

**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 8, 2019

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  
Incorporation or Organization)

**30 Frank Lloyd Wright Drive**  
**Ann Arbor, Michigan**  
(Address of Principal Executive Offices)

**38-2511577**  
(I.R.S. Employer  
Identification No.)

**48105**  
(Zip Code)

**(734) 930-3030**

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Domino's Pizza, Inc. Common Stock, \$0.01 par value	DPZ	New York Stock Exchange

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, 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 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 1, 2019, Domino's Pizza, Inc. had 40,900,458 shares of common stock, par value \$0.01 per share, outstanding.

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**Domino's Pizza, Inc.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

(In thousands)	<u>September 8, 2019</u>	<u>December 30, 2018 (1)</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 66,706	\$ 25,438
Restricted cash and cash equivalents	177,292	166,993
Accounts receivable, net	185,403	190,091
Inventories	51,010	45,975
Prepaid expenses and other	15,438	25,710
Advertising fund assets, restricted	109,490	112,744
<b>Total current assets</b>	<u>605,339</u>	<u>566,951</u>
Property, plant and equipment:		
Land and buildings	41,408	41,147
Leasehold and other improvements	160,850	170,498
Equipment	241,972	243,654
Construction in progress	26,649	31,822
	470,879	487,121
Accumulated depreciation and amortization	(254,669)	(252,182)
<b>Property, plant and equipment, net</b>	<u>216,210</u>	<u>234,939</u>
Other assets:		
Operating lease right-of-use assets	227,495	—
Goodwill	13,542	14,919
Capitalized software, net	71,055	63,809
Other assets	22,743	21,241
Deferred income taxes	3,888	5,526
<b>Total other assets</b>	<u>338,723</u>	<u>105,495</u>
<b>Total assets</b>	<u>\$ 1,160,272</u>	<u>\$ 907,385</u>
<b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
Current portion of long-term debt	\$ 35,935	\$ 35,893
Accounts payable	95,657	92,546
Operating lease liabilities	32,203	—
Insurance reserves	22,337	22,210
Dividends payable	27,006	581
Advertising fund liabilities	104,945	107,150
Other accrued liabilities	103,162	121,363
<b>Total current liabilities</b>	<u>421,245</u>	<u>379,743</u>
Long-term liabilities:		
Long-term debt, less current portion	3,407,101	3,495,691
Operating lease liabilities	202,128	—
Insurance reserves	32,858	31,065
Other accrued liabilities	32,589	40,807
<b>Total long-term liabilities</b>	<u>3,674,676</u>	<u>3,567,563</u>
Stockholders' deficit:		
Common stock	409	410
Additional paid-in capital	75	569
Retained deficit	(2,932,195)	(3,036,471)
Accumulated other comprehensive loss	(3,938)	(4,429)
<b>Total stockholders' deficit</b>	<u>(2,935,649)</u>	<u>(3,039,921)</u>
<b>Total liabilities and stockholders' deficit</b>	<u>\$ 1,160,272</u>	<u>\$ 907,385</u>

(1) The balance sheet at December 30, 2018 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.

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

(In thousands, except per share data)	<u>Fiscal Quarter Ended</u>		<u>Three Fiscal Quarters Ended</u>	
	<u>September 8, 2019</u>	<u>September 9, 2018</u>	<u>September 8, 2019</u>	<u>September 9, 2018</u>
<b>Revenues:</b>				
U.S. Company-owned stores	\$ 94,575	\$ 118,540	\$ 323,026	\$ 358,521
U.S. franchise royalties and fees	97,047	89,427	289,349	266,335
Supply chain	485,110	445,096	1,424,787	1,326,076
International franchise royalties and fees	54,586	50,424	164,145	154,182
U.S. franchise advertising	89,494	82,478	267,115	245,618
<b>Total revenues</b>	<b>820,812</b>	<b>785,965</b>	<b>2,468,422</b>	<b>2,350,732</b>
<b>Cost of sales:</b>				
U.S. Company-owned stores	71,610	92,998	247,516	278,012
Supply chain	432,951	397,688	1,265,695	1,183,996
<b>Total cost of sales</b>	<b>504,561</b>	<b>490,686</b>	<b>1,513,211</b>	<b>1,462,008</b>
<b>Operating margin</b>	<b>316,251</b>	<b>295,279</b>	<b>955,211</b>	<b>888,724</b>
General and administrative	83,728	80,369	262,640	251,053
U.S. franchise advertising	89,494	82,478	267,115	245,618
<b>Income from operations</b>	<b>143,029</b>	<b>132,432</b>	<b>425,456</b>	<b>392,053</b>
Interest income	968	792	2,583	2,451
Interest expense	(33,752)	(33,976)	(102,672)	(100,389)
<b>Income before provision for income taxes</b>	<b>110,245</b>	<b>99,248</b>	<b>325,367</b>	<b>294,115</b>
Provision for income taxes	23,872	15,153	53,985	43,785
<b>Net income</b>	<b>\$ 86,373</b>	<b>\$ 84,095</b>	<b>\$ 271,382</b>	<b>\$ 250,330</b>
<b>Earnings per share:</b>				
Common stock - basic	\$ 2.11	\$ 2.02	\$ 6.63	\$ 5.94
Common stock - diluted	2.05	1.95	6.44	5.73

See accompanying notes.

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

(In thousands)	<u>Fiscal Quarter Ended</u>		<u>Three Fiscal Quarters Ended</u>	
	<u>September 8, 2019</u>	<u>September 9, 2018</u>	<u>September 8, 2019</u>	<u>September 9, 2018</u>
Net income	\$ 86,373	\$ 84,095	\$ 271,382	\$ 250,330
Currency translation adjustment	270	(84)	491	(1,142)
Comprehensive income	<u>\$ 86,643</u>	<u>\$ 84,011</u>	<u>\$ 271,873</u>	<u>\$ 249,188</u>

See accompanying notes.

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

(In thousands)	<b>Three Fiscal Quarters Ended</b>	
	<b>September 8, 2019</b>	<b>September 9, 2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 271,382	\$ 250,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,982	35,770
Loss (gain) on sale/disposal of assets	3,141	(5,187)
Amortization of debt issuance costs	3,288	6,581
Provision for deferred income taxes	1,627	1,737
Non-cash compensation expense	13,269	15,660
Excess tax benefits from equity-based compensation	(19,670)	(22,722)
Other	774	356
Changes in operating assets and liabilities	16,214	(25,580)
Changes in advertising fund assets and liabilities, restricted	(6,411)	5,574
Net cash provided by operating activities	<u>324,596</u>	<u>262,519</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(42,676)	(65,074)
Proceeds from sale of assets	9,738	8,213
Maturities of advertising fund investments, restricted	30,152	44,007
Purchases of advertising fund investments, restricted	—	(50,152)
Other	(351)	(2,357)
Net cash used in investing activities	<u>(3,137)</u>	<u>(65,363)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	—	905,000
Repayments of long-term debt and finance lease obligations	(91,860)	(595,067)
Proceeds from exercise of stock options	10,122	8,967
Purchases of common stock	(105,149)	(429,190)
Tax payments for restricted stock upon vesting	(5,820)	(6,849)
Payments of common stock dividends and equivalents	(53,598)	(46,720)
Cash paid for financing costs	—	(8,207)
Net cash used in financing activities	<u>(246,305)</u>	<u>(172,066)</u>
Effect of exchange rate changes on cash	139	(235)
Change in cash and cash equivalents, restricted cash and cash equivalents	<u>75,293</u>	<u>24,855</u>
Cash and cash equivalents, beginning of period	25,438	35,768
Restricted cash and cash equivalents, beginning of period	166,993	191,762
Cash and cash equivalents included in advertising fund assets, restricted, beginning of period	44,988	27,316
Cash and cash equivalents, restricted cash and cash equivalents and cash and cash equivalents included in advertising fund assets, restricted, beginning of period	<u>237,419</u>	<u>254,846</u>
Cash and cash equivalents, end of period	66,706	84,600
Restricted cash and cash equivalents, end of period	177,292	168,170
Cash and cash equivalents included in advertising fund assets, restricted, end of period	68,714	26,931
Cash and cash equivalents, restricted cash and cash equivalents and cash and cash equivalents included in advertising fund assets, restricted, end of period	<u>\$ 312,712</u>	<u>\$ 279,701</u>

See accompanying notes.

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### **Domino's Pizza, Inc. and Subsidiaries**

#### **Notes to Condensed Consolidated Financial Statements**

**(Unaudited; tabular amounts in thousands, except percentages, share and per share amounts)**

**September 8, 2019**

#### 1. Basis of Presentation and Updates to Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the consolidated financial statements and footnotes for the fiscal year ended December 30, 2018 included in the Company's 2018 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 21, 2019 (the "2018 Form 10-K").

In the opinion of management, all adjustments, consisting of normal recurring items, considered necessary for a fair statement have been included. Operating results for the fiscal quarter ended September 8, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2019.

#### Updates to Significant Accounting Policies

The Company adopted Accounting Standards Codification 842, *Leases* ("ASC 842") in the first quarter of 2019. As a result, the Company updated its significant accounting policies for leases below. Refer to Note 7 for additional information related to the Company's lease arrangements and Note 11 for the impact of the adoption of ASC 842 on the Company's condensed consolidated financial statements.

##### *Leases*

The Company leases certain retail store and supply chain center locations, supply chain vehicles and its corporate headquarters. The Company determines whether an arrangement is or contains a lease at contract inception. The majority of the Company's leases are classified as operating leases, which are included in operating lease right-of-use assets and operating lease liabilities in the Company's condensed consolidated balance sheet. Finance leases are included in property, plant and equipment, current portion of long-term debt and long-term debt on the Company's condensed consolidated balance sheet.

Right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date for leases exceeding 12 months. Minimum lease payments include only the fixed lease component of the agreement, as well as any variable rate payments that depend on an index, initially measured using the index at the lease commencement date. Lease terms may include options to renew when it is reasonably certain that the Company will exercise that option.

The Company estimates its incremental borrowing rate for each lease using a portfolio approach based on the respective weighted average term of the agreements. This estimation considers the market rates of the Company's outstanding collateralized borrowings and interpolations of rates outside of the terms of the outstanding borrowings, including comparisons to comparable borrowings of similarly-rated companies with longer term borrowings.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in cost of sales or general and administrative expense. Amortization expense for finance leases is recognized on a straight-line basis over the lease term and is included in cost of sales, while interest expense for finance leases is recognized using the effective interest method. Variable lease payments that do not depend on a rate or index, payments associated with non-lease components and short-term rentals (leases with terms less than 12 months) are expensed as incurred.



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### 2. Segment Information

The following table summarizes revenues, income from operations and earnings before interest, taxes, depreciation, amortization and other, which is the measure by which the Company allocates resources to its segments and which the Company refers to as Segment Income, for each of its reportable segments.

	Fiscal Quarters Ended September 8, 2019 and September 9, 2018					
	U.S. Stores	Supply Chain	International Franchise	Intersegment Revenues	Other	Total
Revenues						
2019	\$ 281,116	\$ 511,709	\$ 54,586	\$ (26,599)	\$ —	\$ 820,812
2018	290,445	478,517	50,424	(33,421)	—	785,965
Income from operations						
2019	\$ 80,188	\$ 40,513	\$ 42,281	N/A	\$ (19,953)	\$ 143,029
2018	78,636	35,452	39,374	N/A	(21,030)	132,432
Segment Income						
2019	\$ 82,556	\$ 44,432	\$ 42,337	N/A	\$ (8,172)	\$ 161,153
2018	75,721	38,561	39,416	N/A	(10,295)	143,403
	Three Fiscal Quarters Ended September 8, 2019 and September 9, 2018					
	U.S. Stores	Supply Chain	International Franchise	Intersegment Revenues	Other	Total
Revenues						
2019	\$879,490	\$ 1,513,380	\$ 164,145	\$ (88,593)	\$ —	\$ 2,468,422
2018	870,474	1,426,943	154,182	(100,867)	—	2,350,732
Income from operations						
2019	\$237,852	\$ 123,840	\$ 126,467	N/A	\$ (62,703)	\$ 425,456
2018	227,117	109,319	120,002	N/A	(64,385)	392,053
Segment Income						
2019	\$248,160	\$ 135,861	\$ 126,628	N/A	\$ (27,801)	\$ 482,848
2018	230,152	118,171	120,138	N/A	(29,633)	438,828

The following table reconciles Total Segment Income to consolidated income before provision for income taxes.

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 8, 2019	September 9, 2018	September 8, 2019	September 9, 2018
Total Segment Income	\$ 161,153	\$ 143,403	\$ 482,848	\$ 438,828
Depreciation and amortization	(13,132)	(12,460)	(40,982)	(35,770)
(Loss) gain on sale/disposal of assets	(312)	5,706	(3,141)	5,187
Non-cash compensation expense	(4,680)	(4,217)	(13,269)	(15,660)
Recapitalization-related expenses	—	—	—	(532)
Income from operations	143,029	132,432	425,456	392,053
Interest income	968	792	2,583	2,451
Interest expense	(33,752)	(33,976)	(102,672)	(100,389)
Income before provision for income taxes	\$ 110,245	\$ 99,248	\$ 325,367	\$ 294,115

### 3. Earnings Per Share

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 8, 2019	September 9, 2018	September 8, 2019	September 9, 2018
Net income available to common stockholders - basic and diluted	\$ 86,373	\$ 84,095	\$ 271,382	\$ 250,330
Basic weighted average number of shares	40,954,279	41,585,933	40,947,693	42,150,693
Earnings per share – basic	\$ 2.11	\$ 2.02	\$ 6.63	\$ 5.94
Diluted weighted average number of shares	42,040,291	43,067,191	42,158,447	43,675,627
Earnings per share – diluted	\$ 2.05	\$ 1.95	\$ 6.44	\$ 5.73

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The denominators used in calculating diluted earnings per share for the third quarter and three fiscal quarters of 2019 do not include 161,670 options to purchase common stock, as the effect of including these options would have been anti-dilutive. The denominators used in calculating diluted earnings per share for the third quarter and three fiscal quarters of 2019 each do not include 142,477 restricted performance shares, as the performance targets for these awards had not yet been met.

The denominators used in calculating diluted earnings per share for the third quarter and three fiscal quarters of 2018 do not include 76,130 and 137,156 options to purchase common stock, respectively, as the effect of including these options would have been anti-dilutive. The denominator used in calculating diluted earnings per share for the three fiscal quarters of 2018 does not include 28,570 shares subject to restricted stock awards, as the effect of including these shares would have been anti-dilutive. The denominators used in calculating diluted earnings per share for the third quarter and three fiscal quarters of 2018 each do not include 160,998 restricted performance shares, as the performance targets for these awards had not yet been met.

#### 4. Changes in Stockholders' Deficit

The following table summarizes changes in stockholders' deficit for the third quarter of 2019.

	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss
	Shares	Amount			
Balance at June 16, 2019	41,232,358	\$ 412	\$ 10,788	\$(2,911,278)	\$ (4,208)
Net income	—	—	—	86,373	—
Dividends declared on common stock and equivalents (\$0.65 per share)	—	—	—	(26,569)	—
Issuance and cancellation of stock awards, net	45,479	—	—	—	—
Tax payments for restricted stock upon vesting	(12,603)	—	(3,253)	—	—
Purchases of common stock	(384,338)	(3)	(12,972)	(80,721)	—
Exercise of stock options	18,100	—	832	—	—
Non-cash compensation expense	—	—	4,680	—	—
Currency translation adjustment	—	—	—	—	270
Balance at September 8, 2019	<u>40,898,996</u>	<u>\$ 409</u>	<u>\$ 75</u>	<u>\$(2,932,195)</u>	<u>\$ (3,938)</u>

The following table summarizes changes in stockholders' deficit for the three fiscal quarters of 2019.

	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss
	Shares	Amount			
Balance at December 30, 2018	40,977,561	\$ 410	\$ 569	\$(3,036,471)	\$ (4,429)
Net income	—	—	—	271,382	—
Dividends declared on common stock and equivalents (\$1.95 per share)	—	—	—	(80,023)	—
Issuance and cancellation of stock awards, net	50,640	—	—	—	—
Tax payments for restricted stock upon vesting	(22,044)	—	(5,820)	—	—
Purchases of common stock	(430,182)	(4)	(18,062)	(87,083)	—
Exercise of stock options	323,021	3	10,119	—	—
Non-cash compensation expense	—	—	13,269	—	—
Currency translation adjustment	—	—	—	—	491
Balance at September 8, 2019	<u>40,898,996</u>	<u>\$ 409</u>	<u>\$ 75</u>	<u>\$(2,932,195)</u>	<u>\$ (3,938)</u>

Subsequent to the third quarter, on October 4, 2019, the Company's Board of Directors declared a \$0.65 per share quarterly dividend on its outstanding common stock for shareholders of record as of December 13, 2019 to be paid on December 27, 2019. On October 4, 2019, the Company's Board of Directors authorized a new share repurchase program to repurchase up to \$1.0 billion of the Company's common stock with no expiration date. This repurchase program replaces the remaining availability of approximately \$53.6 million under the Company's existing \$750.0 million share repurchase program. Authorization for the repurchase program may be modified, suspended, or discontinued at any time.

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The following table summarizes changes in stockholders' deficit for the third quarter of 2018.

	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss
	Shares	Amount			
Balance at June 17, 2018	41,837,693	\$ 418	\$ 737	\$(2,926,921)	\$ (3,439)
Net income	—	—	—	84,095	—
Dividends declared on common stock and equivalents (\$0.55 per share)	—	—	—	(22,889)	—
Issuance and cancellation of stock awards, net	72,990	1	—	—	—
Tax payments for restricted stock upon vesting	(16,580)	—	(4,531)	—	—
Purchases of common stock	(397,490)	(4)	(2,269)	(106,850)	—
Exercise of stock options	99,549	1	3,760	—	—
Non-cash compensation expense	—	—	4,217	—	—
Currency translation adjustment	—	—	—	—	(84)
Balance at September 9, 2018	41,596,162	\$ 416	\$ 1,914	\$(2,972,565)	\$ (3,523)

The following table summarizes changes in stockholders' deficit for the three fiscal quarters of 2018.

	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss
	Shares	Amount			
Balance at December 31, 2017	42,898,329	\$ 429	\$ 5,654	\$(2,739,437)	\$ (2,030)
Net income	—	—	—	250,330	—
Dividends declared on common stock and equivalents (\$1.65 per share)	—	—	—	(69,450)	—
Issuance and cancellation of stock awards, net	80,932	1	—	—	—
Tax payments for restricted stock upon vesting	(26,893)	—	(6,849)	—	—
Purchases of common stock	(1,751,054)	(18)	(21,514)	(407,658)	—
Exercise of stock options	394,848	4	8,963	—	—
Non-cash compensation expense	—	—	15,660	—	—
Adoption of revenue recognition accounting standard	—	—	—	(6,701)	—
Currency translation adjustment	—	—	—	—	(1,142)
Reclassification adjustment for stranded taxes	—	—	—	351	(351)
Balance at September 9, 2018	41,596,162	\$ 416	\$ 1,914	\$(2,972,565)	\$ (3,523)

## 5. Fair Value Measurements

Fair value measurements enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The fair values of the Company's cash equivalents and investments in marketable securities are based on quoted prices in active markets for identical assets. The following tables summarize the carrying amounts and fair values of certain assets at September 8, 2019 and December 30, 2018:

	At September 8, 2019			
	Carrying Amount	Fair Value Estimated Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash equivalents	\$ 58,993	\$ 58,993	\$ —	\$ —
Restricted cash equivalents	104,424	104,424	—	—
Investments in marketable securities	10,851	10,851	—	—
Advertising fund cash equivalents, restricted	57,682	57,682	—	—
Advertising fund investments, restricted	20,000	20,000	—	—

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	At December 30, 2018			
	Carrying Amount	Fair Value Estimated Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash equivalents	\$ 11,877	\$ 11,877	\$ —	\$ —
Restricted cash equivalents	112,272	112,272	—	—
Investments in marketable securities	8,718	8,718	—	—
Advertising fund cash equivalents, restricted	31,547	31,547	—	—
Advertising fund investments, restricted	50,152	50,152	—	—

Management estimated the approximate fair values of the 2015 fixed rate notes, the 2017 fixed and floating rate notes and the 2018 fixed rate notes as follows:

	September 8, 2019		December 30, 2018	
	Principal Amount	Fair Value	Principal Amount	Fair Value
2015 Ten-Year Fixed Rate Notes	\$ 774,000	\$ 817,344	\$ 780,000	\$783,120
2017 Five-Year Fixed Rate Notes	588,000	590,352	592,500	575,910
2017 Ten-Year Fixed Rate Notes	980,000	1,038,800	987,500	956,888
2017 Five-Year Floating Rate Notes	294,000	293,706	296,250	295,065
2018 7.5-Year Fixed Rate Notes	419,688	438,573	422,875	416,955
2018 9.25-Year Fixed Rate Notes	395,000	421,465	398,000	396,010

At September 8, 2019, the Company did not have any outstanding borrowings under its variable funding notes. The Company had \$65.0 million outstanding under its variable funding notes at December 30, 2018. Borrowings under the variable funding notes are a variable rate loan. The fair value of this loan approximated book value based on the borrowing rates currently available for variable rate loans obtained from third party lending institutions. This fair value represents a Level 2 measurement.

The fixed and floating rate notes are classified as Level 2 measurements, as the Company estimates the fair value amount by using available market information. The Company obtained quotes from two separate brokerage firms that are knowledgeable about the Company's fixed and floating rate notes and, at times, trade these notes. The Company also performed its own internal analysis based on the information gathered from public markets, including information on notes that are similar to those of the Company. However, considerable judgment is required to interpret market data to estimate fair value. Accordingly, the fair value estimates presented are not necessarily indicative of the amount that the Company or the debtholders could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values stated above.

## 6. Revenue Disclosures

### Contract Liabilities

Contract liabilities consist of deferred franchise fees and deferred development fees. Changes in contract liabilities were as follows:

	Three Fiscal Quarters Ended	
	September 8, 2019	September 9, 2018
Contract liabilities at beginning of period	\$ 19,900	\$ 19,404
Revenue recognized during the period	(3,923)	(3,540)
New deferrals due to cash received and other	4,613	3,917
Contract liabilities at end of period	\$ 20,590	\$ 19,781

### Advertising Fund Assets

As of September 8, 2019, advertising fund assets, restricted of \$109.5 million consisted of \$88.7 million of cash, cash equivalents and investments, \$18.3 million of accounts receivable and \$2.5 million of prepaid expenses. As of September 8, 2019, advertising fund cash, cash equivalents and investments included \$4.6 million of cash contributed from Company-owned stores that had not yet been expended.

As of December 30, 2018, advertising fund assets, restricted of \$112.7 million consisted of \$95.1 million of cash, cash equivalents and investments, \$15.3 million of accounts receivable and \$2.3 million of prepaid expenses. As of December 30, 2018, advertising fund cash, cash equivalents and investments included \$5.5 million of cash contributed from Company-owned stores that had not yet been expended.

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### 7. Lease Disclosures

The Company leases certain retail store and supply chain center locations, supply chain vehicles and its corporate headquarters with expiration dates through 2037.

The components of operating and finance lease cost for the third quarter and three fiscal quarters of 2019 were as follows:

	Fiscal Quarter Ended September 8, 2019	Three Fiscal Quarters Ended September 8, 2019
Operating lease cost	\$ 9,150	\$ 29,464
Finance lease cost:		
Amortization of right-of-use assets	254	763
Interest on lease liabilities	473	1,269
Total finance lease cost	\$ 727	\$ 2,032

Rent expense totaled \$16.1 million and \$48.4 million in the third quarter and three fiscal quarters of 2019, respectively, and totaled \$15.7 million and \$46.3 million in the third quarter and three fiscal quarters of 2018, respectively. Rent expense includes operating lease cost, as well as expense for non-lease components including common area maintenance, real estate taxes and insurance for the Company's real estate leases. Rent expense also includes the variable rate per mile driven and fixed maintenance charges for the Company's supply chain center tractors and trailers and expense for short-term rentals. Variable rent expense and rental expense for short-term leases was immaterial for both the third quarter and three fiscal quarters of 2019.

Supplemental balance sheet information related to the Company's leases as of September 8, 2019 and December 30, 2018 was as follows:

	September 8, 2019	December 30, 2018
Land and buildings	\$ 22,195	\$ 22,171
Accumulated depreciation and amortization	(7,441)	(6,678)
Finance lease assets, net	\$ 14,754	\$ 15,493
Current portion of long-term debt	\$ 685	\$ 643
Long-term debt, less current portion	15,922	16,363
Total principal payable on finance leases	\$ 16,607	\$ 17,006

As of September 8, 2019, the weighted average remaining lease term and weighted average discount rate for the Company's operating and finance leases were as follows:

	Operating Leases	Finance Leases
Weighted average remaining lease term	8 years	14 years
Weighted average discount rate	3.8%	11.4%

Supplemental cash flow information related to leases for the third quarter and three fiscal quarters of 2019 was as follows:

	Fiscal Quarter Ended September 8, 2019	Three Fiscal Quarters Ended September 8, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 9,968	\$ 30,056
Operating cash flows from finance leases	473	1,269
Financing cash flows from finance leases	161	422
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	23,434	49,802
Finance leases	—	—

During the first quarter of 2018, the Company renewed the lease of a supply chain center building and extended the term of the lease through 2033. During the third quarter of 2018, the Company renewed the leases of two supply chain center buildings and extended the terms of the leases through 2036 and 2037, respectively. As a result of these extended leases, the Company recorded non-cash financing activities of \$11.4 million for the increase in finance lease assets and liabilities during the three fiscal quarters of 2018.

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Maturities of lease liabilities as of September 8, 2019 were as follows:

	<b>Operating Leases</b>	<b>Finance Leases</b>
2019	\$ 12,212	\$ 791
2020	40,157	2,417
2021	37,979	2,435
2022	34,819	2,453
2023	32,245	2,477
Thereafter	116,664	23,810
Total future minimum rental commitments	<u>274,076</u>	<u>34,383</u>
Less – amounts representing interest	(39,745)	(17,776)
Total lease liabilities	<u>\$234,331</u>	<u>\$ 16,607</u>

Maturities of lease liabilities as of December 30, 2018 were as follows:

	<b>Operating Leases</b>	<b>Finance Leases</b>
2019	\$ 40,752	\$ 2,396
2020	37,519	2,415
2021	34,538	2,433
2022	30,763	2,451
2023	27,388	2,474
Thereafter	100,310	23,781
Total future minimum rental commitments	<u>\$271,270</u>	<u>35,950</u>
Less – amounts representing interest		(18,944)
Total principal payable on finance leases		<u>\$ 17,006</u>

As of September 8, 2019, the Company has additional leases for two supply chain centers and certain supply chain tractors and trailers that had not yet commenced with estimated future minimum rental commitments of approximately \$50.6 million. These leases are expected to commence in 2019 with lease terms of up to 15 years. These undiscounted amounts are not included in the tables above.

The Company has guaranteed lease payments related to certain franchisees' lease arrangements. The maximum amount of potential future payments under these guarantees is \$17.9 million and \$2.4 million as of September 8, 2019 and December 30, 2018, respectively. The Company does not believe these arrangements have or are likely to have a material effect on its results of operations, financial condition, revenues or expenses, capital expenditures or liquidity.

## 8. Legal Matters

On February 14, 2011, Domino's Pizza LLC was named as a defendant in a lawsuit along with Fischler Enterprises of C.F., Inc., a franchisee, and Jeffrey S. Kidd, the franchisee's delivery driver, filed by Yvonne Wiederhold, the plaintiff, as Personal Representative of the Estate of Richard E. Wiederhold, deceased. The case involved a traffic accident in which the franchisee's delivery driver is alleged to have caused an accident involving a vehicle driven by Richard Wiederhold. Mr. Wiederhold sustained spinal injuries resulting in quadriplegia and passed away several months after the accident. The case went to trial in 2016 and the Company was found liable, but the verdict was reversed by the Florida Fifth District Court of Appeals in May 2018 and was remanded to the Ninth Judicial Circuit Court of Florida for a new trial. The case was tried again in June 2019 and the jury returned a \$9.0 million judgment for the plaintiff where the Company and Mr. Kidd were found to be 100% liable (after certain offsets and other deductions the final verdict was \$8.0 million). The Company continues to deny liability and has filed an appeal.

## 9. Supplemental Disclosures of Cash Flow Information

The Company had non-cash investing activities related to accruals for capital expenditures of \$4.7 million at September 8, 2019 and \$3.8 million at December 30, 2018.

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### 10. Sale of Company-owned Stores

During the second quarter of 2019, the Company sold 59 U.S. Company-owned stores to certain of its existing U.S. franchisees for proceeds of \$9.7 million, of which \$8.1 million was received in cash during the second quarter. The remaining \$1.6 million was collected during the third quarter. In connection with the sale of the stores, the Company recorded a \$2.4 million pre-tax loss on the sale of the related assets and liabilities, which included a \$1.4 million reduction in goodwill. The loss was recorded in general and administrative expense in the Company's condensed consolidated statements of income.

### 11. New Accounting Pronouncements

#### Recently Adopted Accounting Standard

##### *Accounting Standards Update 2016-02, Leases (Topic 842)*

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases (Topic 842)* which requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. On December 31, 2018, the Company adopted ASC 842 using the modified retrospective method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The adoption of ASC 842 had a material impact on the Company's assets and liabilities due to the recognition of operating lease right-of-use assets and lease liabilities on its condensed consolidated balance sheet. The Company elected the optional practical expedient to retain its current classification of leases, and accordingly, the adoption of ASC 842 did not have a material effect on the Company's condensed consolidated statement of income and condensed consolidated statement of cash flows. Refer to Note 7 for additional disclosure related to the Company's lease arrangements.

The effects of the changes made to the Company's condensed consolidated balance sheet as of December 31, 2018 for the adoption of ASC 842 were as follows:

	<u>Balance at December 30, 2018</u>	<u>Adjustments Due to ASC 842</u>	<u>Balance at December 31, 2018</u>
<b>Assets</b>			
Current assets:			
Prepaid expenses and other	\$ 25,710	\$ (35)	\$ 25,675
Property, plant and equipment:			
Construction in progress	31,822	(1,904)	29,918
Other assets:			
Operating lease right-of-use assets	—	218,860	218,860
<b>Liabilities and stockholders' deficit</b>			
Current liabilities:			
Operating lease liabilities	—	32,033	32,033
Other accrued liabilities	55,001	(136)	54,865
Long-term liabilities:			
Operating lease liabilities	—	194,736	194,736
Other accrued liabilities	40,807	(9,712)	31,095

On December 31, 2018, the Company recorded an adjustment of \$226.8 million for operating lease right-of-use assets and liabilities. The operating lease right-of-use assets recorded on the date of adoption were also net of a \$7.9 million reclassification of other accrued liabilities and prepaid expenses representing previously deferred (prepaid) rent and lease incentives. The Company also derecognized \$1.9 million of construction in progress and other long-term accrued liabilities associated with a new building that was leased to the Company in the third quarter of 2019. This lease was previously accounted for as a build-to-suit arrangement under prior lease accounting guidance.

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### *ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”), which aligns the accounting for implementation costs of a cloud computing arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software. ASU 2018-15 also requires companies to amortize these implementation costs over the life of the service contract in the same line in the statement of income as the fees associated with the hosting service. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted this accounting standard prospectively in the third quarter of 2019, and the adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

### Accounting Standards Not Yet Adopted

The Company has considered all new accounting standards issued by the FASB. The Company has not yet completed its assessment of the following standards.

#### *ASU 2016-13, Financial Instruments – Credit Losses (Topic 326)*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of adopting this standard but does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.



**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**  
**(Unaudited; tabular amounts in millions, except percentages and store data)**

The 2019 and 2018 third quarters referenced herein represent the twelve-week periods ended September 8, 2019 and September 9, 2018, respectively. The 2019 and 2018 three fiscal quarters referenced herein represent the thirty-six-week periods ended September 8, 2019 and September 9, 2018, respectively.

**Overview**

Domino’s is the largest pizza company in the world based on global retail sales, with more than 16,500 locations in over 85 markets. Founded in 1960, our roots are in convenient pizza delivery, while a significant amount of our sales also come from carryout customers. Domino’s generates revenues and earnings by charging royalties and fees to our independent franchisees. 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 in the U.S. 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 can profit by sub-franchising and selling ingredients and equipment to those sub-franchisees, as well as by running pizza stores directly. Everyone in the system can benefit, including the end consumer, who can feed their family Domino’s menu items conveniently and economically.

Our financial results are driven largely by retail sales at our franchise and Company-owned stores. Changes in retail sales are driven by changes in same store sales and store counts. We monitor both of these metrics very closely, as they directly impact our revenues and profits, and we strive to consistently increase both metrics. Retail sales drive royalty payments from franchisees, as well as Company-owned store and supply chain revenues. Retail sales are primarily impacted by the strength of the Domino’s Pizza® brand, the results of our extensive advertising through various media channels, the impact of technological innovation and digital ordering, our ability to execute our strong and proven business model and the overall global economic environment.

	Third Quarter of 2019		Third Quarter of 2018		Three Fiscal Quarters of 2019		Three Fiscal Quarters of 2018	
<b>Global retail sales growth</b>	+5.8%		+8.3%		+5.2%		+12.5%	
<b>Same store sales growth:</b>								
U.S. Company-owned stores (1)	+1.7%		+4.9%		+2.3%		+5.4%	
U.S. franchise stores (1)	+2.5%		+6.4%		+3.2%		+7.3%	
U.S. stores	+2.4%		+6.3%		+3.1%		+7.1%	
International stores (excluding foreign currency impact)	+1.7%		+3.3%		+2.0%		+4.0%	
<b>Store counts (at end of period):</b>								
U.S. Company-owned stores (1)	333		386					
U.S. franchise stores (1)	5,652		5,365					
U.S. stores	5,985		5,751					
International stores	10,543		9,603					
Total stores	16,528		15,354					
<b>Income statement data:</b>								
Total revenues	\$ 820.8	100.0%	\$ 786.0	100.0%	\$2,468.4	100.0%	\$2,350.7	100.0%
Cost of sales	504.6	61.5%	490.7	62.4%	1,513.2	61.3%	1,462.0	62.2%
General and administrative	83.7	10.2%	80.4	10.2%	262.6	10.7%	251.1	10.7%
U.S. franchise advertising	89.5	10.9%	82.5	10.6%	267.1	10.8%	245.6	10.4%
Income from operations	143.0	17.4%	132.4	16.8%	425.5	17.2%	392.1	16.7%
Interest expense, net	(32.8)	(4.0)%	(33.2)	(4.2)%	(100.1)	(4.0)%	(97.9)	(4.2)%
Income before provision for income taxes	110.2	13.4%	99.2	12.6%	325.4	13.2%	294.1	12.5%
Provision for income taxes	23.9	2.9%	15.2	1.9%	54.0	2.2%	43.8	1.9%
Net income	\$ 86.4	10.5%	\$ 84.1	10.7%	\$ 271.4	11.0%	\$ 250.3	10.6%

(1) During the second quarter of 2019, the Company sold 59 U.S. Company-owned stores to certain of its existing U.S. franchisees. The same store sales growth for these stores is reflected in U.S. franchise stores in the third quarter and three fiscal quarters of 2019.

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During the third quarter and three fiscal quarters of 2019, we experienced global retail sales growth and positive U.S. and international same store sales growth. Our U.S. carryout business experienced continued strong growth. While our overall U.S. delivery business continues to grow, our U.S. delivery same store sales growth has been pressured by our current strategy to increase store concentration in certain markets where we compete as well as from aggressive competitive activity.

We also continued our global expansion with the opening of 214 net new stores in the third quarter of 2019, bringing our year-to-date total to 614. We opened 174 net new stores internationally and 40 net new stores in the U.S. during the third quarter of 2019. Overall, we believe this global store growth, along with our strong sales, emphasis on technology, operations, and marketing initiatives, have combined to strengthen our brand.

Global retail sales, which are total worldwide retail sales at franchise and Company-owned stores, increased 5.8% in the third quarter of 2019 and increased 5.2% in the three fiscal quarters of 2019. These increases were driven by an increase in worldwide store counts during the trailing four quarters as well as U.S. and international same store sales growth. The negative impact of changes in foreign currency exchange rates partially offset this increase, resulting from a generally stronger U.S. dollar when compared to the currencies in the international markets in which we compete. U.S. same store sales growth reflected the sustained positive sales trends and the continued success of our products, marketing and technology platforms. International same store sales growth also reflected continued positive performance.

Total revenues increased \$34.8 million, or 4.4%, in the third quarter of 2019 and increased \$117.7 million, or 5.0%, in the three fiscal quarters of 2019. These increases were due primarily to higher global retail sales, which resulted in higher supply chain and global franchise revenues. The increases in international franchise revenues were partially offset by the negative impact of changes in foreign currency exchange rates. These increases in revenues were also partially offset by lower U.S. Company-owned store revenues resulting from the sale of 59 Company-owned stores to certain of our existing U.S. franchisees during the second quarter of 2019 (the "Second Quarter Store Sale"). These changes in revenues are described in more detail below.

Income from operations increased \$10.6 million, or 8.0%, in the third quarter of 2019 and increased \$33.4 million, or 8.5%, in the three fiscal quarters of 2019. These increases were primarily driven by higher royalty revenues from U.S. and international franchised stores, as well as higher supply chain margins. A pre-tax gain of \$5.9 million recognized from the sale of 12 Company-owned stores in the third quarter of 2018 partially offset these increases. A \$2.4 million pre-tax loss related to the Second Quarter Store Sale and continued investments in technological initiatives and other areas also partially offset these increases in the three fiscal quarters of 2019.

Net income increased \$2.3 million, or 2.7%, in the third quarter of 2019 and increased \$21.1 million, or 8.4%, in the three fiscal quarters of 2019, driven by higher income from operations. These increases in net income were partially offset by a higher effective tax rate in 2019 resulting primarily from lower excess tax benefits from equity-based compensation. The increase in net income in the three fiscal quarters of 2019 was also partially offset by higher interest expense resulting from a higher average debt balance and a slightly higher weighted average borrowing rate following our debt recapitalization transaction completed on April 24, 2018 (the "2018 Recapitalization").

## Revenues

	Third Quarter of 2019		Third Quarter of 2018		Three Fiscal Quarters of 2019		Three Fiscal Quarters of 2018	
U.S. Company-owned stores	\$ 94.6	11.5%	\$118.5	15.1%	\$ 323.0	13.1%	\$ 358.5	15.3%
U.S. franchise royalties and fees	97.0	11.8%	89.4	11.4%	289.3	11.7%	266.3	11.3%
Supply chain	485.1	59.1%	445.1	56.6%	1,424.8	57.8%	1,326.1	56.4%
International franchise royalties and fees	54.6	6.7%	50.4	6.4%	164.1	6.6%	154.2	6.6%
U.S. franchise advertising	89.5	10.9%	82.5	10.5%	267.1	10.8%	245.6	10.4%
Total revenues	<u>\$820.8</u>	<u>100.0%</u>	<u>\$786.0</u>	<u>100.0%</u>	<u>\$2,468.4</u>	<u>100.0%</u>	<u>\$2,350.7</u>	<u>100.0%</u>

Revenues primarily consist of retail sales from our Company-owned stores, royalties, advertising contributions and fees from our U.S. franchised stores, royalties and fees from our international franchised stores and sales of food, equipment and supplies from our supply chain centers to all of our U.S. franchised stores and certain international franchised stores. Company-owned store, franchised store and supply chain revenues may vary from period to period due to changes in store count mix. Supply chain revenues may also vary significantly from period to period as a result of fluctuations in commodity prices as well as the mix of products we sell.

## U.S. Stores Revenues

	Third Quarter of 2019		Third Quarter of 2018		Three Fiscal Quarters of 2019		Three Fiscal Quarters of 2018	
U.S. Company-owned stores	\$ 94.6	33.6%	\$118.5	40.8%	\$323.0	36.7%	\$358.5	41.2%
U.S. franchise royalties and fees	97.0	34.5%	89.4	30.8%	289.3	32.9%	266.3	30.6%
U.S. franchise advertising	89.5	31.9%	82.5	28.4%	267.1	30.4%	245.6	28.2%
U.S. stores	<u>\$281.1</u>	<u>100.0%</u>	<u>\$290.4</u>	<u>100.0%</u>	<u>\$879.5</u>	<u>100.0%</u>	<u>\$870.5</u>	<u>100.0%</u>

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### U.S. Company-Owned Stores

Revenues from U.S. Company-owned store operations decreased \$23.9 million, or 20.2%, in the third quarter of 2019 and decreased \$35.5 million, or 9.9%, in the three fiscal quarters of 2019 due primarily to the Second Quarter Store Sale. These decreases in revenues were partially offset by higher same store sales. Company-owned same store sales increased 1.7% in the third quarter of 2019 and increased 2.3% in the three fiscal quarters of 2019. Company-owned same store sales increased 4.9% in the third quarter of 2018 and increased 5.4% in the three fiscal quarters of 2018.

### U.S. Franchise Royalties and Fees

Revenues from U.S. franchise royalties and fees increased \$7.6 million, or 8.5%, in the third quarter of 2019 and increased \$23.0 million, or 8.6%, in the three fiscal quarters of 2019 due primarily to higher same store sales and an increase in the average number of U.S. franchised stores open during the period due to net store growth and, to a lesser extent, the Second Quarter Store Sale. U.S. franchise same store sales increased 2.5% in the third quarter of 2019 and increased 3.2% in the three fiscal quarters of 2019. U.S. franchise same store sales increased 6.4% in the third quarter of 2018 and increased 7.3% in the three fiscal quarters of 2018.

### U.S. Franchise Advertising

Revenues from U.S. franchise advertising increased \$7.0 million, or 8.5%, in the third quarter of 2019 and increased \$21.5 million, or 8.8%, in the three fiscal quarters of 2019 due primarily to higher same store sales and an increase in the average number of U.S. franchised stores open during the period due to net store growth and, to a lesser extent, the Second Quarter Store Sale.

### Supply Chain Revenues

	Third Quarter of 2019		Third Quarter of 2018		Three Fiscal Quarters of 2019		Three Fiscal Quarters of 2018	
U.S. supply chain	\$440.1	90.7%	\$403.8	90.7%	\$1,293.3	90.8%	\$1,202.3	90.7%
International supply chain	45.0	9.3%	41.3	9.3%	131.5	9.2%	123.8	9.3%
Total supply chain	<u>\$485.1</u>	<u>100.0%</u>	<u>\$445.1</u>	<u>100.0%</u>	<u>\$1,424.8</u>	<u>100.0%</u>	<u>\$1,326.1</u>	<u>100.0%</u>

### U.S. Supply Chain

U.S. supply chain revenues increased \$36.3 million, or 9.0%, in the third quarter of 2019 and increased \$91.0 million, or 7.6%, in the three fiscal quarters of 2019. These increases were due primarily to higher volumes from increased orders resulting from an increase in the average number of U.S. franchise stores open during the period, as a result of the factors described above, and an increase in market basket pricing. Our market basket pricing to stores increased 2.8% in the third quarter of 2019 and increased 2.3% in the three fiscal quarters of 2019, which resulted in an estimated increase in U.S. supply chain revenues of \$9.8 million in the third quarter of 2019 and \$21.6 million in the three fiscal quarters of 2019.

### International Supply Chain

Revenues from international supply chain operations increased \$3.7 million, or 9.0%, in the third quarter of 2019 and increased \$7.7 million, or 6.2%, in the three fiscal quarters of 2019 due primarily to higher volumes from increased orders and an increase in market basket pricing. These increases in revenues were partially offset by the negative impact of changes in foreign currency exchange rates of \$0.2 million in the third quarter of 2019 and \$4.1 million in the three fiscal quarters of 2019.

### International Franchise Royalties and Fee Revenues

Revenues from international franchise royalties and fees increased \$4.2 million, or 8.3%, in the third quarter of 2019 and increased \$9.9 million, or 6.5%, in the three fiscal quarters of 2019. These increases were due primarily to an increase in the average number of international stores open during the period and higher same store sales. These increases in revenues were partially offset by the negative impact of changes in foreign currency exchange rates of \$1.5 million in the third quarter of 2019 and \$8.1 million in the three fiscal quarters of 2019. Excluding the impact of changes in foreign currency exchange rates, international franchise same store sales increased 1.7% in the third quarter of 2019 and increased 2.0% in the three fiscal quarters of 2019. Excluding the impact of changes in foreign currency exchange rates, international franchise same store sales increased 3.3% in the third quarter of 2018 and 4.0% in the three fiscal quarters of 2018.

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### Cost of Sales / Operating Margin

	Third Quarter of 2019		Third Quarter of 2018		Three Fiscal Quarters of 2019		Three Fiscal Quarters of 2018	
Consolidated revenues	\$820.8	100.0%	\$786.0	100.0%	\$2,468.4	100.0%	\$2,350.7	100.0%
Consolidated cost of sales	504.6	61.5%	490.7	62.4%	1,513.2	61.3%	1,462.0	62.2%
Consolidated operating margin	\$316.3	38.5%	\$295.3	37.6%	\$ 955.2	38.7%	\$ 888.7	37.8%

Cost of sales consists primarily of Company-owned store and supply chain costs incurred to generate related revenues. Components of consolidated cost of sales primarily include food, labor, delivery and occupancy costs.

Consolidated operating margin (which we define as revenues less cost of sales) increased \$21.0 million, or 7.1%, in the third quarter of 2019 and increased \$66.5 million, or 7.5%, in the three fiscal quarters of 2019 due primarily to higher global franchise revenues and higher supply chain volumes. Franchise revenues do not have a cost of sales component, so changes in these revenues have a disproportionate effect on the operating margin.

As a percentage of revenues, the consolidated operating margin increased 0.9 percentage points in the third quarter of 2019 and increased 0.9 percentage points in the three fiscal quarters of 2019. Company-owned store operating margin increased 2.8 percentage points in the third quarter of 2019 and increased 0.9 percentage points in the three fiscal quarters of 2019. Supply chain operating margin increased 0.1 percentage points in the third quarter of 2019 and increased 0.5 percentage points in the three fiscal quarters of 2019. These changes in operating margin are more fully discussed below.

### U.S. Company-Owned Stores Operating Margin

	Third Quarter of 2019		Third Quarter of 2018		Three Fiscal Quarters of 2019		Three Fiscal Quarters of 2018	
Revenues	\$94.6	100.0%	\$118.5	100.0%	\$323.0	100.0%	\$358.5	100.0%
Cost of sales	71.6	75.7%	93.0	78.5%	247.5	76.6%	278.0	77.5%
Store operating margin	\$23.0	24.3%	\$ 25.5	21.5%	\$ 75.5	23.4%	\$ 80.5	22.5%

The U.S. Company-owned store operating margin (which does not include certain store-level costs such as royalties and advertising) decreased \$2.5 million, or 10.1%, in the third quarter of 2019 and decreased \$5.0 million, or 6.2%, in the three fiscal quarters of 2019 due primarily to the Second Quarter Store Sale. Operating margin in both the third quarter and the three fiscal quarters of 2019 was also negatively impacted by higher labor costs, partially offset by higher same store sales. As a percentage of store revenues, the U.S. Company-owned store operating margin increased 2.8 percentage points in the third quarter of 2019 and increased 0.9 percentage points in the three fiscal quarters of 2019. These changes in operating margin as a percentage of revenues are discussed in more detail below.

- Food costs decreased 0.3 percentage points to 27.4% in the third quarter of 2019 and decreased 0.4 percentage points to 27.1% in the three fiscal quarters of 2019 due primarily to the leveraging of higher same store sales. These decreases were partially offset by higher food prices.
- Labor costs decreased 2.2 percentage points to 28.1% in the third quarter of 2019 and decreased 0.4 percentage points to 29.6% in the three fiscal quarters of 2019. The Second Quarter Store Sale contributed to the reduction in labor costs as a percentage of store revenues in both the third quarter and three fiscal quarters of 2019 due to the high labor rates in the market in which the sold stores operated. The reduction in labor costs as a percentage of store revenues in the three fiscal quarters of 2019 was partially offset by an increase in average labor rates in our remaining Company-owned store markets.

### Supply Chain Operating Margin

	Third Quarter of 2019		Third Quarter of 2018		Three Fiscal Quarters of 2019		Three Fiscal Quarters of 2018	
Revenues	\$485.1	100.0%	\$445.1	100.0%	\$1,424.8	100.0%	\$1,326.1	100.0%
Cost of sales	433.0	89.2%	397.7	89.3%	1,265.7	88.8%	1,184.0	89.3%
Supply chain operating margin	\$ 52.2	10.8%	\$ 47.4	10.7%	\$ 159.1	11.2%	\$ 142.1	10.7%

The supply chain operating margin increased \$4.8 million, or 10.0%, in the third quarter of 2019 and increased \$17.0 million, or 12.0%, in the three fiscal quarters of 2019, primarily driven by higher volumes from increased orders. As a percentage of supply chain revenues, the supply chain operating margin increased 0.1 percentage points in the third quarter of 2019. As a percentage of supply chain revenues, the supply chain operating margin increased 0.5 percentage points in the three fiscal quarters of 2019 due primarily to procurement savings, offset in part by higher labor costs.

### ***General and Administrative Expenses***

General and administrative expenses increased \$3.3 million, or 4.2%, in the third quarter of 2019 and increased \$11.5 million, or 4.6%, in the three fiscal quarters of 2019. A pre-tax gain of \$5.9 million recognized from the sale of 12 Company-owned stores in the third quarter of 2018 resulted in an increase in general and administrative expenses as compared to the prior year. Lower advertising expenses, resulting primarily from the Second Quarter Store Sale, partially offset these increases. A \$2.4 million pre-tax loss related to the Second Quarter Store Sale and continued investments in technological initiatives and other areas also contributed to the increase in the three fiscal quarters of 2019.

### ***U.S. Franchise Advertising Expenses***

U.S. franchise advertising expenses increased \$7.0 million, or 8.5%, in the third quarter of 2019 and increased \$21.5 million, or 8.8%, in the three fiscal quarters of 2019 due to higher U.S. franchise advertising revenues. U.S. franchise advertising costs are accrued and expensed when the related U.S. franchise advertising revenues are recognized, as our consolidated not-for-profit advertising fund is obligated to expend such revenues on advertising and these revenues cannot be used for general corporate purposes.

### ***Interest Expense, Net***

Interest expense, net decreased \$0.4 million, or 1.2%, in the third quarter of 2019 and increased \$2.2 million, or 2.2%, in the three fiscal quarters of 2019. The increase in the three fiscal quarters of 2019 was driven by a higher weighted average debt balance, primarily due to higher average borrowings resulting from the 2018 Recapitalization and outstanding borrowings under our variable funding notes. A higher weighted average borrowing rate also contributed to higher interest expense during the three fiscal quarters of 2019. The increase in the three fiscal quarters of 2019 was partially offset by \$3.3 million of incremental interest expense recorded in the second quarter of 2018 in connection with the 2018 Recapitalization.

The Company's weighted average borrowing rate was 4.1% in both the third quarter and the three fiscal quarters of 2019 and was 4.1% in the third quarter of 2018 and 4.0% in the three fiscal quarters of 2018.

### ***Provision for Income Taxes***

Provision for income taxes increased \$8.7 million, or 57.5%, in the third quarter of 2019 and increased \$10.2 million, or 23.3%, in the three fiscal quarters of 2019. The effective tax rate increased to 21.7% in the third quarter of 2019 and increased to 16.6% in the three fiscal quarters of 2019 as compared to 15.3% in the third quarter of 2018 and 14.9% in the three fiscal quarters of 2018. Higher pre-tax income and lower excess tax benefits from equity-based compensation contributed to higher tax expense in both the third quarter and the three fiscal quarters of 2019.

### ***Liquidity and Capital Resources***

Historically, we have operated with minimal positive working capital or negative working capital, primarily because our receivable collection periods and inventory turn rates are faster than the normal payment terms on our current liabilities. We generally collect our receivables within three weeks from the date of the related sale, and we generally experience 35 to 45 inventory turns per year. In addition, our sales are not typically seasonal, which further limits our working capital requirements. The use of our ongoing cash flows from operations to service our debt obligations, invest in our business, pay dividends and repurchase our common stock reduces our working capital amounts. As of September 8, 2019, we had working capital of \$2.3 million, excluding restricted cash and cash equivalents of \$177.3 million, advertising fund assets, restricted, of \$109.5 million and advertising fund liabilities of \$104.9 million. Working capital includes total unrestricted cash and cash equivalents of \$66.7 million.

During the third quarter and three fiscal quarters of 2019, we experienced increases in both U.S. and international same store sales versus the comparable periods in the prior year. Additionally, our international and U.S. businesses grew store counts in the third quarter and the three fiscal quarters of 2019. These factors contributed to our continued ability to generate positive operating cash flows. We expect to continue to use our unrestricted cash and cash equivalents, cash flows from operations, excess cash from our recapitalization transactions and available borrowings under our variable funding notes to, among other things, fund working capital requirements, invest in our core business, service our indebtedness, pay dividends and repurchase our common stock. We did not have any material commitments for capital expenditures as of September 8, 2019.

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Based upon our current level of operations and anticipated growth, we believe that the cash generated from operations, our current unrestricted cash and cash equivalents and amounts available under our variable funding note facility will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for at least the next twelve months. Our ability to continue to fund these items and continue to reduce debt could be adversely affected by the occurrence of any of the events described under “Risk Factors” in our filings with the Securities and Exchange Commission. There can be no assurance that our business will generate sufficient cash flows from operations or that future borrowings will be available under the variable funding notes or otherwise to enable us to service our indebtedness or to make anticipated capital expenditures. Our future operating performance and our ability to service, extend or refinance our fixed and floating rate notes and to service, extend or refinance our variable funding notes will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

### *Restricted Cash*

As of September 8, 2019, we had approximately \$140.9 million of restricted cash held for future principal and interest payments and other working capital requirements of our asset-backed securitization structure, \$36.2 million of restricted cash held in a three-month interest reserve as required by the related debt agreements and \$0.2 million of other restricted cash for a total of \$177.3 million of restricted cash and cash equivalents. As of September 8, 2019, we also held \$68.7 million of advertising fund restricted cash and cash equivalents, which can only be used for activities that promote the Domino’s Pizza brand.

### *Long-Term Debt*

As of September 8, 2019, we had approximately \$3.44 billion of long-term debt, of which \$35.9 million was classified as a current liability. Our fixed and floating rate notes from the recapitalizations we completed in 2018, 2017 and 2015 have original scheduled principal payments of \$8.8 million in the remainder of 2019, \$35.3 million in each of 2020 and 2021, \$888.0 million in 2022, \$26.3 million in each of 2023 and 2024, \$1.14 billion in 2025, \$14.0 million in 2026 and \$1.27 billion in 2027. As of September 8, 2019, we had no outstanding borrowings under our variable funding notes and \$126.9 million available for borrowing, net of letters of credit issued of \$48.1 million. The letters of credit are primarily related to our casualty insurance programs and supply chain center leases. Borrowings under the variable funding notes are available to fund our working capital requirements, capital expenditures and, subject to other limitations, other general corporate purposes including dividend payments and repurchases of our common stock.

### *Share Repurchase Programs*

Our share repurchase programs have historically been funded by excess cash flows. On February 14, 2018, our Board of Directors authorized a share repurchase program to repurchase up to \$750.0 million of the Company’s common stock. During the third quarter of 2019, we repurchased and retired 384,338 shares of our common stock under our Board of Directors-approved share repurchase program for a total of approximately \$93.7 million, or an average price of \$243.79 per share. During the three fiscal quarters of 2019, we repurchased and retired 430,182 shares of our common stock under our Board of Directors-approved share repurchase program for a total of approximately \$105.1 million, or an average price of \$244.43 per share. As of September 8, 2019, we had a total remaining authorized amount for share repurchases of approximately \$53.6 million.

During the third quarter of 2018, we repurchased and retired 397,490 shares of our common stock under our Board of Directors-approved share repurchase program for a total of approximately \$109.1 million, or an average price of \$274.53 per share. During the three fiscal quarters of 2018, we repurchased and retired 1,751,054 shares of our common stock under our Board of Directors-approved share repurchase program for a total of approximately \$429.2 million, or an average price of \$245.10 per share.

Subsequent to the third quarter, on October 4, 2019, the Company’s Board of Directors authorized a new share repurchase program to repurchase up to \$1.0 billion of the Company’s common stock, which has no expiration date. This repurchase program replaces the remaining availability of approximately \$53.6 million under the Company’s existing \$750.0 million share repurchase program. Authorization for the repurchase program may be modified, suspended, or discontinued at any time.

### *Dividends*

On June 28, 2019, the Company paid a \$0.65 dividend to its shareholders of record as of June 14, 2019. During the third quarter of 2019, on July 10, 2019, the Company’s Board of Directors declared a \$0.65 per share quarterly dividend on its outstanding common stock for shareholders of record as of September 13, 2019, which was paid subsequent to the third quarter on September 30, 2019.

Subsequent to the third quarter, on October 4, 2019, the Company’s Board of Directors declared a \$0.65 per share quarterly dividend on its outstanding common stock for shareholders of record as of December 13, 2019 to be paid on December 27, 2019.

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The following table illustrates the main components of our cash flows:

(In millions)	Three Fiscal Quarters of 2019	Three Fiscal Quarters of 2018
<b>Cash Flows Provided By (Used In)</b>		
Net cash provided by operating activities	\$ 324.6	\$ 262.5
Net cash used in investing activities	(3.1)	(65.4)
Net cash used in financing activities	(246.3)	(172.1)
Exchange rate changes	0.1	(0.2)
Change in cash and cash equivalents, restricted cash and cash equivalents	<u>\$ 75.3</u>	<u>\$ 24.9</u>

### **Operating Activities**

Cash provided by operating activities increased \$62.1 million in the three fiscal quarters of 2019 due to the positive impact of changes in operating assets and liabilities of \$32.9 million, an increase in net income of \$21.1 million and higher non-cash amounts of \$8.2 million. The positive impact of changes in operating assets and liabilities was primarily related to the timing of receipts on accounts receivable and timing of payments on accounts payable and accrued liabilities during 2019 as compared to 2018 and was partially offset by the negative impact of changes in advertising fund assets and liabilities, restricted in 2019 as compared to 2018 due to higher spending of fund assets.

### **Investing Activities**

Cash used in investing activities was \$3.1 million in the three fiscal quarters of 2019. We used \$42.7 million of cash for capital expenditures (driven primarily by investments in technological initiatives and supply chain centers). This use of cash was partially offset by maturities of advertising fund investments, restricted of \$30.2 million and proceeds from the sale of assets of \$9.7 million, which primarily related to the Second Quarter Store Sale.

Cash used in investing activities was \$65.4 million in the three fiscal quarters of 2018, which consisted primarily of \$65.1 million of capital expenditures (driven primarily by investments in supply chain centers, technological initiatives and U.S. Company-owned stores) and purchases of restricted advertising fund investments of \$50.2 million. These uses of cash were partially offset by maturities of restricted advertising fund investments of \$44.0 million.

### **Financing Activities**

Cash used in financing activities was \$246.3 million in the three fiscal quarters of 2019, primarily related to purchases of common stock of \$105.1 million under our Board of Directors-approved share repurchase program, repayments of long-term debt of \$91.9 million (of which \$65.0 million related to the repayment of borrowings under our variable funding notes), dividend payments to our shareholders of \$53.6 million and tax payments for restricted stock upon vesting of \$5.8 million. These uses of cash were partially offset by proceeds from the exercise of stock options of \$10.1 million.

Cash used in financing activities was \$172.1 million in the three fiscal quarters of 2018. We issued \$825.0 million of debt in connection with our 2018 Recapitalization and borrowed \$80.0 million under our variable funding notes. However, these increases in cash were offset by repayments of long-term debt of \$595.1 million (of which \$490.0 million was an optional prepayment on our 2015 five-year fixed rate notes using a portion of the proceeds received from the 2018 Recapitalization and \$80.0 million related to the repayment of the borrowings under our variable funding notes), purchases of common stock of \$429.2 million, dividend payments to our shareholders of \$46.7 million, and cash paid for financing costs related to our 2018 Recapitalization of \$8.2 million. We also received proceeds of \$9.0 million from the exercise of stock options and made \$6.8 million in tax payments for restricted stock upon vesting.

## Forward-Looking Statements

This filing contains various forward-looking statements about the Company within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”) that are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the “safe harbor” provisions of the Act. You can identify forward-looking statements by the use of words such as “anticipates,” “believes,” “could,” “should,” “estimates,” “expects,” “intends,” “may,” “will,” “plans,” “predicts,” “projects,” “seeks,” “approximately,” “potential,” “outlook” and similar terms and phrases that concern our strategy, plans or intentions, including references to assumptions. These forward-looking statements address various matters including information concerning future results of operations and business strategy, our anticipated profitability, estimates in same store sales growth, the growth of our U.S. and international business, ability to service our indebtedness, our future cash flows, our operating performance, trends in our business and other descriptions of future events reflect the Company’s expectations based upon currently available information and data. While we believe these expectations and projections are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from our expectations are more fully described in our other filings with the Securities and Exchange Commission, including under the section headed “Risk Factors” in our Annual Report on Form 10-K. Actual results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including but not limited to: our substantial increased indebtedness as a result of our recapitalization transactions and our ability to incur additional indebtedness or refinance or renegotiate key terms of that indebtedness in the future; the impact a downgrade in our credit rating may have on our business, financial condition and results of operations; our future financial performance and our ability to pay principal and interest on our indebtedness; the effectiveness of our advertising, operations and promotional initiatives; the strength of our brand, including our ability to compete in the U.S. and internationally in our intensely competitive industry; the impact of social media and other consumer-oriented technologies on our business, brand and reputation; new product, digital ordering and concept developments by us, and other food-industry competitors; our ability to maintain good relationships with our franchisees and their ongoing level of profitability; our ability to successfully implement cost-saving strategies; our ability and that of our franchisees to successfully operate in the current and future credit environment; changes in the level of consumer spending given general economic conditions, including interest rates, energy prices and consumer confidence; our ability and that of our franchisees to open new restaurants and keep existing restaurants in operation; changes in operating expenses resulting from changes in prices of food (particularly cheese), fuel and other commodity costs, labor, utilities, insurance, employee benefits and other operating costs; the impact that widespread illness or general health concerns, severe weather conditions and natural disasters may have on our business and the economies of the countries where we operate; changes in foreign currency exchange rates; our ability to retain or replace our executive officers and other key members of management and our ability to adequately staff our stores and supply chain centers with qualified personnel; our ability to find and/or retain suitable real estate for our stores and supply chain centers; changes in government legislation and regulations, including changes in laws and regulations regarding information privacy and consumer protection; adverse legal judgments or settlements; food-borne illness or contamination of products; data breaches, power loss, technological failures, user error or other cyber risks; the effect of war, terrorism or catastrophic events; our ability to pay dividends and repurchase shares; changes in consumer preferences, spending and traffic patterns and demographic trends; changes in accounting policies; and adequacy of our insurance coverage. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this filing might not occur. All forward-looking statements speak only as of the date of this filing and should be evaluated with an understanding of their inherent uncertainty. Except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission, or other applicable law, we will not undertake and specifically disclaim any obligation to publicly update or revise any forward-looking statements to reflect events or circumstances arising after the date of this filing, whether as a result of new information, future events or otherwise. You are cautioned not to place undue reliance on the forward-looking statements included in this filing or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.



### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### ***Market Risk***

We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes. In connection with the recapitalizations of our business, we issued fixed and floating rate notes and entered into variable funding notes and, at September 8, 2019, we are exposed to interest rate risk on borrowings under our floating rate notes and variable funding notes. As of September 8, 2019, we had no outstanding borrowings under our variable funding notes. Our floating rate notes and our variable funding notes bear interest at fluctuating interest rates based on LIBOR.

There is currently uncertainty around whether LIBOR will continue to exist after 2021. If LIBOR ceases to exist, we may need to renegotiate our loan documents and we cannot predict what alternative index would be negotiated with our lenders. As a result, our interest expense could increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

Our fixed rate debt exposes the Company to changes in market interest rates reflected in the fair value of the debt and to the risk that the Company may need to refinance maturing debt with new debt at a higher rate.

We are exposed to market risks from changes in commodity prices. During the normal course of business, we purchase cheese and certain other food products that are affected by changes in commodity prices and, as a result, we are subject to volatility in our food costs. We may periodically enter into financial instruments to manage this risk. We do not engage in speculative transactions or hold or issue financial instruments for trading purposes. In instances when we use fixed pricing agreements with our suppliers, these agreements cover our physical commodity needs, are not net-settled and are accounted for as normal purchases.

We have exposure to various foreign currency exchange rate fluctuations for revenues generated by our operations outside the U.S., which can adversely impact our net income and cash flows. Approximately 6.7% of our total revenues in the third quarter of 2019, 6.4% of our total revenues in the third quarter of 2018 and 6.6% of our total revenues in the three fiscal quarters of 2019 and 2018 were derived from our international franchise segment, a majority of which were denominated in foreign currencies. We also operate dough manufacturing and distribution facilities in Canada, which generate revenues denominated in Canadian dollars. We do not enter into financial instruments to manage this foreign currency exchange rate risk. A hypothetical 10% adverse change in the foreign currency exchange rates for our international markets would have resulted in a negative impact on royalty revenues of approximately \$14.4 million in the three fiscal quarters of 2019.

### **Item 4. Controls and Procedures.**

Management, with the participation of the Company's Chief Executive Officer, Richard E. Allison, Jr., and Executive Vice President and Chief Financial Officer, Jeffrey D. Lawrence, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, Mr. Allison and Mr. Lawrence concluded that the Company's disclosure controls and procedures were effective.

During the quarterly period ended September 8, 2019, there were no changes in the Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934, as amended, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are a party to lawsuits, revenue agent reviews by taxing authorities and administrative proceedings in the ordinary course of business which include, without limitation, workers' compensation, general liability, automobile and franchisee claims. We are also subject to suits related to employment practices as well as intellectual property, including patents.

As previously disclosed in our 2018 Form 10-K, on February 14, 2011, Domino's Pizza LLC was named as a defendant in a lawsuit along with Fischler Enterprises of C.F., Inc., a franchisee, and Jeffrey S. Kidd, the franchisee's delivery driver, filed by Yvonne Wiederhold, the plaintiff, as Personal Representative of the Estate of Richard E. Wiederhold, deceased. The case involved a traffic accident in which the franchisee's delivery driver is alleged to have caused an accident involving a vehicle driven by Richard Wiederhold. Mr. Wiederhold sustained spinal injuries resulting in quadriplegia and passed away several months after the accident. The case went to trial in 2016 and the Company was found liable, but the verdict was reversed by the Florida Fifth District Court of Appeals in May 2018 and was remanded to the Ninth Judicial Circuit Court of Florida for a new trial. The case was tried again in June 2019 and the jury returned a \$9.0 million judgment for the plaintiff where the Company and Mr. Kidd were found to be 100% liable (after certain offsets and other deductions the final verdict was \$8.0 million). The Company continues to deny liability and has filed an appeal.

While we may occasionally be party to large claims, including class action suits, we do not believe that any existing matters, individually or in the aggregate, will materially affect our financial position, results of operations or cash flows.

**Item 1A. Risk Factors.**

There have been no material changes in the risk factors previously disclosed in our 2018 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

c. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program (2)</u>	<u>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)</u>
Period #7 (June 17, 2019 to July 14, 2019)	1,194	\$ 275.16	—	\$ 147,336
Period #8 (July 15, 2019 to August 11, 2019)	231,739	252.72	230,097	89,166
Period #9 (August 12, 2019 to September 8, 2019)	157,402	230.44	154,241	53,640
Total	<u>390,335</u>	<u>\$ 243.81</u>	<u>384,338</u>	<u>\$ 53,640</u>

- (1) 5,997 shares in the third quarter of 2019 were purchased as part of the Company's employee stock payroll deduction plan at an average price of \$245.21.
- (2) As previously disclosed, on February 14, 2018, the Company's Board of Directors authorized a \$750.0 million share repurchase program, which has no expiration date. As of September 8, 2019, the Company had approximately \$53.6 million remaining for future share repurchases under this program. On October 4, 2019, the Company's Board of Directors authorized a new share repurchase program to repurchase up to \$1.0 billion of the Company's common stock, which has no expiration date. This repurchase program replaces the remaining availability of approximately \$53.6 million under the Company's existing \$750.0 million share repurchase program. Authorization for the repurchase program may be modified, suspended, or discontinued at any time. The repurchase of shares in any particular period and the actual amount of such purchases remain at the discretion of the Board of Directors, and no assurance can be given that shares will be repurchased in the future.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

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### Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
31.1	<a href="#">Certification by Richard E. Allison, Jr. pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.</a>
31.2	<a href="#">Certification by Jeffrey D. Lawrence pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.</a>
32.1	<a href="#">Certification by Richard E. Allison, Jr. pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.</a>
32.2	<a href="#">Certification by Jeffrey D. Lawrence pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.</a>
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 8, 2019

DOMINO'S PIZZA, INC.  
(Registrant)

/s/ Jeffrey D. Lawrence  
\_\_\_\_\_  
Jeffrey D. Lawrence  
Executive Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)

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## CERTIFICATION OF CHIEF EXECUTIVE OFFICER, DOMINO'S PIZZA, INC.

I, Richard E. Allison, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Domino's Pizza, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 8, 2019

Date

/s/ Richard E. Allison, Jr.

Richard E. Allison, Jr.

Chief Executive Officer

## CERTIFICATION OF CHIEF FINANCIAL OFFICER, DOMINO'S PIZZA, INC.

I, Jeffrey D. Lawrence, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Domino's Pizza, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 8, 2019

Date

/s/ Jeffrey D. Lawrence

Jeffrey D. Lawrence

Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Domino's Pizza, Inc. (the "Company") on Form 10-Q for the period ended September 8, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Richard E. Allison, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard E. Allison, Jr.

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Richard E. Allison, Jr.  
Chief Executive Officer

Dated: October 8, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Domino's Pizza, Inc. and will be retained by Domino's Pizza, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Domino's Pizza, Inc. (the "Company") on Form 10-Q for the period ended September 8, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Jeffrey D. Lawrence, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey D. Lawrence

\_\_\_\_\_  
Jeffrey D. Lawrence  
Chief Financial Officer

Dated: October 8, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Domino's Pizza, Inc. and will be retained by Domino's Pizza, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.