

Value investment analysis in quick-service restaurant industry in the US: a case study of Domino's Pizza

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Abstract. Value investing is a strategy to gain profit from stocks that are undervalued by the market. This approach has been proven sensible and profitable in today's financial markets. Famous investors such as Warren Buffett have shown that a careful analysis of intrinsic value can lead to substantial returns. This paper applies the theoretical framework of value investment to discuss the future investment value of Domino's Pizza and to examine the risks and benefits of investing in this company. The study examines Domino's profit model, its core competitiveness, and its stock valuation using financial performance indicators. The analysis shows that Domino's Pizza is positioned as a high-reward opportunity in the fast-food industry. The company's successful expansion through digital transformation and innovative delivery services has driven its international growth. The study also evaluates key financial statements and ratios to assess the intrinsic value of the firm. The findings indicate that if Domino's maintains its competitive advantages and continues its expansion strategy, its long-term growth potential will attract value investors. Overall, this research contributes to the literature on value investing by reviewing both theoretical aspects and a practical case study of a leading quick-service restaurant chain.

1 Introduction

The core idea of value investment is to analyze a company's intrinsic value and then purchase stocks at prices lower than that value. The theory is that the market sometimes undervalues companies, which can later correct their mispricing when their true worth is recognized [1]. Critics of value investing point to misidentification in assessing relevant values due to accounting deficiencies [2]. This paper applies this approach to the quick-service restaurant industry in the United States. The study focuses on Domino's Pizza, a company that started as a single pizzeria in Michigan in 1960 and has grown into a global brand known for its fast delivery and efficient franchise system [3]. The success of Domino's Pizza is partly due to its early adoption of digital ordering and food delivery innovations. In recent years, the company has experienced consistent revenue and profit growth as it expanded internationally.

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In the third quarter of 2024, a major investor such as Buffett's Berkshire Hathaway acquired a significant share of Domino's, indicating the firm's long-term potential.

This research reviews the fundamental theories of value investing and integrates financial performance indicators such as profitability, liquidity, and solvency. It also considers financial analysis techniques that involve examining income statements, balance sheets, and cash flow statements. The study then applies these techniques to assess Domino's financial health and market performance. A further objective of this research is to explain how digital transformation and innovative operational strategies help improve a company's intrinsic value. The paper also discusses the competitive environment of the pizza industry and highlights the challenges that come with increasing labor costs and fluctuating raw material prices. By reviewing both the theoretical framework and practical application in a case study, this research provides a balanced view that is useful for investors interested in long-term growth. The introduction also establishes that understanding value investing requires a careful examination of market trends and financial data, and that this study aims to bridge theory with real-world practice. The analysis presented in this paper is expected to offer insights that can guide future investment decisions in the digital economy, especially for companies that have strong fundamentals but may be temporarily undervalued. The remainder of this paper is structured to first review relevant theories and performance indicators, then to examine industry conditions, followed by an in-depth case study of Domino's Pizza, and finally a discussion of future challenges and outlook.

2 Theoretical Overview

2.1 Value Investment Theory

Value investing involves searching for stocks that trade for less than their intrinsic value. The idea is to buy these stocks at a discount and hold them until the market corrects the mispricing [1]. Investors who use this approach study a company's financial reports and market conditions to determine whether its stock is undervalued [4]. This theory is based on the belief that market emotions can lead to irrational pricing. As a result, disciplined analysis become important tools for value investors. The success of this strategy is evident in the achievements of well-known investors who have built fortunes by following these principles [5]. The basic premise remains that thorough financial analysis can reveal opportunities that others may have overlooked.

2.2 Financial Performance Indicators

Financial performance metrics are the quantitative measures that indicate a company's operational efficiency and profitability. Common metrics include profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios [6]. These indicators help investors compare companies within the same industry and decide which ones have the strength to grow over time. For example, profitability ratios such as net profit margin and return on assets show how well a company generates profit from its operations. Liquidity ratios determine whether a company can cover its short-term obligations, and solvency ratios indicate the firm's long-term stability. Efficiency ratios, which measure how well a company uses its assets, add further clarity. A clear understanding of these metrics is essential for value investing because they provide a measurable way to assess the quality of an investment [7].

2.3 Financial Analysis

Financial analysis is the systematic review of a company's financial statements to evaluate its performance and growth potential [8]. The analysis includes studying the income statement, balance sheet, and cash flow statement. The income statement provides information about revenue, expenses, and profit over a period of time, which is used to assess productivity and profitability. The balance sheet shows a snapshot of a company's assets, liabilities, and equity, which is crucial for understanding liquidity and solvency. The cash flow statement illustrates how the company manages its cash generation and usage. These documents together enable the identification of trends, risks, and opportunities for value creation. Sound financial analysis is the cornerstone of value investing because it supports rational decision-making by offering clear evidence of a company's intrinsic value [9].

3 Industry Overview

3.1 Development and Current Status

The global food market has witnessed the rise of the pizza industry as a robust and dynamic segment. Pizza has evolved from a simple meal in Naples into a beloved comfort food that spans the world. The industry has grown into a multibillion-dollar market thanks to improving technology, changing consumer preferences, and constant innovation. In 2023, the pizza sector experienced remarkable growth, with global revenues exceeding 145 billion dollars and a compound annual growth rate of 5 to 6 percent projected over the next decade. The United States alone accounts for about 30 percent of the global sales, with Europe and the Asia Pacific region contributing significantly as well [10].

Advancements in digital technology have revolutionized the way pizza is ordered and delivered. Many pizzerias have adopted online ordering systems and automated production techniques that help streamline operations and reduce costs. The COVID-19 pandemic forced many restaurants to shift to take-out and delivery models, and pizza chains benefited from these changes. However, the industry still faces challenges such as rising costs for labor, ingredients, and transportation. Companies need to constantly innovate to meet new consumer trends such as healthier options and customization. The dynamic nature of the pizza industry makes it both a challenging and an exciting market for investors.

3.2 Profit Model

Both franchise chains and independent pizzerias operate on a similar profit model that combines operational effectiveness, cost management, and revenue generation. A successful pizza business earns profit by controlling expenditure while maintaining high quality and customer satisfaction. Domino's Pizza is an example of a company that has built its success on a disciplined approach to cost management and standardized processes [3]. Investments in digital ordering platforms and efficient delivery networks have allowed Domino's to reduce overhead costs and improve profitability. The profit model in the pizza industry relies heavily on economies of scale and effective resource allocation. This enables companies to generate consistent returns even in a competitive market.

3.3 Market Competition

The competitive environment in the pizza industry is intense and diverse. Major players such as Papa John's, Pizza Hut, and Domino's dominate the market through strong brand

recognition and large-scale operations. In addition to these large chains, many small and independent pizzerias compete for market share by offering unique products or specialized services. The market is influenced by various factors such as product quality, delivery speed, pricing strategy, and customer service [11]. Companies must continuously innovate and improve their offerings to keep pace with changes in consumer preferences. Rising costs and competitive pressures force firms to adopt efficient operational strategies and invest in technology. The competition in this sector is a constant driver of innovation and improvement, which benefits both consumers and investors.

4 Case Study of Domino's Pizza

4.1 Development and Current Status

Domino's Pizza was established in Michigan in 1960 and grew from a single pizzeria into one of the largest pizza delivery and franchise brands in the world. In its early years, the company built its reputation on fast delivery and quality service. Domino's pioneered the promise of a "30 minutes or less" delivery guarantee, which helped set it apart from competitors. Over the decades, the company expanded internationally, operating hundreds of company-owned and franchise outlets in more than 90 countries [3]. The adoption of digital ordering systems and innovative delivery methods has been a key driver of its growth. Recent investment by major financial institutions has reinforced market confidence in Domino's long-term value. The growth of Domino's Pizza is a prime example of how operational efficiency, effective cost control, and technological integration can lead to rapid expansion and market leadership.

4.2 Core Competitiveness

Domino's Pizza has developed unique competitive advantages that make it a leader in the quick-service restaurant industry. The promise of timely delivery is a celebrated attribute that helps the company maintain a loyal customer base. The integration of digital technologies such as AI-driven customer service and real-time order tracking has improved customer satisfaction and operational efficiency. The company also focuses on maintaining strict quality standards in every outlet around the world. In addition, Domino's has diversified its menu to include options that cater to changing consumer demands, such as gluten-free and plant-based pizzas. Continuous innovation in product offerings and marketing strategies has helped the company adapt to shifts in the market. Feedback from customers is actively used to improve services and refine operational processes. These factors, combined with a strong brand image and reliable delivery network, constitute the core competitiveness of Domino's Pizza. The company's ability to reduce costs while expanding its market presence has made it an attractive option for value investors.

4.3 Financial Performance

All financial data used in this analysis are current as of February 2, 2025. The evaluation of Domino's Pizza is based on key financial ratios and performance metrics that are essential in value investing. The profitability ratio for Domino's Pizza is reported at 103.1 percent, which is significantly higher than competitors such as YUM at 84.6 percent, PZZA at 75.1 percent, and CAKE at 92.8 percent. This high profitability indicates that the company has effective cost control and efficient operations. Liquidity ratios confirm that Domino's Pizza has ample short-term assets to cover its liabilities. In addition, solvency measures show that the

company maintains a strong financial structure despite a high level of market activity. Efficiency ratios further demonstrate that Domino's Pizza uses its assets more effectively than many of its peers. A 5.6% growth rate is healthy for a mature company in the food industry, indicating resilience and effective market penetration. Table 1 displays the quarterly revenue of Domino's Pizza from Q4 2023 to Q3 2025, trailing twelve months (TTM), next twelve months (NTM), and the growth rate.

Table 1. Revenue Q4 2023 to Q3 2025

Quarter Year	Revenue
Q4 2023	1,403
Q1 2024	1,085
Q2 2024	1,098
Q3 2024	1,080
Q4 2024	1,480
Q1 2025	1,142
Q2 2025	1,158
Q3 2025	1,145
TTM	4,666
NTM	4,925
Growth rate	5.6%

The stock performance analysis involves examining trailing and forward earnings per share (EPS) along with price-to-earnings (P/E) ratios. The trailing EPS stands at 16.28, and the next EPS is estimated to be 16.95. This represents an implied growth rate of about 4.1 percent. The trailing P/E ratio is 30.72, while the forward P/E is expected to drop to 24.43. These metrics suggest that the market anticipates faster earnings growth and that the stock may be undervalued if the company maintains its growth trajectory. The valuation implications are positive if the current price remains stable. However, any failure to meet growth expectations could lead to volatility, especially given the high premium in valuation. Overall, the financial analysis supports the view that Domino's Pizza is a sound investment with the potential for further appreciation.

4.4 Risk Considerations

Investors must be aware of several risks when considering an investment in Domino's Pizza. The intense competition in the pizza market may lead to price pressures that could erode profit margins. Rising costs for labor, cheese, and wheat present challenges that may not be fully transferred to customers. Furthermore, risks from exchange rate fluctuations and geopolitical instability can impact international operations. Current challenges in the labor market, including shortages and wage increases, also add to the risk profile. Should growth expectations not be met, the premium valuation indicated by a high P/E ratio could quickly reverse. Despite these risks, Domino's Pizza has demonstrated resilience due to its strong brand, technological integration, and global expansion capability. The risk assessment in this

study is based on both historical financial performance and forward-looking market indicators.

4.5 Investment Recommendation

The investment recommendation for Domino's Pizza is based on its strong growth potential and ability to adapt to changing market conditions. Despite the inherent risks in the industry, the company's consistent performance and innovative strategies offer a high-reward opportunity for investors willing to tolerate moderate risk. The potential for further expansion in emerging markets and the company's capacity to meet evolving consumer tastes make it an attractive proposition. In particular, purchasing the stock during market pullbacks may offer an appealing entry point. The company's ongoing efforts to enhance digital platforms and improve operational efficiencies are expected to drive higher profitability and market share over time. Overall, the analysis indicates that Domino's Pizza is a valuable investment candidate in the fast-food industry if the current expansion strategy continues.

5 Outlook and Challenges

The future outlook for Domino's Pizza and the broader quick-service restaurant industry appears promising despite several challenges. Technological advancements and digital transformation will continue to shape consumer behavior and service delivery models. The increasing use of mobile ordering, real-time tracking, and AI-driven customer service will further enhance efficiency and customer satisfaction. However, rising input costs, such as those for labor and raw materials, may put pressure on profit margins and require ongoing cost management efforts. Competition is expected to intensify as both established brands and new entrants vie for market share. Economic uncertainties and geopolitical tensions also remain potential risks for global operations.

Market analysts predict that the digital economy will drive significant changes in the quick-service sector. The trend toward online food ordering and contactless delivery has already transformed the industry and is likely to accelerate further. Firms that invest in robust digital infrastructures and customer relationship systems are expected to outperform their competitors. For Domino's Pizza, continued innovation in digital technology is essential for capturing new customer segments and expanding market presence. Moreover, strategic investments in supply chain optimization and cost management will be necessary to offset rising input costs. Environmental sustainability and corporate social responsibility are becoming more important for regulatory compliance and brand reputation. In this challenging landscape, a balanced view of future opportunities and risks is critical for long-term success.

6 Conclusion

This study has examined the application of value investing principles to the quick-service restaurant industry through a case study of Domino's Pizza. The analysis began by reviewing the theoretical framework of value investing and the essential financial performance indicators used in assessing intrinsic value. A detailed industry overview highlighted the dynamic growth of the global pizza market and the challenges posed by rising costs and intense competition. The case study of Domino's Pizza demonstrated that the company has successfully combined operational efficiency, digital innovation, and robust cost management to build a strong market presence. Financial analysis shows that the firm has excellent profitability and a promising growth trajectory, despite inherent risks from competitive pressures and external economic factors.

The outlook for Domino's Pizza remains positive if the company continues to invest in digital technology and adapt to market changes. The study concludes that the investment opportunity in Domino's Pizza is compelling, particularly when market corrections provide attractive entry points. It is recommended that value investors consider this stock as part of a diversified portfolio, while remaining vigilant about evolving risks and market trends. Overall, the integration of sound financial analysis with value investing theory in this research offers useful insights for long-term investment in the fast-food industry.

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