

DOMINOS PIZZA INC
Form 10-K
February 21, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2018

or

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

Commission File Number 001-32242

Domino s Pizza, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	38-2511577 (I.R.S. Employer Identification No.)
30 Frank Lloyd Wright Drive Ann Arbor, Michigan (Address of principal executive offices)	48105 (Zip Code)
Registrant's telephone number, including area code (734) 930-3030	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Domino's Pizza, Inc.	New York Stock Exchange
Common Stock, \$0.01 par value	
Securities registered pursuant to Section 12(g) of the Act: <u>None</u>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes No

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, 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 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 Act): Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of Domino's Pizza, Inc. as of June 17, 2018 computed by reference to the closing price of Domino's Pizza, Inc.'s common stock on the New York Stock Exchange on such date was \$11,546,079,722.

As of February 14, 2019, Domino's Pizza, Inc. had 41,040,704 shares of common stock, par value \$0.01 per share, outstanding.

Documents incorporated by reference:

Portions of the definitive proxy statement to be furnished to shareholders of Domino's Pizza, Inc. in connection with the annual meeting of shareholders to be held on April 23, 2019 are incorporated by reference into Part III.

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Throughout this document, Domino's Pizza, Inc. (NYSE: DPZ) is referred to as the Company, Domino's, Domino's Pizza or in the first-person notations of we, us and our.

In this document, we rely on and refer to information regarding the U.S. quick service restaurant, or QSR, sector and the U.S. QSR pizza category from the CREST® report (years ending November) prepared by The NPD Group, as well as market research reports, analyst reports and other publicly-available information. Although we believe this information to be reliable, we have not independently verified it. Domestic sales information relating to the U.S. QSR sector and the U.S. QSR pizza category represent reported consumer spending obtained by The NPD Group's CREST® report from consumer surveys. This information relates to both our Company-owned and franchised stores.

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Part I

Item 1. Business.

Overview

Domino's is the largest pizza company in the world based on global retail sales, with more than 15,900 locations in over 85 markets around the world. Founded in 1960, our roots are in convenient pizza delivery, while a significant amount of our sales also come from carryout customers. Although we are a highly-recognized global brand, we focus on serving the local neighborhoods in which we live and do business through our large global network of franchise owners and 390 U.S. Company-owned stores. On average, we and our franchisees sell more than 3 million pizzas each day throughout our global system.

The Domino's business model is straightforward: we handcraft and serve quality food at a competitive price, with easy ordering access and efficient service, enhanced by our technology innovations. Our dough is generally made fresh and distributed to stores around the world by us and our franchisees.

Domino's generates revenues and earnings by charging royalties and fees to our franchisees. Royalties are ongoing percent-of-sales fees for use of the Domino's® brand marks. The Company also generates revenues and earnings by selling food, equipment and supplies to franchisees primarily in the U.S. and Canada, and by operating a number of our own stores. Franchisees profit by selling pizza and other complementary items to their local customers. In our international markets, we generally grant geographical rights to the Domino's Pizza® brand to master franchisees. These master franchisees are charged with developing their geographical area, and they may profit by sub-franchising and selling food and equipment to those sub-franchisees, as well as by running pizza stores. Everyone in the system can benefit, including the end consumer, who can purchase Domino's menu items for themselves and their family conveniently and economically.

The Domino's business model can yield strong returns for our franchise owners and Company-owned stores. It can also yield significant cash flow to us, through a consistent franchise royalty payment and supply chain revenue stream, with moderate capital expenditures. We have historically returned cash to shareholders through dividend payments and share repurchases since becoming a publicly-traded company.

Our History

We pioneered the pizza delivery business and built Domino's Pizza into one of the most widely-recognized consumer brands in the world. We have been delivering quality, affordable food to our customers since 1960, when brothers Thomas and James Monaghan borrowed \$900 to purchase a small pizza store in Ypsilanti, Michigan. Thomas purchased his brother's share of the business shortly thereafter. Concentrating first on building stores near college campuses and military bases in the 1960s and 1970s, the brand grew quickly in the 1980s in urban markets and near residential communities. We became Domino's Pizza in 1965 and opened our first franchised store in 1967. The first international stores opened in 1983, in Canada and Australia.

Monaghan sold 93% of his economic stake in the Company in 1998 to Bain Capital, LLC, then sold and transferred his remaining stake in the Company in 2004, when we completed our initial public offering.

Since 1998, the Company has been structured with a leveraged balance sheet and has completed a number of recapitalization events. The Company's most recent recapitalization transaction in 2018 (the 2018 Recapitalization) primarily consisted of the issuance of \$825.0 million of fixed rate notes and the repurchase and retirement of

\$490.0 million of previously outstanding fixed rate notes. As of December 30, 2018, the Company had \$3.53 billion in total debt, which included debt from its 2018 Recapitalization and its previous recapitalization transactions in 2017 and 2015 (the 2017 Recapitalization and the 2015 Recapitalization, and together with the 2018 Recapitalization, the 2018, 2017 and 2015 Recapitalizations). Excess proceeds from our 2018, 2017 and 2015 Recapitalizations were used primarily to repurchase shares of our common stock.

We re-launched our brand in the U.S. in late 2009 by introducing a new recipe for our core pizza product. Since 2008, the majority of our menu has changed, either through the improvement of existing products or the introduction of new products, such as our Handmade Pan Pizza and Specialty Chicken. During this time frame, we also began expanding our focus on technology through our development of innovative ordering platforms and other technological advancements, such as the launch of our Piece of the Pie Rewards[®] loyalty program in 2015 and the launch of Domino's Delivery HotSpots[®] in 2018. Globally, we opened our 10,000th store in 2012 and our 15,000th store in 2018. In 2013, we announced a plan requiring all stores to adopt our new carry-out friendly Pizza Theater store design, which is more inviting to customers and allows them to see their orders being made fresh in front of them. The majority of our U.S. and international stores have completed these remodels as of the end of 2018.

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Our Industry

The U.S. QSR pizza category is large and fragmented. From 2008 through 2018, the U.S. QSR pizza category has grown from \$32.8 billion to \$36.5 billion. It is the second-largest category within the \$299.6 billion U.S. QSR sector. The U.S. QSR pizza category is primarily comprised of delivery, dine-in and carryout.

In the U.S., we compete primarily in the delivery and carryout segments of the pizza industry. We are the market share leader in the delivery segment and we are amongst the top three chains in share in the carryout segment. Delivery segment sales of \$9.8 billion in 2018 (down from \$10.3 billion in 2008) account for approximately 27% of total U.S. QSR pizza. The delivery segment declined slightly during the period from 2008 to 2012, and has increased slightly since 2012, from \$9.7 billion in 2012 to \$9.8 billion in 2018. The three industry leaders, including Domino's, account for over 56% of U.S. pizza delivery, based on reported consumer spending, with the remaining sales going to regional chains and independent establishments. From 2008 to 2018, the carryout segment grew from \$14.1 billion to \$17.1 billion. The four industry leaders, including Domino's, account for approximately 48% of the carryout segment.

In contrast to the U.S., international pizza delivery is relatively underdeveloped, with only Domino's and two other competitors having a significant global presence. We believe that demand for pizza and pizza delivery is large and growing throughout the world, driven by international consumers' increasing emphasis on convenience, and the proven success of our 35 years of conducting business abroad.

Our Competition

The global pizza delivery and carryout segments are highly competitive. In the U.S., we compete against regional and local companies as well as national chains Pizza Hut®, Papa John's® and Little Caesars Pizza®. Internationally, we compete primarily with Pizza Hut®, Papa John's® and country-specific national and local pizzerias. We generally compete on the basis of product quality, location, image, service, technology, convenience and price. Our business and those of our competitors can be affected by changes in consumer tastes, economic conditions, demographic trends and consumers' disposable income. We also compete on a broader scale with other food and food delivery companies. We compete not only for customers, but also for employees, suitable real estate sites and qualified franchisees.

Our Customers

The Company's business is not dependent upon a single retail customer or small group of customers, including franchisees. No customer accounted for more than 10% of total consolidated revenues in 2018, 2017 or 2016. Our largest franchisee based on store count, Domino's Pizza Enterprises (DMP: ASX), operates 2,383 stores in seven international markets, and accounts for 15% of our total store count. Revenues from this master franchisee accounted for 1.4% of our consolidated revenues in 2018. Our international business unit only requires a modest amount of general and administrative expenses to support its markets and does not have costs of sales. Therefore, the vast majority of these royalty revenues result in profits to us.

Our Menu

We offer a menu designed to present an attractive, quality offering to customers, while keeping it simple enough to minimize order errors and expedite order-taking and food preparation. Our basic menu features pizza products with varying sizes and crust types. Our typical store also offers oven-baked sandwiches, pasta, boneless chicken and wings, bread side items, desserts and soft drink products. International markets vary toppings by country and culture, such as squid topping in Japan or spicy cheese in India, and often feature regional specialty items, such as a banana and cinnamon dessert pizza in Brazil.

Store Image and Operations

We have been focused primarily on pizza delivery for nearly 60 years, as well as carryout as a significant component of our business. In 2012, we introduced our carryout-friendly Pizza Theater store design; the majority of our U.S. and international stores have converted to this design as of the end of 2018. Many stores offer casual seating and enable customers to watch the preparation of their orders, but do not offer a full-service dine-in experience. As a result, our stores generally do not require expensive restaurant facilities and staffing.

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Our Business Segments

We operate, and report, three business segments: U.S. stores, international franchise and supply chain.

U.S. Stores

Our U.S. stores segment consists primarily of our franchise operations, which consist of 5,486 franchised stores located in the United States. We also operate a network of 390 U.S. Company-owned stores.

During 2018, our U.S. stores segment accounted for \$1.26 billion, or 37% of our consolidated revenues. We use our Company-owned stores as test sites for new products and promotions as well as operational improvements. We also use them for training new store managers and operations team members, as well as developing prospective franchisees. While we are primarily a franchised business, we continuously evaluate our mix of U.S. Company-owned and franchise stores.

We maintain a productive relationship with our independent franchise owners through regional franchise teams, distributing materials that help franchise stores comply with our standards and using franchise advisory groups that facilitate communications between us and our franchisees.

U.S. Franchise Profile

As of December 30, 2018, our network of 5,486 U.S. franchise stores were owned and operated by 793 independent U.S. franchisees. Our franchise formula enables franchisees to benefit from our brand name with a relatively low initial capital investment. As of December 30, 2018, the average U.S. franchisee owned and operated seven stores and had been in our franchise system for over 18 years. At the same time, 17 of our U.S. franchisees operated more than 50 stores (including our largest U.S. franchisee who operated 179 stores) and 262 of our U.S. franchisees each operated one store.

We apply rigorous standards to prospective U.S. franchisees. We generally require them to manage a store for at least one year and graduate from our franchise management school before being granted a franchise. This enables us to observe the operational and financial performance of a potential franchisee prior to entering into a long-term contract. Substantially all of our 793 independent U.S. franchise owners started their careers with us as delivery drivers or in other in-store positions, which we believe offers advantages in terms of familiarity with our business and store operations. In addition, we generally restrict the ability of U.S. franchisees to be involved in other businesses, which we believe helps focus our franchisees' attention on operating their stores. We believe these characteristics and standards are largely unique within the franchise industry and have resulted in qualified and focused franchisees operating Domino's stores.

U.S. Franchise Agreements

We enter into franchise agreements with U.S. franchisees under which the franchisee is generally granted the right to operate a store in a particular location for a term of ten years, with an ability to renew for an additional term of ten years. We have a franchise contract renewal rate of approximately 99%. Under the current standard franchise agreement, we assign an exclusive area of primary responsibility to each franchised store. Each franchisee is generally required to pay a 5.5% royalty fee on sales. In certain instances, we will collect lower rates based on new store incentives.

Our U.S. stores currently contribute 6% of their sales to fund national marketing and advertising campaigns (subject, in certain instances, to lower rates based on certain incentives and waivers). These funds are administered by Domino's National Advertising Fund Inc. (DNAF), our consolidated not-for-profit advertising subsidiary. The funds are primarily used to purchase media for advertising, but also support market research, field communications, public relations, commercial production, talent payments and other activities to promote the brand. In addition to the national and market-level advertising contributions, U.S. stores spend additional funds on local store marketing activities.

We have the contractual right, subject to state law, to terminate a franchise agreement for a variety of reasons, including, but not limited to, a franchisee's failure to adhere to the Company's franchise agreement, failure to make required payments, or failure to adhere to specified Company policies and standards.

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Our international franchise segment is comprised of a network of franchised stores in more than 85 international markets. At December 30, 2018, we had 10,038 international franchise stores. During 2018, this segment accounted for \$224.7 million, or 6% of our consolidated revenues. The principal sources of revenues from those operations are royalty payments generated by retail sales from franchised stores.

Our international franchisees employ our basic standard operating model and adapt it to satisfy the local eating habits and consumer preferences of various regions outside the U.S. Currently, the vast majority of our international stores operate under master franchise agreements.

We believe Domino's appeals to potential international franchisees because of our recognized brand name and technological leadership, the moderate capital expenditures required to open and operate our stores and our system's favorable store economics. Stores in eight of our top ten international markets in terms of store count are operated by master franchise companies that are publicly traded on stock exchanges in India (JUBLFOOD: NS), the United Kingdom (DOM: L), Mexico (ALSEA: MX), Australia (DMP: ASX) (which operates the stores in our Australia, Japan, France and Germany markets) and Turkey (DPEU: L). The following table shows our store count as of December 30, 2018 in our top ten international markets, which accounted for approximately 64% of our international stores as of December 30, 2018.

Market	Number of stores
India	1,195
United Kingdom	1,100
Mexico	760
Australia	693
Japan	550
Turkey	535
Canada	487
South Korea	447
France	387
Germany	283

International Franchisee Profile

The vast majority of our markets outside of the U.S. are operated by master franchisees with franchise and distribution rights for entire regions or countries. In a few select markets, we franchise directly to individual store operators. Prospective master franchisees are required to possess local market knowledge to establish and develop Domino's Pizza stores, with the ability to identify and access targeted real estate sites, as well as expertise in local laws, customs, culture and consumer behavior. We also seek candidates that have access to sufficient capital to meet growth and development plans.

Master Franchise Agreements

Our master franchise agreements generally grant the franchisee exclusive rights to develop and sub-franchise stores and the right to operate supply chain centers in particular geographic areas. Agreements are generally for a term of ten years, with options to renew for additional terms. The agreements typically contain growth clauses requiring

franchisees to open a minimum number of stores within a specified period. The master franchisee is generally required to pay an initial, one-time franchise fee as well as an additional franchise fee upon the opening of each new store. The master franchisee is also required to pay a continuing royalty fee as a percentage of sales, which varies among international markets, and averaged approximately 3.0% in 2018.

Supply Chain

Our supply chain segment operates 19 regional dough manufacturing and food supply chain centers in the U.S., one thin crust manufacturing center, one vegetable processing center and one center providing equipment and supplies to our U.S. and certain international stores. We plan to continue investing in additional supply chain centers and capacity initiatives in the future. We also operate five dough manufacturing and food supply chain centers in Canada. Our supply chain segment leases a fleet of more than 800 tractors and trailers. During 2018, our supply chain segment accounted for \$1.94 billion, or nearly 57% of our consolidated revenues.

Our centers produce fresh dough and purchase, receive, store and deliver quality food and other complementary items to our U.S. stores and most of our Canadian franchised stores. We regularly supply over 6,300 stores with various food and supplies. Our supply chain segment made approximately 766,000 full-service deliveries in 2018 or approximately 2.5 deliveries per store per week, and we produced over 573 million pounds of fresh dough during 2018.

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We believe our franchisees voluntarily choose to obtain food, supplies and equipment from us because we offer the most efficient, convenient and cost-effective alternative, while also offering both quality and consistency. Our supply chain segment offers profit-sharing arrangements to franchisees who purchase all of their food for their stores from our centers. These profit-sharing arrangements generally offer participating franchisees and Company-owned stores with 50% (or a higher percentage in the case of Company-owned stores and certain franchisees who operate a larger number of stores) of their regional supply chain center's pre-tax profits. We believe these arrangements strengthen our ties and provide aligned benefits with franchisees.

Third-Party Suppliers

Over half of our annual food spend is with suppliers with whom we have maintained a partnership of at least 20 years. Our supply partners are required to meet strict quality standards to ensure food safety. We review and evaluate these partners' quality assurance programs through (among other actions) on-site visits, third-party audits and product evaluations to ensure compliance with our standards. We believe the length and quality of our relationships with third-party suppliers provides us with priority service and quality products at competitive prices.

Cheese is our largest food cost. The price we charge to our U.S. franchisees for cheese is based on the Chicago Mercantile Exchange cheddar block price, plus a supply chain markup. As cheese prices fluctuate, our revenues and margin percentages in our supply chain segment also fluctuate; however, actual supply chain dollar margins remain unchanged. We currently purchase our U.S. pizza cheese from a single supplier. Under our September 2017 agreement, our U.S. supplier agreed to provide an uninterrupted supply of cheese and the Company agreed to a seven-year pricing schedule to purchase all of its U.S. pizza cheese from this supplier. While we expect to meet the terms of this agreement, if we do not, we will be required to repay the certain negotiated cost savings as outlined in the agreement. The majority of our meat toppings in the U.S. come from a single supplier under a contract that expires in June 2022. We have the right to terminate these arrangements for quality failures and for uncured breaches.

We are party to a multi-year agreement with Coca-Cola® for the contiguous U.S. This contract, renegotiated in December 2013, provides for Coca-Cola to continue to be our exclusive beverage supplier and expires in March 2019.

We believe alternative third-party suppliers are available for all of these referenced products. While we may incur additional costs if we are required to replace any of our supply partners, we do not believe such additional costs would have a material adverse effect on our business. We continually evaluate each supply category to determine the optimal sourcing strategy.

We have not experienced any significant shortages of supplies or delays in receiving our inventories or products. Prices charged to us by our supply partners are subject to fluctuation, and we have historically been able to pass increased costs and savings on to stores. We periodically enter into supplier contracts to manage the risk from changes in commodity prices. We do not engage in speculative transactions, nor do we hold or issue financial instruments for trading purposes.

Our Strengths

Strong Brand Equity

We are the largest pizza company in the world based on global retail sales. We believe our Domino's Pizza brand is one of the most widely-recognized consumer brands in the world. We are the recognized world leader in pizza delivery and have a significant business in carryout. We believe consumers associate our brand with the timely delivery of quality, affordable food.

Over the past five years, our U.S. franchise and Company-owned stores have invested an estimated \$1.9 billion in national, co-operative and local advertising. Our international franchisees also invest significant amounts in advertising efforts in their markets. We continue to reinforce our brand with extensive advertising through various media channels. We have also enhanced the strength of our brand through marketing affiliations with brands such as Coca-Cola.

We are the number one pizza delivery company in the U.S. with a 31.1% share of pizza delivery based on reported consumer spending. With 5,876 stores located in the U.S., our store delivery areas cover a majority of U.S. households. Our share position and scale allow us to leverage our purchasing power, supply chain strength and marketing investments. We believe our scale and market coverage allow us to effectively serve our customers demands for convenience and timely delivery. Outside the U.S., we have significant market share positions in many of the markets in which we compete.

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Strong and Proven Business Model

Our business model generates U.S. and international franchise royalties and fees, supply chain revenue and retail sales at Company-owned stores. We have developed this model over our many years of operation and it is anchored by strong store-level economics, which provide an entrepreneurial incentive for our franchisees and historically has generated demand for new stores. Our franchise system, in turn, has produced strong and consistent earnings for us through royalty payments and through supply chain revenues, with moderate capital expenditures by us.

We developed a cost-efficient store model, characterized by a delivery- and carryout-oriented store design, with moderate capital requirements and a menu of quality, affordable items. At the store level, we believe the simplicity and efficiency of our operations give us significant advantages over our competitors, who, in many cases, also focus on dine-in or have broader menu offerings. At the supply chain level, we believe we provide quality, good value and consistency for our franchise customers while also driving profits for us, which we share with our franchisees.

Our menu simplifies and streamlines production and delivery processes and maximizes economies of scale on purchases of our principal food items. In addition, our stores are generally smaller and less expensive to build, furnish and maintain as compared to many other restaurant concepts. New stores built in our Pizza Theater design are often slightly larger than stores we have built in the past to create a better experience for our carryout and dine-in customers; however, they are still generally smaller and less expensive than many other restaurant concepts. The combination of this efficient store model and strong sales volume has resulted in favorable store-level financial returns and, we believe, makes Domino's Pizza an attractive business opportunity for existing and prospective franchisees around the world. We and our franchisees are continuing to focus on growing our store count around the world to increase our presence in all of our markets to better serve our customers.

We believe our store economics have led to a strong, well-diversified franchise system. This established franchise system has produced strong cash flows and earnings for us, enabling us to invest in the Domino's Pizza brand, stores, technology and supply chain centers, pay significant dividends, repurchase and retire shares of our common stock and service our debt obligations.

Technological Innovation

Technological innovation is vital to our brand and our long-term success. Digital ordering is critical to competing in the global pizza industry. In 2018, more than half of all global retail sales were derived from digital channels, primarily through our online ordering website and mobile applications. We believe we are among the largest e-commerce retailers in terms of annual transactions. After launching digital ordering in the U.S. in 2008, we made the strategic decision in 2010 to develop our own online ordering platform and to manage this important and growing area of our business internally. Over the next five years, we launched mobile applications that cover 95% of the smartphones and tablets on the U.S. market. In 2013, we launched an enhanced online ordering profiles platform, allowing customers the ability to reorder their favorite order in as few as five clicks, or 30 seconds. In 2014, we introduced Dom, a voice ordering application, which we believe is the first in the restaurant industry, and we also made the Domino's Tracker[®] available on our ordering platforms. In 2015, we introduced several innovative ordering platforms including Samsung Smart TV[®], Twitter, and text message using a pizza emoji. We continued this trend of innovation in 2016 with the introduction of zero-click ordering as well as adding Google Home, Facebook Messenger, Apple Watch, and Amazon Echo to our ordering platforms. In 2017, as part of an industry-first collaboration with Ford Motor Company, we began a meaningful test of delivery using self-driving vehicles. In April 2018, we launched Domino's Delivery HotSpots, featuring over 200,000 non-traditional delivery locations including parks, beaches, local landmarks and other unique gathering spots.

The Company's Piece of the Pie Rewards loyalty program, launched in 2015, is meant to reward customers with a program that is simple to understand and easy to use. Upon signing up for the program, customers become rewards members and can earn points for online orders. When rewards members reach a certain amount of points, they can redeem their points for free pizza. Rewards members may also receive exclusive members-only discounts and bonus offers. We may also occasionally provide additional opportunities for participating customers to benefit under the Piece of the Pie Rewards program.

All of this improved functionality has been developed to work seamlessly with our Domino's PULSE point-of-sale system. Our Domino's PULSE system is designed to drive operating efficiencies for our franchisees and our corporate management and assist franchisees in independently managing their business. We have installed Domino's PULSE in every Company-owned store in the U.S., in more than 99% of our U.S. franchised stores and in approximately 72% of our international stores.

We believe utilizing Domino's PULSE with our integrated technology solutions throughout our system provides us with competitive advantages over other concepts. We intend to continue to enhance and grow our online ordering, digital marketing and technological capabilities.

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Product Innovation

In late 2009, we reintroduced our core hand-tossed pizza in the U.S. with a new recipe, which we believe has contributed to continued growth in customer reorder rate, consumer traffic and increased sales. This recipe is now in use in other markets around the world. Our nearly 60 years of innovation have resulted in numerous new product developments, including our more recent innovations of Handmade Pan Pizza, Specialty Chicken, Parmesan Bread Bites, Stuffed Cheesy Bread, Marbled Cookie Brownie and Bread Twists, among others. Product innovation is also present in our global markets, where our master franchisees have the ability to recommend products to suit their local market tastes. Products include the Mayo Jaga in Japan (bacon, potatoes and sweet mayonnaise) and the Saumoneta in France (light cream, potatoes, onions, smoked salmon and dill).

Internal Dough Manufacturing and Supply Chain System

In addition to generating significant revenues and earnings in the U.S. and Canada, we believe our vertically integrated dough manufacturing and supply chain system enhances the quality and consistency of our products, enhances our relationships with franchisees and leverages economies of scale to offer lower costs to our stores. It also allows store managers to better focus on store operations and customer service by relieving them of the responsibility of mixing dough in the stores and sourcing other ingredients. Many of our international master franchisees also profit from running supply chain businesses.

Our Ideals

We believe in: opportunity, hard work, inspired solutions, winning together, embracing community and uncommon honesty.

Opportunity abounds at Domino's. You can start in an entry-level position and become a store owner—in fact, substantially all of our independent U.S. franchise owners started their careers with us as delivery drivers or in other in-store positions. Thousands of other team members—supervisors, trainers, quality auditors, international business consultants, marketers and executives—also began their careers in the stores. Internal growth and providing opportunities for anyone willing to work hard are the foundation of our core beliefs.

The ideals of inspired solutions, uncommon honesty and winning together were driving forces behind the relaunch of our brand. We were inspired by our harshest critics when it came to the perceived taste of our pizza. Our solution was not simply more advertising; the solution was to create a new recipe and a broader menu of great-tasting products. Our marketing campaign was shockingly honest in its approach: telling consumers (and showing them via television ads) that we heard their negative feedback and were listening. And, without the buy-in from our franchise owners, we couldn't have done it. We believe that we can't focus solely on the Company's success; we must focus on making our stores and our franchisees successful. That's winning together.

Community Involvement

We believe in supporting the communities we serve through donating our time, money and pizza. You can find more information about our community giving at biz.dominos.com. Here are two organizations worthy of note:

Our national philanthropic partner is St. Jude Children's Research Hospital®. St. Jude is internationally-recognized for its pioneering work in finding cures and saving children with cancer and other catastrophic diseases. Through a variety of internal and consumer-based activities, including a national fundraising campaign called *St. Jude Thanks and Giving*®, the Domino's system has contributed \$57.5 million to St. Jude since our partnership began in 2004,

including raising \$10.5 million in 2018. In addition to raising funds, we have supported St. Jude through in-kind donations, including hosting hospital-wide pizza parties for patients and their families. Our system also helps St. Jude build awareness through the inclusion of the St. Jude logo on millions of our pizza boxes and through a link on our consumer website, as well as a St. Jude-themed Pizza Tracker during *Thanks and Giving*[®].

We also support the Domino's Pizza Partners Foundation (the Partners Foundation). Founded in 1986, the mission of the Partners Foundation is Team Members Helping Team Members. Primarily funded by team member and franchise contributions, the foundation is a separate, not-for-profit organization that has disbursed more than \$6.7 million over the past five years. The Partners Foundation is committed to meeting the needs of Domino's team members facing crisis situations, such as fire, illness, natural disasters or other personal tragedies.

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Additional Disclosures

Employees

As of December 30, 2018, we had approximately 14,500 employees in our Company-owned stores, supply chain centers, World Resource Center and regional offices. None of our employees is covered by a collective bargaining agreement. As franchisees are independent business owners, they and their employees are not included in our employee count. We consider our relationship with our employees and franchisees to be good. We estimate the total number of people who work in the Domino's system, including our employees, franchisees and the employees of franchisees, was more than 320,000 as of December 30, 2018.

Working Capital

Information about the Company's working capital is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7., pages 35 through 39.

Government Regulation

We, along with our franchisees, are subject to various federal, state and local laws affecting the operation of our business. Each store is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, building and fire agencies in the jurisdiction in which the store is located. In connection with maintaining our stores, we may be required to expend funds to meet certain federal, state and local regulations, including regulations requiring that remodeled or altered stores be accessible to persons with disabilities. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new store in a particular area or cause an existing store to cease operations. Our supply chain facilities are also licensed and subject to similar regulations by federal, state and local health and fire codes.

We are also subject to the Fair Labor Standards Act and various other federal and state laws governing such matters as minimum wage requirements, overtime and other working conditions and citizenship requirements. A significant number of both our and our franchisees' food service personnel are paid at rates related to the applicable minimum wage, and past increases in the minimum wage have increased labor costs, as would future increases.

We are subject to the rules and regulations of the Federal Trade Commission and various state laws regulating the offer and sale of franchises. The Federal Trade Commission and various state laws require that we furnish a franchise disclosure document containing certain information to prospective franchisees, and a number of states require registration of the franchise disclosure document with state authorities. We are operating under exemptions from registration in several states based on the net worth of our subsidiary, Domino's Pizza Franchising LLC, and experience. We believe our franchise disclosure document, together with any applicable state versions or supplements, and franchising procedures comply in all material respects with both the Federal Trade Commission guidelines and all applicable state laws regulating franchising in those states in which we have offered franchises.

Internationally, our franchise stores are subject to national and local laws and regulations that are often similar to those affecting our U.S. stores, including laws and regulations concerning franchises, labor, health, sanitation and safety. Our international stores are also often subject to tariffs and regulations on imported commodities and equipment, and laws regulating foreign investment. We believe our international disclosure statements, franchise offering documents and franchising procedures comply in all material respects with the laws of the foreign countries in which we have offered franchises.

Privacy and Data Protection

We are subject to a number of privacy and data protection laws and regulations globally. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increase in attention given to privacy and data protection issues with the potential to directly affect our business. This includes recently-enacted laws and regulations in the U.S. and internationally requiring notification to individuals and government authorities of security breaches involving certain categories of personal information. We have a privacy policy posted on our website at www.dominos.com. The security of our financial data, customer information and other personal information is a priority for us.

Trademarks

We have many registered trademarks and believe that the Domino's mark and Domino's Pizza names and logos, in particular, have significant value and are important to our business. Our policy is to pursue registration of our trademarks and to vigorously oppose the infringement of any of our trademarks. We license the use of our registered marks to franchisees through franchise agreements.

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Environmental Matters

We are not aware of any federal, state or local environmental laws or regulations that we would expect to materially affect our earnings or competitive position or result in material capital expenditures. However, we cannot predict the effect of possible future environmental legislation or regulations. During 2018, there were no material environmental compliance-related capital expenditures, and no such material expenditures are anticipated in 2019.

Seasonal Operations

The Company's business is not typically seasonal.

Backlog Orders

The Company has no backlog orders as of December 30, 2018.

Government Contracts

No material portion of the Company's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

Available Information

The Company makes available, free of charge, through its internet website biz.dominos.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a), 15(d), or 16 of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission. Materials filed with the Securities and Exchange Commission are available at www.sec.gov. Retail orders from Domino's stores can be made through its internet website dominos.com. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and information appearing on those websites, including biz.dominos.com and dominos.com, should not be considered a part of this document.

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Item 1A. Risk Factors.

The quick service restaurant pizza category is highly competitive and such competition could adversely affect our operating results.

In the U.S., we compete against regional and local companies as well as national chains Pizza Hut®, Papa John ® and Little Caesars Pizza®. Internationally, we compete primarily with Pizza Hut®, Papa John ® and country-specific national and local companies. We could experience increased competition from existing or new companies in the pizza category which could create increasing pressures to grow our business in order to maintain our market share. Additionally, we face growing competition from the supermarket industry and meal kit and food delivery providers, with the improvement of prepared food offerings and the trend towards convergence in grocery, deli, retail and restaurant services. If we are unable to maintain our competitive position, we could experience downward pressure on prices, lower demand for our products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share, all of which would have an adverse effect on our operating results and could cause our stock price to decline.

We also compete on a broader scale with quick service and other international, national, regional and local restaurants. Competition from delivery aggregators and other food delivery services has also increased in recent years. The overall food service market and the quick service restaurant sector are intensely competitive with respect to food quality, price, service, image, convenience and concept, and are often affected by changes in:

consumer tastes;

international, national, regional or local economic conditions;

disposable purchasing power;

demographic trends; and

currency fluctuations related to international operations.

We compete within the food service market and the quick service restaurant sector not only for customers, but also for management and hourly employees, including drivers, suitable real estate sites and qualified franchisees. Our supply chain segment is also subject to competition from outside suppliers. While all U.S. franchisees purchased food, equipment and supplies from us in 2018, U.S. franchisees are not required to purchase food, equipment or supplies from us and they may choose to purchase from outside suppliers. If other suppliers who meet our qualification standards were to offer lower prices or better service to our franchisees for their ingredients and supplies and, as a result, our franchisees chose not to purchase from our U.S. supply chain centers, our financial condition, business and results of operations would be adversely affected.

If we fail to successfully implement our growth strategy, which includes opening new U.S. and international stores, our ability to increase our revenues and operating profits could be adversely affected.

A significant component of our growth strategy includes the opening of new U.S. and international stores. We and our franchisees face many challenges in opening new stores, including, among others:

availability of financing with acceptable terms;

selection and availability of suitable new store sites and the ability to renew leases in quality locations;

negotiation of acceptable lease or financing terms;

securing required U.S. or foreign governmental permits, licenses and approvals;

employment and training of qualified personnel; and

general economic and business conditions.

The opening of additional franchise stores also depends, in part, upon the availability of prospective franchisees who meet our criteria. Our failure to add a significant number of new stores would adversely affect our ability to increase revenues and operating income. Additionally, our growth strategy and the success of new stores depend in large part on the availability of suitable store sites. If we and our franchisees are not able to secure leases in desired locations on favorable terms, or to renew such leases, our business and results of operations may be adversely affected.

We and our franchisees are currently planning to expand our U.S. and international operations in many of the markets where we currently operate and in select new markets. This may require considerable management time as well as start-up expenses for market development before any significant revenues and earnings are generated. Operations in new foreign markets may achieve low margins or may be unprofitable, and expansion in existing markets may be affected by local economic and market conditions. Therefore, as we continue to expand internationally, we or our franchisees may not experience the operating margins we expect, our results of operations may be negatively impacted and our common stock price may decline.

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We may also pursue strategic acquisitions as part of our business. If we are able to identify acquisition candidates, such acquisitions may be financed, to the extent permitted under our debt agreements, with substantial debt or with potentially dilutive issuances of equity securities.

The food service market is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may reduce the demand for our products, which would reduce sales and harm our business.

Food service businesses are affected by changes in consumer tastes, international, national, regional and local economic conditions, and demographic trends. For instance, if prevailing health or dietary preferences cause consumers to avoid pizza and other products we offer in favor of foods that are perceived as healthier, our business and operating results would be harmed. Moreover, because we are primarily dependent on a single product, if consumer demand for pizza should decrease, our business would suffer more than if we had a more diversified menu, as many other food service businesses do. The preferences of customers also may change as a result of advances in technology or alternative delivery methods or channels. If we are not able to respond to these changes, or our competitors respond to these changes more effectively, our business and operating results could be adversely affected.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could adversely impact our business.

In recent years, there has been a marked increase in the use of social media platforms, including blogs, chat platforms, social media websites, and other forms of internet-based communications that allow individuals access to a broad audience of consumers and other persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. The dissemination of information via social media could harm our business, brand, reputation, marketing partners, financial condition, and results of operations, regardless of the information's accuracy. This could include negative publicity related to our food products or stores or negative publicity related to actions by our executives, team members or franchisees.

In addition, we frequently use social media to communicate with consumers and the public in general. Failure to use social media effectively could lead to a decline in brand value and revenue. Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our brand, exposure of personally identifiable information, fraud, hoaxes or malicious dissemination of false information.

Reports of food-borne illness or food tampering could reduce sales and harm our business.

Reports, whether true or not, of food-borne illnesses (such as E. coli, avian flu, bovine spongiform encephalopathy, hepatitis A, trichinosis or salmonella) and injuries caused by food tampering have in the past severely injured the reputations of participants in the QSR sector and could in the future as well. The potential for acts of terrorism affecting our global food supply also exists and, if such an event occurs, it could have a negative impact on us and could severely hurt sales and profits. In addition, our reputation is an important asset; as a result, anything that damages our reputation could immediately and severely affect our sales and profits. Media reports of illnesses and injuries, whether accurate or not, could force some stores to close or otherwise reduce sales at such stores. Moreover, as described above, social media has dramatically increased the rate at which negative publicity, including as it relates to food-borne illness, can be disseminated before there is any meaningful opportunity to respond to or address an issue. Even reports of food-borne illnesses or food tampering occurring solely at the restaurants of competitors could, by resulting in negative publicity about the restaurant industry, adversely affect us on a local, regional, national or international basis.

We do not have long-term contracts with certain of our suppliers, and as a result they could seek to significantly increase prices or fail to deliver.

We do not have long-term contracts or arrangements with certain of our suppliers. Although in the past we have not experienced significant problems with our suppliers, our suppliers may implement significant price increases or may not meet our requirements in a timely fashion, or at all. The occurrence of any of the foregoing could have a material adverse effect on our results of operations.

Shortages or interruptions in the supply or delivery of fresh food products could adversely affect our operating results.

We and our franchisees are dependent on frequent deliveries of food products that meet our specifications. In addition, we have single suppliers or a limited number of suppliers for certain of our ingredients, including pizza cheese and meat toppings. While we believe there are adequate reserve quantities and potential alternative suppliers, shortages or interruptions in the supply of food products caused by increased demand, capacity constraints, problems in production or distribution, financial or other difficulties of suppliers, inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients, could adversely affect our operating results.

Table of Contents***Increases in food, labor and other costs could adversely affect our profitability and operating results.***

An increase in our operating costs could adversely affect our profitability. Factors such as inflation, increased food costs, increased labor and employee health and benefit costs, increased rent costs and increased energy costs may adversely affect our operating costs. Most of the factors affecting costs are beyond our control and, in many cases, we may not be able to pass along these increased costs to our customers or franchisees. Most ingredients used in our pizza, particularly cheese, are subject to significant price fluctuations as a result of seasonality, weather, demand and other factors. Cheese is a significant cost to us, representing approximately 20-25% of the market basket purchased by our Company-owned stores. Additionally, while we strive to engage in a competitive bidding process for our ingredients, because certain of these ingredients, including meat products, may only be available from a limited number of vendors, we may not always be able to do so effectively. Furthermore, if we need to seek new suppliers, we may be subject to pricing or other terms less favorable to us than those reflected in our current supply arrangements. Labor costs are largely a function of the minimum wage for a majority of our store personnel and certain supply chain center personnel and, generally, are also a function of the availability of labor. Several states in which we operate have recently approved minimum wage increases. As minimum wage increases are implemented in these states or if such increases are approved and implemented in other states in which we operate, we expect our labor costs will continue to increase. The advent of legislation aimed at predictive scheduling could impact labor for our stores and our franchisees' stores. Additionally, while we do not currently have any unionized employees, if a significant portion of our employees were to become unionized, our labor costs could increase and our business could be negatively affected by other union requirements that increase our costs, disrupt our business, reduce our flexibility and impact our employee culture. Labor costs and food costs, including cheese, generally represent approximately 50% to 60% of the sales at a typical Company-owned store.

Any prolonged disruption in the operations of any of our dough manufacturing and supply chain centers could harm our business.

We operate 19 regional dough manufacturing and supply chain centers, one thin crust manufacturing center and one vegetable processing center in the U.S. and five dough manufacturing and supply chain centers in Canada. We plan to continue investing in additional supply chain capacity in the future.

Our U.S. dough manufacturing and supply chain centers service all of our Company-owned and U.S. franchise stores. As a result, any prolonged disruption in the operations of any of these facilities, whether due to technical or labor difficulties, destruction or damage to the facility, real estate issues, limited capacity or other reasons, could adversely affect our business and operating results.

Our success depends in part upon effective advertising, and lower advertising funds may reduce our ability to adequately market the Domino's Pizza brand.

We have been routinely named a Leading National Advertiser by *Advertising Age*. Each Domino's store located in the contiguous U.S. is obligated to pay a percentage of its sales in advertising fees. In fiscal 2018, each store in the contiguous U.S. generally was required to contribute 6% of their sales to DNAF (subject, in certain instances, to lower rates based on certain incentives and waivers), which uses such fees for national advertising in addition to contributions for local market-level advertising. We currently anticipate that this 6% contribution rate will remain in place for the foreseeable future. While additional funds for advertising in the past have been provided by us, our franchisees and other third parties, none of these additional funds are legally required. The lack of continued financial support for advertising activities could significantly curtail our marketing efforts, which may in turn materially and adversely affect our business and our operating results.

We face risks of litigation, investigations, enforcement actions and negative publicity from customers, franchisees, suppliers, employees, regulators and others in the ordinary course of business, which can or could divert our financial and management resources. Litigation, investigations, enforcement actions or publicity may adversely impact our financial condition and results of operations.

Claims of illness or injury relating to food quality or food handling are common in the food service industry, and vehicular accidents and injuries occur in the food delivery business. Claims within our industry of improper supplier actions also occasionally arise that, if made against one of our suppliers, could potentially damage our brand image. In addition, class action lawsuits have been filed, and may continue to be filed, against various quick service restaurants alleging, among other things, that quick service restaurants have failed to disclose the health risks associated with high-fat foods and that quick service restaurant marketing practices have encouraged obesity. State attorney general offices or other regulators may initiate investigations or enforcement actions against us. In addition to decreasing our sales and profitability and diverting our management resources, adverse publicity or a substantial settlement, fine, penalty or judgment against us could negatively impact our financial condition, results of operations and brand reputation, thereby hindering our ability to attract and retain franchisees and grow our business.

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Further, we may be subject to employee, franchisee and other claims in the future based on, among other things, discrimination, harassment, wrongful termination and wage, rest break and meal break issues, and those claims relating to overtime compensation. We have been and continue to be subject to these types of claims. If one or more of these claims were to be successful or if there is a significant increase in the number of these claims or if we receive significant negative publicity, our business, financial condition and operating results could be harmed.

Loss of key employees or our inability to attract and retain new qualified employees could hurt our business and inhibit our ability to operate and grow successfully.

Our success in the highly competitive pizza delivery and carry-out business will continue to depend to a significant extent on our leadership team and other key management personnel. Although we have entered into employment agreements with Richard E. Allison Jr., and Russell J. Weiner, each of these executives may terminate his agreement on ninety days' notice. Our other executive officers may terminate their employment pursuant to their employment agreements at any time. As a result, we may not be able to retain our executive officers and key personnel or attract additional qualified management. While we do not have long-term employment agreements with our executive officers, for all of our executive officers we have non-compete and non-solicitation agreements that extend for 24 months following the termination of such executive officer's employment. Our success will also continue to depend on our ability to attract and retain qualified personnel to operate our stores, dough manufacturing and supply chain centers and international operations. The loss of these employees or our inability to recruit and retain qualified personnel could have a material adverse effect on our operating results.

Adverse global economic conditions subject us to additional risk.

Our financial condition and results of operations are impacted by global markets and economic conditions over which neither we nor our franchisees have control. An economic downturn, including deterioration in the economic conditions in the U.S. or international markets where we compete, may result in a reduction in the demand for our products, longer payment cycles, slower adoption of new technologies and increased price competition.

Poor economic conditions may adversely affect the ability of our franchisees to pay royalties or amounts owed and could have a material adverse impact on our ability to pursue our growth strategy, which would reduce cash collections and in turn, may materially and adversely affect our ability to service our debt obligations.

Our international operations subject us to additional risk. Such risks and costs may differ in each country in which we and our franchisees do business and may cause our profitability to decline due to increased costs.

We conduct a significant and growing portion of our business outside the U.S. Our financial condition and results of operations may be adversely affected if global markets in which our franchise stores compete are affected by changes in political, economic or other factors. These factors, over which neither we nor our franchisees have control, may include:

recessionary or expansive trends in international markets;

changing labor conditions and difficulties in staffing and managing our foreign operations;

increases in the taxes we pay and other changes in applicable tax laws;

tariffs and trade barriers;

legal and regulatory changes, and the burdens and costs of our compliance with a variety of foreign laws;

changes in inflation rates;

changes in exchange rates and the imposition of restrictions on currency conversion or the transfer of funds;

difficulty in collecting our royalties and longer payment cycles;

expropriation of private enterprises;

increases in anti-American sentiment and the identification of the Domino's Pizza brand as an American brand;