



# Domino's Pizza, Inc. (DPZ)

Updated October 10<sup>th</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$418	<b>5 Year CAGR Estimate:</b>	11.8%	<b>Market Cap:</b>	\$14.6 B
<b>Fair Value Price:</b>	\$408	<b>5 Year Growth Estimate:</b>	11.0%	<b>Ex-Dividend Date:</b>	12/12/2024
<b>% Fair Value:</b>	103%	<b>5 Year Valuation Multiple Estimate:</b>	-0.5%	<b>Dividend Payment Date:</b>	12/27/2024
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$687	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Domino's Pizza was founded in 1960. It is the largest pizza company in the world based on global retail sales. The company operates more than 21,000 stores in more than 90 countries. It generates nearly half of its sales in the U.S. while 99% of its stores worldwide are owned by independent franchisees. It has a market capitalization of \$14.6 billion.

Domino's proved to be one of the most resilient companies to the pandemic. Due to the lockdowns imposed in this crisis, the company faced a steep increase in its delivery orders. Domino's has also benefited from its leading position in digital orders. Its resilience to the pandemic is clearly reflected in its record earnings-per-share in 2020 and 2021.

In early October, Domino's reported (10/10/24) financial results for the third quarter of fiscal 2024. Its U.S. same-store sales grew 3.0% and its international same-store sales rose 0.8% over the prior year's quarter. Earnings-per-share grew only 0.2%, from \$4.18 to \$4.19, mostly due to provisions for higher taxes. Earnings-per-share exceeded the analysts' consensus by \$0.55. As the company exceeded our expectations, we have raised our forecast for earnings-per-share this year from \$15.75 to \$16.30. Domino's reiterated its bright 5-year outlook. It expects to open more than 1,100 stores per year and grow its global retail sales and its operating income by 7% and 8% per year, respectively, until the end of 2028. Domino's has exhibited business deceleration in some instances in the past but it has always returned to growth mode. Despite the flat earnings in Q3, we reaffirm our confidence in the bright future prospects of this best-of-breed stock.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.86	\$3.47	\$4.30	\$5.91	\$8.42	\$9.57	\$12.01	\$13.60	\$12.53	\$14.66	<b>\$16.30</b>	<b>\$27.47</b>
<b>DPS</b>	\$1.00	\$1.24	\$1.52	\$1.84	\$2.20	\$2.60	\$3.12	\$3.76	\$4.40	\$4.84	<b>\$6.04</b>	<b>\$10.24</b>
<b>Shares<sup>1</sup></b>	55.6	49.8	48.1	44.6	42.6	41.4	39.5	36.7	36.1	35.1	<b>34.8</b>	<b>31.0</b>

Despite heating competition in the U.S., the growth potential of Domino's is exciting, as the pizza chain has ample room to keep growing for years. Its management sees potential for the addition of more than 10,000 new stores in its top 15 markets. As the current store count in these countries is approximately 11,000, it is evident that there is still tremendous growth potential even without taking into account the growth potential in the other ~75 markets where the company is present. Domino's has provided a bright outlook for the period 2024-2028. It expects to open more than 1,100 stores per year and grow its global retail sales and its operating income by 7% and 8% per year, respectively. Given also an expected tailwind from share repurchases and the exceptional record of Domino's in exceeding expectations, we expect 11% annual earnings-per-share growth over the next five years, roughly in line with the 5-year average of the stock.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/E</b>	27.3	30.7	32.2	31.9	30.2	27.6	30.6	33.3	30.6	24.0	<b>25.6</b>	<b>25.0</b>
<b>Avg. Yld.</b>	1.3%	1.2%	1.1%	1.0%	0.9%	1.0%	0.8%	0.8%	1.1%	1.4%	<b>1.4%</b>	<b>1.5%</b>

<sup>1</sup> In millions

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Domino's is currently trading at a price-to-earnings ratio of 25.6, which is lower than its 10-year average of 29.8. Due to business deceleration, we assume a fair earnings multiple of 25.0 for the stock. If Domino's trades at its fair valuation level in five years, it will incur a -0.5% annualized drag in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	35.0%	35.7%	35.3%	31.1%	26.1%	27.2%	26.0%	27.6%	35.1%	33.0%	37.1%	37.3%

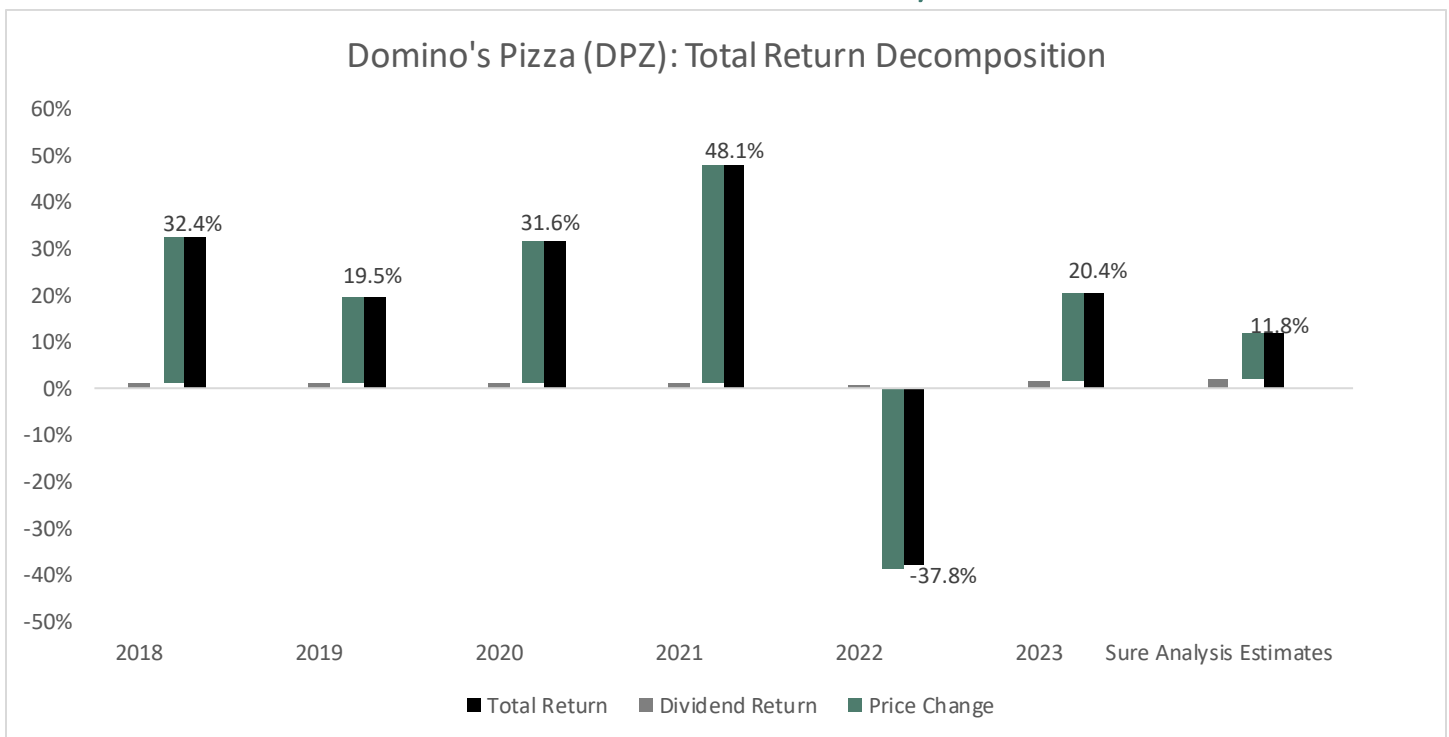
Domino's has greatly increased its debt load in recent years in order to boost its shareholder returns. Consequently, its debt/assets ratio has skyrocketed to 310%, its book value has collapsed to negative levels and its net debt has climbed tremendously. Still, as its interest expense consumes only 21% of its operating income and the company grows at a fast pace, the debt will be manageable moving forward.

Despite the strong competition in the fast-food sector, the unparalleled decades-long growth record of Domino's reveals the existence of a moat in its business. Indeed, the superior taste and value proposition have contributed to a strong brand name. Moreover, Domino's is certainly the digital leader, as it generates more than 85% of its U.S. sales and about two-thirds of its global retail sales from digital channels.

## Final Thoughts & Recommendation

Domino's has better growth potential than most of the other stocks in our investment universe. The stock has remained essentially flat this year, in contrast with the 21% rally of the S&P 500, but we view the headwinds from staffing shortages and tough comparisons vs. blowout results in 2021-2023 as temporary and remain confident in the long-term prospects of this best-of-breed pizza chain. Domino's can offer an 11.8% average annual return over the next five years thanks to 11.0% growth of earnings-per-share and its 1.4% dividend, partly offset by a -0.5% valuation headwind. We reiterate that Domino's has one of the most compelling growth stories in the stock market and maintain our "buy" rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1994	2217	2473	2788	3433	3619	4,117	4,357	4,537	4,479
Gross Profit	595	683	768	866	1303	1402	1,594	1,688	1,649	1,727
Gross Margin	29.8%	30.8%	31.0%	31.1%	37.9%	38.8%	38.7%	38.7%	36.3%	38.6%
SG&A Exp.	249	278	314	345	731	773	869	908	902	908
D&A Exp.	36	32	38	44	54	60	65	73	80	81
Operating Profit	345	405	454	521	572	629	726	780	768	820
Operating Margin	17.3%	18.3%	18.4%	18.7%	16.7%	17.4%	17.6%	17.9%	16.9%	18.3%
Net Profit	163	193	215	278	362	401	491	510	452	519
Net Margin	8.2%	8.7%	8.7%	10.0%	10.5%	11.1%	11.9%	11.7%	10.0%	11.6%
Free Cash Flow	122	229	234	251	274	411	504	560	388	485
Income Tax	96	113	130	122	67	82	64	115	121	133

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	596	800	716	837	907	1382	1,567	1,672	1,602	1,675
Cash & Equivalents	31	133	43	36	25	191	169	148	60	114
Accounts Receivable	118	132	150	174	190	210	245	255	257	283
Inventories	38	37	40	40	46	53	67	68	82	83
Goodwill & Int. Ass.	37	45	56	68	79	88	96	111	120	146
Total Liabilities	1816	2600	2599	3572	3947	4798	4,868	5,881	5,791	5,745
Accounts Payable	87	107	112	107	93	111	94	92	90	106
Long-Term Debt	1501	2241	2188	3154	3532	4095	4,119	4,994	4,948	4,990
Shareholder's Equity	-1219	-1800	-1883	-2735	-3040	-3416	-3,300	-4,210	-4,189	-4,070
LTD/E Ratio	-1.23	-1.24	-1.16	-1.15	-1.16	-1.20	-1.25	-1.19	-1.18	-1.23

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	29.0%	27.6%	28.3%	35.8%	41.5%	35.0%	33.3%	31.5%	27.6%	31.7%
Return on Equity	-13.0%	-12.8%	-11.7%	-12.0%	-12.5%	---	---	---	---	---
ROIC	61.6%	53.4%	57.6%	76.9%	79.5%	69.5%	64.8%	66.2%	58.6%	59.2%
Shares Out.	55.6	49.8	48.1	44.6	42.6	41.4	39.5	36.7	36.1	35.4
Revenue/Share	35.02	39.91	49.53	58.48	79.22	86.32	103.87	115.61	125.70	126.53
FCF/Share	2.15	4.11	4.69	5.27	6.33	9.81	12.71	14.86	10.75	13.71

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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