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# Revenue Recognition: New Accounting Standard

November 16, 2017



# Forward-Looking Statements

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- ▶ The information contained in this presentation is based on accounting guidance published to date and any related interpretations, which could be subject to change prior to the applicable effective date of such guidance.



# Agenda

- ▶ Overview of new revenue recognition standard
- ▶ Key impacts to Dunkin' Brands
- ▶ Transition timeline



# New revenue accounting standard (ASC 606)

- ▶ Global, principles-based model
- ▶ Eliminates industry-specific (i.e. franchisor) guidance
- ▶ Effective in FY2018 for December year-end companies



# Key impacts to Dunkin' Brands

## What is impacted?

- ▶ Franchise fees, including initial and renewal fees (all segments)
- ▶ Advertising fund presentation
- ▶ Certain other revenue streams (impacts generally expected to be immaterial)

## What is not impacted?

- ▶ Royalty income
- ▶ Rental income
- ▶ License fees, including CPG
- ▶ Expense recognition
- ▶ Cash flows of the business

**No impact to our cash flows or how we operate our business**



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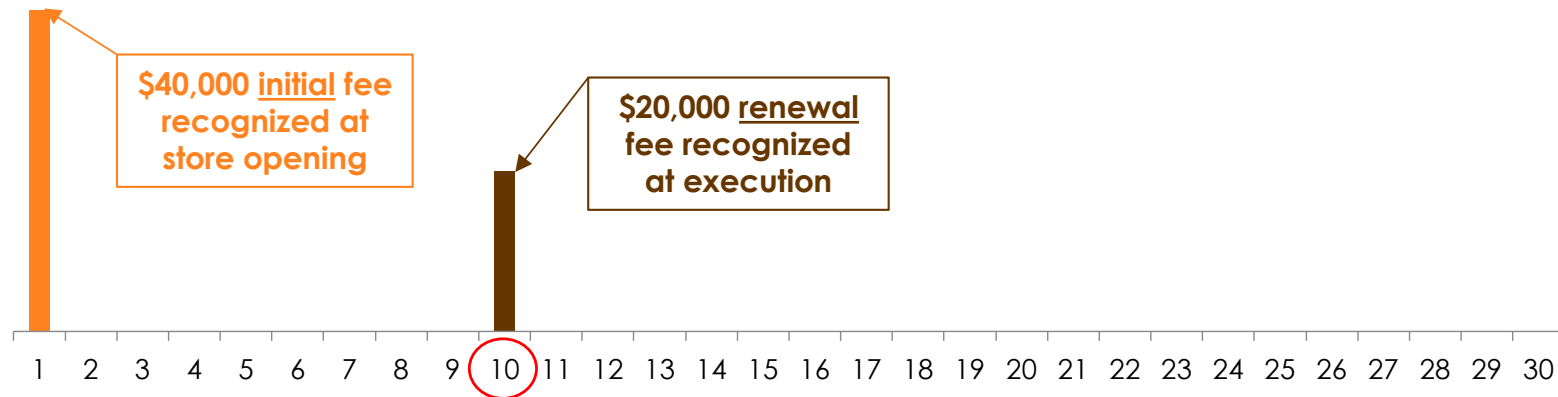
# Franchise Fees



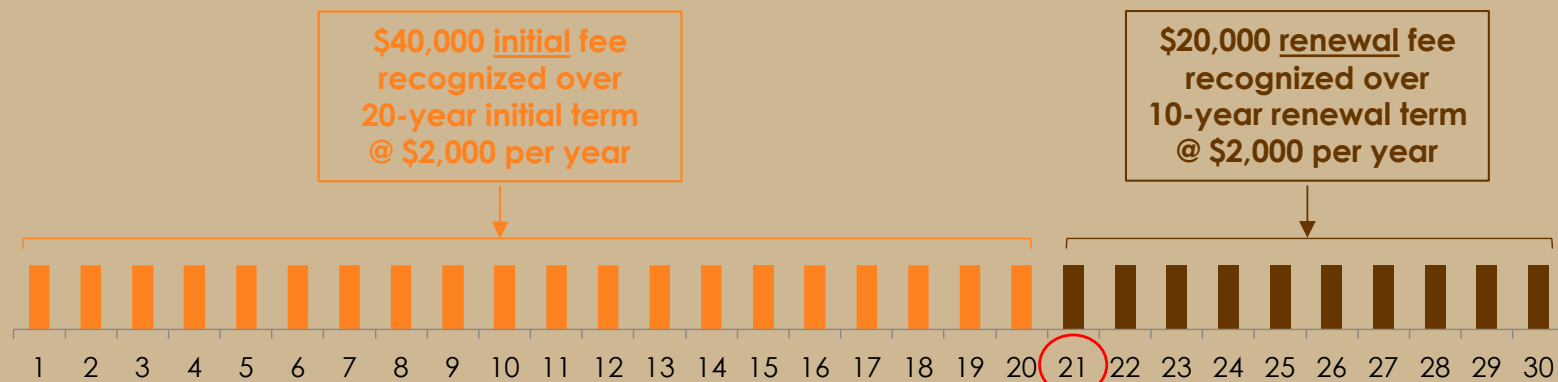
# Franchise fees: Recognize over the franchise term

## Current standard – recognize upfront

*Illustrative example: Single store with \$40K initial fee (20-year initial term) and a \$20K, 10-year renewal term executed in year 10*



## New standard (ASC 606) – recognize over time



Renewal recognition begins **later** under new standard

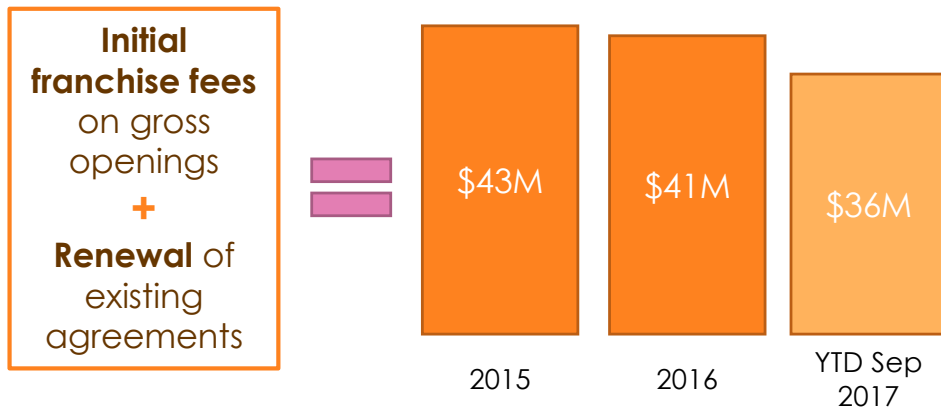


# Franchise fees: Quantifying the impact

## Current standard

- ▶ In-year franchise fee revenue is generated from store openings and renewals

### Dunkin' Donuts US



## New standard (ASC 606)

- ▶ Generally, each open store will generate annual franchise fee revenue (i.e. 1/20<sup>th</sup> of initial fee)

### Dunkin' Donuts US



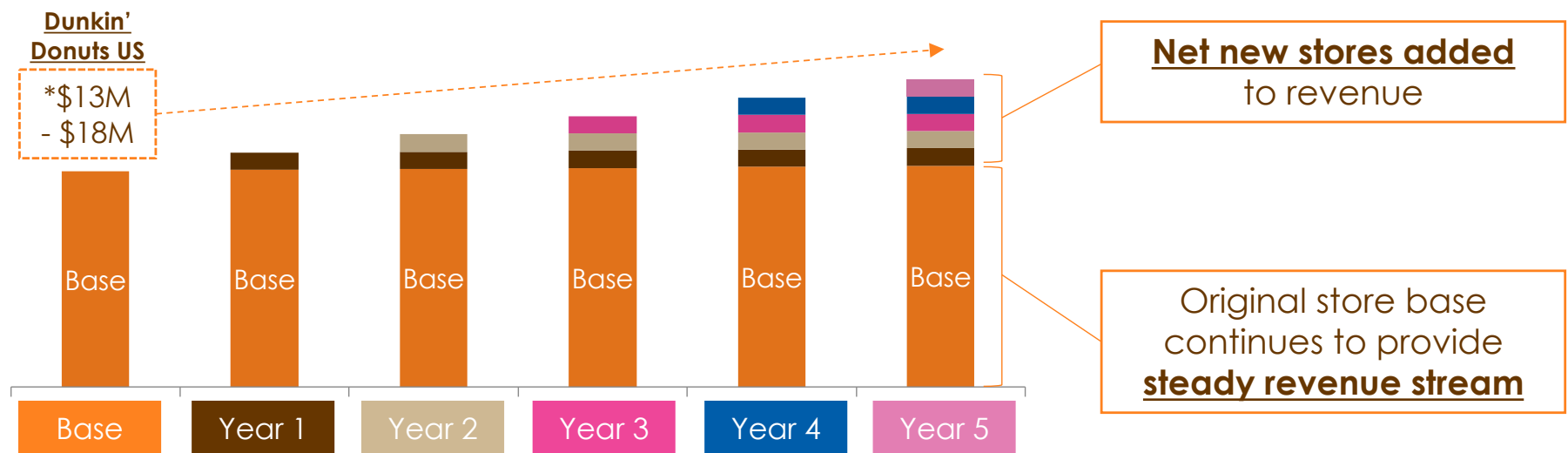
\* Unaudited estimates of expected future revenue; subject to change



# Franchise fees: Driving future revenue growth

(under the new standard)

- ▶ Franchise fee revenue growth will be driven by:
  - ▶ Net development
  - ▶ Potential changes to market rates over time (i.e. renewals at higher market rates)



- ▶ Consistent, recurring revenue stream into the future



\* Unaudited estimates of expected future revenue; subject to change

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# Advertising Funds



# Advertising funds: Consolidate results with DNKN

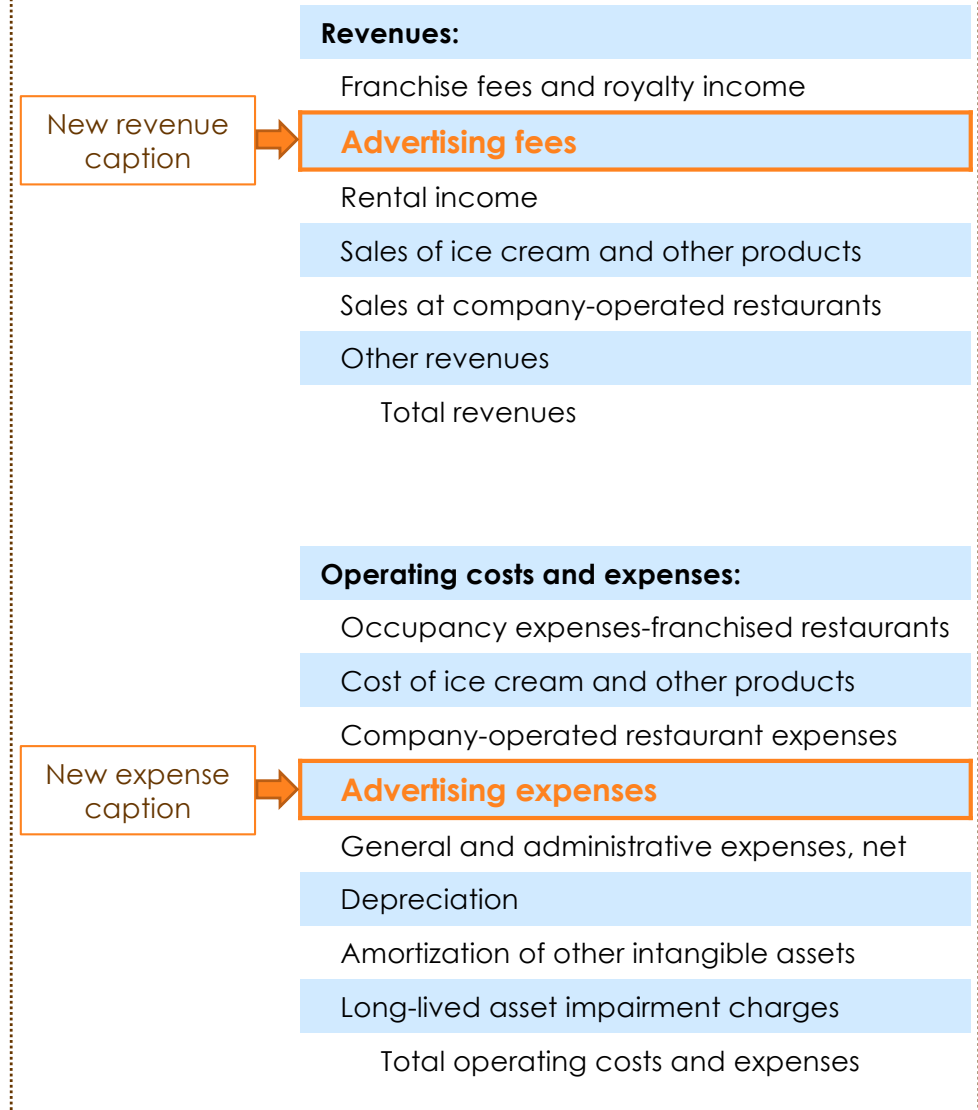
## Current standard

- ▶ Revenue and expenses of advertising funds excluded from Dunkin' Brands results

## New standard (ASC 606)

- ▶ Consolidate advertising funds with Dunkin' Brands results
  - ▶ Gross up of revenues and expenses
  - ▶ Generally, no net impact to operating income

### Consolidation of advertising funds under new standard (ASC 606)



# Advertising funds: Quantifying the impact

- ▶ FY16 franchisee contributions to U.S. advertising funds → **\$430M\***
- ▶ Advertising fund revenues and expenses will offset, **except for:**
  - ▶ Fund in a cumulative deficit – expenses will exceed revenues
  - ▶ Fund returns to a surplus – revenues will exceed expenses

## Example Consolidation of Advertising Funds

*(for illustrative purposes only)*

<u>Year 1 Cumulative Deficit</u>	
Advertising fees	\$400M
Advertising expenses	\$401M
<b>DNKN operating income impact</b>	<b>(\$1M)</b>

<u>Year 2 Return to Cumulative Surplus</u>	
Advertising fees	\$420M
Advertising expenses	\$419M
<b>DNKN operating income impact</b>	<b>\$1M</b>



\* Includes \$403M and \$27M to the Dunkin' Donuts US and Baskin-Robbins US advertising funds, respectively

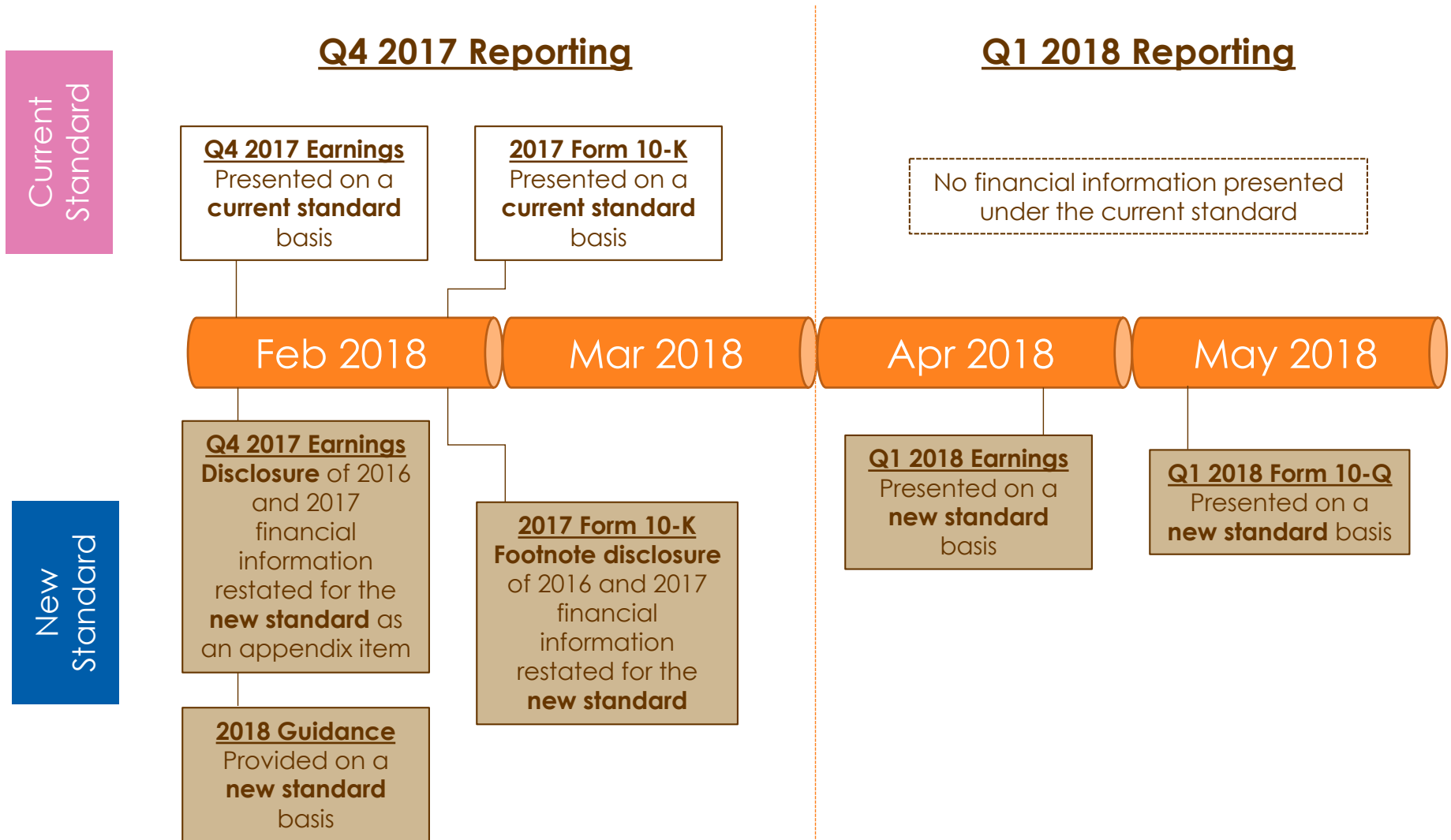
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# Transition Timeline



# New standard (ASC 606) – Transition





Questions?

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