August 6, 2020

# Papa John's Announces Second Quarter 2020 Results and Provides Preliminary Estimated Comparable Sales for July

LOUISVILLE, Ky.--(BUSINESS WIRE)-- Papa John's International, Inc. (NASDAQ: PZZA) today announced financial results for the three and six months ended June 28, 2020. The company also provided an update on the business impact of the global coronavirus (COVID-19) pandemic.

**Highlights**

- **Second quarter 2020 earnings per diluted share of $0.48 compared to second quarter 2019 earnings per diluted share of $0.15**
- **Second quarter system-wide North America comparable sales increase of 28.0%**
- **Second quarter international comparable sales increase of 5.3%; Excluding temporary closures related to COVID-19, international comparable sales increase of 13.3%**
- **Cash flow from operations of $87.7 million and free cash flow of $67.0 million for the first six months of 2020**
- **Preliminary estimated July fiscal period comparable sales increases of 30.3% for North America and 13.9% for international**

"Faced with an unprecedented global challenge but guided by our values and purpose, Papa John's achieved record sales in the second quarter," said Rob Lynch, President & CEO. "Across the U.S. and those international markets where delivery-based businesses have remained open, we have safely and successfully met the needs of millions of new and returning customers who have relied on us for high-quality, delicious pizza, Papadias, and other food during the pandemic. This was possible because of the dedication and hard work of our team members and local franchisees, as well as our work to create a more diverse, inclusive and innovative culture."

Mr. Lynch continued, "Helping drive growth, our innovation pipeline continues firing on all cylinders with the launch of our hugely popular new Shaq-a-Roni pizza, which has generated over $2 million in charitable contributions that will go toward building the communities we serve. Our strong momentum has also enabled us to hire over 20,000 new restaurant team members during the second quarter and target hiring another 10,000 positions in the third, helping support those impacted by unprecedented levels of unemployment. These efforts position Papa John's solidly to continue meeting the needs of our customers who face continued challenges from COVID-19, and to drive long-term sustainable loyalty to our brand long after the current pandemic."

**Global Restaurant and Comparable Sales Information**

Global restaurant and comparable sales information and operating highlights for the three and six months ended June 28, 2020, compared to the three and six months ended June 30, 2019 are as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| Global restaurant sales growth / (decline) (a) | 19.1% | (3.8%) | 11.6% | (4.7%) |
| Global restaurant sales growth / (decline), excluding the impact of foreign currency (a) | 20.8% | (2.6%) | 13.0% | (3.2%) |
| Comparable sales growth / (decline) (b) | | | | |
| Domestic company-owned restaurants | 22.6% | (6.8%) | 14.4% | (7.9%) |
| North America franchised restaurants | 29.7% | (5.3%) | 17.2% | (5.7%) |
| System-wide North America restaurants | 28.0% | (5.7%) | 16.6% | (6.3%) |
| System-wide international restaurants (c) | 5.3% | 0.3% | 3.8% | 0.1% |

(a) Includes both company-owned and franchised restaurant sales.

(b) Represents the change in year-over-year sales for the same base of restaurants for the same fiscal periods. Comparable sales results for restaurants operating outside of the United States are reported on a constant dollar basis, which excludes the impact of foreign currency translation.

(c) Includes the impact of temporarily closed stores. Excluding those stores, comparable sales growth for system-wide international restaurants would have been approximately 13.3% and 8.5% for the three and six month ended June 28, 2020.

We believe North America, international and global restaurant and comparable sales growth information, as defined in the table above, is useful in analyzing our results since our franchisees pay royalties and marketing fund contributions that are based on a percentage of franchise sales. Franchise sales also generate commissary revenue in the United States and in certain international markets. Franchise restaurant and comparable sales growth information is also useful for comparison to industry trends and evaluating the strength of our brand. Management believes the presentation of franchise restaurant sales growth, excluding the impact of foreign currency, provides investors with useful information regarding underlying sales trends and the impact of new unit growth without being impacted by swings in the external factor of foreign currency. Franchise restaurant sales are not included in the company's revenues.

**Revenue and Operating Highlights**

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| In thousands, except per share amounts | June 28, 2020 | June 30, 2019 | Increase | June 28, 2020 | June 30, 2019 | Increase |
| Total revenue | $460,623 | $399,623 | $ 61,000 | $870,482 | $798,028 | $ 72,454 |
| Income before income taxes | 26,907 | 9,959 | 16,948 | 38,412 | 9,192 | 29,220 |
| Net income | 20,614 | 8,354 | 12,260 | 29,057 | 6,623 | 22,434 |
| Diluted earnings per share | 0.48 | 0.15 | 0.33 | 0.65 | 0.03 | 0.62 |
| Adjusted diluted earnings per share (a) | 0.48 | 0.16 | 0.32 | 0.65 | 0.35 | 0.30 |

(a) Adjusted to exclude Non-GAAP items in 2019 referred to as "Special items," which impact comparability. The reconciliation of GAAP to non-GAAP financial results is included in the table below.

*Adjusted Financial Results*

Effective as of the first quarter of 2020, the company modified its presentation of adjusted (non-GAAP) financial results to no longer present certain financial assistance provided to the North America system in the form of royalty relief and discretionary marketing fund investments as Special charges. This financial assistance, which began in the third quarter of 2018 in response to declining sales in North America, will continue through the third quarter of 2020, as announced in a formal plan in July 2019. The adjusted financial results for the three and six months ended June 30, 2019 have been revised to remove these items. See "Temporary Franchise Support" for additional information regarding this change in presentation.

The table below reconciles our GAAP financial results to our adjusted financial results, which are non-GAAP measures (collectively defined as "Special items"). We present these non-GAAP measures because we believe the Special items in 2019 impact comparability to our 2020 results.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (In thousands, except per share amounts) | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| GAAP income before income taxes | $ 26,907 | $ 9,959 | $ 38,412 | $ 9,192 |
| Special charges: | | | | |
| Legal and advisory fees (1) | - | 396 | - | 5,463 |
| Mark-to-market adjustment on option valuation (2) | - | - | - | 5,914 |
| Refranchising gains | - | (163) | - | (163) |
| **Adjusted income before income taxes** | **$ 26,907** | **$ 10,192** | **$ 38,412** | **$ 20,406** |
| GAAP net income attributable to common shareholders | $ 15,707 | $ 4,868 | $ 20,933 | $ 1,067 |
| Special charges: | | | | |
| Legal and advisory fees (1) | - | 396 | - | 5,463 |
| Mark-to-market adjustment on option valuation (2) | - | - | - | 5,914 |
| Refranchising gains | - | (163) | - | (163) |
| Tax effect of Non-GAAP items (3) | - | (22) | - | (1,197) |
| **Adjusted net income attributable to common shareholders** | **$ 15,707** | **$ 5,079** | **$ 20,933** | **$ 11,084** |
| GAAP diluted earnings (loss) per share | $ 0.48 | $ 0.15 | $ 0.65 | $ 0.03 |
| Special charges: | | | | |
| Legal and advisory fees (1) | - | 0.01 | - | 0.17 |
| Mark-to-market adjustment on option valuation (2) | - | - | - | 0.19 |
| Tax effect of Non-GAAP items (3) | - | - | - | (0.04) |
| **Adjusted diluted earnings per share** | **$ 0.48** | **$ 0.16** | **$ 0.65** | **$ 0.35** |

(1) Represents advisory and legal costs incurred in 2019 primarily associated with the review of a wide range of strategic opportunities that culminated in the strategic investment in the company by affiliates of Starboard Value LP ("Starboard") as well as certain litigation costs associated with legal proceedings initiated by our founder.

(2) Represents a one-time mark-to-market adjustment of $5.9 million primarily related to the increase in the fair value of the Starboard option to purchase Series B convertible preferred stock that culminated in the purchase of additional preferred stock in late March 2019.

(3) The tax effect for Legal and advisory fees and Refranchising gains was calculated by applying the 2019 full year marginal rate of 22.6%. The mark-to-market adjustment on option valuation was non-deductible for tax purposes.

The 2019 non-GAAP adjusted results shown above and within this press release, which exclude the Special items, should not be construed as a substitute for or a better indicator of the company's performance than the company's GAAP results. Management believes presenting certain financial information excluding the Special items is important for purposes of comparison to current year results. In addition, management uses these metrics to evaluate the company's underlying operating performance and to analyze trends.

*Temporary Franchise Support*

As previously mentioned, effective as of the first quarter of 2020, the company no longer presents certain royalty relief and discretionary marketing fund investments, included herein as "Temporary Franchise Support," as Special charges within its adjusted financial results. The prior period adjusted financial measures presented above in "Adjusted Financial Results" have also been revised to remove the impact of these items.

Temporary Franchise Support investments were $5.1 million (or approximately $0.12 per diluted share) and $15.8 million (or approximately $0.38 per diluted share) for the three and six months ended June 28, 2020, respectively, compared to $5.0 million (or approximately $0.12 per diluted share) and $9.8 million (or approximately $0.24 per diluted share) for the three and six months ended June 30, 2019, as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| Royalty relief (a) | $ 5,145 | $ 2,466 | $ 10,801 | $ 7,339 |
| Marketing fund investments (b) | - | 2,500 | 5,000 | 2,500 |
| Total Temporary Franchise Support (c) | $ 5,145 | $ 4,966 | $ 15,801 | $ 9,839 |

(a) Represents financial assistance provided to the North America system in the form of temporary royalty reductions that are above and beyond the level of franchise assistance the company would incur in the ordinary course of its business. Beginning in the third quarter of 2018, the company began providing various forms of support and financial assistance to the North America franchise system in response to declining North America sales. In July 2019, the company announced a formal relief program to provide our North America franchisees with certainty regarding the availability and schedule of the temporary relief through the third quarter of 2020. These royalty reductions are not an expense, but rather consist of the amount of waived royalties that the Company would otherwise have been entitled to absent the waiver. The waived royalties are not included in North America franchise royalties and fees revenues.

(b) Represents incremental discretionary marketing fund investments in excess of contractual Company-owned restaurant-level contributions, which were made as part of our previously announced temporary financial support package to our franchisees. The marketing fund investments are included in Unallocated corporate expenses.

(c) The company expects to provide approximately $12 to $15 million of Temporary Franchise Support in the third quarter of 2020, of which the majority is expected to be marketing fund investments. The Temporary Franchise Support will conclude in the third quarter of 2020.

*Revenue Highlights*

Consolidated revenues increased $61.0 million, or 15.3%, for the second quarter of 2020 compared to the second quarter of 2019. Consolidated revenues increased $72.5 million, or 9.1%, for the six months ended June 28, 2020, compared to the six months ended June 30, 2019. Excluding the impact of refranchising 46 domestic restaurants and a quality control center in Mexico in 2019, consolidated revenues increased approximately $71.1 million, or 18.3%, and $93.9 million, or 12.1%, for the three and six months ended June 28, 2020, respectively, primarily due to the following:

- Positive comparable sales for North America restaurants resulted in higher company-owned restaurant revenues, franchise royalties and commissary sales for the three-and six-month periods. Additionally, for the six months ended June 28, 2020, North America commissary sales increased due to pricing associated with higher commodities costs.
- International revenues increased for the three- and six-month periods ended June 28, 2020 primarily due to higher United Kingdom commissary revenues and higher royalties from increased equivalent units and higher comparable sales. The higher revenues were partially offset by royalty support provided to certain franchisees and unfavorable foreign exchange rates.
- Other revenues increased due to higher marketing fund revenue from higher restaurant sales and an increase in the national marketing fund contribution rate in 2020 and higher online revenues.

*Operating Highlights*

The table below summarizes income before income taxes on a reporting segment basis. Alongside the GAAP income before income taxes data, we have included “adjusted” income before income taxes to exclude Special items. We believe this non-GAAP measure is important for purposes of comparison to prior year results.

| | Three Months Ended | | | | | Six Months Ended | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (In thousands) | Reported June 28, 2020 | Reported June 30, 2019 | Special items in 2019 | Adjusted June 30, 2019 | Adjusted Increase (Decrease) | Reported June 28, 2020 | Reported June 30, 2019 | Special items in 2019 | Adjusted June 30, 2019 | Adjusted Increase (Decrease) |
| Domestic Company-owned restaurants | $ 16,746 | $ 7,712 | $ (163) | $ 7,549 | $ 9,197 | $ 25,413 | $ 12,309 | $ (163) | $ 12,146 | $ 13,267 |
| North America commissaries | 8,567 | 7,792 | - | 7,792 | 775 | 16,076 | 15,304 | - | 15,304 | 772 |
| North America franchising | 22,176 | 17,910 | - | 17,910 | 4,266 | 39,502 | 33,601 | - | 33,601 | 5,901 |
| International | 4,589 | 5,403 | - | 5,403 | (814) | 9,088 | 10,720 | - | 10,720 | (1,632) |
| All others | 1,983 | (1,209) | - | (1,209) | 3,192 | 1,724 | (1,715) | - | (1,715) | 3,439 |
| Unallocated corporate expenses | (26,430) | (27,891) | 396 | (27,495) | 1,065 | (52,481) | (60,356) | 11,377 | (48,979) | (3,502) |
| Elimination of intersegment (profits) losses | (724) | 242 | - | 242 | (966) | (910) | (671) | - | (671) | (239) |
| Total income before income taxes | $ 26,907 | $ 9,959 | $ 233 | $ 10,192 | $ 16,715 | $ 38,412 | $ 9,192 | $11,214 | $ 20,406 | $ 18,006 |

Consolidated income before income taxes of $26.9 million for the second quarter of 2020 increased $16.9 million compared to the second quarter of 2019. Consolidated income before income taxes increased $29.2 million for the six months ended June 28, 2020, compared to the six months ended June 30, 2019. Excluding the impact of the previously mentioned Special items in 2019, consolidated income before income taxes increased $16.7 million and $18.0 million for the three and six months ended June 28, 2020.

Significant changes in income before income taxes of $16.7 million, excluding Special items for the second quarter are as follows:

- Domestic Company-owned restaurants increased $9.2 million primarily due to higher profits from comparable sales of 22.6 %, partially offset by higher labor and bonuses.
- North America commissaries increased $0.8 million primarily due to higher profits from higher volumes.
- North America Franchising increased $4.3 million primarily due to higher comparable sales of 29.7%, partially offset by a lower effective royalty rate due to higher temporary royalty relief which is part of our financial assistance program (see “Temporary Franchise Support”).
- International decreased $0.8 million primarily due to royalty support provided to certain franchisees and the unfavorable impact of foreign exchange rates, partially offset by lower travel costs due to COVID-19 restrictions and higher royalty revenues and PJUK commissary income attributable to increased units and higher comparable sales.
- All others, which primarily includes our online and mobile ordering business, our wholly owned print and promotions subsidiary and our North America marketing funds, increased $3.2 million primarily due to higher online revenues.
- Unallocated corporate expenses decreased $1.1 million primarily due to the 2019 period including a $2.5 million discretionary marketing fund investment (see “Temporary Franchise Support”), savings from the cancellation of our annual operators’ conference and reduced travel as a result of COVID-19, lower professional and consulting fees and lower interest costs. These decreases were partially offset by higher management incentive costs.

The increase in income before income taxes of $18.0 million, excluding Special items, for the six-month period is primarily attributable to the same reasons noted for the three-month period. Additionally, the six-month period includes the following:

- Domestic Company-owned restaurants increased $13.3 million primarily due to higher profits from positive comparable sales of 14.4%, partially offset by higher commodities, labor and bonus costs.
- Unallocated corporate expenses increased $3.5 million primarily due to higher management incentive costs and higher discretionary marketing fund investments ($5.0 million in the first six months of 2020 compared to $2.5 million in the comparable period of 2019), partially offset by savings from the cancellation of our annual operators’ conference, lower travel, professional and consulting fees and lower interest costs.

The effective income tax rates were 18.4% and 19.4% for the three and six months ended June 28, 2020, representing an increase of 5.5% and a decrease of 3.6%, respectively, from the prior year comparable periods. The six months ended June 30, 2019 included a non-deductible $5.9 million expense associated with the one-time mark-to-market increase in the fair value of the Starboard option to purchase Series B convertible preferred stock in the first quarter of 2019, as previously mentioned. Excluding the $5.9 million expense for the six months ended June 30, 2019, the effective rates were higher for the three and six months ended June 28, 2020 due to the impact of similar tax credits on higher income before income taxes in the current periods.

Diluted earnings per common share was $0.48 for the second quarter of 2020, compared to diluted earnings per common share of $0.15 for the second quarter of 2019, an increase of 220%. For the six months ended June 28, 2020, diluted earnings per share was $0.65, compared to diluted earnings per share of $0.03 ($0.35 excluding Special items mentioned above) for the prior year period, an increase of 85.7% excluding Special items in 2019. Diluted earnings per common share was reduced by $1.6 million (or approximately $0.05 per diluted share) and $1.3 million (or approximately $0.04 per diluted share) for the three and six months ended June 28, 2020, respectively, due to additional income attributable to participating securities, including Series B Preferred Stockholders, based on the amount of undistributed earnings for the periods.

**Free Cash Flow**

The company's free cash flow, a non-GAAP financial measure, for the first six months of 2020 and 2019, respectively, was as follows (in thousands):

| | Six Months Ended | |
|---|---|---|
| | June 28, 2020 | June 30, 2019 |
| Net cash provided by operating activities (a) | $ 87,658 | $ 32,175 |
| Purchases of property and equipment | (13,795) | (17,836) |
| Dividends paid to preferred shareholders | (6,825) | (5,470) |
| Free cash flow | $ 67,038 | $ 8,869 |

(a) The increase of $55.5 million was primarily due to higher net income and favorable working capital changes including timing of payments.

We define free cash flow as net cash provided by operating activities (from the Consolidated Statements of Cash Flows) less the purchases of property and equipment and dividends paid to preferred shareholders. We view free cash flow as an important 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 ended June 28, 2020 and cash flow for the six months ended June 28, 2020.

**Cash Dividend**

The company paid common and preferred stock dividends of $10.7 million in the second quarter of 2020. The company declared third quarter 2020 cash dividends of approximately $10.8 million on July 31, 2020, which will be paid to common shareholders on August 21, 2020. The third quarter preferred dividend will be paid on October 1, 2020. The dividends are as follows (in thousands):

| | Second Quarter 2020 | Third Quarter 2020 |
|---|---|---|
| Common stock dividends ($0.225 per share) | $ 7,300 | $ 7,400 |
| Common stock dividends to preferred shareholders ($0.225 per share) (a) | 1,140 | 1,140 |
| Preferred dividends (3.6% of the investment per annum) | 2,270 | 2,270 |
| Total dividends | $10,710 | $10,810 |

(a) Common stock dividends payable to holders of Series B Preferred Stock are on an as-converted to common stock basis

The declaration and payment of any future dividends on our common stock will be at the discretion of our Board of Directors, subject to the company's financial results, cash requirements, and other factors deemed relevant by our Board of Directors. The Series B preferred stockholders receive quarterly preferred dividends and common stock dividends on an as-converted to common stock basis.

**Global Restaurant Unit Data**

At June 28, 2020, there were 5,347 Papa John's restaurants operating in 48 countries and territories, as follows:

| | Domestic Company-owned | Franchised North America | Total North America | International | System-wide |
|---|---|---|---|---|---|
| **Second Quarter** | | | | | |
| Beginning - March 29, 2020 | 599 | 2,686 | 3,285 | 2,093 | 5,378 |
| Opened | - | 9 | 9 | 25 | 34 |
| Closed | (1) | (9) | (10) | (55) | (65) |
| Ending - June 28, 2020 (1) | 598 | 2,686 | 3,284 | 2,063 | 5,347 |
| **Year-to-date** | | | | | |
| Beginning - December 29, 2019 | 598 | 2,690 | 3,288 | 2,107 | 5,395 |
| Opened | 1 | 24 | 25 | 43 | 68 |
| Closed | (1) | (28) | (29) | (87) | (116) |
| Ending - June 28, 2020 (1) | 598 | 2,686 | 3,284 | 2,063 | 5,347 |
| Net unit growth (decline) | - | (4) | (4) | (44) | (48) |
| % increase (decrease) | - | (0.1%) | (0.1%) | (2.1%) | (0.9%) |

(1) Temporary closures as a result of the COVID-19 outbreak are not reflected as "closed" in the restaurant progression above. Of the company's 2,063 international franchised stores, 225 stores were temporarily closed as of June 28, 2020, principally in Latin America and Europe, in accordance with government policies. In North America, almost all traditional restaurants remain open and fully operational. A number of non-traditional restaurants located in universities and stadiums are temporarily closed; these non-traditional locations are not significant to our revenues and operating results.

Our development pipeline as of June 28, 2020 included approximately 1,100 restaurants (100 units in North America and 1,000 units internationally), the majority of which are scheduled to open over the next six years.

**Preliminary Estimated Comparable Sales for July Fiscal Period**

In light of the uncertainty and volatility related to COVID-19, the company continues to provide comparable sales information on a monthly basis. Our preliminary, estimated comparable sales information for the first month of the third quarter of 2020 (Period 7) are as follows:

| | Period 7<br>June 29, 2020 to July 26, 2020 |
|---|---|
| Comparable sales growth (a) | |
| Domestic Company-owned restaurants | 23.6% |
| North America franchised restaurants | 32.4% |
| Systemwide North America restaurants | 30.3% |
| System-wide international restaurants (b) | 13.9% |

(a) Represents the change in year-over-year sales for the same base of restaurants for the same fiscal periods. Comparable sales results for restaurants operating outside of the United States are reported on a constant-dollar basis, which excludes the impact of foreign currency translation.

(b) Includes the impact of approximately 170 temporarily closed stores as of July 26, 2020, principally in Latin America and Europe. Excluding these stores, comparable sales growth for system-wide international restaurants would have been approximately 17.2% in Period 7.

**Conference Call and Website Information**

A conference call is scheduled for August 6, 2020 at 8:00 a.m. Eastern Time to review the company's second quarter 2020 earnings results. The call can be accessed from the company's web page at www.papajohns.com in a listen-only mode or dial 800-773-2954 (U.S. and Canada) or 847-413-3731 (International). The conference call will be available for replay, including by downloadable podcast, from the company's web site at www.papajohns.com. The Conference ID is 49852241.

Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings and public conference calls and webcasts. We intend to use our investor relations website as a means of disclosing information about our business, our financial condition and results of operations and other matters and for complying with our disclosure obligations under Regulation FD. The information we post on our investor relations website, including information contained in investor presentations, may be deemed material. Accordingly, investors should monitor our investor relations website, in addition to following our press releases, SEC filings and public conference calls and webcasts. We encourage investors and others to sign up for email alerts at our investor relations page under Shareholder Tools at the bottom right side of the page. These email alerts are intended to help investors and others to monitor our investor relations website by notifying them when new information is posted on the site.

**Forward-Looking Statements**

Certain matters discussed in this press release and other company communications that are not statements of historical fact constitute forward-looking statements within the meaning of the federal securities laws. Generally, the use of words such as “expect,” “intend,” “estimate,” “believe,” “anticipate,” “will,” “forecast,” “plan,” “project,” or similar words identify forward-looking statements that we intend to be included within the safe harbor protections provided by the federal securities laws. Such forward-looking statements include or may relate to the preliminary estimated same store sales growth and related trends, projections or guidance concerning business performance, revenue, earnings, cash flow, earnings per share, the financial impact of the temporary business opportunities, disruptions and temporary changes in demand we are experiencing related to the current outbreak of the novel coronavirus disease (COVID-19), including the projections for sales trends and comparable sales, our cash on hand and access to our credit facilities, commodity costs, currency fluctuations, profit margins, unit growth, unit level performance, capital expenditures, restaurant and franchise development, the duration of changes in consumer behavior caused by the pandemic, the duration and number of temporary store closures, royalty relief, the effectiveness of our strategic turnaround efforts and other business initiatives, marketing efforts, liquidity, compliance with debt covenants, stockholder and other stakeholder engagement, strategic decisions and actions, dividends, effective tax rates, regulatory changes and impacts, adoption of new accounting standards, and other financial and operational measures. Such statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from those matters expressed or implied in such forward-looking statements. The risks, uncertainties and assumptions that are involved in our forward-looking statements include, but are not limited to:

- the ability of the company to manage difficulties associated with or related to the COVID-19 pandemic, including risks related to: the impact of governmental restrictions on freedom of movement and business operations including quarantines, social distancing requirements and mandatory business closures; the virus's impact on the availability of our workforce; the potential disruption of our supply chain; changes in consumer demand or behavior; the overall contraction in global economic activity, including rising unemployment; our liquidity position; our ability to navigate changing governmental programs and regulations relating to the pandemic; and the increased risk of phishing and other cyber-attacks;
- the assumption that the store closures in international markets and non-traditional restaurants in North America are not expected to be permanent; the assumption that our delivery restaurants will continue to stay open and be deemed essential businesses by national, state and local authorities in most of the jurisdictions in which we operate;
- increased costs for branding initiatives and launching new advertising and marketing campaigns and promotions to improve consumer sentiment and sales trends, and the risk that such initiatives will not be effective;
- the ability of the company to ensure the long-term success of the brand through significant investments committed to our U.S. franchise system, including marketing fund investments and royalty relief;
- risks related to social media, including publicity adversely and rapidly impacting our brand and reputation;
- aggressive changes in pricing or other marketing or promotional strategies by competitors, which may adversely affect sales and profitability; and new product and concept developments by food industry competitors;
- changes in consumer preferences or consumer buying habits, including the growing popularity of delivery aggregators, as well as changes in general economic conditions or other factors that may affect consumer confidence and discretionary spending, including higher unemployment;
- the adverse impact on the company or our results caused by global health concerns, product recalls, food quality or safety issues, incidences of foodborne illness, food contamination and other general public health concerns about our company-owned or franchised restaurants or others in the restaurant industry;
- the effectiveness of our technology investments and changes in unit-level operations;
- the ability of the company and its franchisees to meet planned growth targets and operate new and existing restaurants profitably, including difficulties finding qualified franchisees, store level employees or suitable sites;
- increases in food costs or sustained higher other operating costs. This could include increased employee compensation, benefits, insurance, tax rates, new regulatory requirements or increasing compliance costs;
- increases in insurance claims and related costs for programs funded by the company up to certain retention limits, including medical, owned and non-owned vehicles, workers' compensation, general liability and property;
- disruption of our supply chain or commissary operations which could be caused by our sole source of supply of cheese or limited source of suppliers for other key ingredients or more generally due to weather, natural disasters including drought, disease, or geopolitical or other disruptions beyond our control, including COVID-19;
- increased risks associated with our international operations, including economic and political conditions and risks associated with the withdrawal of the United Kingdom from the European Union, instability or uncertainty in our international markets, especially emerging markets, fluctuations in currency exchange rates, difficulty in meeting planned sales targets and new store growth;
- the impact of current or future claims and litigation and our ability to comply with current, proposed or future legislation that could impact our business including compliance with the European Union General Data Protection Regulation;
- the company's ability to continue to pay dividends to shareholders based upon profitability, cash flows and capital adequacy if restaurant sales and operating results decline;
- failure to effectively manage recent transitions within our executive leadership team or to otherwise successfully execute succession planning;
- disruption of critical business or information technology systems, or those of our suppliers, and risks associated with systems failures and data privacy and security breaches, including theft of confidential company, employee and customer information, including payment cards; and
- changes in Federal or state income, general and other tax laws, rules and regulations and changes in generally accepted accounting principles.

These and other risk factors are discussed in detail in “Part I. Item 1A. – Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 29, 2019, and in “Part II. Item 1A. – Risk Factors” in our Quarterly Report on Form 10-Q for the period ended March 29, 2020. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise, except as required by law.

For more information about the company, please visit www.papajohns.com.

**Papa John's International, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**

| (In thousands) | June 28, 2020 (Unaudited) | December 29, 2019 (Note) |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 75,699 | $ 27,911 |
| Accounts receivable, net | 73,530 | 80,921 |
| Notes receivable, current portion | 9,651 | 7,790 |
| Income tax receivable | 755 | 4,024 |
| Inventories | 32,546 | 27,529 |
| Prepaid expenses and other current assets | 33,292 | 33,371 |
| **Total current assets** | 225,473 | 181,546 |
| Property and equipment, net | 200,581 | 211,741 |
| Finance lease right-of-use assets, net | 8,978 | 9,383 |
| Operating lease right-of-use assets | 141,861 | 148,229 |
| Notes receivable, less current portion, net | 32,158 | 33,010 |
| Goodwill | 79,634 | 80,340 |
| Deferred income taxes | 4,978 | 1,839 |
| Other assets | 64,074 | 64,633 |
| **Total assets** | $ 757,737 | $ 730,721 |
| **Liabilities, Series B Convertible Preferred Stock, Redeemable noncontrolling interests and Stockholders' deficit** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 30,699 | $ 29,141 |
| Income and other taxes payable | 11,200 | 7,599 |
| Accrued expenses and other current liabilities | 134,989 | 120,566 |
| Current deferred revenue | 5,382 | 5,624 |
| Current finance lease liabilities | 3,879 | 1,789 |
| Current operating lease liabilities | 22,663 | 23,226 |
| Current portion of long-term debt | 20,107 | 20,000 |
| **Total current liabilities** | 228,919 | 207,945 |
| Deferred revenue | 13,543 | 14,722 |
| Long-term finance lease liabilities | 5,265 | 7,629 |
| Long-term operating lease liabilities | 118,946 | 125,297 |
| Long-term debt, less current portion, net | 327,932 | 347,290 |
| Deferred income taxes | 859 | 2,649 |
| Other long-term liabilities | 95,627 | 84,927 |
| **Total liabilities** | 791,091 | 790,459 |
| Series B Convertible Preferred Stock | 251,827 | 251,133 |
| Redeemable noncontrolling interests | 6,667 | 5,785 |
| **Total Stockholders' deficit** | (291,848) | (316,656) |
| **Total liabilities, Series B Convertible Preferred Stock, Redeemable noncontrolling interests and Stockholders' deficit** | $ 757,737 | $ 730,721 |

Note: The Condensed Consolidated Balance Sheet has been derived from the audited consolidated financial statements, but do not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements.

**Papa John's International, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**

| (In thousands, except per share amounts) | Three Months Ended June 28, 2020 (Unaudited) | Three Months Ended June 30, 2019 (Unaudited) | Six Months Ended June 28, 2020 (Unaudited) | Six Months Ended June 30, 2019 (Unaudited) |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Domestic company-owned restaurant sales | $ 186,506 | $ 163,656 | $ 347,946 | $ 325,459 |
| North America franchise royalties and fees | 24,174 | 19,761 | 43,614 | 37,291 |
| North America commissary revenues | 167,619 | 147,128 | 323,041 | 296,032 |
| International revenues | 28,093 | 25,497 | 54,152 | 51,164 |
| Other revenues | 54,231 | 43,581 | 101,729 | 88,082 |
| **Total revenues** | 460,623 | 399,623 | 870,482 | 798,028 |
| **Costs and expenses:** | | | | |
| Operating costs (excluding depreciation and amortization shown separately below): | | | | |
| Domestic company-owned restaurant expenses | 145,168 | 131,950 | 274,279 | 265,003 |
| North America commissary expenses | 154,467 | 136,744 | 298,739 | 275,301 |
| International expenses | 18,304 | 14,652 | 33,405 | 28,957 |
| Other expenses | 51,345 | 41,970 | 97,302 | 86,067 |
| General and administrative expenses | 48,428 | 48,718 | 96,079 | 99,853 |
| Depreciation and amortization | 12,377 | 11,521 | 24,672 | 23,270 |
| **Total costs and expenses** | 430,089 | 385,555 | 824,476 | 778,451 |
| Refranchising gains | - | 163 | - | 163 |
| **Operating income** | 30,534 | 14,231 | 46,006 | 19,740 |
| Net interest expense | (3,627) | (4,272) | (7,594) | (10,548) |
| **Income before income taxes** | 26,907 | 9,959 | 38,412 | 9,192 |
| Income tax expense | 4,956 | 1,283 | 7,468 | 2,114 |
| **Net income before attribution to noncontrolling interests** | 21,951 | 8,676 | 30,944 | 7,078 |
| Net income attributable to noncontrolling interests | (1,337) | (322) | (1,887) | (455) |
| **Net income attributable to the company** | $ 20,614 | $ 8,354 | $ 29,057 | $ 6,623 |
| **Calculation of net income for earnings per share:** | | | | |
| Net income attributable to the company | $ 20,614 | $ 8,354 | $ 29,057 | $ 6,623 |
| Preferred stock dividends and accretion | (3,347) | (3,486) | (6,818) | (5,556) |
| Net income attributable to participating securities | (1,560) | - | (1,306) | - |
| Net income attributable to common shareholders | $ 15,707 | $ 4,868 | $ 20,933 | $ 1,067 |
| Basic earnings per common share | $ 0.49 | $ 0.15 | $ 0.65 | $ 0.03 |
| Diluted earnings per common share | $ 0.48 | $ 0.15 | $ 0.65 | $ 0.03 |
| Basic weighted average common shares outstanding | 32,335 | 31,587 | 32,214 | 31,570 |
| Diluted weighted average common shares outstanding | 32,619 | 31,773 | 32,444 | 31,746 |
| Dividends declared per common share | $ 0.225 | $ 0.225 | $ 0.450 | $ 0.450 |

**Papa John's International, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Cash Flows**

| (In thousands) | Six Months Ended June 28, 2020 (Unaudited) | Six Months Ended June 30, 2019 (Unaudited) |
|---|---|---|
| **Operating activities** | | |
| Net income before attribution to noncontrolling interests | $ 30,944 | $ 7,078 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for uncollectible accounts and notes receivable | 1,051 | 676 |
| Depreciation and amortization | 24,672 | 23,270 |
| Deferred income taxes | (1,502) | (3,096) |
| Preferred stock option mark-to-market adjustment | — | 5,914 |
| Stock-based compensation expense | 8,742 | 7,531 |
| Gain on refranchising | — | (163) |
| Other | 1,090 | 1,999 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (8,571) | (1,092) |
| Income tax receivable | 4,278 | 11,699 |
| Inventories | (5,017) | 326 |
| Prepaid expenses and other current assets | 9,657 | (5,383) |
| Other assets and liabilities | 8,065 | (2,094) |
| Accounts payable | 1,558 | 5,410 |
| Income and other taxes payable | 3,601 | 565 |
| Accrued expenses and other current liabilities | 10,269 | (17,297) |
| Deferred revenue | (1,179) | (3,168) |
| **Net cash provided by operating activities** | 87,658 | 32,175 |
| | | |
| **Investing activities** | | |
| Purchases of property and equipment | (13,795) | (17,836) |
| Notes issued | (9,596) | (4,757) |
| Repayments of notes issued | 6,462 | 2,234 |
| Proceeds from divestitures of restaurants | — | 225 |
| Other | 14 | 568 |
| **Net cash used in investing activities** | (16,915) | (19,566) |
| | | |
| **Financing activities** | | |
| Proceeds from issuance of preferred stock | — | 252,530 |
| Repayments of term loan | (10,000) | (10,000) |
| Net (repayments) proceeds of revolving credit facilities | (9,884) | (230,776) |
| Dividends paid to common stockholders | (14,520) | (14,269) |
| Dividends paid to preferred stockholders | (6,825) | (5,470) |
| Issuance costs associated with preferred stock | — | (7,250) |
| Tax payments for equity award issuances | (1,579) | (895) |
| Proceeds from exercise of stock options | 21,704 | 93 |
| Contributions from noncontrolling interest holders | — | 840 |
| Distributions to noncontrolling interest holders | (945) | (183) |
| Other | (704) | 168 |
| **Net cash used in financing activities** | (22,753) | (15,212) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (202) | 1 |
| Change in cash and cash equivalents | 47,788 | (2,602) |
| Cash and cash equivalents at beginning of period | 27,911 | 33,258 |
| | | |
| **Cash and cash equivalents at end of period** | $ 75,699 | $ 30,656 |

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