Papa John's International, Inc. (PZZA) Q2 2026 Earnings Call Transcript

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Q2: 2026-08-06 Earnings Summary

Insights

EPS of $0.46 beats by $0.01 | Revenue of $482.40M (-8.84% Y/Y) beats by $809.35K

Papa John's International, Inc. (PZZA) Q2 2026 Earnings Call August 6, 2026 8:00 AM EDT

Company Participants

Heather Hollander - Senior VP of Strategy, Investor Relations and FP&A
Todd Penegor - President, CEO & Director
Christopher Collins - Interim CFO, Senior VP of Corporate Finance & Principal Accounting Officer

Conference Call Participants

Andrew Strelzik - BMO Capital Markets Equity Research
Michael Tamas - Oppenheimer & Co. Inc., Research Division
William Prause - Stephens Inc., Research Division
Todd Brooks - The Benchmark Company, LLC, Research Division
James Sanderson - Northcoast Research Partners, LLC
Grace Nguyen - BofA Securities, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Papa John's Second Quarter 2026 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, Senior Vice President, Investor Relations, FP&A and Strategy. Please go ahead.

Heather Hollander
Senior VP of Strategy, Investor Relations and FP&A

Good morning, and welcome to our second quarter 2026 earnings conference call.

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

Joining me on the call this morning are Todd Penegor, President and Chief Executive Officer; and Chris Collins, Interim Chief Financial Officer and Senior Vice President, Corporate Finance and Principal Accounting Officer.

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 in our Investor Relations website for the required reconciliation of non-GAAP financial measures discussed on today's call.

Lastly, we ask that you please limit your questions to one question and one follow-up.

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

Todd Penegor
President, CEO & Director

Thank you, Heather. And good morning, everyone.

Today, we will discuss our second quarter financial results and provide an update on our outlook for the remainder of the year. Before we get to this, I'd like to briefly address the ongoing media speculation regarding Papa John's and a potential sale of the company.

The Board and the management team are committed to maximizing value for our shareholders. And consistent with that commitment, we conducted a comprehensive review of our strategy over the past 18 months. We thoroughly explored whether alternative opportunities were available, including a potential sale of the business. We have been well advised in these efforts, supported by our financial and legal advisers.

This work has made clear that for Papa John's, the value creation opportunity that is actionable is the execution of our transformation plan. Of course, the Board remains open to other alternatives to maximize value.

However, these options need to be actionable, provide certainty and serve the best interest of our shareholders. We believe it is in the best interest of the company and all of our shareholders to focus 100% of our attention on Papa John's transformation and the initiatives we are discussing today.

In the second quarter, we continued to advance our transformation while strengthening the foundation for long-term growth and value creation. We are seeing encouraging signs of progress, including a growing and highly engaged Papa Rewards membership, meaningful progress on initiatives to improve restaurant-level economics through supply chain savings and restaurant portfolio optimization and early results from AI and digital investments that are enhancing the customer ordering experience.

At the same time, we felt the impacts of the softer consumer backdrop and highly promotional QSR environment, which have continued to challenge our financial performance. And while our focus is unrelenting, it's clear that our transformation is taking longer than expected. We know that we must execute better and move faster.

And as we look ahead, we're making adjustments where needed across our strategic priorities and leadership team to improve results and position Papa John's for 2027 and beyond.

To lead the changes we're making and ensure we drive high performance across the enterprise, we announced several key management changes today. Chris Lyn-Sue, who serves as Senior Vice President, General Manager of International, has been named Global Chief Marketing Officer. Jenna Bromberg is departing the company to pursue other opportunities.

As Chris Lyn-Sue assumes this role, Chris Phylactou, who serves as Managing Director, U.K., Europe and Canada, has been named Senior Vice President, International. In this role, he will be responsible for leading our highly successful international business.

Finally, John Moter, who serves as Senior Vice President, General Counsel, has been named to the newly created position of Global Chief Development Officer, where he will lead global growth and development strategy, including expansion, franchise development and strategic partnerships.

These leaders have already made important contributions to our transformation, giving me great confidence in the impact they'll have in these positions. For example, Chris Lyn-Sue and Chris Phylactou were instrumental in driving meaningful change and outperformance in our international business.

John has been a key leader in our highly successful international development and transformation efforts as well as leading our North American development team, portfolio optimization work and strategic partnership negotiations.

Now turning to the second quarter results. Our International business delivered 1.5% comparable sales growth in the quarter, marking our seventh consecutive quarter of positive comps and reflecting the continued benefit of our transformation work.

Performance was particularly strong in the U.K., where comparable sales increased 10%, driven by continued strong operational execution, and enhanced customer experience, and increased media investment, including a 20% increase in PSAs over the course of the transformation that is elevating brand awareness in this market.

Korea also delivered strong results with comparable sales up 9%, supported by product innovation, strategic partnerships, and holiday demand. In the Middle East, comparable sales were effectively flat as ongoing conflict in the region pressured performance. North America comparable sales declined 8.3%, driven by reduced order volume and continued pressure from lower customer acquisition.

Our loyalty program remained a clear area of strength in the quarter, with comparable sales from loyalty customers outperforming non-loyalty customers by 12 percentage points and our Papa Rewards program surpassing 42 million members in the second quarter. These loyalty members are our most valuable customers, generating tickets that are 6% higher per order and ordering approximately twice as often as non-loyalty customers.

Within our core pizza business, orders with multiple pizzas again saw improvement with pies per order up 6%, positively impacting our overall system ticket, which was flat compared with last year. This upside was offset by pizza mix shifting to smaller non-specialty pizzas, resulting in mid-single-digit declines in overall pizza sales.

Outside of pizza, comparable sales were pressured by declines in sides and desserts, while sales of our new sandwiches almost fully offset the removal of Papadias and opened an entirely new food category for us without complicating our make line and operations.

Taking into account our performance and the pressured consumer environment, which we expect to continue throughout the year, we have revised our outlook for 2026. Chris will provide more detail in his remarks, but at a high level, we now expect global system-wide sales to decline between 2% and 4% compared to last year and adjusted EBITDA between $180 million to $190 million, which now includes an incremental $18 million of investment to support our franchisees and accelerate our transformation.

While our financial performance isn't where we'd like it to be, we have a clear understanding of how to improve our results and gain market share. These focus areas work in tandem with our ongoing strategic transformation efforts.

As we have discussed previously, we continue to see 2 clear opportunities to gain share: continuing to strengthen our value perception with more targeted personalized offers, and a consistent, elevated customer experience and attracting new customers through a sharper aggregator strategy, total addressable market expansion, our rebuilt innovation pipeline and a reenergized local presence through reestablished co-ops.

Looking at our value proposition, we recognize the importance of meeting the customer where they are in this challenged environment. To do so, we focused on offering customers their favorite menu items at compelling price points while balancing restaurant margin.

This quarter, we featured our Papa Pairings offer and local carryout specials. Our sandwiches were added to Papa Pairings, increasing choices within our mix and match. We also put our barbell to work as we featured our Epic Stuffed Crust Pizza at a $13.99 price point.

Looking ahead, we're taking a targeted approach to improving our value proposition rather than engaging in sustained extreme discounting at the national level as we've seen some of our competitors do. In the second half of the year, we'll deploy a more traditional barbell strategy, focusing on our most popular fan-favorite products with short, targeted windows of disruptive value.

We are also in Phase 1 of the rollout of our new personalization engine within our CRM platform. This engine is sophisticated, multichannel, AI-powered tool that leverages a mix of national and local offers and delivers a higher degree of personalization.

We believe that once fully deployed, this technology will allow us to better tailor communications and offers to our customers, drive incremental purchases from both new and lapsed customers, and preserve restaurant margins while offering customers compelling value in key moments. We'll use learnings from this initial phase to optimize the broader multichannel rollout planned for the fourth quarter.

Turning to operations. We understand that value extends beyond price. To that end, we are also continuing to elevate the customer experience to differentiate Papa John's in the marketplace and drive incremental transactions.

We have made significant progress over the last 2 years, strengthening execution across the system. When we began our transformation, our operations support team and field support structure were more limited and spread across the U.S., resulting in less market level oversight and fewer in-restaurant touch points than we needed.

Since then, we've built a brand standards coaching team made up of pizza experts who have initiated in-person training, workshops, coaching sessions and restaurant evaluations. However, there is still more work ahead as certain restaurants and operators are lagging behind.

For example, in the second quarter, there was a 400 basis point gap in comparable sales, comparable orders, and restaurant margin performance between restaurants and the highest quintile of operation scores versus the lowest quintile. Raising the bar for the bottom quintile of operators is one of the single most important things we are doing to improve the consistency of our customer experience, brand perception and top line performance.

To help underperforming restaurants raise their level of execution, we are providing dedicated coaching, earn financial incentives, which raise the bar on operational performance, and a regional Franchise Business Director model designed to provide closer in-market support and greater accountability. This includes more frequent restaurant visits, regular business reviews, documented follow-up, and standardized scorecards to drive measurable improvement.

Beyond improved execution, we're also leveraging consumer insights to elevate and optimize our core product, further differentiating Papa John's on quality in a highly competitive marketplace. This work starts with a clear understanding of what matters most to our customers, better ingredients, craveable flavor, consistent execution and value they see and taste.

We are applying those insights across the menu to improve the fundamentals of the pizza experience from dough optimization and bake consistency to toppings, cheese, sauce and overall product presentation. We are targeting refinements that enhance the customer experience while remaining operationally simple and scalable across the system.

We believe these actions will strengthen brand preference, improve repeat purchase behavior and reinforce Papa John's long-standing quality positioning.

Turning to new customer acquisition. We see a meaningful opportunity to accelerate trial through a more focused aggregator strategy. These platforms continue to play an important role in introducing new customers to the brand, and we believe there is an opportunity to improve both our visibility and effectiveness.

To do so, we're optimizing our promotional approach, featuring a mix of value-driven offers and signature products while also refining our allocation of national and local third-party marketing spend to maximize returns. As we broaden our reach through aggregators, we're also taking steps to increase brand awareness and drive consideration at a larger scale. To support that effort, we're rebalancing our media mix in the second half.

Innovation also supports a brand proposition that drives new customer acquisition. We're working off a reinvigorated innovation pipeline, having introduced pan pizza, oven-toasted sandwiches, a cheesy garlic bread side and our latest menu addition, personal pizzas, the perfect size for individual portions. Combined, these product launches are helping to elevate our pizza mix and expand our total addressable market beyond core pizza.

While innovation remains an important lever, this quarter, we saw that innovation alone did not generate the level of new customer trial we expected. Going forward, we're pairing innovation with a sharper aggregator strategy and our new first-party CRM platform to improve reach, trial and conversion.

Our international innovation continues to raise the bar with encouraging results behind the launch of our artisanal sourdough pizza in the U.K., a lighter, thinner, more premium pizza focused on expanding our addressable market. This product is distinctive with scaled QSR pizza and attracts new customers, delivers higher profit margin and further elevates the Papa John's brand in the market.

In addition to new menu items, we're also sharpening our marketing message to drive more meaningful impact with our customers. First, we are rebalancing our media mix toward greater mass exposure and higher TRPs. In this highly competitive environment, we recognize the importance of protecting share of voice on mass channels while still supporting a balanced channel mix to reach customers where they engage most.

Maximizing the impact of our marketing investment requires balancing broad national awareness with local relevance. As we discussed on our last earnings call, we reinstated advertising co-ops across the U.S. to improve market-level targeting, increase relevance, and better connect with customers in local communities.

Today, approximately 50% of our U.S. restaurant system is supported by local co-ops, and we're encouraged by the early results. Markets supported by co-ops and meaningful supplemental local spend are outperforming other markets by 200 basis points.

To build on this progress, we're establishing a field marketing team that will work directly with local operators to align around effective, coordinated market strategies, ensure the local spend complements our national spend and drive stronger market level performance. We are committed to aligning our system on the right level of national and local spending to support the brand and reinstate co-ops for the majority of the system by the end of this year.

Of course, our marketing strategy extends beyond media and market optimization. We're investing in experiences and partnerships that deepen engagement, strengthen brand affinity and attract new customers.

In June, we launched 4 Pizza Planet Pop-Ups in key locations around the world to celebrate the theatrical release of Disney and Pixar's Toy Story 5. Our retro-inspired pizza arcades invited fans to step directly into the Toy Story universe, featuring iconic characters, experiences and themes from the beloved franchise, while reinforcing Papa John's as a culturally relevant brand.

These activations generated strong global engagement with approximately 4 billion total earned media impressions and thousands of organic social posts from enthusiastic fans. Across our 4 immersive retro arcade pop-up locations in Los Angeles, London, Seoul and Madrid, demand was exceptionally strong with reservation slots for each event claimed within minutes.

Investing in technology is essential to delivering a seamless customer experience and strengthening engagement while providing operators with better tools to run their businesses. We continue to build our AI capabilities as a means to drive customer acquisition, unlock new demand channels and increase brand relevance.

As part of that effort, we're advancing our technology transformation through the rollout of Lou AI, our next-generation, AI-powered pizza assistant developed in partnership with Google Cloud that is available on our app. Lou AI serves as an always-on digital concierge, customized for Papa John's and designed to simplify the ordering experience, solve customer needs in real-time, and create a more frictionless path to purchase.

Our agentic ordering automatically applies the best available deals and now enables fast, seamless reordering for Papa Rewards members. Early results are encouraging. Compared with non-AI assisted orders, customers using Lou AI are converting at an 18% higher rate and completing their orders approximately 3 minutes faster.

We are also making steady progress on our transition to a new POS platform following the successful launch of our first restaurant pilot in April, with additional restaurants coming on board by the end of the year and full deployment expected across all of our U.S. corporate and franchise locations by the end of 2027.

This modern, AI-native platform will provide operators with enhanced visibility into key restaurant performance metrics, improve operational decision-making and create a more connective experience across our digital ecosystem. Ultimately, these investments strengthen our ability to serve customers and support operators.

We continue to differentiate our customer experience across every demand channel to support top line growth. We're leveraging our new e-commerce platform to provide unique optimized customer experiences across app, mobile web, desktop, call center and aggregators.

Leveraging our robust CRM platform, we are engaging customers more frequently and using targeted, personalized communications across email, push, and SMS to drive incremental visits and deepen engagement. Our extensive data and digital insights are key advantages for Papa John's, and we are increasingly leveraging them to identify opportunities to improve the guest experience and drive incremental sales through continuous innovation across our brand.

With more than 85% of our sales generated on digital channels, inclusive of the aggregators, it is imperative that we provide an outstanding digital experience.

We're also leveraging our new e-commerce gaming platform to drive trial and repeat visits by incorporating CRM and loyalty into the user experience and fully capitalize on our partnerships. To engage with customers around Toy Story 5, we launched our first ever in-app game, Operation Pizza, that unlocked perks for Papa Rewards members.

Finally, we continue to partner with and evolve our franchisee base. Our efforts to optimize our North American supply chain continue to advance our path to unlocking the full potential of our commissary business.

In the second quarter, we captured an additional $7 million of benefits and are on track to realize at least $25 million of savings this year. We believe that we will achieve at least $60 million of North American system-wide supply chain productivity opportunities, equating to at least 160 basis points of 4-wall EBITDA improvement by 2028 at both our company-owned and franchise restaurants.

As part of evolving our franchisee base, we are optimizing our North American system to get restaurants into the hands of great operators focused on the long-term with capital structures in place to properly support the transformation of the business.

In the second quarter, we made further progress in the optimization of our restaurant portfolio and have closed 101 of the planned 300 North American restaurants identified in our strategic closure program. As a reminder, this program is focused on closing locations that do not meet brand standards, lack a clear path to sustainable improvement, have AUVs below $600,000 and predominantly generate negative EBITDA.

Early results have been encouraging with strong sales transfer to neighboring restaurants. Combined with the proven success of our international transformation where a focus on priority markets and strategic closures improve franchisee health and market performance, these results give us confidence that our portfolio optimization strategy will strengthen franchisee financial health, enhance our competitiveness and support future market share gains in North America.

Altogether, we expect to generate at least 200 basis points of 4-wall EBITDA improvement for both company and franchise restaurants over the medium term, inclusive of the supply chain savings, restaurant portfolio optimization work, and the operational efficiency programs discussed.

Turning now to our capital allocation priorities. Our Board and management team take a disciplined approach to capital allocation, prioritizing investment in the business, maintaining a strong balance sheet and returning capital to shareholders through share repurchases and dividends.

Guided by this framework and our commitment to allocating capital to the highest return opportunities, our Board intends to suspend our quarterly dividend beginning in August. This action will increase flexibility to make the investments that we believe are needed to deliver on our strategic transformation and generate the greatest value for shareholders.

One critical investment area is our franchisee base. We are expanding financial incentives tied to operational excellence and restaurant image improvements while also reworking our national marketing fund agreement to better balance national and local investment and establish local co-ops in the vast majority of our markets.

Together, these actions will accelerate our transformation, elevate the customer experience, and deliver strong returns for both franchisees and franchisor.

Other investment areas include driving new customer acquisition through a sharper aggregator strategy, expansion of our total addressable market, product innovation, and core menu improvement, advancing our technology road map, including our AI capabilities, new CRM platform and next-generation POS system to deepen customer engagement, deliver personalization at scale and drive incremental purchases, further optimizing our supply chain to improve cost leverage and drive higher 4-wall EBITDA and investing in our International business to build on our momentum and support long-term growth.

We have clearly defined success criteria, are rigorously tracking returns and are already seeing encouraging early signs of progress. As we realize the benefits of our transformation over time, we intend to revisit how to most effectively return capital to shareholders through share buybacks and dividends.

In summary, we are executing with discipline, investing for the long term and positioning the business for improved comparable sales trends in 2027. Ultimately, our goal is to reengage customers with what is new, better, and distinct about Papa John's. With our 6 simple ingredients, we have a meaningful point of differentiation on quality and an opportunity to deliver products that feel closer to neighborhood pizza experience at an accessible price point with greater convenience.

This reinforces our confidence in the strength of the brand and our ability to compete more effectively and capture market share over time.

While our transformation is taking longer than we anticipated, we are building the operational and financial foundation to drive sustainable growth. As I've laid out today, we'll achieve this by competing on value with more targeted, personalized offers, and consistent elevated customer experience, targeted investments in customer acquisition and brand elevation, and disciplined portfolio optimization and supply chain improvements that strengthen unit economics.

This strategy is similar to the transformation playbook that has proven successful internationally, and we are confident it will allow us to compete better and win in North America.

I want to now welcome Chris Collins to the call. Chris has assumed the role of our Interim Chief Financial Officer and brings a deep financial knowledge of Papa John's. The Board and I appreciate Chris stepping into this additional role while we conduct a comprehensive search process to identify Papa John's next CFO. Chris, over to you.

Christopher Collins

Interim CFO, Senior VP of Corporate Finance & Principal Accounting Officer

Thank you, Todd, and good morning, everyone. I'm excited to join the call today as the Papa John's Interim Chief Financial Officer and look forward to working alongside you and our team to advance our transformation.

I'll begin by reviewing our second quarter results in further detail, and then I'll share our updated 2026 outlook.

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

For the second quarter, global system-wide restaurant sales were $1.2 billion, down 5% in constant currency as higher international comparable sales were more than offset by lower comparable sales in North America as well as strategic closures to strengthen our system.

As Todd shared, our International business continues to outperform with comparable sales growing 1.5%, even as we saw pressure in the markets directly impacted by the Middle East conflict.

Total consolidated revenue for the second quarter was $482 million, down 9% as lower revenue for our domestic company-owned restaurants, North America Commissary, North America Franchising and all other business units was partially offset by higher international revenues.

Domestic company-owned restaurant revenues decreased $37 million, primarily due to the refranchising of 85 corporate restaurants in the fourth quarter of 2025 in addition to lower comparable sales.

Revenues in our North America Commissary segment decreased $12 million, primarily due to lower volumes, partially offset by higher pricing.

Revenues in our North America Franchising segment decreased $3 million, primarily due to lower comparable sales at our franchise restaurants. And all other business unit revenues decreased $8 million, driven by lower advertising fund revenue and digital fees as a function of lower system sales. Partially offsetting these declines was a $1 million increase in international revenue.

Consolidated adjusted EBITDA of $53 million was up slightly despite top line pressure, primarily driven by lower overall G&A spend due to strong cost management and lower supplemental advertising spend, lower cost of sales due to lower volumes in the prior year refranchising transaction, and improved performance in our international markets. These gains were partially offset by lower sales flow-through and softer QCC volumes in North America.

We captured approximately $7 million in system-wide supply chain benefits during the second quarter through increased efficiency and reduced cost to serve at our North America Commissary. Through Q2, we have captured approximately $16 million in supply chain savings, representing 43 basis points of restaurant margin benefit.

North America Commissary segment adjusted EBITDA margins were 8.7%, an improvement of approximately 140 basis points, primarily reflecting supply chain cost savings benefits and higher pricing, partially offset by lower volumes during the quarter.

Domestic company-owned restaurants delivered 4-wall EBITDA of $15.6 million and 4-wall margins of 11.2%, a decrease of 130 basis points, primarily driven by lower transactions and higher food costs, partially offset by the benefits of our transformation initiatives, including restaurant labor productivity and refranchising activity.

Turning to our balance sheet. At the end of the quarter, our total available liquidity was approximately $500 million, and our covenant leverage ratio was 3.3x as we continue to maintain a very strong balance sheet, which provides flexibility to support our transformation initiatives.

Turning now to cash flows. Net cash provided by operating activities through the second quarter was $36 million. Free cash flow through the first half was $9 million compared with last year's $37 million, primarily reflecting lower net income, timing of marketing spend within our advertising fund, more normalized incentive payments and investments in the company's Enterprise Transformation Plan, offset somewhat by lower first half cash taxes due to new tax legislation passed in July last year.

Now turning to our 2026 outlook. As discussed, we are revising our outlook to incorporate year-to-date results in a challenging environment, which we expect to continue for the balance of the year. For 2026, we now expect global system-wide sales declines to range between 2% and 4%.

For North America, we expect comparable sales to be down 6% to 8%. July North America comparable sales trended in line with Q2 on a year-over-year basis but decelerated on a 3-year stack. We expect sequential improvement in North America comp sales in the second half of the year, supported by our marketing co-op activations, a strengthened aggregator marketing strategy, our new CRM program and prior year comparisons.

Accounting for the impact of geopolitical and consumer conditions, we now expect international comparable sales to increase between 1% and 3%.

We have entered into an asset purchase agreement to refranchise 28 company restaurants in Orlando, Florida, and expect to close this transaction in the third quarter. With the closing time line shifting to the end of third quarter, we now expect that this transaction will reduce 2026 consolidated revenues by approximately $4 million, including the impact of eliminations and benefit adjusted EBITDA by approximately $500,000, all of which is factored into our 2026 financial guidance.

As we pursue an asset-light model, we remain on track to reduce company restaurant ownership to mid-single-digit percentage of our North America system. We are actively assessing several additional North America markets for refranchising, while also evaluating opportunities internationally.

We expect these actions will support incremental growth opportunities and strengthen our franchise network by transitioning select restaurants to high-performing franchise partners, and we look forward to providing updates as these transactions progress.

For 2026, we now expect consolidated adjusted EBITDA to be between $180 million and $190 million. We now plan to invest approximately $35 million in total supplemental marketing and franchisee subsidies, including the incremental $18 million added for the back half of this year to accelerate our transformation, as Todd described. We expect that elevated investment to continue into 2027.

Our 2026 consolidated adjusted EBITDA outlook reflects continued disciplined cost management and includes $13 million of G&A savings, excluding marketing. Looking ahead, we have line of sight to generate at least $30 million of cumulative cost savings by the end of 2027.

We also expect the stock-based compensation will be approximately $5 million per quarter.

Consistent with our prior guidance for nonoperating expense items, we expect net interest between $35 million and $40 million, adjusted D&A between $70 million and $75 million and capital expenditures between $70 million and $80 million.

We expect our 2026 GAAP effective tax rate to be in the range of 30% to 34%.

Finally, we expect diluted shares outstanding of approximately 33 million.

Turning to restaurant development. We are on track to open between 40 and 50 gross new restaurants in North America in 2026, having opened 17 restaurants through the second quarter. We now expect 2026 North America restaurant closures to range between 200 and 250 as our portfolio optimization work with our franchisees is progressing faster than expected.

For our International business, we still expect 180 to 220 gross restaurant openings in 2026 and we expect closures within the range of 5% to 6% of our international system. We're also exploring new formats and distribution channels such as nontraditional locations to expand our footprint and attract new customers to the Papa John's brand.

As we invest to accelerate our transformation, we remain committed to maintaining our strong balance sheet and positioning the business for stronger cash flow generation.

Through refranchising, we are creating a more asset-light model and through disciplined cost reduction and operating model optimization, we will build a more efficient, profitable system.

Overall, we remain focused on executing our transformation strategy to improve the customer experience, drive sales growth, enhance profitability and deliver value for our stakeholders.

And with that, we'd like to open the call up for any questions you may have. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] And our first question will be coming from the line of Andrew Strelzik of BMO.

Andrew Strelzik

BMO Capital Markets Equity Research

Obviously, a lot going on, a lot of strategies that you're implementing and working through. I guess, if you take a step back in your view, where have broadly the turnaround strategies had the intended impact or had the most impact as you intended?

And, kind of, where are you most lagging versus your expectations in trying to make up ground, understanding, obviously, it's a difficult operating environment.

Todd Penegor

President, CEO & Director

Yes. Thanks, Andrew, for the question. On the transformation, I think some of the work that we've done over the course of the last couple of years to really rebuild our technology platform create less friction in our ordering through our app, through the website, the work we've done with AI to leverage the data and better connect to the consumer through our CRM program. All of those are strong foundational elements that we've continued to build.

We rebuilt our innovation pipeline. We brought some news to the table. We're not bringing in as many new consumers with the innovation as we had expected. But I do feel good that we've done a nice job on those fronts. And we've raised the bar on operational excellence, even though we know we've got some inconsistencies and opportunities to continue to do that.

I think where we've been probably the most challenged is we haven't been able to get the full force of the local co-ops reestablished across the entire system. We're making progress on that front, but we've now hired out our field marketing team to better support those co-ops and make sure we've got a really balanced and thoughtful approach to what national messaging does as well as local messaging to really compete and win and really have a strong barbell at both the national and the local level.

And importantly, what we need to really get aligned on is where do we find the right balance between driving transactions and protecting margin. We know we have to meet the consumer where they're at.

We can't just live on the quality and the messaging of better ingredients, better pizza. We're going to continue to do that with our fan favorites at affordable price points and continue to deliver on the rest of this year. But we know we're going to have to pulse in some appropriate discounting to continue to drive frequency and keep our existing customers engaged. But we try to recruit some new customers through that.

But we're going to be smart about the discounting. We're going to pulse it appropriately, and we're going to leverage the tools at our disposal, especially CRM with some of the optimized AI engine work that we've done to really target those investments.

Andrew Strelzik
BMO Capital Markets Equity Research

Okay. That's helpful. And I wanted to ask about the franchisee incentives that you talked about this morning. Can you kind of help us better understand how that's incorporated into the outlook, how that's going to impact the P&L? A little more color on that would be helpful.

Todd Penegor
President, CEO & Director

Yes. So within our guidance of $180 million to $190 million, as we said in the prepared remarks, total investment that we're making off of our P&L in 2026 is about $35 million. We've got about $10 million that's really been established to support the setup of local co-ops where we've co-invested with franchisees that have established the co-ops and are investing at the local level.

We've got about $13 million of supplemental marketing that we put in place to make sure we've got the right pressure to tell our story on both the premium and the value side of the barbell. We've got about $5 million in operational incentives to allow franchisees to continue to earn incentives with strong customer overall satisfaction scores, strong restaurant inspection scores, and good out-the-door times. So that's a nice incentive to continue to raise the bar.

And we've got about $7 million of what I would call subsidies where we help support the system to co-invest to go drive some of the promotional activity that we've had year-to-date and plan to do for the rest of this year. That level of spending, we would expect would continue into 2027, pending some of the conversations that we have with our franchise community to align on how we want to co-invest together to compete.

Operator

And our next question will be coming from the line of Brian Bittner of Oppenheimer & Company.

Michael Tamas
Oppenheimer & Co. Inc., Research Division

This is Mike Tamas on for Brian. Todd, you deployed a lot of new initiatives, and I would have thought that you'd see some improvements in the business by now. So do you think there's a category headwind that you're fighting?

And maybe specifically to the second quarter, what do you believe the category sales trends were in the quarter versus the negative 8% that you guys saw?

Todd Penegor
President, CEO & Director

Yes, no, it's a great question. I do think all of QSR has had a lot of aggressive discounting. Pizza QSR has been even more so aggressive, and we probably didn't meet the consumer as much as we should have in the course of the second quarter as we protected margin a little bit more.

But I would -- from where we sit, we'd say that the QSR pizza category was down slightly within the quarter. But the pizza category is quite broad. There's a lot of other folks now competing in pizza, when you think about convenience stores, gas stations, et cetera.

So there still is an appetite for broader pizza, and we've got to really consider how we compete, where we show up and how we provide access to the brand. And those are all things that we're addressing in the acceleration of the transformation efforts that we have with the investment that we discussed today.

Operator

Our next question will be coming from the line of Jim Salera of Stephens Inc.

William Prause

Stephens Inc., Research Division

This is Tyler Prause on for Jim. We appreciate all the color around internal initiatives. But as we look to 2027, given no material change in the operating environment, is it more likely than not that North America comps will be negative again for the year?

Todd Penegor

President, CEO & Director

Yes. A little too early to be providing guidance. We would expect clearly sequential improvement on our same-restaurant sales comps into 2027 with the investments that we're making. We do know that we're in a stage where we're going to have to continue to co-invest with our franchise community to raise the bar on operational excellence, meet the consumer where they're at, and continue to tell the story on why we're better, unique, and different than the competitive set.

But we're going to be methodical around where we invest. We're going to be really smart about making sure we can get a good return, some of it offensive, some of it defensive. And what we really want to do is leverage the co-investment to get the entire system all rolling in the same direction.

So whatever initiatives and whatever focus we have as we go into '27, we execute with excellence as one system moving forward. And that's why we're going to continue to invest together. We want to really set this brand up for long-term success, not just chasing short-term sales.

And we're making all of the foundational moves through technology, raising the bar on operational excellence, continue to tell our story on why we're unique, better, different through the marketing messaging that we've had. Those are things that are foundational to build this brand for the long run.

William Prause

Stephens Inc., Research Division

Great. Very helpful. And then were there any geographies that you can point to that performed ahead of the system?

Todd Penegor

President, CEO & Director

Yes. I mean, if you look at where the second quarter ended, and you look at the Northeast, it was probably a little bit softer than the rest of the country. That was primarily a function of them actually being stronger last year.

But if you look at where we performed across Midwest, Southeast, that was probably our better performing regions and the West was somewhere in between. But nothing that was dramatically outsized when you look at it on a 2-year basis.

Operator

Our next question will be coming from the line of Todd Brooks of Benchmark StoneX.

Todd Brooks

The Benchmark Company, LLC, Research Division

I think at the end of the year, we got a partial stat from you folks about franchisee unit level profitability. I think there was a stat that 75% of franchisees were making about $125,000 per unit.

Is there a final stat for the whole system? And are some of these actions that we're seeing you take, whether it's on incentives, marketing investment besides the franchisees, kind of symptomatic that there's not much more to give on franchisee profitability over these next couple of years as you look to improve profitability out of the supply chain and build momentum in the business?

Todd Penegor

President, CEO & Director

Yes, Todd, I think the biggest opportunity we have right now is we've done a really nice job managing labor in the restaurants. We've got the 4-wall wired pretty tight. So each incremental transaction that we can actually bring through a restaurant, the variable profit margin is quite high.

And that is the same on supply chain. With every case unit that we move through our supply chain, we can actually provide some good cost efficiencies to the system. So our biggest opportunity at this stage is to continue to drive transactions.

What we're trying to do is incent the system to raise the bar on operational excellence. We don't want to just discount to drive transactions, we want to make sure the consumer understands the total experience is worth what you pay, a great experience with a high-quality pizza to get customers to come back time and again.

And what we're trying to do is make sure that we incent the system to get ourselves in a position to compete better, get all the co-ops set back up so we can have a strong, coordinated national and local message, continue to work to make sure that the bottom quintile of our restaurants continues to raise the bar on operational excellence. So we don't have the Achilles' heel of inconsistency as a perception across the United States for our consumer base.

But I do think there is a lot of opportunity for our system to continue to work together to accelerate profitability from where we stand today. We're going to be part of the solution with some of the co-investment, but the system knows they're going to have to fight also at the local and partner with us on the national level to bring that to reality.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And then my follow-up, Todd, is product innovation was a driver that you got -- and actually more of a strategy pivot coming into this year versus just trying to compete on value. You spoke about -- and which is almost offsetting the lost revenues from Papadias and Papa Bites.

I'm just wondering, given that we're not necessarily seeing it in the same-store sales results, how are the different innovations performing relative to plan? And is this just a tough environment to get a consumer that's so value-focused to want to try something new versus just the tried and true at a lower price point?

Todd Penegor

President, CEO & Director

Yes, no, I think the consumer is very cautious in making choices with their hard-earned dollars. And in an environment where you want to make sure every one of your dollars works as hard as possible for yourself, you do kind of go back to your tried-and-true favorites that you know can deliver on the experience and not disappoint. And in an environment like that, the role of innovation is a little more challenging to break through.

We think about our pan launch, it mixed really well with our existing consumers, but didn't bring in the number of new consumers that we probably would have expected. The same thing with Toy Story, we got a lot of great excitement to keep the brand cool, hip in the discussion, but it mixed well with existing customers but didn't bring as many new in as we would have wanted.

And I would look at sandwiches as a little more of a long-term opportunity to expand our TAM, as we really think about that as a replacement for Papadias and taking the rhythm-breakers out of the restaurant.

But you are right, innovation in and of itself is a little more challenged to bring in new customers in this environment. I think we can do a better job really telling our story on the third-party aggregator channel and what we can bring that's new, unique, and different to provide new access to innovation, and we're adjusting some of our plans moving forward to do that.

I think that's an opportunity for us. And we're going to continue to really make sure that we find that right balance between innovation, talking about our tried-and-true favorites on the more premium side of the menu at affordable price points and being a little sharper and pulse in a little more value messaging to make sure that we've got a really strong barbell to drive awareness.

But those are good innovations. They're going to play a nice role on our calendar. Over time, I do think they will bring in new customers. We're just not seeing that in the environment today.

Operator

And our next question will be coming from the line of Jim Sanderson of Northcoast Research.

James Sanderson
Northcoast Research Partners, LLC

I wanted to go back to the second quarter to see if you could break out for us same-store sales or sales trends for carryout versus one party -- first-party and third-party delivery?

Todd Penegor
President, CEO & Director

Yes. So if you think about our second quarter, I mean, we were down in North America, 8.3%. That was almost entirely driven by transactions as check was flat. If you look at across carryout, first-party and third-party, our carryout business was down, but hung in there relatively good.

So I would say that would have been down mid-single digit. Our third-party aggregator business would have been down low single digit. And then our first-party delivery business would have been down double digits.

So we got an opportunity to continue to work to optimize the mix across all of our delivery channels and carryout channel. And you see in more recent times, we've rebalanced our calendar a little bit more with Epic Stuffed Pepperoni at a nice price point of $14.99 while having a 50% carryout offer that's great value for our consumers. So we've already gone and made the adjustments to rework our barbell a little stronger to compete better in the back half of the year.

James Sanderson
Northcoast Research Partners, LLC

And a follow-up to that. As you lean into third-party delivery as a sales channel, how do you plan to drive client acquisition through that channel with the marketing investment you're going to make?

Todd Penegor
President, CEO & Director

Yes. We are an early mover, as you know, in 3P. So we got to ride that wave if you go back 5 or 6 years ago. And now it's gotten to be a lot more crowded.

I think what we really need to do is make sure that as we spend the dollars, and I believe we're spending enough dollars in that channel, we've got an opportunity to make those dollars work harder with the promotions that we're putting in place to become more effective, and we're going to make those adjustments in the back half of the year.

And we do know that we're going to have to fight in the 3P channel, not just from a national perspective, but also strongly coordinated at a local perspective. And that's why getting the co-ops set up are so important.

We've got some small things that we can do on how our brand shows up from a visibility perspective in 3P, but we've got good visibility into the things we need to do to check and adjust to compete even stronger in that channel.

And we do think it's a great channel to provide some visibility and opportunity into our innovation to get the consumer to trial us.

James Sanderson

Northcoast Research Partners, LLC

That was helpful. And just last question for me is the rework of the national and local co-ops advertising. How does that fundamentally change the contribution that franchisees pay and the type of budget you could develop over time as your gross sales improve?

Todd Penegor

President, CEO & Director

Yes. So today, the way we're set is 6% national contribution and local is entirely optional. But if we look at what the system is doing between the co-ops that have been reestablished and folks just spending at the local level, we're probably spending in the 1.5% to 2% range today. So there's probably almost an 8%, 7.5%, 8% total that's being spent out there in the marketplace.

What we do know is we've probably got to rebalance that. We probably could use a little bit less on the national contribution and ensure that we've got a mandated amount at the local level.

But more importantly, have the mandated amount to allow us to set up the co-ops to make sure that we got a voice at the table, that we're working with the franchisees and the communities that they're competing in to have a unified message at the local level that then complements the messaging that we have at the national level.

And we just haven't had that coordination. We're making progress on it, but we need to get the whole system there. And we will have to work with the broader system to get a vote to get the right level of national and local in place because we did that both the last time around back in 2023, and we're having those active discussions with the franchise community right now.

Operator

And our last question will come from the line of Sara Senatore from Bank of America.

Grace Nguyen

BofA Securities, Research Division

This is Grace on for Sara. You cited a softer consumer environment as a reason for the U.S. comp weakness, but some other restaurants have reported stronger results this quarter. What do you believe explains that difference?

Is the difference the customer base since Papa John's skews lower income than other QSRs? Is it the competition within the pizza category, including independence on the aggregators or maybe competition from non-pizza competitors, other QSRs, and also convenience stores? And then I have one follow-up after that.

Todd Penegor

President, CEO & Director

Yes. I think the pizza category has evolved, not just on who competes in the third-party aggregator space. And it's not just competition now against pizza, it's competition against all of QSR, but good quality pizza is showing up everywhere. You look at some of the big C-store chains, your local gas stations, they all have pizza.

So we've got to be positioned to compete both on price and quality in a broader environment moving forward. But if you look at QSR pizza category, as I said earlier, it would be down slightly.

But what has happened in our category has become very competitive on price. We had our 2 largest competitors have deep discounting for the better part of at least half the quarter in one instance and the full quarter in another instance. And we didn't answer the bell as strongly as we should have.

We had deep discounting for 1 week in the quarter. We had Papa Pairings running throughout. We had sharp price points on our everyday favorites on the premium side of the menu. But we've got to get that -- the balance of the barbell reworked to compete more strongly in the competitive and the consumer landscape that we're facing today.

Grace Nguyen

BofA Securities, Research Division

Okay. And then you also discussed the possibility of more strategic closures in the 10-Q. And you just mentioned the Northeast as being a bit softer. Are there specific geographies that are underperforming? Prior store closures don't seem to have bolstered comps for the remaining system. So where have the sales gone?

Todd Penegor

President, CEO & Director

Yes. So it's a little early. So if you think about where we are in closures, we've got about 100 closures to date, and those closures have just been happening. So you're not really seeing the full impact of the closures yet on the recapture. We are seeing good recapture on many of those restaurants.

As you go through the rest of this year, we've now telegraphed that with the work that we're doing, partnering with the franchise community of the 300 closures we expected between 2026 and 2027, we may now see about 200 to 250 of those happen in this calendar year.

That is really strong portfolio optimization, and we know we can get some good recapture on many of those restaurants that we closed to shore up not only the restaurant economic model and the existing restaurants, but bolster the balance sheet for our franchise community.

So we think we are pulling some of those closures into this year. I think we're still there, thereabouts on 300 between this year and next year. So we're feeling pretty good about that, especially with some of the co-investment incentives and investment that we're going to put out into the system to support, to compete better as we move forward.

Operator

That concludes today's...

Todd Penegor

President, CEO & Director

I guess that was the last question. So I just want to say, hey, thank you, everybody, for tuning into the call. I know we provided a lot in the earnings call to continue to drive and accelerate our transformation moving forward.

I really appreciate our teams and everything they do day in and day out to help support and fight for this brand to drive our long-term success and the partnership with the franchise community to invest together to continue to move the brand forward.

So thanks for tuning in. We're super confident that we're taking the right steps to achieve our goals and deliver on sustainable growth and value creation for all of our stakeholders. We look forward to keeping you updated on our progress.

Have a great day, everyone.

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