



I often crave donuts being the sugar lover that I am. And I am not alone here at Global Financial Data. On the way to the office there is a local Donut shop called Rose Donuts & Cafe, which has the best donuts as is depicted in Figure 1 — fluffy, fresh, overly large delights such as maple bars, cake donuts, sprinkles, chocolate glazed, old fashioned, Bavarian crème filled goodies, and cinnamon rolls so large you could quarter them and still be stuffed. So many flavors to choose from, French-croissants and fresh baked muffins.



**Figure 1. Rose Donuts & Café, 624 Camino De Los Mares, San Clemente, CA 92673**

So, I ask myself why is there still a Dunkin' Donuts, across the street when Rose's donuts taste so much better? I had to find out who owns the Dunkin chain because it must have some story behind it because *they certainly don't have good tasting donuts in my opinion. And quite a story there is.*

Dunkin' Donuts, Figure 2, as it is known today, was founded by William Rosenberg, a Jewish immigrant, who only completed the eighth grade. He was quickly forced to work at the age of 14 to help support his family when his father Nathan lost the family grocery store during the great depression and held many jobs during his teen years. After working for Western Union, as a full-time telegram delivery boy, Rosenberg began working for Simco, a company that distributed ice cream from refrigerated trucks. At Simco, he quickly rose through the company and by age 21,



he was a manager supervising their production and manufacturing of nearly 100 trucks.



**Figure 2. Example of Dunkin' Donuts**

Through his observation of human purchasing behavior over the course of his many jobs in the service industry, Rosenberg gained the knowledge necessary to start his own donut shop. However, Rosenberg did more than just that. He started an entire franchise and even adjusting for inflation – he did it with very little cash in 1940s.

After World War II, Rosenberg borrowed \$1,000 and combined this with \$1,500 (roughly \$25,000 today) he had in war bonds to start his mobile catering service “Industrial Lunch Services” that delivered meals and offered coffee break services to factory workers outside of Boston, Massachusetts.

Rosenberg designed his own catering vehicle, as seen in Figure 3, that had custom-built stainless steel shelves that stocked snacks and sandwiches which were basically a prototype for the current mobile catering vans still used today. Rosenberg's focus was on making the customer happy through options and choice as his trucks clearly displayed the items for customers to make their own selection. Shortly, thereafter, Rosenberg had over 200 catering trucks, 25 in-plant outlets and a vending operation that delivered food to factory workers. Through continued observation, while serving food at construction sites and factories, where that donuts and coffee were the top picks of the daily visitors who were often in a hurry, Rosenberg's knowledge grew as he continued to study the human experience.

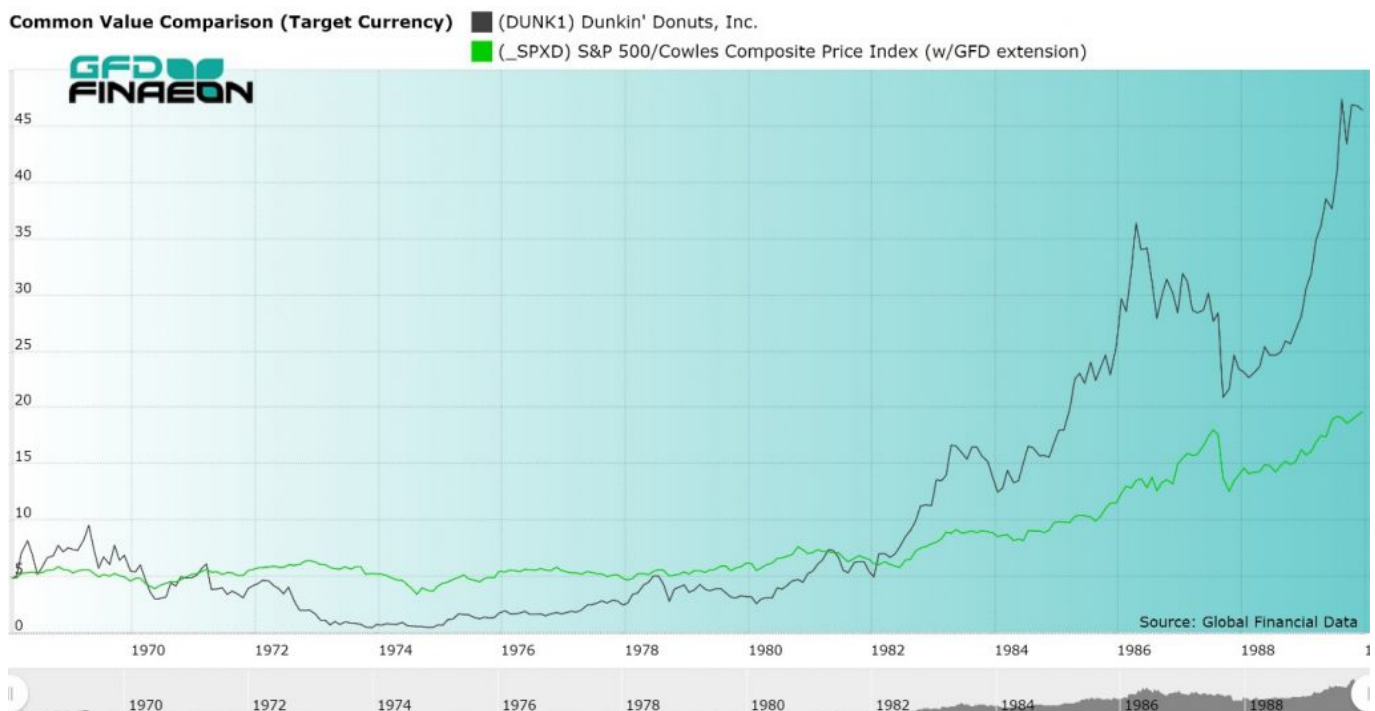


**Figure 3. Industrial Lunch Services Catering Truck**

Shortly thereafter, he decided to open a store that specialized in coffee and donuts after he determined that 40% of his revenues came from coffee and donuts and wanted to offer 52 varieties of donuts since traditional donut shops offered only five different varieties. On Memorial Day in 1948 in Quincy, Massachusetts, Rosenberg founded Open Kettle Donuts, changed its name to Kettle Donuts, and then to Dunkin' Donuts in 1950.

Early on Rosenberg began laying an excellent foundation of marketing concepts for Dunkin' Donuts beginning with an ideal name for his business combining the coffee and donuts theme from his previous personal experience. He laid the foundation for the brand even before it began through his keen sense of human need and Rosenberg coined the phrase "The Customer is Boss." His initial brand foundation was off to a great start and within five years, others began expressing a franchise interest. Rosenberg continued to grow the franchise chain to 100 locations in 1963, when he turned the day to day operations over to his son.

In 1990, with more 1000 stores, British beverage conglomerate, Allied Domecq purchased the thriving Dunkin' Brands fast food restaurant chain. Figure 4 shows the performance of Dunkin' Donuts between 1968 and 1990 when the company was bought out at \$43.75 per share. The company underperformed the S&P 500 in the 1970s, but during the 1980s, it hit its stride and the stock price rose dramatically. The company had stock splits in 1981, 1983 and 1985. The company's revenues more than doubled and the stock price rose over tenfold. You can see why Allied Domecq felt they had made a good investment. I have also included the fundamentals for your review. These can be seen in Figure 5.



**Figure 4. Dunkin' Donuts, Inc. vs. S&P 500, 1968 to 1990**

**FUNDAMENTALS OF DUNKIN' DONUTS 1968-1989**

Date	Net Sales (\$ Million)	Shareholder's Equity	Price To Sales	Price To O
10/31/1968	14.352	5.1	6.28	81.67
10/31/1969	14.229	6.7	3.07	29.01
10/31/1970	17.578	8.2	1.77	17.50
10/31/1971	19.2024	9.3	1.33	24.55
10/31/1972	23.4498	12.3	0.64	12.97
10/31/1973	24.9546	10.5	0.15	-2.40
10/31/1974	27.4	11.8	0.14	6.70
10/31/1975	34.5	13.3	0.29	12.03
10/31/1976	43.3	16.1	0.30	11.93
10/31/1977	51.8	18.9	0.38	14.93
10/31/1978	57.1	22.3	0.50	7.94
10/31/1979	63.2	23.5	0.37	5.75
10/31/1980	63.5	27.1	0.49	6.70
10/31/1981	66.331	27.148	1.64	4.92
10/31/1982	64.918	31.802	1.23	8.24
10/31/1983	71.318	38.104	1.51	9.90
10/31/1984	77.495	44.994	1.44	8.93
10/31/1985	85.45	53.028	1.92	11.40
10/31/1986	94.391	62.158	2.31	13.22
10/31/1987	101.037	72.603	1.65	9.91
10/31/1988	102.714	68.219	1.68	8.65
10/31/1989	109.336	72.653	2.46	12.48

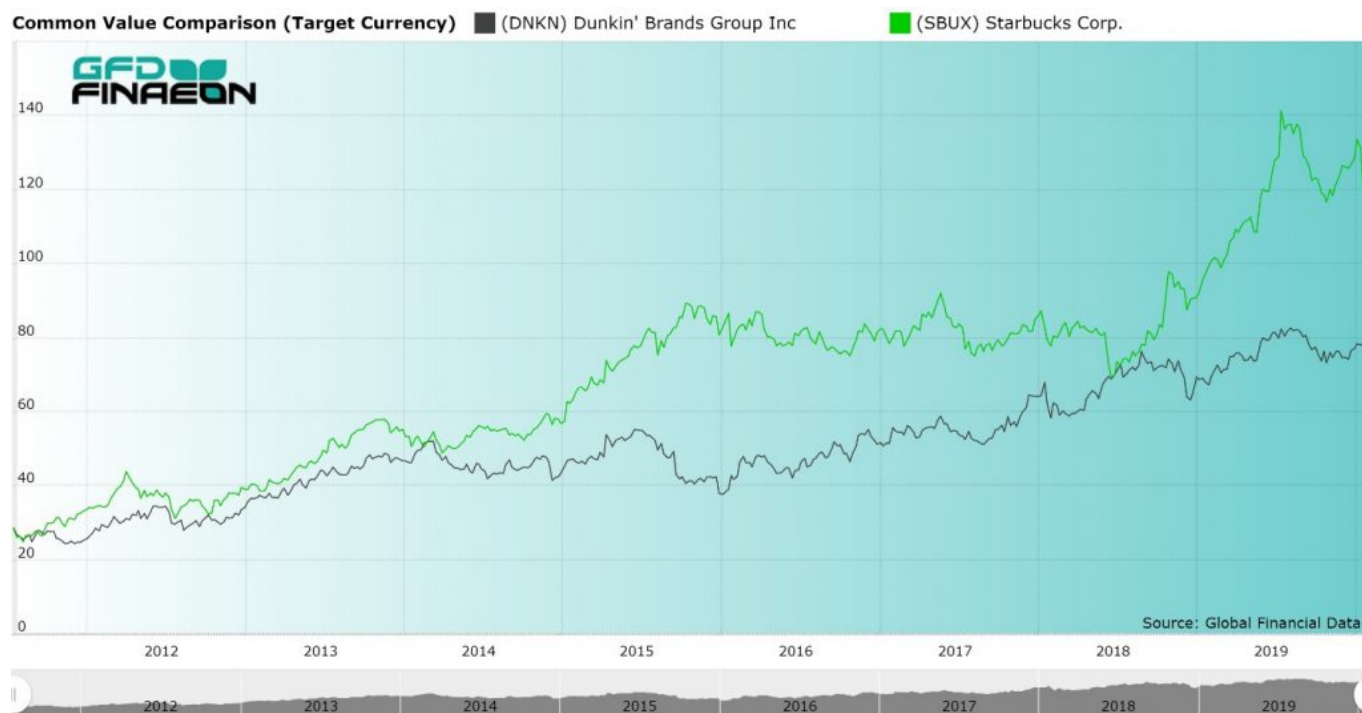
**Figure 5. Dunkin' Donuts Fundamentals, 1968 to 1989**

Fifteen years later, in July 2005, Allied Domecq was acquired by their parent company, Pernod Ricard SA. Pernod knew quickly that they needed to alleviate debt, so the French beverage company began searching for a buyer for this segment of their product line.

In December 2005, Pernod Ricard SA, sold Dunkin' Brands, to three private equity groups: Thomas H. Lee Partners, the Carlyle Group and Bain Capital for \$2.43 billion. Thomas H. Lee, Carlyle Group and Bain all had vast fast food experience. Each had an equal share in Dunkin', each desired to be partners, and each wanted to work with the existing Dunkin' management team and CEO Ron Luther. Their combined goal was to take the chain to the next level. Their plans were aggressive seeking expansion to the west, to offer additional franchises, branch into



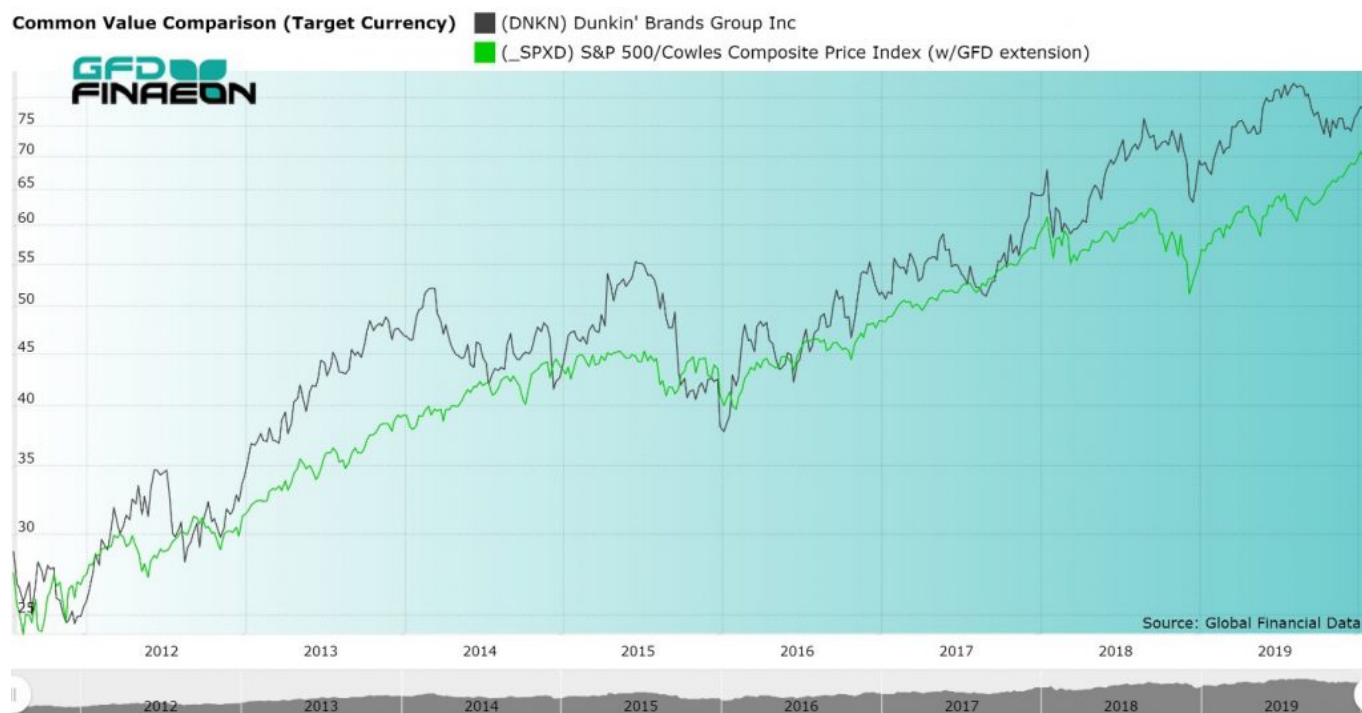
more coffee beverages, offer higher-end, glamorous coffee drinks that would compete with Starbucks. The results are can be seen in Figure 6.



**Figure 6. Dunkin' Brands Inc. (Black) vs. Starbucks Inc. (Green), 2011 to 2020**

Five years later with a thriving business, T.H Lee, Carlyle Group, and Bain Capital applied for an I.P.O. and the company went public in 2011. The company had 97 million shares outstanding making the company worth \$2.7 billion when it IPO'd on July 27, 2011, providing the three private equity groups, each with a 10% return, over their cost of buying the company in 2005.

During the past eight years, as Figure 7 shows, Dunkin' Brands has outperformed the S&P 500. The company is now worth over \$6.5 billion, providing a 13% annual return to anyone who invested in the IPO in 2011. Today DNKN trades on the Nasdaq and consistently shows rising sales, profits and the number of its locations. Due to Rosenberg's brilliant observations and his ability to respond to consumer needs, he was able to build his business.



**Figure 7. Dunkin' Brands Group (Black) vs. S&P 500 (Green), 2011 to 2020**

Dunkin' Brands currently includes the Dunkin' Donuts chain, Baskin-Robbins ice cream parlors and Togo's sandwich stores. In the United States and the rest of the world, the growth of Dunkin' Donuts has been strong. Today, Dunkin' Donuts offers a mind-boggling mix of over 15,000 varieties of coffee. This includes Turbo Shots, Espresso, Iced Coffee, sugar free, with or without cream, low-calorie options, and dozens of other variations of the world's favorite beverage, coffee! Some of the flavors you can get include Butter Pecan Swirl, Caramel, Cookie Dough, White Chocolate Raspberry and Rocky Road swirl.

I hadn't even heard of all these flavors of coffee before. Had you? I think that I'm going to check out Dunkin' Donuts later this week.