

# Domino's Pizza Inc (NYSE: DPZ)

## Fundamental Investments

Current price (2/16/24): \$424.77 | Target Price: \$475.57 | Implied Upside: 11.96%



February 2024

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# Company Overview

Dominos is a global leader in pizza delivery and takeout with its expansive menu and technological advancements.

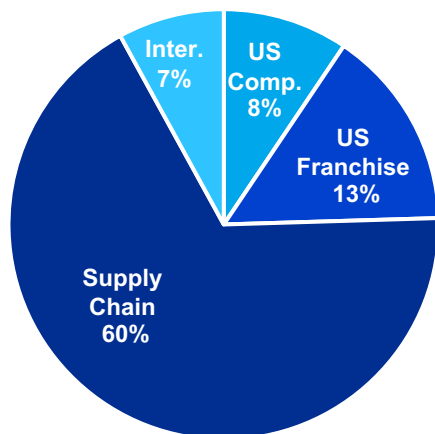
## Business Description & Strategy

**Overview:** Domino's Pizza has emerged as one of the world's leading pizza delivery and takeout companies with a global presence spanning over 90 countries. Domino currently operates over 1700 stores worldwide, making it one of the largest pizza chains by store count alone. With a focus on customer satisfaction and convenience, Domino's has a competitive advantage in technological adaptation to better serve its consumers.

**Strategy:** Domino's Pizza is strategically positioned to capitalize on key growth opportunities. The company aims to expand its global footprint by opening an additional 5,500 stores within 5 years. Furthermore, Domino's is at the forefront of technological innovation, recently forging partnerships with AI companies to enhance its ordering and delivery processes. Domino's seeks to streamline operations, optimize delivery routes, and personalize customer experiences, driving growth and efficiency across its vast network.

**Valuation:** DCF and comparable company analysis show Domino's Pizza is currently trading at a discounted valuation with continued innovation and contracting opportunities driving a target share price of \$475.57.

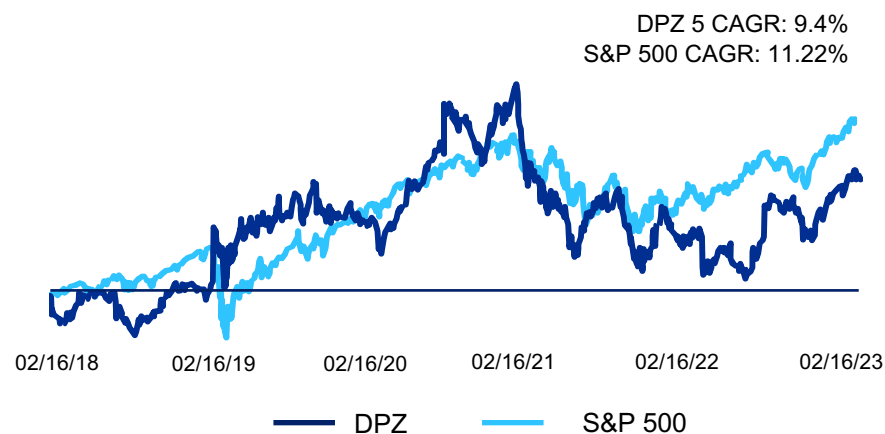
## Revenue Breakdown



## Current Market Data (2/16/24)


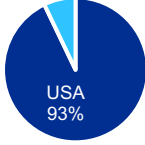
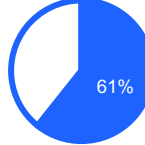

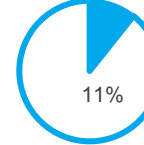
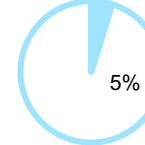

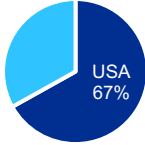
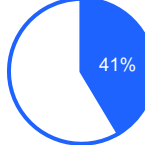
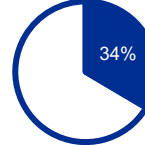
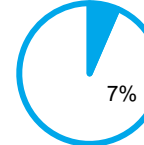
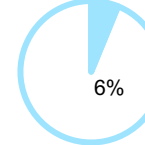

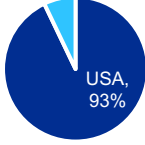

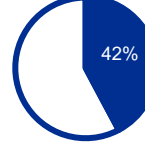
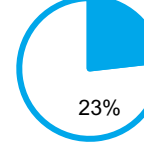
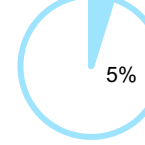


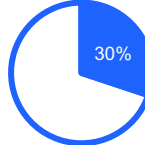
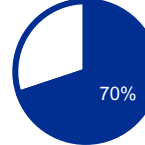
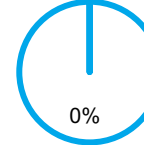
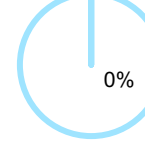

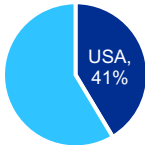

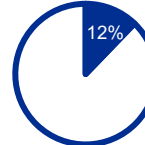
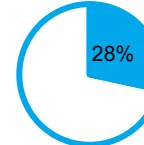
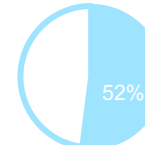
<b>Market Cap</b>	\$14.749B	<b>Enterprise Value</b>	\$19.462B
<b>Price</b>	\$421.97	<b>Q3 2023 Debt</b>	\$5.21B
<b>52 Week High</b>	\$439.16	<b>FY22 Revenue</b>	\$4.54B
<b>52 Week Low</b>	\$285.84	<b>FY22 EBITDA Margin</b>	17.7%
<b>Div. Yield % (LTM)</b>	1.27%	<b>EV/EBITDA (LTM)</b>	20.66x
<b>Float %</b>	20.52%	<b>P/E (LTM)</b>	27.65x

## Historic Share Price vs. Benchmark



# Competitive Landscape

Dominos is leading the industry in supply chain revenue with tight controls making optimization easier.

Company	Products/ Services	Revenue by region	Supply Chain % of Revenue	U.S Company Store % of Revenue	U.S Franchise Store % of Revenue	International % of Revenue
	Pizza Delivery Online Ordering Carry Out Catering Track Your Order	 USA 93%	 61%	 10%	 11%	 5%
	Pizza Delivery Carryout Papa Rewards Catering	 USA 67%	 41%	 34%	 7%	 6%
	Fresh- made to Order food Drive-Thru Dine-In Delivery	 USA, 93%	 0%	 42%	 23%	 5%
	Customizable Menu Fast Casual Dining Delivery	 USA 100%	 30%	 70%	 0%	 0%
	Iconic Menu Drive-in Drive-thru Delivery Mobile Ordering	 USA, 41%	 0%	 12%	 28%	 52%

# Comparable Companies Analysis

## Evaluating Domino's Competitors: Insights into Market Position and Strategic Comparison

### Top Operational and Stock Performance Among Peers

**Operational Overview:** Dominos is operating efficiently compared to its competitors. Their EBITDA, EBIT, Pretax and Net margin sit within the average of its competitors, and gross margin sits 9.1% above the median, displaying their productive efficiency and market power. Operatively, towards their direct competitor, Papa John's, their financial margins are consistently between 8% and 16% above them, signaling operating efficiency in comparison.

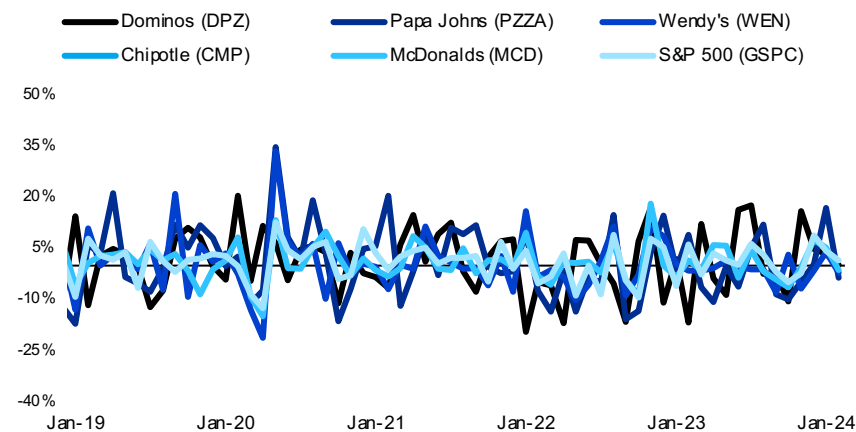
**Performance Overview:** The industry average EV/SALES multiplier is 5.08x and their P/E ratio is 32.75x. This benchmark implies that Domino's is undervalued with a 4.35x EV/SALES and 28.8x P/E ratio.

**Stock Growth Comparison:** Domino's CAGR of 17.8% ranks in the 64.2% percentile for the sector and the company's stock has grown 62% over the last 5 years putting it 2nd in overall growth to its competitors.

### Operating Margins Comparison

Company	Gross Margin	EBITDA Margin	EBIT Margin	Pretax Margin	Net Margin
Domino's	38%	19.4%	17.7%	14.2%	11.6%
Papa Johns	16.5%	10.36%	7.5%	4.9%	3.8%
Wendy's	28.9%	25.6%	17.3%	12.4%	12.4%
Chipotle	23%	19.7%	16.5%	16.4%	12.4%
McDonalds	56.5%	53.6%	45.8%	41.4%	33.3%
Average	32.58%	25.76%	20.96%	17.86%	14.04%
Median	28.9%	19.73%	17.3%	14.2%	11.6%

### Comparable Stock Price Growth over Past 5 years



### Market Valuation Comparison

Company	EV (M)	P/E	EV/Sales	EV/EBITDA
Domino's	19,449	28.8x	4.35x	22.3x
Papa John's	3,131	30.59x	1.50x	14.45x
Wendy's	6,004	20.46x	2.76x	10.76x
Chipotle	70,651	58.61x	7.16x	36.27x
McDonalds	241,272	25.3x	9.65x	17.99x
Average	24,809*	32.75x	5.08x	20.35x
Median	19,449*	28.8x	4.35x	17.99x

# Investment Thesis

Dominos presents a strong opportunity stemming from active technological advancements and strong financial projections

## Positive Performance Driven by Technological Advancements

**Technological Innovations:** Technological advancements are a multi faceted catalyst, positioning Dominos for continued global success. With its ever-growing electric fleet of vehicles, & AI implementation, Dominos can minimize costs on delivering a sought-after product that is only growing in demand. Dominos is known for being a technologically innovative company that is a step ahead of its peers.

**Realized Impact:** With the implementation of new technology, top line revenue is projected to increase at a higher rate than historically, operational costs, as well as costs of goods sold will decrease year over year, and bottom-line net income will see unprecedented growth.

## Demand-driven Potential for Expansion

**Macroeconomic Outlook:** Investing in Dominos will allow for investors to reap the benefits of a multi pronged tactical outlook for Dominos. On top of Dominos benefitting in house from technological advancements, they are at the forefront of riding economic trends to all time highs.

**Realized Impact:** With the quick-service restaurant industry seeing unprecedented growth, Domino's along with other fast-food restaurants will be able to capitalize on a growing market, although Domino's is by far the leader with their innovations. As demand for value meals also increase, Domino's plan to increase their franchise location both domestically and internationally will spur company growth.

Electronic Vehicle Growth	Tech Induced Sales Growth	Tech based Operational Efficiency
<p>Dominos leads the charge in the adoption of electronic vehicles usage for delivery.</p> <p>Electronic Vehicle growth has been shown to increase year over year and the savings that come with adoption of using such is evident.</p> <p>Legislation provides Dominos with tax credit.</p>	<p>Domino's use of AI in their application will increase sales by both attracting more customers to order online and by increasing conversion rate by providing customers with a better ordering experience.</p> <p>Domino's apps advertisement strategies are very successful leading to more sales</p>	<p>Implementation of AI and the new DOM OS proprietary operating system will decrease time spent managing staff and increase overall operative efficiency.</p> <p>Additionally, the growing Dominos EV fleet will save on gas costs and increase earnings for Dominos in the long term.</p>

Dining Trend Shifts	Global Expansion	Fourth Quarter Earnings
<p>Revenue for US food services is forecasted to grow at an annual compounded rate of 5%</p> <p>Online food delivery market is forecasted to grow at a CAGR of 10% until 2028.</p> <p>Demand for innovation and customization is growing, and Dominos captures that demand.</p>	<p>Dominos has set in stone a 5-year plan called "Hungry for More"</p> <p>Dominos has set their goals of franchise expansions to 5500 new stores in the next 5 years.</p> <p>Company has projected sales growth of 7% and operating income growth of 8%.</p>	<p>Dominos fourth quarter earnings are projected to be released on February 26<sup>th</sup>, 2024. The release of 2024 year totals could potentially drive an increase in price, assuming earnings come back good.</p> <p>We assume earning will come back positive based on previous quarters earnings.</p>

# Catalyst I: Tech Driven Sales Growth

Ticket sales/revenue driven by being amplified from AI implementation and marketing campaigns

## Domino's Online Infrastructure Effect on Revenue

**Increase of Revenue Through Advertisement:** Domino's has implemented new advertising strategies in their app that have achieved an 8.6X ROI. Key highlights include a 47% uplift in conversion rates via gamification tactics, notably the "Wheel of Fortune" game, which attracted 62% of website visitors to participate. Push notifications emphasizing Domino's fast delivery USP resulted in a 23.4% open rate, further driving customer engagement. Additionally, gamified survey templates saw a 72% response rate, underscoring the effectiveness of interactive elements in marketing campaigns.

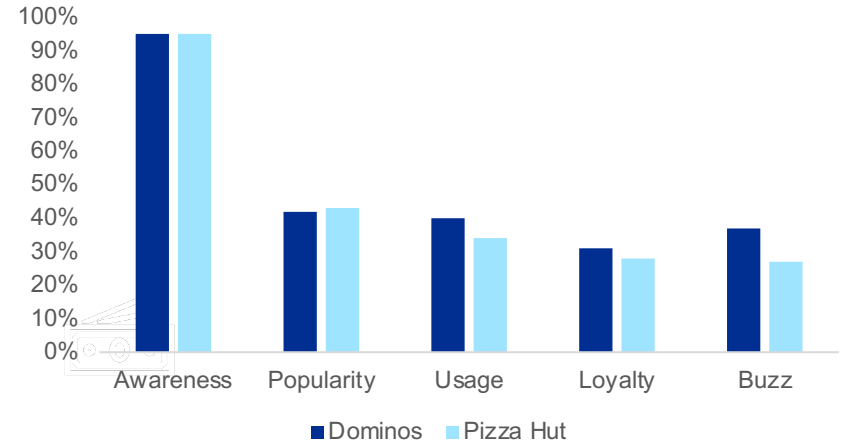
**AI Order Prediction:** Dominos has implemented an AI technology to predict orders based on prior trends and begin preparation before any sales take place. Providing customers with their orders promptly can lead to a more satisfied experience, leading to increased customer loyalty, which can lead to repeat sales and business growth.

## Domino's AI App Effect on Revenue

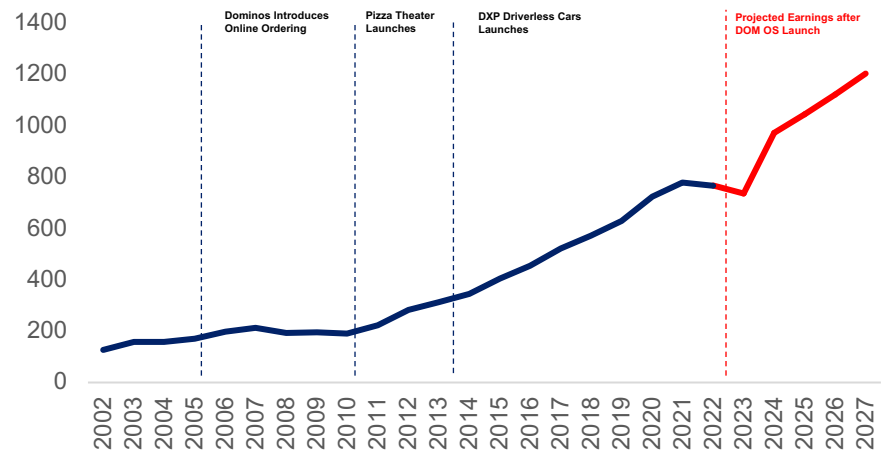
**AI Implementation Effect on Sales:** Domino's has implemented an AI into their app which provides customers with a chatbot and an "enhanced ordering experience". This will increase sales as In a recent study from Forrester Research a well-designed UI can increase conversion by up to 200%, and a better user experience can yield conversion rates up to 400%. Additionally 66 percent expect companies to intuit and understand their needs and 77% of consumers choosing, recommending or paying more with brands that provide personalized services or experiences which all would be improved by a chatbot ordering assistant.

**App Use Effect on Sales:** AI implementation into the Domino's application would increase popularity and usage of the app. This is useful because Online orders have a 25% higher ticket than over the phone orders and gathers significantly more information that's later used for leveraging new offerings and deals.

## Effects of Internet Presence on Customer Sentiment



## Change in Operating Income Over Time



# Catalyst II: Tech Driven Operational Efficiencies

With EV & Business Management Software improvements Domino's will improve overall financial performance & health

## Domino's EV Fleet's Effect on Operation Margins

**Growth in Domino's EV Fleet:** Last years increase in EV fleet by 37.5% points to a potential increase of similar amounts this year. EV's are a cheaper option (compared to gas vehicles) as they last 50% longer than gas powered vehicles. EV's also require 30%-40% less maintenance. With an average of 10 drivers per franchise location there is a large opportunity for EV expansion.

**Delivery Service Growth:** Customer demand for food delivery is growing with the CAGR of the online food delivery market projected at 10.91%. Food delivery is now the most popular way for customers to engage with restaurants. In the past month, 77% of customers reported ordering delivery. 76% report picking up takeout, which is the rest of how Domino's services customers.

**Saving from EV as Opposed to Gas:** We calculated the value created by 1100 cars per year was \$305,392,080. We then calculated the cost of both gas and electricity for the cars per year and found that using EVs would save \$17,450,976.00 per year and \$87,254,880 across 5 years.

## Domino's Business Management Software's Effect on Margins

**Domino's Losses in Inventory Turnover and \$ Spent in Wages:** Domino's COGS is a large portion of revenue, averaging 70-80% of revenue. 30% of COGS are food costs substantially affected by food waste and efficiency. Domino's is paid 9% of franchise net revenue. Franchises usually pay about 30% of their revenue for wages amounting to 7,890,000,000 spent.

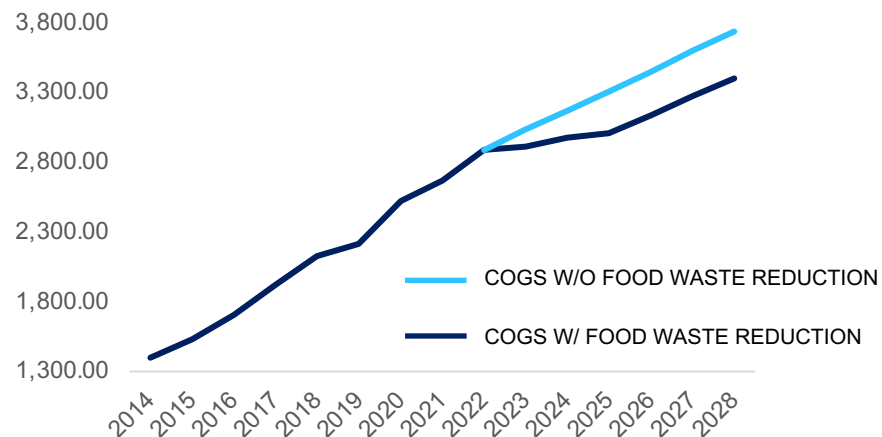
**New DOM OS Tech for Inventory and Staff Optimization:** DOM OS is a new proprietary operating system and a series of smart tools that use generative AI to increase efficiency for managers and staff. By managing both the customer and staff experience during ordering, cooking, and delivery, the system makes significant improvements to current-day operations.

**Effect of DOM OS on Operational Margins:** DOM OS will affect operational margins by optimizing inventory efficiencies and reduce need for staff by streamlining the managerial process. DOM OS's will reduce food waste by 30% which will reducing COGS by an average of 8.35%. DOM OS will also increase employee by 30%. This would lead to 12.86% more net profit and 71M more in yearly

## Operational Costs Decreasing with Tech Advancements



## Difference in COGS with DOM OS





## Catalyst III: Macro- Economic Condition/QSR Expected Increase

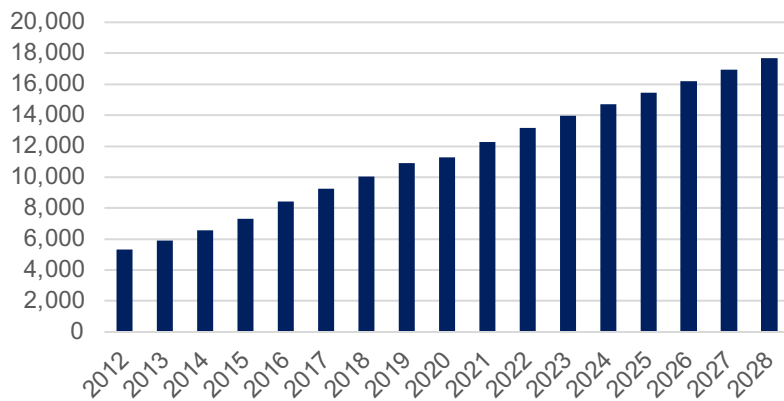
Dominos Pizza is best positioned to take advantage of increased demand in quick service restaurants and value meals

### QSR Industry Increase in Market Size

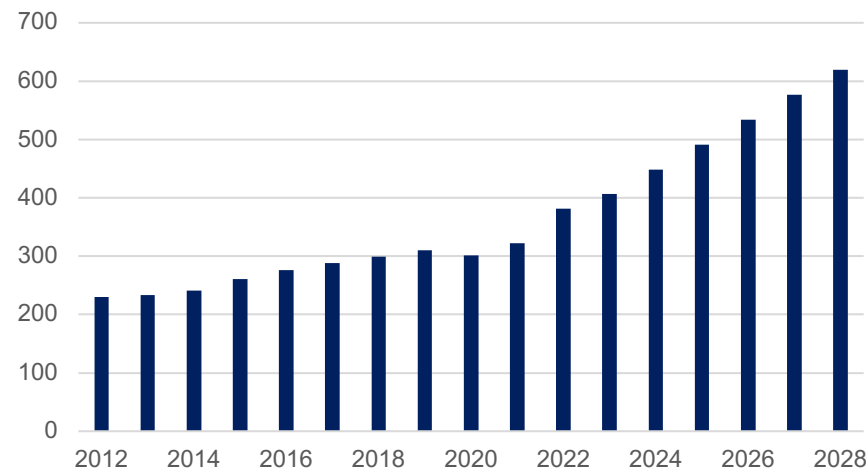
**Industry Growth:** The QSR Industry has been continually expanding for the past 10 years with strong projections for the next coming ones. The market is expected to grow at a CAGR of 10.28% during 2024-2029 to reach nearly 662.53 billion. With this increase in market size, the number of QSR franchises has been increasing, but not as rapidly as the market size or Domino's has been. Over the past 10 years, QSR restaurant franchises has increased by 30% while Domino's stores have increased by 104%. Domino's is taking advantage of the increasing market size.

**Value Meal:** During the pandemic, value meals made a comeback, as consumers loved purchasing bundles of their favorite items that were cheaper than if they were to buy them separate. As the pandemic dwindles, value meals stayed alive, and QSR restaurants ramped up offerings and deals. Increased sales on these value meals directly increases customer loyalty.

### Dominos International Store Growth



### Quick Service Restaurant Expected Growth



### International Store Growth and Earnings Report

Dominos expects to have an increased international presence in the coming years. One of the main drivers of performance was the same-store growth rate for international centers, increasing by 7% in 2022 compared to the US rate of 2%. They project international stores to increase by 925 each year until 2028.

Specifically, when looking at China, Domino's is expected to ramp up its expansion campaign by opening 180 new stores in the upcoming year and another 240 in the following year. With work culture in Asian countries being perceived as cut-throat, the rising trends of online delivery will only benefit Domino's.

Also, in the past four quarters, Domino's has repeatedly beat earnings reports. With the upcoming earnings report being released later in February, if they beat earnings again, it could significantly increase the value of the stock.

# Valuation

Driven by the three expected catalysts, Domino's presents significant value both on a relative and intrinsic basis

Discounted Cash Flow Analysis	2023E	2024E	2025E	2026E	2027E
Unlevered Free Cash Flow	684.90	824.65	886.87	953.14	1,023.71
Terminal Value @ 2% TGR					25,024.76
Present Value of UFCF	645.08	731.55	741.01	750.08	758.78
Present Value of TV					18,548.44

Enterprise Value		WACC		Assumptions	
Cash	22,174.94	Rf (10-Year Treasury)	4.32%	<b>Operating Assumptions:</b> Assumed 5% year on year sales growth based on conservative estimates. Assumed implementation of Ai throughout 2024 will decrease COGS and SG&A by approximately 17%. <b>DCF:</b> 2% Terminal growth rate based on analyst consensus and expected US growth. WACC based on stock price and current yield. <b>Comps:</b> Comps chosen based on similar industries and size.	
Total Debt	5,791.00	Equity Risk Premium	7%		
<b>Equity Value</b>	16,588.00	Beta	0.84		
Total Shares Outstanding	34.88	Cost of Equity	6.57%		
<b>Implied Share Price</b>	475.57	Percentage of Equity	71.89%		
Current Price	424.77	Cost of Debt	5.15%		
		Percentage of Debt	28.11%		
<b>Implied DCF Return</b>	11.96%	<b>WACC</b>	6.17%		

Comparable Companies Analysis		EV/EBITDA Multiple					P/E Multiple		
Company Name	Ticker	Equity Value	Enterprise Value	2022A EV/EBITDA	2023E EV/EBITDA	2024E EV/EBITDA	2022A P/E	2023E P/E	2024E P/E
Papa Johns	PZZA	2,416.2	3,178.90	14.67x	22.82x	23.60x	31.20x	28.90x	26.01x
Wendy's	WEN	3,842.5	6,020.20	10.79x	16.90x	17.12x	19.72x	18.03x	16.14x
Chipotle	CMG	71,935.7	70,631.30	36.26x	38.72x	40.09x	58.60x	48.71x	40.09x
McDonalds	MCD	213,314.4	244,886.70	18.26x	19.33x	19.79x	25.73x	23.49x	21.55x
<b>Dominos</b>	<b>DPZ</b>	<b>14,894.2</b>	<b>19,462.20</b>	<b>20.66x</b>	<b>25.83x</b>	<b>26.85x</b>	<b>28.84x</b>	<b>29.18x</b>	<b>26.86x</b>
<b>Upper Quartile</b>					25.83x	26.85x		29.18x	26.86x
<b>Median</b>					22.82x	23.6x		28.9x	26.01x
<b>Mean</b>					24.72x	25.49x		29.66x	26.13x
<b>High</b>						38.72x		48.71x	40.09x
<b>Low</b>						16.9x		18.03x	16.14x

# Risks and Mitigations

## External

### Risk 1: Changing Consumer Preferences

- Shifts in consumer preferences and dietary trends can negatively impact Domino's sales, especially if it shifts towards being healthier conscious.
- Customers may opt for alternatives such as salads, wraps, or dishes where lean protein are offered, traditional pizza, which is viewed as high in calories, fat, and sodium, can take a hit.
- The rise of social media can hasten the change in perspective as well as provide consumers with information on the specific lifestyle trends of today.

### Risk 2: Dominos Pizza is an Inferior Good

- As interest rates decrease the purchasing power of the consumer will increase leading to an inferior good like takeout pizza growing unpopular
- Domino's has notoriously done well in times of economic crisis, specifically the 2008 financial crisis and during COVID-19. Net income increased 54-78.7 billion from 2007 to 2008 and then to 87.9 in 2009. During the pandemic their stock hit an all-time high of 567.7. This proves that they perform well in times of economic uncertainty and with interest rates pending decrease, this could decrease consumer demand for dominos.

### Risk 3: Grub Hub Taking Market Share Away From UberEats

- With the market for delivery food service applications being highly competitive and moderately condensed there is risk that companies like Grub Hub will take market share away from Uber Eats. This is concerning as Domino's recently implemented a deal with UberEats which allows people to order Domino's through their app.

High Impact

Low Impact

Low Probability

High Probability

1

Menu Innovation is one of the Domino's top priorities, as they stated in their 5-year plan. Focusing on introducing 2 new items every year to the menu allows for Dominos to adapt as food trends adapt. They also have decided to cut back on having limited time special offerings, as training employees on seasonal items increases labor costs and mistakes. Internationally, Dominos does a good job penetrating unique markets and creating menu items that suit local taste.

3

Domino's has its own online platform and is not entirely dependent on Uber Eats. The deal is only in place for 1 year and if need be, they can always expand onto other apps if they gain more market share. Uber Eats is still the dominant food delivery app with 23% share of sales and Grub Hub having 8% market share as of 2024.

2

Pizza consumption notoriously follows the trend of the GDP growth rate, meaning that pizza is not necessarily an inferior good.

Pizza Consumption vs. GDP Growth Rate (Navy & Black) with High Correlation Highlighted

