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EPS of \$0.61 **beats by \$0.08** | Revenue of \$507.89M (-1.29% Y/Y) **misses by \$12.99M**

Papa John's International, Inc. (NASDAQ:[PZZA](#)) Q2 2024 Earnings Conference Call August 8, 2024 8:00 AM ET

Company Participants

Stacy Frole - VP, Investor Relations

Todd Penegor - President & CEO

Ravi Thanawala - CFO

Conference Call Participants

Jim Salera - Stephens Inc.
Sara Senatore - Bank of America Merrill Lynch
Peter Saleh - BTIG
Eric Gonzalez - KeyBanc Capital Markets
Alexander Slagle - Jefferies
Chris O'Cull - Stifel Nicolaus and Company
Brian Mullan - Piper Sandler Companies
Nick Setyan - Wedbush Securities
Jim Sanderson - Northcoast Research
Fred Wightman - Wolfe Research

Operator

Good day and thank you for standing by. Welcome to the Papa John's Second Quarter 2024 Conference Call and Webcast. [Operator Instructions].

I would now like to turn the conference over to your speaker today, Stacie Shirley, Vice President of Investor Relations. Please go ahead.

Stacy Frole

Good morning, and welcome to our second quarter 2024 earnings conference call. This morning, we issued our second quarter earnings release. A copy of the release can be obtained on our Investor Relations website at ir dot Papa John's.com under the News Releases tab or by contacting our Investor Relations department at investor underscore relations at Papa John's.com.

Joining me on the call this morning are Todd Penegor, our President and Chief Executive Officer, and Roddie data Waller, our Chief Financial Officer. Before we begin, I need to remind you that 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 are 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 for the required reconciliation of non-GAAP financial measures discussed on today's call. Lastly, let me thank you in advance for asking only one question and getting back in the queue for more follow-ups.

And now let me turn the call over to Todd.

Todd Penegor

Thank you, Stacy, and good morning, everyone. I am honored to be with you today. As I begin, this journey is to seal. Papa John's brand is synonymous with delivering the best pizza in the industry, and I am excited to learn from and work with our Board, Ravi team members and our franchise community to build on this legacy.

As we move forward together, our number one priority will be to create great experiences for our customers and employees in our restaurants, while also ensuring the restaurant economic model is very strong. My immersion into the culture is well underway.

We have a passionate team, a system committed to ensuring we become the best Papa John's we can be fitting with the pizza business. You'll hear some of this from Ravi today because they have begun to share with our organization, I believe in winning as a team and will be collaborative yet quick and decisive.

As we focus on growing this premium QSR brands together, we need to move quickly to build on our strengths and execute today as we evolve to be even better tomorrow. I've enjoyed talking with our stakeholders this past week and look forward to meeting you all in the coming months and updating you on our progress.

Ravi, I'm going to turn the call over to you discuss the current state of the business and our second quarter results. But before I do, I want to give you my sincerest thanks for the work you have done over the past five months to lead this organization through this transition period. We are deeply grateful for your leadership and dedication to Papa John's. Thank you, Ravi.

Ravi Thanawala

Thank you, Todd, and welcome to Papa John's. It has been a pleasure getting to know you over the past few weeks. I look forward to partnering with you as we almost the full potential of Papa John's and together continue to create value for our stakeholders.

Turning to our results. As you read in our earnings release this morning that the challenging sales trends we experienced in the first quarter within our North America restaurants have persisted into the second quarter. Our core product pizza and the quality of our brand remains to ban the macro environment control used to be challenging as consumers pulled back on their spend and increased refocus our value.

Despite these challenges, I'm very proud of the team's discipline in managing the P&L, which helped to completely offset the softer sales in the second quarter. On today's call, we'll provide context for our results and highlight the decisive actions we are taking to sharpen our focus, improved unit economics, drive unit development and provide an excellent consumer experience in the second quarter of 2024.

North America comparable sales were down approximately 4% from a year ago, similar to our first quarter. This was primarily driven by lower transactions as continued growth in our aggregator channel was more than offset by a decline in our organic delivery and to a lower estimate this year over year shift in channel mix created an approximate 100 basis points headwind to our comparable sales in the third quarter, driven by the relatively profit neutral impact of reduced delivery fees.

And while sales were solid with customers buying two or more pieces, we saw lower transactions in our lower ticket items. In this current economic cycle, consumers have become more deliberate in managing their overall ticket and are showing a preference for brands that are offering compelling value. While we know we offer an attractive value for our customers, our marketing and innovation to the efforts have primarily focused on premium product offer things at premium price points.

As a result, our price value perception is not as strong as it should be in this unique environment. In the second quarter, we began shipping our efforts and investments to focus on initiatives that improve our value perception while still protecting our brand positioning.

We are being thoughtful and intentional in our approach by focusing on opportunities for modest transaction lives without placing on needed pressure on store level profitability. We believe this is critical and are aligned with our franchisees on this core approach. There are three opportunities we are focused on in the balance of the year that are geared towards driving sustainable, profitable growth over the long term.

First, improving our value perception, we believe showcasing our Better Pizza, better ingredients it appropriately valued price points will improve our overall value perception and improved transaction trends. For example, in June, we launched our cheeseburger pizza, a fan favorite limited time offer at an attractive nine 99 price point.

We also shipped a more immediate towards our 6 million on top of pairings, which is our mix-and-match value platform and recently launched our extra large New York Style pizza for 1099, a more competitive price point than last year.

We had planned pretty with competitors offers within the QSR pizza segment. And over the past eight weeks, we have seen our value perception improve. This gives us confidence that if we maintain an appropriate balance of value offerings and premium products, it will lead to improved sales trends over time.

We know that driving trial of our product is critical to winning consumers' wallets in the future. At our company-owned restaurants, we are also testing various value offers in certain markets to analyze the repeat rates, identified, potential basket starters, and larger basket motivators.

These test-and-learn opportunities provide us with data points to help our entire system better. I understand initiatives that can increase conversion rates in Enable transactions that drive growth in restaurant level profit dollars.

Second, reigniting and expanding our innovation pipeline. We are expanding our pipeline with unique and differentiated offers focused on grades. Over the past 40 years, Papa John's has built its brand of better ingredients, better pizza, and we have a strong pantry of consumer tested innovations.

Our teams are actively collaborating to a dental, have a new opportunities to improve overall customer satisfaction, enhanced Crave and increase the visual appeal to further improve the strong value proposition Papa John's provides We attended tasting this past week as our teams presented various products at different stages of aviation.

The validation. This is one of the best parts of the job. And I must say we can't wait to share some of these innovations over the next year. There are nothing short of absolutely delicious and our must drive products. Third, improving our digital and loyalty experience.

We are focused on improving conversion and reducing friction within the customer experience. Most of our sales occurred through digital channels with nearly one-third of our sales occurring through apps where customers who tend to purchase more frequently. We are actively identifying opportunities to streamline ordering journey and improve the overall user experience.

For example, in July, we rolled out an app update that improves call to actions and navigation elevates imagery and more prominently features. Loyalty reward since we are also actively evolving our holistic digital platform to improve conversion, drive repeat transactions and streamline customer insights. In addition, we are maintaining a strong focus on the customer experience in our restaurants, which we know is another key pillar in customer retention.

In the second quarter, our Russian team continued to improve out the door times, leading to higher overall customer satisfaction scores year over year. I'd also like to touch upon our recent initiatives to enhance our national marketing efforts and effectiveness. In the second quarter, we launched our all new brand platform, better get you some, which is a modern refresh of our brand visuals to an iMessage.

Since the launch, we have seen quarter over quarter improvement in our aided brand awareness, along with a higher intent to purchase our work. Now a couple of this new brand platform with value messaging so that we are best positioned to convert intention to sales in the third quarter.

We are making incremental investments to test the marketing messages and impact when combined with our new national brand platform to drive repeat purchase and stronger conversion. We anticipate these investments will place additional near-term pressure on company-owned restaurant level margins, but the insights we gain will benefit our entire system over time.

Now moving to an international perspective, our cross-functional teams are executing at a high level. In the second quarter, we experienced an improving comp sales trend line, which was approximately flat when compared to our Middle East region. Excluding this region, our international comparable sales were up approximately 3% from a year ago.

The number one focus of our international transformation initiatives has been to set the right foundation to support and drive long-term success. In particular, our team has made significant progress in advancing our efforts to optimize the UK business model. In the second quarter, we closed 43 underperforming Company restaurants in the UK and today we have refranchised 60 restaurants.

As a result, only 13 company-owned restaurants remain in the UK market. Based on these actions and the continued operating success of our franchisees, we expect the UK market to be profit accretive in the second half of this year.

Our attention is now turning towards growth, how we drive higher AUVs and partner with developing franchisees in this important market for Papa John's. Additionally, our new international hub leaders are doing a fantastic job focusing on our most important markets, serving partnership with local franchisees on local marketing strategies and building a foundation of a strong locally relevant brands are profitable restaurants.

For example, in the second quarter, we introduced our bigger our international marketing campaign and Papa John's history with the launch of federal pizza. This insight led innovation integrated with our better get to use of campaign and local programming led to improving global results across each regional hub.

For work. These teams are doing provides valuable insight that will inform our approach to operations, product innovation and market development across the globe. All of these initiatives I have discussed today are designed to ultimately drive unit level productivity, which is the primary driver of unit development. Over the past five months, I've had the opportunity to spend additional time with some of our larger developing franchisees.

And while comp sales remain challenged, the profit neutral shift in channel mix, combined with the loss of lower margin transactions, has had less of an impact on their overall, we have multiple initiatives in place to deliver real-time cost savings throughout the development process.

In addition to greater contractor supplier and equipment optionality based on market and anticipated restaurant volumes, our teams have made substantial progress this past quarter and now you're hearing from some of our developing franchisees that their build costs are much more in line with industry norms.

Solid unit economics are attractive development incentives and lower build costs are resulting in continued growth in our gross North America openings, which are on track to be 15% to 20% higher than the prior year gross openings. It is also important to point out that many of our new restaurants that have opened over the past two years are producing AUVs that are at or higher than the system average of \$1.2 million. These AUVs for our gross openings are significantly higher than those of the closures.

Now to dive a little deeper into our second quarter results and outlook for the second quarter of 2020 for global system, live restaurant sales were \$1.2 billion, down 1% in constant currency. The lower sales were largely attributable to lower North America comp sales, partially offset by a 2% net unit growth, both on a trailing 12 month basis. Total revenues for the second quarter were 508 million, down 1% from a year ago.

Primarily reflecting a 9 million decrease in North America commissary revenues due to lower commodity prices in the quarter and to a lesser extent, lower transaction volumes. A 3 million decrease in domestic transaction volumes, somewhat offset by a higher average ticket. Partially offsetting these revenue declines was higher international revenues, primarily driven by the net impact of the UK company owned restaurants versus the prior period.

Turning to profits, adjusted operating income for the second quarter of 2024 was 38 million, up 4% from a year ago. The higher year over year. Adjusted operating income was the result of higher North America restaurant margins as we continue to drive cost discipline across our operations as well as domestic commissary margin improvement.

In addition, the second quarter benefited by approximately 2 million from local advertising sales mix. These positive impacts were partially offset by a roughly \$3 million impact related to the operations of our UK franchisee acquisitions.

When taking into consideration a second quarter 2024 operating loss and approximately \$2 million increase in G&A expense as we continue to invest in our restaurants and technology platforms and the consolidation of the acquired UK restaurants and lower North America comp sales. Adjusted operating margin for the second quarter was 7.6%, up from 7.2% a year ago, primarily reflecting improved margins at our domestic Company-owned restaurants and supply chain.

Overall, our domestic company-owned margins improved approximately 130 basis points compared with the prior year second quarter. Driving the improved margin was an approximate 140 basis point benefit from a higher ticket and an approximately 30 basis points benefit from lower food basket costs as we continued to see relief in cheese and milk prices.

Partially offsetting these benefits was an increase in labor costs of approximately 30 basis points optimized model and delivering an excellent customer experience while also adjusting for shifts in channel mix and consumer demand trends. Over the trailing four quarters, our company-owned restaurant profits have increased significantly as we place a stronger focus on unit economic improvement.

Moving on to cash flow and our balance sheet. For the first six months of the year, net cash provided by operating activities was \$42 million. Free cash flow was 13 million, reflecting unfavorable changes in working capital and timing of cash payments for income taxes, partially offset by a \$6 million decrease in capital expenditures.

We continue to operate with ample liquidity, which totaled approximately 260 million in cash and borrowings available under our revolving credit facility and a gross leverage ratio of 3.1 times. Overall, our teams around the globe continue to take a disciplined approach to running the business.

We've improved restaurant level margins and operating profits, Ducommun disease normalization, revenue management and labor optimization in the quarter despite the lower sales. While our efforts to date have had a positive impact on our bottom line, we recognize there is more work to do looking at our outlook for the balance of the year.

For the first four weeks of the third quarter, North America comp sales were down approximately 6%. We anticipate comp sales to remain under pressure and be down mid single digits throughout our third quarter. We then expect comp sales to begin sequentially improving into the fourth quarter as seasonal demand and increases.

Our value perception continues to improve from the initiatives I just discussed, and we execute on our strategy for the automated comps to be down 3% to 5% as we balanced transaction trends and unit economics internationally, we anticipate full year 2020 for international comps will be down slightly as we remain in a dynamic environment. We are pleased with the progress of our transformational initiatives and expect this segment of our business to be a profit contributor.

Go forward, we anticipate 2024 adjusted operating income to be between 135 to 155 million, a broader range than we have previously guided to as our team's focus on executing against our strategy, maintaining flexibility on pricing and increasing testing to improve North America transaction trends. While our first half operating profit suggests we can maintain our previously-stated adjusted operating income guidance, we believe additional investment flexibility is oriented to accelerate actions to drive long-term growth.

We continue to expect better profits from three areas, the increase to our fixed commissary margin to our international transformation initiatives, notably the closure and refranchising of the UK restaurants we mentioned earlier, and three continued growth in North America development. However, these benefits will be somewhat offset by lower North American comparable sales and higher G&A expense.

While higher company-owned restaurant margins had been a tailwind to adjusted operating income during the first half of the year, we are anticipating lower year-over-year margins in the second half as we reinvest some of our first half earnings into improving transactions. We also expect to hold pricing within our company owned restaurants despite increasing commodity costs relative to last year in the second half of 2024, particularly in cheese and protein.

In terms of other non operating expense items, we expect net capital expenditures to be between 75 and 85 million and our tax rates to be between 23% and 26%, all consistent with our prior guidance. From a development perspective, the North American market is our most accretive development for Papa John's, and we remain committed to accelerating the expansion of our domestic footprint moving forward.

Through the first six months of the year, we've opened 31 new restaurants and have closed 17, resulting in a total of 14 net new North America units. This brings our total North America restaurant count to 3,447. For fiscal year 2024, we expect to open more than 100 new restaurants, but the closures of underperforming units could be slightly higher than originally anticipated.

Although well within historical norms. As such, we anticipate net new openings in 2020 forward to be between 45 and 65 restaurants. As a reminder, the AUVs of new openings are significantly higher than our anticipated closures.

From an international perspective through the first six months of the year. Here, we've opened 79 restaurants on a gross basis. These new restaurant openings were offset by 116 closures, primarily in the UK, certain Middle East markets in China. This brings our total international restaurant count to 2,436.

Our regional teams are doing an excellent job engaging with franchisees in the local markets, and we now expect gross openings to be at the higher end, if not exceeding our current guidance of 100 to 140 new new international restaurants for fiscal 2024, we continue to review the performance of our international franchisees.

And while the vast majority of strategic closures within the UK market had been completed, we may initiate additional strategic closures in other regions improved marketplace health. As such, our net openings could be impacted by the closure of underperforming locations to strengthen our franchisee base and enhance long-term profitability.

Finally, as we look to the longer term, we see significant opportunities to drive franchisee health and overall profitability. Todd?

Todd Penegor

Thank you, Ravi. In summary, we are pleased with our improved restaurant level margins and profitability in the second quarter, which completely offset the sales shortfall for the quarter. Our brand and core product remain in demand and the highly competitive pizza category. But we know there's more work to be done to realize the full potential of the Papa John's brand.

We are sharpening our focus, investing in digital and accelerating development through improved economics. We are also evolving our marketing to ensure we meet the consumer tumors value expectations by prioritizing customer experience.

Franchisee success and operational excellence are confident and Papa John's continued growth and value creation. I am excited to be part of a culture where people feel empowered, valued and appreciated to be their very best. I also look forward to building a strong and collaborative partnership with our franchisees and help to attract new franchisees to Papa John's to build an even stronger brand.

Our team here at Papa. John's is set up an aggressive plan to immerse me in the business over the next several months. My plan is to come back to all of you, and we are ready to discuss our amplifier, differentiated position and unlock future value for Papa John's and all of our stakeholders. At this point, we'd like to open the call for any questions you may have. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from the line of Jim Salera with Stephens, Inc.

Jim Salera

As mentioned in your question on timing in Ravi, I wanted to dig into the trends in the 3Q, Neil. Rob, you mentioned in the first four weeks down 6%. It seems like kind of holding that trend through 3Q.

Is there a reason that we should and expect maybe a little incremental lift in 3Q just given some of the innovation you have more medium behind the Papa pairings kind of headwind, marketing automation for some of your value offerings?

Ravi Thanawala

Morning, gentlemen, and thanks for the question. As I showed up, we're really focused on three things to continue to drive the long-term run rate of the business improvement versus like, as you talked about, improving the value perception.

And that is by bringing pop-up earnings and our New York Style, which are both great, fantastic price points fund centered in the business. This up to I hope you have the app downloaded and seeing how we risk in the digital experience. And we're really excited about those two elements of the business.

But what we'd say is that what we're seeing in the consumer data is that the consumer is more value focused right now. So we're trying to take a really balanced perspective in terms of the second half for the year, making sure we're finding that our full balance of sales, comps, focus, transaction trends focused as well as unit economics. And I think that more broadly, we're excited to continue to test in the market. I could couple of new ideas which we think are going to help the business for the long term.

Jim Salera

Okay. Now if I can follow up on the digital piece up, some of your competitors have seen frequency growth after making tweaks to the royalty structures of their digital offerings, particularly lowering the threshold to redeem for items rather than saving up for revisions or something at a multiple business, you can get loans maturing tubing sources.

Is that maybe something that we could see in the near term in the back half of the year that could add some incremental value and maybe provide a lift alongside on the other market activation you guys are going on Seelan Pop Idol and to get to that \$75 threshold on on average that. So that's three visits from our consumer base and our average consumer only comes four times a year.

So the ability to actually start to earn rewards quicker to get far more active in the app on to drive frequency and get them to retire more often is a big opportunity. We'll work through that in it and in short order to make sure we can bring that to life.

The great news is that spend on the road map for the team, and we know it's a big opportunity for us guys. Maybe talk about maybe the only other thing I'd add to those conversations.

Todd Penegor

Jim, as like up like Todd's, I've been here for all of a week and now we've had a number of great sessions with them of you that we came out the gate right away. We talk about innovation second, making sure we were talking about our digital experience.

And third, making sure our loyalty strategy was front and center and fund the entire because we are strong believers that getting consumers into our app, they drive higher frequency. We think it's stickier.

Ravi Thanawala

And to David's point, like we believe that in this value-conscious world that we're living in driving stronger or immediate gratification, that could be some real fruit for the for our franchisees in the business and also continue to drive folks into 1P, which is very important project owners all the best one.

Operator

Our next question comes from the line of Sara Senatore with Bank of America. Your line is now open.

Sara Senatore

Great. Thank you very much. A question that gets me the two-part question. First parties, you're seeing a lot of improvement in kind of underlying consumer metrics, value proposition, brand awareness and service speed. And how long should it take for that to translate into and transaction growth?

I guess my thought one thing that you had said this is that kind of three times a year, but typically speaking, I guess I would have expected to see some improvement in June versus what we saw in it, particularly in the quarter into July, and we're not really seen that. So just trying to understand how long it takes for these kinds of initiatives, there are improvements to translate.

And then and related to that, you now and I know you've been testing some value actions in your restaurants already and that again and you didn't really see any difference in that comp trajectory for Company-operated versus the broader system.

So I'm wondering how you get these initiatives? Correct me. I guess it's fundamentally a question and how long should it take while several.

Todd Penegor

I'll start on system with a strong value message. And the great news is the team has made those adjustments. As you think about New York Style extra-large at 1099. That's great value. You think about Papa pairings of six 99.

That's great value. We just need to continue to be out there with the appropriate pressure on both nationally and locally to make sure that the consumer understands there is great value time and again, from Papa John's on and that will build over time. So we've got to work towards that.

I'll turn it over to Ravi to talk about the test, some exciting. We've got some good tests underway in the Company restaurants, but just a little too early to have all of the learnings. But Ravi, why don't you talk a little a bit more about that?

Ravi Thanawala

Yes. So first, just on your question around progression throughout the quarter on the I'll remind you on that is kind of the underlying or the baseline comp trend from the prior year. We did see sequential improvement in terms of the comp run rate as we progress through the quarter.

And we see that fairly directly correlated with us improving the value perception again for we're comping in Q three plus three from the prior year. So you can see the progression on a two year stack of from a testing standpoint in markets.

What we're really focused in on is making sure we are taking actions that improve repeat rate, which is another code word for long-term gains and frequency to making sure that we're finding a really healthy balance of getting consumers into our 1P channel, buying the products that differentiate us.

And third, we're really focused on making sure we're fine there. That our full balance of our premium product proposition. But how do we continue to be very successful in these more value-conscious moments in time. So we don't want to share two-inch vehicle out.

We're taking a highly disciplined approach to underwriting and operating the business and making sure we're making the right investments, the business to improve our both our digital experience and our value proposition, which should help overtime bend the curve on sales comp and do it in a way that is going to deliver strong unit economics for our franchisees.

Todd Penegor

And the focus of our programs immediately Saracen, we have to get folks to show up more often at Papa John's, and we're really trying to make sure that we drive transactions and get folks into the restaurant. We know if we have them show up overtime, we can train them up across the menu in all.

I'm trying to make sure we do that in partnership with the franchise community in concert with the restaurant economic model teams work. And that's planned really hard. And I do feel like we've got some solid plans in place to start to build some momentum over the course of last year, notwithstanding the comps from you ago that Ravi just talked about, but really starting to set up a really strong plan as we go into next year.

Operator

Thank you. Our next question comes from the line of Peter Saleh with BTIG. Your line is now open.

Peter Saleh

Great. Thanks for taking the question. I didn't want to ask about the development costs. It sounds like you guys made some progress on reducing some of the costs, which were, I think well above where you wanted them to be aware, the franchisees land the. So can you maybe elaborate a little bit on what you're seeing being on development costs, maybe in the most recent build on? And if you did see some reduction in those costs, where exactly are you seeing the savings recently?

Ravi Thanawala

Thanks to the collaboration and NAM, I think what you're adding on is exactly the right topics for us. A ton of unpack is like, first, we're taking a highly disciplined approach to how we are engineering development costs.

And what I shared at the Q1 call, like we had thrilling architectural designs to ensure that we're building a box that is highly effective sports service, but it is cost effective to we've been out there for carrying our new deals with our general contractors, which is absolutely delivering some benefits.

And three, it is really a focus on making sure we have the right optionality in terms of furniture fixtures and across all three of these elements, which are the three critical elements, the Bells, we're seeing progress and we shared with our franchisees just in the last month or so, another wave of cost savings will be able to deliver results.

I think it's a little bit too early for me to share a specific number, but I can definitely tell you is that our costs are coming down year over year and our bills that I don't want to get too specific on that just yet. But I want or kind of reaffirm to you all, as I said in the prepared remarks, that what I'm hearing from our larger deals developing franchisees is that their build costs are coming in much more in line with industry norms.

And we think that this is another example of how we're improving the unit economic model as we are delivering better restaurant margins, bringing down buildout costs. We believe that both of these these are critical elements that drive gains. And I look forward to updating you in future calls on the progress we're making on what the net debt development.

Todd Penegor

And I've been pleased to see the work underway on a lot of the value engineering. And I know we're making a lot of progress and committed to making that progress very quick. And in the interim, we'll look to make sure we've got the right incentive plans place to bridge the gap until we get those costs in line to make sure we're continuing to put shovels in the ground to get new restaurants opened in and build a really strong pipeline into the future.

Peter Saleh

Understood. And then just, Todd, you know, I think you mentioned potentially no major changes to the rewards program to allow customers. Just trying to understand how heavy unless this is this something that can happen in the second half of '24, or is this more of a 2025 of the events?

Todd Penegor

Yes, that is so new into the role, Peter, to CRM. And to be fair to my technology team, I think it takes a little bit of time. We've got a little bit of work to do to one optimize what that program truly looks like and then to work through the internal on of technology work to make sure the platform set yourself up to deliver on that front. Thomas, seamless and very easy for the consumer.

I know some of the work has already started. So you'll have Ravi comment if he has anything more to add.

Ravi Thanawala

Yes, of course, we're not taking a waterfall approach to how we how we evolve our digital platforms like we are acting in a really agile ways of fuel. As you look at our recent up update on one of the simple but important changes that we made is that we put loyalty rewards front and center for the consumers.

As soon as you get to the homepage, it immediately tells you if you have value and NAM can redeem. So Papa does something that's one example in seconds, is constantly working its digital road map in terms of feature updates. So we're going to make.

So as I think about how we create more value for the consumer from a loyalty program, one is the mechanics of the actual programs to it's the natural things that great digital companies to to elevate for the consumer, how they can earn and redeem rewards. And one of the last ones I just wanted to share of that is in the recent update, we make deals much more front and center for our consumers.

Actually no change from like pure promotion standpoint. But and how we were showcasing our deals, simplifying navigation has increased the penetration of the number of consumers who are opting in. And I think this is an example of how we're working really cross functionally to make sure that we're finding opportunities to bring value to our consumer.

And I'm excited to partner Todd on the future of our loyalty program to drive 1P. It's going to drive frequency and on and will support our strategy around of continuing to gain share through our better ingredients, better pizza mindset.

Operator

Our next question comes from the line of Eric Gonzalez with KeyBanc. Your line is now open.

Eric Gonzalez

Good morning. And I guess your question, it seems like the international business has really turned the corner, particularly outside the Middle East and China. So perhaps you could discuss where some of the upside is coming from and maybe also address those problem areas such as the Middle East and China and how you see those markets evolving over the next few quarters?

Also might be helpful if you could talk about the content in U.K. specifically just given the size that market and its contribution to profitability. Thanks.

Ravi Thanawala

I'll answer the question, Eric. I think this quarter in international is a little bit of an example of how we are taking a thoughtful and structured approach to our international transformation. We have GM's now based on costs, the globe in key markets or in key hubs such as Singapore, are clearly that the UK as well as in Dubai.

And what that's really Dodd is broaden the Papa John's management team much closer to consumer centricity and deeper understanding and partners ship with the franchisees. So we are just getting better at being highly consumer-centric, partnering with the franchisees to identify opportunities around menu innovation to making sure we're partnering to understand which store formats, restaurant formats are working well.

When I think about a more broad, what we're seeing in terms of success, like we're seeing strong gains and some of our really strong home markets that we have in Latin America, which is fantastic to see if we're also seeing pockets of strength all across the globe.

And now we're spending time on like consistently talking about those share best practices and thinking a little bit further out on how we're getting gain all. I did also use the power of our marketing offense and our consumer centricity, the launch, Chad repeats launch costs, 23 countries on it was one of those LTLs well, we had great consumer research and at LTL in terms of penetration grew and improve the run rate on the cost as well.

So we think we're identifying a recipe of success specific to the UK. We're really four quarters and into the real work here. This quarter really represented the culmination of refranchising 60 locations and closed 43 stores of the market that shrink a little bit in size.

But we did in a highly strategic way to make sure we were setting up franchisees that better unit economics. Second being really thoughtful and partnering with the franchisees to ARM improved sales trends. And I'll say is like as we look at the results that the stores that are changing hands between our franchisees, we're seeing either high single digit or low double digit increases in terms of comp sales performance in those stores that are changing and so comps or are improving in the UK.

My intention right now in the UK is really turn to like setting that innovation engine up in a way that is going to drive great value perception as well as have a premium positioning. And secondly, continuing to evolve our marketing models of and mice, from my standpoint, like under Dodd, focusing on the UK, but I am increasing my attention to some other markets such as China is.

I believe that there's a lot of opportunity for us to unlock there. And I was just talking to our international team that they're planning on getting out in the road and just a few weeks to really attack our 2025 planning funds, both our menu standpoint as well as a from a restaurant for that market can deliver for us for the long term.

But we also recognize that the world this dynamic, yes, what I'm pleased to see is the team has really built a really strong playbook of the team that can go partner to team that can go execute to really enhance it turnaround these markets in concert with franchise community there. So credit to the work that's been done in the UK. I think that sets us up to continue to strengthen the brand across the globe.

Operator

Thank you. Our next question comes from the line of Alexander Slagle with Jefferies. Your line is now open.

Alexander Slagle

Thanks. Good morning. Milligan job on the restaurant level profit line despite the softer traffic. And we provided some good details on the moving pieces. But just wanted to clarify some things that I guess the local marketing spend reduction, I think that falls in the restaurant level line.

Just want to clarify that, I guess how that shift in spend might impact the restaurant level line if you have a dollar impact to talk about? And also have that local spend had any impact on the software company in North America same-store sales or if that was pretty immaterial?

Ravi Thanawala

Yes. So first off, Bob, yes, local marketing savings are part of restaurant margin. So one, I just want make sure I answer that question for you to we're taking a really like thoughtful approach to assessing our overall marketing strategy.

What you'll see as we went through the quarter of Q2, we started with a company Pup-Peroni. We saw the consumer trends. We rebalanced our media mix at a national level to have a higher mix. So as our mix and match six 99 offer, which we call Bob, a touchy of a price point, we've been running it out and it's at parity with some of our key our competitors.

One of the things that we are doing as we progress into Q three is like we are in certain of our corporate markets, testing, different value offers and the goal of our value offers. You find that the value perception, things that drive our basket starter. These are larger baskets as a whole and continued a SaaS-like what is the right mix between national and local marketing and like we have to be like very thoughtful that the consumer is dynamic and we need to continue to be agile and checking that just along the way.

Todd Penegor

And I do think Ravi, and just an observation from where I said is we made some of the shifts in the late first quarter into the second quarter and put a really big bet on the on a national plan, pulled a little bit back on the on the local advertising, but the new campaign, the new agency.

And at a time where we've focused a little bit more on our premium quality messaging was a great plan, but was probably at the wrong time for the consumer environment with all the shift of didn't have enough focus on value with the shift. Um, you know, we we probably didn't have the pressure that we needed balanced at the local level to really compete with some of the regional differences.

So it's one for me to continue to do look at as we move forward. We have that right balance between kind of that. The national message that's very efficient and effective was supplemented and complemented with some local, strong messaging on the way. So I know lots of work to do to have some conversations, the franchise community moving forward and so on and stay tuned on that front.

And maybe Todd, along the old adage that that's really why we're taking this clear focus on actions.

Ravi Thanawala

We're taking the guide value perception, having a clear perspective on how we are reigniting and expanding our innovation pipeline for the long term and looking at opportunities that improve our digital and loyalty the experience. So those are things that kind of across all parts of the business and ultimately truly impact how the consumer psyche is. And we think that will lead to transaction growth over time.

Operator

Thank you. Our next question comes from the line of Chris O'Cull with Stifel. Your line is now open.

Chris O'Cull

Thanks, Todd. Congratulations on the new role and creation is unique enough to take care and the category, whether you believe there needs to be more fundamental work done, just a differentiated positioning?

Todd Penegor

No, thanks for the congrats, Chris, of where we start better ingredients, better pizza, high-quality, fresh ingredients, fresh, never frozen dough on most of our offering, six core ingredients in a signature sauces, real cheese, fresh toppings. I mean, what a great spot to start with?

I think we've got all the time tools in the toolbox to really amplify and talk about our unique differences, team's doing a great job executing that day in and day out at the restaurant level will always have work to do to be even more consistent execution day in and day out. But the elements are there.

I think we're just going to have to figure out how we make sure we amplify that message on as part of our overall campaign moving forward on both nationally and locally, but balancing it in the context of what we're in a very value-centric value for the money environment today. And that doesn't mean just price. That means making sure folks understand that the best features in the business come from Papa John's.

And then you can trust and believe that your goal and I get that every single time with every single visit and then have some great innovation that you can only get from Papa John's over time to make sure that that AI reinforces that messaging. So a lot of great things in the pipeline, as Ravi said, he got do food testing.

I think day one, probably our two I was in the kitchen with the team. There's a lot of creative stuff in the pipeline that can complement all of that messaging moving forward. And we'll see where things need to evolve to really make sure the consumer understands why we're uniquely different.

Operator

Thank you. Our next question comes from the line of Brian Mullan with Piper Sandler. Your line is now open.

Brian Mullan

Thank you. As a follow-up on the domestic development, given all the work you've been doing on improving unit economics. And I'm wondering if when that is completed, organization might be willing to build more company-owned stores more aggressively than the past, even if it's different for development growth issue a little bit take management your own hands again, I know there's a lot to tackle, but wondering if that's part of the consideration set as we go forward.

Todd Penegor

Brian, I'll take that. We've got some some work to do to really understand our long-range outlook and our capital allocation strategy. But first and foremost, it is going to be invested growth. We got to do a lot to really continue to make sure that the digital experiences more seamless that we got our loyalty program work and that the tech stack is soft led to build in layer all of this on.

But there is a role to be a great brand stored on on putting some restaurants down, love to see how that works and fits within, um, you know our our capital allocation strategy. So I would just ask give us a little bit of time to work through that to really make sure that we're doing the right things to be that great brand steward, the lead, the system them to create the confidence.

I do think we're going to have to take a look at what I would call as ongoing system optimization team has been doing it in Dubai and or sell restaurants, bring some new franchisees in scale up some existing franchisees to really make sure that as we do some of that work, we get some strong development commitments along the way to continue to make sure that not only is the company leading the way, but we've got some great I'm really excited franchisees.

It's really setting the pace on growth moving forward. And we've got some of that in pockets across the organization today, but I'll turn it over to you, Ravi. You've been looking at the longer-range plan and I didn't get a chance to go through that with you yet.

Ravi Thanawala

Yes. And just like it just a reminder, over the last 12 months, we've done some real things to improve the fundamental changes in economic model that we've seen restaurant margins to be 200 basis points on a trailing last trailing 12 month basis.

Cases, we've all we've talked about how our build-out costs are becoming much more in line with industry norms that are larger, developing franchisees. We are taking steps to improve our digital experience, which ultimately drives conversion and repeat.

So we're building those long-term recipe for sustainable growth. I think I'll maybe a week two or three, they were going to really sit down with saw a little more time on these key topics. But like the Tim and I'll tell you that we are spending a lot of time making sure we're setting up our franchisees to have durables, sustainable growth that really solid unit economics.

Operator

Thank you. Our next question comes from the line of Nick Setyan with Wedbush. Your line is now open.

Nick Setyan

Thank you. Just wanted to get some clarity on on the margin figure three run International's second half, just given all the other changes and how should we think about the international margins in Q3 and Q4?

Ravi Thanawala

Well, maybe I'll most squarely hit on the UK is that's the most fundamental driver of the op margin structure in international. And um, we are only how we will. We only have 13 pulp mill on rational pause in the UK at the end of Q2. So we are moving back to what is our go-forward business model and international, which is to be a franchise of work.

Did I answer your question, Nick?

Nick Setyan

It does. Just music videos and relative to kind of where we were, let's say, pre acquisition just so many pages. So the question that it will be a lot more helpful. If we currently got a little bit more directionality or at least some brackets in terms of where the margin could settle in the second half.

Ravi Thanawala

And I also understand the challenges of doing that. And I guess like book from an international standpoint, maybe the easiest way to frame this up is like we're going back to more of a traditional franchisee model. So that's going to allow us to go back to more historical levels if not slightly higher.

And you have a margin structure standpoint. So maybe I'll give you some relative metrics to look out versus prior years of ultimately what was really impacting the international margins? Was the UK co-ownership structure.

Operator

Our next question comes from the line of Jim Sanderson with Northcoast Research. Your line is now open.

Jim Sanderson

So thanks for the question. I just wanted to follow up on the promotion you had in market, the 909 Cheeseburger promo didn't meet expectations on yield because I'm trying to reconcile the value perception gains you've reported with the deceleration in same-store sales through July. Just any feedback on kind of how I think about it?

Ravi Thanawala

Yes. Thanks for the question, Jim. A few things on cheese, do Burger is a one. We actually look at the ticket size when Cheeseburger was actually in the promotion and take it to stay healthy and accretive to our average ticket buyers of while it was at a really attractive nine, nine nine price point for the first 500,000 pages, it was really healthy in terms of why what it did to take it because consumers have a certain amount of money.

There are going to spend and that allowed them to make sense out of pockets as well. So that's one thing. So the second is we are we did see sequential improvement and on a two year stack as we progress through the quarter.

So we just are there was the launch of a different policy in the prior year of that influence what the comp trend was like up second up. It was a fan favorite at 99. Out of it created excitement and made us more top of mind with our with our consumers, which we think Joel, a lot of value.

And now we've had like a really healthy balance as we move through the last couple of wants from a premium innovation like topic, Peroni at the beginning of them are beginning the quarter. So the time that we got to the middle of the quarter, we were talking about cheesy burger nine 99 has still delivered a fantastic tickets.

And we were at month end market at parity relative to other competitors in terms of our mix and match offer. So we think that this Iressa, the finding the right balance of premium innovations that only Papa John's can deliver showing spots of parity in the market of more value, offering it as a way that we believe that we'll continue to drive positive momentum on transactions over the next couple of quarters.

But we are taking it will be pragmatic approach of where the consumer is today and are the things that are on consumers' minds and we're going to stay agile. We're going to keep testing. We're going to keep making really good decisions that balance our transaction growth, sales comp growth and unit economics for our franchisees.

Jim Sanderson

Just to follow you said you saw sequential improvement on a two-year stack, so no concern there with the cannibalization. I mean, your consumer just to trade down to the promotion with the incremental traffic just making fundamental or out of the.

Ravi Thanawala

Yes, let me make a few came off satellite. When I look at what's happening in the last couple of more value oriented LTOs that we've been Buddy Media against, and there's a mix of them. We've seen really healthy tickets across all of them in all three of them have actually been net accretive to the total blended or the blended average ticket.

So while that is what we're trying to ensure we did do the digital experience and give consumers the optionality for add-ons and make their pizza even better, being able to do the right cost that we think this mix of strong value orientation and make sure that consumers can get a great day.

Value, but they can also build their basket the way they want allows us, though I prevent any material cannibalization and drive really healthy tickets driving great value perception for the consumer.

Todd Penegor

So I guess Ravi probably helpful for Jim. Why don't you just talk a little bit about a couple of leaky buckets? I know we talked about the plans to address those are Andy, but probably worth just reiterating where those leaky buckets were in the quarter.

Ravi Thanawala

Yes. So we've spent a bunch of design doing diagnostics on the business. Both will make quality brands standpoint from a consumer grains standpoint. And what we want to reinforce is where our transactions have been really healthy is in consumers are buying for either social occasions are slightly larger orders to pipe or more.

We actually saw really strong performance, and we were up in those sorts of transaction types for the quarter where we're really seeing weeks in terms of transaction trends with consumers who are only purchasing one pizza or no pizzas and the way they're only purchasing side.

So when we looked at the composition of where we need to regain transactions and gave us some real insights on how to adjust our barbell to allow us to continue to find that right balance of value orientation and premium this. And that's actually what is special about this brand that we have a right to play and we can Tenplay at both ends of the barbells. And we're just getting sharper how we actually do that effectively in this consumer cycle in future consumer sites.

Operator

Our next question comes from the line of Fred Wightman with Wolfe Research. Your line is now open.

Fred Wightman

Hey, guys. Just one follow-up and then a question. I guess probably the occasions that you were just touching on sort of the one piece or lesser decides only it's not really a proxy for lower income consumers.

Do you think the main it's just when you guys talk about the need to improve value in the value perception, wondering where you're seeing the biggest gap versus targets as it versus Pete's appears versus other parts of QSR maybe versus your historical levels?

Ravi Thanawala

Yes. So I'll take the first part of that question. And then Todd Nadella, two a share. So outside-in perspective that you do it, I compliment. So we think about the pizza business because pizza is for everyone. And we think that this is one of those categories that serves everyone's that there's multiple occasions and that consumers choose to purchase pizza.

And we think that when you're in that value oriented occasion, smaller purchase side, that is where we see maybe a little bit less of that impulse buys to just pick up that small order. And that's really why we said it will evolve our media mix and what we were marketing to.

And I don't know if you've seen our recent New York styles pod, but if you listen to the voice zone, but we are really talking about the incredible value that you can get a 1099 and extra-large pizza that the 1099, and it's a fantastic deal that you haven't tried. So hopefully, you're starting to see how we're taking a rich consumer insights. Partnering with our franchisees had a great, fantastic place point to attack where our leak is in the bucket of the pizza business.

Todd Penegor

Pizza category is a big category to continue to compete in. And if you think about where I think we have the biggest challenge relative value, it's more versus our competitors within the pizza category. It's a different occasion.

There's great value for money and pizza can have. It is a leftover. So when you think about what the consumer thinks about on overall value piece is just a great spot to play. And we got to make sure that our relative value versus the peer group is quite strong.

We'll keep an eye on the other categories, the shifting across categories because there is a lot of value centricity out there today, but we got it compete and win in the pizza category. first and foremost.

I'd like to sincerely thank you for your time this morning and your continued support of Papa. John's appreciated all the questions today. Thank you, Tony and agility. You have shown during these unique times. So exciting to see the way everyone is work together, and I can't see what wait to see what we accomplished together in the future. Thanks, everyone. Have a great day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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