

DOMINOS PIZZA INC
Form 10-Q
October 16, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended September 9, 2018

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 001-32242

Domino s Pizza, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of	38-2511577
Incorporation or Organization)	(I.R.S. Employer
30 Frank Lloyd Wright Drive	Identification No.)
Ann Arbor, Michigan	48105
(Address of Principal Executive Offices)	(Zip Code)
(734) 930-3030	
(Registrant's Telephone Number, Including Area Code)	

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 9, 2018, Domino's Pizza, Inc. had 41,594,653 shares of common stock, par value \$0.01 per share, outstanding.

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Domino s Pizza, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands)	September 9, 2018	December 31, 2017 (Note)
Assets		
Current assets:		
Cash and cash equivalents	\$ 84,600	\$ 35,768
Restricted cash and cash equivalents	168,170	191,762
Accounts receivable, net	170,244	173,677
Advertising fund assets, restricted	118,833	120,223
Inventories	41,420	39,961
Prepaid expenses and other	22,382	18,389
Total current assets	605,649	579,780
Property, plant and equipment:		
Land and buildings	40,423	29,171
Leasehold and other improvements	134,776	128,613
Equipment	222,582	216,599
Construction in progress	56,383	32,482
	454,164	406,865
Accumulated depreciation and amortization	(247,165)	(237,279)
Property, plant and equipment, net	206,999	169,586
Other assets:		
Goodwill	14,919	15,423
Capitalized software, net	59,840	52,823
Other assets	21,793	16,391
Deferred income taxes	2,914	2,750
Total other assets	99,466	87,387
Total assets	\$ 912,114	\$ 836,753
Liabilities and stockholders' deficit		
Current liabilities:		

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Current portion of long-term debt	\$	35,847	\$	32,324
Accounts payable		87,509		106,894
Insurance reserves		21,859		20,754
Dividends payable		23,265		536
Advertising fund liabilities		112,222		120,223
Other accrued liabilities		95,729		117,554
Total current liabilities		376,431		398,285
Long-term liabilities:				
Long-term debt, less current portion		3,437,632		3,121,490
Insurance reserves		33,994		30,611
Other accrued liabilities		37,815		21,751
Total long-term liabilities		3,509,441		3,173,852
Stockholders' deficit:				
Common stock		416		429
Additional paid-in capital		1,914		5,654
Retained deficit		(2,972,565)		(2,739,437)
Accumulated other comprehensive loss		(3,523)		(2,030)
Total stockholders' deficit		(2,973,758)		(2,735,384)
Total liabilities and stockholders' deficit	\$	912,114	\$	836,753

Note: The balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.

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Domino s Pizza, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 9, 2018	September 10, 2017	September 9, 2018	September 10, 2017
Revenues:				
Domestic Company-owned stores	\$ 118,540	\$ 112,905	\$ 358,521	\$ 338,880
Domestic franchise royalties and fees	89,427	80,244	266,335	242,548
Supply chain	445,096	402,143	1,326,076	1,180,800
International franchise royalties and fees	50,424	48,350	154,182	134,242
Domestic franchise advertising	82,478		245,618	
Total revenues	785,965	643,642	2,350,732	1,896,470
Cost of sales:				
Domestic Company-owned stores	92,998	86,814	278,012	263,038
Supply chain	397,688	358,350	1,183,996	1,048,293
Total cost of sales	490,686	445,164	1,462,008	1,311,331
Operating margin	295,279	198,478	888,724	585,139
General and administrative	80,369	81,398	251,053	239,158
Domestic franchise advertising	82,478		245,618	
Income from operations	132,432	117,080	392,053	345,981
Interest income	792	612	2,451	999
Interest expense	(33,976)	(33,141)	(100,389)	(83,383)
Income before provision for income taxes	99,248	84,551	294,115	263,597
Provision for income taxes	15,153	28,183	43,785	79,019
Net income	\$ 84,095	\$ 56,368	\$ 250,330	\$ 184,578
Earnings per share:				
Common stock - basic	\$ 2.02	\$ 1.22	\$ 5.94	\$ 3.90
Common stock - diluted	1.95	1.18	5.73	3.76
Dividends declared per share	\$ 0.55	\$ 0.46	\$ 1.65	\$ 1.38
See accompanying notes.				

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Domino s Pizza, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands)	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 9, 2018	September 10, 2017	September 9, 2018	September 10, 2017
Net income	\$ 84,095	\$ 56,368	\$ 250,330	\$ 184,578
Currency translation adjustment	(84)	1,406	(1,142)	1,688
Comprehensive income	\$ 84,011	\$ 57,774	\$ 249,188	\$ 186,266

See accompanying notes.

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Domino s Pizza, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Three Fiscal Quarters Ended	
	September 9, 2018	September 10, 2017
Cash flows from operating activities:		
Net income	\$ 250,330	\$ 184,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,770	30,054
(Gain) loss on sale/disposal of assets	(5,187)	648
Amortization of debt issuance costs	6,581	9,424
Provision for deferred income taxes	1,737	5,680
Non-cash compensation expense	15,660	14,271
Excess tax benefits from equity-based compensation	(22,722)	(20,430)
Other	356	234
Changes in operating assets and liabilities	(25,580)	(2,321)
Changes in advertising fund assets and liabilities, restricted	5,574	5,961
Net cash provided by operating activities	262,519	228,099
Cash flows from investing activities:		
Capital expenditures	(65,074)	(38,897)
Proceeds from sale of assets	8,213	31
Maturities of advertising fund investments, restricted	44,007	
Purchases of advertising fund investments, restricted	(50,152)	
Other	(2,357)	296
Net cash used in investing activities	(65,363)	(38,570)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	905,000	1,900,000
Repayments of long-term debt and capital lease obligations	(595,067)	(920,093)
Proceeds from exercise of stock options	8,967	4,014
Purchases of common stock	(429,190)	(1,012,721)
Tax payments for restricted stock upon vesting	(6,849)	(9,386)
Payments of common stock dividends and equivalents	(46,720)	(44,630)
Cash paid for financing costs	(8,207)	(16,846)
Other		(205)
Net cash used in financing activities	(172,066)	