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Papa John's International, Inc. (PZZA) Q3 2025 Earnings Call Transcript

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Q3: 2025-11-06 Earnings Summary

Insights

EPS of \$0.32 **misses by \$0.09** | Revenue of \$508.15M (0.27% Y/Y) **misses by \$16.59M**

Papa John's International, Inc. ([PZZA](#)) Q3 2025 Earnings Call November 6, 2025 8:00 AM EST

Company Participants

Heather Hollander

Todd Penegor - President, CEO & Director

Ravi Thanawala - EVP of International & CFO

Conference Call Participants

Brian Mullan - Piper Sandler & Co., Research Division

Andrew Strelzik - BMO Capital Markets Equity Research

Tyler Prause

Alexander Slagle - Jefferies LLC, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

James Sanderson - Northcoast Research Partners, LLC

Presentation

Operator

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

I would now like to hand the conference over to your speaker for today, Heather Hollander. Please go ahead.

Heather Hollander

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

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

Comments made during this call will include forward-looking statements within the meaning of the federal securities laws. These statements may involve risks and uncertainties that could cause actual results to differ materially from these statements. Forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our SEC filings. In addition, please refer to our earnings release and our Investor Relations website for the required reconciliation of non-GAAP financial measures discussed on today's call. 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. I want to start first by thanking our franchisees and team members for their continued commitment to our customers and for their dedication to advancing our strategic priorities as we transform the business.

Papa John's has a strong foundation from which to build, including an outstanding brand, a differentiated product proposition, a loyal customer base and a strong balance sheet. That said, we are navigating weaker consumer sentiment and a more promotional QSR marketplace, particularly in North America, resulting in mixed third quarter performance. Global comparable sales were flat for the third quarter, while North America comparable sales decreased 2.7%.

As we move through the third quarter, we saw the greatest order decline within small ticket web customers in North America. Small ticket web orders tend to over-index, with lower-income customers, corresponding with the disproportionate sales pressure we've seen with this cohort.

Within North America, core pizza sales were flat. We sold 3% more pizzas and 4% more pizzas per order, but total pizza sales were effectively flat as order mix shifted to more medium pizzas and fewer added toppings. The majority of North America sales pressure was driven by declines in product outside of our core pizza offering, including wings, bread sides, Papadias and Papa Bites.

As consumers are pressured, they tend to control their spend by focusing on center of plate rather than adding sides and desserts. As part of our product innovation work, we are taking action to develop more compelling sides and desserts at more accessible price points. I'll share more about that in a moment.

Outside of North America, however, we are encouraged by the upside that is being created as a result of the changes we are making. Our international business delivered exceptional results, generating comparable sales growth of 7% in the quarter. These results were driven by strength across key markets in Europe, the Middle East and Asia Pacific. Ravi will share more about third quarter results in his remarks.

While we address the immediate market headwinds, particularly in North America and execute our transformation strategy, we are also working to be a more nimble, efficient organization with a leaner G&A structure.

As we discussed last quarter, efforts to optimize our North American supply chain and reduce overall cost to serve are expected to result in at least \$50 million in supply chain savings by 2028, \$20 million of which are planned for 2026. We have identified productivity opportunities through procurement vendor negotiations, evaluating our freight and transportation services and reducing our fixed cost leverage throughout the commissary, all while maintaining our commitment to quality.

As for restaurant level financial impact, we expect that the cost savings will equate to approximately 100 basis points of 4-wall EBITDA improvement for both franchise and company-owned restaurants by 2028. This quarter, we are also announcing 2 new efficiency initiatives with respect to the company's overall cost structure and our refranchising program.

First, during the quarter, we initiated a comprehensive review of our expense structure to streamline our organization, reduce noncustomer-facing spend, simplify our operating model and better align our resources to support our transformation.

We have already identified at least \$25 million of savings outside of marketing to be captured across fiscal years 2026 and 2027. These actions will create incremental flexibility across the business, provide fuel for future growth and improve the earnings power for both company and franchise restaurants and for Papa John's as a franchisor.

The review of our cost structure is ongoing. And based on this work, we expect there to be additional efficiency opportunities. We look forward to sharing more details about the cost review, including impact to our fiscal 2026 guidance when we report fourth quarter results.

Second, we are also announcing today that the company will be accelerating our refranchising program over the next 2 years, which we believe will strengthen our local markets and increase our operational efficiency. I'll share more on this shortly.

Ultimately, we are positioning Papa John's to compete better in 2026 and beyond. We are aligning our system around a more comprehensive value proposition to address near-term consumer pressure. We are building a stronger, more impactful product pipeline, with a relentless flow of innovation built around 3 major new platforms to extend our addressable market and expand margin, including reimagined sides to drive add-ons.

We are strengthening our competitiveness in strategic markets, both domestically and internationally. We are removing noncustomer-facing costs from the business. We are creating a more nimble, efficient organization. We are standing up a technology platform to differentiate the customer experience. We are building a more efficient supply chain and improving our food cost, and we are accelerating our North American refranchising program.

We are confident that our transformation work will ultimately position Papa John's to generate sustainable, profitable growth across our portfolio, better respond to customer needs and effectively navigate a variety of consumer environments, all while maintaining a healthy balance sheet.

With that backdrop, and before we move to a more detailed update on our transformation priorities, I want to address the recent M&A rumors and speculation regarding the company. As a Board and a management team, we are focused on maximizing shareholder value. We are open-minded about the path to do that. And to the extent there is an alternative to our strategy that is available and maximizes shareholder value, we would fully consider it.

At this time, the opportunity before the company to drive the greatest value creation is through the execution of our transformation strategy, and that is where we have directed our attention. While our transformation is in the early innings, we are making progress. And as you've heard today, we are committed to accelerating the momentum, including pursuing cost actions, faster refranchising and meaningful operational improvements. Let me share more.

First, we are relentlessly focusing on our core product proposition and premium innovation. Our culinary and product development teams have rebuilt and reinvigorated our innovation framework, which is now grounded on 3 approaches: form innovation, size innovation and platform innovation.

In September, we launched Papa Dipppa, the first innovation under the new framework, showcasing form innovation. Papa Dipppa is an on-trend shareable pizza cut into strips made specifically for dipping. Our newest innovation launched this week is built around size. The Grand Papa is our largest pizza ever with deli-style pepperoni and large foldable slices, perfect for sharing.

In 2026, we expect to have a consistent flow of impactful innovation at compelling price points, which will better allow us to drive sales in a challenging consumer environment and extend our addressable market. For example, we are reimagining our side offerings and developing more sides at accessible price points to drive add-on sales and margin expansion.

Additionally, our 2026 innovation pipeline begins to expand our aperture beyond traditional QSR pizza and adds new sales layers to our business, including menu items more akin to what you would find at your neighborhood pizzeria. Combining this kind of right price innovation with Papa John's quality, craftsmanship, variety and freshness results in a distinct competitive advantage to win new customers.

Importantly, our menu expansion and exciting platform innovations are supported by our Perfect Bake project, which encompasses oven calibration and operations excellence work and advances the quality and range of products we're able to prepare in our restaurants. As part of our incremental marketing spend this year, we've also invested in a comprehensive testing program, which allows us to rigorously vet our new products and ensure that innovation is truly customer-led and insight-driven, which will benefit the business in '26 and beyond.

In the third quarter, we continued to reinforce our barbell strategy by leveraging value messaging alongside full margin product, positioning our \$6.99 pop-up pairings platform, alongside our Buy One Get One offer in addition to introducing our garlic 5 Cheese crust in August. Combined, these offerings helped deliver another quarter of growth in total number of pizzas ordered.

To remain competitive in the dynamic QSR marketplace, we must execute on our second strategic priority of amplifying our marketing message to differentiate our brand and win customer consideration. And in this environment, price is a key component.

Accordingly, we sharpened our value proposition. We pulsed in additional promotions such as, Buy One Get One Free Pizza offers in mid-September and mid-October, which were effective in driving orders with multiple pizzas and bending the trends for select weeks.

To capture the small ticket, lower frequency customer, we recently launched a 50% off carryout offer supported by media. Very preliminary results show improved order trends, but we would like to see the offer out in the market longer before making any definitive statements.

We are also very excited to have achieved our highest sales day ever in North America on Halloween last week. So we are managing the moment, with a more forward-leaning value proposition, we are also building for the future with initiatives that will grow sales and expand margin, including a robust innovation pipeline, new sales layers, elevated operations and a technology platform that delivers a seamless connected customer experience.

In the third quarter, we invested an incremental \$4 million towards supplemental marketing to support our value proposition and build on the foundational investments we've made through the year. We directed part of this investment toward working media to support our BOGO offer during the quarter, which drove improvement in order trends while the promotion was in market.

By optimizing our channel mix and audience strategy, we achieved more efficient media spending. We also invested advertising dollars in non-working media to launch a comprehensive testing program and better inform future spend. These foundational investments will continue to deliver benefits heading into 2026 as we further optimize media mix, launch products and campaigns informed by our test and learn program and expand our social share of voice. These non-working media investments are onetime and not expected to repeat in 2026.

Turning to our brand positioning. We continue to showcase Papa John's differentiation, emphasizing the 6 simple ingredients of our fresh, never frozen original dough. Third-party research consistently tells us that customers value high-quality real ingredients, and we believe that our commitment to fresh, quality, simple ingredients is especially important given current customer trends.

For example, we have seen strong improvement in our brand perception quality score since the onset of our Meet the Makers marketing campaign, which emphasized our product differentiation and six simple ingredients.

Our third strategic priority is investing in technology and our tech stack to deliver a more seamless experience across our digital assets and own channels, better connect with customers and support greater efficiency across our operations by leveraging data and AI. We are especially excited about the power of building on our marketing advancements by inviting customers into the brand and then layering in hyper-personalization to drive additional engagement and retention. With approximately 70% of our sales generated through own digital platforms, delivering an effortless customer experience is essential.

We recently achieved a major milestone with the launch of a modernized first-party digital ordering platform across our mobile apps on both Android and iOS, which improves navigation, reduces clicks to purchase and improves order tracking and targeted communication. The platform improvements are already driving higher conversion rates, reflecting our continued focus on performance, usability and speed to market.

Building on this success, we are working to modernize the design and to deliver an elevated customer experience on our website, which we expect to launch in December. In addition to our improved digital ordering platforms, we continue to enhance our end-to-end digital customer experience and CRM platform to increase engagement, session conversions and repeat purchases.

Over the last quarter, we benefited from our higher CRM engagement, with customers through e-mails, app push notifications and SMS communications. This is important foundational work that will continue to drive benefits in 2026.

Our fourth priority is differentiating our customer experience to meet and exceed the convenience, value and quality expectations of our customers, across all of our demand channels. Starting with loyalty. Our loyalty program is a prime example of how we continue to evolve and build brand advocacy amongst our most valuable customers. It's been almost 1 year since we launched our enhanced loyalty program with a lower redemption threshold for Papa Dough, and a call to action for our loyalty members. We continue to see benefits of these changes with increased Papa Dough redemptions and higher order frequency amongst our loyalty members.

As of the third quarter, I'm pleased to say that, we've reached 40 million total loyalty accounts, an increase of almost 1 million new members over the last 3 months. It's crucial that we serve our customers with excellence every time, no matter which demand channel they choose. Despite increased competitive pressure and promotional activity during the quarter, we continue to generate positive sales and order growth in our aggregator channel, with sales through our partners remaining accretive and beneficial to 4-wall profitability.

The aggregators deliver a customer that is, on average, more affluent compared with customers utilizing our first-party digital platforms. We believe that with our premium product position, high-quality ingredients and our value message, Papa John's has a compelling competitive advantage with the aggregator ecosystem. This resulted in a low teens improvement in total net sales across the aggregators.

Turning to first-party delivery. Delivery is an important component of our business, and we are committed to consistently providing an excellent delivery experience, while also improving our performance in the channel. We continue to roll out our delivery tracking service across our system, with approximately 60% of the U.S. restaurants now offering the service. We expect to substantially complete the rollout to all U.S. restaurants by the first quarter of 2026.

Finally, our restaurant general managers and their teams are hard at work executing and delivering a more consistent experience in our restaurants. We've expanded our operations evaluation tools to additional restaurants, which is driving higher product quality, taste of food and customer satisfaction scores.

Our fifth strategic priority is partnering with and evolving our franchisee base to drive profitable growth by expanding our share in the most impactful markets and further improving our restaurant economic model. As mentioned at the outset of the call, we plan to accelerate our domestic refranchising program over the next 2 years.

In terms of scale, we expect to reduce our company restaurant ownership to a mid-single-digit percent of the North American system. We believe that refranchising with strategy forward, well-capitalized growing franchisees strengthens the long-term health of the Papa John's system and unlocks future growth opportunities.

We expect to finalize the sale of our ownership stake in a joint venture that operates 85 restaurants in the Mid-Atlantic region in the fourth quarter. Those restaurants will be operated by a growth-minded franchisee, with the requisite capital and strategic approach to grow their business.

In summary, we are navigating a challenging consumer and competitive environment and executing a strategy to ensure Papa John's delivers sustainable, profitable growth. While the full benefits will take some time, our transformation strategy is showing positive results, and we are taking far-reaching actions to accelerate the progress we are making.

We are driving noncustomer-facing costs out of the business, accelerating our refranchising program, rebuilding our innovation pipeline, sharpening our value proposition and making returns-driven investments in technology, all while maintaining a healthy balance sheet.

Transformations by their nature, aren't linear, but we are managing the moment, while building for the future. I am confident that the actions we are taking will position Papa John's to deliver long-term value creation, for all of our stakeholders.

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

Ravi Thanawala

EVP of International & CFO

Thank you, Todd, and good morning, everyone. I'll begin my comments with an overview of our third quarter results, followed by our financial outlook. Please note that, all comparisons and growth rates referenced today are compared to the prior year period, unless otherwise noted.

In the third quarter, global system-wide restaurant sales were \$1.21 billion, up 2% in constant currency as higher international comparable sales and 1% global net restaurant growth on a trailing 12-month basis more than offset lower North America comparable sales.

As Todd discussed, North America comparable sales decreased 2.7% in the third quarter, with the majority of sales pressure driven by declines in products outside of our core pizza offering. To improve this trend, and drive add-ons and ancillary sales, we are rebuilding our innovation pipeline, including reimagining our sides offering.

Third quarter transaction comps decreased 4%, predominantly driven by a decline in orders from small ticket web customers. We are amplifying our value proposition accordingly to drive transactions, while maintaining our premium positioning. Third quarter ticket comps increased 2%, as we benefited from an increased number of pizzas sold per order, partially offset by mix shift into medium pizzas with fewer toppings, strategic changes we made last year to our loyalty program and a decline in add-ons.

Turning to our international business. International comparable sales increased 7.1%, supported by our cross-functional transformation initiatives, which are yielding operational improvements as we continue our focus on priority markets, adding compelling product innovation to our menus and taking a consumer-first mindset across our global operations, setting the stage for long-term value creation across the segment.

We expanded our exciting Croissant Pizza offering to 3 additional markets in the third quarter, generating significant media buzz and activations, alongside solid sales and order mix improvement, demonstrating the power of compelling product innovation.

I'm proud of how our international teams have come together to drive improvement across global operations, achieving 4 quarters of positive sales comps with sequential improvement each quarter.

Total consolidated revenue for the third quarter was essentially flat at \$508 million, as higher international revenue was mostly offset by lower revenues generated in North American restaurants and QCCs.

Total international revenue increased approximately \$6 million as our transformation initiatives in the U.K. and our priority markets have resulted in better performance across all lines of business.

Total North American revenues, inclusive of our full restaurant portfolio and our commissary decreased approximately \$6 million in aggregate, primarily driven by lower comparable sales during the quarter.

Consolidated adjusted EBITDA declined slightly to \$48 million as we continue to build on the foundational investments we have made through the year and position the brand for long-term growth. Third quarter consolidated adjusted EBITDA performance was impacted by incremental marketing investments of approximately \$4 million and an anticipated elevated G&A related to approximately \$2 million of higher incentive compensation, partially offset by commodity deflation and outperformance in international.

Our third quarter domestic company-owned restaurant segment EBITDA margin, which includes G&A expenses, was 2.4%, declined by approximately 20 basis points as the benefit of higher average ticket, almost fully offset lower transaction volume and labor inflation.

As we move forward, we are focused on driving sustainable, profitable growth. We're taking action to drive transactions and improve 4-wall margins through innovation, addressable market expansion and a more efficient supply chain, while making strategic investments to further differentiate our brand over the long term.

North American commissary segment adjusted EBITDA margins were 7.4% in the third quarter, an improvement of 100 basis points, primarily reflecting higher volumes as we sold 3% more pizzas versus last year.

Turning to our balance sheet. At the end of the third quarter, our total available liquidity was \$502 million in cash and borrowings available under our credit facilities, and our gross leverage ratio was 3.4x, well within our permissible limits.

Turning now to cash flows. For the first 9 months of 2025, net cash provided by operating activities was \$106 million. Free cash flow was \$59 million, an increase of \$50 million, primarily reflecting timing of cash payments for the National Marketing Fund and favorable changes in working capital, lower cash taxes and lower spend related to our international transformation initiatives.

Now turning to our outlook. We've revised our outlook to reflect the impact of a softer consumer backdrop and a more promotional QSR marketplace, which we expect to persist through the remainder of the year and into 2026. For 2025, we expect global system-wide sales to increase between 1% and 2%. We expect North America comparable sales will be down between 2% and 2.5%.

Softer comparable sales trends in September continued through October. As Todd mentioned, we recently launched our 50% off carryout offer. Very preliminary results show improved order trends, but we would like to see the offer out in market longer before making any definitive statements.

Internationally, our transformation is building momentum, and we continue to deliver results that are above our expectations. Accordingly, we are raising our 2025 international comparable sales outlook to a range of 5% to 6%.

As we shared last quarter, we expect to finalize the sale of our ownership stake in a joint venture that operates 85 U.S. restaurants in the fourth quarter. As a reminder, this transaction is expected to reduce fourth quarter consolidated revenues by approximately \$5 million, including the impact of eliminations.

On an annualized basis, this transaction is expected to reduce consolidated revenues by approximately \$60 million, including the impact of eliminations and have a negligible impact on net income. These impacts are reflected in our financial guidance.

For 2025, we expect consolidated adjusted EBITDA to be between \$190 million and \$200 million. Our outlook embeds a more competitive value proposition to address the softer consumer outlook and heightened competitive QSR environment in North America, which we expect to continue into 2026.

We believe that it is crucial for us to meet the consumer where they are, provide the value they expect given the near-term macro challenges and protect transaction share, while we execute on our strategy to deliver long-term profitable growth. We continue to expect that stock-based compensation will be between \$4 million and \$5 million per quarter.

For 2025 nonoperating expense items, we expect net interest expense to be between \$40 million and \$42 million, capital expenditures to be between \$75 million and \$85 million and adjusted G&A expense to be between \$70 million and \$75 million, which excludes accelerated depreciation related to the deployment of our modernized digital assets and retirement of our prior systems. We expect our 2025 effective tax rate to be in the range of 27% to 30%. Finally, we expect diluted shares outstanding of approximately 33 million in the fourth quarter.

Turning to restaurant development. We expect to open between 85 and 95 gross new restaurants in North America in 2025, with all remaining projected openings currently in construction design or later stages. We are working to improve the long-term health of our restaurants and making strategic closure decisions accordingly.

For 2025, we anticipate North America restaurant closures will be at the higher end of our historical average of approximately 1.5% to 2%. These closures are predominantly nontraditional or small market restaurants with a blended average sales volume of around \$500,000, which is less than half of our system average. Internationally, we continue to accelerate our transformation, delivering positive results across our priority markets.

During the quarter, we opened 2 new restaurants in Bangalore, India, featuring a localized menu and a variety of vegetarian options paired with our high-quality ingredients. India is a priority market for us given its rapid growth and robust demand.

For 2025, we continue to expect to open 180 to 200 gross new restaurants across our international markets. We anticipate international closures will be at the higher end of our range of 4% to 5% of our international system.

Looking ahead, we are positioning Papa John's to compete better in 2026, play the game differently, while continuing to transform the brand and fuel sustainable profitable sales growth in the future. Papa John's is a strong brand, with a healthy balance sheet, and the work underway will position us to drive long-term earnings power across all aspects of our organization. We are confident in our strategy. We recognize the substantial upside ahead, and we are moving forward with excitement and focus as we transform the business.

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

Question-and-Answer Session

Operator

[Operator Instructions] The first question today will be coming from the line of Brian Mullan of Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

Just a question on the acceleration of the refranchising program. Can you just talk about how you see the current difficult operating environment influencing this process to refranchise, obviously, you've got to find a buyer and then there's a price you're willing to accept for your assets. So, just talk about the framework you're going to approach us with and what you're going to prioritize the most in this process?

Todd Penegor

President, CEO & Director

No. Thanks for the question, Brian. As we think about accelerating refranchising, it's a combination of scaling up existing well-capitalized franchisees that are really focused forward to partner with us to really drive the business and bring in more customers more often and drive the 4-wall profitability.

We also got interest on folks from outside the system. So -- we've got the 85 restaurants that will complete the transaction here, hopefully, by the end of this month. We've got a pipeline of other refranchising already in place with existing buyers at multiples that we're comfortable with. And we're going to continue to look at an appropriate pacing of the refranchising through the course of this year and into next to make sure we work ourselves to that mid-single-digit ownership as a percent of the North American fleet.

Yes, the market is a little bit different, but there are a lot of well-capitalized franchisees that really want an opportunity to continue to come into the system, or scale up within our system, and we feel very confident that there are buyers at good multiples for our business.

Brian Mullan

Piper Sandler & Co., Research Division

Okay. And then to follow, just a question on G&A. I guess one for clarification. What is embedded in the guidance for this year? And then the real question is it sounds like you're going to find some efficiencies here. I know you'll guide next year in a few months, but just trying to understand, have you already taken some actions? Or do all of these actions kind of come later on? Just trying to understand, if G&A dollars are going to be headed lower next year.

Todd Penegor

President, CEO & Director

Yes. G&A dollars will be heading lower next year. We've continued to prudently manage G&A in the softer sales environment in this calendar year. But as we said in the prepared remarks, we're embarking on an initiative to really look at how do we become a more nimble, efficient organization by streamlining operations, reduce noncustomer-facing spend, simplify our operating model and really better align our resources to our transformation.

And we believe we can get at least \$25 million of savings, during the course of the next 2 years. And I'd expect about half of that at a minimum to come during the course of 2026. We'll give you all the details as we finish going through the work over the next couple of months here internally and reflected in the guidance for 2026 appropriately. And this is true. G&A costs not impacting any of the marketing investments that we've made.

Ravi Thanawala

EVP of International & CFO

And Brian, none of these savings are embedded in the 2025 guide.

Operator

Our next question will be coming from the line of Andrew Strelzik of BMO Capital Markets.

Andrew Strelzik

BMO Capital Markets Equity Research

I wanted to ask, Todd, a little bit over a year since you joined Papa John's. I'd be curious to get your assessment of the turnaround progress and where you are today versus where you thought you might have been when you set out on this journey? And where do you feel like you're maybe farthest along? And what areas maybe been a little bit slower to materialize?

Todd Penegor

President, CEO & Director

Yes. Thanks for that question, Andrew. And as you think about the things that I feel good about, right, over the course of the last 14, 15 months, we really improved the value proposition and perception of the Papa John's brand. We continue to improve the quality perception and our brand health, which are positive for the long run, and those are foundational work that we'll continue to do.

Our innovation pipeline needed to be rebuilt. You're starting to see some of that news come to life here at the back half of 2025. But really excited around a steady dose of innovation into 2026, not just around core pies, but around other occasions that can help drive the business, whether that be reimaged sides or other handheld opportunities into the future.

So, I think there's opportunities to do that. The work we've done to really work our oven calibration and perfect bake to make sure we're making better core pizzas and working with our franchise community to deliver quality product time and again, work always to do on that. But that has set a strong foundation for us to continue to lean into, and it allows us to really open up the opportunity to innovate even more as we get time and temperature set right in our ovens in the restaurants.

In our international business, we've made a tremendous amount of progress. A lot of heavy lifting was done just before I got here. We're starting to see the fruits of all of those hard work, and it's really driving our business, and we got really some strong momentum in that business across the globe, and it's widespread.

As you think about where the latest environment is around the consumer, around the competitive landscape, we need to make sure that we can continue to compete hard on both sides of the barbell. Quality is always going to be important. We need innovation to bring in those laps to new customers, but we also need to make sure we've got a really balanced barbell to make sure we can compete on the value proposition side too. Do it our way, do it appropriate for the Papa John's brand, do it in a way that brings in more customers more often to drive transactions for the long run. And that's where the focus is going to continue to be.

You'll see that in the promotional cadence that we have year to go and into next year. And you'll also see that in how we bring our innovation to life to make sure they're priced appropriate for where the consumer is today. So, we're going to meet the consumer where they're at today. We'll continue to build this brand for the future.

Andrew Strelzik

BMO Capital Markets Equity Research

Okay. That was helpful color. And then I just wanted to ask with the 50% off. Can you talk a little bit about the impact or how you're balancing franchisee profitability and kind of the ability to stick with something with that kind of construct from a promotional perspective or from a value perspective, kind of longer term, pulsing in and out or what have you. How are you balancing that?

Todd Penegor

President, CEO & Director

You got to remember, when you pulse anything that's on a national message, it's only about 1/4 of our business. So, some of it does provide a halo around the affordability of our brand, and we can play the barbell, because if we can get them in the consideration set, we can convert them either with news or with price.

As you think about how we went through the quarter, we pulsed in some BOGO offers, clearly helped us on our core pie business as we've seen our overall pizza sales flat and pie is up. But we did know we had some challenges on that single order customer, web customer, which is on the lower income cohort.

So, we wanted to make sure there was an offer there for them, too, and that was the 50% off promotion. It takes a little bit of time. You got to stay out there to make sure it wears in so the consumer is aware that, that offer is there. And we'll continue to partner with our franchise community to make sure that these promotions work not just for the consumer, but they work for the 4-wall economic model.

Remember, our business is a high variable margin business. We bring in incremental transactions. The flow-through can be quite nice, and that's where we need to stay focused. It's less about margin and more about driving penny profit and dollars to the bottom line.

Ravi Thanawala

EVP of International & CFO

And Andrew, the only other thing I'd want to add is the 50% off carryout is really a basket starter. And we see the consumers build a more holistic basket once they get into that promotion.

Operator

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

Tyler Prause

This is Tyler Prause on for Jim. I was curious if you could give us some color on the U.S. restaurants within your system that are outperforming. Is this regional-based, tenure-based, updated ovens, et cetera? Additionally, are there any learnings that you can incorporate to the broader store base? Or is it mostly sentiment-driven right now with macro?

Todd Penegor

President, CEO & Director

Yes. No, I'll start, and I'll let Ravi talk a little bit about some of the regional differences. But as you think about any franchise system, there is a range across our operators out there. The folks that have leaned into transactions that have been really focused on bringing in more customers more often to really drive that variable margin profit have performed better than the folks that have really been focused on, how do they protect margin and food cost.

And our job as leaders is to make sure we find a sweet spot for both of those mindsets to make sure that we're executing and delivering as one system with our national messaging, and then complement it with appropriate local message for whatever that consumer base looks like in those individual local markets. So, we're working that hard with our system. We got work to do to stand up some co-ops into next year, and we're focused to do that in our priority markets that will help us fight at the local level, with some of these regional differences. But Ravi, why don't you talk a little bit about some of the regional differences we've seen?

Ravi Thanawala*EVP of International & CFO*

Yes, yes. We've seen strong performance, particularly in some of our top markets across the U.S. And we've kind of talked about in some of our top 15 markets, there's still really meaningful market share to go get. Second is a strong compelling carryout offers on both a national and local level matter, relentless focus on promoting Papa Pairings on a local level absolutely helps. And more than anything, just like a clear focus to a transaction-driving mindset that is evergreen and the franchisees who have been in transaction-driving mode for multiple years are performing very well.

So for us, this is maybe a little bit less about region. It's really about strength of operators, transaction driving mindset where the brand is strong in some of these top 50 markets. And it gives us some real clarity in terms of conversations with the franchisee base, when there's different perspective. The data is exceptionally clear that transaction-driving mindset is good for variable profitability. It's good for brand health. It's good for taking market share for the long term.

Tyler Prause

Great. That was super helpful. And just one follow-up. Several of your competitors have called out a specific headwind to the younger and Hispanic demographics. We were just curious if you saw any noticeable step change amongst those cohorts during the quarter.

Ravi Thanawala*EVP of International & CFO*

So what we see is like a very clear occasion that we're seeing a little bit of a headwind. It's small transaction size potentially like where consumers are making a trade-off decision on whether you eat at home or not. We've seen maybe a slightly higher pullback in the younger consumer. That really reinforces why we've been relentless focus on Papa Pairings, bringing the 50% carryout offer front and center, Papa Dipppa, particularly around dipping sauces, like speaks to the younger consumer wow.

So, we're pulling multiple levers across that front. But more than anything, we kind of want to zone in the occasion is really around this notion of like small transaction size is where the transaction loss has been.

On the other side of the coin is like on peak days such as Halloween, the brand is performing really, really well. So, on key pizza moments, we are seeing the brand perform really well in transactions that are 2 pizzas or more, we're continuing to grow. And we're seeing the consumer really focus in on the center of plate right now. Pizza sales from a unit standpoint are up. Our pullback has really been in some of the sides business.

Todd Penegor

President, CEO & Director

Well, that's why we want to continue to drive folks into our loyalty program, adding another 1 million folks into the loyalty program where there's great value over the course of the last quarter is going to be super important for all income cohorts, all demographics. And what we're seeing across the loyalty program is that our customer counts are up across every frequency cohort year-over-year.

So, the loyalty program is working how it needs to work. Can we drive more add-on? If we get appropriately priced sides, that could be some good add-on for those existing customers. The opportunity is really to bring in those laps to new. And that's where we're going to really amp up and lean into a more steady cadence of meaningful innovation at appropriate price points in 2026.

Ravi Thanawala

EVP of International & CFO

Yes. And our active counts from a loyalty standpoint are up across all cohorts from like consumers all the way up to our super frequent. So, what we feel good about the long term about is like there's brand advocacy there. There is loyalty to the business and to the brand. Our center of plate is doing well. There's clear opportunity for us to continue to drive AUVs and comps. And I think we've laid out both from a transaction standpoint as well as from a product standpoint, where those opportunities for the brand exists.

Operator

And the next question will come from the line of Alex Slagle of Jefferies.

Alexander Slagle

Jefferies LLC, Research Division

Wonder if you could dissect the strong international results a bit and what actions really delivered the biggest improvements there and sort of what other external dynamics are at play as we try to assess sustainability of this momentum. It sounds like 4Q, you expect it to continue, but as we look ahead to 2026.

Ravi Thanawala

EVP of International & CFO

Yes. Thanks for the question. A couple of drivers we want to lay out. In the U.K., we've been on a multiyear journey, and we're starting to reap the rewards of that. A couple of things. We've really focused in on the priority trade zones that we wanted to compete well in. We've seen substantial sales comp acceleration in the U.K., particularly when we've driven franchise to franchise transfers to make sure we're building really solid trade zones where a franchisee can really dominate their marketplace.

Third is we've continued to have a real focus on product execution at the restaurant level. And then lastly, like we've continued to like see the benefits of the Perfect Bake program, and that's really paid off. And the U.K. ran high single-digit positive comps in Q3. Those trends have continued into Q4.

Another market where we've been in transformation mode is in China, very similar playbook. We focused in on the cities and trade zones that matter. As you remember, in Q2, we actually took some strategic closures in that market to make sure we were really dialed in on what markets and cities matter most for us right now in China. We continue to expand points of demand generation with further integration with more aggregators. And probably, again, there, we did a holistic consumer review of what our consumer is loving about our product and our service and where the opportunities were, and we found some opportunities.

We're going around the globe right now kind of executing this playbook of consumer first, product-driven mindset with a very sharp focus on the priority markets that matter most for us. And we've been encouraged by the sequential gains over the last couple of quarters and continue to be encouraged by what we see in Q4.

Todd Penegor

President, CEO & Director

Just a big credit to the team with the focus on the priority markets across the globe and then having that kind of amplified to the rest of the globe. We've built a lot of momentum, continues into the fourth quarter. The pipeline for news and innovation is really strong going into '26. And they've across the globe, have had a steady dose of news and innovation, not just Croissant Pizza, which resonated across the globe. But innovation has been there on the heels of the Perfect Bake project for the course of the last year, and all those things are paying dividends in that business.

Ravi Thanawala

EVP of International & CFO

And when you look at our footprint relative to the competitive set, we still have a lot of runway to go in international and in these priority markets. We're making sure that we are executing as well as we can in driving AUVs. So, there is real long-term value creation here for the brand and the business, but we're focused on doing it the right way.

Alexander Slagle

Jefferies LLC, Research Division

That's great progress. A follow-up on the U.S. and I guess, the outlook for more innovations, more focus on sides and add-ons. I mean, how do you ensure you're not sort of adding too much complexity or rhythm breakers as you kind of go down that route?

Todd Penegor*President, CEO & Director*

I do think there are some stuff that are naturally paring down within our portfolio today. You think about where Papa Bites are, where Papadias play. As we talk about some of the sides or other add-on purchases, those have led themselves down during the course of this year. So those are opportunities to potentially come out of the restaurant or be leveraged more regionally.

So, I do think we free up some capacity then to come back with some of the new news. Slowing the ovens down, getting the Perfect Bake project right, thinking about how we design the product, not only for the consumer, but for the operator and our folks in the restaurants to make sure that these new products have easy builds that can really drive a high-quality product out of the work we're doing with the ovens is paramount. And we're really working hard to make sure we set up our teams for success.

Coaching, training, going back to look at how we're leveraging the tools that we have in our restaurants. So, we're very conscious to not overcomplicate the restaurant. We will have an appropriate pace of innovation next year, but we'll do a really good job around training and set our teams up to deliver a great consumer experience because that's going to be key, right?

As we bring in those lapsed, we bring in some new customers, we need to wow them with an unbelievable experience to keep them coming back and drive the frequency through the course of next year. But we haven't had a steady pace dose of innovation that's really incremental that can drive our business for a little bit of time, and we're working hard to bring that to life next year. And I feel really good about the commercial calendar that's in place at the moment and the work that the culinary team has been doing to really deliver on our promise around being better.

Ravi Thanawala*EVP of International & CFO*

Yes. Maybe 2 things I would add is we talked about in Q3, the vast majority of the negative comp came from our sides business. We did not want to simply just pull forward innovations before they were ready. The team has spent the last year really being consumer-led and obsessed on where does this brand have a right to play and what does the consumer really want. So, we talked about in our prepared remarks like multiple platforms of innovation are to come. They're designed to be operationally simple as well as TAM expanders for us because we want to make sure we are capturing the total addressable market, we can for our branded business, but do it truly from a place where this brand has a right to play and it's operationally simple enough where it's going to generate 4-wall margins and strong execution.

Operator

And our next question will be coming from the line of Dennis Geiger of UBS.

Dennis Geiger

UBS Investment Bank, Research Division

I wanted to ask another one on value. A lot of good detail here. But Todd, it sounds like you're driving product quality, taste of food, customer satisfaction scores broadly. And I think you mentioned to one of the questions, value scores also improving. I wanted to confirm that, though, if the scores are improving, or if you are seeing anything concerning on the value scores. And then as it relates to all those value opportunities that you've been talking about, including the 50% off promo, could you summarize sort of the primary value gaps maybe? Is it on the promotion side of things? Is it maybe some newer menu items at sharper price points? Is it the marketing and the customer just recognizing the value that the brand offers? Just a bit of a high-level summary take from you on that, please.

Todd Penegor

President, CEO & Director

Yes. So, a couple of thoughts. So, on the -- over the course of the last 12 months, our value perception has steadily improved. We were out of position a little over a year ago. We continue to make improvements. That's not just with how we're playing the barbell strategy, but the loyalty program plays a role in that. And our personalization through CRM certainly helps, too. But it's not just about value perception around price. It's around worth what you pay at the end of the day.

And we continue to make sure that our better ingredients, better pizza message and pay it off with why we're better, 6 simple ingredients, fresh, never frozen original dough. Those things are actually driving our brand health. What we need to be conscious of is the consumer and meeting them where they are today as we know that the consumer is more strapped. And we have to have an appropriate pace of news on the promotional side with some innovation.

You think about what we launched in this quarter, the Papa Dipppa, a great food form, a lot of excitement, a lot of social engagement. We learned a lot from it. The flight of dipping sauces, especially the roasted garlic parmesan played very well. But it came out at a price point at \$13.99 at a time when the competitive and the consumer landscape pivoted dramatically.

So, I wouldn't say that it was a failure by any stretch of the imagination. It did its role on the menu. I think there's a time and place for it in the future. but we were just caught at a time when the consumer and the competitive landscape shifted, and it wasn't as incremental as we probably would have hoped. And we're conscious of that as we move forward.

I mean, Grand Papa is just our biggest pizza, big deli slice pepperoni. It's great value for the money when you think about the value for the money in the slice. And our large pizzas continue to do quite well when they're promoted. And we're going to be really conscious of that when we drive our innovation into next year to not only bring the news, but make sure there's an appropriate price point to really drive that trial to get folks to fall in love with our great food all over again when they come back to try those things. And that's how we're going to continue to amplify that message. Any other comments, Ravi?

Ravi Thanawala

EVP of International & CFO

Consumers are finding value in our center of plate. Pizza unit sales are up 3%. We are seeing consumers make different decisions in terms of what pizza they're buying. More mediums are being bought than largest, more Create Your Own with less toppings right now. And that just may be a little bit of a reflection of where the consumers are putting their dollars and how many dollars they have to spend right now. But what's really important for us is we want to be able to communicate 6 simple ingredients, our fresh, never frozen original dough, keep center of plate, like very much top of mind for the consumer with our great pizzas, and continue to build from there.

In terms of like opportunities from a value standpoint, like we're really focused in on making sure we have this seamless digital experience that's important for the consumer, especially when they're juggling many things in their lives. And then continue to remind them that, we offer great value in our menu today. And we need to like be on that steady drumbeat every single day right now. And we made that pivot 14 months ago or so that we were going to talk about value every single day. We're not done doing that. We need to continue to bring that notion to every consumer's mind and make sure they don't forget that Papa John's has great value and exceptional quality.

Todd Penegor

President, CEO & Director

And that's why we're taking the initiatives that we talked about today. We know we need to create the fuel for growth. We need to be able to compete no matter what the consumer and competitive landscape is. And we've been talking about how do we drive supply chain savings even harder to make sure we improve the 4-wall economics. very confident on \$20 million of those savings coming into 2026. And we've talked about \$50 million plus over the -- between now and 2028. We're working hard to find even more.

The G&A savings play an important role to provide some fuel. Refranchising provides some fuel. Our strong balance sheet provides fuel. So, we got a lot of optionality to really set ourselves up to compete well no matter what the landscape looks like, while we work to continue to drive the transformation of our brand. And we're still in those early innings. We're building a stronger foundation. We still got levers to pull, but we know we can build a lot of momentum in this business over time, and we're going to continue to stay focused on that.

Operator

And our last 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 marketing spending. I think you've invested about \$17 million incrementally. What's the plan for fourth quarter? And without quantifying, how should we look at that potential investment going into 2026, the importance or lack of incremental marketing spending for Papa John's?

Todd Penegor*President, CEO & Director*

If you look at how we laid out our guidance for this year and what we've talked to in the past is we would spend up to \$25 million of incremental marketing. So, \$17 million through the third quarter, we'll continue to do the right things to compete to finish the year. So as you look at the bookends of our guidance it complement -- it has up to that \$25 million.

During the course of this year, some of that \$25 million has been in non-working to really test and learn to make sure our testing protocol is set up. We've used some of that money to support some of our incremental advertising around some of the promotions that we had out there. But we also used it to help our franchise community to subsidize appropriately to compete.

So, we've used a lot of those levers to make sure we can lean in and make sure the right pressures in the market to make sure that our brand breaks through and resonates, and we're also supportive of the franchise economics to make that happen.

As we look to 2026, and we're not providing any guidance for 2026, but we're really trying to provide a lot of fuel to make sure that we have the optionality to invest back to our brand to appropriately connect to the consumer and appropriately support the 4-wall economics of the franchise community. But more to come on that. But any other thoughts, Ravi, that you'd put out there?

Ravi Thanawala*EVP of International & CFO*

Yes. Over the last couple of quarters, we've launched a couple of efficiency initiatives to ensure that we have the right capacity within the franchisor model and the 4-wall economic model to make sure that we can compete and invest for the long term in this business. The pizza category is a large category. We think that there is more transaction share we can go get. We want to make sure we're balancing transactions, sales and 4-wall profitability, and that's why we're really getting aggressive on efficiency levers.

James Sanderson*Northcoast Research Partners, LLC*

Okay. And just a quick follow-up question. One of your large QSR competitors indicated that about 30% of their sales are exposed to lower income consumers. Is there any way you could give us a context on how PJ's -- Papa John's is exposed to that lower income or low-ticket web-based consumer?

Ravi Thanawala

EVP of International & CFO

Yes. Maybe the way I'd frame it up is like we talked about more than 50% of our sales come from consumers above \$100,000 in income. So that's one data point that we shared in prior periods.

Second, just like as you think about the composition of our business, aggregators are 20% of our business at this point. Second, our loyalty program is nearly half the business, and we talk about that, that loyalty business we're up across all cohorts. So that will give you a couple of data points that helps you to triangulate kind of like that web-based consumer.

Obviously, not all of that web-based consumer is small transaction. But this is why we've been so relentlessly focused on driving our loyalty business, making sure we maintain or take appropriate share in the aggregator marketplace, making sure that we are speaking with compelling messages across the top end of our barbell as well as the bottom end of our barbell.

Todd Penegor

President, CEO & Director

Thank you. And thanks for that, Ravi. I'd like to thank everyone for joining the call this morning and for your continued interest in Papa John's.

Especially, I want to thank our team members and franchisees for their dedication to serving our customers. Our teams are hard at work. We're taking immediate action to streamline our organizational structure and become more efficient, while also advancing the strategic priorities that will ensure Papa John's delivers profitable, sustainable growth.

We're confident we have the right plan in place to create meaningful value across the organization for our team members, franchisees and our shareholders. We look forward to the journey ahead. Have a great day, everyone. Talk to you soon.

Operator

Thank you for joining the conference call today. You may now disconnect.

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