

Papa John's Announces Second Quarter 2021 Financial Results and Significant Increase in Dividend

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LOUISVILLE, Ky.--(BUSINESS WIRE)--Papa John's International, Inc. (NASDAQ: PZZA) today announced financial results for the three and six months ended June 27, 2021.

Second quarter 2021 highlights compared to prior year

- **Total company revenues increased 11.8% to \$515.0 million**
- **Comparable sales up 5.2% in North America and 21.2% Internationally; Global system-wide restaurant sales of \$1.2 billion, up 12.2% driven by innovation, strong customer retention and accelerating domestic and international unit growth**
- **55 net unit openings driven by International growth**
- **Loss per diluted share of (\$2.30), including Special items of \$3.23 per share, largely related to repurchase and conversion of Series B Convertible Preferred Stock; Adjusted earnings per diluted share grew to \$0.93 from \$0.48 a year ago**
- **For first six months of 2021, cash flow from operations of \$128.0 million, up from \$87.7 million a year ago; free cash flow of \$100.1 million up from \$67.0 million**
- **Increases return to common shareholders with 56% increase in annual dividend rate to \$1.40 per share; declares third quarter dividend of \$0.35 per share**

"Papa John's delivered an eighth consecutive quarter of growth, with system-wide sales up 12% in Q2. We extended the record sales results we achieved a year ago, sustaining our industry outperformance as markets continue reopening," said President & CEO Rob Lynch. "Robust two-year comparable sales results – up 33% in North America and 27% internationally – reflect the impact our multi-faceted innovation strategy has had across every area of our business, powered by the effort of our team members and franchisees."

Mr. Lynch continued, "Papa John's strong brand and highly-attractive unit economics are driving accelerated restaurant openings by both new and existing franchisees, resulting in a record 123 net unit openings in the first half of 2021. In addition to growing AUVs, development is now a significant component of rising system-wide sales. With our business firing on all cylinders, we are more confident than ever that Papa John's strategy and growth model position us solidly for long-term growth, as we build the world's best pizza delivery company."

Financial Highlights

In thousands, except per share amounts	Three Months Ended			Six Months Ended		
	June 27, 2021	June 28, 2020	Increase (Decrease)	June 27, 2021	June 28, 2020	Increase (Decrease)
Revenue	\$ 515,008	\$ 460,623	\$ 54,385	\$ 1,026,754	\$ 870,482	\$ 156,272
Operating income	44,637	30,534	14,103	91,499	46,006	45,493
Net income	32,254	20,614	11,640	66,137	29,057	37,080
Diluted earnings (loss) per share	(2.30)	0.48	(2.78)	(1.47)	0.65	(2.12)
Adjusted diluted earnings per share (a)	0.93	0.48	0.45	1.94	0.65	1.29

- (a) Adjusted diluted earnings per share is a non-GAAP measure that excludes “Special items,” which impact comparability. Special items of \$112.4 million and \$115.4 million for the three and six months ended June 27, 2021 include \$109.9 million of a one-time charge in each period associated with the repurchase and conversion of all shares of the company’s Series B Convertible Preferred Stock (“Series B Preferred Stock”) and \$3.3 million and \$7.2 million for the three and six month ended June 27, 2021, respectively, of strategic corporate reorganization costs associated with the company’s new office in Atlanta, Georgia projected to open in the fall of 2021. The reconciliation of GAAP to non-GAAP financial results is included in “Reconciliation of Non-GAAP Financial Measures” below.

Revenues

Consolidated revenues of \$515.0 million increased \$54.4 million, or 11.8%, in the second quarter of 2021 compared to the second quarter of 2020 primarily as a result of higher comparable sales of 5.2% for North America restaurants, which benefited from continued menu, delivery and digital innovation as reflected in higher company-owned restaurant revenues, franchise royalties and commissary sales. Higher commodity costs also positively impacted commissary sales. International revenues also increased primarily due to higher royalties from strong comparable sales results of 21.2% for the quarter and higher unit counts.

Operating Results

Consolidated operating income of \$44.6 million for the second quarter of 2021 increased \$14.1 million compared to the second quarter of 2020. The increase primarily reflects strong sales on higher comparable sales and year-over-year unit growth domestically and internationally. Additionally, the second quarter of 2021 benefited from a higher effective royalty rate and additional franchise royalties of \$5.1 million compared to the comparable period in 2020 primarily as a result of ending in the third quarter of 2020 our temporary franchise support program.

Diluted loss per share was \$2.30 for the second quarter of 2021 representing a decrease of \$2.78 over the second quarter of 2020. Diluted loss per share included \$3.15 per diluted share in the second quarter of 2021 from a reduction in net income attributable to common shareholders related to the repurchase and conversion of all shares of Series B Preferred Stock. This charge reflects the excess of the one-time cash payment over the carrying value of the Series B Preferred Stock. Excluding the impact of Special items, adjusted diluted earnings per share was \$0.93 representing an increase of \$0.45 over the second quarter of 2020.

Global Restaurant Sales Information

Global restaurant and comparable sales information for the three and six months ended June 27, 2021, compared to the three and six months ended June 28, 2020 are as follows (See “Supplemental Information and Financial Statements” below for related definitions):

	Three Months Ended		Six Months Ended	
	June 27, 2021	June 28, 2020	June 27, 2021	June 28, 2020
Comparable sales growth:				
Domestic company-owned restaurants	5.6%	22.6%	13.8%	14.4%
North America franchised restaurants	5.2%	29.7%	15.1%	17.2%
North America restaurants	5.2%	28.0%	14.8%	16.6%
International restaurants	21.2%	5.3%	22.2%	3.8%
Total comparable sales growth	9.0%	22.2%	16.6%	13.3%
System-wide restaurant sales growth: (excluding the impact of foreign currency)				
Domestic company-owned restaurants	5.2%	13.9%	13.1%	6.9%
North America franchised restaurants	6.4%	29.4%	15.8%	17.5%
North America restaurants	6.2%	25.7%	15.2%	15.0%
International restaurants	35.7%	5.5%	32.2%	6.8%
Total global system-wide restaurant sales growth	12.2%	20.8%	19.0%	13.0%

Global Restaurant Unit Data

As of June 27, 2021, there were 5,523 Papa John’s restaurants operating in 49 countries and territories, as follows:

	Domestic Company- owned	Franchised North America	Total North America	International	System-wide
<u>Second Quarter</u>					
Beginning - March 28, 2021	589	2,709	3,298	2,170	5,468
Opened	-	24	24	71	95
Closed	-	(13)	(13)	(27)	(40)
Ending - June 27, 2021	589	2,720	3,309	2,214	5,523
Net unit growth	-	11	11	44	55
Trailing four quarters net store (decline)/growth	(9)	34	25	151	176

Free Cash Flow

The company's free cash flow (a non-GAAP financial measure defined as net cash provided by operating activities, less purchases of property and equipment and dividends paid to preferred shareholders) for the six months ended 2021 and 2020, respectively, was as follows (in thousands):

	Six Months Ended	
	June 27, 2021	June 28, 2020
Net cash provided by operating activities	\$ 128,030	\$ 87,658
Purchases of property and equipment	(21,543)	(13,795)
Dividends paid to preferred shareholders (1)	(6,394)	(6,825)
Free cash flow	<u>\$ 100,093</u>	<u>\$ 67,038</u>

- (1) This does not include the cash consideration paid for the repurchase and conversion of the Series B Preferred Stock. See "Repurchase and Conversion of Series B Preferred Stock" below for additional information.

We view free cash flow as an important financial measure because it is one factor that management uses in determining the amount of cash available for discretionary investment. Free cash flow is not a term defined by GAAP, and as a result, our measure of free cash flow might not be comparable to similarly titled measures used by other companies. Free cash flow should not be construed as a substitute for or a better indicator of the company's performance than the company's GAAP measures.

See the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Quarterly Report on Form 10-Q filed with the SEC for additional information concerning our operating results for the three and six months and cash flow for the six months ended June 27, 2021.

Repurchase and Conversion of Series B Preferred Stock

On May 13, 2021, the company completed the previously announced repurchase and conversion to common stock of all of the shares of Series B Preferred Stock owned by affiliates of Starboard Value LP. Additionally, on June 7, 2021, all of the remaining outstanding shares of the Series B Preferred Stock, owned by certain franchisee investors, were repurchased or converted to common stock. Collectively, these actions were taken in return for cash payments of \$188.6 million. The company also recorded a reduction to net income attributable to common shareholders of \$109.9 million as a result of the transaction. This one-time charge to equity reflects the excess of the cash payments over the carrying value of the respective Series B Preferred Stock. Following these transactions, there was no Series B Preferred Stock outstanding as of the end of the quarter.

Cash Dividend

The company paid common and preferred stock dividends of \$10.4 million in the second quarter of 2021. On August 3, 2021, our Board of Directors approved a 55.6% increase in the company's dividend rate per common share, from \$0.90 on an annual basis to \$1.40 on an annual basis, and subsequently declared a third quarter dividend of \$0.35 per common share, of which approximately \$12.8 million will be paid to common stockholders. The common share dividend will be paid on August 27, 2021 to stockholders of record as of the close of business on August 16, 2021. The declaration and payment of any future dividends will be at the discretion of our Board of Directors.