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Papa John's International, Inc. (PZZA) Q1 2025 Earnings Call Transcript

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EPS of \$0.36 **beats by \$0.01** | Revenue of \$518.31M (0.85% Y/Y) **beats by \$4.34M**

Papa John's International, Inc. (NASDAQ:[PZZA](#)) Q1 2025 Earnings Conference Call May 8, 2025 8:00 AM ET

Company Participants

Heather Hollander - Senior Vice President, Strategy & Investor Relations

Todd Penegor - President & Chief Executive Officer

Ravi Thanawala - Chief Financial Officer & Executive Vice President, International

Conference Call Participants

Brian Bittner - Oppenheimer

Andrew Strelzik - BMO Capital Markets

Eric Gonzalez - KeyBanc

Peter Saleh - BTIG

Jim Salera - Stephens

Sarah Senatori - Bank of America

Brian Mullan - Piper Sandler

Jim Sanderson - Northcoast Research

Operator

Thank you for standing by, and welcome to Papa John's First Quarter 2025 Conference Call and Webcast. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Heather Hollander, Senior Vice President, Strategy and Investor Relations. Please go ahead.

Heather Hollander

Good morning, and welcome to our first quarter 2025 earnings conference call. Earlier this morning, we issued our first quarter earnings release, which can be found on our Investor Relations website at ir.papajohns.com under the News and Events tab or by contacting our Investor Relations department.

Joining me on the call this morning are, Todd Penegor, our President and Chief Executive Officer; and Ravi Thanawala, our Chief Financial Officer and Executive Vice President, International.

Comments made during this call will include forward-looking statements within the meaning of the federal securities laws. These statements may involve risks and uncertainties that could cause actual results to differ materially from these statements.

Forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our SEC filings. In addition, please refer to our earnings release and our Investor Relations website for the required reconciliation of non-GAAP financial measures discussed on today's call. Lastly, we ask that you please limit your questions to one question and one follow-up.

And now I'll turn the call over to Todd.

Todd Penegor

Thank you, Heather, and good morning, everyone. I'll begin today's call by sharing an update on the progress we made during Q1 as we execute our plans to be the best pizza makers in the business and deliver profitable growth. The strategic investments we've made to improve our value proposition, drive traffic in our restaurants and enhance our customer experience are driving momentum in the business as evidenced by the sequential improvement in sales and transaction comps versus the fourth quarter, along with transaction share gains despite a challenged macro environment.

While there is still work to be done to unlock our full potential, we are moving forward with a sense of urgency and confidence in our ability to deliver on our promise to be the best pizza makers in the business.

Since the second half of 2024, our team has been orientated around a strategy based on five key priorities; focusing on core product and innovation, amplifying our marketing message, investing behind our technology infrastructure, differentiating our customer experience and partnering with and evolving our franchisee base.

I'd like to spend the next few minutes going through each of these priorities in more detail and highlight how they're supporting our efforts to realign the Papa John's business. First, we are relentlessly focused on our core product and innovation. In Q1, we made the intentional decision to better leverage our traditional barbell strategy, which involves positioning our premium menu offerings alongside our popular value-orientated options to ensure that we're offering craveable menu items across occasions and price points.

To do so, we placed strong messaging behind our Epic Stuffed Crust Pizza priced at \$13.99 nationally, while also supporting our strong value message with our popular \$6.99 Papa pairings. This positioning worked as our Epic Stuffed Crust Pizza, which offers a significant competitive size advantage at 14 inches, delivered solid performance and increased pizza orders in March during our national promotion.

Our barbell strategy is a great example of how we are taking action to bolster our value proposition, while also driving traffic to increase our four-wall profitability. We've also seen that our value proposition and disciplined focus on pizza as our core product has consistently reinvigorated pizza orders.

In Q1, the number of pizzas ordered increased 4% versus last year, and we've seen continued sequential improvement in orders with multiple pizzas since the first quarter of 2024. From our New York-style pizza that is now offered in a variety of sizes, including medium to our fan favorite chekaroni, to the highly shareable star-shaped pizza recently launched across several international markets, we are delivering innovative, highly relevant products to our customers.

Additionally, as part of our focus on delivering a high-quality core product, we continue to review and remove underperforming SKUs from the menu, and we'll continue our menu simplification efforts throughout the year. On our path to being the best pizza makers in the business, we are focused on improving product consistency across our restaurants, starting with examining our oven calibration, baked temperatures and baked times.

Oven calibration may seem like a small thing, but our ovens are the most important equipment in our kitchens and a key component in delivering a great customer experience and opening new innovation opportunities. Our oven calibration efforts kicked off in Q1, and we expect to see the first benefits from this work by mid-summer. This foundation enables product innovation across multiple layers of our menu, including new crust development opportunities. We look forward to introducing exciting new offerings across the barbell beginning with the second quarter, including new uses for our popular dipping sauces and even a new pizza format.

Turning to our second priority. Papa John's is a challenger brand with a fighter mentality. We've embraced this position as we amplify our marketing message to win the customers' consideration and deliver exceptional quality and strong value perception across consumer segments. In our latest marketing campaign, Meet the Makers, we developed a compelling message that showcases real team members in our restaurants answering the question why Papa John's? This campaign demonstrates the craftsmanship that goes into each pizza and the intense passion our team members have for making the products we serve.

As we continue to innovate across the menu, we're also improving our value perception relative to our restaurant peers. Our brand health tracker showed meaningful improvement in value perception after we shifted to consistently showcasing our Papa Pairings menu and launched our Meet the Makers marketing campaign. We were also very pleased to see significant gains in customer awareness and consideration amongst QSRs during the quarter, indicating that our marketing strategy and investments are delivering early positive results. We are excited to build on this success with the evolution of our brand campaign.

Consumer research shows that simple, fresh ingredients and handcrafted food are important differentiators that influence purchase decisions. And we have an opportunity to be more intentional in the way we highlight the quality, simplicity and freshness of our ingredients, which have always been our differentiator. This insight is the foundation of the next chapter of our new ad campaign, focusing on our commitment to high-quality ingredients and fresh never frozen original dough made with only six simple ingredients.

In Q1, we also put media dollars to work across the barbell, showcasing premium offerings such as our Epic Stuffed Crust platform and our strategic Boost week buy one, get one offering, which saw success in driving margin gains while enhancing our value proposition and protecting transaction share. These incremental media investments have reinforced the Papa John's brand while also improving transactions. We recognize that pizza is a game played nationally, but one locally.

As we amplify our marketing message, we are investing to win share of voice at both the national and regional levels, drive transactions, support continued testing of value propositions, and increase our agility.

In the first quarter, we invested approximately \$7 million in incremental marketing to test media mix, customer communications and messaging tactics, while reinforcing our core message.

Papa John's Pizza delivers a high-quality meal at an attractive value. We were pleased with the early learnings and anticipate investing up to an additional \$25 million in marketing this year, above our spend in 2024 to build on this success.

The third area of our strategic roadmap is investing behind our technology infrastructure. More than 70% of our sales are made on our own digital channels. So, we have a tremendous opportunity to improve customer engagement, win market share, and improve four-wall profitability through technology and data science.

We're seeing substantial gains in our app conversion rates and higher repeat purchases as we further develop our CRM capabilities and improve our end-to-end digital customer experience.

As a part of this, we announced a long-term partnership with Google Cloud, which will enhance our ordering and delivery experience and take personalization to the next level, leveraging the power of AI. Through this partnership, we will make the customer journey more consistent, seamless, and customized across our own channels.

Google is a clear leader in technology, and their capabilities will help us unlock opportunities like anticipating customer cravings, optimizing delivery routes, and setting the standard for an elevated experience from click to crust. This is one example of how we are moving at an accelerated pace to transform our technology and regain tech leadership.

Our fourth priority is differentiating our customer experience to meet and exceed convenience, value and quality expectations within the customer's channel of choice. In November, we lowered the redemption threshold for our Papa Rewards loyalty program, allowing members to unlock Papa Dough faster.

While the change decreased our overall order ticket by approximately 130 basis points, we saw significant improvement across our loyalty platform, adding approximately 1 million more loyalty members in Q1 and bringing our total Papa Rewards membership to over 37 million.

Importantly, we saw growth among our medium and high-frequency loyalty consumers and faster repeat orders. We are pleased with the response to the loyalty changes we've implemented and plan to build on this progress by further enhancing our loyalty program throughout 2025.

Consistent with our focus on improving our customer experience, we conducted a holistic mystery shop program in partnership with a third party to assess our competitive performance across a range of order experiences.

While we are pleased to see that our carryout experience and enhanced digital platforms exceeded industry standards, the results also highlighted an opportunity to continue to improve our delivery experience.

We know we can do delivery better and leveraging our new partnership with Google, we will improve driver dispatch and routing, increase the accuracy of our delivery time estimates, and provide better driver tracking.

Our last strategic priority is partnering with and evolving our franchisee base to be growth orientated as we strive to increase our market share and accelerate restaurant development in our most impactful markets while sustainably improving our restaurant economic model.

Currently, we have 539 company-owned restaurants across North America that operate with the highest standards and operational excellence, which we believe present a compelling opportunity for a franchisee looking to grow or diversify their own business.

With that in mind, throughout the quarter, we have evaluated refranchising select company-owned restaurants to future-focused franchisees as they look to scale across various markets. Ultimately, we are focused on improving the profitability of all Papa John's restaurants, and we have a number of active work streams in our supply chain to reduce our overall cost to serve. We remain committed to high-quality, better ingredients, such as our fresh never frozen original dough with 6 simple ingredients, but we know we can deliver that same quality at a lower cost to our restaurants.

We are in the midst of aggressively evaluating opportunities to optimize the value proposition of our vertically integrated supply chain and better serve our franchisees. We look forward to updating you on these efforts on a future call. We are very encouraged by the progress we have made as we execute on our strategic priorities aimed at improving sales, strengthening the restaurant economic model and delivering profitable growth. Our improved value proposition, optimized creative and enhance customer experience are driving improvements in sales and transactions as well as transaction share gains.

We plan to build on this momentum in the second half of the year with accelerated product innovation, including new pizza formats, crushed flavor and topping innovation. We are excited about the many opportunities ahead and confident that we have the right plan and the right team to create great experiences for our customers and increase value for both our franchisees and shareholders.

And with that, I'd like to turn it over to Ravi to discuss our first quarter financial results in greater detail. Ravi?

Ravi Thanawala

Thank you, Todd, and good morning, everyone. Our first quarter performance was in line with our expectations. Global system-wide restaurant sales were \$1.22 billion for the first quarter, up 1% when compared with the prior year quarter in constant currency. Consistent with our expectations, North America comparable sales decreased 2.7% in the first quarter compared with the prior year quarter. For the second quarter in a row, comps improved sequentially, totaling 290 basis points of improvement since we implemented our value proposition work following the second quarter of 2024.

We are also encouraged that comp sales improved sequentially each month throughout the first quarter. North America transaction comps were down less than 1% when compared with the prior year and improved 120 basis points sequentially compared with Q4 as we focus on improving our value perception and investing in transaction-driving initiatives. Transactions continue to perform well on key occasions in the quarter such as the Super Bowl, Valentine's Day, High Day and more recently, the NCAA basketball tournaments.

We grew transaction share in the first quarter, and we remain focused on driving transaction growth given the high variable profitability of our transactions and the opportunity to improve 4-wall profitability for our franchisees. First quarter ticket comps were down 2% versus the prior year, with more than 50% of the decline driven by our strategic decision to lower the threshold for rewards redemptions in our loyalty program in the fourth quarter.

Additionally, we sold a higher mix of medium pizzas in the quarter, as we focus on value-driving transactions. Finally, we saw a continued shift in our fulfillment channel mix driven by the relatively profit-neutral impact of reduced delivery fees. These pressures were partially offset by the positive impact of increased items per order. International comparable sales increased 3% year-over-year in the first quarter. We're seeing the benefits of our international transformation initiatives with strength across our focused countries.

Total revenues for the first quarter were \$518 million, up 1% from last year as higher commissary and advertising fund revenues were mostly offset by lower revenues at our company-owned restaurants. Taking a closer look at our segments. Company-owned restaurants revenue decreased \$17 million in the first quarter versus last year. This decrease was primarily driven by a \$12 million decline at our international company-owned restaurants, reflecting the net impact of closing and refranchising 105 formerly company-owned restaurants in the U.K. and a \$5 million decline at our domestic company-owned restaurants, primarily due to lower comparable sales.

Commissary revenues increased \$11 million, reflecting higher commodity prices in the quarter and a 100 basis points increase to our cost plus fixed margin rate. Advertising fund revenues increased \$7 million to support higher levels of national marketing relative to last year. First quarter consolidated adjusted EBITDA was approximately \$50 million, down from \$61 million a year ago and in line with our expectations.

The decline in adjusted EBITDA was primarily driven by anticipated higher G&A expenses of approximately \$4 million related to our biannual franchisee conference, investments of approximately \$7 million to drive growth such as incremental marketing to reinforce our value proposition and the loyalty platform that Todd previously referenced and higher equity forfeitures in the prior year due to executive departures.

As a reminder, we define consolidated adjusted EBITDA as net income excluding stock-based compensation, interest expense, taxes, depreciation and amortization and onetime charges that do not affect the underlying fundamentals of our business operations.

Overall, our domestic company-owned restaurant segment EBITDA margins declined approximately 550 basis points compared with the prior year first quarter, driven by approximately 185 basis points of pressure from lower average ticket, a decrease of approximately 140 basis points from our investments in brand-building marketing, approximately 130 basis points of pressure from higher food costs, particularly around cheese and proteins, and a reduction of approximately 90 basis points from labor inflation in the quarter.

Our first quarter North America Commissary segment adjusted EBITDA margins were 7.3%, an increase of approximately 50 basis points from a year ago, reflecting the flow-through from the changes to our cost plus fixed margin model.

Turning to the balance sheet. In March, we refinanced our existing revolving credit facility and secured a new \$200 million term loan to provide us with additional financial flexibility and liquidity to execute on our strategic priorities. This transaction was leverage neutral and extends our maturity profile. At the end of the quarter, our total available liquidity was approximately \$494 million in cash and borrowings available under our credit facilities, and our gross leverage ratio was 3.4 times.

Turning now to cash flows. For the first quarter, net cash provided by operating activities was \$31 million. Free cash flow was \$90 million, an increase over the prior year, which primarily reflects the timing of cash payments for the National Marketing Fund and improved working capital, along with lower capital expenditures.

Now turning to our outlook. As said, we are confident that we have the strategy in place to accelerate sales throughout the year while making the strategic investments necessary to strengthen the long-term health of the Papa John's system and yield incremental growth opportunities.

With that in mind, we are reiterating our 2025 financial and operational metrics. For 2025, we continue to expect system-wide sales to increase between 2% and 5% compared with 2024, supported by sequential improvement in North America comparable sales throughout the year, international comp sales growth and continued new restaurant development.

With our barbell strategy, optimized creative and enhanced loyalty program already delivering improvements in sales and transactions, we plan to build on this momentum in the second half of the year with accelerating product innovation, including new pizza formats, crust flavor and toppings innovation. And we know that crust newness drives consumer engagement.

From a comparable sales perspective, we also anticipate that North America comparable sales will be flat to up 2% in 2025. The second quarter is expected to deliver sequential improvement compared with the first quarter, reaching flat monthly comparable sales by mid-year and positive accelerating comp sales as we exit 2025.

Through the first five weeks of the second quarter, North America comparable sales are down less than 1% when compared with the same period in 2024 and comparable transactions are up over 1%. Internationally, we continue to anticipate that full year 2025 comparable sales will be flat to up 2% as we remain cautious in our outlook given the dynamic global operating environment.

For 2025, we expect consolidated adjusted EBITDA to be between \$200 million and \$220 million compared with \$227 million in 2024 as our teams execute on our strategic priorities, and we make investments to drive sustainable long-term growth and improved four-wall economics. As a reminder, our definition of adjusted EBITDA excludes stock-based compensation, interest expense, taxes, depreciation and amortization as well as exclusions for certain one-time items.

Our definition of adjusted G&A excludes the same onetime items as adjusted EBITDA, but does not exclude stock-based compensation. Stock-based compensation is expected to be approximately \$4 million to \$5 million per quarter. There are several timing-related nuances for our quarterly advertising and adjusted G&A spend that I'd like to highlight as well.

Specific to Q2, we expect to invest \$5 million to \$7 million of incremental marketing spend compared to the same period last year. For Q2 G&A, our management incentive plan will also reset. Altogether, we expect Q2 adjusted G&A to be approximately \$4 million higher than Q1.

Overall, we expect second half adjusted G&A to be in line with Q1 2025 levels. 2025 and 2026 are investment periods for Papa John's as we execute our plans to be the best pizza makers in the business and generate high single-digit system-wide sales growth, improved four-wall restaurant profitability and adjusted EBITDA growth over the longer term.

For 2025, non-operating expense items, we expect our G&A expense to be between \$70 million and \$75 million, our net interest expense to be between \$40 million and \$45 million, and our capital expenditures to be between \$75 million and \$85 million. As a reminder, we expect our tax rate to be in the range of 28% to 32%.

Turning to restaurant development. We ended the first quarter of 2025 with 6,019 restaurants globally. In North America, we opened 18 new restaurants and closed 16, bringing our total North America restaurant count to 3,516. We still expect to open between 85 and 115 gross new restaurants in North America in 2025 and approximately 70% of remaining projected openings are currently in the construction design or later stages. As a reminder, due to construction and permitting time lines, the majority of our new restaurants tend to open in the back half of the year.

For restaurant closures, we continue to anticipate our closures will return to our historical average of approximately 1.5% to 2% of the North America system. From an international perspective, we opened 29 new restaurants in the first quarter, while closing 42, bringing our international restaurant count to 2,503. We continue to make significant progress in our international transformation, while carefully evaluating marketplace health and considering strategic closures to ensure the continued health of the Papa John's brand.

For 2025, we still expect to open 180 to 200 gross new restaurants across our international markets. We will continue to monitor territory specific trends as geopolitical and market dynamics continue to change.

Going forward, we anticipate international closures will be between 4% and 5% of our international system, outside of any strategic market closures to improve marketplace health.

In closing, we are confident in our strategy to deliver profitable growth and pleased with the momentum building in our business. We remain laser-focused on delivering a better customer experience, improving four-wall profitability and delivering value creation for all stakeholders.

With that, I'll turn it back to Todd for some closing thoughts.

Todd Penegor

Thank you, Ravi. Before we open it up for questions, I want to share that last month, I joined more than 1,000 attendees at our biannual franchisee conference, which brought together franchisees, operation partners, suppliers and team members from across the Papa John's system. We had the opportunity to share a business update, present our transformation initiatives, sample new menu offerings and collaborate with our franchise partners to grow sales and profitability across the Papa John's system. We received very positive feedback on the event and are grateful for our franchisees' time, commitment and engagement.

Together, we continue to make great progress towards our number one priority of creating great experiences for our customers and employees in our restaurants.

Now I'd like to open up the call for any questions you may have.

Question-and-Answer Session

Operator

Certainly. And our first question comes from the line of Brian Bittner from Oppenheimer. Your question please.

Brian Bittner

Thanks. Good morning. As it relates to demand trends, it seems as though you're seeing some consistent sequential improvements since the year began in your traffic. Todd, I'd just love to hear how you're viewing this consumer environment you're operating in from Papa John's perspective. Are you maybe perhaps a bit more optimistic as the year unfolds from a consumer health perspective?

Todd Penegor

Yes. Thanks for the question, Brian. As we look at consumer confidence, it does remain challenged amid the economic and market volatility. We're all talking about it. We all see it. We've seen intensification on competitive pressures and the promotional cycles. We've also seen some challenges on the lower income cohorts. But what we're really encouraged on is we've made a lot of progress. We've improved our value perception. We're back in position on that.

We continue to drive more traffic into our restaurants, as you've seen with the sequential improvements in same-restaurant sales comps and some of the transaction share gains that we noted on the call. And we're working hard to really enhance the customer experience. And we know value for the money is not just about sharp price points, and we've been playing the barbell strategy well with \$6.99 Papa pairings and premium news. But we also know quality plays a big role. And we've been enhancing our customer experience in our restaurants consistently over the last several quarters.

So you're starting to see the benefits of all of that with the solid start now into Q2 through the first five weeks. As we noted on the call, same-restaurant sales are now down less than 1%, and our transactions are positive more than 1%. And we know we've got a lot more news coming in the back half of the year as we really start to lean into a more traditional innovation approach where we're bringing some news to life on a more consistent basis around crush flavors, some new pizza formats, some topping innovations and even some dipping options. So we think we will be able to actually recruit new customers into the brand and continue to win share of stomach along the way.

Brian Bittner

Okay. Thanks for that. And just a quick follow-up is just as it relates to the incremental advertising, are you able to dive perhaps a little deeper into any early learnings on how the deployment of this is impacting demand or how you expect it to potentially impact demand moving forward just based on what you've seen?

Todd Penegor

Yes. As we talked about, we had about \$7 million of incremental media to test marketing in the first quarter and about the same that we've got planned here in the second quarter. We continue to check and adjust. The team has been doing a great job really trying to find the optimal mix between national and regional spend. We've got a lot of media mix tests out there to make sure we got the right balance between linear, social, digital and continue to evolve our social and digital voice.

And a lot of work with the refinements on leveraging our data better around customer communications in the CRM space. So we're working through all of those. We're seeing that get reflected in our brand health tracker, significant gains in our consumer awareness and consideration. As I said earlier, meaningful improvement in the value perception. So we're encouraged by the early results.

It was nice to see the Meet the Makers campaign come to life around craftsmanship, which is core to who we are. But importantly, we'll continue to evolve the craftsmanship message and really talk about why we're better, unique and different around our original dough with Sinkle ingredients. When you get to flower, water, sugar, oil, salt in the East, that's a differentiator in the category, and we're going to amplify that and it's relevant to today's consumer when you think about the quality message that we deliver day in and day out.

Brian Bittner

Great. Thank you.

Operator

Thank you. And our next question comes from the line of Andrew Strelzik from BMO Capital Markets. Your question, please.

Andrew Strelzik

Hey, good morning. Thanks for taking the question. Obviously, a lot of different areas that you're working on and making progress on. I guess I'm curious where you feel like you've made the most progress within those initiatives or maybe where you feel like you're pacing ahead or behind with some of the key areas that you've been working on?

Todd Penegor

I think there's two pieces where I feel really good. I mean on the technology transformation, as we brought Kevin Dusconi into the organization, he's built out his team in partnership with the marketing team, we've been really leveraging our data significantly different when you think about how we're managing CRM and connecting to our consumer.

The change in the loyalty program clearly allows us to leverage the engagement with the loyalty consumer as we're really bending some trends with a great value proposition and really having cash that's rewarded that bounces you back for every visit. So I feel really good about the progress we're making on the technology front. I love that we're really making some really good progress on telling our story around pizza craftsmanship and the quality message that we have around better ingredients and better pizza, and we've made some great strides there. Operationally, we've really focused on coaching visits in the restaurants, some simplification within the four walls of the restaurant. We know we've got more work to do on that front. But we've put some tools in around pizza grading and really making sure that we're delivering a great crust bake that are really making meaningful differences.

The opportunity is we're really rebuilding our innovation pipeline. You've seen we've been fastball down the middle, back half of last year, early this year with the promotional cadence that we've had. It's allowing us to deliver better pizzas. And as we talked about on the prepared remarks, our core pizza business, more pies delivering up about 4%. We got some leaky buckets around Papadias and Papa Bites, but those are rhythmbreakers that get us back to making really core pizza.

But you're going to see us start to really have some consumer-led insight-driven innovation in the back half. that is durable and sustainable and news that attract some of those new customers into our business. And we're really working hard to build a great shelf of strong innovations, not just to finish this year, but into 2026.

Andrew Strelzik

Okay. Great. That's helpful. And the international momentum continues to pick up from a same-store sales perspective. Can you just talk about some of the drivers there regionally where you're seeing particular strength? Just a little bit more color on the outlook. Thanks.

Todd Penegor

Yes. As we've talked about over the trailing four quarters, like we are in the middle of an international transformation, and we've been pleased with the initial results. But I still say we're in the early innings. We've laid out like what our focus countries are. When I take a step back and look at them, the vast majority of those markets are growing mid-single digits or double digits at this point in time.

Specific to the UK, we're up 1% in Q1, and we're accelerating quarter-to-date in Q2. We're seeing a couple of things play out. One, we've accelerated our pace of innovation in those markets and are being really thoughtful about how we roll out innovation over time. We're going back and taking a hard look to make sure that we're executing on our quality proposition as great as we can.

And I think the third thing is that like as there's a little bit of shakeout or market consolidation happening across the globe in the pizza category, we're seeing that we are gaining share and gaining transactions through that.

So we've been pleased with the performance, particularly in our core focus countries in Latin America, in the UK, in Spain and Middle East and a number of the countries in the Middle East were already back to like pre-conflict levels, and we're excited about the growth opportunity that we have in front of us.

Q – Andrew Strelzik

Great. Thank you very much.

Operator

Thank you. And our next question comes from the line of Eric Gonzalez from KeyBanc. Your question, please.

Q – Eric Gonzalez

Hi. Thanks for the question. I think you mentioned the potential to improve supply chain costs for your franchisees. I'm just curious how big that opportunity could be relative to your franchisees' overall four-wall margins. And would you expect to pass on all that savings to the franchisees?

Todd Penegor

Yes. Thanks. We're in the early innings of really taking a hard look at our supply chain optimization. And we know we got opportunities to reduce the cost to serve. Always going to be committed to high quality and better ingredients as a starting point. But when you look at the opportunities around manufacturing and our capacity utilization and how we distribute to our stores day in and day out. We think there's meaningful savings that we're going to see. They will be passed along to the system to really enhance the restaurant economic model, and we'll get the benefit with our company ownership there along the way.

And we start to see -- we'll probably start to see some of those savings really take hold in 2026. So we'll talk a lot more about this on the next call. We're in the midst of really deciding what levers we can and should pull and bringing the franchise community along on that journey. But we are absolutely committed to finding efficiencies in the supply chain to help offset some of the margin enhancements that we're taking on with some of the retrading we did with the franchise community last year. Ravi?

Ravi Thanawala

Maybe a few things that I'd want to add. Like first and foremost, like quality is part of our competitive moat. And as Todd has kind of talked about that like our dough is made with six simple ingredients, flour, water, sugar, oil, salt, yeast. Our cheese is real cheese made from mozzarella. Our sauce goes from vine to sauce in 24 hours. Those are things that are part of our competitive moat. But at the same time, we see opportunities to improve the four-wall economics for our franchisees. And as Todd talked about, like we're relentlessly focused on that. And we see this as a multiyear initiative that both from a focus for us as well as benefit for the franchisee community, and we look forward to sharing more.

Q – Eric Gonzalez

That's great. And then on the -- there was talk about the company-owned restaurants and some potential refranchising that you're considering. Do you have an idea of maybe where you can take -- where you would take your franchise mix over time as you try to spark that growth with the incentive of being able to buy some of those company-owned stores?

Todd Penegor

Yes. More to come on that in the future, Eric. We'll probably see some of the first refranchising happen during the course of Q2 or early Q3. It's not contemplated in our guidance, but we think the first refranchisings could be accretive to earnings. Ultimately, as we shared back in December, we're really focused on our core markets where we have a strong one or two position. And we've got some other great markets that could allow growth-minded franchisees to take on to scale up or bring some fresh blood into our system to really set ourselves up for long-term success.

But when you think about that corridor from Indianapolis, down to Louisville, Nashville, Atlanta, that's really core. and we'll have to take a hard look at everything else. But we're really focused on running those restaurants really well and making an impact in our business for the long run in the company restaurants to be a great brand steward and showcase operational excellence in every restaurant that we own.

Todd Penegor

So the one thing I'd add is that on a national level, we talk about ourselves as a 10% to 11% market share business. When you actually start to peel back the onion and look at some of these markets, whether it's from D.C. to Raleigh to Charlotte to Nashville, like our market share is in the high teens or in the low 20s.

And we don't think we're done taking market share in those markets, and we have some fantastic growth-oriented franchisees who have been really striking the right balance of price value, transaction orientation, and we think that they could play a big and outsized role in helping us to continue to flesh out the markets of strength.

Q – Eric Gonzalez

That's great. Thank you.

Operator

Thank you. And our next question comes from the line of Peter Saleh from BTIG. Your question, please.

Peter Saleh

Great. Thanks. In the past, Papa John's has been able to command a little bit more of a price premium for the higher-quality ingredients you guys offer. It looks like you guys are going to double down on that campaign. Can you just talk a little bit about the timing of the campaign on more higher-quality ingredients? And do you still feel like the customer appreciates that as maybe willing to pay a little bit more of a premium for the higher quality ingredients? And then I have a follow-up. Thanks.

Todd Penegor

Yes. We'll see over time whether the consumer really pay for the quality of the ingredients. Clearly, it will always be a tiebreaker. And we think over time, as we execute well at the restaurant level, the spirit of worth what you pay, the consumer will start to reward us for that work.

As you think about where we started the year, we wanted to get back to our core. And it was really around this Meet the Makers campaign that is really focused on the pizza craftsmanship and what we do around handcrafted food in our restaurants. That's relevant today.

And as we really looked at messaging that the consumer is looking for, high quality, value for the money, feeding the family affordable, we can play that role with the great quality. And you'll see our Meet the Makers campaign evolve in short order here to not only talk about the great things we do in the restaurant, but really highlight our unique differences, really being proud of the six simple ingredients that we have in our original dough, and we'll continue to leverage that message moving forward.

Peter Saleh

Great. And then just as a follow-up on the oven calibration, Todd, that you mentioned that kicked off in 1Q. Can you elaborate a little bit on what exactly that is? I know you have several different types of ovens in the market. Does that need to be completed before you start the innovation in the back end of the year? Just trying to get a little bit more color on that. Thanks.

Todd Penegor

Yes. We're moving really fast on that. And it's really around -- we started to really speed up our ovens a few years back. And as you look at slowing down the oven speed, adjusting the baked temp, there's an opportunity to really drive a better bake on our core pizza. We're working on that initiative in earnest, and we'll have that largely completed here in the first half of the year.

So we'll start to see those benefits in the back half. That will complement all the innovations that are coming to market, but not necessarily something that really needs to be the lead to make that happen at the moment.

But overtime, it opens up a lot more opportunity for us. As we slow that oven down, there are different crusts types that we can start to bring to life on our core pizza. And there are a lot of other options as you think about what we want to do on sites? What we want to do on handhelds? What we want to do on pasta or bowls or other things that we could potentially look at?

It opens up the world to not just be the best pizza makers in the business, but how do we evolve to become the best bakers in the business? So this is a methodical approach to ensure that we've really leveraged our core tool in our restaurants and oven that can unlock a lot of opportunities for years to come around what we bring to life for our consumer.

Peter Saleh

Thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Jim Salera from Stephens. Your question please.

Jim Salera

Hey Todd and Ravi, good morning. Thanks for taking our question. I wanted to ask about just the kind of expectations for the QSR pizza category. I believe on the previous call, you guys mentioned traffic for the category was flat to slightly down.

And since then, consumer sentiment, I feel like it's probably gotten marginally worse than what the expectations were at that time. Given the reiterated guidance, could we bridge that to point to maybe some market share gains that you guys are anticipating? Or just any thoughts on that dynamic would be helpful.

Ravi Thanawala

Thanks, Jim, for the question. So we think that there are company-specific growth drivers for Papa John's. And as Todd talked about in the prepared remarks, our strategy across how we're focused on our core product with new sales layers coming in the back half of the year, the advancements in loyalty, and our new innovation partnership with Google.

We believe that even if the category is a bit challenged, we are well-positioned to take, transaction share. And that's what we've seen in the business through the first five months of the year. And we are reading and reacting in the business appropriately and fast when we need to, to make sure we're adjusting to where the consumer is at.

But fundamentally, we're seeing consumer counts get better as we move through the year. Our loyalty program is driving retention at a higher rate; we're seeing the distance, the second and third transaction, continue to improve.

Todd Penegor

No, thanks for that, Ravi, I mean, we've been really focused on bringing in more customers more often. And we've talked about that for a while. We had to get back into position. And we do think it allows us on a transaction share basis to continue to bring more folks in more often.

What we need to continue to do then is turn that into higher average checks overtime, working on that between pricing, innovation, and the promotional cadence and we know we can bring that to life. And we know that we've got a high variable margin on every incremental transaction that we bring in. So we feel good about all of that.

And Ravi, you mentioned the Google Cloud partnership, and we really look at that as an innovation partnership with opportunities to enhance ordering and delivery experience and take personalization to the next level, or as Kevin, likes to say, hyper-personalization.

We've got the opportunity to bring that to life, like anticipating customer cravings or optimizing delivery routes or elevating the experience from click to cross. Others may have done some of those things already. Those are all in front of us and opportunities to really capitalize on to better connect to our consumer to drive frequency.

And remember, our focus has really been around driving folks into the loyalty program and our core consumer to-date, and really driving frequency around the core. We haven't had news in a while to really recruit new customers into our portfolio. And you will see a steady cadence of some news in the back half of the year.

Jim Salera

Great. Thanks. And maybe a quick follow-up on the Rewards program. Are you able to quantify or are you able to see what percentage of orders are redeeming Papa Dough before and after you guys reduced the threshold? And I don't know if there's like an ideal mix of orders that you would like to see redeeming some type of awards? Or just any thoughts there would be helpful?

Ravi Thanawala

Yes. We've seen a substantial increase in the number of our loyalty members though our earning. It's about 75% of our loyalty members actually earn awards every time that they purchase on our first-party channel. And what we're seeing is about 50% of our loyalty consumers actually redeeming.

And what's really exciting about this experience is that if you purchase from -- on like a Sunday evening, Monday morning or Monday afternoon, you're getting a push notification to reengage with the brand and it's really helping us to stay relevant upon from the consumer and just for contacts, like we more than doubled the number of consumers who are redeeming Papa Dough.

And I think the bigger point for us here was like our data science and our understanding the consumer is a core part of our competitive moat and really like pairs nicely with this notion of like focus on quality, focus on the simplicity of our ingredients, and we think that it's a long-term durable strategy for us to continue to lean into like our product proposition and lean in and take advantage of a great data science tech stack.

Todd Penegor

Our loyalty program is working as we intended it to. And when you think about providing cold hard cash for next bounce back, that's a differentiator. We're not bunching you back to a different product or something you might not want. We're giving you true value on the next purchase, and we're seeing the time to the next purchase improve.

And we think that's an opportunity for the life cycle of that customer to really have a good investment and a great return. So, we're going to continue to recruit more folks into the loyalty program. You've seen that with over our loyalty members, up another 1 million people over the last quarter, and we think it's a big opportunity to drive the business moving forward.

Jim Salera

Great. I appreciate all the color. I'll hop back in queue.

Operator

Thank you. And our next question comes from the line of Sarah Senatori from Bank of America. Your question please.

Sarah Senatori

Thank you. I have, I guess, one small, one big question. The smaller one is just you talked about improving the economics of franchisee margins. Are they seeing the same kind of pressure? And I guess in that sense, it sounds like you still feel good about the refranchising, but I'm just trying to understand if the extent to which, if pressure continues, does that hamper that?

And then the bigger question maybe is just, to your point, you offer better quality, but you have to be competitive on price and you're sort of a smaller scale than some of your competitors.

So, maybe Todd haven't worked for challenger brands. How do you how do you square that circle where maybe your cost is not the lowest cost, but you need to offer better quality at a very compelling competitive value? So, where do you where do you see the opportunity to do that if you kind of subscale? Thanks.

Todd Penegor

Yes, a couple of thoughts, and I'll turn it over to Ravi to finish on the franchise economics. On refranchising, the good news is there's a lot of interest in folks that want to become part of the Papa John's family. We've had a lot of folks inquire about joining our system. We've been betting a lot of very quality operators that are financially sound to come into the system. We've got some really good growth-minded franchisees in the system today that are performing well that would really like to continue to scale up. So we're feeling good about that even in the current economic conditions of our overall system.

On the quality front, it's really having that challenger fighter brand mindset and really evolving some of our media mix away from linear and to more social and digital and really having a voice that's unique to Papa John's to point out our unique quality differences. There's a huge opportunity to connect to the next generation of consumer. And we're seeing that right now as you think about next generation of consumers that were more in the consideration set and our brand awareness is improving and we're going to continue to lean into that.

And things like six simple ingredients on our original dough and the real cheese from Mozzarella and pizza sauce from buying to sauce in 24 hours, those things matter, and they matter a lot. And it's a huge opportunity to make sure that people know that. That's only can come from Papa John's. And we can do it at a very affordable price point. because pizza is a very good value for the money category. And as things get a little tougher, I think the consumer truly realizes that, on what they can do to feed a family of three or four at a very affordable price. But franchise economics, some of the things we're doing to enhance margin and kind of the company versus franchise perspective, I'll turn it over to Ravi.

Ravi Thanawala

Yeah. So a couple of things. One, we think the level of four-wall pressure we saw in Q1 for the corporate restaurants is somewhat transitory and will abate as we grasp through the year, and there are a couple of factors there. Just when I look like period three or March results to where we are recently, we've seen meaningful improvement in what our food costs is second, we're seeing transaction growth coupled with that adds not only fixed cost average but better variable profitability through the model.

If I even take like a step back and look at just like two-year stack quarter-to-date results, we're down 1%, and we're taking like really thoughtful planful deal optimization and pricing strategies at this point that we strike that right balance of winning consumers' hearts and minds, given where the car is today, but protected the four-wall economics for the long term.

In terms of timing of refranchising, I think we're clear now than we were even three months ago, like what are our core markets that are really important for us. to protect and own as the franchisor. And now we're thinking about like what is our market share strategy and growth plans for the balance of the company markets. And now over the right time horizon, we'll pair them up with great growth-oriented franchisees and will lean in because like as we talked about in a number of our corporate markets, we're in the 20s from a market share standpoint. We don't think we're done and there is a clear growth opportunity left for us.

And then the last thing I'd share on franchisee economics is our growth-oriented franchisees, they don't really care about the system average at all. They care about how they're performing. And the franchisees who have been focused on delivering fantastic service at great price values and balancing profitability are faring quite well, and they continue to be optimistic, and we see that their business is actually accelerating in many cases right now. Other franchisees who have may have been playing the slightly different game in terms of transaction versus price value, they may be going through a little bit more of a reset. But broadly, we've seen a lot of interest in the system to continue to look for system optimization opportunities and interest in talking to us about our corporate markets.

Sarah Senatori

Thank you. Appreciate the clear insights.

Operator

Thank you. And our next question comes from the line of Brian Mullan from Piper Sandler. Your question, please.

Brian Mullan

Thank you. Just wanted to ask about the asset base potential to remodel stores. At the Analyst Day, you talked about this as something that could help moving forward, particularly on carryout. Just talk about one, maybe what are the plans for the company-owned stores in terms of remodeling? And then two, how about the franchisee base is their work on your end to encourage franchisees to go down this path as well? Any color would be great.

Todd Penegor

Yes. No, we're in the early innings of really working out the business case on reimagining. We partnered with some franchisees on the Orlando market got that almost completely reimaged at this stage. And we've got to now bring it to life and activate to make sure we drive consumers back to our restaurants.

We'll continue to lean into that and built into our guidance in a company market as the year progresses to really test and learn and see how reimaging can really reengage with the consumer and drive our carryout business and complement the value perception of our overall brand.

We won't really see a lot of the reimaging start to take place until '26, '27, we'll talk a little bit more about that as we get into the later parts of this year and some of the thoughts and guidance on how we're going to bring that to life as we move forward. But we do think it's important.

Our asset base has got older and tired we got an opportunity to reimage. We just got to continue to refine the economics to make sure that it works for the franchise community. And we know it may take a little bit of incenting and a little bit of push to bring that to life. But I think our entire system realizes that it's an important part of what we need to do to drive the brand image over time, and we'll start to lean into that more as this year progresses and we get into early next year.

Ravi Thanawala

Maybe just two things, I would add is just like we're probably more convicted now than we were even a quarter ago on the carryout opportunity, carry out was up low single digits in Q1 from an order standpoint. It's up mid-single digits quarter-to-date, Q2. We see meaningful opportunity for us to continue to take share in that space. And what we're all seeing is like as we reset the value proposition, leaning in a little bit more into medium pizzas at certain points in the year, connecting that to a carryout consumer, we see that this could be a sales driver and then an incremental sales layer for us to continue to build on, that's going to benefit the four-wall economics benefit, frequency and benefit the business for the long term.

Todd Penegor

Yes. I think key will be as we get into some of our high market share markets and really focus on where do we drive some infill opportunities with new builds, but how do we make sure that the existing restaurants are reimaged. And how do we really leverage kind of 1 plus 1 to equal 3 to unlock a lot of market share growth in those markets and play from a position of strength, a big part of our strategy moving forward.

Brian Mullan

Okay. Thank you, guys.

Operator

Thank you. And our final question for today comes from the line of Jim Sanderson from Northcoast Research. Your question, please.

Jim Sanderson

Hey, thanks for the question. Just wanted to follow-up on the secret shopper study you did. If you could provide any feedback on what current delivery time you observed? And if this is potentially a gating factor that limits consumers from ordering during peak periods and more or less what type of opportunity you see ahead to improve that delivery time and drive a deeper customer engagement? Thank you.

Ravi Thanawala

Yes. Thanks, Jim. And what I would say is like there is meaningful variation in terms of what the total time to deliver is from Friday night at 7:00 p.m. at one market to Friday night at 7:00 p.m. in another market, but probably more importantly is like how we are working with our innovation partnership with Google, slide one, improve the tech stack holistically, that's going to benefit the entire system. And two, in the particular trade zones and markets where we have meaningful market share. Where are the ways that we're going to strategically split the market, continue to lean in to carry out to, drive incrementality and improve the service level. What we know is that temperature plays an important role in terms of consumer satisfaction and taste of the food. So as Todd talked about this calibration, this is meant to work on multiple layers. It helps us to unlock new innovation. It's also going to help us to continue to deliver the best quality product for the consumers from a delivery experience standpoint.

Todd Penegor

Yes. No, just I'll add that this was an extensive mystery shop, 5,000 restaurants, 1,000 system restaurants across Papa John's and other 4,000 competitive. And it was great for us to look in the mirror on where we're doing really well and carry out the enhanced digital experience are performing well relative to our peers. And we do know we have some opportunities on the delivery experience, both first party and third party. And those are all addressable, and we got actions in place, and we know we can make meaningful difference to create better consumer experiences, which will drive business moving forward. So, appreciate the work that the team did to really make sure we had that visibility and can have those discussions with our franchise community.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Todd Penegor, for any further remarks.

Todd Penegor

Well, I really appreciate you all joining us today. Thanks for the great questions, as usual. It's an exciting time for Papa John's as we continue to reinvest to transform our business. I really want to thank our team members and our franchise community for the hard work and the partnership as we worked really to serve our customers even better and connect to the communities that we're in. Have a great day, everyone, and we look forward to talking to you soon.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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