DM MONTHLY REPORT
October 2022

PORTFOLIO ACTIVITY

No new buys or wholesale sells were executed in any of DM's equity mandates during September.

FEATURE STOCK
Domino's Pizza (DPZ)

Attracted to its scale advantages, lean business model, and history of returning capital to shareholders, we first opened a research file on DPZ in mid-2021. At that time, the stock was trading at around $400 and our work suggested that its risk-reward profile became appealing at $375; unfortunately, DPZ jumped to $500 shortly after we completed our research and so the portfolio addition was put on hold. With the stock having fallen by about twice as much as the S&P since the spring of 2021, we were able to establish an initial position in DPZ in the mid-$320s this fall. DPZ utilizes a franchise model in which it collects revenues from stores and in turn ensures the strength of the aggregate system by focusing on product quality, delivery speed, and attractive unit economics for its store owners (the average store earns $143,000 in EBITDA and the average franchisee owns seven locations). One of the key challenges for DPZ throughout the pandemic has been the tight labour market and difficulty in finding drivers – in fact, stores enjoying more abundant worker supply outperformed constrained locations by 17% in Q1-22 on a delivery basis. A slowing economy should loosen worker supply and allow DPZ to better reach its profit potential.

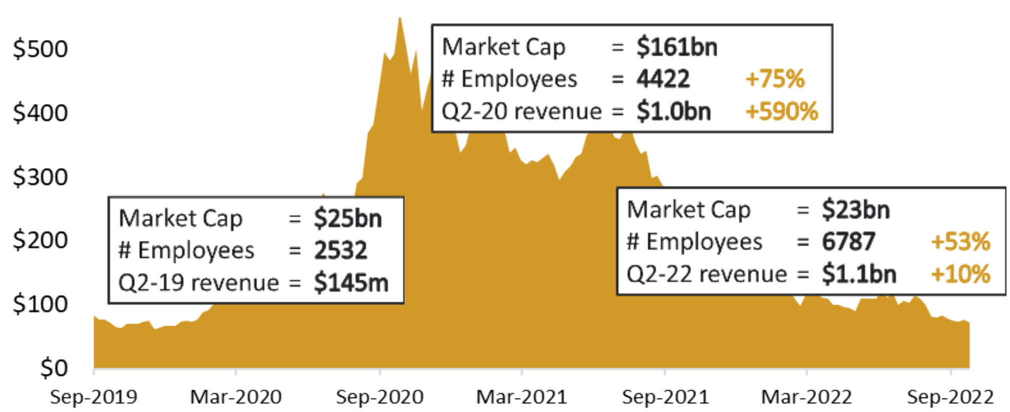
THE DOWNSIDE OF FOLLOWING A COMPELLING INVESTMENT THEME

Amongst the many hurdles that impede investor success, the temptation to abandon a well-structured plan in favour of a novel theme sits near the top of the list. Unfortunately, investment stories that seem plausible and intellectually pleasing at the time may either turn out to be short-lived or already accounted for by the market. The recent covid-19 odyssey provided at least two such narratives, both of which expired relatively quickly.

When the pandemic first took hold in North America, the initial take was that we were about to enter a long, dark economic winter. Even the International Monetary Fund predicted, *"The world economy will experience its worst recession since the Great Depression"*. Not surprisingly, stocks plunged as investors battened down the proverbial hatches and headed for safe havens. Almost as soon as markets had positioned for the worst, however, policymakers opened the spigots to salve the economy, leaving those who had abandoned equities sitting on the outside looking in.

As we adapted to pandemic life, talk shifted to a "new normal", in which we'd perpetually work from home, have our meals delivered, and stuff our cupboards with cleaning products. Related stocks took off and soon attracted significant capital. Video conferencing provider Zoom was one of these names and, as you can see from the chart below, its market value soared by about 6.5x to its peak in late 2020. Though the stock's valuation was questionable, the company was doing good things, having grown revenue significantly and boosted its employee count to meet surging demand. Eventually, however, the economy began to reopen and workers trickled back to the office. Sales still grew in Q2-22, but the increase was more ordinary; at the same time, however, staffing levels and associated expenses continued their steep ascent. Now viewing Zoom as a good, but perhaps not spectacular company, investors have taken its price right back to where it started and it's difficult to envision a scenario that will push it to prior highs anytime soon. In similar form, pundits are now extrapolating rising inflation, interest rates, and commodity prices well into the future – as with all popular themes, however, some circumspection may be prudent before going all-in on these predictions.

ZOOM - *historic market cap, revenues, & employee count*



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