

Papa Johns(PZZA)

\$78.63 (As of 06/11/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/08/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Shares of Papa John's have outperformed the industry so far this year. The outperformance can be primarily attributed to product innovations, strategic partnerships, International expansion and franchising initiatives. Moreover, the company is also focusing on TV and digital spend (including sponsorship/venue spending) to drive new customers. Notably, earning estimates for 2020 have increased over the past 30 days, depicting analysts optimism regarding the stock growth potential. However, the coronavirus related woes still pose concerns. Nearly 320 out of the company's approximately 2,100 international franchised stores were temporarily closed due to the coronavirus pandemic. Moreover, owing to the unprecedented nature of the global crisis, the company has withdrawn its 2020 guidance.

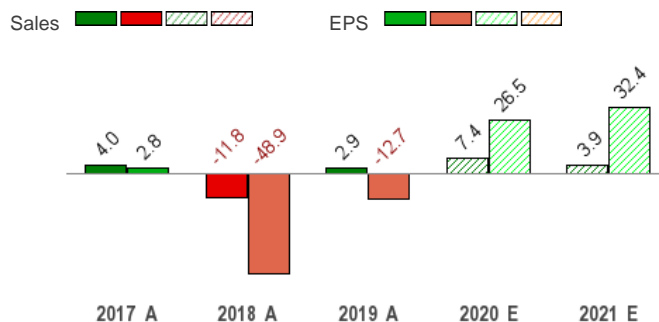
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.30 - \$28.55
20 Day Average Volume (sh)	793,945
Market Cap	\$2.6 B
YTD Price Change	24.5%
Beta	0.92
Dividend / Div Yld	\$0.90 / 1.1%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 26% (65 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-62.5%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	2.9%
Expected Report Date	08/04/2020
Earnings ESP	-3.5%
P/E TTM	77.9
P/E F1	53.1
PEG F1	4.3
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	428 E	435 E	437 E	450 E	1,806 E
2020	410 A	455 E	434 E	441 E	1,739 E
2019	398 A	400 A	404 A	418 A	1,619 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	\$0.39 E	\$0.48 E	\$0.59 E	\$1.96 E
2020	\$0.15 A	\$0.46 E	\$0.30 E	\$0.44 E	\$1.48 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 06/11/2020. The reports text is as of 06/12/2020.

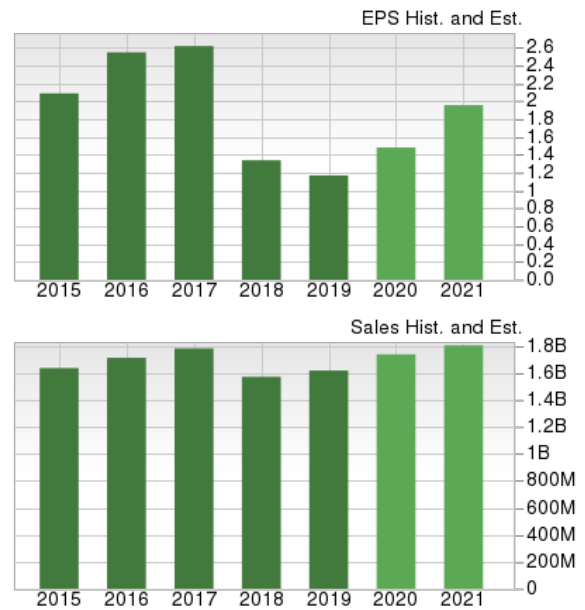
Overview

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 Mar 29, 2020, there were 5,378 Papa John's restaurants operating in 49 countries and territories. Out of these, 599 were company-owned while the remaining 2,686 were franchised restaurants in North America. Meanwhile, 2,093 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:

▲ **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.

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

▲ **Product Launches to Drive Growth:** The company continues to focus on product introduction to drive growth. In February, Papa John's launched Papadias, a toasted handheld alternative to sandwiches. Made with fresh dough and high-quality toppings, Papadias is the company's first holistic platform that doesn't consist of pizza sides or desserts. Priced at \$6, the Papadia folded pizza sandwich has driven both incremental sales at the lunchtime daypart and increased average check as an add-on to core pizza orders during the first quarter. The company also witnessed the successful launch of Jalapeno Poppers during the quarter, thus driving average check.

Nonetheless, there are more product innovations in the pipeline but management has decided to hold it back and focus on meeting the current wave of demand in the most efficient way possible.

▲ **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 Mar 29, 2020, the company's development pipeline included 1,140 restaurants (90 units in North America and 1,050 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. In March 2020, the company re-engineered its ordering and delivery process with the launch of no contact delivery. Notably, it drove substantial gains in its satisfaction metrics and delivered seamless customer experience during the first quarter.

▲ **Effective Changes in Marketing Mix and Tactics:** A change in marketing mix and tactics is driving new customers to the company and reactivating lapsed customers. The company is focused on TV and digital spend (including sponsorship/venue spending). In the fourth quarter of 2019, the company started buying TV ads in the upfront market allowing the advertisements to reach more customers with a significant increase in media impressions. During the month of April 2020, the company witnessed more than one million new or lapsed customers to access its brands over its digital ordering channels.

▲ **Solid Comps Growth:** The company recorded positive comparable sales growth in the first quarter of 2020, which marks the second straight quarter of comps growth. Global restaurant sales climbed 4.3% against the year-ago quarter's fall of 5.5%. Also, domestic company-owned restaurant comps rose 6.1% in the reported quarter against a 9% decline in the year-ago quarter.

Reasons To Sell:

▼ **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. Of the company's 2,100 international franchised stores, approximately 375 are temporarily closed, principally in Europe (140 stores), Latin America (130 stores) and the Middle East (95 stores) in accordance with government policies.

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

▼ **High Debt A Concern:** A strong balance sheet will help a company tide over the ongoing crisis. As of Mar 29, 2020, the company had \$472 million of long-term debt, compared with \$480 million at the end of Dec 29, 2019. Although, debt has declined marginally, its debt-to-capitalization has increased significantly. At the end of first-quarter 2020, the company's debt-to-capitalization increased to 270.9% from 251.8% at the end of fourth-quarter 2019. As of Mar 29, 2020, the company had cash and cash equivalent of \$36.4 million, which may not be enough to manage the high debt level.

▼ **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. Currently, markets in the Middle East and Latin America are facing government closures as well as heavy restrictions on trade.

▼ **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 48.26. Hence, the stock is relatively overvalued right now compared with its peers, as the industry's average P/E is 34.81.

Last Earnings Report

Papa John's Q1 Earnings Miss Estimates, Decline Y/Y

Papa John's reported first-quarter 2020 results, wherein earnings and revenues missed the Zacks Consensus Estimate.

Adjusted earnings of 15 cents per share missed the Zacks Consensus Estimate of 40 cents by 62.5%. The bottom line also plunged 21.1% from the year-ago quarter's reported figure.

Quarterly revenues of \$409.9 million missed the consensus mark of \$417 million by 1.7%. However, the top line increased 2.9% on a year-over-year basis. The upside can be attributed to positive comparable sales in North America, higher commissary revenues related to increased commodity costs as well as increased marketing fund revenues primarily due to an increase in the national marketing fund contribution rate and higher online revenues.

During the first quarter, Papa John's opened 16 restaurants in North America and exited 19, with the global restaurant count being 5,378. Currently, the company is operating in 49 countries and territories worldwide.

However, owing to the unprecedented nature of the global crisis, the company has withdrawn its 2020 guidance.

Global Restaurant Sales & Comps

In the first quarter, global restaurant sales moved up 4.3% against the year-ago quarter's fall of 5.5%. Excluding foreign currency impact, global restaurant sales rose 5.4% against the year-ago quarter's decline of 3.7%.

Domestic company-owned restaurant comps moved up 6.1% in the reported quarter against a 9% decline in the year-ago quarter.

At North America franchised restaurants, comps rose 5.1% against a decline of 6.1% in first-quarter 2019. Also, comps at system-wide North America restaurants improved 5.3% against a 6.9% decline seen in the year-ago quarter. The company reported its third straight quarter of same-store sales growth in North America.

Comps at system-wide international restaurants were up 2.3% against a decline of 0.1% in the prior-year quarter.

Operating Highlights

Total operating income in the first quarter was \$15.5 million compared with \$5.5 million in the year-ago quarter. Total costs and expenses amounted to \$394.4 million, up 0.4% from the prior-year quarter.

Balance Sheet

As of Mar 29, 2020, cash and cash equivalents totaled \$36.4 million compared with \$27.9 million as on Dec 29, 2019. Long-term debt was \$342.6 million at the end of first-quarter 2020, compared with \$347.3 million at 2019-end.

Inventories at the end of the reported quarter increased to \$29.8 million from \$27.5 million on Dec 29, 2019. Free cash flow at the end of first-quarter 2020 summed \$24.4 million compared with \$3.1 million in the year-ago quarter.

The company paid out cash dividends worth \$10.7 million in first-quarter 2020 and announced second-quarter 2020 cash dividend of approximately \$10.7 million. The second-quarter dividend will be payable on May 22, 2020.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-1.68%
EPS Surprise	-62.50%
Quarterly EPS	0.15
Annual EPS (TTM)	1.01

Recent News

Papa John's Posts Solid Comps Amid Coronavirus – May 27, 2020

Papa John's seems to be on a roll despite the coronavirus pandemic as evident from its preliminary estimated comparable sales numbers for the April and May fiscal 2020 period. In fact, the company delivered best sales period in its history in the month of May.

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 up by 24.5% in the year-to-date period, and up by 55.7% over the trailing 12-month period. Stocks in the Zacks sub-industry is down by 9.2%, but Zacks Retail-Wholesale sector is up by 9% in the year-to-date period. Over the past year, the Zacks sub-industry is down by 9.5%, while sector is up by 17.6%.

The S&P 500 index is down 1% in the year-to-date period but up 10.3% in the past year.

The stock is currently trading at 48.26x forward 12-month earnings, which compares to 34.81x for the Zacks sub-industry, 33.54x for the Zacks sector and 23.03x 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 28.31x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 51.23x 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	48.26	34.81	33.54	23.03
	5-Year High	56.18	34.81	33.54	23.03
	5-Year Low	18.04	20.49	19.07	15.23
	5-Year Median	28.31	23.09	23.38	17.49
P/S F12M	Current	1.45	3.76	1.13	3.58
	5-Year High	1.86	3.93	1.13	3.58
	5-Year Low	0.68	2.81	0.81	2.53
	5-Year Median	1.24	3.31	0.94	3.02
EV/EBITDA TTM	Current	26.99	17.4	17.61	11.82
	5-Year High	29.11	17.91	17.61	12.85
	5-Year Low	10.98	11.94	10.97	8.25
	5-Year Median	16.74	14.3	12.69	10.81

As of 06/11/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
BJs Restaurants, Inc. (BJRI)	Neutral	3
Dunkin Brands Group, Inc. (DNKN)	Neutral	3
Jack In The Box Inc. (JACK)	Neutral	3
DaveBusters Entertainment, Inc. (PLAY)	Neutral	3
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	3
RESTAURANT GRP (RSTGF)	Neutral	3
Carrols Restaurant Group, Inc. (TAST)	Neutral	3
The Wendys Company (WEN)	Neutral	2

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	PZZA	X Industry	S&P 500	DNKN	RRGB	WEN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	2
VGM Score	B	-	-	F	B	F
Market Cap	2.55 B	258.05 M	21.32 B	5.28 B	149.72 M	4.71 B
# of Analysts	6	6	14	11	4	14
Dividend Yield	1.14%	0.00%	1.99%	2.50%	0.00%	0.95%
Value Score	C	-	-	D	B	D
Cash/Price	0.01	0.12	0.06	0.12	0.13	0.07
EV/EBITDA	40.98	11.91	12.31	16.14	10.72	19.03
PEG Ratio	4.25	4.73	2.88	2.53	NA	6.04
Price/Book (P/B)	NA	1.76	2.92	NA	0.81	10.45
Price/Cash Flow (P/CF)	25.90	8.07	11.24	17.06	1.50	18.00
P/E (F1)	53.13	38.68	20.84	24.96	NA	41.84
Price/Sales (P/S)	1.57	0.62	2.24	3.84	0.12	2.76
Earnings Yield	1.88%	0.25%	4.64%	4.01%	-52.41%	2.41%
Debt/Equity	-1.45	1.12	0.76	-5.31	3.99	8.01
Cash Flow (\$/share)	3.04	1.81	7.01	3.77	7.72	1.18
Growth Score	B	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	-16.86%	5.56%	10.87%	13.06%	-21.29%	14.68%
Proj. EPS Growth (F1/F0)	26.78%	-87.62%	-10.81%	-18.70%	-1,080.24%	-14.28%
Curr. Cash Flow Growth	8.17%	4.82%	5.46%	5.44%	-15.30%	-0.70%
Hist. Cash Flow Growth (3-5 yrs)	-2.98%	6.26%	8.55%	5.81%	-0.74%	-1.18%
Current Ratio	0.86	0.81	1.29	1.48	0.80	1.37
Debt/Capital	NA%	69.35%	44.75%	NA	79.95%	88.90%
Net Margin	0.92%	2.64%	10.54%	17.59%	-15.10%	7.01%
Return on Equity	-14.40%	1.11%	16.08%	-42.33%	-25.04%	22.37%
Sales/Assets	2.24	1.03	0.55	0.36	1.00	0.34
Proj. Sales Growth (F1/F0)	7.42%	-9.93%	-2.60%	-9.65%	-33.38%	-0.52%
Momentum Score	A	-	-	D	A	B
Daily Price Chg	-3.02%	-7.06%	-6.44%	-4.78%	-20.22%	-4.86%
1 Week Price Chg	1.50%	11.36%	7.51%	7.06%	29.08%	7.48%
4 Week Price Chg	-2.03%	9.91%	8.40%	2.90%	-4.92%	2.52%
12 Week Price Chg	59.40%	45.18%	25.04%	47.48%	77.37%	98.50%
52 Week Price Chg	55.70%	-40.26%	-6.33%	-19.88%	-65.35%	8.62%
20 Day Average Volume	793,945	393,750	2,634,935	989,323	952,864	3,070,834
(F1) EPS Est 1 week change	2.65%	0.00%	0.00%	0.85%	0.00%	3.21%
(F1) EPS Est 4 week change	2.89%	0.15%	0.00%	1.87%	0.04%	2.91%
(F1) EPS Est 12 week change	-1.90%	-92.46%	-15.86%	-20.35%	-1,625.73%	-19.33%
(Q1) EPS Est Mthly Chg	5.56%	2.20%	0.00%	-0.21%	4.02%	20.13%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	B
Momentum Score	A
VGM Score	B

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.

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