

DUNKIN' BRANDS GROUP, INC.
Form 10-K
February 26, 2018

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the year ended December 30, 2017

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

For the transition period from _____ to _____
Commission file number 001-35258

DUNKIN' BRANDS GROUP, INC.
(Exact name of registrant as specified in its charter)
Delaware 20-4145825
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
130 Royall Street
Canton, Massachusetts 02021
(Address of principal executive offices) (zip code)
(781) 737-3000
(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which registered
Common Stock, \$0.001 par value per share The NASDAQ Global Select Market
Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting stock of the registrant held by non-affiliates of Dunkin' Brands Group, Inc. computed by reference to the closing price of the registrant's common stock on the NASDAQ Global Select Market as of July 1, 2017, was approximately \$4.99 billion.

As of February 22, 2018, 82,257,948 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference in Part III, Items 10-14 of this Form 10-K.

DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES
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Forward-Looking Statements

This report on Form 10-K, as well as other written reports and oral statements that we make from time to time, includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Generally these statements can be identified by the use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “feel,” “forecast,” “intend,” “may,” “plan,” “potential,” “project,” “should” or “would” and similar words. These forward-looking statements include all matters that are not historical facts.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under “Risk Factors” and elsewhere in this report and in our other public filings with the Securities and Exchange Commission, or SEC.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any forward-looking statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments.

PART I

Item 1. Business.

Our Company

We are one of the world's leading franchisors of quick service restaurants ("QSRs") serving hot and cold coffee and baked goods, as well as hard serve ice cream. We franchise restaurants under our Dunkin' Donuts and Baskin-Robbins brands. With over 20,500 points of distribution in more than 60 countries worldwide, we believe that our portfolio has strong brand awareness in our key markets.

We believe that our 100% franchised business model offers strategic and financial benefits. For example, because we generally do not own or operate restaurants, our Company is able to focus on menu innovation, marketing, franchisee coaching and support, and other initiatives to drive the overall success of our brand. Financially, our franchised model allows us to grow our points of distribution and brand recognition with limited capital investment by us.

We operate our business in four segments: Dunkin' Donuts U.S., Dunkin' Donuts International, Baskin-Robbins International and Baskin-Robbins U.S. In fiscal year 2017, our Dunkin' Donuts segments generated revenues of \$662.5 million, or 80% of our total segment revenues, of which \$641.9 million was in the U.S. segment and \$20.6 million was in the international segment. In fiscal year 2017, our Baskin-Robbins segments generated revenues of \$163.9 million, of which \$114.7 million was in the international segment and \$49.2 million was in the U.S. segment. As of December 30, 2017, there were 12,538 Dunkin' Donuts points of distribution, of which 9,141 were in the U.S. and 3,397 were international, and 7,982 Baskin-Robbins points of distribution, of which 5,422 were international and 2,560 were in the U.S. See [note 12](#) to our consolidated financial statements included herein for segment information. We generate revenue from four primary sources: (i) royalty income and fees associated with franchised restaurants; (ii) rental income from restaurant properties that we lease or sublease to franchisees; (iii) sales of ice cream and other products to franchisees in certain international markets; and (iv) other income including fees for the licensing of the Dunkin' Donuts brand for products sold in certain retail channels (such as Dunkin' K-Cup® pods, retail packaged coffee, and ready-to-drink bottled iced coffee), the licensing of the rights to manufacture Baskin-Robbins ice cream products to a third party for sale to U.S. franchisees, refranchising gains, transfer fees from franchisees, and online training fees. Prior to completing the sale of all company-operated restaurants in fiscal year 2016, we also generated revenue from retail store sales at our company-operated restaurants.

Our history

Both of our brands have a rich heritage dating back to the 1940s, when Bill Rosenberg founded his first restaurant, subsequently renamed Dunkin' Donuts, and Burt Baskin and Irv Robbins each founded a chain of ice cream shops that eventually combined to form Baskin-Robbins. Baskin-Robbins and Dunkin' Donuts were individually acquired by Allied Domecq PLC in 1973 and 1989, respectively. The brands were organized under the Allied Domecq Quick Service Restaurants subsidiary, which was renamed Dunkin' Brands, Inc. in 2004. Allied Domecq was acquired in July 2005 by Pernod Ricard S.A. In March of 2006, Dunkin' Brands, Inc. was acquired by investment funds affiliated with Bain Capital Partners, LLC, The Carlyle Group, and Thomas H. Lee Partners, L.P. through a holding company that was incorporated in Delaware on November 22, 2005 and was later renamed Dunkin' Brands Group, Inc. In July 2011, we completed our initial public offering (the "IPO"). Upon the completion of the IPO, our common stock became listed on the NASDAQ Global Select Market under the symbol "DNKN."

Our brands

Dunkin' Donuts-U.S.

Dunkin' Donuts is a leading U.S. QSR concept, and is the QSR leader in donut and bagel categories for servings. Dunkin' Donuts is also a national QSR leader for breakfast sandwich servings. Since the late 1980s, Dunkin' Donuts has transformed itself into a coffee and beverage-based concept, and is a national QSR leader in servings in the hot regular/decaf/flavored coffee category and the iced regular/decaf/flavored coffee category, with sales of approximately 1.7 billion servings of total hot and iced coffee annually. Over the last ten fiscal years, Dunkin' Donuts U.S. systemwide sales have grown at a 5.8% compound annual growth rate and total Dunkin' Donuts U.S. points of distribution grew from 5,786 to 9,141. As of December 30, 2017, approximately 86% of these points of distribution are traditional restaurants consisting of end-cap, in-line and stand-alone restaurants, many with drive-thrus, and gas

and convenience locations. In addition, we have alternative points of distribution (“APODs”), such as full- or self-service kiosks in offices, hospitals, colleges, airports, grocery stores, wholesale clubs, and other smaller-footprint properties. We believe that Dunkin’ Donuts continues to have significant growth potential in the U.S. given its strong brand awareness and variety of restaurant formats. For fiscal year 2017, the Dunkin’ Donuts franchise system

generated U.S. systemwide sales of \$8.5 billion, which accounted for approximately 76% of our global systemwide sales, and had 9,141 U.S. points of distribution (with more than 50% of our restaurants having drive-thrus) at period end.

Baskin-Robbins-U.S.

Baskin-Robbins is one of the leading QSR chains in the U.S. for servings of hard-serve ice cream and develops and sells a full range of frozen ice cream treats such as cones, cakes, sundaes, and frozen beverages. Baskin-Robbins enjoys strong brand awareness in the U.S., and we believe the brand is known for its innovative flavors, popular “Birthday Club” program and ice cream flavor library of over 1,300 different offerings. Additionally, our Baskin-Robbins U.S. segment has experienced comparable store sales growth in six of the last seven fiscal years. We believe we can capitalize on the brand’s strengths and continue generating renewed excitement for the brand. Baskin-Robbins’ “31 flavors” offers consumers a different flavor for each day of the month. For fiscal year 2017, the Baskin-Robbins franchise system generated U.S. systemwide sales of approximately \$606.1 million, which accounted for approximately 5% of our global systemwide sales. Over the last ten fiscal years, total Baskin-Robbins U.S. points of distribution declined from 2,868 to 2,560 as of December 30, 2017.

International operations

Our international business is primarily conducted via joint ventures and country or territorial license arrangements with “master franchisees,” who both operate and sub-franchise the brand within their licensed areas. Increasingly, in certain markets, we are migrating to a model with multiple franchisees in one country, including markets in the United Kingdom, Germany, China, and Mexico. Our international franchise system, predominantly located across Asia and the Middle East, generated systemwide sales of \$2.1 billion for fiscal year 2017, which represented approximately 19% of Dunkin’ Brands’ global systemwide sales. As of December 30, 2017, Dunkin’ Donuts had 3,397 international points of distribution in 45 countries (excluding the U.S.), which grew from 2,202 points of distribution as of December 29, 2007, and represented \$733.6 million of international systemwide sales for fiscal year 2017. As of December 30, 2017, Baskin-Robbins had 5,422 international points of distribution in 52 countries (excluding the U.S.), which grew from 3,006 points of distribution as of December 29, 2007, and represented approximately \$1.3 billion of international systemwide sales for fiscal year 2017. We believe that we have opportunities to continue to grow our Dunkin’ Donuts and Baskin-Robbins concepts internationally in new and existing markets through brand and menu differentiation.

Overview of franchising

Franchising is a business arrangement whereby a service organization, the franchisor, grants an operator, the franchisee, a license to sell the franchisor’s products and services and use its system and trademarks in a given area, with or without exclusivity. In the context of the restaurant industry, a franchisee pays the franchisor for its concept, strategy, marketing, operating system, training, purchasing power, and brand recognition. Franchisees are solely responsible for the day-to-day operations in each franchised restaurant, including but not limited to all labor and employment decisions, such as hiring, promoting, discharging, scheduling, and setting wages, benefits, and all other terms of employment with respect to their employees.

Franchisee relationships

We seek to maximize the alignment of our interests with those of our franchisees. For instance, we do not derive additional income through serving as the supplier to our domestic franchisees. In addition, because the ability to execute our strategy is dependent upon the strength of our relationships with our franchisees, we maintain a multi-tiered advisory council system to foster an active dialogue with franchisees. The advisory council system provides feedback and input on all major brand initiatives and is a source of timely information on evolving consumer preferences, which assists new product introductions and advertising campaigns.

Unlike certain other QSR franchise systems, we generally do not guarantee our franchisees’ financing obligations. From time to time, at our discretion, we may offer voluntary financing to existing franchisees for specific programs such as the purchase of specialized equipment. We intend to continue our past practice of limiting our guarantee of financing for franchisees.

Franchise agreement terms

For each franchised restaurant in the U.S., we enter into a franchise agreement covering a standard set of terms and conditions. A prospective franchisee may elect to open either a single-branded distribution point or a multi-branded distribution point. In addition, and depending upon the market, a franchisee may purchase the right to open a franchised restaurant at one or multiple locations (via a store development agreement, or “SDA”). When granting the right to operate a restaurant to a potential franchisee, we will generally evaluate the potential franchisee’s prior food-service experience, history in managing profit and

loss operations, financial history, and available capital and financing. We also evaluate potential new franchisees based on financial measures, including liquid asset and net worth minimums for each brand.

The typical franchise agreement in the U.S. has a 20-year term. The majority of our franchisees have entered into prime leases with a third-party landlord. The Company is the lessee on certain land leases (the Company leases the land and erects a building) or improved leases (lessor owns the land and building) covering restaurants and other properties. In addition, the Company has leased and subleased land and buildings to other franchisees. When we sublease properties to franchisees, the sublease generally follows the prime lease term. Our leases to franchisees are typically for an overall term of 20 years.

We help domestic franchisees select sites and develop restaurants that conform to the physical specifications of our typical restaurant. Each domestic franchisee is responsible for selecting a site, but must obtain site approval from us based on accessibility, visibility, proximity to other restaurants, and targeted demographic factors including population density and traffic patterns. Additionally, the franchisee must also refurbish and remodel each restaurant periodically (typically every five and ten years, respectively).

We currently require each domestic franchisee's managing owner and/or designated manager to complete initial and ongoing training programs provided by us, including minimum periods of classroom and on-the-job training. We monitor quality and endeavor to ensure compliance with our standards for restaurant operations through restaurant visits in the U.S. In addition, a restaurant operation review is conducted throughout our domestic operations at least once per year. To complement these procedures, we use "Guest Satisfaction Surveys" in the U.S. to assess customer satisfaction with restaurant operations, such as product quality, restaurant cleanliness, and customer service.

Store development agreements

We grant domestic franchisees the right to open one or more restaurants within a specified geographic area pursuant to the terms of SDAs. An SDA specifies the number of restaurants and the mix of the brands represented by such restaurants that a franchisee is obligated to open. Each SDA also requires the franchisee to meet certain milestones in the development and opening of the restaurant and, if the franchisee meets those obligations, we agree, during the term of such SDA, not to operate or franchise new restaurants in the designated geographic area covered by such SDA. In addition to an SDA, a franchisee signs a separate franchise agreement for each restaurant developed under such SDA.

Master franchise model and international arrangements

Master franchise arrangements are used on a limited basis domestically (the Baskin-Robbins brand has one "territory" franchise agreement for certain Midwestern markets) but more widely internationally for both the Baskin-Robbins brand and the Dunkin' Donuts brand. In addition, international arrangements include joint venture agreements in South Korea (both brands), Australia (Baskin-Robbins brand), and Japan (Baskin-Robbins brand), as well as single unit franchises, such as in Canada (both brands). We utilize a multi-franchise system in certain markets, including in the United Kingdom, Germany, China, and Mexico.

Master franchise agreements are the most prevalent international relationships for both brands. Under these agreements, the applicable brand grants the master franchisee the limited exclusive right to develop and operate a certain number of restaurants within a particular geographic area, such as selected cities, one or more provinces or an entire country, pursuant to a development schedule that defines the number of restaurants that the master franchisee must open annually. Those development schedules customarily extend for five to ten years. If the master franchisee fails to perform its obligations, the limited exclusivity provision of the agreement terminates and additional franchise agreements may be put in place to develop restaurants.

The master franchisee is generally required to pay an upfront market development fee and an upfront initial franchise fee for each developed restaurant, and, for the Dunkin' Donuts brand, royalties. For the Baskin-Robbins brand, the master franchisee is typically required to purchase ice cream from Baskin-Robbins or an approved supplier. In most countries, the master franchisee is also required to spend a certain percentage of gross sales on advertising in such foreign country in order to promote the brand. Generally, the master franchise agreement serves as the franchise agreement for the underlying restaurants operating pursuant to such model. Depending on the individual agreement, we may permit the master franchisee to subfranchise within its territory.

Within each of our master franchisee and joint venture organizations, training facilities have been established by the master franchisee or joint venture based on our specifications. From those training facilities, the master franchisee or joint venture trains future staff members of the international restaurants. Our master franchisees and joint venture entities also periodically send their primary training managers to the U.S. for re-certification.

Franchise fees

In the U.S., once a franchisee is approved, a restaurant site is approved, and a franchise agreement is signed, the franchisee will begin to develop the restaurant. Franchisees pay us an initial franchise fee for the right to operate a restaurant for one or more franchised brands. The franchisee is required to pay all or part of the initial franchise fee upfront upon execution of the franchise agreement, regardless of when the restaurant is actually opened. Initial franchise fees vary by brand, type of development agreement and geographic area of development, but generally range from \$25,000 to \$100,000, as shown in the table below.

Restaurant type	Initial franchise fee*
Dunkin' Donuts Single-Branded Restaurant	\$ 40,000-90,000
Baskin-Robbins Single-Branded Restaurant	\$ 25,000
Dunkin' Donuts/Baskin-Robbins Multi-Branded Restaurant	\$ 50,000-100,000

*Fees as of January 1, 2018 and excludes alternative points of distribution

In addition to the payment of initial franchise fees, our U.S. Dunkin' Donuts brand franchisees, U.S. Baskin-Robbins brand franchisees, and our international Dunkin' Donuts brand franchisees pay us royalties on a percentage of the gross sales made from each restaurant. In the U.S., the majority of our franchise agreement renewals and the vast majority of our new franchise agreements require our franchisees to pay us a royalty of 5.9% of gross sales. During fiscal year 2017, our effective royalty rate in the Dunkin' Donuts U.S. segment was approximately 5.5% and in the Baskin-Robbins U.S. segment was approximately 4.9%. The arrangements for Dunkin' Donuts in the majority of our international markets require royalty payments to us of 5.0% of gross sales. However, many of our larger international partners, including our South Korean joint venture partner, have agreements at a lower rate and/or based on wholesale sales to restaurants, resulting in an effective royalty rate in the Dunkin' Donuts International segment in 2017 of approximately 2.4%. We typically collect royalty payments on a weekly basis from our domestic franchisees. For the Baskin-Robbins brand in international markets, we do not generally receive royalty payments from our franchisees; instead we earn revenue from such franchisees as a result of our sale of ice cream products to them, and in 2017 our effective royalty rate in this segment was approximately 0.5%. In certain instances, we supplement and modify certain SDAs, and franchise agreements entered into pursuant to such SDAs with certain incentives that may (i) reduce or eliminate the initial franchise fee associated with a franchise agreement; (ii) reduce the royalties for a specified period of the term of the franchise agreements depending on the details related to each specific incentive program; (iii) reimburse the franchisee for certain local marketing activities in excess of the minimum required; and (iv) provide certain development incentives. To qualify for any or all of these incentives, the franchisee must meet certain requirements, each of which are set forth in an addendum to the SDA and the franchise agreement. We believe these incentives will lead to accelerated development in our less mature markets.

Franchisees in the U.S. also pay advertising fees to the brand-specific advertising funds administered by us.

Franchisees make weekly contributions, generally 5% of gross sales, to the advertising funds. Franchisees may elect to increase the contribution to support general brand-building efforts or specific initiatives. The advertising funds for the U.S., which received \$440.6 million in contributions from franchisees in fiscal year 2017, are almost exclusively franchisee-funded and cover all expenses related to marketing, research and development, innovation, advertising and promotion, including market research, production, advertising costs, public relations, and sales promotions. We use no more than 20% of the advertising funds to cover the administrative expenses of the advertising funds and for other strategic initiatives designed to increase sales and to enhance the reputation of the brands. As the administrator of the advertising funds, we determine the content and placement of advertising, which is done through print, radio, television, online, billboards, sponsorships, and other media, all of which is sourced by agencies. Under certain circumstances, franchisees are permitted to conduct their own local advertising, but must obtain our prior approval of content and promotional plans.

Other franchise related fees

We lease and sublease properties to franchisees in the U.S. and in Canada, generating net rental fees when the cost charged to the franchisee exceeds the cost charged to us. For fiscal year 2017, we generated 12.2%, or \$104.6 million,

of our total revenue from rental fees from franchisees and incurred related occupancy expenses of \$60.3 million. We also receive a license fee from Dean Foods Co. ("Dean Foods") as part of an arrangement whereby Dean Foods manufactures and distributes ice cream and other frozen products to Baskin-Robbins franchisees in the U.S. In connection with this agreement, Dunkin' Brands receives a fee based on net sales of covered products. For fiscal year 2017, we generated 1.2%, or \$10.2 million, of our total revenue from license fees from Dean Foods.

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We distribute ice cream products to Baskin-Robbins franchisees who operate Baskin-Robbins restaurants located in certain foreign countries and receive revenue associated with those sales. For fiscal year 2017, we generated 12.9%, or \$110.7 million, of our total revenue from the sale of ice cream and other products to franchisees primarily in certain foreign countries.

Other revenue sources include online training fees, licensing fees earned from the sale of K-Cup® pods, retail packaged coffee, ready-to-drink bottled iced coffee, and other branded products, net refranchising gains, other one-time fees such as transfer fees, and late fees. For fiscal year 2017, we generated 4.9%, or \$42.3 million, of our total revenue from these other sources.

International operations

Our international business is organized by brand and by country and/or region. Operations are primarily conducted through master franchise agreements with local operators. In certain instances, the master franchisee may have the right to sub-franchise. We utilize a multi-franchise system in certain markets, including the United Kingdom, Germany, China and Mexico. In addition, we have a joint venture with a local, publicly-traded company for the Baskin-Robbins brand in Japan, and joint ventures with local companies in Australia for the Baskin-Robbins brand and in South Korea for both the Dunkin' Donuts and Baskin-Robbins brands. The Company also had an interest in a joint venture in Spain for the Dunkin' Donuts brand, which it sold during the fourth quarter of fiscal year 2016. By teaming with local operators, we believe we are better able to adapt our concepts to local business practices and consumer preferences. We have had an international presence since 1961 when the first Dunkin' Donuts restaurant opened in Canada. As of December 30, 2017, there were 5,422 Baskin-Robbins restaurants in 52 countries outside the U.S. and 3,397 Dunkin' Donuts restaurants in 45 countries outside the U.S. Baskin-Robbins points of distribution represent the majority of our international presence and accounted for approximately 65% of international systemwide sales.

Our key markets for both brands are predominantly based in Asia and the Middle East, which accounted for approximately 69% and 17%, respectively, of international systemwide sales for fiscal year 2017. For fiscal year 2017, \$2.1 billion of total systemwide sales were generated by restaurants located in international markets, which represented approximately 19% of total systemwide sales, with the Dunkin' Donuts brand accounting for \$733.6 million and the Baskin-Robbins brand accounting for \$1.3 billion of our international systemwide sales. For the same period, our revenues from international operations totaled \$135.3 million, with the Baskin-Robbins brand generating approximately 85% of such revenues.

Overview of key markets

As of December 30, 2017, the top foreign countries and regions in which the Dunkin' Donuts brand and/or the Baskin-Robbins brand operated were:

Country/Region	Type	Franchised brand(s)	Number of restaurants
South Korea	Joint Venture	Dunkin' Donuts	702
		Baskin-Robbins	1,327
Japan	Joint Venture	Baskin-Robbins	1,174
Middle East	Master Franchise Agreements	Dunkin' Donuts	560
		Baskin-Robbins	915

South Korea

Restaurants in South Korea accounted for approximately 36% of total systemwide sales from international operations for fiscal year 2017. Baskin-Robbins accounted for 71% of such sales. In South Korea, we conduct business through a 33.3% ownership stake in a combination Dunkin' Donuts brand/Baskin-Robbins brand joint venture, with South Korean shareholders owning the remaining 66.7% of the joint venture. The joint venture acts as the master franchisee for South Korea, sub-franchising the Dunkin' Donuts and Baskin-Robbins brands to franchisees. The joint venture also manufactures and supplies restaurants located in South Korea with ice cream, donuts, and coffee products.

Japan

Restaurants in Japan accounted for approximately 19% of total systemwide sales from international operations for fiscal year 2017, 100% of which came from Baskin-Robbins. We conduct business in Japan through a 43.3% ownership stake in a Baskin-Robbins brand joint venture. Our partner also owns a 43.3% interest in the joint venture,

with the remaining 13.4% owned by public shareholders. The joint venture primarily manufactures and sells ice cream to restaurants in Japan and acts as master franchisee for the country.

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Middle East

The Middle East represents another key region for us. Restaurants in the Middle East accounted for approximately 17% of total systemwide sales from international operations for fiscal year 2017. Baskin-Robbins accounted for approximately 65% of such sales. We conduct operations in the Middle East through master franchise arrangements.

Industry overview

According to The NPD Group/CREST® (“CREST®”), the QSR segment of the U.S. restaurant industry accounted for approximately \$291 billion of the total \$450 billion restaurant industry sales in the U.S. for the twelve months ended December 30, 2017. The U.S. restaurant industry is generally categorized into segments by price point ranges, the types of food and beverages offered, and service available to consumers. QSR is a restaurant format characterized by counter or drive-thru ordering and limited, or no, table service. QSRs generally seek to capitalize on consumer desires for quality and convenient food at economical prices.

Our Dunkin' Donuts brand competes in the QSR segment categories and subcategories that include coffee, donuts, muffins, bagels, and breakfast sandwiches. In addition, in the U.S., our Dunkin' Donuts brand has historically focused on the breakfast daypart, which we define to include the portion of each day from 5:00 a.m. until 11:00 a.m. While, according to CREST® data, the compound annual growth rate for total QSR daypart visits in the U.S. was 1% over the five-year period ended December 30, 2017, the compound annual growth rate for QSR visits in the U.S. during the morning meal daypart was 3% over the same five-year period. There can be no assurance that such growth rates will be sustained in the future.

For the twelve months ended December 30, 2017, there were sales of over 8 billion restaurant servings of coffee in the U.S., 88% of which were attributable to the QSR segment, according to CREST® data. According to CREST®, total coffee servings at QSR have grown at a 4% compound annual rate for the five-year period ending December 30, 2017. Over the years, our Dunkin' Donuts brand has evolved into a predominantly coffee-based concept, with approximately 58% of Dunkin' Donuts' U.S. systemwide sales for fiscal year 2017 generated from coffee and other beverages. We believe QSRs, including Dunkin' Donuts, are positioned to capture additional coffee market share through an increased focus on coffee offerings.

Our Baskin-Robbins brand competes primarily in QSR segment categories and subcategories that include hard-serve ice cream as well as those that include soft serve ice cream, frozen yogurt, shakes, malts, floats, and cakes. While both of our brands compete internationally, approximately 68% of Baskin-Robbins restaurants are located outside of the U.S. and represent the majority of our total international sales and points of distribution.

Competition

We compete primarily in the QSR segment of the restaurant industry and face significant competition from a wide variety of restaurants, convenience stores, and other outlets that provide consumers with coffee, baked goods, sandwiches, and ice cream on an international, national, regional, and local level. We believe that we compete based on, among other things, product quality, restaurant concept, service, convenience, value perception, and price. Our competition continues to intensify as competitors increase the breadth and depth of their product offerings, particularly during the breakfast daypart, and open new units. Although new competitors may emerge at any time due to the low barriers to entry, our competitors include: 7-Eleven, Burger King, Cold Stone Creamery, Cumberland Farms, Dairy Queen, McDonald's, Panera Bread, Quick Trip, Starbucks, Subway, Taco Bell, Tim Hortons, WaWa, and Wendy's, among others. Additionally, we compete with QSRs, specialty restaurants, and other retail concepts for prime restaurant locations and qualified franchisees.

Licensing

We derive licensing revenue from agreements with Dean Foods for domestic ice cream sales, with The J.M. Smucker Co. (“Smuckers”) for the sale of packaged coffee in certain retail outlets (primarily grocery retail), with Keurig Green Mountain, Inc. (“KGM”) and Smuckers for sale of Dunkin' K-Cup® pods in certain retail outlets (primarily grocery retail), and with The Coca-Cola Company for the sale of Dunkin' Donuts branded ready-to-drink bottled iced coffee in certain retail outlets (primarily gas and convenience retail), as well as from other licensees. For the 52 weeks ending December 31, 2017, the Dunkin' Donuts branded 12 oz. original blend coffee, which is distributed by Smuckers, was the #1 stock-keeping unit nationally in the premium coffee category. For the 52 weeks ending December 31, 2017, sales of our 12 oz. original blend, as expressed in total equivalent units and dollar sales, were double that of the next

closest competitor. Additionally, for the 52 weeks ending December 31, 2017, the 10-count carton of our original blend K-Cup® pods, also distributed by Smuckers, was the #1 stock-keeping unit nationally in the K-Cup® pod category as expressed in total dollar sales. Through December 31, 2017, we have sold more than 1.1 billion Dunkin' K-Cup® pods in grocery outlets since launch in May 2015. With the introduction of Dunkin' K-Cup® pods into grocery outlets, more than 2.8 billion cups of Dunkin' Donuts coffee were sold

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through grocery outlets during calendar year 2017. Through December 31, 2017, Dunkin' Donuts branded ready-to-drink bottled iced coffee sales in retail outlets have surpassed \$150.0 million since launch in the first quarter of 2017.

Marketing

We coordinate domestic advertising and marketing at the national and local levels through our administration of brand specific advertising funds. The goals of our marketing strategy include driving comparable store sales and brand differentiation, increasing our total coffee and beverage sales, protecting and growing our morning daypart sales, and growing our afternoon daypart sales. Generally, our domestic franchisees contribute 5% of weekly gross retail sales to fund brand specific advertising funds. The funds are used for various national and local advertising campaigns including print, radio, television, online, mobile, loyalty, billboards, and sponsorships. Over the past ten years, our U.S. franchisees have invested approximately \$2.7 billion on advertising to increase brand awareness and restaurant performance across both brands. Additionally, we have various pricing strategies, so that our products appeal to a broad range of customers. In August 2012, we launched the Dunkin' Donuts mobile application for payment and gifting, which built the foundation for one-to-one marketing with our customers. In January 2014, we launched a new DD Perks® Rewards loyalty program nationally, which is fully integrated with the Dunkin' Donuts mobile application and allows us to engage our customers in these one-to-one marketing interactions. In June 2016, we continued to leverage digital technologies to drive customer loyalty and enhance the restaurant experience through the launch of On-the-Go mobile ordering for our DD Perks® members, which enables users to order ahead and speed to the front of the line in restaurants. As of December 30, 2017 our DD Perks® Rewards loyalty program had over 8 million members.

The supply chain

Domestic

We do not typically supply products to our domestic franchisees. As a result, with the exception of licensing fees paid by Dean Foods on domestic ice cream sales, we do not typically derive revenues from product distribution. Our franchisees' suppliers include Rich Products Corp., Dean Foods, The Coca-Cola Company, and KGM. In addition, our franchisees' primary coffee roasters currently are Reily Foods Company, Inc., Mother Parkers Tea & Coffee Inc., S&D Coffee, Inc., and Massimo Zanetti Beverage USA, Inc., and their primary donut mix suppliers currently are Continental Mills and Pennant Ingredients Inc. We periodically review our relationships with licensees and approved suppliers and evaluate whether those relationships continue to be on competitive or advantageous terms for us and our franchisees.

Purchasing

Purchasing for the Dunkin' Donuts brand is facilitated by National DCP, LLC (the "NDCP"), which is a Delaware limited liability company operated as a cooperative owned by its franchisee members. The NDCP is managed by a staff of supply chain professionals who report directly to the NDCP's board of directors. The NDCP has approximately 1,600 employees including executive leadership, sourcing professionals, warehouse staff, and drivers. The NDCP board of directors has eight voting franchisee members, one NDCP non-voting member, and one independent non-voting member. In addition, our Vice President of Supply Chain is a voting member of the NDCP board. The NDCP engages in purchasing, warehousing, and distribution of food and supplies on behalf of participating restaurants and some international markets. The NDCP program provides franchisee members nationwide the benefits of scale while fostering consistent product quality across the Dunkin' Donuts brand. We do not control the NDCP and have only limited contractual rights associated with managing that franchisee-owned purchasing and distribution cooperative.

Manufacturing of Dunkin' Donuts bakery goods

Centralized production is another element of our supply chain that is designed to support growth for the Dunkin' Donuts brand. Centralized manufacturing locations ("CMLs") are franchisee-owned and -operated facilities for the centralized production of donuts and bakery goods. The CMLs deliver freshly baked products to Dunkin' Donuts restaurants on a daily basis and are designed to provide consistent quality products while simplifying restaurant-level operations. As of December 30, 2017, there were 96 CMLs (of varying size and capacity) in the U.S. CMLs are an

important part of franchise economics, and are supportive of profit building initiatives as well as protecting brand quality standards and consistency.

Certain of our Dunkin' Donuts brand restaurants produce donuts and bakery goods on-site rather than sourcing from CMLs. Many of such restaurants, known as full producers, also supply other local Dunkin' Donuts restaurants that do not have access to CMLs. In addition, in newer markets, Dunkin' Donuts brand restaurants source donuts and bakery goods that are finished in restaurants. We believe that this "just baked on demand" donut manufacturing platform enables the Dunkin' Donuts brand to more efficiently expand its restaurant base in newer markets where franchisees may not have access to a CML.

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Baskin-Robbins ice cream

We outsource the manufacturing and distribution of ice cream products for the domestic Baskin-Robbins brand franchisees to Dean Foods, which strengthens our relationships with franchisees and allows us to focus on our core franchising operations.

International

Dunkin' Donuts

International Dunkin' Donuts franchisees are responsible for sourcing their own supplies, subject to compliance with our standards. Most also produce their own donuts following the Dunkin' Donuts brand's approved processes. Franchisees in some markets source donuts produced by a brand approved third party supplier. Franchisees are permitted to source coffee from a number of coffee roasters approved by the brand, including the NDCP, as well as certain approved regional and local roasters. In certain countries, our international franchisees source virtually everything locally within their market while in others our international franchisees source most of their supplies from the NDCP. Where supplies are sourced locally, we help identify and approve those suppliers. In addition, we assist our international franchisees in identifying regional and global suppliers with the goal of leveraging the purchasing volume for pricing and product continuity advantages.

Baskin-Robbins

The Baskin-Robbins manufacturing network is comprised of 13 facilities, none of which are owned or operated by us, that supply our international markets with ice cream products. We utilize facilities owned by Dean Foods to produce ice cream products which we purchase and distribute to many of our international markets. Certain international franchisees rely on third-party-owned facilities to supply ice cream products to them, including facilities in Ireland and Canada. The Baskin-Robbins brand restaurants in India and Russia are supported by master franchisee-owned facilities in those respective countries while the restaurants in Japan and South Korea are supported by the joint venture-owned facilities located within each country.

Research and development