

DOMINOS PIZZA INC

Form 10-Q

April 24, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM

10-Q

(Mark One)

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

For the quarterly period ended

March 24, 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

38-2511577

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

30 Frank Lloyd Wright Drive

48105

Ann Arbor, Michigan

(Address of Principal Executive Offices) (Zip Code)

(734)

930-3030

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation

S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated

filer, 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 April 17, 2019, Domino's Pizza, Inc. had 41,103,909 shares of common stock, par value \$0.01 per share, outstanding.

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) | March 24, 2019 | December 30, 2018 (1) |
|---|-------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$83,114 | \$ 25,438 |
| Restricted cash and cash equivalents | 150,055 | 166,993 |
| Accounts receivable, net | 194,064 | 190,091 |
| Inventories | 45,668 | 45,975 |
| Prepaid expenses and other | 19,544 | 25,710 |
| Advertising fund assets, restricted | 98,098 | 112,744 |
| Total current assets | 590,543 | 566,951 |
| Property, plant and equipment: | | |
| Land and buildings | 41,519 | 41,147 |
| Leasehold and other improvements | 171,859 | 170,498 |
| Equipment | 246,909 | 243,654 |
| Construction in progress | 27,832 | 31,822 |
| | 488,119 | 487,121 |
| Accumulated depreciation and amortization | (260,252) | (252,182) |
| Property, plant and equipment, net | 227,867 | 234,939 |
| Other assets: | | |
| Operating lease right-of-use assets | 222,005 | — |
| Goodwill | 14,919 | 14,919 |
| Capitalized software, net | 66,159 | 63,809 |
| Other assets | 22,728 | 21,241 |
| Deferred income taxes | 4,054 | 5,526 |

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| | | |
|---|--------------|--------------|
| Total other assets | 329,865 | 105,495 |
| Total assets | \$1,148,275 | \$ 907,385 |
| Liabilities and stockholders' deficit | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$35,909 | \$ 35,893 |
| Accounts payable | 84,888 | 92,546 |
| Operating lease liabilities | 31,753 | — |
| Insurance reserves | 22,034 | 22,210 |
| Dividends payable | 27,156 | 581 |
| Advertising fund liabilities | 93,040 | 107,150 |
| Other accrued liabilities | 117,233 | 121,363 |
| Total current liabilities | 412,013 | 379,743 |
| Long-term liabilities: | | |
| Long-term debt, less current portion | 3,447,819 | 3,495,691 |
| Operating lease liabilities | 198,508 | — |
| Insurance reserves | 32,558 | 31,065 |
| Other accrued liabilities | 32,542 | 40,807 |
| Total long-term liabilities | 3,711,427 | 3,567,563 |
| Stockholders' deficit: | | |
| Common stock | 411 | 410 |
| Additional paid-in capital | 5,464 | 569 |
| Retained deficit | (2,976,848) | (3,036,471) |
| Accumulated other comprehensive loss | (4,192) | (4,429) |
| Total stockholders' deficit | (2,975,165) | (3,039,921) |
| Total liabilities and stockholders' deficit | \$1,148,275 | \$ 907,385 |

(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.

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

| (In thousands, except per share data) | Fiscal Quarter Ended | |
|---|----------------------|-------------------|
| | March 24, 2019 | March 25, 2018 |
| Revenues: | | |
| U.S. Company-owned stores | \$ 123,450 | \$ 121,186 |
| U.S. franchise royalties and fees | 96,708 | 89,490 |
| Supply chain | 472,100 | 440,063 |
| International franchise royalties and fees | 54,584 | 52,421 |
| U.S. franchise advertising | 89,121 | 82,211 |
| Total revenues | 835,963 | 785,371 |
| Cost of sales: | | |
| U.S. Company-owned stores | 95,540 | 93,038 |
| Supply chain | 418,134 | 392,468 |
| Total cost of sales | 513,674 | 485,506 |
| Operating margin | 322,289 | 299,865 |
| General and administrative | 89,664 | 84,178 |
| U.S. franchise advertising | 89,121 | 82,211 |
| Income from operations | 143,504 | 133,476 |
| Interest income | 693 | 480 |
| Interest expense | (35,054) | (30,286) |
| Income before provision for income taxes | 109,143 | 103,670 |
| Provision for income taxes | 16,493 | 14,843 |
| Net income | \$92,650 | \$88,827 |

Earnings per share:

| | | |
|------------------------|--------|--------|
| Common stock - basic | \$2.27 | \$2.07 |
| Common stock - diluted | 2.20 | 2.00 |

See accompanying notes.

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

| (In thousands) | Fiscal Quarter Ended | |
|---------------------------------|----------------------|----------------|
| | March 24, 2019 | March 25, 2018 |
| Net income | \$92,650 | \$ 88,827 |
| Currency translation adjustment | 237 | (455) |
| Comprehensive income | \$92,887 | \$ 88,372 |

See accompanying notes.

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

| (In thousands) | Fiscal Quarter Ended | |
|---|----------------------|----------------|
| | March 24, 2019 | March 25, 2018 |
| Cash flows from operating activities: | | |
| Net income | \$92,650 | \$ 88,827 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,790 | 11,069 |
| Loss on sale/disposal of assets | 149 | 365 |
| Amortization of debt issuance costs | 1,101 | 1,177 |
| Provision for deferred income taxes | 1,467 | 566 |
| Non-cash compensation expense | 4,608 | 6,063 |

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| | | |
|--|-----------|------------|
| Excess tax benefits from equity-based compensation | (8,663) | (8,410) |
| Other | 94 | (57) |
| Changes in operating assets and liabilities | 1,974 | (15,405) |
| Changes in advertising fund assets and liabilities, restricted | (10,172) | (519) |
| Net cash provided by operating activities | 96,998 | 83,676 |
| Cash flows from investing activities: | | |
| Capital expenditures | (12,222) | (13,647) |
| Maturities of advertising fund investments, restricted | — | 4,007 |
| Other | 262 | (499) |
| Net cash used in investing activities | (11,960) | (10,139) |
| Cash flows from financing activities: | | |
| Repayments of long-term debt and finance lease obligations | (48,968) | (8,078) |
| Proceeds from exercise of stock options | 4,537 | 3,718 |
| Purchases of common stock | (8,144) | (101,084) |
| Tax payments for restricted stock upon vesting | (2,467) | (2,299) |
| Payments of common stock dividends and equivalents | (90) | (79) |
| Net cash used in financing activities | (55,132) | (107,822) |
| Effect of exchange rate changes on cash | 124 | 48 |
| Change in cash and cash equivalents, restricted cash and cash equivalents | 30,030 | (34,237) |
| 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 | 237,419 | 254,846 |
| Cash and cash equivalents, end of period | 83,114 | 44,609 |
| Restricted cash and cash equivalents, end of period | 150,055 | 145,186 |
| Cash and cash equivalents included in advertising fund assets, restricted, end of period | 34,280 | 30,814 |
| Cash and cash equivalents, restricted cash and cash equivalents and cash and cash equivalents included in advertising fund assets, restricted, end of period | \$267,449 | \$220,609 |

See accompanying notes.

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

March 24, 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 March 24, 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 11 for additional information related to the Company's lease arrangements and Note 15 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 ("ROU") assets and operating lease liabilities in the Company's condensed consolidated balance sheet. Finance leases are included in property and equipment, current portion of long-term debt and long-term debt on the Company's condensed consolidated balance sheet.

ROU 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 or general and administrative expense, 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 March 24, 2019 and March 25, 2018 | | | | | |
|------------------------|---|--------------|-------------------------|-----------------------|-------------|-----------|
| | U.S. Stores | Supply Chain | International Franchise | Intersegment Revenues | Other | Total |
| Revenues | | | | | | |
| 2019 | \$309,279 | \$505,681 | \$ 54,584 | \$ (33,581) | \$— | \$835,963 |
| 2018 | 292,887 | 473,956 | 52,421 | (33,893) | — | 785,371 |
| Income from operations | | | | | | |
| 2019 | \$80,615 | \$42,021 | \$ 42,754 | N/A | \$(21,886) | \$143,504 |
| 2018 | 75,289 | 37,372 | 41,524 | N/A | (20,709) | 133,476 |
| Segment Income | | | | | | |
| 2019 | \$83,598 | \$46,047 | \$ 42,800 | N/A | \$(10,394) | \$162,051 |
| 2018 | 78,344 | 40,156 | 41,572 | N/A | (9,099) | 150,973 |

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

| | Fiscal Quarter Ended | |
|--|----------------------|----------------|
| | March 24, 2019 | March 25, 2018 |
| Total Segment Income | \$162,051 | \$150,973 |
| Depreciation and amortization | (13,790) | (11,069) |
| Loss on sale/disposal of assets | (149) | (365) |
| Non-cash compensation expense | (4,608) | (6,063) |
| Income from operations | 143,504 | 133,476 |
| Interest income | 693 | 480 |
| Interest expense | (35,054) | (30,286) |
| Income before provision for income taxes | \$109,143 | \$103,670 |

3. Earnings Per Share

| | Fiscal Quarter Ended | |
|---|----------------------|----------------|
| | March 24, 2019 | March 25, 2018 |
| Net income available to common stockholders – basic and diluted | \$92,650 | \$88,827 |
| Basic weighted average number of shares | 40,865,532 | 42,822,112 |
| Earnings per share – basic | \$2.27 | \$2.07 |
| Diluted weighted average number of shares | 42,202,429 | 44,377,509 |
| Earnings per share – diluted | \$2.20 | \$2.00 |

The denominator used in calculating diluted earnings per share for the first quarter of 2019 does not include 71,880 options to purchase common stock as the effect of including these options would have been anti-dilutive. The denominator used in calculating diluted earnings per share for the first quarter of 2019 does not include 1,800 shares subject to restricted stock awards, as the effect of including these shares would have been anti-dilutive. The denominator used in calculating diluted earnings per share for the first quarter of 2019 does not include 96,712 restricted performance shares, as the performance targets for these awards had not yet been met.

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The denominator used in calculating diluted earnings per share for common stock for the first quarter of 2018 does not include 87,420 options to purchase common stock, as the effect of including these options would have been anti-dilutive. The denominator used in calculating diluted earnings per share for the first quarter of 2018 did not include 117,062 restricted performance shares, as the performance targets for these awards had not yet been met.

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4. Stockholders' Deficit

The following table summarizes changes in stockholders' deficit for the first quarter 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 | — | — | — | 92,650 | — |
| Common stock dividends and equivalents | — | — | — | (26,665) | — |
| Issuance of common stock, net | 8,240 | — | — | — | — |
| Tax payments for restricted stock upon vesting | (9,064) | — | (2,467) | — | — |
| Purchases of common stock | (33,549) | — | (1,782) | (6,362) | — |
| Exercise of stock options | 140,702 | 1 | 4,536 | — | — |
| Non-cash compensation expense | — | — | 4,608 | — | — |
| Currency translation adjustment | — | — | — | — | 237 |
| Balance at March 24, 2019 | 41,083,890 | \$ 411 | \$ 5,464 | \$(2,976,848) | \$ (4,192) |

The following table summarizes changes in stockholders' deficit for the first quarter 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 | — | — | — | 88,827 | — |
| Common stock dividends and equivalents | — | — | — | (23,549) | — |
| Issuance of common stock, net | 9,282 | — | — | — | — |
| Tax payments for restricted stock upon vesting | (10,237) | — | (2,299) | — | — |
| Purchases of common stock | (448,008) | (5) | (12,997) | (88,082) | — |
| Exercise of stock options | 176,515 | 2 | 3,716 | — | — |
| Non-cash compensation expense | — | — | 6,063 | — | — |
| Adoption of revenue recognition accounting standard | — | — | — | (6,701) | — |
| Currency translation adjustment | — | — | — | — | (455) |
| Reclassification adjustment for stranded taxes | — | — | — | 351 | (351) |
| Balance at March 25, 2018 | 42,625,881 | \$ 426 | \$ 137 | \$(2,768,591) | \$ (2,836) |

5. Dividends

During the first quarter of 2019, on February 20, 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

March 15, 2019

which was paid on

March 29, 2019

. The Company had approximately \$27.2 million accrued for common stock dividends at March 24, 2019.

Subsequent to the first quarter of 2019, on

April 23, 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

June 14, 2019

to be paid on

June 28, 2019

.

During the first quarter of 2018, on

February 14, 2018

, the Company's Board of Directors declared a \$0.55 per share quarterly dividend on its outstanding common stock for shareholders of record as of

March 15, 2018

which was paid on

March 30, 2018

.

6. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss was approximately \$4.2 million at March 24, 2019 and was approximately \$4.4 million as of December 30, 2018 and represented currency translation adjustments. During the first quarter of 2018, the Company adopted ASU 2018-02,

Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

. As a result, the Company recorded a \$0.4 million reclassification from accumulated other comprehensive loss to the beginning balance of retained deficit during the first quarter of 2018. The Company did not record any reclassifications out of accumulated other comprehensive loss to net income in the first quarter of 2019 or the first quarter of 2018.

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7. Open Market Share Repurchase Program

During the first quarter of 2019, the Company repurchased and retired 33,549 shares of its common stock under its Board of Directors-approved open market share repurchase program for a total of approximately \$8.1 million, or an average price of \$242.74 per share. As of March 24, 2019, the Company had a total remaining authorized amount for share repurchases of approximately \$150.6 million.

During the first quarter of 2018, the Company repurchased and retired 448,008 shares of its common stock under its Board of Directors-approved open market share repurchase program for a total of approximately \$101.1 million, or an average price of \$225.63 per share.

8. 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

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assets at March 24, 2019 and December 30, 2018:

| | At March 24, 2019 | | | |
|---|----------------------|----------------------------|----------------|----------------|
| | Carrying Amount | Fair Value Estimated Using | | |
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Cash equivalents | \$48,467 | \$48,467 | \$ — | \$ — |
| Restricted cash equivalents | 90,014 | 90,014 | — | — |
| Investments in marketable securities | 10,187 | 10,187 | — | — |
| Advertising fund cash equivalents, restricted | 22,847 | 22,847 | — | — |
| Advertising fund investments, restricted | 50,152 | 50,152 | — | — |
| | 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:

| | March 24, 2019 | | December 30, 2018 | |
|-------------------------------|------------------|------------|-------------------|------------|
| | Principal Amount | Fair Value | Principal Amount | Fair Value |
| 2015 | | | | |
| Ten-Year Fixed Rate Notes | \$778,000 | \$804,452 | \$780,000 | \$783,120 |
| 2017 | | | | |
| Five-Year Fixed Rate Notes | 591,000 | 582,726 | 592,500 | 575,910 |
| 2017 | | | | |
| Ten-Year Fixed Rate Notes | 985,000 | 991,895 | 987,500 | 956,888 |
| 2017 | | | | |
| Five-Year Floating Rate Notes | 295,500 | 294,318 | 296,250 | 295,065 |
| 2018 | | | | |
| 7.5-Year Fixed Rate Notes | 421,813 | 427,297 | 422,875 | 416,955 |
| 2018 | | | | |
| 9.25-Year Fixed Rate Notes | 397,000 | 404,940 | 398,000 | 396,010 |

At March 24,

2019, the Company had \$25.0

million outstanding under its variable funding notes, which is a variable rate loan. The fair value of this loan approximates 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 Company had \$65.0

million outstanding under its variable funding notes at December
30
,
2018
.
10

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.

9. Contract Liabilities

Contract liabilities consist of deferred franchise fees and deferred development fees. Changes in deferred franchise fees and deferred development fees for the first quarter of 2019 and the first quarter of 2018 were as follows:

| | Fiscal Quarter Ended March 24, March 25, 2019 2018 | |
|--|--|-----------|
| Deferred franchise fees and deferred development fees at beginning of period | \$ 19,900 | \$ 19,404 |
| Revenue recognized during the period | (1,361) | (1,083) |
| New deferrals due to cash received and other | 900 | 613 |
| Deferred franchise fees and deferred development fees at end of period | \$ 19,439 | \$ 18,934 |

10. Advertising Fund Assets

As of March 24, 2019, advertising fund assets, restricted of \$98.1 million consisted of \$84.4 million of cash, cash equivalents and investments, \$12.1 million of accounts receivable and \$1.6 million of prepaid expenses. As of March 24, 2019, advertising fund cash, cash equivalents and investments included \$5.1 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.

11. Leases

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The Company leases certain retail store and supply chain center locations, supply chain vehicles and its corporate headquarters with expiration dates through 2034.

The components of operating and finance lease cost for the first quarter of 2019 were as follows:

| | Fiscal Quarter Ended March 24, 2019 |
|---|---|
| Operating lease cost | \$ 10,796 |
| Finance lease cost: | |
| Amortization of right-of-use assets | 254 |
| Interest on lease liabilities | 479 |
| Total finance lease cost | \$ 733 |

Rent expense totaled \$16.4 million and \$15.4 million in the first quarter of 2019 and 2018, respectively, and 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.

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Supplemental balance sheet information related to the Company's finance leases as of March 24, 2019 and December 30, 2018 was as follows:

| | March 24, 2019 | December 30, 2018 |
|---|-------------------|----------------------|
| Land and buildings | \$ 22,182 | \$ 22,171 |
| Accumulated depreciation and amortization | (6,932) | (6,678) |
| Finance lease assets, net | \$ 15,250 | \$ 15,493 |
| Current portion of long-term debt | \$ 659 | \$ 643 |
| Long-term debt, less current portion | 16,202 | 16,363 |
| Total principal payable on finance leases | \$ 16,861 | \$ 17,006 |

| | | | | |
|---------------------------------------|-----------|----------|---|--|
| | Operating | Finance | | |
| | Leases | Leases | | |
| Weighted average remaining lease term | 7 years | 14 years | | |
| Weighted average discount rate | 4.1 | % 11.3 | % | |

Supplemental cash flow information related to leases for the first quarter of 2019 was as follows:

| | |
|---|---|
| | Fiscal Quarter Ended March 24, 2019 |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$ 10,690 |
| Operating cash flows from finance leases | 479 |
| Financing cash flows from finance leases | 155 |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | 12,977 |
| 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. As a result of the lease renewal, the Company recorded non-cash

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financing activities of \$2.6 million for the increase in finance lease assets and liabilities during the first quarter of 2018.

Maturities of lease liabilities as of March 24, 2019 were as follows:

| | Operating Leases | Finance Leases |
|--|---------------------|-------------------|
| 2019, excluding the quarter ended March 24, 2019 | \$29,314 | \$1,799 |
| 2020 | 38,791 | 2,416 |
| 2021 | 35,915 | 2,434 |
| 2022 | 32,545 | 2,452 |
| 2023 | 29,188 | 2,475 |
| Thereafter | 107,039 | 23,792 |
| Total future minimum rental commitments | 272,792 | 35,368 |
| Less – amounts representing interest | (42,531) | (18,507) |
| Total lease liabilities | \$230,261 | \$16,861 |

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

| | Operating Leases | Finance Leases |
|---|---------------------|-------------------|
| 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 | \$271,270 | 35,950 |
| Less – amounts representing interest | | (18,944) |
| Total principal payable on finance leases | | \$17,006 |

As of March 24, 2019, the Company has additional operating leases for supply chain center tractors and trailers and a new office building being constructed by the Company's landlord that had not yet commenced with estimated future minimum rental commitments of approximately \$43.0 million. The Company has also entered into an additional finance lease for a supply chain center that had not yet commenced with estimated future minimum rental commitments of approximately \$28.7 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 \$2.3 million and \$2.4 million as of March 24, 2019 and December 30, 2018, respectively. We believe that none of these arrangements has or is likely to have a material effect on our results of operations, financial condition, revenues or expenses, capital expenditures or liquidity.

12. 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 jury returned a \$10.1 million judgment for the plaintiff where the Company and Mr. Kidd were found to be 90% liable (after certain offsets and other deductions the final verdict was \$8.9 million). In the second quarter of 2016, the trial court ruled on all post-judgment motions and entered the judgment. The Company denies liability and in the third quarter of 2016 filed an appeal of the verdict on a variety of grounds. On May 11, 2018, the court of appeals reversed and remanded the case to the trial court for a new trial based on the plaintiff's improper closing argument. The Company continues to deny liability in this matter.

13. Supplemental Disclosures of Cash Flow Information

The Company had
non-cash

investing activities related to accruals for capital expenditures of \$2.6 million at March 24, 2019 and \$3.8 million at December 30, 2018.

14. Sale of Company-owned Stores

Subsequent to the first quarter of 2019, the Company entered into agreements to sell 59 U.S. Company-owned stores to certain of its existing franchisees.

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15. 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 11 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:

| | Balance at December 30, 2018 | Adjustments Due to ASC 842 | Balance at December 31, 2018 |
|---|------------------------------------|----------------------------------|------------------------------------|
| Assets | | | |
| 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 |
| Liabilities and stockholders' deficit | | | |
| 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 will be leased to the Company upon completion in 2019. This lease was previously accounted for as a build-to-suit

arrangement under prior lease accounting guidance.

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 standard.

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.

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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 first quarters referenced herein represent the twelve-week periods ended March 24, 2019 and March 25, 2018.

Overview

Domino’s is the largest pizza company in the world based on global retail sales, with more than 16,100 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.

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| | First Quarter of 2019 | | First Quarter of 2018 | |
|--|--------------------------|---------|--------------------------|---------|
| Global retail sales growth | +4.6 | % | +16.8 | % |
| Same store sales growth: | | | | |
| U.S. Company-owned stores | +2.1 | % | +6.4 | % |
| U.S. franchise stores | +4.1 | % | +8.4 | % |
| U.S. stores | +3.9 | % | +8.3 | % |
| International stores (excluding foreign currency impact) | +1.8 | % | +5.0 | % |
| Store counts (at end of period): | | | | |
| U.S. Company-owned stores | 392 | | 397 | |
| U.S. franchise stores | 5,511 | | 5,252 | |
| U.S. stores | 5,903 | | 5,649 | |
| International stores | 10,211 | | 9,317 | |
| Total stores | 16,114 | | 14,966 | |
| Income statement data: | | | | |
| Total revenues | \$836.0 | 100.0% | \$785.4 | 100.0% |
| Cost of sales | 513.7 | 61.4 % | 485.5 | 61.8 % |
| General and administrative | 89.7 | 10.7 % | 84.2 | 10.7 % |
| U.S. franchise advertising | 89.1 | 10.7 % | 82.2 | 10.5 % |
| Income from operations | 143.5 | 17.2 % | 133.5 | 17.0 % |
| Interest expense, net | (34.4) | (4.1)% | (29.8) | (3.8)% |
| Income before provision for income taxes | 109.1 | 13.1 % | 103.7 | 13.2 % |
| Provision for income taxes | 16.5 | 2.0 % | 14.8 | 1.9 % |
| Net income | \$92.7 | 11.1 % | \$88.8 | 11.3 % |

During the first quarter of 2019, we experienced healthy global retail sales growth. Our U.S. and international same store sales growth remained positive but was pressured by our current strategy to increase store concentration in certain markets where we compete.

We also continued our global expansion with the opening of 200 net new stores in the first quarter of 2019. We opened 173 net new stores internationally and 27 net new stores in the U.S. during the first 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 retail sales at franchise and Company-owned stores worldwide, increased 4.6% in the first quarter of 2019. This increase was 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 impact of 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 \$50.6 million, or 6.4%, in the first quarter of 2019 due primarily to higher supply chain volumes resulting from order and store count growth, as well as higher U.S. franchise, Company-owned store and international franchise revenues resulting from store count and same store sales growth. The increase in international franchise revenues was partially offset by the negative impact of foreign currency exchange rates. These changes in revenues are described in more detail below.

Income from operations increased \$10.0 million, or 7.5%, in the first quarter of 2019, primarily driven by higher royalty revenues from U.S. and international franchised stores, as well as higher supply chain margins. Higher investments in technological initiatives and other strategic areas partially offset these increases in income from operations. Income from operations was also negatively impacted by changes in foreign currency exchange rates in the first quarter of 2019.

Net income increased \$3.9 million, or 4.3%, in the first quarter of 2019, driven by higher income from operations, as noted above. This increase in net income was partially offset by higher interest expense resulting primarily from a higher average debt balance.

Revenues

| | First Quarter of 2019 | | First Quarter of 2018 | |
|--|--------------------------|--------|--------------------------|--------|
| U.S. Company-owned stores | \$123.5 | 14.8 % | \$121.2 | 15.4 % |
| U.S. franchise royalties and fees | 96.7 | 11.6 % | 89.5 | 11.4 % |
| Supply chain | 472.1 | 56.4 % | 440.1 | 56.0 % |
| International franchise royalties and fees | 54.6 | 6.5 % | 52.4 | 6.7 % |
| U.S. franchise advertising | 89.1 | 10.7 % | 82.2 | 10.5 % |
| Total revenues | \$836.0 | 100.0% | \$785.4 | 100.0% |

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 and franchised store revenues may vary from period to period due to changes

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in store count mix. Supply chain revenues may 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

| | First Quarter of 2019 | | First Quarter of 2018 | |
|-----------------------------------|--------------------------|--------|--------------------------|--------|
| U.S. Company-owned stores | \$123.5 | 39.9 % | \$121.2 | 41.4 % |
| U.S. franchise royalties and fees | 96.7 | 31.3 % | 89.5 | 30.6 % |
| U.S. franchise advertising | 89.1 | 28.8 % | 82.2 | 28.0 % |
| U.S. stores | \$309.3 | 100.0% | \$292.9 | 100.0% |

U.S. stores revenues increased \$16.4 million, or 5.6%, in the first quarter of 2019, driven primarily by higher U.S. franchise revenues. These changes in U.S. stores revenues are more fully described below.

U.S. Company-Owned Stores

Revenues from U.S. Company-owned store operations increased \$2.3 million, or 1.9%, in the first quarter of 2019 due primarily to higher same store sales. Company-owned same store sales increased 2.1% in the first quarter of 2019 and 6.4% in the first quarter of 2018.

U.S. Franchise Royalties and Fees

Revenues from U.S. franchise royalties and fees increased \$7.2 million, or 8.1%, in the first quarter 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. U.S. franchise same store sales increased 4.1% in the first quarter of 2019 and 8.4% in the first quarter of 2018.

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U.S. Franchise Advertising

Revenues from U.S. franchise advertising increased \$6.9 million, or 8.4%, in the first quarter 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. U.S. franchise same store sales increased 4.1% in the first quarter of 2019 and 8.4% in the first quarter of 2018.

Supply Chain Revenues

| | First Quarter of 2019 | | First Quarter of 2018 | |
|----------------------------|--------------------------|--------|--------------------------|--------|
| U.S. supply chain | \$428.7 | 90.8 % | \$398.9 | 90.6 % |
| International supply chain | 43.4 | 9.2 % | 41.2 | 9.4 % |
| Total supply chain | \$472.1 | 100.0% | \$440.1 | 100.0% |

U.S. Supply Chain

U.S. supply chain revenues increased \$29.8 million, or 7.5%, in the first quarter of 2019 due primarily to higher volumes from increased order counts at the store level and store count growth and an increase in market basket pricing. Our market basket pricing to stores increased 1.8% in the first quarter of 2019, which resulted in an estimated increase in U.S. supply chain revenues of \$6.3 million in the first quarter of 2019.

International Supply Chain

Revenues from international supply chain operations increased \$2.2 million, or 5.3%, in the first quarter of 2019 due primarily to higher volumes from increased order counts at the store level. The negative impact of changes in foreign currency exchange rates of \$2.2 million partially offset the increase in revenues in the first quarter of 2019.

International Franchise Royalties and Fee Revenues

Revenues from international franchise royalties and fees increased \$2.2 million, or 4.1%, in the first quarter 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. The negative impact of changes in foreign currency exchange rates of \$3.7 million partially offset the increase in revenues in the first quarter of 2019. Excluding the impact of changes in foreign currency exchange rates, international franchise same store sales increased 1.8% in the first quarter of 2019 and increased 5.0% in the first quarter of 2018.

Cost of Sales / Operating Margin

| | First Quarter of 2019 | | First Quarter of 2018 | |
|-------------------------------|--------------------------|--------|--------------------------|--------|
| Consolidated revenues | \$836.0 | 100.0% | \$785.4 | 100.0% |
| Consolidated cost of sales | 513.7 | 61.4 % | 485.5 | 61.8 % |
| Consolidated operating margin | \$322.3 | 38.6 % | \$299.9 | 38.2 % |

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 \$22.4 million, or 7.5%, in the first quarter 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.

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As a percentage of revenues, the consolidated operating margin increased 0.4 percentage points in the first quarter of 2019. Company-owned store operating margin decreased 0.6 percentage points in the first quarter of 2019 and supply chain operating margin increased 0.6 percentage points in the first quarter of 2019. These changes in margin are more fully discussed below.

U.S. Company-Owned Stores Operating Margin

| | First Quarter of 2019 | | First Quarter of 2018 | |
|------------------------|--------------------------|--------|--------------------------|--------|
| Revenues | \$123.5 | 100.0% | \$121.2 | 100.0% |
| Cost of sales | 95.5 | 77.4 % | 93.0 | 76.8 % |
| Store operating margin | \$27.9 | 22.6 % | \$28.1 | 23.2 % |

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The U.S. Company-owned store operating margin (which does not include certain store-level costs such as royalties and advertising) decreased \$0.2 million, or 0.8%, in the first quarter of 2019 due primarily to higher labor costs, partially offset by higher same store sales. As a percentage of store revenues, the store operating margin decreased 0.6 percentage points in the first quarter of 2019, as discussed in more detail below.

Food costs decreased 0.1 percentage points to 27.1% in the first quarter of 2019 due primarily to the leveraging of higher same store sales offset in part by higher food prices.

Labor costs increased 1.1 percentage points to 30.8% in the first quarter of 2019 due primarily to an increase in labor rates in certain markets.

Supply Chain Operating Margin

| | First Quarter of 2019 | | First Quarter of 2018 | |
|-------------------------------|--------------------------|--------|--------------------------|--------|
| Revenues | \$472.1 | 100.0% | \$440.1 | 100.0% |
| Cost of sales | 418.1 | 88.6 % | 392.5 | 89.2 % |
| Supply chain operating margin | \$54.0 | 11.4 % | \$47.6 | 10.8 % |

The supply chain operating margin increased \$6.4 million, or 13.4%, in the first quarter of 2019, primarily driven by higher volumes from increased store orders. As a percentage of supply chain revenues, the supply chain operating margin increased 0.6 percentage points in the first quarter of 2019 due primarily to procurement savings, offset in part by higher labor costs.

General and Administrative Expenses

General and administrative expenses increased \$5.5 million, or 6.5%, in the first quarter of 2019, driven by continued investments in technological initiatives and other areas.

U.S. Franchise Advertising Expenses

U.S. franchise advertising expenses increased \$6.9 million, or 8.4%, in the first quarter 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 increased \$4.6 million, or 15.3%, in the first quarter of 2019 driven primarily by higher average borrowings resulting from our recapitalization transaction completed on April 24, 2018 (“2018 Recapitalization”) and the outstanding borrowings under our variable funding notes during the quarter. A higher weighted average borrowing rate also contributed to the increase in interest expense, net.

The Company’s weighted average borrowing rate increased to 4.1% in the first quarter of 2019, from 3.9% in the first quarter of 2018, resulting from the higher interest rates on the debt outstanding in 2019 as compared to the same period in 2018.

Provision for Income Taxes

Provision for income taxes increased \$1.7 million, or 11.1%, in the first quarter of 2019 due primarily to higher pre-tax

income. The effective tax rate increased to 15.1% during the first quarter of 2019 as compared to 14.3% in the first quarter of 2018.

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 March 24, 2019, we had working capital of \$23.4 million, excluding restricted cash and cash equivalents of \$150.1 million, advertising fund assets, restricted, of \$98.1 million and advertising fund liabilities of \$93.0 million. Working capital includes total unrestricted cash and cash equivalents of \$83.1 million.

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During the first quarter of 2019, we experienced increases in both U.S. and international same store sales versus the comparable period in the prior year. Additionally, our international and U.S. businesses grew store counts in the first quarter 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 March 24, 2019.

Based upon the 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 March 24, 2019, we had approximately \$113.0 million of restricted cash held for future principal and interest payments and other working capital requirements of our asset-backed securitization structure, \$36.9 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 \$150.1 million of restricted cash and cash equivalents. As of March 24, 2019, we also held \$34.3 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 March 24, 2019, we had approximately \$3.48 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 \$26.4 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 March 24, 2019, we had \$25.0 million in outstanding borrowings under our variable funding notes and \$101.9 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 share repurchases.

Share Repurchase Programs

Our open market 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 first quarter of 2019, we repurchased and retired 33,549 shares of our common stock under our Board of Directors-approved open market share repurchase program for a total of approximately \$8.1 million, or an average price of \$242.74 per share. As of March 24, 2019, the Company had a total remaining authorized amount for share repurchases of approximately \$150.6 million.

During the first quarter of 2018, we repurchased and retired 448,008 shares for approximately \$101.1 million, or an average price of \$225.63 per share.

Dividends

On February 20, 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 March 15, 2019 which was paid on March 29, 2019. We had approximately \$27.2 million accrued for common stock dividends at March 24, 2019.

Subsequent to the first quarter, on April 23, 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 June 14, 2019 to be paid on June 28, 2019.

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

| (In millions) | First Quarter of 2019 | First Quarter of 2018 |
|---|--------------------------|--------------------------|
| Cash Flows Provided By (Used In) | | |
| Net cash provided by operating activities | \$ 97.0 | \$ 83.7 |
| Net cash used in investing activities | (12.0) | (10.1) |
| Net cash used in financing activities | (55.1) | (107.8) |
| Exchange rate changes | 0.1 | — |
| Change in cash and cash equivalents, restricted cash and cash equivalents | \$ 30.0 | \$ (34.2) |

Operating Activities

Cash provided by operating activities increased \$13.3 million in the first quarter of 2019 due to the positive impact of changes in operating assets and liabilities of \$7.5 million, an increase in net income of \$3.9 million and higher non-cash amounts of \$2.0 million. The positive impact of changes in operating assets and liabilities was primarily related to the 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.

Investing Activities

Cash used in investing activities was \$12.0 million in the first quarter of 2019, which consisted primarily of \$12.2 million of capital expenditures (driven primarily by investments in technological initiatives and supply chain centers).

Cash used in investing activities was \$10.1 million in the first quarter of 2018, which consisted primarily of \$13.6 million of capital expenditures (driven primarily by investments in technological initiatives, Company-owned stores and supply chain centers) partially offset by maturities of restricted advertising fund investments of \$4.0 million.

Financing Activities

Cash used in financing activities was \$55.1 million in the first quarter of 2019, primarily related to repayments of long-term debt of \$49.0 million (of which \$40.0 million related to the repayment of borrowings under our variable funding notes) and the repurchase of approximately \$8.1 million in common stock under our Board of Directors-approved open market share repurchase program.

Cash used in financing activities was \$107.8 million in the first quarter of 2018, primarily related to the repurchase of approximately \$101.1 million in common stock under our Board of Directors-approved open market share repurchase program. We also used \$8.1 million to make payments on our long-term debt obligations during the first quarter of 2018.

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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 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 press release might not occur. All forward-looking statements speak only as of the date of this press release 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 press release, 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 press release 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.

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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 March 24, 2019, we are exposed to interest rate risk on borrowings under our floating rate notes and variable funding notes. As of March 24, 2019, we had \$25.0 million outstanding 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 6.5% of our total revenues in the first quarter of 2019 and approximately 6.7% of our total revenues in the first quarter of 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 risk. A hypothetical 10% adverse change in the foreign currency rates for our international markets would have resulted in a negative impact on royalty revenues of approximately \$4.8 million in the first quarter 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 March 24, 2019, there were no changes in the Company's internal controls over financial reporting as defined in Rules

13a-15(f)

and

15d-15(f)

that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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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 annual report on Form

10-K

filed with the Securities and Exchange Commission on February 21, 2019, 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 jury returned a \$10.1 million judgment for the plaintiff where the Company and Mr. Kidd were found to be 90% liable (after certain offsets and other deductions the final verdict was \$8.9 million). In the second quarter of 2016, the trial court ruled on all post-judgment motions and entered the judgment. The Company denies liability and in the third quarter of 2016 filed an appeal of the verdict on a variety of grounds. On May 11, 2018, the court of appeals reversed and remanded the case to the trial court for a new trial based on the plaintiff's improper closing argument. The Company continues to

deny liability in this matter.

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.

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program (2) | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands) |
|---|--------------------------------------|------------------------------|--|---|
| Period #1 (December 31, 2018 to January 27, 2019) | 34,802 | \$ 242.75 | 33,549 | \$ 150,645 |
| Period #2 (January 28, 2019 to February 24, 2019) | 1,379 | 290.02 | — | 150,645 |
| Period #3 (February 25, 2019 to March 24, 2019) | 3,583 | 251.14 | — | 150,645 |
| Total | 39,764 | \$ 245.15 | 33,549 | \$ 150,645 |

(1) 6,215 shares in the first quarter of 2019 were purchased as part of the Company's employee stock payroll deduction plan. During the first quarter, the shares were purchased at an average price of \$258.14.

(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 March 24, 2019, the Company had approximately \$150.6 million remaining for future share repurchases under this program. Authorization for the repurchase program may be modified, suspended, or discontinued at any time. The repurchase of shares in any particular

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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.

| Exhibit Number | Description |
|----------------|--|
| 10.1 | <u>First Amendment to the Amended and Restated Domino's Pizza, Inc. Employee Stock Payroll Deduction Plan dated as of January 1, 2019</u> |
| 31.1 | <u>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.</u> |
| 31.2 | <u>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.</u> |
| 32.1 | <u>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.</u> |
| 32.2 | <u>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.</u> |
| 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 | XBRL Taxonomy Extension Schema Document. |

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

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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.

DOMINO'S PIZZA, INC.
(Registrant)

Date: April 24, 2019

/s/ Jeffrey D. Lawrence
Jeffrey D. Lawrence
Chief Financial Officer
(On behalf of the registrant and as Principal Financial
Officer)

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