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Papa John's International, Inc. (PZZA) Q2 2025 Earnings Call Transcript

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Insights



EPS of \$0.41 **beats by \$0.07** | Revenue of \$529.17M (4.19% Y/Y) **beats by \$13.10M**

Papa John's International, Inc. (NASDAQ:[PZZA](#)) Q2 2025 Earnings Conference Call
August 7, 2025 8:00 AM ET

Company Participants

Heather Hollander - Corporate Participant

Ravi Thanawala - EVP of International & CFO

Todd Allan Penegor - President, CEO & Director

Conference Call Participants

Alexander Russell Slagle - Jefferies LLC, Research Division

Andrew Strelzik - BMO Capital Markets Equity Research

Brian Hugh Mullan - Piper Sandler & Co., Research Division

Christopher Thomas O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Eric Andrew Gonzalez - KeyBanc Capital Markets Inc., Research Division

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Peter Mokhlis Saleh - BTIG, LLC, Research Division

Sara Harkavy Senatore - BofA Securities, Research Division

Tyler Prause - Stephens, Research Division

Operator

Good day, and thank you for standing by. Welcome to the Papa John's Second Quarter 2025 Conference Call and Webcast. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Heather Hollander, SVP of Investor Relations. Please go ahead.

Heather Hollander

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

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

[Operator Instructions] And now I'll turn the call over to Todd.

Todd Allan Penegor

Thank you, Heather, and good morning, everyone. I'm pleased to be with you today to discuss our better-than-expected second quarter results and provide an update on the meaningful progress we are making in transforming the business.

It's been just over a year since I joined the Papa John's team, and we've accomplished a lot in a short period of time, thanks to the hard work and dedication of our team members and franchisees.

The progress we've made is substantial. For example, we've successfully returned the company to positive comparable sales and transaction growth in North America. With our barbell strategy and enhanced loyalty program in place, our brand strength has improved significantly. And strategic investments are enabling us to deliver great experiences for our customers.

Taken together, I am confident we are on the right path towards profitable growth. Our goal is to be the best pizza makers in the business, and we are laser-focused on continuing to execute our strategy to grow restaurant sales, generate sustainable profits through the system and build long-term value for all of our stakeholders.

I stepped into this role knowing that Papa John's was a resilient, one-of-a-kind brand with a commitment to quality ingredients, superior operations and outstanding customer service. While the company had a great foundation in place, we needed to make additional changes to improve our operations and deliver better financial results, and we are.

Over the last year, we've spent time in our restaurants, restaurant support centers and QCCs across the company and have been meeting with our franchisees, team members, vendors and community partners. Through these experiences, we learned a tremendous amount about the strengths and opportunities, and from there, quickly set our transformation in motion.

One of my first priorities was building out the Papa John's leadership team. We supplemented our strong bench of existing talent with the addition of several key industry leaders to build a consumer-focused insights-driven experienced team with years of quick service restaurant, digital and retail experience.

With our team in place, we came together to establish a strong strategic plan built around 5 key priorities: focusing on our core product and premium innovation, amplifying our marketing message across consumer channels, investing in our technology infrastructure, differentiating our customer experience and partnering with and evolving our franchisee base.

Our second quarter results, which exceeded our expectations are evidence that our strategy is working. The North America business returned to positive comparable sales, ending the quarter up 1%. We also delivered sequential improvement across several key international markets, driving 4% comparable sales growth in Q2.

Ravi will share additional details about our second quarter performance in a few minutes. But before he does, I'd like to review each of our 5 priorities and share more about the progress we've made against our plans to transform the Papa John's business.

First, we are focused on improving our core product proposition and premium menu innovation throughout our restaurants. We're building a menu to not only capture the hearts and stomachs of customers, but also generate margins that improve profitability for our franchisees. Our consumer research consistently shows that exciting menu innovations bring in new customers.

In the second quarter, we introduced Cheddar Crust, made on our fresh, never frozen original dough in our North American restaurants. Our Cheddar Crust innovation, combined with the addition of a fan favorite Shaq-a-Roni pizza as a long-term menu item plus continued strong value message with our popular \$6.99 Papa Pairings delivered an increase in both the average number of pies per order and overall pizza sales versus last year.

In Q2, the number of pizzas order increased 6%, demonstrating both the power of our deep focus on our core product as well as value.

Internationally, we made global QSR news with the launch of our expertly handcrafted Croissant pizza in our Dubai restaurants. Our Croissant Pizza pairs the flaky texture of a buttery croissant with the bold flavors of Papa John's pizza for an elevated pizza experience. After 1 year in development and extensive consumer validation, Croissant Pizza is a prime example of how our talented culinary teams are blending global food culture with the high-quality pizza craftsmanship that only Papa John's can deliver. We look forward to expanding the launch of this exciting product to other international markets.

We're also making progress in our oven calibration work, which allows us to advance our innovation while also delivering greater product consistency across our restaurants. Our ovens are the single most important piece of equipment in our restaurants, and by regulating bake time and temperatures, we're able to improve our ability to deliver a consistent pizza with each and every order. Our oven calibration were kicked off in the first quarter, and we're already seeing benefits with improvements in our product quality and taste scores. This work also opens a variety of new product innovations and layers across our menu, including new crust and formats.

Beyond oven calibration, we are making great progress rebuilding our innovation pipeline, leveraging deep consumer insights, world-class suppliers and our strong culinary team. In fact, our consumer insight work led us to develop an on-trend shareable pizza format and a new lineup of dipping sauces. These are 2 of the innovations that we'll be launching over the second half of the year as we lean into abundant value and expand into new flavor profiles.

Turning now to the progress we've made on our second priority, which is to amplify our marketing message. We've been hard at work creating a marketing message that speaks to Papa John's differentiation among QSR pizza companies. At the end of June, we launched the second chapter of our popular Meet the Makers marketing campaign, leaning into the 6 simple ingredients of our fresh, never-frozen original dough. Six simple ingredients is a strong point of differentiation with high importance among consumers.

Our customers have told us that using simple, fresh ingredients is our biggest and most important differentiator, and we've doubled down on that message in our national marketing campaign. Consumers want high-quality pizza with real ingredients and our messaging strategy meets them where they are, emphasizing our points of differentiation and showcasing select core products at relevant price points. This will be part of our long-term strategy to win customers and deliver compelling four-wall economics. Ultimately, we think the world deserves better pizza, and we are here to deliver it.

We continue to proactively invest in local marketing efforts at our Company-owned restaurants. We said it before and we'll say it again. Pizza is a game played nationally, but won locally. In the second quarter, we invested approximately \$9 million in incremental marketing versus last year. While a portion of this spend was allocated to working media to support on a large scale our improved value proposition, we also invested in our test-and-learn platform expansion to evaluate new promotions and CRM tactics. We are also leveraging analytics and a strong testing protocol to optimize the allocation of our marketing spend across channels, further improve our marketing ROI and better meet customers where they are.

As we continue to invest in marketing, we are continuously measuring and adjusting our mix towards the most efficient and effective use cases to drive long-term growth, supported by data-driven insights.

Overall, our targeted approach to amplify our marketing is paying off as we've seen continued improvement in our brand health, including a significant increase in consumer consideration following the launch of our Meet the Makers campaign. We've also grown

our share of voice on social channels and launched compelling activations, including Cini Dirty Soda and Stress Dough Balls, which are resonating particularly well with Gen Z.

We're pleased to see that our work to strengthen and amplify our creative, advance our social presence and optimize mix is increasing the impact of our marketing efforts.

Our third strategic priority is investing in our technology infrastructure. Under Kevin Vasconi's leadership, we are implementing our technology road map with the goal of reestablishing Papa John's as a best-in-class technology leader in QSR. By better utilizing data and leveraging AI, we believe we can create a more seamless experience across our digital assets and own channels and better connect with customers.

This work is especially powerful because it builds on the advancements we're making in marketing by inviting customers into the brand and then layering in hyper-personalization to drive additional engagement and retention. We're already seeing the benefits from this work with substantial engagement gains in our CRM platform, higher app conversion and improving repeat purchase rates amongst our digital users.

In April, we announced our partnership with Google Cloud aimed at transforming our customer experience from click to crust while driving operational efficiency in our restaurants. We are currently in the beta testing phase for new omnichannel experiences, including the planned introduction of an all-new customer-facing app that is designed to improve navigation, reduce clicks to purchase and improve order tracking and targeted communication.

Leveraging the power of AI, we plan to enhance the ordering experience, better anticipate our customers' needs, generate proactive recommendations and share relevant offers and messaging based on learned customer preferences. We are also working to utilize voice AI solutions to drive customer orders and deliver operational efficiency. We look forward to updating you on this and many other exciting advancements.

Our partnership with Google Cloud is only one of the mechanisms that we're employing to make the customer ordering journey more personalized, more consistent and more impactful. With approximately 70% of our system sales generated by our own digital channels, we believe that building a more robust technology infrastructure will lead to higher revenue, improved operational effectiveness and better returns on our marketing investments.

Our fourth priority, differentiating our customer experience across all of our channels, underpins each of our strategic pillars. Starting with our loyalty program. We continue to benefit from the lowering of our redemption threshold late last year and allowing members to unlock Papa Dough faster. Though this enhancement decreased our overall order ticket by approximately 100 basis points in the quarter, the benefits far outweigh the ticket impact.

As a result of this change, we are acquiring new Papa Rewards members. More members are redeeming Papa Dough and our loyalty customers are returning for their next order more quickly. All in, we have added approximately 2.7 million new loyalty accounts to our Papa Rewards program since the November relaunch.

The enhanced loyalty platform has proven to be a great customer acquisition tool for our brand while also driving higher order frequency among all customer cohorts. As we look ahead, we will continue to pursue opportunities to build on this progress and enhance our Papa Rewards programs to drive additional activation and recruit more new customers to our loyalty program.

As a consumer-driven and insights-led brand, it is critical that we serve our customers on their channel of choice. That means continuing to partner with third-party aggregators. Pizza as a category is underrepresented on aggregator platforms, and we see many opportunities for category growth as well as growth for Papa John's specifically. We were a first mover among QSR pizza companies in the aggregator ecosystem, having first partnered with third-party delivery providers in 2019. We command a leading position in the category in terms of sales per store, and this has not changed with the entrance of competitors onto the platforms.

Within the aggregator marketplace, we believe that the most successful players will be those who best serve the customers and provide the highest quality product. Papa John's with our premium positioning, high-quality, simple ingredients and great value has a strong competitive advantage. We are encouraged by the strength we're seeing within the aggregator channel as overall sales and orders continue to grow high teens in the second quarter versus the prior year.

As we mentioned on our last earnings call, our mystery shop study revealed that our carryout and digital platforms were top in class among QSR pizza restaurants. It also showed us that we need to improve our delivery experience, and we are taking action to do just that. For example, we are currently rolling out a system-wide delivery tracking service that will provide better driver tracking for our customers so they will know exactly when their hot, made-to-order pizza will arrive at their doorstep.

Currently, approximately 60% of our restaurants offer our updated delivery tracking service and we expect to substantially complete this rollout to all North American restaurants by the first quarter of 2026. Delivery is a very important component of our business, and we are committed to consistently providing a great delivery experience.

Finally, our operations team have been hard at work improving execution and delivering a more consistent experience in our restaurants. Through restaurant visits and evaluations, coaching and tools to improve product quality we are improving our customer satisfaction scores in line with our goal to be the best pizza makers in the business.

Our fifth strategic priority is partnering with and evolving our franchisee base to drive profitable growth through market share gains, accelerating restaurant development in our most impactful markets and sustainably improving our restaurant economic model.

After the quarter closed, we signed an agreement for the sale of our ownership stake in a joint venture that operates 85 restaurants. We expect the transaction to close by the fourth quarter of this year, and we plan to use proceeds to fund investments in our strategic initiatives as well as pay down debt.

We also continue to evaluate refranchising opportunities across our portfolio of Company-owned restaurants in North America. We believe that refranchising with strategy forward, well-capitalized and growing franchisees strengthens the long-term health of the Papa John's system and unlocks future growth opportunities.

Finally, we are working to improve the four-wall economics at all Papa John's restaurants and we have completed an extensive review of our North American supply chain to reduce overall cost to serve. We have identified an opportunity to achieve more than \$50 million in total cost savings with approximately 40% expected to be realized in 2026. Through a series of initiatives, we will optimize our supply chain and enhance productivity while maintaining the same high quality, better ingredients in our restaurants.

Overall, we plan to deliver margin improvement of at least 1 percentage point to our average North American restaurant once the program is fully ramped by 2028.

As I reflect on my first year as Papa John's CEO, I am highly encouraged by the early progress we've made against our strategic priorities. We're attracting new customers to the brand while driving incremental purchases from existing customers. We've substantially improved the value proposition for Papa John's while also improving our quality perception. We're rebuilding the innovation pipeline. We're driving growth and higher utilization amongst our Papa Rewards members. We've developed marketing messages that are resonating with our most important customers. We've established a plan to deliver significant cost savings to our franchisees without compromising the customer experience. And we've implemented our technology road map with the goal of reestablishing Papa John's as a best-in-class technology leader in QSR.

Importantly, we've returned the brand to top line growth while making strategic investments in innovation, marketing and technology to drive profitable growth in the future. We've made a great deal of progress in the last year, but our work is just getting started. We recognize a significant opportunity ahead and are moving forward with enthusiasm and determination as we implement our plans and build on the foundation we've established. We are in a solid position to deliver sustainable value creation to all stakeholders as we move into the second half of 2025 and beyond.

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

Ravi Thanawala

Thank you, Todd, and good morning, everyone. I will begin my comments with an overview of our second quarter results followed by our financial outlook.

Please note that all comparisons and growth rates referenced today are compared to the prior year period, unless otherwise noted.

We delivered solid performance in the second quarter, generating top and bottom line results that exceeded our expectations. In the second quarter, global system-wide restaurant sales were \$1.26 billion, up 4% in constant currency. As Todd noted, North America comparable sales increased 1% in the second quarter and outperformed our expectations. Second quarter transaction comps in North America grew 1% and improved 220 basis points sequentially as we further monetize our strategic investments and transaction- driving initiatives.

Sales and transaction growth are a key focus areas for us given the long-term benefits for four-wall profitability and the high variable profitability of our transactions. Second quarter ticket comps decreased less than 0.5 percentage point, driven by the strategic changes to our loyalty program in the fourth quarter of 2024 as well as product mix shift as we again saw growth in the sales of medium pizzas

versus other sizes in the quarter. These pressures were partially offset by the positive impact of an increased number of pizzas sold per order.

International comparable sales increased 4%. We're pleased with the results of our international transformation initiatives, which are yielding near-term growth while also setting the stage for long-term value creation.

Total revenues for the second quarter were \$529 million, an increase of 4%, primarily driven by higher commissary revenues and partially offset by lower revenues at our Company-owned restaurants mostly related to U.K. refranchising activity and market optimization efforts.

Commissary revenues increased \$20 million driven by higher volume and pricing in the quarter. This increase was partially offset by a \$6 million decrease in Company-owned restaurant revenues, driven by an \$8 million decline in our international Company-owned restaurants reflecting the net impact of closing and refranchising 105 formerly Company-owned restaurants in the U.K. partially offset by a \$3 million increase at our Domestic Company-owned restaurants driven by comparable sales growth as a result of higher average ticket slightly offset by the refranchising of 15 restaurants in the prior year.

While consolidated adjusted EBITDA declined modestly to approximately \$53 million, this reflects investments to fuel stronger customer engagement and long-term brand equity. Second quarter consolidated adjusted EBITDA performance was impacted by incremental loyalty and marketing investments of approximately \$9 million as we continue to build momentum with our most valuable customers and position the brand for long-term growth, anticipated elevated G&A related to \$3.7 million of higher incentive compensation under our management incentive plan and higher food and labor costs at our Company-owned restaurants. These higher expenses were partially offset by revenue growth.

Our second quarter Domestic Company-owned restaurant segment EBITDA margins declined approximately 220 basis points, primarily driven by a decrease of approximately 210 basis points from labor inflation, aggregator fees and advertising in the quarter. Approximately 140 basis points of pressure from higher food costs, particularly around cheese and proteins, and 60 basis points of decline driven by general expenses and technology fees. These declines were partially offset by 190 basis points improvement from average ticket growth.

We accomplished this level of check growth even as we continue to support our value offerings across the barbell.

As we move forward, our focus is driving long-term gains in transaction share and winning in customer consideration. We will balance restaurant-level margins against strategic investments in our brands that we believe will yield stronger four-wall economics over the long term.

North America commissary segment adjusted EBITDA margins were 7.3% in the second quarter, an improvement of 130 basis points, reflecting higher volumes and pricing.

Turning to our balance sheet. At the end of the quarter, our total available liquidity was approximately \$500 million in cash and borrowings available under our credit facilities, and our gross leverage ratio was 3.4x.

Turning now to cash flows. For the first 6 months of 2025, net cash provided by operating activities was approximately \$67 million. Free cash flow was \$37 million, an increase of \$24 million primarily reflecting the timing of cash payments for the National Marketing Fund and improved working capital.

Now turning to our outlook. We continued to make meaningful progress on our strategic priorities. And with that in mind, we are raising the range for international comparable sales guidance while reiterating the remainder of our 2025 annual guidance.

For 2025, we continue to expect system-wide sales to increase between 2% and 5%. From a comparable sales perspective, we still anticipate that North America comparable sales will be flat to up 2% in 2025. Through the first 5 weeks of the third quarter, North America comparable sales are down approximately 1% as we've seen a more cautious consumer and softer carryout business.

Given our plans to leverage our barbell strategy with strong value messaging and a compelling full margin product, we expect that North America comparable sales will accelerate through the remainder of the third quarter. We anticipate further acceleration in the fourth quarter as we build momentum and layer in new product innovation.

Internationally, we are pleased with the continued improvement that we are seeing across our restaurants. Given recent trends and the operational strength in our priority markets, we are raising our 2025 international comparable sales growth outlook to a range of 2% to 4%.

As Todd shared, we have entered into an agreement to sell our ownership stake in a joint venture that operates 85 restaurants in the U.S. We anticipate closing the transaction in the fourth quarter, which we expect will reduce fourth quarter consolidated revenue by approximately \$15 million, including the impact of eliminations. On an annualized basis, this transaction is expected to reduce consolidated revenue by approximately \$60 million, including the impact of eliminations. The transaction is expected to have a negligible impact on net income. We have contemplated these impacts in our financial guidance.

For 2025, we continue to expect consolidated adjusted EBITDA to be between \$200 million and \$220 million. As a reminder, our definition of adjusted EBITDA excludes stock-based compensation, interest expense, taxes, depreciation and amortization as well as exclusions for certain onetime items. Our definition of adjusted G&A expense excludes the same onetime items as adjusted EBITDA, but does not exclude stock-based compensation. We continue to expect stock-based compensation to be approximately \$4 million to \$5 million per quarter.

I'd like to share several timing-related nuances for our quarterly adjusted G&A spend. Given the success of our marketing and loyalty investments we have seen to date, we expect to invest \$5 million to \$7 million of incremental marketing spend in Q3 compared to the same period last year. We also expect Q3 and Q4 adjusted G&A dollars to be in line with Q1 2025 levels.

2025 and 2026 are investment periods for Papa John's as we execute our plans to grow restaurant sales, improve four-wall restaurant profitability and accelerate the impact of the Papa John's brand globally.

For 2025 nonoperating expense items, we expect our G&A expense to be at the higher end of our \$70 million to \$75 million range; our net interest expense to be between \$40 million and \$45 million; and our capital expenditures to be between \$75 million and \$85 million. This CapEx range is inclusive of an estimated \$8 million to \$13 million of spend to rebuild facilities following tornado damage at our Texas QC center and Louisville Restaurant Support Center and QC center. We also continue to expect our effective tax rate to be in the range of 28% to 32%. Finally, we expect diluted shares outstanding of approximately \$33 million in the second half of the year.

Turning to restaurant development. We ended the second quarter of 2025 with 5,989 restaurants globally. In North America, we opened 19 new restaurants and closed 18 bringing our total North America restaurant count to 3,517. Given the strategic decisions we're making to improve the long-term health of our restaurant system, we anticipate North America restaurant closures will be at the higher end of our historical average of approximately 1.5% to 2% of the North America system. It's worth noting that half of the forecasted restaurant closures are nontraditional or small town restaurants that carry a blended average sales volume, which is less than half of our system average.

We continue to expect to open between 85 and 115 gross new restaurants in North America in 2025 and over 95% of remaining projected openings are currently in construction, design or later stages.

Internationally, our transformation is well underway and is driving positive results across our most impactful markets. In the U.K., a market has undergone significant transformation since 2023, operational improvements has led to improved brand health scores. New marketing campaigns have acquired new customers. And growth in aggregators has contributed to sales increases.

Within Middle East and Africa, we are gaining momentum in key markets and plan to build on the trend with our Croissant Pizza in the second half of the year.

In our international markets, we opened 26 new restaurants in the second quarter and closed 57, bringing our international restaurant count to 2,472.

Consistent with our international market optimization strategy, we closed 41 underperforming restaurants in China in the second quarter. These closures had a minimal impact on systemwide sales and we expect they will strengthen the Chinese market over the long term.

We are taking a disciplined approach and working closely with our master franchisee to optimize the market and ensure that the Papa John's brand is well positioned for long-term profitable growth.

For 2025, we still expect to open 180 to 200 gross new restaurants across our international markets. 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. For 2025, we expect to be at the higher end of this closure range, inclusive of the strategic closures I described.

In closing, we are pleased to have delivered second quarter results above our expectations. We are focused on executing our strategy that is delivering results and positioning Papa John's for profitable growth and value creation for all stakeholders.

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

Todd Allan Penegor

Thank you, Ravi. To summarize, customers want high-quality pizza with real ingredients and we will lean into our differentiation to win consumers and deliver profitable growth. Our work to transform the business by executing on 5 strategic priorities is resulting in tangible positive results across the organization and we are excited about the substantial upside ahead. Now we'd like to open the call up for any questions you may have.

Question-and-Answer Session

Operator

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

Tyler Prause

This is Tyler Prause on for Jim. Given the recent decision to resume some regional marketing efforts, could you share any insights into frequency trends that you've observed, particularly in the context of the sequentially accelerating comps in North America?

Todd Allan Penegor

Yes, Tyler, as we've started to think about spending our incremental marketing dollars and putting some money to work to not only drive the business nationally, but really make sure we got the appropriate support locally, we use some of our incremental dollars to do some heavy up testing to test and learn and partner with some franchisees in key strategic markets to see what kind of returns we can get.

But it's still the early innings of all of that. So more to come on how we're actually going to continue to get focused at the local level moving forward as we really try to get focused on some of our most impactful markets where we know where we could spend some dollars, get the co-ops back up and running to really compete even stronger in partnership with our franchise community working as a unit at the co-op level to really complement our national messaging. So early, early, lots of learnings, a lot more to come and we're going to take our franchise community on that journey moving forward.

Operator

Our next question comes from the line of Andrew Strelzik from BMO Capital Markets.

Andrew Strelzik

You mentioned 2Q exceeding your expectations. North America comps were a little ahead of what it seems like you had expected. Where do you think you're getting more traction than you anticipated across those initiatives?

And then just kind of as a follow-up. I know it's only 1 month, so I don't want to make too much of that, but what gives you confidence in the reacceleration over the balance of the year based on what's in your pipeline?

Todd Allan Penegor

Yes. Thanks for the question, Andrew. Very proud of the work the team has done to get North America growing again at plus 1% on same-restaurant sales comps, really on the heels of transaction growth being up 1%. So we are bringing in more customers more often. I think it's a combination of everything that we have out there, return to a more traditional barbell, had some innovation for the first time in a while, which helped on the high end of the barbell with the Cheddar Crust Pizza. Putting Shaq-a-Roni as more permanent long-term item has been a positive.

But the foundational work that we've done over the last 9 months really makes sure we have the tools at our disposal to lean into CRM to make sure we can better connect to our consumer, to leverage our loyalty program, which is driving a lot of frequency and we continue to gain members on that front. We're seeing some really nice growth in our loyalty program.

And as we look forward, the opportunity is to really leverage innovation a little bit more, to recruit customers back into our brand. We know if we can bring some lapsed in, we can bring some new in, we can get them converted into our loyalty program and we can grow and drive some nice momentum in our business moving forward.

Yes, we're in the early innings of third quarter. More cautious consumer. We're watching in our carryout business probably started a little bit softer than we had hoped for at the beginning of the quarter, but we can quickly check and adjust on that front. We're lapping over at the beginning of the quarter some heavier promotional activity that supported some of our rhythm breakers, Papadias, Papa Bites last year, but our core pizza business, which was up 6% in the second quarter, continues to grow nicely into the third quarter. So we're really feeling good about the core business.

And we just launched some more innovation. We've got Garlic 5-Cheese at \$11.99 price point just launched coming up. We've got an on-trend shareable pizza format with a new lineup of dipping sauces. And we got in test what we're calling the Grand Papa, which is our biggest pizza ever and we're excited about that one, too.

So we've got a lot at our disposal to continue to compete really well in the back half of the year. And you will see sequential improvement in our business throughout the back half to deliver on our commitment in North America flat to plus 2%. And then importantly, we still have a lot of momentum on international, right? We ended up calling up the year on international was flat to 2% to 2% to 4%. And the momentum that we saw in the second quarter continues into the third quarter.

Operator

Our next question comes from the line of Sara Senatore from Bank of America.

Sara Harkavy Senatore

I guess a question and then maybe just a clarification on an earlier comment, if I could. You mentioned that the four-wall economics is something that you're working to improve. You talked about some of the benefit perhaps from the supply chain optimization. I guess as I think about this, I think one of the things that you disclosed at the Investor Day was that the sort of four-wall EBITDA margin was in that 12% range for franchisees, but it was a subset of franchisees. And I guess as you look more broadly, are you seeing that that's representative? And if so, is that sufficient to kind of catalyze further refranchising or unit growth? Or do you need this 100 basis points-plus to really increase the appeal. So that was the question.

Just a clarification was on you said carryout was a little bit softer. Am I right in thinking that, that tends to be a more economically sensitive consumer? I'm just trying to sort of decouple what might be company specific versus continued pressure on that, either lower income or economically stressed consumer.

Todd Allan Penegor

Yes. Sara, I'll start on carryout. And the comment on carryout being a little softer than anticipated was the start of the third quarter. I mean, our carryout business was strong in the second quarter. And I think it's really around what messaging do we have nationally in play for our brand, what do we have at the local to really make sure we're competing and connecting to the consumers. So it's something in our control and we can check and adjust quickly.

On the margin front, I'll have Ravi talk a little bit more about it. But we've made some nice sequential improvement on our margins from the first quarter into the second quarter. We're still seeing significant commodity inflation in the first half of the year. It turns deflationary in the back half of the year, which will certainly be a help. As we continue to bring in more customers more often, the leverage that we see both at the restaurant level and through our supply chain network certainly helps the margins for the company and the franchise community.

But we know we've got work to continue to strengthen those margins. And that's why we're embarking and now executing a supply chain optimization project that can realize significant saves over time. So I will return to more of a traditional barbell strategy with a little more innovation on the top end to complement the bottom end. So lots of work to make that all come to life.

So Ravi, any other thoughts as you think about Sara's question?

Ravi Thanawala

Yes. So first, like we talked about in December, we think a core part of our recipe to continue to accelerate four-wall margins is about taking advantage of the flat capacity in our restaurants. We think that there are -- there's more transaction share left for us to go get, and we want to go win consumers.

Specific to like what we're seeing in the franchisee base, what I'd say is like the franchisees who have been driving a transaction orientation have performed very well and continue to deliver strong profitability. The franchisees where there's been a little bit more price taking and a little bit less focus on transactions, they're probably at a slightly different spot.

But when I back way up and look at the 2020 to 2024 time period, the Papa John's system on an average restaurant level performed pretty well from a profitability standpoint. And our corporate restaurants, if you just look at the average corporate restaurant from 2020 to 2024, we made over \$820,000 in four-wall EBITDA per average restaurant.

So right now, investing some profitability back into winning transactions, into winning the hearts and minds of consumers we think pays a lot of dividends. And where we're really focused in with our franchisees and connected at the app is, we think it's more important than ever that we're focusing on quality and operational execution. We're continuing to strike the right balance between full margin innovation product come into life in our restaurants and driving value messaging. And we're really happy that we've been on this rhythm of value messaging for well over a year now.

And third, like we know that more than 45% of our business is carryout, and we want to continue to make sure that we're getting great, great experiences for our customers when they walk into our restaurants.

Operator

Our next question comes from the line of Alex Slagle from Jefferies.

Alexander Russell Slagle

Congrats on the momentum in progress. A question on carryout is you evaluate the performance across your system. Are there any learnings from the top performing markets, that you can take to the rest of the system and help you drive the carryout growth in some of those markets where it's been lagging?

Todd Allan Penegor

Yes, I think there's a couple of things. First and foremost, having a national message around carryout certainly helps because that creates a nice halo for the brand to get consumers thinking about showing up at our restaurants more often for carryout. But you really got to work hard with the co-ops and the local team to make sure there's compelling carryout offers that really resonate in the communities that they serve.

And it's more than just the offer. It's making sure that you got friendly service when that customer shows up at the restaurant. It's out there really hustling to make sure you know when all those key events are happening in your trade areas and in your communities to make sure you're working hard to connect to those individuals, to make sure that they understand that Papa John's is there for them at a compelling value, whether that's price or whether that's the quality of the food that we deliver.

And there's a lot of good lessons to make sure that we continue to communicate to the franchise community. If you're out there hustling, you're out there working, you're out there connecting to your community, you can drive a lot of growth. And we're seeing pockets of that across the organization and across the company.

Operator

Our next question comes from the line of Christopher O'Cull from Stifel.

Christopher Thomas O'Cull

Todd, the incremental investment in marketing represents a pretty meaningful increase in annual spend. How are you thinking about lapping that investment next year?

And then can you elaborate on the changes you expect to make to the supply chain to reduce cost?

Todd Allan Penegor

Yes. So on the incremental marketing investments, we are spending a fair bit to really test, learn and support the system through this year. I mean, \$7 million in the first quarter, another \$9 million in the second quarter, up to \$25 million on a full year. But there's been a lot of foundational work to really set up our plans to be more effective and efficient in 2026. And I think with the learnings, we can figure out how we allocate existing national marketing fund dollars versus company dollars to really drive the growth that we need because I know we're going to be more effective with each dollar that we're spending.

We also have leaned into really test some things to make sure we can bring the franchise community along for the journey. So we did a little heavy up marketing around the BOGOs. It wasn't just about driving a BOGO proposition at the point in time we did it. It's really to try to learn what's the customer behavior beyond the BOGO. And is there a really good lifetime value in executing those type of promotions, and those are learnings we can take into building our plans for next year.

We used some dollars on the nonworking side to really support some work to accelerate our CRM and those will be foundational elements that keep building our business into the future. We've leaned in on driving some social and search demand, which, again, are some good foundational elements to give us some learnings as we get into next year.

So it's been a combination of working/nonworking. I'm sure it's supporting the business where we need to. We did some heavy up in some local markets to help inform what our local strategy should be moving forward.

But we learned a lot. And I know we'll be more effective and efficient with all the dollars, and we can really decide as we go into '26 how much of that needs to come out of incremental dollars from the company side versus what can we just leverage with all of these learnings to be more effective and efficient with the NMF funds that we have. So more to come on that.

And on the supply chain side, a really a credit to our team for really taking a step back and making sure that we weren't just a cost-plus model, that we're really trying to drive productivity day in and day out across the supply chain network. We talked about savings of at least \$50 million. So we're going to work hard to surpass that over a point of margin impact by the time this is all instituted in '28. There's probably a little bit of upside to that.

But importantly, we're getting after it fast, right? 40% of those savings is going to be realized by '26. We're not going to sacrifice any of the quality of our product. But we do see optimization opportunities to drive better fixed cost utilization across the network, and we're going to make some moves to bring that to life. We do think there are some opportunities that we can capture in our transportation logistics. So how do we deliver our white glove service to the back of the restaurants, and we're working through that.

And we know there's some procurement savings with some significant contracts that are up for renewals. We did some cost modeling and we're working through that to make sure we can realize all those savings. So a lot going on across almost every element of the functions within the organization, but we've got a great team that's really focused on executing against these initiatives to really bring a strong restaurant economic model to life for the system.

Operator

Our next question comes from the line of Brian Mullan from Piper Sandler.

Brian Hugh Mullan

I just want to ask on the refranchising transaction. Maybe just give a little background how that came together. Remind us where those restaurants are. And then is the buyer, are you just selling that to your existing partner in the joint venture or is there a third-party coming in?

And then just related to all that, are you still thinking about additional transactions? And would you think any deals would have a development agreement attached? Is that an important factor for you all as you go through this process?

Todd Allan Penegor

Yes. Let me start with the broader strategy. We've said this before. We do think refranchising is core to our strategy over time. We operate, before this transaction that we're talking about, about 540 company restaurants. We do think there's some opportunities outside of kind of our core markets, and I really think about core from Indianapolis down to Atlanta and that whole corridor where we know we've got a lot of opportunities for growth.

But we're going to have to look at the other markets to see if there are other good partners that should be scaled up as great brand partners to drive the brand, is an opportunity to bring some fresh blood in. And as we do any of these transactions, we will have development commitments attached to them. And that will be a big part of the growth. And we'll also make sure that we do appropriate reimaging as we bring those new agreements to life with some of the refranchising.

So it will be part of our transformation journey as we move forward. We did sell 15 restaurants last year in Wisconsin. And the 85 restaurants we're talking about today in the JV, we expect that transaction, as we said in the prepared remarks, to close by the fourth quarter.

But I'll turn it over to Ravi to talk some specifics on that transaction.

Ravi Thanawala

Yes. So the transaction is happening in the Mid-Atlantic area. It's a market that we have meaningful market share in today, and we think that there's more to get. We're transacting with an existing franchisee within the system. It's not our current JV partner, but it's a franchisee partner who is well capitalized, that's focused on the long term, who's investing in the business and has a great transaction driving mindset, which I think is very similar to the deal we did in Wisconsin a year ago.

And so to Todd's point, we saw this as a great opportunity to continue to grow a great strategic franchisee. And probably most importantly, continue to drive market share gains in an important market for us.

Operator

Our next question comes from the line of Peter Saleh from BTIG.

Peter Mokhlis Saleh

Great. Congrats on the progress you guys are making. I did want to ask about, Todd, I think you mentioned you're seeing a meaningful increase in app conversions. Could you just comment a little bit on really -- maybe give us a little bit more detail on really what you're seeing there.

And in the same vein, if you can comment on -- I know you saw a pretty nice increase in rewards memberships, 2.7 million since the change in November. Can you just talk about the behavior of those rewards members? Are those rewards members also coming in more frequently? Or are they -- do they continue to spend more? Anything you can share on that front would be helpful.

Todd Allan Penegor

Yes, I'll start on the rewards program, loyalty program. I'll let Ravi talk a little bit about app conversion.

But since we enhanced our Papa Rewards program in November 2024, it's been nice to see that we've added 2.7 million new accounts. We're up to 38.8 million total loyalty members there or thereabout. We are seeing an increase in customer engagement. We are seeing faster repeat purchases. And customer counts are up across almost every frequency cohort year-over-year since the change was made.

So really feeling good about how we're driving customer counts in the loyalty program. Seeing the growth on customer counts increase over the last 3 months, up almost 4.5%, up 1% versus the prior 12 months. So it has really been working the way we would expect it to work. We're seeing more folks redeem cash. We're acquiring more customers and those customers are ordering more frequently. It's everything you would want from a -- of a loyalty program, and we know there's great lifetime value for that customer.

As you look at where are we really winning, we're seeing more light and medium customers order in the last 3 months as well as a small increase in loyalty frequency, which is important, and we'll continue to enhance it to drive that.

And then our super frequent loyalty customers, which is our highest value segment that place an order over the last 12 months, it turned positive for the first time during Q2 in a long time.

So it's really hitting on all cylinders. And the opportunities, as we said earlier, is how do we go drive some innovation, how do we recruit new customers into the brand, how do we bring those laps back and then quickly move them over into the loyalty program so we can connect with them and really drive a more personalized experience with great value and a great experience for them.

And that's probably a good lead out to how the app works and the conversion and the work that's been underway.

Ravi Thanawala

Yes. So last summer, we did some work on the app experience, and we really haven't stopped on improving that experience as a whole. We saw over the trailing 4 quarters, a couple of hundred basis points of conversion upside in the app. And that was really about us starting to connect all the pieces of our strategy together.

We moved loyalty fund center in terms of the homepage experience. We updated imagery and how you scroll through the experience, and we saw some really meaningful gains. And as we talked about in our prepared remarks, we're beta testing some new omnichannel experiences as well. So we don't feel like we're anywhere near done in terms of driving consumer counts and driving engagement through our app experience.

And as we like zoom a little bit further out, the work that's happening between our marketing and our technology teams, it's really picked up pace. We are getting much more personalized and personalized means everything from a deeper segmentation of offers at a priority market level. It means speed of analytics and speed at which we are checking and adjusting in the business. And we see a lot of potential to lean further into AI in the coming months and years.

And we see really clear opportunities from an omnichannel experience standpoint, thinking about how we can make voice a bigger component of what we do, continue to lean deeper into getting the right messaging in front of the right consumers faster. So we're excited in terms of what's in front of us from a technology and most importantly, a consumer experience standpoint.

Operator

Our next question comes from the line of Eric Gonzalez from KeyBanc.

Eric Andrew Gonzalez

Just wanted to ask about innovation. Do you think you have the right innovation pipeline that you want in place or do you have to do a bit more testing? And when do you see the brand having a regular cadence of innovation if that's the goal?

And then just selfishly, I'm wondering when we might see the Croissant Pizza in the U.S.

Todd Allan Penegor

Well, on the Croissant Pizza in the U.S., we've got a lot of opportunity to continue to roll out across international. And we've done a lot of testing and learning in the U.S. and we have to make sure that's the right offering for the U.S. consumer. But I would never say never on Croissant, so we'll leave it at that.

On the innovation pipeline, it was relatively bare, to be honest, when I got here. And we really focused on being the best pizza makers in the business and really driving our core pizza business over the last year. And we've seen the results of that with nice sequential improvement on pizza sales, plus 4% in Q1, plus 6% in Q2. And we do know we have some of our rhythm breakers that have become less of a P mix in our business around Papadimas and Papa Bites.

But we're starting to return to a good cadence of some news. The \$11.99 Garlic 5-Cheese that's out there is a nice proposition, The shareable dippable pizza that will be coming later this year, I think, fits really well with our brand and the occasion the consumer is looking for. And the Grand Papa that it's in test right now, our largest pizza ever, I think, really continues to drive our business. And we'll start to see that accelerate as we go into 2026.

We recently partnered with a lot of our suppliers and really looked at some of the adjacent pizza category business. I mean, we still got a lot of opportunity to innovate on crust forms and on core. But there are some opportunities to continue to expand our reach and the work we've done to optimize our oven calibration, to take our bake temps down to slow their ovens down a little bit, really opens up some of these other adjacent categories. So we'll make sure we've got a good mix of core and adjacencies as we move into '26.

But that's when you really see us start to hit our stride on innovation to complement all the other good work that we're doing along the way. And with every step of the way, we're going to continue to stay focused on our message around pizza craftsmanship and 6 simple ingredients and fresh never frozen, original dough. And it is a powerful message when you think about those 6 simple ingredients, flour, water, sugar, oil, salt, yeast. That is so on trend with where the consumer is going, we can innovate around some of that simplicity and really continue to deliver better quality product for the consumer because as we said in the prepared remarks, the world deserves better pizza, and we're here committed to deliver on that.

Eric Andrew Gonzalez

It sounds like you spent some time in the kitchen, Todd.

Todd Allan Penegor

If you see me, I got to double my workout regimen, that's for sure.

Eric Andrew Gonzalez

If I could ask a question about maybe a follow-up on the first 5 weeks of the quarter. Again, I don't want to make too much about it, but it does seem like your largest competitor was on there with some pretty heavy discounting. So I'm wondering if that was a big factor. And whether there are also any changes in the advertising pressure that you had on during July versus what you did in the latter 2 months of the first quarter?

Todd Allan Penegor

Yes. I think the beautiful thing about our business is we can check and adjust relatively quickly now when we got a lot of tools, right, making sure we got Garlic 5-Cheese on air at the appropriate time based on the consumer and competitive landscape was important. The tools around loyalty and CRM to leverage that is an important tool. It is intense, there is a lot of competitive activity out there. You got to win the hearts and minds from the consumer, both from a value and a quality perspective. So I won't read too much into the start to the quarter.

I do think we've got a lot of tools at our disposal to finish the quarter strong and continue that momentum into the fourth quarter. But we're digging into the analytics. We're continuing to look into what's working well, what we need to check and adjust and really take a retail mindset to the data to make sure we're best connecting to the consumer no matter what the competitive landscape looks like. And it was super competitive in Q2, and we broke through and we brought in more customers and we drove sales growth, and we expect to do that in the back half of this year. And the foundational work that we've done over the last 12 months to really set ourselves up to compete better not just into this year to finish it strong, but to really set us up for a strong 2026.

Ravi Thanawala

And maybe I'll provide some other like more specifics in terms of building blocks for the second half of the year, that kind of underpins how we're thinking about the business. As Todd talked about, like we have accelerated path of product innovations coming with new shareable pizza format with dipping sauce. We think that really resonates with Gen Z, Gen Alpha.

Second, we launched the Garlic 5-Cheese this week. We think that is right down the fairway in terms of innovation for us, and it's something that feels unique to Papa John given our positioning. As Todd talked about, we're testing the largest pizza we've ever made in the market. We think that is right for the consumer mindset right now. So we have a steady cadence of innovations that we think are specific to Papa John's, but also helps us break through with kind of where the consumer psyche is today.

Second, I mean, oven calibration work, we're seeing consumer satisfaction scores continue to improve. And we think that matters a lot right now. When we pair it together, our simple ingredients and our approach to making pizza with even better consumer satisfaction score, we think that's going to yield benefits.

Third is we're continuing to lean into loyalty and using loyalty as a way to drive more and more personalization. So we're going to continue to build on that momentum and as Todd talked about consumer accounts were up in 2Q, and we're going to really stay focused on that. And then lastly, like we're going to continue to think about all of our channels of the business from aggregators delivery, carryout and we're digging into the analytics every day and making sure we're staying nimble there.

So there are a couple of things out there that get us like focused in on how are we going to unlock growth in the second half of the year. And all of these elements I just talked about, we see is like foundational that is going to allow us to continue to grow transaction share over the next couple of years.

Todd Allan Penegor

Yes. And just a quick comment to all of that. I mean, we've seen nice increases in our overall satisfaction at our restaurant level. We've seen improvements in taste with the work we've been doing on in oven calibration. And with the Meet the Makers campaign, we've seen strong gains in our brand health measurements for consideration, quality and ad recall. So all of those things help support everything that Ravi just said to make sure that we're in the consideration set to continue to drive our business in the back half and beyond.

Ravi Thanawala

Yes. What's -- maybe one last thing. Like the marketing team has done an amazing job on a turf analysis of where we have a right to play. One of the things that's clearly coming through in the data is that like Papa John's as a brand can continue to expand its TAM

into some of the adjacent categories around pizza. We're not necessarily rushing to go there tomorrow. But that is a lot of the work we're doing in the kitchen in terms of like how are we going to continue to gain transaction share in the business and do it in a way that only Papa John's can.

Operator

Our last question comes from the line of Jim Sanderson from Northcoast Research.

James Jon Sanderson

Just wanted to circle back to international. Wondering if you could update us on trends in the U.K., whether those comps were out or underperforming the international trend? And more broadly, how should we look at the opportunity to see new unit growth in the U.K. going forward?

Ravi Thanawala

Yes. We've been on a multiyear journey in the U.K., and we're really pleased in terms of the performance. So the U.K. was a low single-digit comp in 2Q, but it's accelerated meaningfully in July and outperforming the total international business even in July. But when we back further up our consumer satisfaction scores are way up, our total time to deliver times are way down. And we're driving really strong growth.

And what we've really unlocked is focus on the most important markets and trade zones are really focused in on having a robust innovation calendar and then paying it off with great execution. So we still see a lot of comp upside in that business over the medium term. So we think that there is meaningful system-wide sales growth opportunity for us to go capture.

We will turn on the development engine again in the U.K. in due course. But fundamentally, I think there's a lot of comp upside for us to go capture. And what we're really encouraged about our approach in the U.K. is we think we can unlock opportunity in many of our priority markets with this really clear focus around innovation, execution in priority markets.

Todd Allan Penegor

It's been some great work in the U.K. on that whole transformation. And what's really exciting is the growth across international is really broad-based. And credit to Ravi and his leadership team on the international front. I know we're going to continue to build momentum there, and it's exciting.

Operator

Thank you. At this time, I would now like to turn the conference back over to Todd Penegor for closing remarks.

Todd Allan Penegor

Well, thanks, everybody, for your time this morning. Appreciate it. Hard to believe that it's a year into my journey with an unbelievable team here at Papa John's. We've touched everything, whether it's operational excellence, marketing revamp, tech innovation. We began the journey on refranchising, supply chain optimization and ultimately put a capital structure in place to really support all of these strategic initiatives.

Our future is bright. We're energized. We've got a spring in our step. We know it's going to be a battle, and we'll continue to take you guys along for the journey. But pizza is super relevant. It's a great value for the money. And we're going to be out there, Ravi and I and Heather over the upcoming months to really continue to tell that story and talk about our business with all of you. So look forward to seeing you out at some point at a conference or on a road show.

And I just want to thank all of our team members and the franchise community for the partnership and the work to really set the foundation for long-term sustainable growth in this business.

So have a great day, everyone. Thanks for all the questions. Talk to you soon.

Operator

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

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