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Papa John's International, Inc. (PZZA) Q3 2024 Earnings Call Transcript

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Press Release



10-Q

EPS of \$0.43 **misses by \$0.00** | Revenue of \$506.81M (-3.06% Y/Y) **beats by \$8.17M**Papa John's International, Inc. (NASDAQ:[PZZA](#)) Q3 2024 Earnings Conference Call November 7, 2024 8:00 AM ET

Company Participants

Stacy Frole - Vice President, Investor Relations

Todd Penegor - President and Chief Executive Officer

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

Conference Call Participants

Eric Gonzalez - KeyBanc Capital Markets

Brian Bittner - Oppenheimer

Andrew Strelzik - BMO Capital Markets

Chris O'Coll - Stifel Financial Group

Sarah Senatori - Bank of America

Peter Saleh - BCIG

Brian Mullen - Piper Sandler

Dennis Geiger - UBS

Jim Salera - Stephens Inc

Jim Sanderson - Northcoast Research

Operator

Thank you for standing by and welcome to Papa John's Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session.

[Operator Instructions]

I would now like to hand the call over to Stacy Frole, Vice President of Investor Relations. Please, go ahead.

Stacy Frole

Good morning, and welcome to our third quarter 2024 earnings conference call.

This morning we issued our third quarter earnings release. A copy of the release can be obtained on our investor relations website at ir.papajohns.com under the News Release tab or by contacting our Investor Relations department at investor_relations@papajohns.com.

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

Before we begin, I need to remind you that comments made during this call will include forward-looking statements within the meaning of the federal securities laws. These statements may involve risks and uncertainties that could cause actual results to differ materially from these statements. Forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our SEC filings.

In addition, please refer to our earnings release for the required reconciliation of non-GAAP financial measures discussed on today's call. Lastly, let me thank you in advance for asking only one question and getting back in the queue for additional follow-ups.

And now let me turn the call over to Todd.

Todd Penegor

Thank you, Stacy, and good morning, everyone. Since joining Papa John's in August, I've had the opportunity to meet with a significant number of our franchisees and team members around the globe. I've also engaged with many of our analysts and investors. These interactions have provided a deeper understanding of our customer needs, organizational structure, and operating model. It is clear we have opportunities to improve execution and profitability. We have work to do, but based on my experience in the industry and my learnings of the company thus far, I am confident that Papa John's has what it takes to be the best pizza makers in QSR and to create significant sustainable shareholder value over the long-term.

Already we have made progress in bringing on new team members who have the right skills and expertise to help us compete and win. Kevin Vasconi joined us in September as Papa John's new Chief Digital and Technology Officer. Kevin and I worked together at the Wendy's Company where I experienced firsthand his ability to lead technology innovation that delivered significant impact for our customers, team members, and franchisees.

This morning, we also announced that Jenna Bromberg will be joining Papa John's as our Chief Marketing Officer. Jenna is an experienced marketing leader in the restaurant, franchising, and retail industry. She has been recognized for her transformative brand campaigns and deep consumer insights. Our teams will surely benefit from her unique blend of quick service restaurant and modern retail marketing expertise that she brings to this role.

Kevin and Jenna are strong complement to the proven leaders we have within the company, including Ravi, who in addition to serving as CFO will now be responsible for Papa John's International Business, and Joe Sieve, who in addition to serving as Chief Restaurant and North America Development Officer, will now be responsible for overseeing all global development, as well as corporate and franchise restaurant operations. By adding industry expertise and enhancing our bench strength, we are bringing fresh insights and energy to our leadership team.

As previously announced, we will be hosting an analyst and investor meeting on December the 12, where we'll share insights and learnings from my first 100 days at Papa John's and our journey ahead. This will also provide an opportunity for the investor community to interact with our executive management team, while tasting pizzas from around the world. While I'm looking forward to a more detailed discussion on December the 12, I'd like to share some initial observations today.

First, starting with our North America business, we must accelerate profitable growth in our restaurant system, and we'll get there through five key elements. First, relentlessly focusing on our core product proposition and improving innovation across the barbell. Traditional superior quality pizza is the foundation of our success. Consumers know us for better ingredients, better pizza, and we need to deliver on this promise consistently, every day, to every customer, across every restaurant. Additionally, we must win the hearts and stomachs of customers with craveable menu items across occasions and value offers. Work is underway on core menu optimization to pave the way for more impactful product offerings. We need to make sure we deliver on our core menu offerings. New menu items resonate with our customers and our margins work extremely well for the system.

Second, amplifying our marketing message to drive customer consideration and call to action across target segments. Our Better Get You Some campaign that was launched earlier this year has traction, but we must enhance the message why consumers should choose Papa John's and highlight our pizza craftsmanship.

Third, investing in modernizing our tech stack to enable commercial and operational efficiency through improvements in the end-to-end digital customer experience and our customer relationship management platform. We need to make it easier for our customers and franchisees to do business. As noted, Kevin has an outstanding record of delivering innovation that drives sales, and I'm confident that he will do so at Papa John's as well.

Fourth, differentiating our customer experience to meet and exceed the convenience, value, and quality expectations of our customers channel of choice. By simplifying our processes, optimizing our menu, and employing technology, our teams will be set up to be the best pizza makers in the business, while delivering exceptional experiences regardless of the order and delivery channels.

Our Papa Rewards loyalty program is a great example of how we can evolve our customer experience in the near-term, while investing in and building capabilities over the longer term to enhance the lifetime value of customers ordering from Papa John's. Today, roughly one quarter of our active program members have not yet reached a reward due to the current thresholds.

In the fourth quarter, we will allow members to unlock Papa Dough faster, activating our members at higher rates to help drive transactions and frequency. The construct of the program is simple. We believe that converting points to Papa Dough in smaller increments to members can unlock rewards faster for more immediate customer gratification. This is just the first step as we plan to make further improvements to our loyalty program. We understand the importance of building a program that innovates ahead of the category. Our loyalty program must be flexible and easy to understand to create strong, emotionally connected consumer engagement that seamlessly integrates with our creative, paid, earned and owned messaging.

We see so much opportunity here, with the greatest impact to come for more quickly driving that all important second purchase and shrinking the number of days it takes for future visits to occur. It is critical that we take the time needed and make the proper investment to develop and launch a long-term structure that will deliver the rewards our customers deserve with unique brand experiences that matter to them, while maintaining a strong focus on acquiring new loyalty members.

Finally, partnering with and evolving our franchisee base to be growth-oriented, focusing on increasing our market share through strategic new restaurant development and priority markets. From a development perspective, the North America market is our most secretive development opportunity and we remain committed to accelerating the expansion of our domestic footprint moving forward. Our teams have made substantial progress this year in identifying real-time cost savings throughout the development process, which enhances the value proposition for franchisees to expand their portfolio.

Through these efforts, we now anticipate our remaining company-owned restaurant openings in 2024 will have an average build cost of approximately \$500,000 excluding marketing incentives and we are continuing to look for opportunities to further reduce these costs in the future. I'll have more details on how we specifically plan to deliver against this roadmap in December, but want to underscore that we're acting with urgency. We are laser focused on strengthening our foundation in the near-term, while positioning the company to capitalize on opportunities to drive success and value creation over the long-term.

Next, looking at our international business. Our international strategy requires a narrower and deeper focus on the most impactful territories to fuel growth and create long-term earnings power. Simply put, international is not a large generic market. We see it as a collection of markets that we will target with an informed consumer-centric mindset. The establishment of regional restaurant support centers and the hiring of experienced leaders to create holistic strategies within their markets has helped to align global best practices and operations, marketing, and technology with local preferences and needs.

In China, we are focused on establishing a sustainable operating model to accelerate growth in this important global market. Korea and Spain are well established markets with a solid foundation that we can continue to build on to drive long-term growth through product innovation, operational excellence, and new restaurant development to improve penetration and accessibility. In Latin America, we continue to build on our strong market share and remain focused on being the brand of choice.

Finally, I've had the opportunity to travel to the U.K. this quarter with Ravi and several others, and we're incredibly proud of the work that has been done in this market over the past year. This progress is a great example of the power of focus and teamwork. We've learned a lot through this process and gained tools that we can use in the future both in the U.K. and in other markets. Their innovation pipeline is robust, insights driven and consumer led, supported by a strong marketing focus. I'm excited to see how these markets and our international presence will grow under Ravi's leadership and look forward to building upon this momentum.

Over the past three months, my conviction in Papa John's has only grown stronger. We are refining our strategic priorities and re-energizing our team members and franchisees as we position ourselves to make the restaurant system better and more effective. We are committed to making strategic investments that will enable us to build for the future, propel durable growth and value creation, and help ensure consumers have us as their top choice in their consideration set.

We are working with urgency to strengthen the business in the near-term, while also working to position Papa John's for long-term success and category leadership with a challenger brand mindset.

And with that, I'd like to turn it over to Ravi to discuss our third quarter results. Ravi?

Ravi Thanawala

Thank you, Todd, and good morning, everyone.

I'd like to start by echoing Todd's comments about the heightened level of focus and dedication across Papa John's today. While we continue to face external pressures, our teams have been executing well against our strategic objectives and we are starting to gain traction. We will stay focused on the things in our control and positioning Papa John's for value creation, especially as consumer spending rebounds.

Now let me turn to the details of the quarter. In line with our expectations, the challenging sales trends we saw in the first-half of the year persisted into the third quarter, and we expect they will likely continue as we close out 2024 and enter 2025. Global system-wide restaurant sales for the third quarter were approximately \$1.2 billion, down approximately 3% in constant currency. The lower sales were attributable to lower comparable sales, partially offset by a 2% net unit growth on a trailing 12-month basis. North America comparable sales were down approximately 6% from a year ago.

Similar to the first-half of 2024, we saw lower transactions as we continue to grow in our aggregator channel was more than offset by a decline in our organic delivery and to a lesser extent, a carryout business. We estimate this shift in channel mix once again, created an approximate 100 basis points as when to comparable sales in the third quarter driven by the relatively profit neutral impact of reduced delivery fees, an impact which is expected to continue through the remainder of this year.

As we discussed last quarter, in this current economic cycle, consumers have become more deliberate in managing their overall ticket and are showing a preference for brands that are offering a compelling value. Throughout the third quarter, we shifted our efforts and investments towards initiatives that improve our value perception, while still protecting our brand positioning. These efforts are having a positive impact on transactions as we saw year-over-year momentum build throughout the third quarter in both carryout and delivery channels.

In fact, our carryout transactions turned positive in September and that trend continued in October. It will take several more quarters to further narrow our value perception gap versus others within the QSR segment. But the tests we are running within our company-owned restaurants give us confidence that we can produce incremental wins over time. Having Papa pairings always on promotion has also helped, and we are working to refresh this great offering to keep it exciting for our customers.

As Todd mentioned, we are moving with urgency, but it's also important to strike the right balance between volume, price, and unit profitability to maintain a strong competitive position for the long-term.

From an international perspective, comparable sales were down 3% in the third quarter as we continue to operate in a dynamic environment across several of our key markets, including the Middle East. Excluding this region, our international comparable sales were down less than 1% from a year ago. We remain encouraged that our international transformation initiatives will yield gains and position us for strategic growth in the years to come.

Total revenues for the third quarter were \$507 million, down 3% from last year, primarily reflecting an approximately \$10 million decrease in international revenues, reflecting the closure of 43 underperforming U.K. company-owned restaurants in the second quarter of this year and the refranchising of 60 company-owned restaurants in the U.K. market through the first nine months of 2024, an approximately \$8.5 million decrease in domestic company-owned restaurant revenues, reflecting lower transaction volumes and to a lesser extent ticket and an approximately \$5 million decrease related to preferred marketing of formerly wholly-owned print and promotions company which was sold in the fourth quarter of 2023. Somewhat offsetting these revenue declines was a \$5.5 million increase in North America commissary revenues due to higher commodity prices in the quarter, partially offset by lower volumes.

Turning to profits, adjusted operating income for the third quarter of 2024 was \$29 million, down \$4 million from a year ago, the year-over-year change in adjusted operating income was a result of anticipated lower operating margins at our domestic company-owned restaurants as we strategically reinvested some of our first-half savings into improving our value perception with customers.

As a reminder, the third quarter is typically our lowest margin quarter due to seasonality of sales. Overall, our domestic company-owned restaurant segment margins declined approximately 360 basis points, compared with the prior year third quarter. The lower margins were primarily driven by an approximate 190 basis point decline from higher food basket costs, particularly around cheese and chicken, which were anticipated, and an approximately 40 basis point decline from lower average ticket.

Restaurant labor costs were roughly flat with the prior year third quarter as our teams continue to do an excellent job optimizing the business model as we see shifts in channel mix and consumer demand trends. Through the first nine months of 2024, our adjusted operating margin was 7.3%, approximately 30 basis points higher, compared with the first nine months of 2023. For the full-year, we anticipate adjusted operating margins to be roughly flat with the prior year, when excluding 2023's 53rd week benefit.

Moving on to cash flow and our balance sheet. For the first nine months of the year, net cash provided by operating activities was \$56 million. Free cash flow was \$9 million, a decrease compared with the prior year, reflecting unfavorable changes in working capital and timing of cash payments for advertising and income tax, partially offset by a \$4 million decrease in capital expenditures.

Our business operates with ample liquidity, which at the end of the third quarter totaled approximately \$291 million in cash and borrowings available under our revolving credit facility and a gross leverage ratio of 3.0 times. Our continued financial prudence and strong balance sheet supports our ability to invest in the strategic initiatives that we've discussed today and navigate the continued challenging consumer environment, while maintaining our financial stability.

Turning to our outlook, we are narrowing our 2024 North America comparable sales guidance to a range of down 3.5% to 4.5%, which implies down low-single-digits to mid-single-digits in the fourth quarter. Through our first four weeks of October, North America comparable sales were down approximately 4% with transaction trends continuing to improve. This is a result of strategic pricing decisions as we focus on improving our value perception by prioritizing transactions over ticket in the near-term.

We expect to see gradual improvement in both value perception and sales throughout 2025 as we begin to see the benefit from the strategic decisions that we have executed this year. Internationally, we anticipate full-year 2024 sales comps will be down low-single-digits, but improving year-over-year. We also anticipate fourth quarter comps to be down low-single-digits as the softer consumer environment in China is somewhat offset by solid performance in other regions.

We are pleased with the continued progress of our international transformation initiatives and we expect this segment of our business to be a profit growth contributor going forward. We anticipate 2024 adjusted operating income to be between \$135 million to \$150 million, a slightly narrower range than we spoke of previously as our teams execute against our strategy and operate with agility and making strategic investments to drive long-term growth.

We continue to expect benefits from three areas. First, the increase to our fixed commissary margin. Second, our international transformation initiatives, notably the closure and refranchising of the U.K. restaurants mentioned earlier. And third, continued growth in North America development. However, we expect these benefits will be somewhat offset by lower North America comparable sales and incremental investments in advertising to support our year-to-go initiatives.

In terms of other non-operating expense items, we expect our G&A expense for 2024 to be between \$70 million and \$75 million, our net interest expense to be between \$40 million and \$45 million, our capital expenditures to be at the lower end of our \$75 million to \$85 million range, and our tax rate to be at the higher end of our 23% to 26% range.

From a development perspective, the North America market remains Papa John's most accretive development opportunity. We have opened 49 new restaurants through the first nine months of the year, while closing 28 resulting in a total of 21 net new North America restaurants. And as Todd mentioned earlier, we continue to be pleased with new restaurant performance.

This brings our total North America restaurant count to 3,454. For fiscal year 2024, we continue to expect to open more than 100 new restaurants, while also anticipating closures of underperforming restaurants to remain well within our historical norms. With this in mind, we anticipate 2024 that new openings to be between 50 and 60 restaurants with a significant number of openings still to come in the fourth quarter.

From an international perspective, through the first nine months of the year, we have opened 115 restaurants on a gross basis. These new restaurant openings were offset by 130 foreclosures primarily in the U.K., certain Middle East markets, and China as we execute against our narrow and deep strategy of top priority markets. This brings our total international restaurant count to 2,454. The teams in our regional restaurant support centers are doing an excellent job engaging with franchisees in their local markets to build focused development plans and improve unit economics.

Given the progress we have made, we now expect fiscal 2024 gross openings to be between 170 and 190 new restaurants, exceeding our original guidance of 100 to 140 gross new international restaurants. The last few quarters have been challenging for many of us in the QSR marketplace, but I am incredibly proud of everyone on the Papa John's team for their disciplined execution, focused on improving our customer experience, and resilience as we chart a path to capitalize on the many opportunities ahead.

I'm confident in the strength of our brand and our ability to deliver on our goals and generate incremental value for all of our stakeholders. Todd?

Todd Penegor

Thank you, Ravi. As we move forward together, our number one priority will be to create great experiences for our customers and employees and our restaurants, while also ensuring the restaurant economic model is very strong. When done right, we make the best pizzas in the business with high quality ingredients and our focus is on bringing this to life with every order.

Our leadership team comes to Papa John's with the track record of driving commercial success within QSR and other consumer facing industries and I'm excited to work alongside them to unlock our full value potential. In partnership with our board and franchise leaders, we are actively evaluating our business and refining our strategic initiatives to drive success across the system and ensure we are well positioned to compete even stronger in 2025 and beyond.

At this point, we'd like to open up the call for any questions you may have.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Eric Gonzalez of KeyBanc. Please go ahead Eric.

Eric Gonzalez

Hi, good morning and thanks for the question. It's clear for me the margin decline in the company and stores that there was a fair amount of testing and iterating that was done this quarter. So I was wondering if you could talk more about the learnings that were achieved from this investment and how they can be applied going forward? And maybe if you could touch on how we should think about margins in the fourth quarter, perhaps the first-half of '25, and whether we should expect another quarter or two of reinvestment, or you think you have a better sense of the go-forward plans, such as the margin should be a bit more normalized?

Todd Penegor

[Technical Difficulty] and learn. We were looking at a lot of different value propositions during the course of the quarter, around 699 tests on two mediums, some carryout tests at different price points, some sides tests, some bounce back tests. Did a lot of work to really figure out what we needed to do to really supplement what we have in our loyalty program, what would happen if folks had additional Papa Dough, would it drive, you know, transactions to the restaurant and reengage a lot of those loyalty users. So we've been learning a lot and we've been checking and adjusting pretty quickly as we move through all of that.

And what you've seen and you heard on the call is starting to help us really bend the trends on some of the transaction trends that we've had in our business through the course of the quarter and into the start of the fourth quarter. Still have work to do, but we're going to take those learnings, apply them, make sure that we've got a strong calendar to come out of the gate to compete early next year, and then make sure we get onto the regularly scheduled programming with a great balanced innovation calendar with news across both the premium core side of the equation, as well as on the value side.

Work to do to make sure we're making the best pizzas in the business. I know we can continue to improve the quality, not just from an execution, but from a design of our pizzas. I know we can continue to make sure that Papa pairings is relevant. But we know we've got some headwinds, too, on the commodity front end of the year term that provide a little bit of pressure on margins. And we're going to have to thread the needle both on transactions and price realization mix as we work through that. Any other thoughts, Ravi?

Ravi Thanawala

Yes, thanks, Todd. And Eric, they are going to be a few more specifics that may help you. First, like the way we're thinking about Q4 food costs is that the food basket will be up mid-single-digits. As Todd mentioned, our focus is first continuing to focus in on transaction gains. As we continue to see improvements, we'll start to inject margin initiatives as we go. But what we're seeing is that when we ran some of our tests and we saw improvements in our value perception, we saw improvements in our consideration, we're seeing better repeat rates, these are all long-term indicators with our focus in terms of our new mix of promotional cadence, we will regain transaction momentum and we're going to do it at a solid variable profit.

As we talked about in our prepared remarks, it's going to take some time, and we talked about we're going to sequentially improve as we go in terms of value perception. And, you know, like we're excited about the test results we've seen. In Q3, we talked about our digital experience update in the app. And what I would say is like with seven year, we're already starting to see some of the impacts of the work that the marketing plus the technology teams are doing and our conversion rate went up in our app. And that was another example of the long-term opportunities we have in the business.

Todd Penegor

Yes, we need to ensure that we're in the consideration set time and again when people are thinking about choices across not just the pizza category but the QSR category. The work we've been doing is really about how do we bring them back in, how do we bring them back again, and then how do we trade them up over time? And those are the opportunities where we can actually continue to drive this business and make sure it's balanced for the consumer as well as for the economic model at the restaurant level.

Operator

Thank you. Our next question comes from the line of Brian Bittner of Oppenheimer. Your question please, Brian.

Brian Bittner

Thank you. Good morning. As you just take a step back and you evaluate the same-store sales in the third quarter and into the fourth quarter. What do you believe is the biggest driver of the underperformance against your two largest peers in the industry, I guess? Do you believe it is primarily value perception, Todd? Or are there other reasons worth pointing out that's driving this gap? And as you do lean in more to value, how do you protect franchise profitability as you move forward in 2025?

Todd Penegor

Yes, I think value perception is a big part of kind of the momentum challenges that we've seen in this business. And we have a lot of value across the menu. So we had to come back and start to talk about what we've already had. You start to think about what we did with the XL New York style at a \$10.99 price point, a great pizza on a premium side with a really good price point. Having Papa pairings always on has certainly helped reengage. And those things are things that we've consistently done in the past.

You know, as we moved into the fourth quarter here, we've traded up a bit with Chacaroni at a \$12.99 price point. But we need to make sure that we're back in the consideration set, first and foremost, to be competitive on price. But we also have to amplify our message around quality and why we're uniquely different. And you think about everything that we do day in and day out in our restaurants from the fresh never frozen dough to the six simple ingredients to the farm to fork on what we do with our pizza sauce and in our vegetables to high quality cheese and proteins. We haven't paid that story off to continue to make sure that the consumer has us the top of the list when it comes to high quality pizza at an affordable price.

And we've got work to do on that to make sure we are focused on renovation on our core pizzas, take some of the complexity out of the restaurant so we can be the best pizza makers in the business, and then really get into a nice cadence with some innovation, both on the high-end and the low-end of the barbell, to drive some more frequency into our business. And I think that's where we get the balance. How do we start to get folks to start coming back into Papa John's more often, drive a little bit of frequency, engage better with them through our loyalty program, and that's why we're making some of the revamps with Papa rewards. Leverage all the data that we have to better communicate, not just journeys, but more of a one-to-one basis, and we got a lot of great data.

I'd have more targeted specific deals rather than kind of the national deal all the time so we can discount a little more surgically. I think the combination of all of that will help us not only thread the needle on bringing folks in more often and being in the consideration set, but ultimately driving the restaurant economic model. And that's going to take a little bit of time with some of the commodity headwinds in the near-term, but we're very focused on that to make sure it's an and, right? When the hearts and minds of the consumer, as well as partner with the franchise community on the restaurant economics.

Ravi Thanawala

Maybe two additional points to add. The first is when you look at year-to-date through Q3, four wall EBITDA dollars for the corporate restaurants, we were actually flat to 2023 levels and slightly ahead at 2022 levels. Second, just like as we decompose the business, we see the go-forward power of incremental transactions being really impactful in this business. When you look at the gross product margin for a blended business, we're still earning more than \$17 in product gross margin per transaction, and you just look at the carryout business, it's north of \$13. So what we're confident in is like as we continue to work those areas that Todd talked about, there's clear opportunity for us to drive restaurant profitability for the long-term.

Brian Bittner

Thank you.

Operator

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

Andrew Strelzik

Excuse me. Good morning. Thanks for taking the question. You know, clearly a lot going on in a number of focus areas. You've been pretty clear this is going to take some time. But my question is about the sequencing of all these initiatives. And I guess I'm curious where you think there's the greatest opportunity to move the needle in the short-term and where we might see that show up initially versus more over the medium to longer term, you know, as you implement changes across the strategy? Thanks.

Todd Penegor

Yes, thanks, Andrew, for the question. I think, you know, job one for us is how do we really get on the journey of investing and really modernizing our tech stack? The work that we're doing right now to make sure that our loyalty program's more relevant, not just to drive that all important first purchase, but to really bring them back for the second and the third, which is a huge opportunity for us. As we've tested and learned on what we could do if you supplement customers' Papa Dough accounts to see what it does to drive a call to action to come to Papa John's, it's been encouraging.

So super excited about getting that live as a real first step here in the fourth quarter knowing we've got work to do to really modernize and find out what our next generation loyalty program is. I do think that's job one. We've got a lot of other opportunities on the tech side too that we've got to address. We've got to create less friction. We've done a lot of great work so far in the app. Putting the Papa Dough up front has certainly helped us on the conversion front. We're doing some work similar on web ordering. So I know we've got some opportunities there to make that more frictionless.

So I really do think around the tech stack and some of the technology initiatives that we're working on. It's kind of the near-term where we can actually regain some transaction. Partnering with the franchise community to make sure we got a really good high-low balance calendar is another one that helps us in the short-term. But most importantly, in the long-term, we've got to get back to our game. How are we making the best pizzas in the business? What are we doing to pave the way to really make sure that we don't have a lot of rhythm breakers in the restaurant so we can make those best pizzas.

How do we bring some news from an innovation perspective and how do we continue to focus on the core quality, both from an execution perspective, as well as what we want to do on the design of the pizza. And we got a lot of work on that, which are longer term wins for us. So I think those are the couple of things that we're really trying to focus on. And then ultimately, how do you tell that story unique and different and really have that challenger brand mindset, be a little more scrappy, find a different way to connect to the consumer to really tell our story of why we're unique, different, and better.

Andrew Strelzik

Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Chris O'Coll of Stifel Financial Group. Please go ahead, Chris.

Chris O'Cull

Thanks. Good morning, guys. I apologize if I missed this, but Todd, it sounded like the company plans to make some additional advertising contributions. Can you clarify that is the plan and maybe what level of investment the company could make?

Todd Penegor

Yes. So Chris, a couple of things. So if you think about the guidance that we provided when I first got here for the third -- for the full year, we tightened that range today on operating income to the 135 to 150. And what we've done is supplemented some incremental investments, both from a digital marketing as well as a traditional marketing perspective to the tune of about \$3.5 million.

So we're still within that guidance with incremental investments and advertising to finish out the year. And it was in partnership with the franchise community to make sure we're putting a little bit more pressure back into the local markets to make sure we continue to drive some momentum in our business to finish out this year.

As we look to next year, you know, we'll talk a lot more about this in future meetings. But there could be some opportunities where we need to co-invest alongside the franchise community to really drive our business. We got to get the balance right between the national advertising and the local advertising. We're having a lot of good discussions with the franchise community on that.

And beyond marketing, we know we got to invest in technology. And the good news is in partnership with the franchise community, we recently increased our tech fee from 1.5% to 2%. Going forward, we may have to front run some of these technology investments because we know there's some low hanging fruit opportunities in the short run. We're still really trying to refine all of those plans and we'll talk a lot more as we get to my 100-day observations in December and ultimately into next year as we start to provide some guidance for 2025 and beyond.

Chris O'Cull

That's helpful. And then just given the top line challenges, does the company -- have you considered revisiting the commissary price increase or maybe having some franchisees reallocate some of that to maybe advertising or something that could help with the top line?

Todd Penegor

I think we needed to become more competitive in the commissary system. I do think the increases that we have out there are appropriate. What we really need to do is drive transactions and sales because there's a great rebate scheme when we do that. And beyond driving sales to drive the rebates for the system, we got to continue to work to find more productivity opportunities through the entire commissary system, whether that's on the production side or on the distribution side. And Kurt and the team are actively working on that.

I think our biggest opportunity is really to make sure we get this balance right between thinking nationally, acting locally, spending on the national level, but also having some fuel to go compete locally. And it's really challenging to compete locally when you don't have co-ops. As we got rid of the commitment to do local advertising, we still got a lot of the system doing it. What went away was the co-op.

So you don't have that local group or franchise meeting together with the company to think about how those local plans can really be amplified, come together as one system in the markets where we've got some strong positions. And that's a miss for us right now and we're going to have to continue to have some discussions with our franchise community to figure out how we get that balance back right into the future.

Chris O'Cull

Makes sense. Thanks.

Operator

Our next question comes from the line of Sarah Senatori of Bank of America.

Sarah Senatori

Oh, thank you. Clarification, and then a question, please. So just on the trends of transaction improvement through the quarter, and I guess into October. To some extent, I think we've seen improvement through the quarter from other restaurants as well.

So to what extent is the improvement that you're seeing a function of perhaps more of a benign macro of more consume -- better consumer spending versus share shifts or your ability to claw back some of those transactions? So that, that was just one part.

And then the second question is, as you think about, you know, 1P versus 3P, it does seem like the third party continues to be stronger and I guess I'm wondering -- I know that it's profit-neutral. But you know that the data obviously and the intermediation that happens when you have a 1P transaction just seems like that's much better.

So have you thought about whether there's a way to incentivize consumers to come back to your ordering? I know incrementality is in that 50% to 60% range. So that suggests there are a lot of consumers who know about your app, but are still choosing to order on prepaid. Thanks.

Todd Penegor

Yes, I'll start, and I can have Ravi chime in with a little more detail. But as you think about the transaction trends, throughout the quarter, the sequential improvement, we're both on an absolute and a comp basis. So you do have some seasonality, but it was nice to see that those improvements were on both fronts.

Probably a balance. Some of the things that we've adjusted in the consumer starting to come back into the space a little bit more, looking for a treat, and food away from home. And we saw that in the industry from the first month of the quarter to the last month of the quarter. So I think there was probably a balance there, Sara, some of the things we're doing and some of the things the consumer is doing, which is probably a nice healthy mix.

1P versus 3P, at the end of the day, the best experience, the best deals need to be found in the first part and we clearly want to continue to drive our customers there. That's why we're working so hard on the loyalty program to get a revamp out there quickly. That's why we're going to continue to work on the loyalty program to drive it even harder into the future to make sure that hey, you get the best deals, the best offers, and ultimately the best experience when you're managing everything through the first party and we'll continue to work to make sure we got that mix right between first party and third party.

Clearly, we're competing well in third party and pizza's got an opportunity to win even more share of voice and share a stomach in third party, not just Papa John's, but the entire industry. So I think there's still growth there, and we got to be conscious of finding the right balance between that 3P and 1P.

But anything else, Ravi, as we've been working plans?

Ravi Thanawala

Yes, maybe like three proof points for you, Sara. First is like when we looked at like peak days to compete in Q4 today, such as Halloween, we performed really well when competition was high, Halloween was actually the highest day of sales that we've ever had in Papa John's.

Second is like when we look at specifically carry-out trends, which is something that uniquely need to come to 1P from, we turned positive in October, we saw additional acceleration in November month to day. We're cautiously optimistic there. We want -- the consumer is still navigating a very challenging moment.

And the third is, we tested a number of loyalty strategies over the course of Q3. And what we saw is when we ran these tests that we did bring more transactions than consumers into our 1P business. So this is a multi-step process and we're really tearing down the business to make sure that we're striking the right balance of serving consumers with where they want to be served and some of them are in 3P, some of them are absolutely in 1P.

But Todd's point -- we see opportunity to focus in on making sure the best experience and value you get for the Papa John's brand is in our first-party channel.

Sara Senatore

Thank you.

Operator

Thank you. Our next question comes from the line of Peter of BCIG. Please go ahead, Peter.

Peter Saleh

Great, thanks. Just a couple of quick ones. Just on the development side, I know you're planning for 50 to 60 net new units in the US or North America this year. Can you talk a little bit about the incentives and the success that you're seeing with the incentives this year? And are you planning to expand those incentives into 2025 on the development side? I know those incentives that stick around a little bit, but they are just not as powerful, I think in 2025.

Just any thoughts on the development as we go and the incentives as we go into 2025 would be helpful.

Ravi Thanawala

Thanks for the question, Peter. I'll start and Todd jump in with anything I miss. So first, like our big focus led by Joe and the team was to make sure that we had a relentless focus on improving the unit build cost, because ultimately, we want the unit economic model to stand on its own for the Papa John's business. And as we talked about, we've gotten our buildout costs down to \$500,000 and that's a meaningful improvement versus the run rate we were on during the pandemic and slightly thereafter. So first that has had an impact and we see that as really beneficial too.

We believe that we are creating incentive right now for our franchisees to develop and we talked about gross openings north of a 100 locations this year. And we're encouraged and glad that we're in that spot. We're going to continue to evaluate incentives as we go forward to strike the right balance of developing in the right markets across the United States and across the world. But fundamentally, we think that as we continue to drive transactions, we continue to improve buildout costs, we continue to work our core menu and be the best pizza makers -- like the model gets stronger and stronger over time.

Todd Penegor

I think you hit it all, Ravi. I mean, the incentives that are out there, I mean, the 0% NMF for five years for 2024 going down to 3% in 2025 or still 0% for three years in 2025, those are really strong incentives and it really comes down to the confidence and a growth mindset of the franchise system. And the more momentum we start to build in this business, the more confidence that we start to create as we go into next year -- if we look at our development pipeline for 2025 where we sit today, we've probably got more visibility right now than where we would have been a year ago at this time for visibility into this year.

But a lot of that is, how do you continue to drive some momentum in the business and confidence in the franchise community to really invest back into their businesses and then into the trade areas that we know we should be able to serve. And that's our job. Then some trends have an attractive incentive, make sure the economic model is really strong. And really start to lean in to provide more access to our brand and we're working that hard.

Peter Saleh

And just to clarify on the guidance, \$135 million to \$150 million in operating income for the year, it's a pretty wide range for 4Q given that guidance. Is that a reflection of just the investments and the test and learn that you guys are still doing or is there something else that keeps that range rather large for 4Q?

Todd Penegor

More of a testament to some of the flexibility that we want to continue to invest, to compete, to finish out the year-end and build a little momentum and some of the work that we're doing on some testing as we evolve some of the digital programs out there. So we kept it purposely a little bit wide to account for the unknown on a couple of those things. And give us a little more flexibility to finish out the year with some momentum.

Peter Saleh

Understood. Thank you very much.

Operator

Thank you. Our next question comes from the line of Brian Mullen of Piper Sandler. Your line is open, Brian.

Brian Mullen

Thank you. Just to follow up on development, Todd, wondering if you view the domestic system still being about 15% company-owned. That's something that makes sense for Papa John's over the long term. And in your prior answer, as you continue to stabilize the business, build up that confidence with franchisees also make progress with cost to build. Could you envision doing any refranchising with development agreements attached with franchisees that might be willing to build?

Todd Penegor

Yes. No, thanks for the question, Brian. And we clearly did some refranchising as part of the transformational work in the U.K. already before my time and continued that into the third quarter. In the third quarter, we refranchised 13 restaurants in Wisconsin. And we are actively evaluating the appropriate mix of company ownership versus franchise ownership and refranchising really has to come with how do you put restaurants in the right hands of operators that are growth minded thinking about investing into the future, want to reimagine storefronts, want to sign new development commitments, and are really partners of the brand to continue to drive all of us forward into the future.

So as we're going through all of our strategic initiatives, we are looking actively at what's the right level of company ownership, what's the role of refranchising and how does that help stimulate even more growth for our system as we scale up franchisees that are growth minded and bring some new folks into the system to make sure we got some new growth minded franchisees that want to be part of the Papa John's journey in the future. So we are actively looking at that and we'll talk more about that at future dates as we get together.

Brian Mullen

Thank you and just a quick follow up to that and thank you for all the answer that -- 5% seems to be a level that other QSR systems stop it. And I think there's benefits to continue to own restaurants. If you were to go down this path, would you envision wanting to continue to own some restaurants?

Todd Penegor

I think it's always important to own some restaurants, Brian, whether it was in the last system or this system. You have to have the operating backbone so you can buy and/or sell over time depending on what's happening in the system with the franchise community. It's the right number, 5%. I think the right numbers have enough skin in the game to actually be a great brand steward and have enough restaurants that we're really proud of that we can run the heck out of to really be a role model for everybody else across the system to send the bellwether on sales and profits along the way.

So 5% I think was a made up number way back when by a lot of us in the restaurant industry. We will go look at what is the right level of restaurants for Papa John's to have to be that great Fran Stewart and make sure we got the operating backbone, but it is probably something less than we have today, for sure.

Brian Mullen

Thank you.

Operator

Thank you. Our next question comes from the line of Dennis Geiger of UBS. Your question please, Dennis.

Dennis Geiger

Great. Thanks, guys. I wanted to ask just about the asset base globally first and just that international footprint specifically. Not sure if I missed it, but any comment on additional closures from here, if you think generally, you're getting closer to where you want to be from a footprint, internationally.

Todd Penegor

I'll turn it over to Ravi, now that he picked up the international business. So I'll put him on the spot.

Ravi Thanawala

Thanks, Dennis, for the question. And as we've talked about the last couple of quarters, we're getting sharper on our priority markets where we see meaningful long term growth opportunity as well as development opportunities. And then we think that there's like a handful -- probably between seven and 10 territories that are going to have an outsized impact. So there may be some additional pruning of the fleet on a global scale.

However, we believe we made the right steps this year to get ourselves to the right spot. We talked about how we expect the international business to be a net profit contributor going forward. And I just want to remind you of that point. And then lastly, as I look at the results for Q3 across the international markets, we're definitely spending our time on this narrow and deep strategy.

And like in our top two LatAm markets, we were high-single digits or low-double digits growth from a com basis was driven by transactions; similar in terms of some of our key markets in the media, high-single digits or low double digits growth. And in Korea, another one of our important markets where we're up mid-single digits, so there were some puts and takes across the markets. But I just want to reinforce where we want to grow, we are putting our time and energy and we're starting to see the proof points come to life of where we lean in and focus in, we're seeing gains, but narrow and deep in a really thoughtful approach to how we develop, it is critical to my international strategy.

Todd Penegor

And it's been great. As I've had the opportunity to learn the business and get out into some of the markets, the work that we've done in the U.K. to set it up for long term success. It's not just the things we talked about on the prepared remarks, but spending a lot of time with the franchise leaders, willing to lean in and invest back into marketing to compete in that market, that's exciting. Because they got the confidence into the future. I was at another Board meeting in Chile, met with our folks down in that market, clearly driving a lot of sales and a lot of growth in another market in Latin America. And I know we've got a couple of markets, Chile, Peru, that have been doing quite well.

But there's a couple of handfuls of market in the spirit of narrow and deep that I know Ravi is going to spend a disproportionate amount of his time. And even within those markets go narrow on where you really need to scale up key markets to make sure our brand is relevant, accessible, and has the brand presence it needs to drive the economics to fuel even more growth in those markets. So looking forward to that journey and Ravi's partnership with Joe Sieve to bring that to life.

Dennis Geiger

Thanks guys, and just one more if I could quickly slip it in, just because it comes up a decent amount. How do you think about the competitor intrusion maybe next year in the key areas of strength for you -- third party, select key menu items. Anything you do differently to plan for that or do you play the game that you outlined and things will take care of themselves? Thank you.

Todd Penegor

Yes, I think we play the game we outline. I mean, if you think about other folks picking up other platforms in third party, we've competed well on innovation, we've competed well on price. The pizza category still has an opportunity I think in third party to drive even more penetration as we've been traditional first party.

But I do think if we play our playbook, find the right balance to compete in 3P, make sure we get the best deals and the best experience in 1P. I think we can start to bend some trends on net-net between the two channels on what we're doing on the delivery business. And it's going to be a great balance of making sure that there is good value there. That's not just the sharp price point, but that's value for the money -- whether that's the service experience, whether that's the food, whether that's the price and we're going to work hard to bring all those three things together.

But any other thoughts, Ravi on that one?

Ravi Thanawala

Maybe a pretty quick proof point. First, we continue to see sequential growth in the 3P business, even though it continues to be competitive and we had strong gains and both of the two big players in that space. Second, absolutely like the QSR space is dynamic and aggressive right now, but our carry-out business did turn positive in October and we continue to be encouraged by those results.

And three, we really leaned into the data science on the marketing and we're identifying LTOs that specifically drive, repeat, and re -- and engage our frequent and super frequent consumers. So as I said, like we're going to go play our game, but we are closely watching the business and checking and adjusting like a great digital native company would.

Todd Penegor

Which has been great for me to see, right? As we walk, watch this business and learn this business, for me personally through my first almost 100 days now, I mean, ensuring that we're consumer-led, insight-driven in everything we do to make sure that when we go act, we've got confidence that we're going to get a return for the actions that we're taking, and really making sure that we have that challenger brand mindset to play the game a little different to be disruptive. Those are all opportunities ahead.

I feel great. Finally got to build out the team, having Kevin on board, Jenna Bromberg getting announced today on the marketing side, Joe and Ravi picking up expanded responsibilities. It's a team that I'm super proud of, but a team that works really well together and I think you're going to see that those benefits play out and not only how the senior team works together here, the talent we have below the senior team, but our partnership with the franchise community to lean in and play a different game to compete even stronger as we finish this year and get into 2025. I'm really excited about these days ahead.

Operator

Thank you. Our next question comes from Jim Salera of Stephens, Inc. Your question please, Jim.

Jim Salera

Hey guys, thanks for fitting this in. Todd, I wanted to go back to something you said earlier about pizza competing for bigger share of voice and stomach on third party. Do you think that that there's still a big incremental awareness opportunity on those apps? Or is it really just about getting customers to re-engage at a higher frequency with either Papa John's or the pizza category more broadly?

Todd Penegor

Yes. No, thanks for the question, Jim. I do think there's a little bit on the awareness front. I mean, folks are so traditionally used to, either calling the restaurant or ordering on the web or the app directly from a first party. So they're starting to learn that pizza is now available also on third party. So I think there's a little bit on the awareness.

But the more reps that folks get, they're not going to carry that many apps around. I think that once they start to look at the variety, they look at the quality and ultimately, look at the value for the money. When you think about what pizza can do, feed a family of four, an extra-large pizza, a side and a drink. It's a really affordable price even delivered with a tip. So I do think folks will start to see there is real value in pizza.

A third party will then -- as they start to realize that between the awareness and the reps, I think you'll start to see more frequency and an opportunity to grab a little bit of share in the pizza category in 3P and then we'll continue to drive the heck out of making sure we get the best deals and the best experiences in 1P to have it balanced.

But anything else, Ravi?

Ravi Thanawala

Yes, so maybe a few quick comments like specific to Papa John's. First, we saw consideration for our brand improve as we progress through the quarter and we're pleased that we're continuing to make progress on consideration. And that is a long-term strategy for us to continue to drive that.

Second is like actually as you tear down the Papa John's brand by region and then by market, Papa John's is actually the number-two player from a market share standpoint in a number of our key strategic markets, particularly when you look at the Southeast and Midwest.

So as we double down on this focus on continue to drive consideration, focus on where we want to win, we believe that with a great value message with the right balance of premium with a focus on being the best pizza in the game and this targeted focus on the markets that matter most, we think that that's part of the recipe to take share over time.

Operator

Thank you. Our next question comes from the line of Jim Sanderson of Northcoast Research. Your question please, Jim.

Jim Sanderson

Hey, thanks for the question. I just wanted to follow up a little bit more in the discussion related to third party. How are you looking at that marketplace next year? If one of your top competitors partners with Doordash and expands that penetration in third party channels, is it likely to be able to maintain share? A little concerned about the share shift.

Ravi Thanawala

Yes, thanks for the question, Jim. A couple of things. So first is we're going to focus both on our 1P business as well as 3P. As Todd talked about the number of things we're doing on the tech stack side, as well as some of the loyalty work that we're doing in Q4.

Second, we've been watching the trends as competitors are rolled on to the aggregators. And we continue to believe what we're gaining our fair share, if not more. When we look at particularly what's happening in both, we continue to see -- in both of the large-scale aggregators, we continue to see growth year on year and we think that this category has room for us to continue to grow regardless of what competitor comes on.

We want to be where the consumer is. We want to serve them where they want to be served. And that's a little bit why we're taking a really equal balance, focus on 1P and 3P. And we have a number of years of history now in the 3P business and our team is dialed in to how to compete in that marketplace. And we have a really solid team that has lots of experience, whether it's working in the business here at Papa John's on that business or from their experiences prior to being at Papa John's.

Todd Penegor

I think we're well positioned. We have great partnerships. We'll make sure we drive awareness with those partnerships. Innovation will play a role. Our premium positioning certainly helps in that channel and we also have great value in that channel. So I do think we're well positioned to compete. I think there is room for category expansion as we talked a little bit earlier and the lunch and the late-night opportunities for us to continue to grow are all opportunities in that aggregator channel.

So just to complement some of the things that Ravi said, I think we're in a good position to continue to compete no matter what the competition does in that channel.

Operator

I would now like to turn the conference back to Todd Penegor for closing remarks. Sir?

Todd Penegor

Well, thanks, and thanks for all the questions today, guys. I really appreciate it. I'd like to sincerely thank you for your time this morning and your continued support of Papa John's. Thank you to our team members and our franchisees for the resiliency and the agility you continue to show during these unique times. Look forward to meeting many of you in person on December 12 in Atlanta. That's right around the corner. So see you all soon. Thanks, everyone.

Operator

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

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