

Domino's



Ticker: DPZ

Major Stock Index: -

Stock Picking Philosophy

With its cost- and tax-efficient investment approach Herges Capital invests in individual stocks from the U.S. and abroad. Subsequently avoiding fee-intensive mutual funds and even low-cost Exchange Traded Funds (ETFs). Unlike with funds dividends are received immediately and continuously. Also ethical investment considerations can be expressed and realized.

The quantitative stock selection process aims for firms whose earnings are less likely to surprise negatively. The expectation being that over the long term a diversified portfolio of those carefully-selected picks yields a higher return than the general stock market.

Domino's (ticker **DPZ**) is such top candidate in Herges Capital's selection process.

THIS IS NOT A STOCK PURCHASE OR SELL RECOMMENDATION.

INSTEAD THIS PIECE EXPLAINS HERGES CAPITAL'S STOCK SELECTION PHILOSOPHY GIVEN A CONCRETE EXAMPLE. IT IS MEANT TO FURTHER FAMILIARIZE HERGES CAPITAL CLIENTS WITH THE REASONING AND FINANCIAL DATA BEHIND A POSSIBLE SINGLE STOCK INVESTMENT. HERGES CAPITAL AND ITS CLIENTS MAY OR MAY NOT HAVE A POSITION IN THIS PARTICULAR NAME AT ANY GIVEN TIME.

About Domino's

Domino's is an international Quick Service Restaurant (QSR) franchisor. The stock is categorized in the cyclical and therefore economically most sensitive **CONSUMER DISCRETIONARY** sector within the 'Hotels, Restaurants & Leisure' industry. Main competitors are Pizza Hut, part of Yum! Brands (ticker **YUM**), and Papa John's (ticker **PZZA**).

Domino's might be better known as Domino's Pizza. But the pizza chain changed its name in 2012 insisting the brand is about so much more than just pizza.

Domino’s over 15,000 stores are all over the world. But main geographic focus is the U.S. (5751 stores) followed by India (1146) and the UK/Ireland (1126). Consequently, there is some exposure to developing markets’ economy and currency.

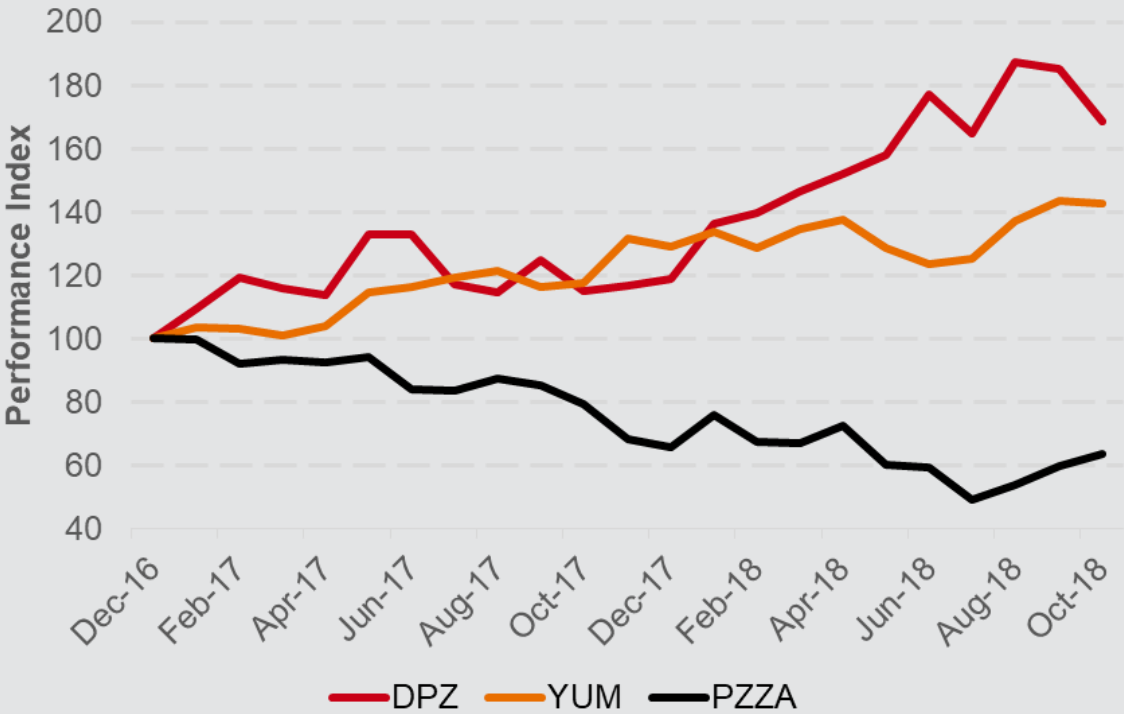


Chart 1: Domino’s out-performing its peers the past two years. Monthly data since Dec 2016. Source: investing.com

One reason for Domino’s recent success in the pizza war is its progressive digital channel sales initiative. Over 60% of U.S. sales is transacted now in that way! Its apps are favorably rated.

Quarterly earnings data do reveal that Domino’s business is highly seasonal. Q4 results are on average more than 50% above the previous Q3 quarter! Peak delivery days like Halloween, Thanksgiving and New Year’s Eve all fall into that time of the year.

Stable Earnings

One of the most influential factors in Herges Capital’s stock selection process is past earnings per share. Stable historical earnings reduce the risk of negative surprises in the future.

Domino’s historical earnings are constantly upward sloping, never even corrected once. While earnings per share cannot be compared directly between stocks of different prices, it is evident that the competitors’ earnings are more erratic.

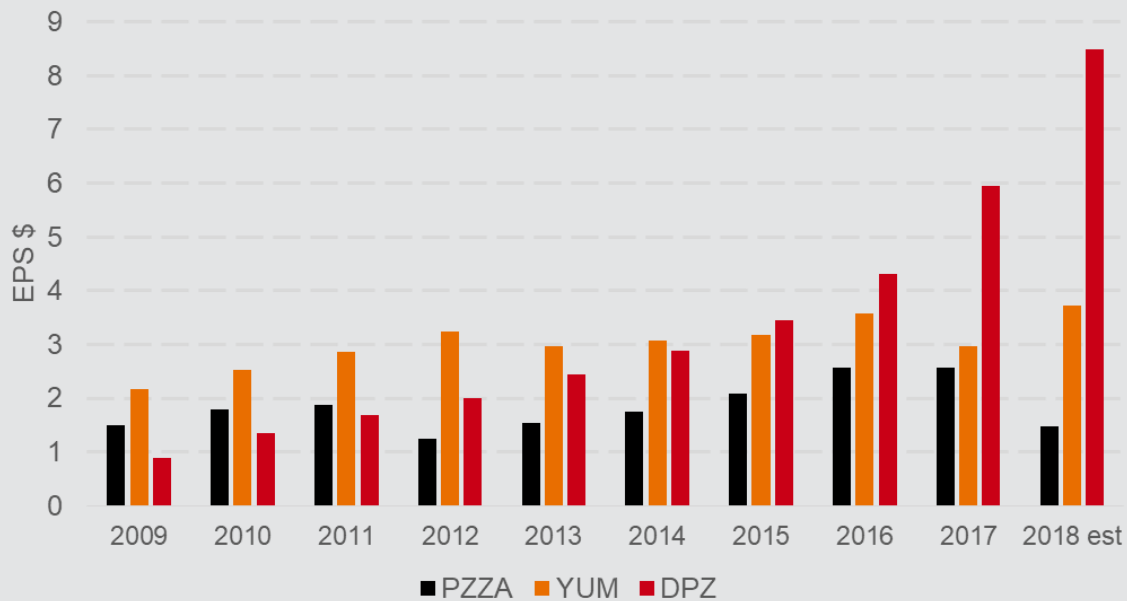


Chart 2: Historical Earnings per Share (EPS)

Source: fidelity.com

Reliable Dividends

Domino's 0.8% dividend yield is below that of Yum! Brands and Papa John's, both 1.6%. The shareholder payout is also clearly below that of its 2.4% industry average (hotels, restaurants, leisure facilities). It appears Domino's is rather using its profit to finance further rapid expansion than distributing to investors. Still, during the past years Domino's regular dividend per share payments grew by astonishing minimum 20% ever single year!

That dividend growth pattern is of course not sustainable. But stable earnings support and imply safe future dividends.

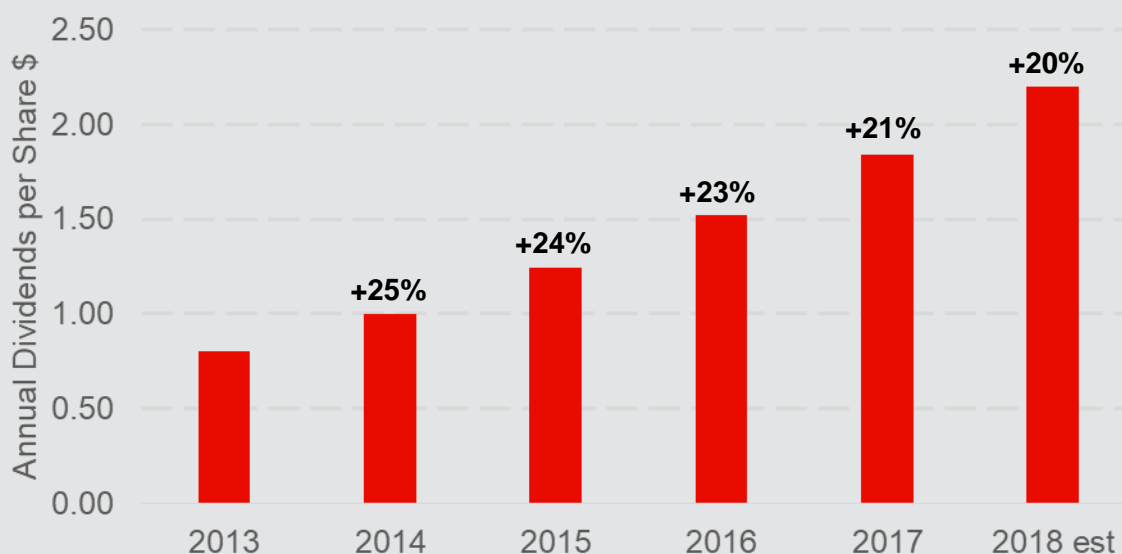


Chart 3: Domino's regular dividend per share growth

Source: fidelity.com

Size, Index Membership and Ownership

Domino's market capitalization of \$11.4bn is substantially higher than Papa John's \$1.7bn and about half that of Yum! Brands' \$28.3bn. But keep in mind Yum! Brands holds not only Pizza Hut but also the very popular KFC and Taco Bell chains.

Yum! Brands is a member of the prestigious S&P 500 stock index. Domino's is not yet. A possible future inclusion shall draw positive attention and boost further demand in this name.

As it is typical for larger cap stocks, Blackrock and the Vanguard Group are the main shareholders. Together they hold more than 20% of Domino's outstanding shares. But in addition, the company has two special investors:

- **Renaissance Technologies** is a systematic hedge fund holding close to 8% of Domino's stocks.
- **Tiger Global Management** manages hedge funds including private equity funds. It is holding about 5% of Domino's stocks.

Institutional owners reducing their significant positions could potentially put pressure on the stock price.

History

Originally the pizza restaurant and delivery service was named DomiNick's and was founded 1960 by the brothers **Tom and Jim MONAGHAN** in Ypsilanti, Michigan. Jim cashed his 50% stake after only 8 months in form of a used Volkswagen Beetle that was used to deliver orders.

More to read in the autobiography 'Pizza Tiger' by Tom Monaghan and Robert Anderson.

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HERGES
CAPITAL MANAGEMENT

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