VALUATION OF DUNKIN' BRANDS

- Shreya Chandak
- Niyati Rao
- Saloni Shah
- John Frucci







COMPANY OVERVIEW

- Dunkin was deemed essential by the federal government and continues to have drive-through and online orders.
- They are continuing to operate through this Covid-19 pandemic.
- With the worst of the financial panic behind us for now, we evaluated the current stock price based on historical and future predictions.



VALUATION

Valuation is the analytical process of determining the current (or projected) worth of an asset or a company. There are many techniques used for doing a valuation. An analyst placing a value on a company looks at the business's management, the composition of its capital structure, the prospect of future earnings, and the market value of its assets, among other metrics.

METHODS OF VALUATION

Fundamental Valuation

Relative Valuation

DIVIDEND DISCOUNT MODEL

$$P_0 = \frac{D_1}{K_e - g}$$

 $D_1 = Expected Dividend for Year 1$

g = Growth Rate

 $K_e = Discount rate$

As Dividend payout ratio is not constant for Dunkin' Brands, we cannot take Dividend Discount Model for Valuation.

VALUATION BASED ON FREE CASH FLOW



FCFF VS FCFE

FCF = Net Income

+ Non-Cash Expenses
- Increase in Working Capital
- Capital Expenditures

FCFE = Cash from Operations

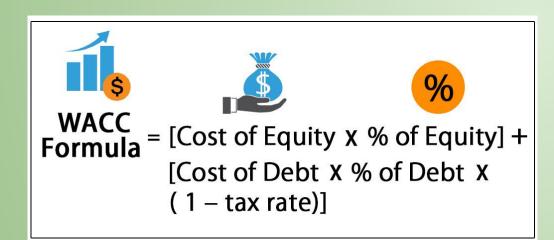
- Capital Expenditures

+ Net Debt Issued

WACC VS REQUIRED RATE OF RETURN

WACC

REQUIRED RATE OF RETURN



Required Rate of Return Formula

Required Rate of Return = Risk Free Rate + Beta x (Whole Market Return - Risk Free Rate)

FCFF MODEL

	TTM	2020	2021	2022	2023	2024
	ACTUAL	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	1370227	1310074.035	1257671.073	1320554.627	1399787.905	1483775.179
% Growth	-4%	-4%	5%	6%	6%	6%
EBITDA 35.4% of sales	485107.00	463766.21	445215.56	467476.34	495524.92	525256.41
less Depreciation	42378	40513.71	38893.16171	40837.8198	43288.08899	45885.37433
less Amortization	0	0.00	0	<u>0</u>	<u>0</u>	<u>0</u>
EBIT	442729.00	423252.50	406322.40	426638.52	452236.83	479371.04
less Taxes 24.2%	77238	102427.10	98330.02	103246.52	109441.31	116007.79
Net Income	365491.00	320825.39	307992.38	323392.00	342795.52	363363.25
add Depreciation	42378	40513.71	38893.16	40837.82	43288.09	45885.37
add Amortization	0	0.00	0.00	0.00	0.00	0.00
Change in W/C	-1504	14262.27	12424.74	-14909.69	-18786.21	-19913.38
less Capital Expenses	-36762	-40513.71	-38893.16	-40837.82	-43288.09	-45885.37
Pre Debt Cash Flow	369603.00	335087.66	320417.12	308482.31	324009.31	343449.86
				Exit Multiple		10.35
				Terminal Value		5436403.878
PV of Annual CF		\$1 315 637 45	Pre Debt Cash Flor	12		
PV of Terminal Value		\$3,769,210.19	Tre Dear Cush Tio			
Enterprise Value		\$5,084,847.64				
Less: Cash and Cash equivalents		\$621,152.00	1			
		4,463,696				
No of shares outstanding		82,587,373				
Value of stock as per DCF		54.04816108				
Market Price as of /4/14/20		56.74				

7.6%
10.35
24%
23.71%

INTRINSIC VALUE < MARKET PRICE

OVERVALUED STOCK

Recommendation: Sell

VALUATION USING COMPARABLES

Comparables	Dunk	in Donuts	S	Starbucks	Resturant Br	and International	N	1cDonalds
Sales \$M	\$	1,370	\$	26,509	\$	5,603	\$	21,076
EBITDA\$M	\$	498	\$	6,460	\$	2,304	\$	10,688
Gross Profit Margin %		89%	***************************************	68%		58%	•••••	53%
EV/EBITDA		15.27	***************************************	16.19		11.11	•••••	17.25
P/E (trailing)		17.8		25.0		18.1	•••••	23.4
Debt/EBITDA		6.1		3.2		5.3		3.2
Market Cap \$M	\$	4,620	\$	87,088	\$	29,908	\$	137,740
Enterprise Value \$M	\$	7,585	\$	104,611	\$	25,587	\$	184,390
Debt \$M	\$	3,017	\$	20,629	\$	12,296	\$	34,100
Cash \$M	\$	707	\$	2,757	\$	1,533	\$	899

Calculating Stock Price

P/E Int	o Share	Prices
---------	---------	---------------

2.89 EPS

17.8 P/E

\$ 51.44 stock price

56.56 Current stock price

Conclusion: Overvalued

Enterprise Value into Share Price

Shares Outstanding

84 million

\$ 62.80	Calculated from EV
\$ 56.56	Current stock price

Conclusion: Undervalued

Dunkin is Overvalued

Because P/E for Dunkin is in the range of average for the Industry, we made our judgement based on the P/E conversion into a stock price.

Based on our data, since the actual stock price is \$56.56 and our calculated value is \$51.44. We made the decision to sell immediately.

,		
	2.89	EPS
	17.8	P/E
\$	51.44	stock price
ć	56 56	Current stock price

Conclusion: Overvalued

P/F Into Share Prices

Dunkin Donuts During Covid-19 Pandemic

- Sell because the stock is overvalued.
- If the stock goes under \$51.44 then buy. Then there is value to be gained.

Thank You