

PAPA JOHN'S (PZZA) - JOHN SCHNATTER "ENGAGING FINANCIAL ADVISOR" - WHAT'S IT MEAN?

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,PAPA JOHN'S (PZZA) - JOHN SCHNATTER CALMING DOWN, "ENGAGING FINANCIAL ADVISOR"

We have written several articles regarding Papa John's since John Schnatter left the company, the first written on July 23rd, when PZZA closed at \$46.56. We outlined why it was in the interest of all stakeholders : current management, franchisees, board of directors, stockholders, debt holders, and "even John Schnatter" to arrange a going private transaction.

On August 8th, when PZZA closed at \$38.94, after the dismal Q2 was released with North American comps down 6.1%, including July down about 10.5%, we said "it is pretty early to be overly concerned about a collapse of a franchise system that was doing rather well for many years until about nine months ago. This situation could obviously change if the current negative sales trend is not, at the very least, stabilized". We concluded: "We feel that sales will more likely stabilize than deteriorate.....especially during Q4 when....YTY comparisons get easier as well. We expect that the most important stakeholders in this equation, specifically John Schnatterwill come to a rational conclusion that toned down rhetoric is in everyone's best interest.....there is a great deal of P/E capital looking for a home, and the valuation of the Company supports PZZA as a buyout candidate."

On October 9th, with PZZA closing at \$54.90, after several P/E firms had expressed interest, including Nelson Peltz' Trian Fund, and comps had apparently stabilized, we said "while PZZA is still statistically cheap relative to other franchising companies....there are some unique uncertainties here"...one of which, and the most important now today....."to what extent John Schnatter, who owns 30% of the stock will muddy the waters" We suggested investors take partial profits since "we doubt that a deal will be done at much more than \$60 per share, and the process could drag on for months. Should a transaction be delayed, or not seem likely, due to continuing weak sales or **Schnatter's requirements**, PZZA could fall back to the high 40s."

Schnatter's resistance in various forms over the last two months continued to be in place, and when press reports indicated that Trian has lost interest, PZZA came down from \$57 on 11/7 to \$45 and change..

TODAY'S SITUATION (WITH PZZA @ \$45.60)

It was announced late Friday that John Schnatter has engaged a financial advisor "to assist him in reviewing the financial prospects of the Company and in assessing alternatives for

increasing shareholder value."

We consider this critical in terms of the possibility of a private equity deal, especially with PZZA trading back in the mid 40s. While we have suggested that a transaction would be in the interest of all stakeholders, including John Schnatter, a "cooling off" period has obviously been necessary for Schnatter, company founder, with emotions playing an important role over a decision relative to his \$500M stake. The challenge of satisfying Schnatter, the founder and previous face of the company, and the owner of 30% of the stock, has obviously been an important stumbling block in getting a deal done.

We believe private equity buyers will be far more interested and Trian could even come back to the table, now that the stock is back in the 40s and with investment bankers now advising Schnatter. There is a huge difference between the two price ranges, compounded by the fact that Schnatter's stake (and his personal future role) could be far more negotiable. We consider the stock to be attractive at the current level.

Roger Lipton