Papa Johns(PZZA)

$59.32 (As of 04/08/20)

Price Target (6-12 Months): **$62.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/06/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: A | Momentum: D	

Summary

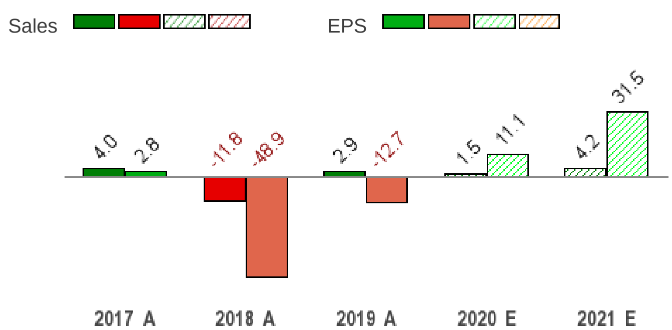
Shares of Papa John's have outperformed the industry so far this year. Recently, the company reported robust preliminary comparable sales for first-quarter fiscal 2020. Notably, the company has been benefiting from continued international expansion plans, strategic partnerships, strong digital platform and various sales initiatives. Also, the company is investing heavily in technology-driven initiatives like digital ordering to boost sales. However, the company has withdrawn its 2020 outlook due to coronavirus. It has temporarily closed 350 stores, primarily in Ireland, Peru and the Philippines due to coronavirus. Although, the coronavirus impact on China has reduced significantly, the company's 15 franchise stores are still closed. Notably, earning estimates for 2020 have witnessed downward revisions over the past 30 days.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$70.19 - $28.55**
20 Day Average Volume (sh)	**1,307,631**
Market Cap	**$1.9 B**
YTD Price Change	**-6.1%**
Beta	**0.61**
Dividend / Div Yld	**$0.90 / 1.5%**
Industry	**Retail - Restaurants**
Zacks Industry Rank	**Bottom 37% (159 out of 253)**
Last EPS Surprise	**15.6%**
Last Sales Surprise	**2.7%**
EPS F1 Est- 4 week change	**-13.9%**
Expected Report Date	**05/05/2020**
Earnings ESP	**-0.7%**
P/E TTM	**50.7**
P/E F1	**45.6**
PEG F1	**3.7**
P/S TTM	**1.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	427 E	422 E	427 E	439 E	1,712 E
2020	414 E	404 E	403 E	422 E	1,643 E
2019	398 A	400 A	404 A	418 A	1,619 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.50 E	$0.52 E	$0.41 E	$0.50 E	$1.71 E
2020	$0.37 E	$0.31 E	$0.25 E	$0.38 E	$1.30 E
2019	$0.31 A	$0.28 A	$0.21 A	$0.37 A	$1.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

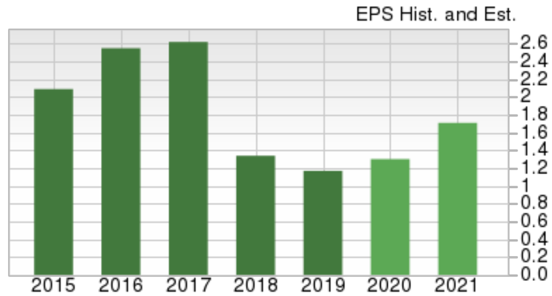
Overview

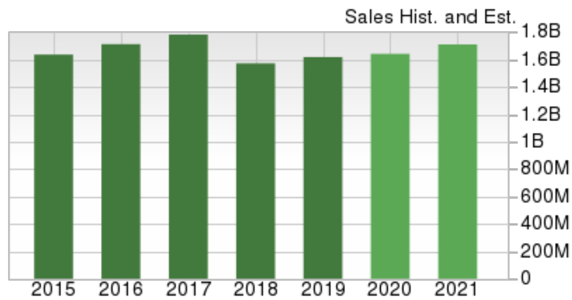
Headquartered in Louisville, KY, Papa John's began its operations in 1984. This Delaware Corporation, operates and franchises pizza delivery and carryout restaurants in the United States and other specific international markets. The company's dine-in and delivery restaurants operate under the brand name Papa John's.

As of Dec 29, 2019, there were 5,395 Papa John's restaurants operating in 49 countries and territories. Out of these, 598 were company-owned while the remaining 2,690 were franchised restaurants in North America. Meanwhile, 2,107 are operating internationally.

Papa John's reportable segments include domestic company-owned restaurants, domestic commissaries, North America franchising and international operations. North America encompasses operations in the United States and Canada. Domestic incorporates the adjoining areas of the United States. International franchisees are defined as all franchise operations outside of the United States and Canada.

Papa John's has been reeling under negative publicity for quite a long time, owing to the denouncement of its ex-CEO, John H. Schnatter, on grounds of a racial slur. Ever since Papa John's have been trying to make significant changes in its board and is trying to revive consumer sentiment.





Reasons To Buy:

> The company's continued international expansion plans, strategic partnerships, strong digital platform and various sales initiatives bode well

▲ **Assistance Program & Changes in Board Aims to Revive Sales Slump:** Papa John's has been reeling under negative publicity for quite a long time, owing to the denouncement of its ex-CEO on grounds of a racial slur. In order to revive its brand image and reinvigorate growth, the company has been taking numerous initiatives, which started to resuscitate the falling consumer sentiment.

Papa John's is making significant changes in its board. The company recently extended its board to appoint Jeffrey C. Smith, CEO of Starboard, and Anthony M. Sanfilippo, former Chairman and CEO of Pinnacle Entertainment, as new directors. Additionally, Papa John's president and CEO, Rob Lynch was appointed to the board. In fact, with the proceeds from this partnership, Papa John's is confident to strengthen its balance sheet and make investments and retain its brand image. The company also announced a partnership with Shaquille O'Neal, the NBA Hall of Famer, Entrepreneur and restaurateur. All in all, Papa John's added six new directors in 2019.

During second quarter 2019, O'Neal invested in nine of Papa John's restaurants in Atlanta. These nine restaurants will undergo remodeling and feature O' Neal's personalized designs. The design in the front of the building will have the signature of the legendary NBA champion and television sports analyst. The company, which launched its better day campaign featuring Shaquille O'Neal in September, has a great potential to attract customers and influence its brand image.

Meanwhile, in addition to board enhancement, Papa John's announced an assistance program for its U.S. and Canada franchisees. The program is expected to offer advice on the sales and operating challenges that Papa John's franchisees are facing, with full support from the Company's Franchise Advisory Council ("FAC") and Papa John's Franchise Association ("PJFA"). Under the assistance program, the company plans to reduce royalties, food-service pricing and online fees throughout the current year. The company is also arranging funds for its franchises to implement marketing and reimaging initiatives. On Jun 19, 2019, Papa John's announced the increment of intended investments in marketing and brand building. The company will also provide the previously planned financial assistance to its domestic franchisees, whose franchise agreement will end in 2020.

▲ **Strong Brand Building in Focus:** Papa John's is a leading take-out and pizza delivery restaurant chain in the world. As part of its clean label commitment, Papa John's was the first pizza delivery chain to announce the removal of preservatives such as BHA and BHT, flavor enhancer, MSG, cellulose, partially hydrogenated oils and high-fructose corn syrup. All these efforts reinforce the company's commitment to provide quality food and deliver better ingredients to its customers, and thereby living up to its strong brand commitment.

▲ **International Expansion & Focus on Franchising:** Many of Papa John's restaurants are located in international markets like Europe, the Middle East, Latin America, Portugal and China, and continue to perform strongly. The China region continues to experience growth, driven by the company's optimized restaurant model, brand design enhancements and increased integration with third-party aggregators that is broadening its accessibility channels. Papa John's has inked developmental agreements in many regions including Mexico, Egypt, Russia, Spain, Chile, the Netherlands, Colombia and Boston. In 2019, it opened 233 international units, bringing the total number of open units to more than 2,100 stores across 48 countries outside the United States, including Portugal and Pakistan. The company added 92 net worldwide units in 2019. As of Dec 29, 2019, its development pipeline included 1,085 restaurants (85 units in North America and 1,000 units internationally), the majority of which are scheduled to open over the next six years.

Notably, Papa John's is committed to develop and maintain a strong franchise system. The company is continually striving to eliminate barriers to expansion in existing international markets and identify new market opportunities. Notably, in 2019, it re-franchised 46 company-owned restaurants — including 19 in Georgia and 23 restaurants in Florida — for $4.74 million. Over the next several years, the company plans to increase its international units, a large portion of which will be franchised. We believe re-franchising a large chunk of its system reduces a company's capital requirements and facilitates earnings per share growth and ROE expansion. Alongside, free cash flow continues to grow, allowing reinvestment for increasing brand recognition and shareholder return.

▲ **Capitalizing on Technology to Boost Sales:** Papa John's is investing heavily in technology-driven initiatives like digital ordering to boost sales. The company's online and digital marketing activities have increased significantly over the past several years in response to increasing use of online and mobile web technology. In fact, Papa John's continues to reinforce its commitment toward providing a better customer experience with enhancements to its digital ordering process. The company further expanded its digital ordering capabilities with the launch of Facebook Instant Ordering and became the first national pizza chain to do so. It is also the foremost national restaurant chain to launch a custom ordering app for Apple TV, commence a nationwide digital rewards program and surpass 60% of the total U.S. sales via digital channels. Currently, the company has 100 corporate and franchise restaurants that enable customers to visually track delivery on a map. Notably, Papa John's announced that it has entered into a national partnership with UberEATS, and its existing fastest-growing door-to-door delivery service providers DoorDash and Postmates.

Meanwhile, Papa John's continues to invest in direct customer delivery. Delivery currently covers 1,000 U.S. restaurants and has nearly doubled from the last quarter.

▲ **Comps Growth Back on Track:** The company recorded positive comparable sales growth in third-quarter 2019 for the first time in two years. The trend has continued in the fourth quarter as well. Global restaurant sales were up 2.3% and 4.4% in the third and fourth quarters of 2019, comparing favorably with the year-ago quarter's fall of 6.6% and 13%, respectively. Also, domestic company-owned restaurant comps were up 2.2% and 4.1% in the third and fourth quarters against 13.2% and 10.2% decline in the year-ago quarters, respectively.

Reasons To Sell:

> The outbreak of coronavirus, high costs and a challenging sales environment remain potent headwinds.

- **Withdraws 2020 Outlook Due to Coronavirus:** Considering the panoptic impact of coronavirus (COVID-19) pandemic on its business and the industry, the company has withdrawn its fiscal 2020 guidance. Notably, the company has nearly 2,100 international franchised stores. It has temporarily closed 350 stores, primarily in Ireland, Peru and the Philippines. Although, the coronavirus impact on China has reduced significantly, the company's 15 franchise stores are still closed.

- **Affordable Care Act to Hurt Profits:** The Affordable Care Act, commonly known as Obamacare, is expected to have an adverse impact on restaurant operators. The Affordable Care Act required employers to extend health benefits. The law entails restaurants with 100 or more full-time equivalent employees to offer health care coverage to substantially all full-time employees and their dependents. Meanwhile, from 2016, these rules apply for employers with 50 to 99 full-time-equivalent employees. Moreover, the collapse of the Republican-led bill, which was intended to replace Obamacare, means that the Affordable Care Act is here to stay. This means that the restaurant operators will have to continue shouldering increased labor costs, which in turn will hurt margins.

- **Cutthroat Competition:** The restaurant space is highly competitive as numerous restaurant operators are ongoing advanced and prudent strategies to increase their sales. In fact, going by the current retail scenario, adapting to shifting demand has become a major precedence for retailers. Companies with continual digital innovation, focus on product customization, and launch and delivery of seamless consumer experience can only thrive in the competitive space. This puts a lot of pressure on Papa John's to continuously change its strategies in correspondence to the fickle consumer demand.

- **Soft International Performance a Concern:** The company has been generating soft revenues over the last several quarters in the International segment. In 2019, its international revenues declined 6.7%. Papa John's, which has a significant international presence, is exposed to unfavorable fluctuations in currency. Also, the International segment's revenues are hurt by the same.

- **Valuation Looks Stretched:** Papa John's valuation looks a bit stretched compared with the industry average. Looking at the company's forward 12-month price-to-earnings (P/E) ratio, which is one of the most commonly used valuation ratios and is best suited for evaluating restaurants, investors might not want to pay any further premium. It currently has a forward 12-month P/E ratio of 37.1. Hence, the stock is relatively overvalued right now compared with its peers, as the industry's average P/E is 23.85.

Last Earnings Report

Papa John's (PZZA) Q4 Earnings & Revenues Beat Estimates

Quarter Ending	12/2019
Report Date	**Feb 26, 2020**
Sales Surprise	**2.72%**
EPS Surprise	**15.63%**
Quarterly EPS	**0.37**
Annual EPS (TTM)	**1.17**

Papa John's International, Inc. reported strong fourth-quarter 2019 results, with earnings and revenues beating the Zacks Consensus Estimate.

Adjusted earnings of 37 cents per share beat the Zacks Consensus Estimate of 32 cents by 15.6%. The bottom line also surged 105.6% from the year-ago reported figure.

Revenues totaled $417.5 million, which outpaced the Zacks Consensus Estimate of $406.5 million. The top line also increased 5% on a year-over-year basis. The upside can be attributed to positive comparable sales achieved by the company in North America, higher commissary revenues related to increased commodity cost and rise in marketing fund revenues, primarily due to an increase in the PJMF contribution rate and greater online revenues.

During the fourth quarter, Papa John's opened 19 restaurants in North America and exited 27, with the global restaurant count being 5,395. Currently, the company is operating in 49 countries and territories worldwide.

Global Restaurant Sales & Comps

In the fourth quarter, global restaurant sales were up 4.4% against the year-ago quarter's fall of 13%. Excluding foreign currency impact, global restaurant sales rose 4.7% against the year-ago quarter's decline of 11.7%.

Domestic company-owned restaurant comps were up 4.1% in the reported quarter versus a 10.2% decline in the year-ago quarter.

At North America franchised restaurants, comps rose 3.3% against a decline of 7.4% in fourth-quarter 2018. Also, comps at system-wide North America restaurants were up 3.5% against 8.1% decline recorded in the year-ago quarter. The company reported its second straight quarter of same-store sales growth in North America.

Comps at system-wide international restaurants were up 2.4% against a decline of 2.6% in the prior-year quarter.

Operating Highlights

Total operating loss was $0.13 million in the fourth quarter compared with loss of $7.3 million in the year-ago quarter. Total costs and expenses amounted to $420.5 million, up 3.4% from fourth-quarter 2018 levels.

Balance Sheet

As of Dec 29, 2019, cash and cash equivalents totaled $27.9 million compared with $33.3 million in the corresponding period of 2018. Long-term debt was $347.3 million at the end of fourth-quarter 2019 compared with $601.1 million at 2018-end.

Inventories at the end of the reported quarter increased to $27.5 million from $27.2 million on Dec 30, 2018. Free cash flow at the end of fourth-quarter 2019 summed $14 million compared with $50.4 million at 2018-end.

The company paid out cash dividends worth $10.6 million in fourth-quarter 2019 and declared first-quarter 2020 cash dividend of approximately $10.7 million.

2019 Highlights

In 2019, total revenues amounted to $1,619.2 million compared with $1,662.9 million in 2018.
Adjusted earnings per share for the year ended Dec 29, 2019 were $1.17 compared with $1.37 on Dec 30, 2018.

In 2019, system-wide North America comparable sales declined 2.2% compared with 7.3% fall a year ago.

Recent News

Papa John's Posts Preliminary Q1 Comps, Revokes 2020 View - Mar 31, 2020

Papa John's announced preliminary first-quarter fiscal 2020 comparable sales. Considering the panoptic impact of coronavirus (COVID-19) pandemic on its business and the industry, the company has withdrawn its fiscal 2020 guidance.

In first-quarter fiscal 2020, the company anticipates domestic company-owned restaurant comps to increase 6.1%. At North America franchised restaurants, preliminary comps are estimated to be up 5.1%. Further, preliminary comps at system-wide North America restaurants are likely to increase 5.3%. Comps at system-wide international restaurants are expected to improve 2.3%.

Papa John's Boosts Delivery Service Amid Coronavirus Woes – Mar 23, 2020

In order to boost delivery services amid the coronavirus outbreak, Papa John's announced that it will hire up to 20,000 new restaurant team members. Moreover, the company is implementing additional health and safety precautions like measures related to enhanced restaurant sanitation and No Contact Delivery for the safety of its team members and customers. Nonetheless, the announcement is in sync with providing support to the communities it serves during such challenging times.

Valuation

Papa John's shares are down by 6.1% in the year-to-date period, but up 17.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 20.5% and 9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.5% and 3%, respectively.

The S&P 500 index is down 17.3% in the year-to-date period and 8% in the past year.

The stock is currently trading at 37.1x trailing 12-month forward earnings, which compares to 23.85x for the Zacks sub-industry, 24.35x for the Zacks sector and 16.99x for the S&P 500 index.

Over the past five years, the stock has traded as high as 56.18x and as low as 18.04x, with a 5-year median of 28.22x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $62 price target reflects 38.99x forward 12-month earnings.

The table below shows summary valuation data for PZZA.

Valuation Multiples - PZZA

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.1	23.85	24.35	16.99
	5-Year High	56.18	26.59	26.2	19.34
	5-Year Low	18.04	20.49	19.06	15.19
	5-Year Median	28.22	23.1	23.16	17.44
P/S F12M	Current	1.14	3.16	0.93	2.94
	5-Year High	1.86	3.93	1.11	3.44
	5-Year Low	0.68	2.82	0.8	2.54
	5-Year Median	1.24	3.29	0.93	3
P/CF	Current	30.53	13.69	12.86	13.82
	5-Year High	85.7	20.59	15.2	22.67
	5-Year Low	9.54	8.61	10.76	11.67
	5-Year Median	18.37	16.78	12.86	16.37

As of 04/08/2020

Industry Analysis **Zacks Industry Rank:** Bottom 37% (159 out of 253)

Top Peers

BJs Restaurants, Inc. **(BJRI)**	Neutral
Dunkin Brands Group, Inc. **(DNKN)**	Neutral
Jack In The Box Inc. **(JACK)**	Neutral
Red Robin Gourmet Burgers, Inc. **(RRGB)**	Neutral
RESTAURANT GRP **(RSTGF)**	Neutral
Carrols Restaurant Group, Inc. **(TAST)**	Neutral
The Wendys Company **(WEN)**	Neutral
Dave & Busters Entertainment, Inc. **(PLAY)**	Underperform

Industry Comparison Industry: Retail - Restaurants

Industry Peers

	PZZA Neutral	X Industry	S&P 500	DNKN Neutral	RRGB Neutral	WEN Neutral
VGM Score	C	-	-	F	D	F
Market Cap	1.91 B	245.75 M	19.05 B	4.81 B	141.94 M	3.58 B
# of Analysts	4	6	13	11	4	13
Dividend Yield	1.52%	0.00%	2.23%	2.75%	0.00%	2.99%
Value Score	D	-	-	F	B	F
Cash/Price	0.02	0.08	0.06	0.19	0.32	0.11
EV/EBITDA	32.46	10.55	11.47	15.13	9.84	16.41
PEG Ratio	3.68	2.94	2.00	2.31	NA	4.30
Price/Book (P/B)	NA	1.31	2.56	NA	0.39	7.15
Price/Cash Flow (P/CF)	19.54	5.63	10.14	15.54	1.42	13.65
P/E (F1)	46.03	25.14	16.97	22.77	NA	44.27
Price/Sales (P/S)	1.18	0.50	2.01	3.51	0.11	2.09
Earnings Yield	2.19%	2.61%	5.81%	4.39%	-24.39%	2.24%
Debt/Equity	-1.52	0.99	0.70	-5.76	1.86	7.04
Cash Flow ($/share)	3.04	1.81	7.01	3.77	7.72	1.18
Growth Score	A	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	-13.64%	7.89%	10.92%	13.23%	-21.29%	15.68%
Proj. EPS Growth (F1/F0)	11.32%	-45.78%	-0.64%	-18.81%	-531.85%	-38.59%
Curr. Cash Flow Growth	8.17%	5.29%	5.93%	5.44%	-15.30%	-0.70%
Hist. Cash Flow Growth (3-5 yrs)	-2.98%	6.59%	8.55%	5.81%	-0.74%	-1.18%
Current Ratio	0.87	0.62	1.24	1.56	0.54	1.58
Debt/Capital	NA%	63.25%	42.36%	NA	65.09%	87.57%
Net Margin	0.30%	4.05%	11.64%	17.66%	-0.60%	8.01%
Return on Equity	-15.60%	7.09%	16.74%	-41.48%	2.21%	22.61%
Sales/Assets	2.21	1.07	0.54	0.36	1.05	0.33
Proj. Sales Growth (F1/F0)	1.47%	-4.05%	0.61%	-6.10%	-16.10%	-4.05%
Momentum Score	D	-	-	D	F	F
Daily Price Chg	5.21%	4.75%	4.33%	6.68%	5.88%	7.65%
1 Week Price Chg	3.93%	-10.31%	-4.40%	-9.82%	-28.24%	-7.18%
4 Week Price Chg	6.08%	-19.91%	-1.70%	-8.79%	-3.34%	-10.99%
12 Week Price Chg	-7.33%	-45.94%	-20.64%	-25.26%	-68.78%	-25.67%
52 Week Price Chg	17.63%	-51.26%	-12.97%	-21.33%	-61.22%	-10.84%
20 Day Average Volume	1,307,631	522,388	4,016,075	2,066,525	1,220,812	8,234,980
(F1) EPS Est 1 week change	-0.76%	-1.41%	-0.26%	-5.22%	-173.21%	-5.89%
(F1) EPS Est 4 week change	-13.86%	-34.04%	-5.64%	-19.89%	-772.18%	-42.21%
(F1) EPS Est 12 week change	-17.25%	-43.39%	-7.49%	-22.01%	-462.81%	-43.39%
(Q1) EPS Est Mthly Chg	-19.61%	-66.46%	-9.90%	-30.82%	-606.14%	-82.46%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.