

# VALUATION OF DUNKIN' BRANDS

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dunkin'  
brands<sup>SM</sup>

DUNKIN'  
DONUTS<sup>®</sup>

BR baskin  
robbins<sup>®</sup>



## 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

Free Cash Flow to Firm

VS.

FCFE

Free Cash Flow to Equity

# FCFF VS FCFE

## FCFF

FCF

=

Net Income

+

Non-Cash Expenses

-

Increase in Working Capital

-

Capital Expenditures

## FCFE

FCFE

=

Cash from Operations

-

Capital Expenditures




+

Net Debt Issued



# WACC VS REQUIRED RATE OF RETURN

## WACC



**WACC Formula** = [Cost of Equity x % of Equity] + [Cost of Debt x % of Debt x (1 – tax rate)]

## REQUIRED RATE OF RETURN

### Required Rate of Return Formula

$$\text{Required Rate of Return} = \text{Risk Free Rate} + \text{Beta} \times (\text{Whole Market Return} - \text{Risk Free Rate})$$

$$\text{Required Rate of Return} = \frac{\text{Expected Dividend Payment}}{\text{Current Stock Price}} + \text{Dividend Growth Rate}$$

# FCFF MODEL

	TTM ACTUAL	2020 Year 1	2021 Year 2	2022 Year 3	2023 Year 4	2024 Year 5
Revenue	1370227	1310074.035	1257671.073	1320554.627	1399787.905	1483775.179
% Growth	-4%	-4%	5%	6%	6%	6%
<b>EBITDA 35.4% of sales</b>	<b>485107.00</b>	<b>463766.21</b>	<b>445215.56</b>	<b>467476.34</b>	<b>495524.92</b>	<b>525256.41</b>
less Depreciation	42378	40513.71	38893.16171	40837.8198	43288.08899	45885.37433
less Amortization	0	0.00	0	0	0	0
<b>EBIT</b>	<b>442729.00</b>	<b>423252.50</b>	<b>406322.40</b>	<b>426638.52</b>	<b>452236.83</b>	<b>479371.04</b>
less Taxes 24.2%	77238	102427.10	98330.02	103246.52	109441.31	116007.79
<b>Net Income</b>	<b>365491.00</b>	<b>320825.39</b>	<b>307992.38</b>	<b>323392.00</b>	<b>342795.52</b>	<b>363363.25</b>
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
<b>Pre Debt Cash Flow</b>	<b>369603.00</b>	<b>335087.66</b>	<b>320417.12</b>	<b>308482.31</b>	<b>324009.31</b>	<b>343449.86</b>
				Exit Multiple		10.35
				<b>Terminal Value</b>		<b>5436403.878</b>
PV of Annual CF		\$1,315,637.45	<i>Pre Debt Cash Flow</i>			
PV of Terminal Value		\$3,769,210.19				
<b>Enterprise Value</b>		<b>\$5,084,847.64</b>				
Less: Cash and Cash equivalents		\$621,152.00				
		<b>4,463,696</b>				
No of shares outstanding		82,587,373				
<b>Value of stock as per DCF</b>		<b>54.04816108</b>				
<b>Market Price as of /4/14/20</b>		<b>56.74</b>				

## Assumptions

Discount Rate	7.6%
Exit EBITDA Multiple	10.35
Tax Rate	24%
Working capital Rate	23.71%

**INTRINSIC VALUE < MARKET PRICE**

**OVERVALUED STOCK**

- Recommendation: Sell

# VALUATION USING COMPARABLES

Comparables	Dunkin Donuts	Starbucks	Resturant Brand International	McDonalds
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 Into Share Prices

	2.89	EPS
	17.8	P/E
<hr/>		
\$	51.44	stock price
\$	56.56	Current stock price
Conclusion: Overvalued		

## Enterprise Value into Share Price

Shares Outstanding	84 million	
<hr/>		
\$	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.

### P/E Into Share Prices

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	17.8	P/E
<hr/>		
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## **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