells pizza[5]." Therefore, its value chain activities are tailored and makes it impossible for rivals to imitate.

**Unique Trade-offs** – Domino's chooses to focus on making pizza, expanding carry outs and deliveries, and owning delivery service. Although there are many other products that can be added to its menu, it focuses on pizza and reinvented its recipes in 2012 to regain customer loyalty. Second, Domino's chooses not to provide dine-in option, which is foundational to its cost leadership. By choosing not to copy its competitor's traditional model, it allows franchised stores to be smaller and cheaper, which in turn creates operational simplicity in producing food and efficient use of labor. Domino's is also the only one to use fortressing early on to prevent competition, generating more royalty fees from franchisees who perform well in a geographically dense area. Third, by owning delivery drivers and training them, it eliminates price negotiation with third-party delivery providers who act as toll collectors and profit from transactions. Another trade-off Domino's made is to invest in supply chain and provide ingredients by leasing dough manufacturing centers and distribution facilities. Although it is a low margin segment with high capital intensity, it takes the huge upfront costs off the table for franchisees, incentivizing them to sign longer-term contracts, and returning higher royalty fees. This means initial low returns will be compensated later as franchisees expand in size and provide cash-on-cash payback under three years[6]. Therefore, the franchise model forms a virtuous cycle where franchisees enjoy increased profitability as Domino's gets bigger, which in turn attracts more entrepreneurs to expand their business to other areas.

**Fit Across Value Chain** – Domino's configures its activities so that they reinforce each other, creating real synergies. Because management knows that the biggest margin in food is inside the kitchen which funds everything else in the restaurant chain, investing in manufacturing facilities and

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[3] Domino's, Investor Relation. "*2022 ICR Conference Presentation.*" https://ir.dominos.com/#materials
[4] Product Habits Blog. *"How Domino's Pizza Drove a 90x Increase in Stock Value by Acting Like a Tech Startup."* https://producthabits.com/dominos-pizza-drove-90x-increase-stock-value-acting-like-tech-startup/
[5] Ibid.
[6] Domino's, Investor Relation. "*2022 ICR Conference Presentation.*" https://ir.dominos.com/#materials

processing centers are essential for franchisees to lower their variable costs. The trade-off of having no dine-in option amplifies this cost advantage by allowing quicker inventory turnover in the kitchen, thereby improving operating leverage. Additionally, without investing in assets related to dine-in, Domino's drives the franchise costs down, making franchising more attractive. This is evidenced in the 2020 franchise renewal rate of 99%, demonstrating the benefits from being part of the master brand[7]. Next, fortressing amplifies its value proposition by making its physical stores closer to carryout customers who value time and convenience, and it contributes to a rising comparable sales for 24 consecutive quarters in the U.S.[8] Finally, constant technological innovation elevates customer experience from order execution to product delivery, reinforcing its value proposition of reliability and consistency. The recent innovation in self-driving pizza delivery vehicles with built-in oven initially seemed bizarre, but Domino's demonstrated its capability in doing things differently ahead of its rivals[9].

**Continuity Over Time** – Porter warns the mistake of pursuing rapid changes within an organization which impairs its ability to stick to core values. However, Domino's restructuring around its pizza recipe and adoption of advanced technology created continuity in strategy. Since pizza has always been the core product and it is the first thing customers relates to, ensuring the quality and taste is vital to its sustainability. Although admitting product weaknesses and reinventing recipe is risky because it radically changes the cost structure, this transformation is key for Domino's to stay true to its mission. Because its management thinks like owners, the turnaround plan in 2012 proved to be a success. Additionally, management's ability to predict changes in mobile technology has improved user experience by lowering their burdens when ordering foods, and Domino's successfully caught the early trend of mobile ordering. Digital technology improves the fit across Domino's value chain activities by enabling greater transparency between delivery drivers and customers using real-time GPS tracking. Therefore, Domino's continuity in strategy does not distract itself from its value proposition but enhances its capability to deliver values to customers through innovative ways.

With the inflationary environment, food chains are experiencing headwinds due to the rising costs of raw materials and fuel costs. However, with Domino's existing scale economics, steadily rising same-store growth, solid bargaining power in supply chain, and strategic technology investments, the headwinds in the industry will push Domino's to experiment with new ways of doing business.

## ROIC Trend and Analysis

### Sources of High ROIC and Trend

Since 98% of the system is franchised, the company generates most of its profits from two main sources: **1) high-margin brand royalty fee collection** and **2) integrated supply chain business** that provides franchisees with foods and equipment. Although its supply chain makes up most of the revenue, it only accounts for around 15-20% of gross profit, indicating moderate capital intensity. However, the reason for Domino's to invest in this segment is to drive revenue per store so that more royalty fees can be collected from independent franchisees, which is currently priced at 5.5% on sales. Based on this model, Domino's has achieved an impressive ROIC in the range of 70-90% that is well above its cost of capital in the quick-serve restaurant (QSR) industry that is considered as highly competitive with moderate product differentiation (Figure 2).

[7] Domino's, Investor Relation. "*2022 ICR Conference Presentation.*" https://ir.dominos.com/#materials
[8] Domino's, Investor Relation. *"Domino's Pizza Announces Fourth Quarter and Fiscal 2021 Financial Results"*
[9] Product Habits Blog. *"How Domino's Pizza Drove a 90x Increase in Stock Value by Acting Like a Tech Startup."* https://producthabits.com/dominos-pizza-drove-90x-increase-stock-value-acting-like-tech-startup/

***Figure 2 ROIC Calculation***

| *ROIC Calculation* | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating income | 345,361 | 405,439 | 454,042 | 521,232 | 571,689 | 629,407 | 725,642 | 780,408 | 753,041 | 794,197 |
| Effective tax rate | 37.13% | 37.04% | 37.71% | 30.55% | 15.56% | 16.98% | 11.50% | 18.42% | 20.57% | 20.57% |
| **NOPAT** | **$ 217,116** | **$ 255,259** | **$ 282,810** | **$ 361,994** | **$ 482,729** | **$ 522,565** | **$ 642,201** | **$ 636,678** | **$ 598,160** | **$ 630,850** |
| **Invested capital** | | | | | | | | | | |
| Net working capital | 132,463 | 152,538 | 88,247 | 178,051 | 197,663 | 186,565 | 232,599 | 177,227 | 163,098 | 149,532 |
| PP&E | 114,046 | 131,890 | 138,534 | 169,586 | 234,939 | 242,881 | 297,364 | 324,065 | 320,000 | 330,000 |
| *% Increase in PP&E* | | *15.65%* | *5.04%* | *22.41%* | *38.54%* | *3.38%* | *22.43%* | *8.98%* | *-1.25%* | *3.13%* |
| Other assets | 53,926 | 65,318 | 81,888 | 87,387 | 105,495 | 351,594 | 400,420 | 487,211 | 487,211 | 487,211 |
| **Total invested capital** | **$ 300,435** | **$ 349,746** | **$ 308,669** | **$ 435,024** | **$ 538,097** | **$ 781,040** | **$ 930,383** | **$ 988,503** | **$ 970,309** | **$ 966,743** |
| **ROIC** | **72.27%** | **78.52%** | **85.91%** | **97.35%** | **99.21%** | **79.23%** | **75.05%** | **66.36%** | **61.07%** | **65.14%** |

***Figure 3 Store Unit Economics***

| *Income Statement* | Historical Results (2014-2021) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Year ended December 31,* | **2014A** | **2015A** | **2016A** | **2017A** | **2018A** | **2019A** | **2020A** | **2021A** |
| **Store Unit Economics** | | | | | | | | |
| Comparable sales U.S. | *7.50%* | *12.00%* | *10.50%* | *7.70%* | *6.60%* | *3.20%* | *11.50%* | *3.50%* |
| Comparable Sales International | *6.90%* | *7.80%* | *6.30%* | *3.40%* | *3.50%* | *1.90%* | *4.40%* | *8.00%* |
| Same Store Growth | | *3.07%* | *-0.37%* | *4.75%* | *3.20%* | *-1.15%* | *8.49%* | *3.34%* |
| Global Retail Sales | $ 8,915,400 | $ 9,901,200 | $ 10,873,600 | $ 12,252,100 | $ 13,545,200 | $ 14,320,500 | $ 16,105,700 | $ 17,779,000 |
| Revenue/store (in thousands) | $ 767 | $ 790 | $ 787 | $ 825 | $ 851 | $ 841 | $ 913 | $ 943 |

**Historical ROIC Trend** – Although investors largely perceive Domino's as a restaurant chain, it is more of a supply chain operator and a franchise marketing firm with high royalty fees provided by franchisees. The primary factor of its exceptional ROIC is its vertical integration in manufacturing and delivery, with a focus on improving carryout sales. According to the investment quadrant of growth and ROIC, Domino's occupies the high return and high growth position. Its global expansion combined with its "*fortressing*" strategy will increase store density and bring more value creation from franchisees' asset-light model. In driving financial performance, this strategy has increased comparable sales from 6.6% in 2018 to 11.5% in 2020, part of which is fueled by the pandemic economy where there is a surge in online orders (Figure 3).[10] If we look at NOPAT, it has a healthy growth rate around 23% in 2020, except in 2019 where the growth rate dropped to 8.27% because of the higher effective tax rate of 17% (Figure 2). A steadily growing NOPAT combined with a low level of working capital will soon revert its ROIC to the previous level as its recent investments materialize both in the U.S. and abroad.

There are two drivers behind the declining ROIC from almost 100% in 2018 to 66% in 2021: **1) investments in its foreign subsidiaries** and **2) entering supply chain segment** (Figure 2). Notably, there is a large increase in "Other Assets" under invested capital from 2019 to 2021, resulting from investments in supply chain and a non-controlling interest in *Dash Brands Ltd.* in the second quarter of 2020[11]. Through its subsidiaries, *Dash Brands* serves as the Company's master franchise in China that operates Domino's stores. Although this foreign equity stake lowered Domino's ROIC, it fits with company's goal to increase global retail sales from 6% to 10% in the next three years. With increasing international comparable sales from 1.9% to 8% in the past three years, expanding in China and India is a reasonable strategy for Domino's to leverage its economies of scale overseas. Since two-thirds of the company's stores are currently abroad, the international segment remains the company's largest growth potential because penetration of QSR fast food remains lower abroad.

[10] Domino's Pizza, 2020 Annual Report 10-K.
[11] Domino's Pizza, 2020 Annual Report 10-K, page 68.

Another reason for a declining ROIC is the additional investments in manufacturing facilities and distribution centers to lower the capital intensity for franchisees in the hope of elevating future royalty fees. This can be seen from a 38.5% and 22.4% increase in PP&E that is used to support normal supply chain activities in 2018 and 2020 respectively (Figure 2). However, even with these upfront investments, Domino's still achieved a ROIC around 66-75% that is much higher than its cost of capital, making it an attractive holding opportunity. The company's aggressive investment in the supply chain business will eventually come to a less robust growth phase, and that will lift ROIC again as franchisees generate cash-on-cash return in less than three years[12].

## Financial Statement Analysis, Earnings Review, and Outlook

### Recent Quarterly Review (2021 Q4)

*Figure 4 Growth & Margins*

| GROWTH | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E | 2020 Q1 | Q2 | Q3 | Q4 | 2021 Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth** | ***23.13%*** | ***5.42%*** | ***11.34%*** | ***8.15%*** | ***5.17%*** | ***7.84%*** | ***4.44%*** | ***13.35%*** | ***17.90%*** | ***10.24%*** | ***12.67%*** | ***12.22%*** | ***3.13%*** | ***5.92%*** |
| U.S. Company-owned stores | *4.88%* | *-11.90%* | *4.72%* | *0.84%* | *-3.38%* | *-1.50%* | *-17.11%* | *8.80%* | *19.75%* | *11.20%* | *10.18%* | *2.06%* | *-4.27%* | *-2.70%* |
| U.S. franchise royalties and fees | *11.41%* | *9.45%* | *14.77%* | *9.78%* | *4.86%* | *7.50%* | *8.31%* | *18.31%* | *21.65%* | *12.03%* | *18.85%* | *12.15%* | *3.02%* | *7.08%* |
| Supply chain | *11.75%* | *8.32%* | *12.45%* | *8.19%* | *7.85%* | *10.00%* | *8.60%* | *15.31%* | *18.25%* | *9.03%* | *10.85%* | *11.84%* | *2.64%* | *8.00%* |
| International franchise royalties and fees | *8.73%* | *7.22%* | *0.99%* | *22.47%* | *7.27%* | *9.00%* | *5.33%* | *-12.50%* | *0.03%* | *9.66%* | *16.13%* | *44.99%* | *29.21%* | *9.40%* |
| U.S. franchise advertising | | *9.00%* | *15.62%* | *6.12%* | *-1.70%* | *4.00%* | *7.53%* | *19.14%* | *20.84%* | *15.15%* | *16.20%* | *10.34%* | *0.40%* | *0.57%* |
| ***Gross Margin*** | ***37.95%*** | ***38.76%*** | ***37.38%*** | ***38.74%*** | ***36.62%*** | ***36.25%*** | ***38.96%*** | ***38.81%*** | ***37.41%*** | ***35.24%*** | ***39.56%*** | ***39.49%*** | ***38.60%*** | ***37.69%*** |
| ***Operating Margin*** | ***16.65%*** | ***17.39%*** | ***15.82%*** | ***17.91%*** | ***16.43%*** | ***16.07%*** | ***17.85%*** | ***17.78%*** | ***16.76%*** | ***12.27%*** | ***18.96%*** | ***18.49%*** | ***18.06%*** | ***16.58%*** |

**Income Statement: Revenue Growth Overview**—Domino's fourth quarter financial results initially seems disappointing based on its 1% U.S. same store sales growth (comparable sales) and 0.2% decline in global retail sales according to its 10-Q. However, this is largely due to the company's inclusion of a 53rd week in fiscal 2020, which inflated its revenue per segment. To better understand how the company performed in 2021 Q4, revenue in 2020 Q4 needs to be adjusted. According to the 2021 10-K, the inclusion of the 53rd week in 2020 presented an estimated $88.4 million benefit to the company's revenue, resulting in unbalanced comparison between fiscal years. After adjusting for each revenue segment, Domino's shows positive revenue growth, steadily increasing gross margin, and improving operating margin in 2021 Q4. Based on Figure 4, If I were the owner of Domino's, I would be worried about its ability in dealing with price and wage inflation in 2022, as evidenced in its relatively declining revenue growth (~6%) compared to 2020 Q4's result. But I would not be too worried since a substantial part of its 2020 revenue growth (10.24%) is the direct result of the explosion of online ordering and delivery during the pandemic, which makes it difficult for Domino's to surpass in 2021 as more restaurants reopened.

**Income Statement: Revenue & Gross Margin Trends**—On the positive side, even with the inflation in food costs and wages which challenge all restaurant chains, Domino's still achieved 6% revenue growth in the last quarter on a YoY basis, suggesting its ability in passing inflation costs to customers by raising prices. In fact, in the recent ICR Conference, its CEO Ritch Allison said Domino's will make its $7.99 carryout deal online only, promoting more profitable digital channels that offer greater ticket per customer, consumer data, and lower costs since workers don't have to answer the phone[13]. In addition, to maintain revenue growth and tackle the driver shortage problem, Domino's now rewards carryout customers a $3 tip for their next purchase, further attracting traffic

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[12] Alicia Kelso, "*How Domino's Plans To Continue Dominating The Pizza Market*," Forbes. https://www.forbes.com/sites/aliciakelso/2019/01/22/how-dominos-plans-to-gain-even-more-market-share/?sh=eb08c0e51321

[13] Coley, Ben. "How Inflation is Impacting Domino's Value Proposition." https://www.qsrmagazine.com/fast-food/how-inflation-impacting-dominos-value-proposition

to its stores. Currently, the carryout business only accounts for 43% of the transactions, but Allison plans to prioritize this segment since each transaction requires a significantly lower amount of labor with higher revenue per order[14]. To strengthen customers' awareness on this segment, Domino's launched its "2-Minute Guarantee" campaign which promises carryout customers that their orders will be ready in under two minutes, or the next pizza will be free. This shift in strategy is evidenced in its gross margins in all quarters of 2021, which on average are slightly higher than those in 2020 and are steadily improving on a YoY basis, with a 37.7% margin in the last quarter (Figure 4). A slowly improving gross margin suggests Domino's competitive advantage in growing its profitable carryout segment while maintaining its industry-leading delivery business, especially in the difficult pandemic situation where there are both labor shortages and rising food costs. In forecasting future performances, gross margin is likely to increase due to its existing strategy in keeping a close relationship with customers, providing timely delivery and quality pizza at competitive prices, and using fortressing to enhance regional market penetration. Lastly, Domino's is successfully expanding in international markets, especially with its revenue growth from royalty fees collected in FY2021, which provided a 22.5% growth derived from its rapid expansion in emerging markets like India and China. This is because comparable sales grew at 8.8% overseas, or 15% on a two-year basis, extending Domino's streak of positive momentum to 111 consecutive quarters.

***Figure 5 Interest Rate & Taxes***

| | | | | | *Quarterly Results* | | | | *Quarterly Results* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **INTEREST EXPENSE & TAX** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **2020 Q1** | **2020 Q2** | **2020 Q3** | **2020 Q4** | **2021 Q1** | **2021 Q2** | **2021 Q3** | **2021 Q4** |
| Interest expense, net | (143,011) | (146,770) | (170,512) | (191,461) | (38,538) | (39,087) | (38,408) | (54,479) | (39,400) | (45,809) | (45,475) | (60,777) |
| Other income | - | - | - | 36,758 | - | - | - | - | 2,500 | - | - | 34,258 |
| Total pretax income | 428,678 | 482,637 | 466,730 | 625,705 | 117,296 | 124,496 | 123,773 | 101,165 | 149,638 | 145,093 | 134,805 | 196,169 |
| Income tax | 66,706 | 81,928 | 63,834 | 115,238 | (4,306) | 5,828 | 24,644 | 37,668 | 31,877 | 28,474 | 14,403 | 40,484 |
| *Effective tax rate* | *15.56%* | *16.98%* | *13.68%* | *18.42%* | *-3.67%* | *4.68%* | *19.91%* | *37.23%* | *21.30%* | *19.62%* | *10.68%* | *20.64%* |
| **Net income** | **$361,972** | **$400,709** | **$402,896** | **$510,467** | **$121,602** | **$118,668** | **$ 99,129** | **$ 63,497** | **$117,761** | **$116,619** | **$120,402** | **$155,685** |

**Income Statement: Interest Expense & Tax Rate**—Looking at 2021, interest expenses on average are higher compared to those in 2020, primarily due to its 2021 debt recapitalization of $1.85 billion worth of fixed-rate notes. A higher debt load means more interest payments for the company in the near future, but Domino's solid revenue growth and high gross margin means it is capable of meeting its debt obligations, even though its leverage is much higher than competitors'. A part of this debt recapitalization is used to buyback Domino's shares, which will be discussed in the next section. The effective tax rate in 2021 is 18.42% and is much higher compared to the past, which can be attributed to the on-time unrealized gain on investments of $36.76 million that contributed to higher pretax income (Figure 5). Since the source of the unrealized gain is not disclosed by the company, it is hard to predict if similar charges will occur in the future, so the effective tax rate is assumed to be in the range of 16-18% in the future. Both interest expenses and tax rates do not pose material impacts on Domino's performance and related forecasts.

***Figure 6 Share Repurchase & Free Cash Flow***

| ***Funds Flow Statement*** | **2017A** | **2018A** | **2019A** | **2020A** | **2021A** | **2022E** | **2023E** |
|---|---|---|---|---|---|---|---|
| Net income | $ 277,905 | $ 361,972 | $ 400,709 | $ 402,896 | $ 510,467 | $ 449,389 | $ 482,080 |
| **Cash provided by operating activities** | **$ 341,261** | **$ 394,171** | **$ 496,950** | **$ 504,394** | **$ 654,206** | **$ 572,115** | **$ 589,794** |
| Capital expenditures | (90,011) | (119,888) | (85,565) | (88,768) | (94,172) | (71,839) | (84,952) |
| Excess cash flow | $ 251,250 | $ 274,283 | $ 411,385 | $ 415,626 | $ 560,034 | $ 500,276 | $ 504,842 |
| Fully diluted shares outstanding | 42,898 | 40,978 | 38,934 | 38,868 | 36,138 | 34,331 | 32,615 |
| *Δ % in share count* | *-10.81%* | *-4.48%* | *-4.99%* | *-0.17%* | *-7.02%* | *-5.00%* | *-5.00%* |
| **Excess cash flow/share** | **$ 5.86** | **$ 6.69** | **$ 10.57** | **$ 10.69** | **$ 15.50** | **$ 14.57** | **$ 15.48** |

[14] Coley, Ben. "'Very Challenging' Labor Shortage Strains Domino's Momentum." https://www.qsrmagazine.com/fast-food/very-challenging-labor-shortage-strains-dominos-momentum

**Funds Flow: Share Count**—As seen in Figure 6, Domino's has consistently repurchased shares in the past, resulting in lower number of common shares outstanding and higher excess cash flow per share to increase total shareholder returns. This has effectively increased excess cash flow per share to $15.5 in 2021. On April 30, 2021, Domino's entered an accelerated share repurchase agreement (ASR) and used proceeds from the recapitalization to retire two million shares. The final settlement of the ASR Agreement retired another 2.2 million shares[15]. Domino's management uses share buybacks to increase its financial leverage, which investors construe favorably because it suggests company's confidence in future cash flows. Based on Domino's debt load, which is unprecedented in its industry, an increase in contractually obligated interest payments also limits it ability to reinvest excess cash at a rate below the cost of capital.

***Figure 7 Funds Flow***

| *Funds Flow Statement* | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|
| Net income | $ 277,905 | $ 361,972 | $ 400,709 | $ 402,896 | $ 510,467 | $ 449,389 | $ 482,080 |
| Depreciation & amortization | 44,369 | 53,665 | 59,930 | 65,038 | 72,923 | 75,904 | 74,952 |
| *D&A as % of prior-year net PP&E* | *26.16%* | *31.64%* | *25.51%* | *26.78%* | *24.52%* | *23.42%* | *23.42%* |
| Deferred income taxes | 6,160 | (872) | (3,297) | 14,424 | 1,988 | 1,988 | 1,988 |
| Other | 11,682 | 23 | 1,112 | 11,375 | 35,009 | - | - |
| Changes in working capital | 1,145 | (20,617) | 38,496 | 10,661 | 33,819 | 44,834 | 30,775 |
| **Cash provided by operating activities** | **$ 341,261** | **$ 394,171** | **$ 496,950** | **$ 504,394** | **$ 654,206** | **$ 572,115** | **$ 589,794** |
| Capital expenditures | (90,011) | (119,888) | (85,565) | (88,768) | (94,172) | (71,839) | (84,952) |
| Excess cash flow | $ 251,250 | $ 274,283 | $ 411,385 | $ 415,626 | $ 560,034 | $ 500,276 | $ 504,842 |
| Fully diluted shares outstanding | 42,898 | 40,978 | 38,934 | 38,868 | 36,138 | 34,331 | 32,615 |
| *Δ % in share count* | *-10.81%* | *-4.48%* | *-4.99%* | *-0.17%* | *-7.02%* | *-5.00%* | *-5.00%* |
| **Excess cash flow/share** | **$ 5.86** | **$ 6.69** | **$ 10.57** | **$ 10.69** | **$ 15.50** | **$ 14.57** | **$ 15.48** |
| Acquisitions, net | 6,835 | 8,367 | 8,835 | (39,826) | (49,066) | - | - |
| Dividends | (84,298) | (92,166) | (105,715) | (121,925) | (139,399) | (122,720) | (122,720) |
| *Dividend payout ratio* | *30.33%* | *25.46%* | *26.38%* | *30.26%* | *27.31%* | *27.31%* | *27.31%* |
| Purchase of treasury shares | (1,058,154) | (581,380) | (685,943) | (273,620) | (1,301,220) | (426,660) | (426,660) |
| Addition/reduction in debt | 971,807 | 365,912 | 582,915 | (44,058) | 939,788 | - | - |
| Change in marketable securities | - | 23,855 | 50,152 | - | - | - | - |
| Other | (26,996) | (16,298) | (15,124) | (6,375) | (21,803) | - | - |
| **Total** | (190,806) | (291,710) | (164,880) | (485,804) | (571,700) | (549,379) | (549,379) |
| **Change in cash** | **$ 60,445** | **$ (17,426)** | **$ 246,506** | **$ (70,177)** | **$ (11,665)** | **$ (49,103)** | **$ (44,537)** |

**Funds Flow: Capital Intensity**—Overall, Domino's funds flow presents a healthy picture and confirms the effectiveness of its shift in corporate strategy. From Figure 7, it is obvious that capital expenditures were generally higher than depreciation from 2017 to 2021, suggesting moderately high capital intensity which is partly due to investments in manufacturing and supply chain centers in the to help franchisees lower their fixed costs. It is expected by the company to keep building another raw material distribution center in 2022 to further streamline operations and provide low-cost ingredients to franchisees to improve their profitability.

**Funds Flow: Working Capital Trends**—It is a source of cash for Domino's since it contributed $33.8 million cash in 2021, and cash flow from operations has consistently exceeded net income from 2017 to 2021. This is largely due to Domino's ability in quickly collecting receivables and decreasing its accounts payable, as shown by its improving working capital management in Figure 7. In 2020, the working capital contributed relatively small amount of cash primarily due to large increases in inventories and receivables as more customers ordered online. As the economy slowly returns to normal, Domino's is expected to generate a healthy level of excess cash flow. In terms of

[15] Domino's Pizza, Inc. 2021 Annual Report, page 42.

acquisitions, Domino's has invested a large amount in building its market presence in China, as shown by the cash outflow of $39 and $49 million in the past two years (Figure 7). This has established a non-controlling equity stake in the Dash Brand which serves as the master franchise in China that owns and operates Domino's Pizza stores. Existing strong unit economics (8.8% comparable sales) overseas means there will be stronger revenue growth opportunities in the future as market penetration increases in China. Acquisition is not forecasted in the analysis. As mentioned in the last section, the huge increase in share repurchase is largely financed with the cheaper form of debt recapitalization, and the repurchase activity is likely to continue due to Domino's remaining $704.1 million repurchase allowance approved by its Board.

***Figure 8 Balance Sheet***

| *Balance Sheet* | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|
| *Assets* | | | | | | | |
| Cash and equivalents | 35,768 | 25,438 | 190,615 | 168,821 | 148,160 | 99,057 | 54,520 |
| Restricted cash and cash equivalents | 191,762 | 166,993 | 209,269 | 217,453 | 180,579 | 200,000 | 200,000 |
| Accounts receivable | 173,677 | 190,091 | 210,260 | 244,560 | 255,327 | 268,534 | 289,594 |
| Inventories | 39,961 | 45,975 | 52,955 | 66,683 | 68,328 | 71,591 | 77,205 |
| Other | 138,612 | 138,454 | 124,518 | 171,867 | 208,146 | 219,973 | 237,224 |
| **Total current assets** | $ 579,780 | $ 566,951 | $ 787,617 | $ 869,384 | $ 860,540 | $ 859,154 | $ 858,544 |
| PP&E, net | 169,586 | 234,939 | 242,881 | 297,364 | 324,065 | 320,000 | 330,000 |
| Other assets | 87,387 | 105,495 | 351,594 | 400,420 | 487,211 | 487,211 | 487,211 |
| **Total assets** | **$ 836,753** | **$ 907,385** | **$ 1,382,092** | **$ 1,567,168** | **$ 1,671,816** | **$ 1,666,365** | **$ 1,675,755** |
| *Liabilities and Shareholders' Equity* | | | | | | | |
| Accounts payable | 106,894 | 92,546 | 111,101 | 94,499 | 91,547 | 92,353 | 110,267 |
| *Accounts payable/COGS* | *3.83%* | *2.70%* | *3.07%* | *2.35%* | *2.10%* | *3.18%* | *3.50%* |
| Accrued liabilities | 259,067 | 251,304 | 299,336 | 373,465 | 443,606 | 504,104 | 543,639 |
| *Accrued expenses/revenue* | *9.29%* | *7.32%* | *8.27%* | *9.27%* | *10.18%* | *11.00%* | *11.00%* |
| Short term debt | 32,324 | 35,893 | 43,394 | 2,855 | 55,588 | 55,632 | 55,632 |
| **Total current liabilities** | 398,285 | 379,743 | 453,831 | 470,819 | 590,741 | 652,089 | 709,538 |
| Long term debt | 3,121,490 | 3,495,691 | 4,071,055 | 4,116,018 | 5,014,638 | 5,014,638 | 5,014,638 |
| Other liabilities | 52,362 | 71,872 | 272,965 | 280,736 | 275,973 | | |
| Shareholders' Deficit | (2,735,384) | (3,039,921) | (3,415,759) | (3,300,405) | (4,209,536) | | |
| **Total liabilities and shareholders' deficit** | **$ 836,753** | **$ 907,385** | **$ 1,382,092** | **$ 1,567,168** | **$ 1,671,816** | | |
| **Balance Check** | **Yes** | **Yes** | **Yes** | **Yes** | **Yes** | | |

**Balance Sheet**—There is no balance sheet item that will cause material changes to forecasting results. One thing notable about Domino's is that both cash balance and restricted cash have been decreasing in 2021 as a response to accelerated share repurchase (ASR) and repaying long-term debt. The ASR Agreement mentioned previously is partly financed by debt and partly paid using cash and equivalents. Additionally, the "other" item on its asset side had meaningful increases in 2020 and 2021 due to Domino's committed investments in its Chinese master franchisee, which explains the large initial sunk cost, but it is unlikely to see similar increases in the future. Another unique aspect of Domino's balance sheet is its huge shareholders' deficit, which is the direct result of its excessive debt which amounts to $5 billion in 2021 (Figure 8). This deficit has shown an increasing trend but does not paint an unhealthy picture. Rather, Domino's is fully capable to use its cash balance to meet interest payments and its solid revenue growth both in the U.S. and overseas provide enough liquidity for it in the foreseeable future.

**Financial Outlook**—Although the first quarter 2022 result was just released in May and is not listed in the tables above, several salient points are worth discussing based on CEO Richard Allison's comment: "We are actively implementing strategies designed to address inflation, driver shortages, and rising food costs; however, we expect some of these headwinds are likely to persist further into

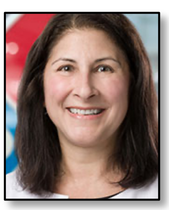
2022[16]." This is clearly a problem that all restaurant chains are facing, and the ability to raise prices is key in avoiding worsening financial results. Fortunately, Domino's has already implemented strategies to address this issue via **1) increasing market basket pricing to store** by 12% in the supply chain segment, and **2) promoting sales through carryout orders** where customers serve as their own drivers. YTD share price performance has decreased 38.2% resulting from the abovementioned exogenous factors, and Domino's certainly needs to do more than price increase to compensate for its diminishing revenue growth and rising SG&A expenses in 2022.

## Management Overview[17]

***Ritch Allison, Chief Executive Officer***
Before becoming Domino's CEO in 2018, he previously served as the president of Domino's International since 2011. Under his leadership, the division has expanded to more than 20 countries, grew by 5,000 stores, and achieved 113 consecutive quarters of positive comparable sales. Previously, he spent 13 years at Bain & Company covering the restaurant practice, and he is also on the Board of Starbucks.

***Russell Weiner, Chief Operating Officer (Now Domino's CEO)***
Prior to becoming COO, he was the Chief Marketing Officer since 2008, and successfully led the award-winning "***pizza turnaround***" campaign in 2012 which fundamentally transformed its pizza recipe to win back customer loyalty. Under his leadership, Domino's market share in the U.S. QSR pizza industry has more than doubled and its store count has grown by more than 25% from 2008-2021.

***Kelly Garcia, Chief Technology Officer***
Domino's cutting-edge delivery system and mobile ordering app would be impossible without his leadership. Garcia and his team introduced over 13 ordering platforms that are developed for Apple Watch, Samsung TV, and Twitter. He also executed autonomous vehicle delivery services since 2017, shaping the future of pizza delivery.



***Cindy Headen, President of Supply Chain Services***
Supply chain segment represents a significant part of Domino's revenue, and Headen oversees the 26 dough manufacturing centers and processing plants. She has been instrumental in negotiating favorable contract terms with suppliers, stabilizing prices, and passing cost-savings down to franchisees through profit-sharing agreements.

### Management Discussion and Overview

**2021 Letter to Shareholders**—Even though Covid-19 has challenged the restaurant industry in the last 2 years and continue to do so, Domino's has fared relatively well compared to its competitors (e.g., Papa John's and Yum! Brands) in the same industry, driving satisfying returns for its shareholders. In its Letter to Shareholders, CEO Richard Allison communicated Domino's proven model for success: leading with technological innovation, leveraging economies of scale, and delivering superior returns for shareholders. He emphasized Domino's success in the following four

[16] Domino's Inc, *"Domino's Pizza® Announces First Quarter 2022 Financial Results."*
[17] Domino's Inc, Leadership Team Overview, biz.dominos.com/about-us/leadership/

factors: **1) grown same store sales, 2) increased global store count, 3) investments in people, and 4) driven returns for franchisees and shareholders.** This success is evidenced in its positive same store sales growth (3.5% U.S., 8.0% international) and a 11.7% increase in global retail sales, despite rising food costs and labor shortages which are essential to Domino's business. Therefore, the company's performance laid out in the letter can be viewed as optimistic and correlates well to my thesis on Domino's ability to bring its competitive advantage abroad and maintain its high ROIC in the range of 70%. With its high ROIC in place, growth will add more EVA to shareholders, and management's vision for expanding global retail sales and maintain its solid unit economics abroad will guide the company towards more value creation.

**Strategies Moving Forward**—The letter also communicates continuity in its strategy as shown in the Carside Delivery innovation, which provides a two-minute guarantee—finished orders will be headed to customers' cars in less than two minutes, otherwise the next pizza is free. Management clearly understands that in the QSR industry, delivery time is the most important thing. Its previous CEO Patrick Doyle commented that "Domino's had to understand that it is not in the pizza-making business, but in the pizza-delivery business to make profits." Now the new CEO Richard Allison has extended this vision by shortening food preparation time for its franchisees through supply chain operations, and franchisees return more royalty fees as their margins improve. Additionally, Domino's consistently uses share repurchase as a tool to deliver returns, and it returned almost $1.5 billion to shareholders in 2021 through buybacks and dividends. Management that seeks to build long-term value understand that they should fund all attractive investments, and share buybacks are a more efficient means of returning cash to taxable investors than dividends because of the ability to defer taxes[18].

Overall, Domino's Letter to Shareholders gives me confidence in the company's ability to combat inflation and maintain its competitive advantage arising from its vertically integrated value chain to deliver superior end-customer experience.

## Valuation and Comparable Company Analysis

### Valuation Analysis Using Multiples

***Figure 9 Valuation of Domino's***

| *Valuation of Domino's (Multiples)* | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|
| Stock price | $ 72.11 | $ 100.03 | $ 131.68 | $ 181.12 | $ 246.19 | $ 257.70 | $ 361.80 | $ 449.92 | $ 350.00 | $ 450.00 |
| Net debt | 1,470,309 | 2,107,344 | 2,145,062 | 3,118,046 | 3,506,146 | 3,923,834 | 3,950,052 | 4,922,066 | 4,971,213 | 5,015,750 |
| Market capitalization | 4,005,938 | 4,985,317 | 6,333,827 | 7,769,745 | 10,088,266 | 10,033,292 | 14,062,569 | 16,259,332 | 12,015,976 | 14,676,656 |
| **Total market value (TMV)** | 5,476,247 | 7,092,661 | 8,478,889 | 10,887,791 | 13,594,412 | 13,957,126 | 18,012,621 | 21,181,398 | 16,987,189 | 19,692,406 |
| Invested capital | 300,435 | 349,746 | 308,669 | 435,024 | 538,097 | 781,040 | 930,383 | 988,503 | 970,851 | 967,329 |
| **Comparable Sales U.S.** | 7.50% | 12.00% | 10.50% | 7.70% | 6.60% | 3.20% | 11.50% | 3.50% | | |
| **Comparable Sales International** | 6.90% | 7.80% | 6.30% | 3.40% | 3.50% | 1.90% | 4.40% | 8.00% | | |
| **Revenue growth** | | ***11.17%*** | ***11.55%*** | ***12.75%*** | ***23.13%*** | ***5.42%*** | ***11.34%*** | ***8.15%*** | ***5.17%*** | ***7.84%*** |
| EBITD | 381,149 | 437,873 | 492,182 | 565,601 | 625,354 | 689,337 | 702,280 | 853,331 | 828,945 | 869,148 |
| **EBITD margin** | ***19.12%*** | ***19.75%*** | ***19.91%*** | ***20.29%*** | ***18.22%*** | ***19.05%*** | ***17.43%*** | ***19.58%*** | ***18.09%*** | ***17.59%*** |
| **Excess cash flow/share** | **$ 2.20** | **$ 4.58** | **$ 4.86** | **$ 5.86** | **$ 6.69** | **$ 10.57** | **$ 10.69** | **$ 15.50** | **$ 14.57** | **$ 15.48** |
| **ROIC** | ***72.27%*** | ***78.52%*** | ***85.91%*** | ***97.35%*** | ***99.21%*** | ***79.23%*** | ***64.28%*** | ***66.36%*** | ***61.06%*** | ***65.10%*** |
| **TMV/EBITD (forward)** | **12.51x** | **14.41x** | **14.99x** | **17.41x** | **19.72x** | **19.87x** | **21.11x** | **25.55x** | **19.54x** | **/** |
| **TMV/invested capital** | **18.23x** | **20.28x** | **27.47x** | **25.03x** | **25.26x** | **17.87x** | **19.36x** | **21.43x** | **17.50x** | **20.36x** |
| **Price/excess cash flow (forward)** | **32.77x** | **21.82x** | **27.08x** | **30.92x** | **36.78x** | **24.39x** | **33.83x** | **29.03x** | **24.02x** | **29.07x** |

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[18] Michael Mauboussin and Alfred Rappaport, *"Expectation Investing: Reading Stock Prices for Better Returns"*, Columbia Business School Publishing, Ch. 11 Share Buybacks.

**High TMV/EBITD Multiple**—From 2014 to 2021, revenue growth has been steady at 11% - 13%, even though it dropped to 8.15% as more restaurants opened post-pandemic. For comparable sales domestically and internationally, Domino's has managed to keep a positive growth for all quarters from 2014-2021, with the international franchised stores experiencing higher growth of 8% in 2021 as more stores are opened in China and India (Figure 9). EBITD margin also remains steady around 19%-20%, proving Domino's ability in keeping operating expenses low as a percentage of total revenue. The reason behind its high EBITD margin is its integrated value chain from raw ingredients to customized delivery, eliminating inefficiencies and enable royalty fees to grow. Based on its stable revenue growth, comparable sales, and high EBITD margin, it is reasonable to see a high ROIC in the range of 70%-90% from 2014 to 2021, providing more EVA when compared to its single-digit cost of capital (Figure 9). Its franchise model is beneficial because it enables franchisees to efficiently manage operating capital while having the flexibility to pursue growth opportunities. Low level of capital intensity attracts more franchisees to open new stores under Domino's brand, providing more royalty fee for Domino's which is priced at 5.5% of a store's revenue. Its high ROIC also corresponds to its rising stock prices over the years, which increased from $72 in 2014 to $449 in 2021, proving the concept that companies with rising ROIC will experience high-performing stock price over the long-term. Based on these factors, investors have rewarded Domino's with a high TMV/EBITD multiple close to 20x, and the trend is expected to remain the same in my forecasted period based on its ability to keep EBITD margin stable at 20% while growing its revenue.

**High TMV/Invested Capital Multiple**—The invested capital multiple is high in the 20x range, and is supported by its strategic trade-off from the beginning: by not offering dine-in option for customers who value convenience and affordable pizzas. Because it competes to be unique in carryout and delivery, it manages to keep operating expenses low, and carryout orders provide the highest margins—customers serve as their own delivery drivers during the pandemic. In the forecasting period, the multiple is expected to decline based on the assumption of labor shortage which may impact Domino's delivery service in the short-term. But in the long-term Domino's integration of products and delivery will compound its competitive advantage because it bypasses aggregators like DoorDash and UberEats to keep prices low.

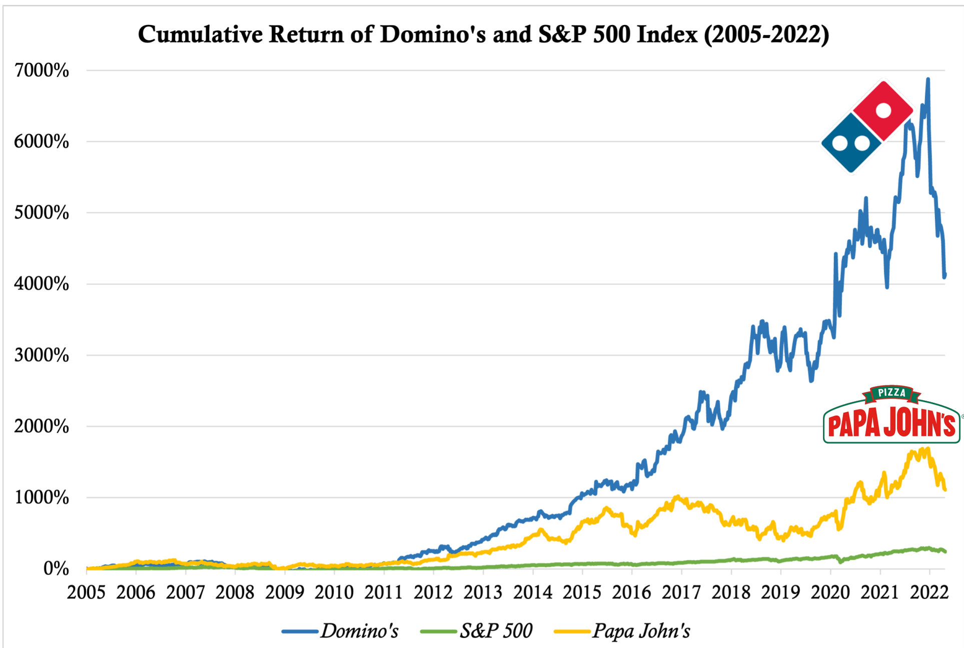
**High Price/Excess CF Multiple**—For the Price/Excess CF multiple, even though it has been declining due to higher excess cash flow per share, it is still in the high range of 27x-29x, which is partly caused by Domino's share repurchases. Although it is viewed as risky for companies to engage in debt-financed share buybacks, Domino's has been consistently generating high levels of NOPAT, free cash flow, and ROIC to service its debt, thereby creating long-term shareholder value. Therefore, the multiple is expected to remain at a similar level in the forecasting period.

## Valuation Comparison with Papa John's

***Figure 10 Comparable Company Analysis***

| *Valuation Comparison (2021A)* | Price | Revenue Growth | EBITD Margin | ROIC | TMV/Invested Capital | TMV/EBITD | Price/Excess CF |
|---|---|---|---|---|---|---|---|
| **Domino's Pizza** | $ 387.24 | 8.15% | 19.58% | 66.36% | 21.43x | 24.82x | 29.03x |
| **Papa John's** | $ 101.11 | 14.07% | 10.49% | 27.82% | 8.21x | 19.95x | 33.77x |

**Industry Competitor**—Papa John's serves as an ideal candidate because it provides almost identical pizzas to similar customers. However, there is one key difference in trade-offs when considering two companies' business models: Domino's intentionally avoids dine-in option and invests heavily in technology to enable satisfying customer delivery experience to boost royalty fees, but Papa John's earns most of its revenue from its company-owned restaurant sales (37.6% of revenue in 2021 compared to Domino's 11%). This explains the large difference in ROIC between Domino's and Papa John's, with the former having a 66% ROIC while the latter only has 28%, and capital intensity of their respective business model is a key reason. Difference in ROIC also correlates to the cumulative price performance over time, as illustrated below: From 2005 to 2022, Domino's (in blue) has experienced almost 4,137% cumulative return while Papa John's (in yellow) only experienced 1,112%, compared to S&P's 241% benchmark return. This is reflected in the TMV/invested capital and Domino's is rewarded at a much higher multiple of 21x. The same picture can be seen from their EBITD margin comparison, indicating Domino's efficiency in keeping operating expenses low and maintain its 20% EBITD margin. The TMV/EBITD multiple of Papa John's is more favorable than Domino's, but this is largely due to exogenous factors such as the reopening of restaurants, which took certain customers away from Domino's in 2021. This is supported by the difference in revenue growth (5.83% for Domino's while 14% for Papa john's). Overall, Domino's is appropriately valued based on its multiples compared to its competitor due to the unique trade-off it made and its continuity in strategy of investing in customer-friendly technology will keep its value proposition intact.




## Target Stock Price (2023E)

| *Target Price for Domino's* | | |
|---|---|---|
| 2023E EBITD | | 869,148 |
| Forward EBITD multiple 2023 | | **22.00x** |
| TMV 2023 | | 19,121,265 |
| Net debt | | 5,015,750 |
| Market cap 2023 | | 14,105,514 |
| Shares outstanding | | 34,331 |
| **Target stock price** | **$** | **410.86** |
| **Current stock price** | **$** | **341.79** |
| ***Potential appreciation*** | | **20.21%** |

***Sensitivity Analysis (EBITD Multiple & EBITD Margin)***

| | 18% | 19% | 20% | 21% | 22% |
|---|---|---|---|---|---|
| **19.00x** | $ 346.23 | $ 373.58 | $ 400.93 | $ 428.28 | $ 455.63 |
| **20.00x** | $ 372.14 | $ 400.93 | $ 429.72 | $ 458.51 | $ 487.30 |
| **21.00x** | $ 398.05 | $ 428.28 | **$ 458.51** | $ 488.74 | $ 518.97 |
| **22.00x** | $ 423.96 | $ 455.63 | $ 487.30 | $ 518.97 | $ 550.64 |
| **23.00x** | $ 449.88 | $ 482.99 | $ 516.10 | $ 549.21 | $ 582.31 |

**Target Price**—Based on its historical EBITD multiple which increased from 12.5x to 22.6x (Figure 11), 2023 forward multiple is assumed to be 22x as a result of restaurant reopening and rising costs, which impacts short-term revenue performance. This multiple is consistent with the projected EBITD margin of 18%, which is in line with historical margin performance. As Domino's investments in supply chain and international subsidiaries taper off in the future, margins may improve and multiples may expand, but in the short-term it is difficult to predict. The number of shares is expected to decrease from 36 million to 34 million as Domino's uses buybacks to generate shareholder value, so the target stock price is valued at $410 per share. **The potential appreciation is 27.44% based on the current price of $341 as of May 7, 2022.** A sensitivity analysis is performed to analyze the likely impacts of EBITD multiple and EBITD margin may have on target share price. As shown in the table, if Domino's achieves a 21x multiple at a 20% margin, then the target price will reach $458. Price ranges from $346 to $582 based on multiple contraction/expansion.

In conclusion, I expect to see a 22x EBITD multiple, 20x invested capital multiple, and 29x price/excess cash flow multiple in 2023 as Domino's refines its strategy in dealing with inflation (Figure 11). As presented below, ROIC is projected to be 61% and 65% in 2022 and 2023 respectively, down from its 66% level in 2021 due to its ongoing investments. By the same token, revenue growth and EBITD margin are assumed to drop based on CEO Ritch Allison's comment on how the current environment may bring material impacts to Domino's growth further into 2022.

**Conclusion and Recommendation**—Even though these exogenous factors have negatively impacted Domino's price performance, the scalable franchise model remains intact, and short-term shocks do not indicate its inability to sustain competitive advantage in the QSR industry. Its exceptional track record of high ROIC and 113 consecutive comparable sales growth abroad are representative of its capability in elevating shareholder return over the long-term, and its unique business model sets itself apart from competitors who cannot imitates its vertically integrated value chain. Therefore, I recommend a **HOLD** position in Domino's as its wide moat will likely compound as inflation eases and labor condition improves in 2022 and 2023.

***Figure 11 Valuation Summary***

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth** | | *11.17%* | *11.55%* | *12.75%* | *23.13%* | *5.42%* | *11.34%* | *8.15%* | *5.17%* | *7.84%* |
| EBITD | 381,149 | 437,873 | 492,182 | 565,601 | 625,354 | 689,337 | 702,280 | 853,331 | 828,945 | 869,148 |
| **EBITD margin** | *19.12%* | *19.75%* | *19.91%* | *20.29%* | *18.22%* | *19.05%* | *17.43%* | *19.58%* | *18.09%* | *17.59%* |
| **EBITD growth** | | *3.34%* | *0.76%* | *1.92%* | *-10.21%* | *4.57%* | *-8.50%* | *12.35%* | *-7.64%* | *-2.78%* |
| **Excess cash flow/share** | $ 2.20 | $ 4.58 | $ 4.86 | $ 5.86 | $ 6.69 | $ 10.57 | $ 10.69 | $ 15.50 | $ 14.57 | $ 15.48 |
| **ROIC** | *72.27%* | *78.52%* | *85.91%* | *97.35%* | *99.21%* | *79.23%* | *64.28%* | *66.36%* | *61.06%* | *65.10%* |
| **TMV/EBITD (forward)** | 12.51x | 14.41x | 14.99x | 17.41x | 19.72x | 19.87x | 21.11x | 25.55x | 19.54x | 22.00x |
| **TMV/invested capital** | 18.23x | 20.28x | 27.47x | 25.03x | 25.26x | 17.87x | 19.36x | 21.43x | 17.50x | 20.36x |
| **Price/excess cash flow (forward)** | 32.77x | 21.82x | 27.08x | 30.92x | 36.78x | 24.39x | 33.83x | 29.03x | 24.02x | 29.07x |

# Appendix

# Appendix 1

| *Income Statement* | Historical Results (2014-2021) | | | | | | | | Forecasting | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Year ended December 31,* | **2014A** | **2015A** | **2016A** | **2017A** | **2018A** | **2019A** | **2020A** | **2021A** | **2022E** | **2023E** |
| **Store Unit Economics** | | | | | | | | | | |
| Comparable Sales U.S. | *7.50%* | *12.00%* | *10.50%* | *7.70%* | *6.60%* | *3.20%* | *11.50%* | *3.50%* | | |
| Comparable Sales International | *6.90%* | *7.80%* | *6.30%* | *3.40%* | *3.50%* | *1.90%* | *4.40%* | *8.00%* | | |
| Same Store Growth | | *3.07%* | *-0.37%* | *4.75%* | *3.20%* | *-1.15%* | *8.49%* | *3.34%* | *3.00%* | *3.50%* |
| Global Retail Sales (in thousands) | $ 8,915 | $ 9,901 | $ 10,874 | $ 12,252 | $ 13,545 | $ 14,321 | $ 16,106 | $ 17,779 | $ 19,209 | $ 21,088 |
| Revenue/store (in thousands) | $ 767 | $ 790 | $ 787 | $ 825 | $ 851 | $ 841 | $ 913 | $ 943 | $ 972 | $ 1,006 |

# Appendix 2-1

| *Income Statement* | Historical Results (2014-2021) | | | | | | | | Forecasting | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Year ended December 31,* | **2014A** | **2015A** | **2016A** | **2017A** | **2018A** | **2019A** | **2020A** | **2021A** | **2022E** | **2023E** |
| **REVENUES** | | | | | | | | | | |
| U.S. Company-owned stores | 348,497 | 396,916 | 439,024 | 490,846 | 514,804 | 453,560 | 474,969 | 478,976 | 462,802 | 455,860 |
| U.S. franchise royalties and fees | 230,192 | 272,808 | 312,260 | 351,387 | 391,493 | 428,504 | 491,796 | 539,883 | 566,119 | 608,578 |
| Supply chain | 1,262,523 | 1,383,161 | 1,544,345 | 1,739,038 | 1,943,297 | 2,104,936 | 2,367,051 | 2,560,977 | 2,762,045 | 3,038,250 |
| International franchise royalties an | 152,621 | 163,643 | 176,999 | 206,708 | 224,747 | 240,975 | 243,357 | 298,036 | 320,424 | 349,262 |
| U.S. franchise advertising | - | - | - | - | 358,526 | 390,799 | 451,838 | 479,501 | 471,372 | 490,227 |
| **Total revenues** | **$ 1,993,833** | **$ 2,216,528** | **$ 2,472,628** | **$ 2,787,979** | **$ 3,432,867** | **$ 3,618,774** | **$ 4,029,011** | **$ 4,357,373** | **$ 4,582,762** | **$ 4,942,176** |
| **EXPENSES** | | | | | | | | | | |
| U.S. Company-owned stores | 267,385 | 299,294 | 331,860 | 377,674 | 398,158 | 346,168 | 379,598 | 374,104 | 389,214 | 383,375 |
| Supply chain | 1,131,682 | 1,234,103 | 1,373,077 | 1,544,314 | 1,732,030 | 1,870,107 | 2,143,320 | 2,295,027 | 2,515,556 | 2,767,111 |
| **Total cost of sales** | $ 1,399,067 | $ 1,533,397 | $ 1,704,937 | $ 1,921,988 | $ 2,130,188 | $ 2,216,275 | $ 2,522,918 | $ 2,669,131 | $ 2,904,769 | $ 3,150,487 |
| **Gross Profit** | $ 594,766 | $ 683,131 | $ 767,691 | $ 865,991 | $ 1,302,679 | $ 1,402,499 | $ 1,506,093 | $ 1,688,242 | $ 1,677,993 | $ 1,791,690 |
| *Franchise royalty fees as % of prof.* | *38.70%* | *39.93%* | *40.68%* | *40.58%* | *30.05%* | *30.55%* | *32.65%* | *31.98%* | *33.74%* | *33.97%* |
| *Supply chain operation as % of pr* | *22.00%* | *21.82%* | *22.31%* | *22.49%* | *16.22%* | *16.74%* | *14.86%* | *15.75%* | *14.69%* | *15.13%* |
| ***Gross Margin*** | ***29.83%*** | ***30.82%*** | ***31.05%*** | ***31.06%*** | ***37.95%*** | ***38.76%*** | ***37.38%*** | ***38.74%*** | ***36.62%*** | ***36.25%*** |
| SG&A Expenses | 249,405 | 277,692 | 313,649 | 344,759 | 372,464 | 382,293 | 406,613 | 428,333 | 441,865 | 476,520 |
| U.S. franchise advertising | - | - | - | - | 358,526 | 390,799 | 462,238 | 479,501 | 483,086 | 520,973 |
| **OPERATING INCOME** | **$ 345,361** | **$ 405,439** | **$ 454,042** | **$ 521,232** | **$ 571,689** | **$ 629,407** | **$ 637,242** | **$ 780,408** | **$ 753,041** | **$ 794,197** |
| ***Operating Margin*** | ***17.32%*** | ***18.29%*** | ***18.36%*** | ***18.70%*** | ***16.65%*** | ***17.39%*** | ***15.82%*** | ***17.91%*** | ***16.43%*** | ***16.07%*** |
| Interest expense, net | (86,738) | (99,224) | (109,384) | (121,079) | (143,011) | (146,770) | (170,512) | (191,461) | (187,292) | (187,292) |
| Other income | - | - | - | - | - | - | - | 36,758 | - | - |
| Total pretax income | 258,623 | 306,215 | 344,658 | 400,153 | 428,678 | 482,637 | 466,730 | 625,705 | 565,749 | 606,905 |
| Income tax | 96,036 | 113,426 | 129,980 | 122,248 | 66,706 | 81,928 | 63,834 | 115,238 | 116,360 | 124,825 |
| *Effective tax rate* | *37.13%* | *37.04%* | *37.71%* | *30.55%* | *15.56%* | *16.98%* | *13.68%* | *18.42%* | *20.57%* | *20.57%* |
| **Net income** | **$ 162,587** | **$ 192,789** | **$ 214,678** | **$ 277,905** | **$ 361,972** | **$ 400,709** | **$ 402,896** | **$ 510,467** | **$ 449,389** | **$ 482,080** |

# Appendix 2-2

| *Income Statement* | Quarterly 2020A | | | | Quarterly 2021A | | | | Quarterly 2022E | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Year ended December 31,* | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **REVENUES** | | | | | | | | | | | | |
| U.S. Company-owned stores | 102,326 | 114,240 | 113,254 | 145,149 | 112,744 | 116,589 | 108,416 | 141,227 | 103,895 | 114,257 | 106,248 | 138,402 |
| U.S. franchise royalties and fees | 104,746 | 113,098 | 118,054 | 155,898 | 124,486 | 126,836 | 121,624 | 166,937 | 122,285 | 133,178 | 129,530 | 181,127 |
| Supply chain | 512,700 | 539,141 | 573,661 | 741,549 | 568,338 | 602,962 | 588,819 | 800,858 | 609,547 | 648,184 | 632,980 | 871,334 |
| International franchise royalties an | 57,496 | 48,104 | 54,602 | 83,155 | 66,770 | 69,745 | 70,553 | 90,968 | 68,833 | 74,976 | 76,550 | 100,065 |
| U.S. franchise advertising | 95,834 | 105,440 | 108,148 | 142,416 | 111,360 | 116,340 | 108,578 | 143,223 | 106,589 | 111,919 | 107,492 | 145,371 |
| **Total revenues** | **$ 873,102** | **$ 920,023** | **$ 967,719** | **$ 1,268,167** | **$ 983,698** | **$ 1,032,472** | **$ 997,990** | **$ 1,343,213** | **$ 1,011,149** | **$ 1,082,514** | **$ 1,052,800** | **$ 1,436,299** |
| **EXPENSES** | | | | | | | | | | | | |
| U.S. Company-owned stores | 79,388 | 87,831 | 90,788 | 121,591 | 85,742 | 88,019 | 86,932 | 113,411 | 87,375 | 96,090 | 89,354 | 116,396 |
| Supply chain | 453,557 | 475,101 | 514,950 | 699,712 | 508,805 | 536,763 | 525,858 | 723,601 | 555,150 | 590,339 | 576,492 | 793,574 |
| **Total cost of sales** | $ 532,945 | $ 562,932 | $ 605,738 | $ 821,303 | $ 594,547 | $ 624,782 | $ 612,790 | $ 837,012 | $ 642,525 | $ 686,429 | $ 665,846 | $ 909,970 |
| **Gross Profit** | $ 340,157 | $ 357,091 | $ 361,981 | $ 446,864 | $ 389,151 | $ 407,690 | $ 385,200 | $ 506,201 | $ 368,624 | $ 396,085 | $ 386,954 | $ 526,329 |
| ***Gross Margin*** | ***38.96%*** | ***38.81%*** | ***37.41%*** | ***35.24%*** | ***39.56%*** | ***39.49%*** | ***38.60%*** | ***37.69%*** | ***36.46%*** | ***36.59%*** | ***36.75%*** | ***36.64%*** |
| SG&A Expenses | 88,489 | 88,068 | 91,652 | 138,404 | 91,253 | 100,448 | 96,342 | 140,290 | 97,494 | 104,375 | 101,510 | 138,487 |
| U.S. franchise advertising | 95,834 | 105,440 | 108,148 | 152,816 | 111,360 | 116,340 | 108,578 | 143,223 | 106,589 | 114,112 | 110,980 | 151,406 |
| **OPERATING INCOME** | **$ 155,834** | **$ 163,583** | **$ 162,181** | **$ 155,644** | **$ 186,538** | **$ 190,902** | **$ 180,280** | **$ 222,688** | **$ 164,541** | **$ 177,599** | **$ 174,465** | **$ 236,437** |
| ***Operating Margin*** | ***17.85%*** | ***17.78%*** | ***16.76%*** | ***12.27%*** | ***18.96%*** | ***18.49%*** | ***18.06%*** | ***16.58%*** | ***16.27%*** | ***16.41%*** | ***16.57%*** | ***16.46%*** |
| Interest expense, net | (38,538) | (39,087) | (38,408) | (54,479) | (39,400) | (45,809) | (45,475) | (60,777) | (46,823) | (46,823) | (46,823) | (46,823) |
| Other income | - | - | - | - | 2,500 | - | - | 34,258 | - | - | - | - |
| Total pretax income | 117,296 | 124,496 | 123,773 | 101,165 | 149,638 | 145,093 | 134,805 | 196,169 | 117,718 | 130,776 | 127,642 | 189,614 |
| Income tax | (4,306) | 5,828 | 24,644 | 37,668 | 31,877 | 28,474 | 14,403 | 40,484 | 26,754 | 26,155 | 25,528 | 37,923 |
| *Effective tax rate* | *-3.67%* | *4.68%* | *19.91%* | *37.23%* | *21.30%* | *19.62%* | *10.68%* | *20.64%* | *22.73%* | *20.00%* | *20.00%* | *20.00%* |
| **Net income** | **$ 121,602** | **$ 118,668** | **$ 99,129** | **$ 63,497** | **$ 117,761** | **$ 116,619** | **$ 120,402** | **$ 155,685** | **$ 90,964** | **$ 104,621** | **$ 102,113** | **$ 151,691** |

# Appendix 3

| **GROWTH** | **2015A** | **2016A** | **2017A** | **2018A** | **2019A** | **2020A** | **2021A** | **2022E** | **2023E** |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth** | ***11.17%*** | ***11.55%*** | ***12.75%*** | ***23.13%*** | ***5.42%*** | ***11.34%*** | ***8.15%*** | ***5.17%*** | ***7.84%*** |
| U.S. Company-owned stores | *13.89%* | *10.61%* | *11.80%* | *4.88%* | *-11.90%* | *4.72%* | *0.84%* | *-3.38%* | *-1.50%* |
| U.S. franchise royalties and fees | *18.51%* | *14.46%* | *12.53%* | *11.41%* | *9.45%* | *14.77%* | *9.78%* | *4.86%* | *7.50%* |
| Supply chain | *9.56%* | *11.65%* | *12.61%* | *11.75%* | *8.32%* | *12.45%* | *8.19%* | *7.85%* | *10.00%* |
| International royalties and fees | *7.22%* | *8.16%* | *16.78%* | *8.73%* | *7.22%* | *0.99%* | *22.47%* | *7.27%* | *9.00%* |
| U.S. franchise advertising | | | | | *9.00%* | *15.62%* | *6.12%* | *-1.70%* | *4.00%* |

# Appendix 4

| ***Funds Flow Statement*** | **2014A** | **2015A** | **2016A** | **2017A** | **2018A** | **2019A** | **2020A** | **2021A** | **2022E** | **2023E** |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income | $ 162,587 | $ 192,789 | $ 214,678 | $ 277,905 | $ 361,972 | $ 400,709 | $ 402,896 | $ 510,467 | $ 449,389 | $ 482,080 |
| Depreciation & amortization | 35,788 | 32,434 | 38,140 | 44,369 | 53,665 | 59,930 | 65,038 | 72,923 | 75,904 | 74,952 |
| *D&A as % of prior-year net PP&E* | | *19.13%* | *22.49%* | *26.16%* | *31.64%* | *25.51%* | *26.78%* | *24.52%* | *23.42%* | *23.42%* |
| Deferred income taxes | (132) | 1,713 | (3,059) | 6,160 | (872) | (3,297) | 14,424 | 1,988 | 1,988 | 1,988 |
| Other | (4,143) | 11,758 | (14,557) | 11,682 | 23 | 1,112 | 11,375 | 35,009 | - | - |
| Changes in working capital | (1,761) | 53,092 | 57,258 | 1,145 | (20,617) | 38,496 | 10,661 | 33,819 | 44,834 | 30,775 |
| **Cash provided by operating acti** | **$ 192,339** | **$ 291,786** | **$ 292,460** | **$ 341,261** | **$ 394,171** | **$ 496,950** | **$ 504,394** | **$ 654,206** | **$ 572,115** | **$ 589,794** |
| Capital expenditures | (70,093) | (63,282) | (58,555) | (90,011) | (119,888) | (85,565) | (88,768) | (94,172) | (71,839) | (84,952) |
| Excess cash flow | $ 122,246 | $ 228,504 | $ 233,905 | $ 251,250 | $ 274,283 | $ 411,385 | $ 415,626 | $ 560,034 | $ 500,276 | $ 504,842 |
| Fully diluted shares outstanding | 55,553 | 49,838 | 48,100 | 42,898 | 40,978 | 38,934 | 38,868 | 36,138 | 34,331 | 32,615 |
| *Δ % in share count* | | *-10.29%* | *-3.49%* | *-10.81%* | *-4.48%* | *-4.99%* | *-0.17%* | *-7.02%* | *-5.00%* | *-5.00%* |
| **Excess cash flow/share** | **$ 2.20** | **$ 4.58** | **$ 4.86** | **$ 5.86** | **$ 6.69** | **$ 10.57** | **$ 10.69** | **$ 15.50** | **$ 14.57** | **$ 15.48** |
| Acquisitions, net | 9,160 | 12,724 | 4,936 | 6,835 | 8,367 | 8,835 | (39,826) | (49,066) | - | - |
| Dividends | (52,843) | (80,329) | (73,925) | (84,298) | (92,166) | (105,715) | (121,925) | (139,399) | (122,720) | (122,720) |
| *Dividend payout ratio* | *32.50%* | *41.67%* | *34.44%* | *30.33%* | *25.46%* | *26.38%* | *30.26%* | *27.31%* | *27.31%* | *27.31%* |
| Purchase of treasury shares | (45,796) | (715,968) | (236,887) | (1,058,154) | (581,380) | (685,943) | (273,620) | (1,301,220) | (426,660) | (426,660) |
| Addition/reduction in debt | (12,332) | 740,597 | (59,334) | 971,807 | 365,912 | 582,915 | (44,058) | 939,788 | - | - |
| Change in marketable securities | - | - | - | - | 23,855 | 50,152 | - | - | - | - |
| Other | (3,963) | (82,934) | (8,586) | (26,996) | (16,298) | (15,124) | (6,375) | (21,803) | - | - |
| **Total** | (105,774) | (125,910) | (373,796) | (190,806) | (291,710) | (164,880) | (485,804) | (571,700) | (549,379) | (549,379) |
| **Change in cash** | **$ 16,472** | **$ 102,595** | **$ (139,890)** | **$ 60,445** | **$ (17,426)** | **$ 246,506** | **$ (70,177)** | **$ (11,665)** | **$ (49,103)** | **$ (44,537)** |

# Appendix 5

| *Balance Sheet* | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Assets*** | | | | | | | | | | |
| Cash and equivalents | 30,855 | 133,449 | 42,815 | 35,768 | 25,438 | 190,615 | 168,821 | 148,160 | 99,057 | 54,520 |
| Restricted cash and cash equivaler | 120,954 | 180,940 | 126,496 | 191,762 | 166,993 | 209,269 | 217,453 | 180,579 | 200,000 | 200,000 |
| Accounts receivable | 118,395 | 131,582 | 150,369 | 173,677 | 190,091 | 210,260 | 244,560 | 255,327 | 268,534 | 289,594 |
| Inventories | 37,944 | 36,861 | 40,181 | 39,961 | 45,975 | 52,955 | 66,683 | 68,328 | 71,591 | 77,205 |
| Other | 120,213 | 119,805 | 136,012 | 138,612 | 138,454 | 124,518 | 171,867 | 208,146 | 219,973 | 237,224 |
| **Total current assets** | $ 428,361 | $ 602,637 | $ 495,873 | $ 579,780 | $ 566,951 | $ 787,617 | $ 869,384 | $ 860,540 | $ 859,154 | $ 858,544 |
| PP&E, net | 114,046 | 131,890 | 138,534 | 169,586 | 234,939 | 242,881 | 297,364 | 324,065 | 320,000 | 330,000 |
| Other assets | 53,926 | 65,318 | 81,888 | 87,387 | 105,495 | 351,594 | 400,420 | 487,211 | 487,211 | 487,211 |
| **Total assets** | **$ 596,333** | **$ 799,845** | **$ 716,295** | **$ 836,753** | **$ 907,385** | **$ 1,382,092** | **$ 1,567,168** | **$ 1,671,816** | **$ 1,666,365** | **$ 1,675,755** |
| ***Liabilities and Shareholders' Equity*** | | | | | | | | | | |
| Accounts payable | 86,552 | 106,927 | 111,510 | 106,894 | 92,546 | 111,101 | 94,499 | 91,547 | 92,353 | 110,267 |
| *Accounts payable/COGS* | *4.34%* | *4.82%* | *4.51%* | *3.83%* | *2.70%* | *3.07%* | *2.35%* | *2.10%* | *3.18%* | *3.50%* |
| Accrued liabilities | 178,491 | 209,723 | 253,301 | 259,067 | 251,304 | 299,336 | 373,465 | 443,606 | 504,104 | 543,639 |
| *Accrued expenses/revenue* | *8.95%* | *9.46%* | *10.24%* | *9.29%* | *7.32%* | *8.27%* | *9.27%* | *10.18%* | *11.00%* | *11.00%* |
| Short term debt | 565 | 59,333 | 38,887 | 32,324 | 35,893 | 43,394 | 2,855 | 55,588 | 55,632 | 55,632 |
| **Total current liabilities** | 265,608 | 375,983 | 403,698 | 398,285 | 379,743 | 453,831 | 470,819 | 590,741 | 652,089 | 709,538 |
| Long term debt | 1,500,599 | 2,181,460 | 2,148,990 | 3,121,490 | 3,495,691 | 4,071,055 | 4,116,018 | 5,014,638 | 5,014,638 | 5,014,638 |
| Other liabilities | 49,591 | 42,653 | 46,750 | 52,362 | 71,872 | 272,965 | 280,736 | 275,973 | | |
| Shareholders' Deficit | (1,219,465) | (1,800,251) | (1,883,143) | (2,735,384) | (3,039,921) | (3,415,759) | (3,300,405) | (4,209,536) | | |
| **Total liabilities and shareholde** | **$ 596,333** | **$ 799,845** | **$ 716,295** | **$ 836,753** | **$ 907,385** | **$ 1,382,092** | **$ 1,567,168** | **$ 1,671,816** | | |
| **Balance Check** | **Yes** | **Yes** | **Yes** | **Yes** | **Yes** | **Yes** | **Yes** | **Yes** | | |

# Appendix 6

| *ROIC Calculation* | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating income | 345,361 | 405,439 | 454,042 | 521,232 | 571,689 | 629,407 | 637,242 | 780,408 | 753,041 | 794,197 |
| Effective tax rate | 37.13% | 37.04% | 37.71% | 30.55% | 15.56% | 16.98% | 13.68% | 18.42% | 20.57% | 20.57% |
| **NOPAT** | **$ 217,116** | **$ 255,259** | **$ 282,810** | **$ 361,994** | **$ 482,729** | **$ 522,565** | **$ 550,087** | **$ 636,678** | **$ 598,160** | **$ 630,850** |
| **Invested capital** | | | | | | | | | | |
| Net working capital | 132,463 | 152,538 | 88,247 | 178,051 | 197,663 | 186,565 | 232,599 | 177,227 | 163,640 | 150,118 |
| PP&E | 114,046 | 131,890 | 138,534 | 169,586 | 234,939 | 242,881 | 297,364 | 324,065 | 320,000 | 330,000 |
| *% Increase in PP&E* | | *15.65%* | *5.04%* | *22.41%* | *38.54%* | *3.38%* | *22.43%* | *8.98%* | *-1.25%* | *3.13%* |
| Other assets | 53,926 | 65,318 | 81,888 | 87,387 | 105,495 | 351,594 | 400,420 | 487,211 | 487,211 | 487,211 |
| **Total invested capital** | **$ 300,435** | **$ 349,746** | **$ 308,669** | **$ 435,024** | **$ 538,097** | **$ 781,040** | **$ 930,383** | **$ 988,503** | **$ 970,851** | **$ 967,329** |
| **ROIC** | **72.27%** | **78.52%** | **85.91%** | **97.35%** | **99.21%** | **79.23%** | **64.28%** | **66.36%** | **61.06%** | **65.10%** |

# Appendix 7

| *Valuation of Domino's (Multiples)* | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|
| Stock price | $ 72.11 | $ 100.03 | $ 131.68 | $ 181.12 | $ 246.19 | $ 257.70 | $ 361.80 | $ 449.92 | $ 350.00 | $ 450.00 |
| Net debt | 1,470,309 | 2,107,344 | 2,145,062 | 3,118,046 | 3,506,146 | 3,923,834 | 3,950,052 | 4,922,066 | 4,971,213 | 5,015,750 |
| Market capitalization | 4,005,938 | 4,985,317 | 6,333,827 | 7,769,745 | 10,088,266 | 10,033,292 | 14,062,569 | 16,259,332 | 12,015,976 | 14,676,656 |
| **Total market value (TMV)** | 5,476,247 | 7,092,661 | 8,478,889 | 10,887,791 | 13,594,412 | 13,957,126 | 18,012,621 | 21,181,398 | 16,987,189 | 19,692,406 |
| Invested capital | 300,435 | 349,746 | 308,669 | 435,024 | 538,097 | 781,040 | 930,383 | 988,503 | 970,851 | 967,329 |
| **Comparable Sales U.S.** | 7.50% | 12.00% | 10.50% | 7.70% | 6.60% | 3.20% | 11.50% | 3.50% | | |
| **Comparable Sales International** | 6.90% | 7.80% | 6.30% | 3.40% | 3.50% | 1.90% | 4.40% | 8.00% | | |
| **Revenue growth** | | *11.17%* | *11.55%* | *12.75%* | *23.13%* | *5.42%* | *11.34%* | *8.15%* | *5.17%* | *7.84%* |
| EBITD | 381,149 | 437,873 | 492,182 | 565,601 | 625,354 | 689,337 | 702,280 | 853,331 | 828,945 | 869,148 |
| **EBITD margin** | *19.12%* | *19.75%* | *19.91%* | *20.29%* | *18.22%* | *19.05%* | *17.43%* | *19.58%* | *18.09%* | *17.59%* |
| **EBITD growth** | | *3.34%* | *0.76%* | *1.92%* | *-10.21%* | *4.57%* | *-8.50%* | *12.35%* | *-7.64%* | *-2.78%* |
| **Excess cash flow/share** | $ 2.20 | $ 4.58 | $ 4.86 | $ 5.86 | $ 6.69 | $ 10.57 | $ 10.69 | $ 15.50 | $ 14.57 | $ 15.48 |
| **ROIC** | *72.27%* | *78.52%* | *85.91%* | *97.35%* | *99.21%* | *79.23%* | *64.28%* | *66.36%* | *61.06%* | *65.10%* |
| **TMV/EBITD (forward)** | 12.51x | 14.41x | 14.99x | 17.41x | 19.72x | 19.87x | 21.11x | 25.55x | 19.54x | / |
| **TMV/invested capital** | 18.23x | 20.28x | 27.47x | 25.03x | 25.26x | 17.87x | 19.36x | 21.43x | 17.50x | 20.36x |
| **Price/excess cash flow (forward)** | 32.77x | 21.82x | 27.08x | 30.92x | 36.78x | 24.39x | 33.83x | 29.03x | 24.02x | 29.07x |

# Appendix 8

| *Valuation Comparison (2021A)* | Price | Revenue Growth | EBITD Margin | ROIC | TMV/Invested Capital | TMV/EBITD | Price/Excess CF |
|---|---|---|---|---|---|---|---|
| **Domino's Pizza** | $ 341.79 | 8.15% | 19.58% | 66.36% | 21.43x | 24.82x | 29.03x |
| **Papa John's** | $ 101.11 | 14.07% | 10.49% | 27.82% | 8.21x | 19.95x | 33.77x |

## Appendix 9

| *Target Price for Domino's* | | |
|---|---|---|
| 2023E EBITD | | 869,148 |
| Forward EBITD multiple 2023 | | 22.00x |
| TMV 2023 | | 19,121,265 |
| Net debt | | 5,015,750 |
| Market cap 2023 | | 14,105,514 |
| Shares outstanding | | 34,331 |
| **Target stock price** | **$** | **410.86** |
| **Current stock price** | **$** | **341.79** |
| ***Potential appreciation*** | | **20.21%** |

***Sensitivity Analysis (EBITD Multiple & EBITD Margin)***

| | 18% | 19% | 20% | 21% | 22% |
|---|---|---|---|---|---|
| 19.00x | $ 346.23 | $ 373.58 | $ 400.93 | $ 428.28 | $ 455.63 |
| 20.00x | $ 372.14 | $ 400.93 | $ 429.72 | $ 458.51 | $ 487.30 |
| 21.00x | $ 398.05 | $ 428.28 | **$ 458.51** | $ 488.74 | $ 518.97 |
| 22.00x | $ 423.96 | $ 455.63 | $ 487.30 | $ 518.97 | $ 550.64 |
| 23.00x | $ 449.88 | $ 482.99 | $ 516.10 | $ 549.21 | $ 582.31 |

## Appendix 10

| *Valuation Summary* | 2014A | 2015A | 2016A | 2017A | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth** | | *11.17%* | *11.55%* | *12.75%* | *23.13%* | *5.42%* | *11.34%* | *8.15%* | *5.17%* | *7.84%* |
| EBITD | 381,149 | 437,873 | 492,182 | 565,601 | 625,354 | 689,337 | 702,280 | 853,331 | 828,945 | 869,148 |
| **EBITD margin** | *19.12%* | *19.75%* | *19.91%* | *20.29%* | *18.22%* | *19.05%* | *17.43%* | *19.58%* | *18.09%* | *17.59%* |
| **EBITD growth** | | *3.34%* | *0.76%* | *1.92%* | *-10.21%* | *4.57%* | *-8.50%* | *12.35%* | *-7.64%* | *-2.78%* |
| **Excess cash flow/share** | $ 2.20 | $ 4.58 | $ 4.86 | $ 5.86 | $ 6.69 | $ 10.57 | $ 10.69 | $ 15.50 | $ 14.57 | $ 15.48 |
| **ROIC** | *72.27%* | *78.52%* | *85.91%* | *97.35%* | *99.21%* | *79.23%* | *64.28%* | *66.36%* | *61.06%* | *65.10%* |
| **TMV/EBITD (forward)** | 12.51x | 14.41x | 14.99x | 17.41x | 19.72x | 19.87x | 21.11x | 25.55x | 19.54x | 22.00x |
| **TMV/invested capital** | 18.23x | 20.28x | 27.47x | 25.03x | 25.26x | 17.87x | 19.36x | 21.43x | 17.50x | 20.36x |
| **Price/excess cash flow (forward)** | 32.77x | 21.82x | 27.08x | 30.92x | 36.78x | 24.39x | 33.83x | 29.03x | 24.02x | 29.07x |