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Papa John's International, Inc. (PZZA) Q4 2025 Earnings Call Transcript

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Insights

EPS of \$0.34 **beats by \$0.01** | Revenue of \$498.18M (-6.14% Y/Y) **misses by \$19.19M**

Papa John's International, Inc. ([PZZA](#)) Q4 2025 Earnings Call February 26, 2026 8:00 AM EST

Company Participants

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

Todd Penegor - President, CEO & Director

Ravi Thanawala - CFO & President of North America

Conference Call Participants

Brian Bittner - Oppenheimer & Co. Inc., Research Division

Isiah Austin

Todd Brooks - The Benchmark Company, LLC, Research Division

James Sanderson - Northcoast Research Partners, LLC

Presentation

Operator

Hello and thank you for standing by. Welcome to Papa John's Fourth Quarter and Full Year 2025 Earnings Conference Call. [Operator Instructions]

I would now like to hand the call over to Heather Hollander. You may begin.

Heather Hollander

Senior VP of Strategy, Investor Relations and FP&A

Good morning and welcome to our fourth quarter and full year 2025 earnings conference call. Earlier this morning, we issued our earnings release, which can be found on our Investor Relations website at ir.papajohns.com under the News and Events tab or by contacting our Investor Relations department. Joining me on the call this morning are Todd Penegor, President and Chief Executive Officer; and Ravi Thanawala, Chief Financial Officer and President, North America.

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 1 question and 1 follow-up.

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

Todd Penegor

President, CEO & Director

Thank you, Heather, and good morning, everyone. 2025 was a year of transformation for Papa John's as we made improvements across the company to our brand health, technology platform, innovation pipeline, customer experience, restaurant fleet and cost structure. These actions, together with key leadership appointments and organizational changes, represent meaningful progress against our transformational objectives. We have substantially improved our brand health as well as our value and quality perception with our customers, which will translate into market share gains.

We achieved growth and higher utilization amongst our loyalty members or our most valuable customers, increasing loyalty orders redeeming Papa Dough from 24% last year to 48% at the end of 2025. In our international business, we've delivered 5 consecutive quarters of positive sales comps. We have made progress against our technology road map with the goal of establishing Papa John's as a best-in-class technology leader in QSR. We established a plan to deliver at least \$60 million of system-wide supply chain cost savings to our company and franchise restaurants without compromising the customer experience.

We identified at least \$25 million of noncustomer-facing corporate cost savings to be realized through 2027. And we ended the year meeting or exceeding our updated guidance targets while investing \$21 million in supplemental marketing year-over-year to support our value proposition and our franchisees. As we work to build on this momentum, I am even more confident that Papa John's is well positioned for meaningful medium- and long-term growth and value creation than I was at this time last year. Still, our progress is just beginning and near-term performance is mixed as our transformation initiatives begin to take hold.

For example from a consumer lens, in the fourth quarter we saw strength in our loyalty customers and existing customers in North America. However, new customer acquisition was lower than last year, which pressured comparable sales. From a product perspective, core pizza remains resilient. We continue to see consumers buying more pizzas overall with the total number of pizzas sold actually increasing 1% as well as improvement in orders that included multiple pizzas. On the other hand, single pie orders declined during the quarter and total pizza sales declined low single digits as our order mix shifted towards smaller nonspecialty pizzas.

From a geographic perspective, we delivered strong 6% comparable sales growth internationally driven by strength across key markets in the Middle East, Asia Pacific and Europe. Performance highlights include 7% comp sales growth in the U.K. as the market benefited from our transformation work. As for fulfillment channels, in North America we were pleased that our carryout business returned to low single-digit order growth supported by the 50% carryout offer in November. There was also notable strength in Uber Eats performance. This upside was offset by year-over-year order declines in total delivery.

As we look to 2026, we are positioning the business to win in a category that has staying power and growth opportunities. Pizza is a go-to for families and friends in everyday moments, special occasions and gatherings and that deep-rooted consumer affection ensures pizza remains one of the most durable food categories. By being the best pizza makers in the industry, I am confident Papa John's will capture this global market opportunity. Our 2 largest opportunities to gain share are: building on the advancements we've made in value perception and leveraging our rebuilt innovation pipeline to win new customers, elevate our pizza order mix to more premium pizzas, drive add-ons and expand our total addressable market.

Let me share more on each starting with our value proposition. In the fourth quarter, promotions such as our 50% out carryoff deal, \$9.99 create your own pizza and our popular Papa Pairings were effective in improving our value perception scores, which increased mid-single digits compared with last year, even as QSR peers introduced aggressive new promotional offers. We'll continue to pulse compelling promotions to meet the customer where they are. We're also significantly evolving our promotional intensity across the third-party ecosystem to drive strong performance across all aggregators.

Second, a steady dose of innovation is critical for new customer acquisition and our innovation engine is firing on all cylinders. We are rolling out exciting new products that are showcasing our better ingredients, better pizza brand promise in new ways and delivering new products customers have requested. At the end of January, we launched our pan pizza platform. Following extensive culinary research and development, our teams have crafted an elevated differentiated pan pizza experience using our premium ingredients and featuring our signature sauce, a 6 cheese artisan blend and a fluffy soft interior with a crispy garlic Parmesan Crust.

Pan pizza fills an important menu gap for us and it raises the bar on a nostalgic type of pizza that we know our customers love. While early, pan pizza mix is performing above expectations and we plan to build momentum off the pan pizza launch driving trial and awareness of this outstanding product. We're also excited to expand pan pizza into several priority international markets in the coming months. Our innovation pipeline expands our aperture beyond traditional QSR pizza and is designed to drive incremental sales and attract a broader customer base throughout the day without complicating our make line.

For example, we're testing oven toasted sandwiches in North America and we'll soon begin testing in certain international markets to provide a handheld option at an accessible price point. These chef-crafted sandwiches are made on bakery fresh Ciabatta bread and packed with innovative flavors and high quality meats brushed with our signature garlic sauce. We are pleased with the early results of this new growth platform with our new sandwiches increasing sales of nonpizza items in test markets.

Part of our product innovation work in 2026 is centered around crafting compelling side items at accessible price points, which we believe will entice customers to look beyond the center of the plate and drive benefits to total ticket, sales and 4-wall margins. As we elevate our offerings outside of core pizza, in the U.K. we're serving up new crispy coated chicken tenders alongside new dipping sauces and we are pleased with the early results increasing sales of side items. We plan to build upon these learnings for chicken innovation in the U.S. Our innovation is supremely customer-centric and insights-driven.

We recently piloted a protein crust pizza featuring an industry-first protein-infused dough that aligns with the customers' desire for protein-rich options. When paired with our premium toppings, this pizza delivers up to 55 grams of protein per serving with 23 grams in the crust alone. Customer feedback during the test was highly positive. Though we are still in the early development phase, the protein crust pizza is an example of how we're rebuilding our innovation pipeline and aligning with the trends that matter most to our customers. The foundational work we have done to recalibrate our ovens, adjust baked temperatures and optimize bake times has made our expanded innovation pipeline possible and has improved product quality and consistency.

At Papa John's, innovation extends beyond the menu. We're also building partnerships with notable brands and strategic collaborations to introduce Papa John's to new customers. We're putting innovation behind these partnerships with a new single-serving pizza soon joining our menu lineup. While it's too early to share the details about these partnerships, we're excited about what's ahead and look forward to providing updates in the coming months. We expect the benefits of a sharpened comprehensive value proposition along with consumer-led data-driven product innovation to win new customers, drive incremental orders from existing customers and improve order mix on the path to sustainable profitable top line growth.

With the competitive dynamics in the QSR marketplace, we are equally focused on sharpening our marketing message. We know pizza is a game played nationally, but won locally. I'm thrilled to share that we have reestablished co-ops across 50 markets in the United States, which includes the majority of our priority markets. These co-ops enable franchisees across regions to pool resources for more effective localized targeting and brand support. Now nearly half of our North American system-wide sales are supported by an advertising co-op with collaborative local campaigns.

As we bring innovation to market, we are supporting our product launches with an all-new creative platform developed in partnership with our new agency of record. While continuing to anchor on our 6 simple ingredients promise, these new campaigns will also connect with customers by leaning into culture-forward omnichannel storytelling. For example, as we prepared for our pan pizza launch, we launched a comprehensive campaign built around online video, social and owned channels, TV, influencer and media activation and widespread press outreach.

Earlier this month, we launched a campaign to be the first national pizzeria to be awarded a Michelin Star with pan front and center because we know great pizza deserves a star. Our messaging around pan is performing well especially among younger consumers with strong purchase intent and desirability results. Investing in technology and our tech stack is essential to being at the forefront of digital leadership in QSR and elevating the customer experience. Early in the fourth quarter, we launched our new omnichannel apps across both iOS and Android devices.

This enhancement consolidates our apps on to a single modern code base, makes digital innovation faster and more efficient and increases our agility in adapting to customer needs. The new app experience is delivering strong early results, outperforming our legacy platforms in reliability with response times nearly 40% faster and in conversion, which has improved 70 basis points. To reduce complexity and improve workflow in our U.S. restaurant operations, we've partnered with leading food service technology provider, PAR Technology.

Over the next 2 years, we will migrate from our legacy system to PAR POS consolidating inventory management, make line operations and AI-powered labor, inventory and restaurant management systems on to 1 platform and enable real-time insights. The new system will utilize existing hardware, minimizing implementation expense and accelerating deployment. A modernized POS combined with 70% owned digital business provides us with a powerful data and insight to inform our decisions and better serve our customers. Additionally, we continue to expand our partnership with Google Cloud to transform digital ordering through its AI-powered food ordering agent.

In the second quarter, we plan to launch an advanced voice and group ordering feature and frictionless reordering for Papa Rewards members. Together, these enhanced tools will simplify the ordering experience, reduce card abandonment and shorten the path from app open to checkout.

We will continue to leverage our strong partnership with Google Cloud to deliver additional enhancements to make the customer experience even more seamless. Differentiating our customer experience across every demand channel remains a top priority.

Our loyalty program, Papa Rewards, is one of our most valuable assets connecting us with nearly 41 million fans and helping to build advocacy among younger, value-orientated consumers. Our Papa Rewards loyalty program continues to increase order frequency and engagement across all customer cohorts. In 2025, our loyalty members placed 2.5x more orders than non-rewards members indicating both the strength of our loyalty program and the opportunity associated with capturing new members.

We're also engaging customers more frequently, leveraging personalization and exclusive offers to drive urgency, exclusivity and incremental visits. And given the importance of the carryout channel, we're also providing franchise incentives to support remodels and elevate the into store experience. Finally, we continue to partner with and evolve our franchisee base. I'm pleased to report that we continue to gain momentum with our efforts to optimize our North American supply chain and reduce overall cost to serve.

As we progress with the work, we have identified additional productivity opportunities and now expect to achieve at least \$60 million of North American system-wide cost savings with \$20 million to \$25 million realized by the end of 2026. These cost savings will equate to at least 160 basis points of 4-wall EBITDA improvement by 2028 for both company and franchise restaurants and do not impact our commitment to product quality or our brand standards. Next, we are accelerating our refranchising program and expect to reduce company-owned restaurants to mid-single-digit percent of the North American system.

Partnering with well-capitalized, strategic growing franchisees enhances local execution, improves operational efficiency and unlocks future growth. In November, we refranchised 85 restaurants and we are currently in negotiations to refranchise 29 additional restaurants in the Southeast to another strong growth-orientated operator and expect to finalize that transaction in the second quarter. In addition to accelerating refranchising, we've completed a strategic review of our restaurant fleet and identified targeted opportunities to strengthen it through selective closures. Ravi will share more about our plans in a moment.

Turning now to our cost structure. We have conducted a comprehensive review of noncustomer-facing costs as well as our corporate and field resources to create incremental flexibility across the company, further strengthen execution and support profitable long-term growth for the Papa John's system. Together with the just reviewed actions to optimize our restaurant portfolio, we expect this program to deliver at least \$25 million in cost savings outside of marketing through 2027 with approximately \$13 million expected to be realized in 2026.

I'll briefly walk through the key drivers of these savings and Ravi will share the expected financial impacts from these initiatives in a few moments. Starting with our organizational structure. We are taking action to better align corporate and field resources with our transformation priorities and optimize spans and layers in our organizations. These changes are designed to increase efficiency and simplify operations. In parallel, we also evaluated noncustomer-facing costs and are executing against identified opportunities to reduce indirect spend.

A portion of these savings will be reinvested in business areas that we believe have the greatest potential to drive sustainable growth, including: innovation to ignite even more customer enthusiasm and expand our addressable market; marketing to remain agile and as needed to invest on behalf of the system to supplement national advertising, return co-ops to full strength and support compelling price points across the system; technology such as our new POS and advancements in personalization and loyalty to drive customer engagement; priority markets and franchise development incentives that deliver strong returns for both franchisees and franchisor; and supply chain to improve cost leverage and 4-wall EBITDA across the system.

We have established clear success criteria and are closely tracking returns on these investments and we are already seeing green shoots. Our international business provides a compelling proof point delivering 5 consecutive quarters of positive comparable sales through focused investment in product, customer experience and priority markets. In summary, as we accelerate our transformation, we are making visible progress executing our strategy. We are confident in our direction and in our ability to deliver sustainable profitable long-term growth and capitalize on opportunities across the category.

And with that, I'd like to turn it over to Ravi.

Ravi Thanawala

CFO & President of North America

Thank you, Todd, and good morning, everyone. I will begin by sharing an update on our progress to improve restaurant profitability and optimize our restaurant portfolio. I'll then provide an overview of our fourth quarter financial results and conclude with our outlook for fiscal 2026. First, I'm honored to step into the role of President, North America in addition to my CFO responsibilities. I've spent the last 3 months in our restaurants, collaborating with our franchisees and reviewing the North America restaurant fleet. I'm struck by the engagement of our team members and franchisees and look forward to continuing to work with them to accelerate our transformation.

To drive profitable growth across the Papa John's system, I'm highly focused on improving 4-wall EBITDA for both company-owned and franchised restaurants. Given the high flow-through inherent in our business model, transaction growth supported by an elevated customer experience and TAM expanding product innovation such as the pan pizza, sandwiches and sides that Todd referenced will serve as a critical driver for 4-wall margin over the medium and long term. Lower costs and greater efficiencies are additional pillars of the 4-wall EBITDA improvements.

In addition to reducing our overall cost to serve through supply chain optimization, we are leveraging new AI capabilities including our Google Cloud partnership to simultaneously drive cost efficiency in our restaurants and improve customer service. We are developing new tools that allow us to better predict sales demand and give our restaurants better visibility to align staffing needs with peak and off-peak periods. Optimizing our restaurant portfolio and strategically closing underperforming restaurants are among the most impactful actions we can take to improve restaurant profitability and fleet health.

We've completed a strategic review of our restaurant fleet and identified targeted opportunities to strengthen it through selective closures. The vast majority of our global restaurants have performed well over the years and delivered strong returns for both corporate and franchise owners. However, we have identified approximately 300 underperforming restaurants across North America that are not meeting brand expectations or lack a clear path to sustainable financial improvement as well as locations where we can effectively transfer sales to a nearby restaurant.

These locations are primarily franchise-owned, over a decade old, generate AUVs of under \$600,000 and are mostly operating at negative 4-wall EBITDA. We expect to close the majority of these restaurants by the end of 2027 with approximately 200 closures occurring in 2026. We believe these closures will further strengthen the system, increasing AUVs by at least 3% and improve franchisee health by allowing franchisees to reallocate resources towards operational excellence in their remaining restaurants and open units in priority markets.

This is the same strategy we successfully deployed during my tenure managing our international business. We delivered significant upside, improving AUVs in the U.K. by 17% after implementing our transformation plans. Similarly, select strategic closures will allow our North American franchisees to redirect resources to drive operational excellence in their core restaurants and accelerate growth in priority markets.

While domestic 4-wall EBITDA has been pressured over the last 2 years by food costs, labor inflation and fixed cost leverage; we expect to generate at least 200 basis points of improvement in 4-wall EBITDA over the medium term driven by supply chain savings, operational efficiency and market optimization. In addition to healthier corporate and franchise restaurant portfolios, we expect the increased restaurant level profitability will accelerate unit growth. As an incremental lever to assist our franchisees in growing profitably, we are also investing in long-term restaurant development incentives with an emphasis on accelerating growth in our highest priority markets.

I'm also highly focused on reducing menu complexity to improve restaurant operations. Based on productivity studies and feedback from both franchisees and customers, we have made the decision to eliminate Papadias and Papa Bites from our North America menu in the second quarter. We expect that this menu revision will exert approximately 150 basis points of near-term pressure on 2026 North America comparable sales, but ultimately benefit the brand as we improve operations and grow sales of products outside our core pizza as the benefit of our reinvigorated innovation pipeline builds.

Turning now to our financial results. Please note that all comparisons and growth rates referenced today are compared to the prior year period unless otherwise noted. For 2025, we met or exceeded our updated financial targets for system-wide sales, comparable sales growth and adjusted EBITDA as we pivoted during the second half of the year to amplify our value proposition in response to a weaker consumer backdrop and intense competitive promotional activity while prudently managing our expenses. We also opened 279 new restaurants in fiscal 2025 with 96 restaurant openings in North America and 183 in international markets.

In 2025, our U.S. market share slightly softened reflecting a system-wide sales decline of just under 1%. As Todd described, we are taking actions to further increase our agility as we move throughout 2026 and build momentum behind our transformation. For the fourth quarter, global system-wide restaurant sales were \$1.23 billion, down 1% in constant currency as higher international comparable sales and 1% global net restaurant growth were more than offset by lower comparable sales in North America.

North American comparable sales decreased 5% in the fourth quarter driven by a 5.5% decrease in transaction comps across our restaurants. Carryout grew 1%, but was more than offset by declines in total delivery. The international team delivered another exceptional quarter with comparable sales improving 6%. We saw continued momentum across our key markets driven by new menu offerings, aggregator expansion and improved brand and marketing performance. Total consolidated revenue for the fourth quarter was \$498 million, down 6% as lower revenue at our domestic company-owned restaurants, North America commissary and all other business units was partially offset by higher international revenues.

Domestic company-owned revenues decreased \$24 million primarily due to refranchising of 85 corporate restaurants in addition to lower comparable sales and the prior year deferred revenue impact related to loyalty enhancements. North America commissary revenues decreased \$7 million primarily due to lower pricing slightly offset by higher volumes. And all other business unit revenues decreased \$7 million driven by lower advertising fund revenue as a function of lower sales. Partially offsetting these declines was a \$4 million increase in international revenue driven by improved performance across our priority regions.

Consolidated adjusted EBITDA decreased to \$51 million as we strengthened our value proposition during the quarter and built on foundational investments we made throughout 2025 to improve our brand health and position for sustainable growth. Fourth quarter consolidated adjusted EBITDA performance was impacted by marketing investments and subsidies of approximately \$8 million and approximately \$2 million of higher management incentive compensation. These declines were partially offset by lower cost of sales related to the refranchising transaction and commodity deflation.

In 2025, consolidated adjusted EBITDA was \$201 million, including \$21 million of incremental marketing investments building on approximately \$4 million of incremental marketing investment in the fourth quarter of 2024. Our fourth quarter domestic company-owned restaurant segment adjusted EBITDA margin, which includes G&A expenses, was 6.3% improving by approximately 10 basis points as the flow-through from higher average ticket offset lower transaction volumes and labor inflation.

In the fourth quarter, domestic company-owned restaurant delivered 4-wall EBITDA of \$19.2 million and a 4-wall margin of 12.7%, an improvement of 60 basis points primarily driven by lower cost of sales. Food costs and restaurant labor were each approximately 32% of domestic company-owned revenues during the quarter. North America commissary segment adjusted EBITDA margins were 7.7%, an increase of 150 basis points primarily reflecting higher volumes.

Turning to our balance sheet. At the end of the quarter, our total available liquidity was \$515 million and our covenant leverage ratio was 3.2x. We continue to maintain a strong balance sheet that provides ample flexibility to invest behind our transformation initiatives. Turning now to cash flows. Net cash provided by operating activities in 2025 was \$126 million. Free cash flow was \$61 million, an increase of \$27 million primarily reflecting favorable changes in working capital and timing of cash payments for the National Marketing Fund and cash taxes. Capital expenditures decreased approximately \$8 million.

Now turning to our 2026 outlook. As we improve our cost structure to support our transformation, we have reduced our corporate workforce by approximately 7% and expect to close approximately 200 North America restaurants in 2026 and 100 in 2027, representing approximately 2% and 1% of annualized global system-wide sales, respectively. Accordingly, we expect to incur restructuring charges of approximately \$16 million to \$23 million associated with our transformation work to be recognized in 2026 and 2027. We expect that these will be primarily cash charges. Our financial guidance is provided on an adjusted basis excluding these charges.

For 2026, we expect global system-wide sales to range between flat and low single-digits decline. For North America, we expect comparable sales to be down 2% to 4%. Our guidance reflects both the benefit of innovation pipeline and considerations around the current cautious consumer environment we expect to persist throughout 2026. These factors are expected to influence our comparable sales trends through the year. Quarter-to-date comparable sales are down mid-single digits and we expect to end the first quarter in that range. We expect Q1 to be the softest quarter followed by improved trends in the second half of the year supported by the benefits of our product innovation, marketing co-ops and new aggregator marketing strategy.

Internationally, as we build on our transformation momentum, we expect comparable sales to increase between 2% and 4%. As Todd shared, we are negotiating the refranchising of 29 additional restaurants in the Southeast and expect to close the transaction in the second quarter. This transaction is expected to reduce 2026 consolidated revenues by approximately \$9 million, including the impact of eliminations and benefit adjusted EBITDA by approximately \$1 million. These impacts are reflected in our financial guidance. We also plan to refranchise additional restaurants in 2026, but those transactions are in the earlier stages and are not factored into our guidance at this time.

We will provide updates on financial impacts on future earnings calls on those transactions' progress. For 2026, we expect consolidated adjusted EBITDA to be between \$200 million and \$210 million. Recall that 2025 and 2026 are investment years as we support our transformation initiatives. In 2026, we expect to invest approximately \$22 million in supplemental marketing and franchisee subsidies to support our menu strategy and enhance franchisee profitability as we lean into our promotional strategy in this year's innovation calendar. As our transformation advances and we continue to stand up local co-ops, we do not expect to continue this \$22 million investment after 2026.

As Todd described earlier, our 2026 consolidated adjusted EBITDA outlook includes \$13 million of cost savings outside of marketing. We will continue to be prudent with cost management on our way to achieving \$25 million of total cost savings by the end of 2027. In 2026, we expect that stock-based compensation will be approximately \$5 million per quarter. For nonoperating expense items, we expect net interest expense between \$35 million and \$40 million, adjusted D&A between \$70 million and \$75 million and capital expenditures between \$70 million and \$80 million.

As we move to a more asset-light model after 2026, we expect capital expenditures to step down to approximately \$60 million to \$70 million per year on average. We expect our 2026 GAAP effective tax rate to be in the range of 30% to 34%. For Q1, our tax rate is expected to be between 34% and 38% reflective of an anticipated shortfall from the vesting of restricted shares resulting in additional tax expense when compared with the prior year period. Finally, we expect diluted shares outstanding of approximately 33 million.

Turning to restaurant development. We expect to open between 40 and 50 gross new restaurants in North America in 2026. In the near term, we are focused on elevating 4-wall economics and our consumer experience with the intent of accelerating new restaurant development and capitalizing on significant market share opportunities over the medium term. After 2027, we expect new restaurant growth comparable to 2025 levels and closures returning to 1.5% to 2% per year. Internationally, we expect to open 180 to 220 gross new restaurants in 2026.

We anticipate international closures will represent 5% to 6% of our international system as we continue to pursue strategic closures of lower AUV restaurants to further strengthen our markets. Overall, we're pursuing an asset-light model that generates higher free cash flow. We believe that our accelerated refranchising program combined with our efforts to grow transactions, improve restaurant level profitability and reduce corporate G&A will generate higher free cash flow. While transformations are not linear, we are managing the current environment while taking deliberate strategic actions to deliver long-term value creation for all of our stakeholders.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Brian Bittner with Oppenheimer.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

As it relates to your same-store sales, one of your competitors suggest that the QSR pizza industry as a whole is pretty stable, in fact growing and your same-store sales guidance for '26 is a 2% to 4% decline. And the question is just what is holding you back from holding or taking share in 2026 in your view? I realize you see a cautious consumer out there, but it seems like your guidance does assume a market share decline in 2026 and just would like your commentary on that.

Todd Penegor

President, CEO & Director

Brian, thanks for the question. As we think about 2026, our opportunity is really about bringing our innovation calendar to life. As you think about where some of the opportunities have been for us over the last year or so, it was really around recruiting new customers to our brand and we do believe that innovation is going to play a big role with that. We're actually doing a nice job continuing to protect and drive frequency with our existing customer and you saw that in the prepared remarks with the work that we've been doing in Papa Rewards and the targeted CRM offers. But we do think as we go through this year bringing to life pan pizza, we're already seeing a nice mix in that product.

The opportunity is to wear it in and really engage new customers into our brand and it's a great product once they try it and we're seeing good repeat rates early in the game. The sandwich opportunity is an opportunity for us to start to expand our total addressable market because we don't play in that category yet. It's doing really well in test so I would expect to see that coming to life during the course of this year. We know we have an opportunity to drive add-on with affordable sides. So we've got that news coming through this year. And the single-serve pizza opportunity is an opportunity for us and that will come with a fun property tie-in.

So those are things that we know we have to drive on innovation to recruit new customers. We also know we got to really compete better at the local level and we've been working hard over the course of the last 18 months as I've been here to get the co-ops back up. And as you heard in the prepared remarks, we now got 50 co-ops representing half the system sales in the U.S. up and running. So all of those are the nice tailwinds in our business that we're going to see during the course of this year. Why do we have the guidance that we have with all of that news? Well, we've got a couple of things that we know we need to evolve and change.

We talked about pulling some of our rhythm breakers off the menu to really drive a focus on being not just the best pizza makers in the business, but over time being the best bakers. And the elimination of Papadias and Papa Bites will have an impact on our business, but it's absolutely the right thing to do from an ops complexity to create great service experiences time and again moving forward. So we're going to be focused on doing that. And we know we got to compete even stronger in the 3P channel and that's not just national offers, that's working local and the co-ops will help us really position to do that even stronger at the local level.

So we're going to do the things that are right for the long term of the business, bring news, continue to drive our core pizza business. The good news is we sold 4% more pizzas in 2025 on a full year basis than we did the year before even though we saw some of the mix trade-downs and we think we'll continue to see some of the mix trade-downs from large and specialty into medium, which provides a little bit of pressure on our business. But we think it's a prudent approach to the business. We're managing our cost structure appropriately. We continue to invest to bring the news to life. And we really think that kind of prudent approach to our business will set ourselves up for long-term success. Anything else, Ravi?

Ravi Thanawala

CFO & President of North America

Just, Brian, as we think about dimensionalizing the 2025 comp, 180 basis points of our comp pressure came from our sides business, 50 basis points were from channel mix and the balance was really a mix shift within the pizzas itself from larger sizes to some medium sizes and a little bit of a mix out of specialty into create your own. So there are a couple of dynamics there. But as Todd mentioned, we're really focused on like wearing in our innovation strategy and competing well.

Operator

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

Isiah Austin

Isiah Austin on for Sara. Just briefly, how do you guys think about competing on value? I know it's kind of derivative of the previous question, but how do you think of competing on value when you think of going against a larger scale competitor? And then I just have a quick follow-up.

Todd Penegor

President, CEO & Director

I think on competing on value, we really think about how do we meet the consumer where they're at and we did that in partnership with our franchise system in the fourth quarter. Our 50% carryout offer met them where they're at and that's a great offer and a great overall service experience because we do really well on the carryout side. Having \$9.99 create your own did meet the consumer where they're at. But we have to compete on both ends of the barbell and that's why bringing this innovation is so important. And you can see that as we come out with a compelling price point on pan at \$11.99, it is still a trade-up from our \$9.99 create your own offering. So that does help margin and check and dollars.

So it's going to have to be a balance. The work we're doing on innovation to have affordable sides certainly helps us on value. But what we really need to do is continue to recruit new customers because if we can get them into our rewards program, we're driving -- we see higher frequency and there's a lot of value that can be created with Papa Dough redemptions that we've seen nice uptick in the Papa Dough redemptions. And our frequency, as we said on the call, is 2.5x more in that with a loyalty member than a non-loyalty member. So we're just going to have to continue to drive folks over into that channel. And as we said earlier, we're going to have to make sure that we've got the appropriate offers in 3P to compete even better to make sure we've got not just our fair share of the pizza category, but our fair share of QSR in the 3P channel.

Ravi Thanawala

CFO & President of North America

And just like as a reminder, in our prepared remarks, we talked to an opportunity for capturing 200 basis points of margin upside on a 4-wall basis in the system with 160 basis points coming from supply chain and the balance coming from labor and market efficiencies. So even in this value-centric world, we're pulling levers to continue to maintain and drive our 4 walls. And just more broadly from a 4-wall standpoint, in December 2024 we provided a figure that our domestic company-owned restaurant 4-wall margins were \$150,000 and as we look at the numbers for year-end 2025, we're at \$135,000.

So we went slightly backwards, but like we have a clear plan that we just laid out to reaccelerate there. And then just from like a broader system standpoint, when we look at the Top 50% of our fleet right now in the U.S., AUVs are roughly \$1.4 million at a 12% EBITDA margin. And our Top 75% of our fleet is at a \$1.25 million AUV roughly at a 10% EBITDA margin. So we see opportunities to continue to accelerate 4-wall margins and compete by having this balance of value messaging that Todd referenced and wearing in our innovation calendar.

Todd Penegor

President, CEO & Director

And last thing I'll add, I think we really have the opportunity to lean in on our CRM program. So as you think about more personalized one-to-one communication to drive value and drive behavior with those customers, we'll continue to lean in on that. It's a great way to compete for the size and scale of the business that we are against the bigger competitors that are out there.

Isiah Austin

And then just as a follow-up, kind of just going on Todd's comment about on the different platforms. Do you mind letting me know how you guys see growth? Is that coming more from aggregator platforms or if there's an opportunity to drive growth primarily through the 1P platform?

Ravi Thanawala

CFO & President of North America

We think there's an opportunity to drive growth in both. As we've talked about, we see a lot of runway still left from a carryout standpoint in our 1P business and we see that as a core focus. We continue to attack. We've been first movers on the aggregators and we continue to grow and expand that business. So we're going to continue to lean in both. I think we have to be agile both in first party and third party as look, there are lots of different offers that consumers are seeing in this value-centric world. But our teams have got lots of experience on managing the third-party experience and third-party business and we'll continue to shift and adjust as needed.

Todd Penegor

President, CEO & Director

And we truly believe our strong innovation calendar will help us really bring in new customers and that's not just in our traditional channels to carry out in 1P, but also helps a lot in 3P as we bring all this news to life.

Operator

Our next question comes from the line of Todd Brooks with Benchmark StoneX.

Todd Brooks

The Benchmark Company, LLC, Research Division

Ravi, you just gave us some hints on kind of the overall system performance. But can you maybe take the metrics that you gave us for unit level EBITDA for company and apply that to the overall base, how much that declined in '25 versus '24?

Ravi Thanawala

CFO & President of North America

Yes. I can't give specifics on the declines from a system standpoint, but what I would say is like we're the largest franchisee since we operate roughly 500 restaurants in the system. So it's not a one-for-one comparison, but it's probably a reasonable starting point to work from. I think more broadly like across our system, there are different perspectives in terms of managing ticket versus transaction as well that could impact individual franchisees' performance. But what we're all rallying around is recapturing 200 basis points of margin rate upside. And as I think about '26 relative to '25, we expect 4-wall profitability to slightly increase year-on-year on a dollar basis.

Todd Penegor

President, CEO & Director

Yes. Todd, and I would add that's why we really took a thoughtful approach to the closures and really conducted a full strategic review, as we said in the prepared remarks, to make sure that we take a look at restaurants that maybe moved; the trade areas have moved away or there was going to be significant investment to get them up to grade both from how we're operating them as well as how they're perceived because they may look a little more older and tired. That opportunity is an opportunity to really take care of our lowest AUV and our more challenged EBITDA restaurants to really strengthen the system and help on the 4-wall profitability and help on our overall AUVs.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. So I'm trying to dimensionalize that 300 that you've identified for closure, how much healthier does that make the rest of the system from an economic standpoint?

Ravi Thanawala

CFO & President of North America

So AUVs increased about 3% on an average basis from the restaurant closures. And I would say like the recapture rates vary by individual trade zones, but our recapture rates are very healthy in the business. So we took a pretty surgical approach of looking at quality of operations, quality of the trade zone, quality of the assets itself and made a pretty clear determination in terms of restaurant by restaurant, which are the ones that we felt should close. And we've had great partnership with the franchisees to make sure we're thinking about each market holistically, that we're setting ourselves up for a stronger system.

Todd Penegor

President, CEO & Director

I appreciate the work Ravi has been doing with each franchisee on the joint capital planning front to really look at what is going to be the best opportunity to not only be there for our consumer, but set our system up and our franchisees up in those markets for ultimate success. And whether that's a relocation, whether that's a closure, whether that's a reimage, whether that's a new build; we're working hard to really make sure that we partner with our franchise community to set them up for long-term success.

Operator

Our last question will come from the line of Jim Sanderson with Northcoast Research.

James Sanderson

Northcoast Research Partners, LLC

I wanted to get a little bit more feedback on the delivery channel. Any feedback on how the third party performed relative to first party? And what do you think the biggest unlock or opportunity ahead is to really drive increased check and traffic in that channel?

Ravi Thanawala

CFO & President of North America

So third-party delivery grew low single digits on a dollar basis in the quarter. The decline came from the first-party side. We think that there is still meaningful work that we can get after to improve consumer satisfaction scores on the delivery side. There's no one thing we're doing there. There's a number of things we continue to work on. We're leveraging our Google Cloud partnership to continue to evolve that digital experience journey too. We're looking at different strategies to make sure that we're improving taste of food, which is a key measure of consumer satisfaction on the delivery of product. And third is we're going to continue to leverage CRM to make sure we're getting our most loyal consumers into that delivery channel.

Operator

Ladies and gentlemen, there are no more questions in the queue. I would now like to turn the call back over to Todd for closing remarks.

Todd Penegor

President, CEO & Director

Well, I'd like to thank everybody for joining the call this morning. I know it's a busy morning with a lot of other folks announcing. So I appreciate your continued interest in Papa John's. Most importantly, I want to thank our team members and franchisees for their dedication to serving our customers. As we accelerate our transformation in 2026 to set ourselves up for mid- and long-term success, we're confident we have the right plan in place to create meaningful value across our organization for our team members, franchisees and shareholders. Have a great day and look forward to some of the follow-up calls this morning. Thanks, everybody.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.

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