DUNKIN' BRANDS GROUP

GRIFFIN CONSULTING GROUP

PRABHAVA UPADRASHTA

NICOLE HOLSTED

THOMAS SLADE

WEDNESDAY, APRIL 11, 2012

CONTENTS

EXECUTIVE SUMMARY

Dunkin' Brands Group is headquartered in Canton, Massachusetts and operates in 58 countries, with nearly 17,000 points of distribution[i]. The company consists of two of America's most recognizable brands: Dunkin' Donuts and Baskin-Robbins. Dunkin' Donuts, though originally known as a quick service doughnut retailer, is now known throughout the American Northeast for its high quality coffee and quick customer service. Baskin-Robbins began in Glendale, California and was famously known for its "31 flavors" slogan, highlighting a new flavor for each day of the month[iiiii]. We believe that there are significant growth opportunities for both brands.

As the company operates in a highly competitive segment of the food retail industry, brand recognition, product quality, customer service, and competitive pricing are key to building and maintaining market share. Recent earnings have been strong, with sales revenues growing both domestically and internationally. While the firm boasts the highest operating margins of anyone in its peer group, high interest expenses have tempered net margins[iv]. The company has rebounded strongly from the recent recession, though many of its larger competitors have demonstrated more robust financial health. In particular, the firm's substantial indebtedness may hamper its ambitions to expand profitably if access to affordable financing is diminished. As a result of the 2006 leveraged buyout, the company holds approximately $1.46 billion in long-term debt obligations, but only $277 million in cash[v]. The company's heavy debt burden and relative illiquidity also increase its vulnerability to adverse changes in macroeconomic conditions. In order to mitigate these long term risks and provide greater financial flexibility, we recommend the firm begin to significantly pay down its debt.

Westward expansion of the Dunkin' Donuts brand represents the primary growth opportunity for the company moving forward. We believe that a slow, disciplined approach to expanding into new markets is appropriate. Building upon brand recognition and customer loyalty in core geographies through contiguous expansion westward is likely to be fruitful. In markets where one of the two brands has stronger recognition, we recommend the use of joint-store franchises. Maintaining an emphasis on same-store sales growth is very important as the firm looks to continue opening stores in new markets. Particular attention to customer service and franchise quality control is a central aspect of preserving the brand as it expands. International growth opportunities for both brands exist, but adapting to local tastes is important. We also stress the availability for further penetration into existing markets, especially through the development of non-franchise points of distribution (for example, by expanding Dunkin' products into grocery stores and gas stations).

Finally, continued marketing and brand differentiation will be fundamental to challenging more established competitors. We believe that superior product quality, competitive pricing, and a store philosophy of simple, quick service will be distinguishing factors as the firm expands into emerging markets. Advertising campaigns to emphasize these differences are an important first step in capturing market share from Dunkin' Donuts' primary competitor, Starbucks, in the western United States. We also support continued international marketing, especially through the use of local and global celebrities. The recent agreement to advertise in Asia with LeBron James is one such example[vi]. We are optimistic about the growth prospects for both of the firm's brands, but a disciplined approach to continued expansion is necessary. We also recommend that the firm improve its contentious relations with its franchisees and begin to hedge its commodity prices through Arabica futures.

CORPORATE HISTORY

Dunkin' Brands Group, Inc. (DNKN) owns, operates, and franchises restaurants, serving quick service coffee, baked goods, and ice cream. As of December 31, 2011, the Dunkin' Brands franchise consisted of 10,083 Dunkin' Donuts restaurants and 6,711 Baskin-Robbins establishments, with 16,800 points of distribution in 58 countries[vii].

Bill Rosenberg founded Dunkin' Donuts in 1950, which had 100 locations by 1963 and 5,000 by the turn of the century[viii]. In the United States, the Dunkin' Donuts franchise is heavily concentrated on the East Coast, with only one West Coast location in Portland, Oregon. Dunkin' Donuts also has franchises in a few western states, primarily Arizona, New Mexico, Nevada, and Texas.

Baskin-Robbins was founded in Southern California by Burt Baskin and Irv Robbins but now has 2,800 locations throughout the United States. In 1945, Irv Robbins opened Snowbird Ice Cream in Glendale, California, and a year later, Burt Baskin opened Burton's Ice Cream in Pasadena, California. In 1953, the two owners decided to combine their efforts and form one company: Baskin-Robbins[ix]. The company was owned by its founders until purchased in 1967 by the United Brands Company. In '1972, the company went public for the only time in its history, with United Brands selling 17% in an IPO. However, a year later, in 1973, the British food company J. Lyons and Co., Ltd. purchased Baskin-Robbins and all public stock from United Brands. In 1978, J. Lyons and Co. purchased Allied Breweries, and the two companies merged to form Allied Lyons. Allied Lyons subsequently bought Dunkin' Donuts in 1990. With the intent to integrate Dunkin' Donuts and Baskin-Robbins, Allied Lyons Retailing was formed in 1993. Allied Lyons merged with Pedro Domecq (a Spanish and Mexican spirits company) in 1994, forming Allied Domecq. After a series of mergers, Allied Domecq became Allied Domecq Quick Service Restaurants (ADQSR). ADQSR was renamed as Dunkin' Brands in 2004[x].

Pernod Richard purchased Dunkin' Brands in 2004 and announced his intention to sell the company in December of 2005. In 2006, private equity firms Bain Capital, The Carlyle Group, and Thomas H. Lee Partners made the purchase for $2.435 billion, and most of the company's subsequent attention was focused on expanding the Dunkin' Donuts brand. The same year, Dunkin' Donuts launched the successful "America Runs on Dunkin'" marketing campaign and announced a partnership with JetBlue Airways, making Dunkin' Donuts its official in-flight coffee. The following year, 2007, was also eventful for Dunkin' Donuts. First, it established a partnership with Procter & Gamble to launch Dunkin' Donuts coffee at retail outlets, including supermarkets and club stores[xi]. Second, Dunkin' Donuts initiated its China expansion strategy, opening its first location in Taiwan[xii]. Third, it partnered with Hess Corporation and Sara Lee Corporation, bringing Dunkin' Donuts coffee to new, nontraditional foodservice locations[xiii]. During this time, Baskin-Robbins attempted to diversify its offerings as well. In 2005, to celebrate 60 years in the ice cream industry, Baskin-Robbins redesigned its stores. In 2007, the company added to its selection of take-home ice cream products and in 2008, became the only national ice cream chain to offer both soft serve and hand scooped ice cream[xiv].

As of the end of July 2011, Dunkin' Donuts made only 20% of its sales from donuts and about 60% of its U.S. sales from coffee and other drinks, which "pits Dunkin' Brands squarely up against Frappuccino king Starbucks" rather than donut makers like Krispy Kreme. However, unlike Starbucks, most Dunkin' Donuts locations are owned by franchisees rather than the company itself, and a 20 ounce cup of coffee from Starbucks costs about 15 percent more that at Dunkin' Donuts. As of August 2011, Dunkin' Donuts reported just over $6 billion in annual sales, while Starbucks came in just under $11 billion[xv].

Baskin Robbins has more than 5,800 locations and claims to be the world's largest ice cream franchise. It competes mainly against other international ice cream shops like Ben & Jerry's, under the parent company Unilever, and Haagen Dasz, under the parent company General Mills.

In May 2011, Dunkin' Brands Group, Inc. filed with the Securities and Exchange Commission to raise up to $400 million in an initial public offering. The July IPO was largely successful, closing up 47%, but third quarter profits fell 61% despite a 9.1% revenue jump as Dunkin' Brands worked to pay off debt and expenses from its IPO[xvi]. In January 2012, Moody's lifted Dunkin' Brands' corporate family rating to B2 from B3, leaving it two steps into junk territory. This small upgrade comes after Dunkin Brands worked to reduce its outstanding debt by about $370 million since Dec. 31, 2010, but also recognizes that its leverage remains high with a book value per share of 6.1[xvii].

Looking forward, Dunkin' Donuts has good prospects for expanding west, as the introduction of McDonalds's McCafe shows that the market for coffee service has not been saturated by Starbucks[xviii]. Baskin-Robbins has maintained steady growth through the development of locations that combine Dunkin' Donuts and Togo's, the San Jose, CA based sandwich company which Dunkin Brands briefly acquired from 1997 to 2007, at which point it was sold to the private equity firm, Mainsail Partners[xix].

Financial Analysis

In the past five years, Dunkin' Brands opened nearly 3,000 new stores, or points of distribution, representing a 21.12% growth. During the same period, the firm has seen steady revenue growth, but fluctuating operating expenses have seen earnings waver. While operating margins have rebounded strongly since the end of the recession (upwards of 27% in 2011), high interest expenses owing to the firm's heavy indebtedness have tempered net profit margins. Looking forward, the firm's debt burden, the legacy of its 2006 $2.5 billion leveraged buyout, may handicap its access to cheap financing as liquidity becomes a more prominent concern – the firm holds only $246 million in cash to its $1.47 billion in debt. Growth opportunities abound in geographic expansion domestically and internationally, and strong recent same-store sales figures prove encouraging as the firm looks to continue to open new stores worldwide.

RECENT DISCLOSURES

Since its recent inception in the public markets, Dunkin' Brands has shown consistent growth in sales revenue and net income. The company released its most recent annual report in February 2012, demonstrating strong year over year growth in business revenue. Dunkin' saw growth in system-wide sales of 9.1% for fiscal year 2011, or 7.4% on a 52-week basis. This growth was highlighted by Dunkin' Donuts U.S. system-wide sales growth of 9.4% (comparable store sales growth of 5.1%) and International system-wide sales growth of 9.1% as a result of sales increases in South Korea and Southeast Asia. The Baskin-Robbins brand also boasted international system-wide sales growth of 11.6% resulting from increased sales in South Korea and Japan.

Operating income increased $11.8 million, or 6.1%, for fiscal year 2011, while adjusted operating income increased $37.7 million, or 16.2%, driven by an increase in franchise fees and royalty income. Operating margins grew from 22.7% to 27.2% year over year. Net income meanwhile, increased $7.6 million, or 28.2%, for fiscal year 2011, while adjusted net income increased $14.0 million, or 15.9%.

The firm had a strong finish to the year, highlighted by system-wide sales growth of 15.0% and Dunkin' Donuts U.S. same-store sales growth of 7.4% (5.8% for Baskin-Robbins) in fourth quarter 2011. Recent management projections peg first quarter 2012 (ended March 31) same-store sales growth of 7% for its Dunkin' Donuts chain, and between 7.8 to 8.3% for Baskin-Robbins stores. These figures compare to 2.8% and 0.5% growth respectively in first quarter FY2011.

INDEBTEDNESS

Owing to its May 2006 leveraged buyout by Bain Capital, The Carlyle Group, and Thomas H. Lee Partners (a $2.43 billion deal, or 13.5 times EBITDA), the company is still very heavily levered. At the close of 2011, the firm's indebtedness totals nearly $1.5 billion, excluding $11.2 million of undrawn letters of credit and $88.8 million of unused commitments. Its current liabilities total $316 million, including more than $15 million in short term debt. The firm’s $1.46 billion in interest bearing long-term debt comprises a whopping 45.2% of its total assets (down from 58.8% in 2010). As a result of its recent public offering, Dunkin’ was able to raise approximately $390 million after deducting underwriter discounts and commissions. Though total shareholder equity now totals $745 million, Dunkin’ still boasts a debt-to-equity ratio exceeding 3.32. Annual interest payments eclipse $105 million, representing 51.1% of operating income in 2011. In 2010, 58.3% of operating income went towards interest payments, as did 62.5% in 2009. Management does expect interest expenses to continue to decrease in the future, as the firm used funds from the IPO to fully repay high interest senior notes. Remaining funds are to be used for working capital and miscellaneous “general corporate purposes.”

CONTRACTUAL OBLIGATIONS AS OF DECEMBER 31, 2011

(In millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$ 1,859.9	76.4	147.0	165.4	1471.1
Capital lease obligations	9.0	0.7	1.4	1.5	5.4
Operating lease obligations	617.2	53.0	101.5	89.4	373.3
Purchase obligations	0	0	0	0	0
Short and long-term obligations	1.3	1.2	0.1	0	0
Total	$ 2,487.4	131.3	250.0	256.3	1849.8

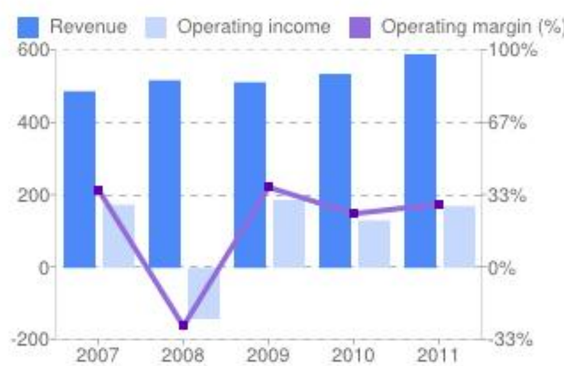
Source: Dunkin’ Brands 2011 10-K Annual Report

When such a significant portion of revenues are allocated for interest expenses and paying down the debt, it does raise doubt about the firm's financial flexibility. The current ratio, which relates a firm's short term assets to its short term liabilities, is an important metric of liquidity. Dunkin's ratio of 1.28 is much lower than many of its industry peers (though in line with MCD). The company currently holds only $277 million in cash and cash equivalents. Though Dunkin' has steady free cash flows ($135 million in 2011), it is tough to make any substantive dents in the firm's debt burden annually. The firm only has a cash flow to debt ratio of 0.11, raising questions regarding the company's capacity to cover its debt expenses with operating cash flows. This significant indebtedness and relative illiquidity limits financial flexibility to consider meaningful investments, dividends or other shareholder initiatives. Dunkin' has been successful in recent years in reducing the scale of their debt obligations, but the firm has also seen current liabilities continue to increase over the same period.

PROFITABILITY AND MANAGEMENT EFFECTIVENESS

During the past five years, Dunkin' Brands has seen strong top-line revenue growth, as the firm continues to open stores in new domestic and international markets. Total sales revenue grew at a compound annual growth rate of 3.98% during the same period, while it opened nearly 3,000 new stores worldwide. As operating expenses have fluctuated, earnings have also wavered amidst consistent revenue growth.

UNADJUSTED MARGINS



Source: Google Finance

The firm reported a net loss in 2008 of nearly $270 million, during the heart of the recent economic slowdown, but a closer examination reveals that the fiscal year 2008 data includes a $332 million impairment expense. Impairment represents a specific reduction on the balance to adjust for changes in the value of the firm's goodwill. The expense comprises $294.5 million of goodwill impairment charges related to its brands internationally, as well as a $34 million in trade name impairment related to Baskin-

Robbins U.S. We believe that adjusting for the 2008 impairment expense (and a similar, albeit smaller charge in 2011) better reflects the firm's productivity in its core business operations. Below, we present a reconciliation of adjusted operating income and adjusted net income from operating income and net income respectively:

	Fiscal Year				
	2007	2008	2009	2010	2011
	(Unaudited, $ in thousands)				
Operating income (loss)	$174,499	(140,893)	184,545	193,525	205,309
Adjustments:					
Sponsor termination fee	—	—	—	—	14,671
Amortization of other intangible assets	39,387	37,848	35,994	32,467	28,025
Impairment charges	4,483	331,862	8,517	7,075	2,060
Korea joint venture impairment, net (i)	—	—	—	—	18,776
Secondary offering costs	—	—	—	—	1,899
Adjusted operating income	$218,369	228,817	229,056	233,067	270,740
Net income (loss)	$ 34,699	(269,898)	35,008	26,861	34,442
Adjustments:					
Sponsor termination fee	—	—	—	—	14,671
Amortization of other intangible assets	39,387	37,848	35,994	32,467	28,025
Impairment charges	4,483	331,862	8,517	7,075	2,060
Korea joint venture impairment, net (i)	—	—	—	—	18,776
Secondary offering costs	—	—	—	—	1,899
Loss (gain) on debt extinguishment and refinancing transactions	—	—	(3,684)	61,955	34,222
Tax impact of adjustments (ii)	(17,548)	(30,093)	(16,331)	(40,599)	(32,351)
Adjusted net income	$ 61,021	69,719	59,504	87,759	101,744

Source: Dunkin' Brands 2011 10-K Annual Report

Adjusting for major impairment charges demonstrates a steady growth in operating income, and the firm exhibits strong operating margins (which have held steady near 34%). As described in the industry comparable analysis, Dunkin's margins are substantially higher than its competition, representing the ability of its core business to operate more efficiently. We believe one reason the firm is able to sustain such strong margins is due to its committed franchising model. As franchisees fund the vast majority of the cost of new restaurant development as well as advertising, the firm is able to grow the system with lower capital requirements than many of its competitors. For example, franchisee contributions to the U.S. advertising funds were $316.3 million in FY 2011.

ADJUSTED MARGINS

	Fiscal Year				
	2007	2008	2009	2010	2011
	($ in thousands)				
Sales revenue	516,935	544,929	538,073	577,135	628,198
Operating income (loss)	174,499	(140,893)	184,545	193,525	205,309
Adjusted operating income	218,369	228,817	229,056	233,067	270,740

Operating margin	**0.34**	**(0.26)**	**0.34**	**0.34**	**0.33**
Adjusted operating margin	**0.42**	**0.42**	**0.43**	**0.40**	**0.43**
Net income (loss)	34,699	(269,898)	35,008	26,861	34,442
Adjusted net income	61,021	69,719	59,504	87,759	101,744
Net margin	**0.07**	**(0.50)**	**0.07**	**0.05**	**0.05**
Adjusted net margin	**0.12**	**0.13**	**0.11**	**0.15**	**0.16**

Source: Dunkin' Brands 2011 10-K Annual Report

While operating margins have remained strong through the recession, high interest expenses owing to the firm's heavy indebtedness have tempered net profit margins. The firm's 2011 return on assets (ROA) and return on equity (ROE) – representing management effectiveness in generating income from its investments – were 4.14% and 6.55% respectively. We compare these and other fundamental profitability metrics against industry standards in the subsequent section.

INDUSTRY COMPARABLE ANALYSIS

We now shift towards considering Dunkin's recent financial performance in the context of its competition and industry. Dunkin' is dwarfed by its two largest competitors, Starbucks and McDonald's, in both market capitalization and annual revenue. Dunkin's apparently tiny labor force is likely due to its exclusive use of franchising. The company also competes against smaller boutique coffee and doughnut shops, including Peet's Coffee & Tea and Krispy Kreme Doughnuts. This positions the company near the median in market size against its direct competitors. Dunkin's year over year quarterly sales growth has been strong, though Starbucks leads the firm's peer group.

Dunkin' boasts the highest operating margins of any firm in the comparison, indicating the relative efficiency of its core business operations. The firm's margin has remained steady around 34% since 2007, suggesting a consistency in the company's operational effectiveness. This is especially important for Dunkin', as healthy operating margins are essential for the firm to be able to pay its fixed costs, namely interest on debt. As stated earlier, one reason for the strong margins is the franchising model. The firm is able to expand its brands with lower capital requirements since franchisees bear the cost of advertising and new restaurant development. While the firm compares well in operating margin, it performs poorly in net margin due to high interest expenses. Dunkin' also lags far behind in management effectiveness as measured by returns on assets and equity. Since ROA and ROE measure the firm's efficiency in converting investment into bottom-line net income, Dunkin's interest expenses once again diminish its relative performance. Alternatively, using operating returns before cost of borrowing (by adding back interest expenses into net income when calculating) will allow for a financing agnostic comparison.

Dunkin's relatively high P/E ratio suggests that investors are looking for continued growth from the company. These growth expectations for the firm are likely built on the opportunities for expansion into new markets, especially for Dunkin' Donuts in the Western United States.

Price/book suggests that the company trades at a relative discount, possibly due to its very burdensome liabilities. This is confirmed in the leverage ratios: Dunkin' is much more heavily levered than its competitors, claiming both the highest Debt/Assets and Debt/equity ratio in the peer group. In addition to its large debt burden, its low current ratio suggests the firm is relatively illiquid.

The table below summarizes some of the key statistics for Dunkin's competitors:

Industry Comparison

	DNKN	SBUX	KKD	MCD	PEET
Key Statistics					
No. of Employees	1,199	149,000	2,670	420,000	811
Market Capitalization	$ 3.65 B	$ 43.26 B	$ 478.04 M	$ 100.71 B	$ 950.18 M
Sales Revenue	$ 628.20 M	$ 12.19 B	$ 403.22 M	$ 27.01 B	$ 371.92 M
Qtrly. Sales Growth	12.50%	16.40%	11.20%	9.80%	10.90%
Profitability					
Operating Margin	33.56 %	12.98 %	6.54 %	30.71 %	8.41 %
Net Profit Margin	5.48 %	10.51 %	41.24 %	20.38 %	4.78 %
Return on Equity	6.55 %	29.03 %	102.15 %	37.92 %	10.15 %
Return on Assets	4.14 %	13.39 %	6.53 %	15.96 %	9.22 %

Valuation					
Price/Sales	5.81	3.55	1.19	3.73	2.55
Price/Book	4.86	9.05	1.92	7.02	5.31
Trailing Price/Earnings	41.58	34.38	3.01	18.76	54.14
PEG Ratio	1.72	1.66	1.06	1.73	1.81
Financial					
Current Ratio	1.28	1.96	2.34	1.25	4.24
Total Debt/Equity	3.32	0.64	0.34	1.29	0.21
Debt Ratio	0.46	0.07	0.08	0.38	N/A

Source: Dunkin' Brands 2011 10-K Annual Report

SEGMENTATION ANALYSIS

The company draws the majority of its revenues from its U.S. Dunkin' Donuts stores and a substantial segment from its Baskin-Robbins brand internationally. Domestic Baskin-Robbins sales and Dunkin' Donuts revenue from abroad contributes a much smaller portion to the firm's system-wide sales revenue. Baskin-Robbins sales domestically have been declining since 2007, while the brand has been growing substantially abroad.

	Fiscal Year				
	2007	2008	2009	2010	2011
	($ in thousands, except per share data or as otherwise noted)				
Franchisee-Reported Sales ($ in millions)					
Dunkin' Donuts U.S.	$ 4,792	5,004	5,174	5,403	5,919
Dunkin' Donuts International	476	529	508	584	636
Baskin-Robbins U.S.	572	560	524	494	496
Baskin-Robbins International	723	800	970	1,158	1,292
Total Franchisee-Reported Sales	$ 6,563	6,893	7,176	7,639	8,343
Company-Owned Store Sales ($ in millions)					
Dunkin' Donuts U.S.	$ —	—	2	17	12
Baskin-Robbins U.S.	—	—	—	—	1
Systemwide Sales Growth					
Dunkin' Donuts U.S.	5.7%	4.4%	3.4%	4.7%	9.4%
Dunkin' Donuts International	8.5%	11.1%	(4.0)%	15.0%	9.1%
Baskin-Robbins U.S.	(1.3)%	(2.1)%	(6.4)%	(5.5)%	0.4%
Baskin-Robbins International	9.7%	10.7%	21.3%	19.4%	11.6%
Total Systemwide Sales Growth	5.6%	5.0%	4.1%	6.7%	9.1%

Source: Dunkin' Brands 2011 10-K Annual Report

The Dunkin' Donuts brand, however, represents the strongest area for growth, as the vast majority of domestic stores are concentrated in the Northeast – the firm has little to no penetration in markets west of the Mississippi river. Even in Eastern markets outside of its core Northeastern segment, there are significant opportunities for further development of the brand. As a majority of the U.S. population now lives outside the Northeast, and in Western and Southern states, per-capita presence of the firm is particularly weak in non-core regions.

U.S. Dunkin' Donuts Stores by Geography

Region	Population (in millions)	Stores	Penetration
Core (Northeast)	36.0	3,768	1:9,560
Eastern Established	53.8	2,227	1:24,160
Eastern Emerging	88.7	891	1:99,600
West	130.0	129	1:1,008,100

As of December 31, 2011
Source: Dunkin' Brands 2011 10-K Annual Report

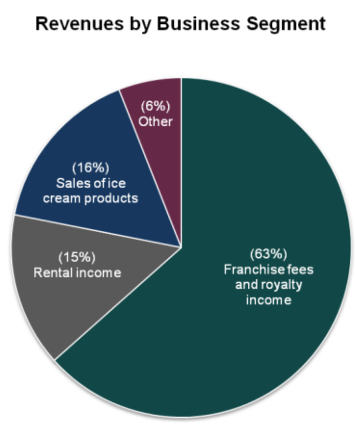
In exchange for licensing its business model, brand and trademarks to franchisees, the company collects franchise fees and royalty income. Franchise and store development agreements ("SDA"), which grant the right to develop restaurants in designated areas, require the franchisee to pay an initial nonrefundable fee and later royalty income, based upon a percentage of (gross) sales. Upon renewal of franchise agreements, the franchisee also typically pays a renewal fee to the firm. The company derives the majority of its sales revenue from these franchise fees and royalty income (63%), followed by sales of ice cream products to its international Baskin-Robbins franchises (16%), and rental income (15%).

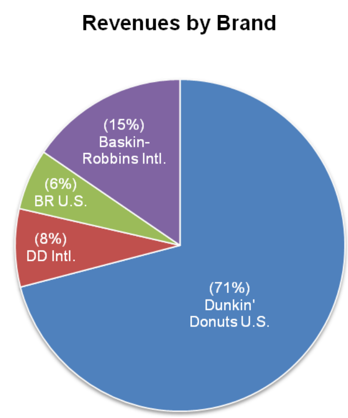
Corresponding to the substantial growth of Baskin-Robbins International, ice cream product sales represent the fastest growing segment of the company's revenues. General and administrative expenses constitute the largest portion of operating expenses, while the cost of ice cream products is the fastest growing expense.

REVENUE SEGMENTATION

	Fiscal year 2010	Fiscal year 2011	Increase (Decrease) $	Increase (Decrease) %
		(In thousands, except percentages)		
Franchise fees and royalty income	$ 359,927	398,474	38,547	10.7%
Rental income	91,102	92,145	1,043	1.1%
Sales of ice cream products	84,989	100,068	15,079	17.7%
Other revenues	41,117	37,511	(3,606)	(8.8)%
Total revenues	$ 577,135	628,198	51,063	8.8%

	Fiscal year 2010	Fiscal year 2011	Increase (Decrease) $	Increase (Decrease) %
		(In thousands, except percentages)		
Occupancy expenses – franchised restaurants	$ 53,739	51,878	(1,861)	(3.5)%
Cost of ice cream products	59,175	72,329	13,154	22.2%
General and administrative expenses, net	223,620	240,625	17,005	7.6%
Depreciation and amortization	57,826	52,522	(5,304)	(9.2)%
Impairment charges	7,075	2,060	(5,015)	(70.9)%
Total operating costs and expenses	$ 401,435	419,414	17,979	4.5%
Equity in net income (loss) of joint ventures	17,825	(3,475)	(21,300)	(119.5)%
Operating income	$ 193,525	205,309	11,784	6.1%





Source: Dunkin' Brands 2011 10-K Annual Report

STATEMENT OF CASH FLOWS

All numbers in thousands

Period Ending	Dec 31, 2011	Dec 25, 2010	Dec 26, 2009
Net Income	**34,442**	**26,861**	**35,008**
Operating Activities, Cash Flows Provided By or Used In			
Depreciation	58,800	64,349	70,305
Adjustments To Net Income	36,544	26,818	18,047
Changes In Accounts Receivables	19,123	(11,815)	(17,509)
Changes In Liabilities	9,232	16,455	40,934
Changes In Inventories	-	-	-
Changes In Other Operating Activities	4,562	106,336	(30,706)
Total Cash Flow From Operating Activities	**162,703**	**229,004**	**116,079**
Investing Activities, Cash Flows Provided By or Used In			
Capital Expenditures	(18,596)	(15,358)	(18,012)
Investments	-	-	-
Other Cash flows from Investing Activities	(1,211)	(249)	-
Total Cash Flows From Investing Activities	**(19,807)**	**(15,607)**	**(18,012)**
Financing Activities, Cash Flows Provided By or Used In			
Dividends Paid	-	(500,002)	-
Sale Purchase of Stock	389,675	(3,890)	(3,457)
Net Borrowings	(404,430)	404,534	(207,097)
Other Cash Flows from Financing Activities	3,274	644	2,702
Total Cash Flows From Financing Activities	**(30,074)**	**(132,583)**	**(208,465)**
Effect Of Exchange Rate Changes	(207)	76	(29)
Change In Cash and Cash Equivalents	**112,615**	**80,890**	**(110,427)**

Source: Yahoo! Finance

BALANCE SHEET

All numbers in thousands

Period Ending	Dec 31, 2011	Dec 25, 2010	Dec 26, 2009
Assets			
Current Assets			
Cash And Cash Equivalents	277,732	159,213	187,491
Short Term Investments	-	-	-
Net Receivables	107,174	92,513	85,630
Inventory	-	-	-
Other Current Assets	21,568	32,651	48,984
Total Current Assets	**406,474**	**284,377**	**322,105**
Long Term Investments	164,636	169,276	147,902
Property Plant and Equipment	185,360	193,273	209,659
Goodwill	890,992	888,655	887,850
Intangible Assets	1,507,219	1,535,657	1,570,176
Accumulated Amortization	-	-	-
Other Assets	69,337	76,050	87,025
Deferred Long Term Asset Charges	-	-	-
Total Assets	**3,224,018**	**3,147,288**	**3,224,717**
Liabilities			
Current Liabilities			
Accounts Payable	75,828	58,035	58,531
Short/Current Long Term Debt	15,197	12,705	221
Other Current Liabilities	225,515	209,815	185,819
Total Current Liabilities	**316,540**	**280,555**	**244,571**
Long Term Debt	1,458,272	1,852,176	1,451,536
Other Liabilities	107,644	100,653	104,549
Deferred Long Term Liability Charges	595,626	607,663	653,453
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	**2,478,082**	**2,841,047**	**2,454,109**
Stockholders' Equity			
Misc Stocks Options Warrants	-	840,582	1,232,001
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	119	42	42
Retained Earnings	(752,075)	(741,415)	(657,250)
Treasury Stock	-	(1,807)	(1,114)
Capital Surplus	1,478,291	195,212	192,500
Other Stockholder Equity	19,601	13,627	4,429
Total Stockholder Equity	**745,936**	**(534,341)**	**(461,393)**
Net Tangible Assets	**(1,652,275)**	**(2,958,653)**	**(2,919,419)**

Source: Yahoo! Finance

INCOME STATEMENT

All numbers in thousands

Period Ending	Dec 31, 2011	Dec 25, 2010	Dec 26, 2009
Total Revenue	**628,198**	**577,135**	**538,073**
Cost of Revenue	124,207	112,914	99,396
Gross Profit	**503,991**	**464,221**	**438,677**
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	240,625	223,620	197,005
Non Recurring	2,060	7,075	8,517
Others	52,522	57,826	62,911
Total Operating Expenses	-	-	-
Operating Income or Loss	**205,309**	**193,525**	**184,545**
Income from Continuing Operations			
Total Other Income/Expenses Net	(33,424)	(61,242)	5,136
Earnings Before Interest And Taxes	171,885	132,283	189,681
Interest Expense	105,072	112,837	115,405
Income Before Tax	66,813	19,446	74,276
Income Tax Expense	32,371	(7,415)	39,268
Minority Interest	-	-	-
Net Income From Continuing Ops	(3,255)	(17,269)	52,993
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	**34,442**	**26,861**	**35,008**
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	**34,442**	**26,861**	**35,008**

Source: Yahoo! Finance

STOCK PRICE ANALYSIS

Dunkin' Brands (DNKN) has had only a brief history as a publicly traded company, debuting its stock in July of 2011. Shares experienced initial volatility, gaining nearly 47% on its first day, but collapsing back to its open level soon after. The stock saw positive momentum beginning in December 2011, after which it has seen consistent growth (21.03% since Dec. 1, 2011). In the most recent six months, DNKN has appreciated 13.6%, relative to 21.0% growth in the S&P500 and 48.2% growth in Starbucks (SBUX), its most direct competitor. During the same period, DNKN share price appreciation has been in line with other competitors, including McDonalds's (MCD) and Krispy Kreme Doughnuts (KKD)[xx]. The current analyst consensus represents a weak buy, with revenue estimates forecasting 5.40 and 7.60 percent growth for the next two years respectively[xxi]. In early March of 2012, the company announced the initiation of a cash dividend, reflecting confidence in the financial health of the business and strong cash flows[xxii].

Source: Google Finance

Competitive Analysis

Internal Rivalry

Dunkin Donuts faces a very competitive environment within the coffee and snack industry. A major threat is other large competitors, including Starbucks Corporation, Peet's Coffee, and newer entrants like McDonald's McCafe, with the most significant threat coming from Starbucks. While Dunkin Donuts, as of April 2011, owns 16.1% of the market, Starbucks has 32.6% of market share[xxiii]. Although larger competitors and chains pose a bigger threat in terms of total profit loss, local cafés are definitely worth mentioning. A small café may be able to steal customers within a given area through cheap local advertising and word of mouth. These small stores may also be able to control quality more efficiently and have more agility in providing a product suited to local markets.

Within the coffee and snack industry, rivals will be able to compete on product quality, service quality, and pricing. Product quality may vary based on the type of beans purchased, the best method of preparing coffee and food products, and the presentation of those products. While a company like Starbucks can more easily standardize processes and product quality, because of Dunkin Donuts' choice to franchise heavily, they may face a more difficult time presenting a standardized, quality product. This may be due to less adequate training practices or execution of training procedures across stores. Another method in which Starbucks or other rivals may compete on quality is through service and atmosphere. While Dunkin Donuts has historically provided a quick stop purchase experience, Starbucks provides an atmosphere in which customers are meant to feel comfortable enough to stay and relax or do work. This could lead to a more pleasant customer experience as well as repeat purchases within every visit by a customer, but may also contribute to higher costs and be outside of Dunkin Donuts' strategy. The higher costs incurred from the creation of service quality and atmosphere may allow Dunkin Donuts to compete with rivals on price. If the target market is not looking for a sit down experience, but rather a bargain price, on-the-go experience, this may be a more successful strategy. Other companies have succeeded in this same way – while Wal-Mart provides lower quality products and less service than some retail competitors, they have succeeded by providing a lower priced alternative to some shoppers.

The costs for a customer to switch from Dunkin Donuts to a rival, or a rival to Dunkin, are relatively low. A coffee or snack is a one time, short-lived purchase, and it requires little to switch brands. There are a few factors that may increase switching costs. Starbucks has a very specific ordering system and set of options, and a customer will need to re-learn the titles for sizes and ingredients. This may also contribute to brand loyalty – if a customer feels attached to "his or her drink" with a list of additions. Also, rewards programs, like the Starbucks Gold Card, may be an opportunity cost of switching to a different coffee brand.[xxiv] The company operates a similar program for Dunkin' Donuts called "DD Perks Rewards."[xxv] In general, customer loyalty may be high in this industry.

ENTRY

There are some barriers to entry in the coffee and snack industry. The main barrier a new entrant faces is a required investment in fixed capital (real estate, coffee machines, etc.). Real estate is a requirement in most food services industries, so the coffee and snack industry does not face an extreme amount of startup time or cost relative to other industries.

There are economies to scale, but this is not much of a deterrent considering local coffee shops need only enough local business to repay the one time purchase of fixed assets and to continue with a profit. There may be a first mover advantage – early entry allows time to establish brand recognition, and a customer may be more likely to stop at a coffee shop that they *know* will provide a quality product rather than risk an unsatisfactory purchase at an unrecognized brand.

THREATS OF SUBSTITUTION

The coffee and snack industry may face the threat of substitution from a few sources. Coffee is a hot drink containing caffeine, so coffee drinkers may substitute with tea. Most cafes also serve tea, but it is possible that a tea café may provide higher quality tea than Dunkin.

In addition, a substitute for coffee bought in a Dunkin Donuts is store-bought coffee or snacks. Only a small portion of customers may sacrifice service, specialty drinks, and atmosphere for coffee at home, and store-bought coffee need not replace a trip to a café completely. Also, both Starbucks and Dunkin Donuts offer store-bought alternatives, although the profit margin on these products is lower so they can be seen as a substitute that poses a threat to profits.

SUPPLIER POWER

No suppliers of coffee beans individually hold a large share of the market. Almost a third of the world's coffee is produced in Brazil[xxvi], but most within the country are small producers as well. Issues regarding trade with Brazil could cause increasing costs and a threat to profits in the industry, but this scenario is unlikely.

Since coffee beans are a large part of the economy in many developing countries, a point of contention has been human rights issues. Companies that sell coffee in the U.S. have made a move to 'fair trade' products, which are coffee beans bought directly from the producer. One could argue that the increased costs of fair trade products are a threat to profits, but we believe that customers lost due to questionable human rights practices pose a larger threat. This is definitely noteworthy on the supply side, but still does not imply that any one supplier has power in the supply market.

Buyer Power

We believe that any one individual buyer has very little power. There are many customers making many orders of small size. While overall consumer power is of course high (consumer choice dictates the successful companies within an industry), this is the case in any consumer industry and is not relevant in a Porter's Five Forces analysis.

SWOT Analysis

Strengths	Weaknesses
- Reputation for product quality and customer service in core geographies - High brand recognition - Competitive pricing - Franchising model provides lower costs in expanding brands	- Significant indebtedness, limited financial flexibility - Limited geographical presence
Opportunities	**Threats**
- Westward expansion of Dunkin' Donuts brand in the U.S. - International opportunities for both Dunkin' Donuts and Baskin-Robbins - LeBron James advertising campaign in Asia	- Quality control, recent litigation with franchises - Increasing health consciousness may shift consumer preferences away from coffee, doughnuts, ice cream - Cannibalization as new stores open

Strengths

Dunkin' Brands has achieved a well-established reputation for high-quality food and beverage products, and particularly coffee. Dunkin' is also noted for its convenient customer service, being able to quickly serve busy breakfast commuters. Dunkin' Donuts uses 100-percent Arabica coffee beans and has its own coffee specifications, which are recognized by the industry as a superior grade of coffee[xxvii].

Both the Dunkin' Donuts and Baskin-Robbins brands have high customer awareness, with 94% brand recognition for Dunkin' Donuts and 92% for Baskin-Robbins. For the sixth consecutive year, Dunkin' Donuts was recognized in 2012 by Brand Keys, a customer satisfaction research company, as #1 in the U.S. on its Customer Loyalty Engagement Index in the coffee category[xxviii]. The firm's brand loyalty is strongest in New England, where it has the highest penetration (points of distribution) per capita. In the Northeast, the company holds a 52% market share of breakfast daypart visits, and a 57% share of total QSR coffee by servings – nearly six times greater than the nearest competitor (S-1 filing)[xxix].

Favorable store-level economics encourages the opening of new and retention of existing franchises. In 2011, Dunkin' opened 243 (net) new Dunkin' Donuts points of distribution in the U.S. The firm projects 260 to 280 net new points of distribution in 2012. Dunkin' Brands' nearly 100% franchised business model shields it from commodity fluctuations, minimizes fixed overhead expenses, and enables management to focus on advertising, menu innovation, and store development. Since franchisees fund the vast majority of the cost of new restaurant development as well as advertising, the firm is able to grow the system with lower capital requirements than many of its competitors[xxx].

In tough economic times, Dunkin' may also have an edge over Starbucks, due to their competitive pricing and down-to-earth, quick service.

WEAKNESSES

The balance sheet is highly levered, with a debt-to-capital ratio of around 67%. The firm's heavy indebtedness and relative illiquidity limit the company's financial flexibility. Analysts do project debt levels reductions in the long-term, however, due to Dunkin' Brands' strong free cash flow and good growth prospects. Management also anticipates reduced interest expenses, as funds from the recent public offering were used to pay off high interest senior notes[xxxi].

Dunkin' has a limited core geographical presence, and its brand recognition and loyalty is concentrated in the American Northeast. In many Southern and Western markets, as well as internationally, competitors such as Starbucks occupy a first-mover advantage. Though McDonald's entered the coffee war relatively late, it has the strongest brand recognition in many international markets and small towns in the U.S.

OPPORTUNITIES

The strength of the brand in its core geographies suggests that growth and expansion opportunities are plentiful. Domestically, the Western part of the United States represents a significant growth opportunity, where the brand has only a limited presence. The company segments its U.S. markets into “Core,” “Eastern Established,” “Eastern Emerging,” and “West.” Though the West represents the highest population of any segment, it has the least brand penetration, with only 129 stores (compare to 3,768 in the “Core” market). The firm plans to use a disciplined approach to its expansion, moving westward in a contiguous fashion, and first focusing on developing markets nearer to its existing base. There is still room for much greater penetration in non-core Eastern markets[xxxii].

International expansion also represents a strong growth opportunity. The company has plans to accelerate international growth of both its brands. In the past decade, the company saw more than 3,500 net new openings abroad. The firm plans to continue growth in its existing core markets (Japan, South Korea, Middle East) abroad, while simultaneously developing new markets where they believe there is consumer demand. In both cases they are committed to continuing their franchising model. In 2011, they announced an agreement with “an experienced QSR franchisee” to bring the Dunkin' Donuts brand to the Indian market. The agreement calls for the development of at least 500 Dunkin’ Donuts stores throughout India, the first of which is expected to open by the second quarter of 2012. They will seek to partner with local operators, in an effort to adapt the brands to local business practices and consumer preferences[xxxiii].

In March 2012, the company announced its partnership with NBA superstar LeBron James, who will begin promoting the Dunkin' Donuts and Baskin-Robbins brands in Asia[xxxiv]. The NBA has grown rapidly in popularity in Asia, and in China especially – undoubtedly due in part to the emergence of players such as Yao Ming, Yi Jinlian, and Jeremy Lin. James has the best-selling basketball jersey and shoe in China and has already visited Asia four times. He will promote the Dunkin' brands in China, Taiwan, South Korea, and India through advertisements, online media, and in-store marketing.

THREATS

As part of the QSR ("quick service") segment of the restaurant industry, Dunkin' Brands faces intense competition based on product quality, restaurant concept, service, convenience, value perception and price. The company identifies its primary competition as 7-Eleven, Burger King, Cold Stone Creamery, Dairy Queen, McDonald's, Quick Trip, Starbucks, Subway, Tim Hortons, WaWa and Wendy's. Low barriers to entry suggest that new competition may emerge unexpectedly.

In its coffee segment in particular, the company faces competition from Starbucks as Dunkin' begins to moves westward, where Starbucks is already firmly established. Increasingly, they also face competition from McDonald's, whose McCafe line can compete more directly on price with Dunkin' Donuts.

Dunkin's commitment to the franchising model suggests that financial results depend on the operating results of franchisees. Brand value and perception also depends on the operation of restaurants by franchisees. If franchisees do not successfully operate restaurants in a manner consistent with required standards, payment of franchise fees and royalty income will be adversely affected and brand image and reputation could be harmed. Possible litigation risk with franchisees also exists. Dunkin' Donuts sued other franchise owners 154 times between 2006 and 2008. During the same period, McDonald's was involved in five lawsuits, while Subway sued its franchises 12 times. Though Dunkin' had about 21,000 less locations than Subway and 14,500 less than McDonald's, it had been involved in over 140 more lawsuits than both companies[xxxv]. In the subsequent year (from end of 2008 to Aug. 21, 2009) Dunkin' was in involved in an additional 200 cases against its franchisees, the vast majority of which were filed by the company[xxxvi].

Substantial debt burden could adversely affect the company's financial position, namely by increasing the cost of borrowing, limiting its ability to obtain additional financing, devoting substantial portions of cash flows to debt payments rather than more productive uses, increasing the firm's vulnerability to adverse changes in global economic conditions, or exposing the company to increased interest rate risk (as borrowings bear interest at variable rates).

Increases in commodity prices or limitations in supply can adversely affect revenues. Coffee and other commodity prices (including inputs for ice cream) are subject to substantial price fluctuations, due to variations in weather patterns, shifting political or economic conditions in coffee-producing countries and possible delays in the supply chain. Prices of Arabica coffee, the high-quality bean used by Dunkin' and most of its competitors, have seen a tumultuous history in recent years. Prices skyrocketed early last year, hitting a 34-year high in March 2011 on fears of a shortage. Prices were driven up past $3 per pound due to a poor crop in Colombia and Mexico and worries that the harvest in Brazil, the world's top coffee exporter, would be lower than previous expectations. Since then, however, much has changed. From its peak of $3.089 per pound nearly a year ago, prices are down roughly 40 per cent, and Arabica has been the worst-performing agricultural commodity this year, down almost 20 per cent since the beginning of 2012. While inventories of high-quality beans still remain low, the threat of shortage has vanished as Brazil is expected to see a bumper harvest this year[xxxvii].

Changes in consumer preferences and perceptions, or medical opinions about the health effects of consuming the brands' primary products (coffee, donuts and other baked goods, ice cream) may negatively affect revenues.

Strategic Recommendations

Further Penetration of Existing Markets

Building on its strong brand presence and customer loyalty in its core geographies, the firm still has further room to grow. We believe that Dunkin' Donuts can continue to capture greater market share in the Eastern United States, where its coffee is already renowned for its quality. In the Northeastern corridor where it is best established, the firm operates 1 Dunkin' Donuts store per 9,560 people. In other Eastern markets, there is only one Dunkin' Donuts store per 99,600 people. Major population centers in the Great Lakes, Mid-Atlantic, and the Southeast offer profound opportunities to continue building on the strong brand presence in the Northeast to develop greater per-capita penetration[xxxviii]. In addition, there is opportunity to expand in the Northeast as well as other Eastern markets by developing other non-store points of distribution, particularly offerings in supermarkets and gas stations. We believe that the firm's recent entry into Keurig cups is one such opportunity that can boost non-franchise sales revenue by building upon the strength of its brand in existing core markets[xxxix].

The firm also has room to continue developing its strengths abroad. The firm has a strong base in South Korea and the Middle East, where it will seek to continue opening new Dunkin' Donuts stores. Similarly, continued expansion of the Baskin-Robbins brand in those core geographies represents an important growth opportunity. As the firm looks to expand, identifying what consumers in its existing markets enjoy about the brands is very informative. We believe that focus groups with consumers to identify the strengths and weaknesses of both brands are one way to do this.

STEADY AND DISCIPLINED EXPANSION INTO NEW MARKETS

We believe that the success of the Dunkin' brands in core geographies suggests significant growth opportunities in continued expansion into new markets with limited penetration thus far. The Western United States, namely, is a present stronghold of Starbucks, and where the firm only has 1 Dunkin' Donuts franchise per over 1 million people[xl]. Slow, contiguous expansion westward, using brand recognition in established markets is a disciplined approach to expanding profitably. We also suggest the continued use of joint Dunkin’ Donuts and Baskin-Robbins stores to continue developing the brands in areas where one brand might be more strongly recognized.

It is also very important to adapt to the locale as expansion continues. Internationally this entails tailoring the product offerings to local or national tastes, a strategy employed very successfully by Coca Cola, Yum! Brands and McDonald’s in their own international growth. Domestically, this refers to the particular placement of stores. In urban areas, we recommend focusing on downtown financial centers or plazas, whereas supermarkets, gas stations, or other non-traditional points of distribution could be particularly important in suburban and less urban areas.

As expansion continues, we believe it is essential to focus on developing same-store sales growth, by continued monitoring of the product mix, an attention to customer service, competitive pricing, and quality control of franchises. A failure to address comparable store sales could lead to cannibalization of revenue as new stores open both domestically and internationally.

The "DD Perks" Rewards program, which rivals the highly successful Starbucks Rewards Gold, should be more highly advertised, especially in core markets with established customer loyalty. A similar rewards program for Baskin-Robbins consumers should be implemented, both domestically and abroad. Such a program may help to identify and retain frequent customers, boosting same-store sales as both brands look to expand. This is particularly important as the Baskin-Robbins brand continues to be characterized by a dichotomy of sorts – with its domestic base shrinking and its international base rapidly growing.

BRANDING AND CONTINUED MARKETING

Differentiating the Dunkin' Donuts brand from competitors, including Starbucks and McDonald's in particular, is very important. The firm's coffee has a loyal following in its core market, and advertising should seek to convey this superior product quality. Especially in contiguous growth markets adjacent to the Northeast, we believe that the strength of the Dunkin' Donuts brand will carry over effectively. We suggest using a blind taste-test advertising campaign, similar to Pepsi's own marketing in its effort to describe superior product quality to Coca Cola. In addition to product quality, differentiating the experience of the store from competition is also important. Already known for its quick service and competitive prices, we believe Dunkin' should present itself more consciously as a no-nonsense, utilitarian alternative to Starbucks.

A renewed focus on advertising the Baskin-Robbins brand at home is also critical. While sales have continued to grow explosively internationally, system-wide sales growth of Baskin-Robbins U.S. steadily declined from 2007 to 2010[xli]. Management must make sure not to simply neglect the strong Baskin-Robbins brand in favor of the domestic growth opportunities of Dunkin' Donuts.

Continued international marketing and development of the brand globally is central to growing sales revenue abroad. The recent announcement of an advertising campaign with LeBron James in Asia is an important first step.

IMPROVE FRANCHISE RELATIONS

In just the past few years, the company has been involved in more than 350 lawsuits with its own franchises. This number dwarfs the frequency of litigation at similar competitors, including much larger firms such as McDonald's and Subway. Public records indicate that in 2007 and 2008, the firm filed 125 lawsuits against franchisees, or a suit every six days[xlii]. Dunkin's recent litigious streak has earned them a great deal of poor publicity. A number of articles in major newspapers and websites have described the company as litigating against smaller franchise owners in order to terminate franchise agreements and collect hefty fees and penalties for alleged contract violations. The firm is thought to wait patiently for smaller franchisees to make any mistake, however trivial, and then seeks to eliminate the franchise at a financial loss to the franchisee.

Many have described the litigation as part of a larger strategy that requires bigger franchisees that can open new stores rapidly to compete with Starbucks. Rather than buy out smaller franchises (which would presumably be expensive), the company is thought to wait for a violation, and then terminate the franchise agreement, collecting penalty fees in the process. The firm has denied taking legal action against any franchisee without clear cause, and described the litigation as intended to protect all shop owners and the good will of the brand. Many other lawsuits have emerged alleging that the firm discriminates against minority and immigrant franchise owners. One such suit asserts that Dunkin' looks for reasons to force the smaller, immigrant franchise owners out of business so that larger, white franchisees who own several restaurants can take over. The same suit describes that new franchise owners are often required to pay a higher royalty rate and that "Dunkin specifically targets the first generation American, brown-skinned franchisees because by and large they are unsophisticated with the American legal system."[xliii]

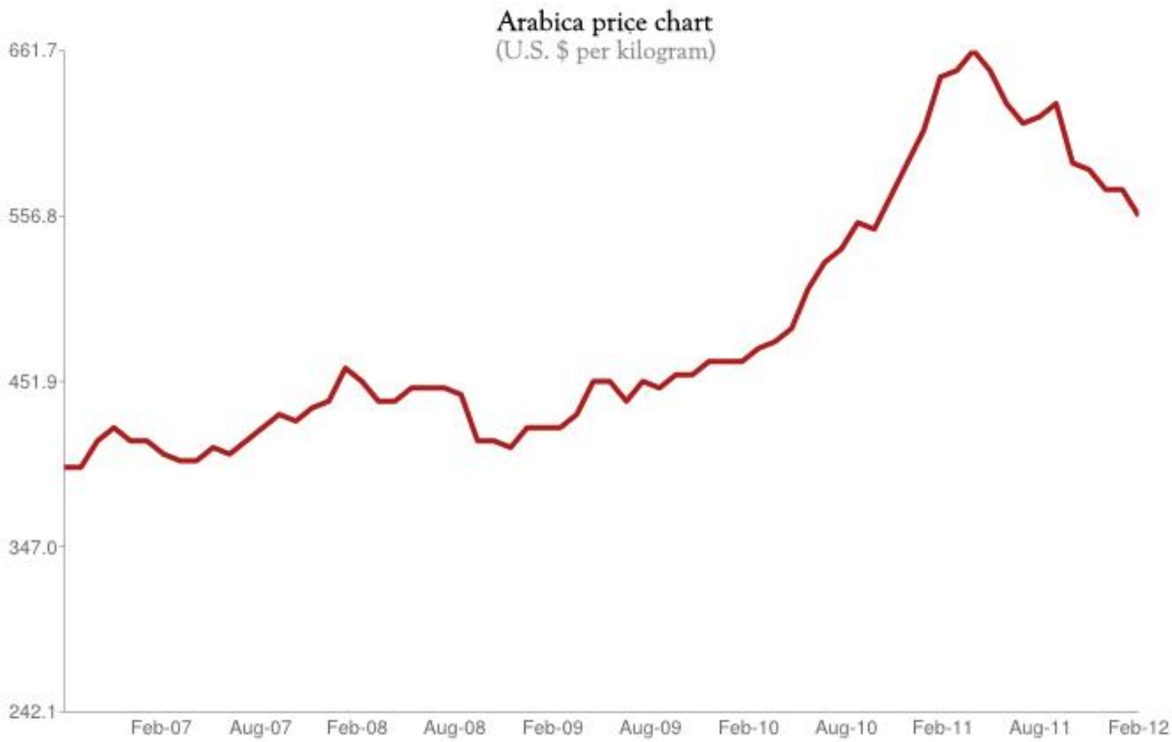
Whether the company is having issues with the quality control of its franchises, or is eliminating smaller franchisees to collect fees, we believe that Dunkin' needs to adopt a more collaborative approach to handling disputes with franchisees. Jim Coen, President of Dunkin' Donuts Independent Franchise Owners' (DDIFO) described the company's practices as "harsh and predatory," expressing a desire to handle such issues more cooperatively[xliv]. Being embroiled in litigation is expensive and distracting for the firm, and is undoubtedly bad publicity. As the company looks to expand and pursue new growth opportunities domestically and abroad, the litigation will make it much more difficult to attract new franchisees. Consequently, we strongly recommend that the company become more transparent and begin reconciling its conflicts with franchisees in a more collaborative manner, rather than in the courtroom.

Increase Liquidity and Pay Down Debt

The firm's nearly $1.5 billion in long-term debt, inherited from its leveraged buyout in 2006, is a substantial burden on the company moving forward. The company's heavy indebtedness, approximately 45.2% of total assets, stands in contrast to its only $277 million in cash holdings. The company's current liabilities and cash flow figures raise further questions about Dunkin's liquidity. The firm's current ratio of 1.28 is lower than that of many competitors, and its cash flow to debt ratio stands at only 0.11. Its debt to equity ratio (3.32) meanwhile, stands as the highest in its peer group. Due to this significant leverage, over half of the company's operating revenues have been devoted to annual interest expenses (51.1% in 2011). Dunkin's indebtedness and relative illiquidity limits its financial flexibility to pursue potentially profitable investments and increase its vulnerability to adverse changes in macroeconomic conditions. The firm has made progress in recent years in lowering its debt burden, and by paying off high interest senior notes using funds from the IPO, the company should see smaller annual interest expenses in the future. We strongly recommend that the firm continue to take efforts to improve its liquidity and lower its debt burden, to bolster its financial position for the future[xlv].

Hedge Commodity Prices

Arabica coffee beans and other commodity inputs for Dunkin' Brands products are subject to considerable swings in price due to varying crop yields and harvests, changing political or economic conditions in coffee-producing countries, and possible delays in the supply chain. Prices of Arabica beans soared in 2010 and 2011, amid fears of a supply shortage. Having risen steadily for over two years, prices peaked in March 2011 after hitting a 34-year high. Though inventories still remain low, expectations of increased production from the Brazilian harvest have quieted fears of a shortage, and prices have since fallen dramatically[xlvi]. Arabica traded on ICE Futures U.S. fell 20 percent in the first three months of the year, representing the biggest quarterly decline in more than a decade, and reached a 17-month low of $1.7445 per pound on March 22. The bean is the second-worst performer this year in the Standard & Poor's Spot GSCI Index of 24 commodities, behind only natural gas. Arabica output is expected to outpace consumption by about 800,000 bags in 2012-2013, compared with a 6 million bag deficit in the current season, according to a February forecast[xlvii].



Source: http://www.mongabay.com/images/commodities/charts/

Substantial increases in the price of Arabica will raise Dunkin's input costs and possibly force an increase in retail prices in reaction. Even with the recent slump in coffee prices included, Arabica bean prices have steadily grown 240% in the past decade, as global coffee consumption continues to increase. We believe that this trend is sure to continue, as demand in emerging markets continues to develop. In 2011 alone, world coffee consumption rose by almost 2% to an estimated 136.5 million bags on increased demand in exporting countries and emerging markets[xlviii]. Brazil, the largest coffee producer globally, saw consumption increase 5% in 2010, and China and India – with their burgeoning middle classes and growing number of young professionals – are also contributing to growing demand[xlix]. We believe that the company should take advantage of the recent slide in Arabica prices by buying futures contracts, securing lower prices as global demand continues to rise.

REFERENCES

[i] Dunkin' Brands 2011 10-K Annual Report

[ii] "Baskin-Robbins' 31 original flavors"
http://www.latimes.com/news/obituaries/la-me-robbins_flavors,0,5080199,full.story

[iii] Dunkin' Brands: About Us, "Brand History"
http://www.dunkinbrands.com/aboutus/history.html

[iv] Dunkin' Brands 2011 10-K Annual Report

[v] *Ibid.*

[vi] "Dunkin' Donuts' Latest Slam Dunk: Lebron Over Lin"
http://blogs.wsj.com/searealtime/2012/03/05/dunkin-donuts-latest-slam-dunk-lebron-over-lin/

[vii] Dunkin' Brands 2011 10-K Annual Report

[viii] Dunkin' Brands: About Us, "Brand History"
http://www.dunkinbrands.com/aboutus/history.html

[ix] Baskin-Robbins, "Our History"
http://www.baskinrobbins.com/About/OurHistory.aspx

[x] Dunkin' Brands: About Us, "Corporate History"
http://www.dunkinbrands.com/aboutus/history.html

[xi] P&G Corporate Newsroom: "Dunkin' Brands and Procter & Gamble Sign Agreement to Bring Dunkin' Donuts Packaged Coffee to Retail Outlets Nationwide"
http://news.pg.com/press-release/pg-corporate-announcements/dunkin-brands-and-procter-gamble-sign-agreement-bring-dunki

[xii] "Dunkin' Donuts Announces Plans to Enter Mainland China"
http://news.dunkindonuts.com/article_display.cfm?article_id=1146

[xiii] "Dunkin' Donuts Fuels National Growth with New Partnerships with Hess Corporation and Sara Lee Corporation"
http://news.dunkinbrands.com/article_display.cfm?article_id=1150

[xiv] Baskin-Robbins Middle East, "The Journey"
http://www.baskinrobbinsmea.com/the-journey.aspx

[xv] "Face Off! Dunkin' Donuts vs. Starbucks"
http://blogs.wsj.com/deals/2011/07/27/face-off-dunkin-donuts-vs-starbucks/

[xvi] "Moody lifts Dunkin' Brands ratings to B2"
http://www.marketwatch.com/story/moodys-lifts-dunkin-brands-ratings-to-b2-2012-01-13

[xvii] "Moody's upgrades Dunkin' Brands CFR to B2, outlook stable"
http://www.moodys.com/research/Moodys-upgrades-Dunkin-Brands-CFR-to-B2-outlook-stable--PR_235082

[xviii] "The keys to QSR breakfast success"
http://nrn.com/article/marketing-coffee-key-qsr-breakfast-success

[xix] Dunkin' Brands: About Us, "Corporate History"
http://www.dunkinbrands.com/aboutus/history.html

[xx] Google Finance
http://www.google.com/finance?q=NASDAQ:DNKN

[xxi] "Analyst Estimates"
http://finance.yahoo.com/q/ae?s=DNKN+Analyst+Estimates

[xxii] "Dunkin' Brands Announces Initiation of Cash Dividend"
http://online.wsj.com/article/PR-CO-20120306-909594.html

[xxiii] IBISWorld Industry Report: "Coffee and Snack Shops in the U.S."
http://harmonyhouse.wikispaces.com/file/view/Coffee_%26_Snack_Shops_in_the_US__Industry_Report%5B1%5D.pdf

[xxiv] "Starbucks Rewards Gold"
http://www.starbucks.com/card/rewards/gold

[xxv] "DD Perks Rewards"
https://www.dunkindonuts.com/content/dunkindonuts/en/ddperks.html

[xxvi] "Major Coffee Producers"
http://www.nationalgeographic.com/coffee/map.html

[xxvii] "Coffee Brewing Tips"
https://www.dunkindonuts.com/content/dunkindonuts/en/coffee/coffeebrewingtips.html

[xxviii] Dunkin' Brands 2011 10-K Annual Report

[xxix] Dunkin' Brands S-1 Registration Statement

[xxx] Dunkin' Brands 2011 10-K Annual Report

[xxxi] *Ibid.*

[xxxii] *Ibid.*

[xxxiii] *Ibid.*

[xxxiv] "LeBron James to Promote Dunkin' Donuts in Asia"
http://www.huffingtonpost.com/2012/03/05/lebron-james-dunkin-donuts-asia_n_1320547.html

[xxxv] "Dunkin' Donuts Franchise – A Good or Bad Investment?"
http://franchises.about.com/b/2008/05/06/dunkin-donuts-franchise-a-good-or-bad-investment.htm

[xxxvi] "Flunkin' Donuts"
http://www.nypost.com/p/news/business/item_JYZelUiYfjJlACfBkMKw2H

[xxxvii] "Taking stock of Arabica coffee performance"
http://www.ft.com/intl/cms/s/0/30fdf42c-7981-11e1-8fad-00144feab49a.html#axzz1sEUboyBu

[xxxviii] Dunkin' Brands 2011 10-K Annual Report

[xxxix] "Dunkin' Donuts K-Cups Released"
http://www.huffingtonpost.com/2011/08/03/dunkin-donuts-k-cups_n_916988.html

[xl] Dunkin' Brands 2011 10-K Annual Report

[xli] *Ibid.*

[xlii] "Attorneys Criticize Dunkin' Donuts Litigious Behavior"
http://www.businessweek.com/smallbiz/running_small_business/archives/2009/10/attorneys_criticize_dunkin_donuts_litigious_behavior.html

[xliii] "Indian franchisees claim Dunkin' discriminates"
http://www.indusbusinessjournal.com/ME2/Audiences/dirmod.asp?sid=&nm=&type=Publishing&mod=Publications%3A%3AArticle&mid=8F3A7027421841978F18BE895F87F791&tier=4&id=8ABD6A07CD4540A9A9D7FCDCDD88D494&AudID=0F67F28B87104E04915E08DD7E316C9E

[xliv] "Attorneys Criticize Dunkin' Donuts Litigious Behavior"
http://www.businessweek.com/smallbiz/running_small_business/archives/2009/10/attorneys_criticize_dunkin_donuts_litigious_behavior.html

[xlv] Dunkin' Brands 2011 10-K Annual Report

[xlvi] "Taking stock of Arabica coffee performance"
http://www.ft.com/intl/cms/s/0/30fdf42c-7981-11e1-8fad-00144feab49a.html#axzz1sEUboyBu

[xlvii] "Arabica Premium Seen Higher on Robusta Supply Surge: Commodities"
http://www.bloomberg.com/news/2012-04-02/arabica-premium-seen-higher-on-robusta-supply-surge-commodities.html

[xlviii] "Global coffee consumption at 136.5 million bags in 2011: ICO"
http://www.financialexpress.com/news/global-coffee-consumption-at-136.5-m-bags-in-2011-ico/915440/1

[xlix] "Global Coffee Consumption Continues to Swell…"
http://www.prweb.com/releases/coffee_roasted_specialty/ground_instant_coffee/prweb9185720.htm