

# Investor Presentation

November 2019



# Papa John's Representatives

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**Joe Smith**  
**SVP and CFO**

**Steve Coke**  
**VP Investor Relations and Strategy**

# Forward Looking Statements



Certain matters discussed in this presentation 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 may relate to projections or guidance concerning business performance, revenue, earnings, cash flow, earning per share, contingent liabilities, resolution of litigation, commodity costs, currency fluctuations, profit margins, unit growth, unit level performance, capital expenditures, restaurant and franchise development, royalty relief, the strategic investment by Starboard and use of the proceeds, the ability of the company to mitigate negative consumer sentiment through advertising, marketing and promotional activity, the effectiveness of our strategic turnaround efforts and other business initiatives, corporate governance, future costs related to the company’s response to negative consumer sentiment and business challenges, management reorganizations, compliance with debt covenants, stockholder and other stakeholder engagement, strategic decisions and actions, share repurchases, dividends, effective tax rates, regulatory changes and impacts, the impact of the 2017 Tax Cuts and Job Act and the 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: increased costs for branding initiatives and launching new advertising and marketing campaigns and promotions to improve consumer sentiment and sales trends; 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; the ability of the company to improve consumer sentiment and sales trends through advertising, marketing and promotional activities; 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; the adverse impact on the company or our results caused by 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; increased risks associated with our international operations, including economic and political conditions, 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 the sale of Series B preferred stock to Starboard, which dilutes the economic and relative voting power of holders of our common stock and may adversely affect the market price of our common stock, affect our liquidity and financial condition, or delay or prevent an attempt to take over the company; Starboard’s ability to exercise influence over us, including its ability to designate up to two members of our Board of Directors; failure to raise the funds necessary to finance a required repurchase of our Series B preferred stock; failure to realize the anticipated benefits from our investment of proceeds of the Series B preferred stock in our strategic priorities; 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 continue to 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; changes in Federal or state income, general and other tax laws, rules and regulations, including changes from the 2017 Tax Cuts and Jobs Act and any related Treasury regulations, rules or interpretations if and when issued; 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/A for the fiscal year ended December 30, 2018, as well as in subsequent filings. 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.

# Better Ingredients. Better Pizza. A Better Investment.



## 1 Leader in Attractive and Growing Global Pizza Category



- *Pizza is a large and growing industry fueled by visible demographic and international tailwinds with global appeal*
- *\$40bn+ sales in the U.S. and \$100bn+ globally in 2018*
- *Papa John's is one of the few players poised to take share in highly fragmented and increasingly digital market*

## 2 Strong, Differentiated Platform to Sustainably Create Value



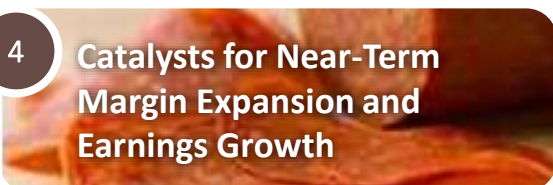
- *Recognized quality leader in category, with long history of making better quality pizza with top quality ingredients (i.e. fresh dough and sauce)*
- *Refreshed, experienced board, management team and purpose-driven culture of 120,000 team members*
- *Proven innovator in category with over 60% digital sales mix; well positioned for continued digital transformation / disruption*

## 3 Diversified Business Model Positioned for Profitability and Free Cash Flow



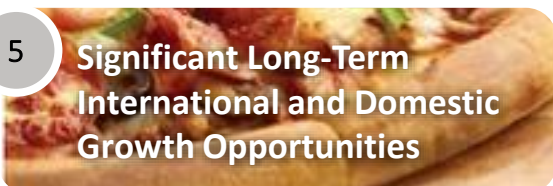
- *Three diversified, capex-light royalty streams complementing highly profitable company-owned units*
- *Proven track record of achieving strong margins, EBITDA and free cash flow*
- *Disciplined capital allocation and historical commitment to return capital to shareholders*

## 4 Catalysts for Near-Term Margin Expansion and Earnings Growth



- *Starboard's strategic investment provides additional financial resources and new expertise to support enhanced growth and value creation*
- *Stakeholders: Making people a priority and working together with franchisees*
- *Marketing: Emphasizing brand differentiation and perceived value*
- *Technology: Strengthening base technology platform while positioning for next wave of innovation*

## 5 Significant Long-Term International and Domestic Growth Opportunities



- *Domestic opportunities: returning to growth with industry leading development incentives*
- *Significant current international presence and long-term growth runway*
- *Continued focus on improving efficiencies / margin expansion*



# Executing Five Strategic Priorities to Reinvalidate Profitable Growth



## *Our strategic direction includes:*

Build a culture of leaders who believe in inclusivity, diversity and winning

**Invest** in our most important ingredient, our **people**; promote **inclusivity** and **diversity** and **attract** and **retain** talent in a highly competitive environment

Improve unit level economics

Build a stronger **unit economic** model through **efficiencies** and **cost reductions**, address **driver shortages** and partner with third-party **aggregators**

Establish the superiority of our pizza via commercial platforms

**Holistic thinking** about our products, menus, marketing, apps and digital channels; **deliver** the best and let **customers** know about it

Leverage our technology infrastructure to enable our business operations to win

We're a **food** company first; compliment with **technology** to better serve our customers, improve operational **efficiencies** and inform our **decision-making**

Expand our footprint both domestically and internationally

Improve **unit economics**, reduce **construction costs** and create an international **supply chain strategy** that caters to local tastes and creates efficiencies

# Making People a Priority Across All Levels



- Created Diversity, Equity & Inclusion team
  - Provided training to nearly 100% of all corporate and restaurant field management team members
  - Began restaurant team member training in Q3
- Created a benefit program with Purdue University Global that covers 100 percent of tuition costs of undergraduate and graduate online degree programs for Papa John's corporate team members
- Launched the Papa John's Foundation for building community with a mission to empower communities as they work together for equity, fairness, respect, and opportunity for all
  - Bennett College was the first recipient of a grant from the Foundation
- Engaged NIMBUS as our multicultural agency to further align our internal and external D&I efforts on the communication strategy
- Added depth to leadership with the hiring of Marvin Boakye as our first Chief People Officer, Jim Norberg as our Chief Operating Officer, North America, and Rob Lynch as our new CEO. In November, announced the hiring of Max Wetzel as our Chief Commercial and Marketing Officer.



# Working Together with Our Franchisees



## ➤ Assistance program for North American franchisees

### ■ 2018

- Re-imaging costs at nearly all domestic restaurants and costs to replace or write-off certain branded assets
- Financial assistance to domestic franchisees in an effort to mitigate closings, including royalty relief, and marketing contributions
- Additional costs for branding initiatives, including launching a new advertising and marketing campaign and promotional activities to mitigate negative consumer sentiment and negative sales trends
- Other support to North American franchisees included a reduction in food pricing and no increase in online fees

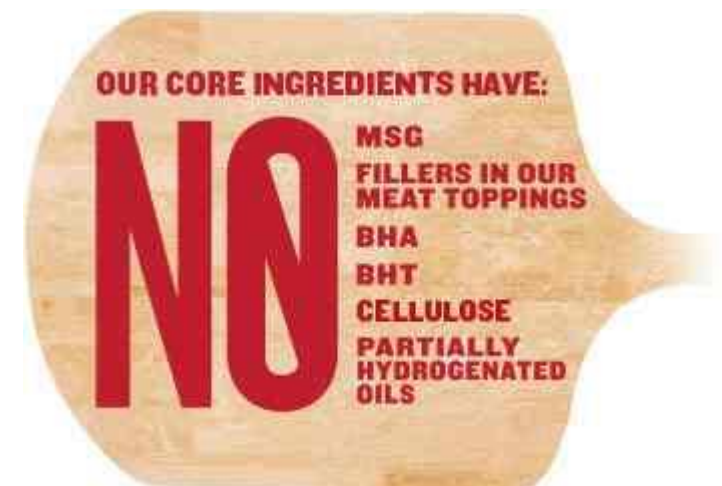
### ■ 2019

- Franchise assistance and marketing contributions to U.S. franchisees continued in the first nine months of 2019
- In June, announced an investment of \$80 million in marketing and royalty relief for our U.S. franchise system
  - Investment period from third quarter 2019 through fourth quarter 2020
  - Equally split between marketing and brand initiatives and financial assistance in the form of lower royalties and related incentives
  - Includes advertising initiatives with our new ambassador, Shaquille O'Neal
  - About 50% of investment will be spent in 2019, including \$11.4 million in the third quarter

# Improving Our Brand Differentiation – Focus on Quality



- **Rated #1** in 2018 for product and service quality among national pizza chains in the **American Customer Satisfaction Index (ACSI)**.
  - **Rated #1** in customer satisfaction among national pizza chains by consumers for 17 out of the past 19 years
- **Winner of Washington Post blind taste test among pizza competitors – January 2018**
- **Named Restaurant Brand of the Year** in Pizza category in the 2017 **Harris Poll EquiTrend** rankings
- Investing an **incremental \$100+ million** annually in our efforts to ensure the highest quality, cleanest ingredients we can
  - Fresh, never frozen dough
  - Fresh packed pizza sauce
  - High protein flour
  - Clean label
    - No high fructose corn syrup
    - No MSG, no fillers in core meat toppings, no BHA, No BHT, and no partially hydrogenated oils
    - No artificial flavors and synthetic colors
    - Chicken toppings and poppers use chickens raised without antibiotics
    - Cage-free eggs
- **Gluten-free crust available**





# Product Innovation at Compelling Offers



- **Consumer-centric approach**

- Identify products that generate high consumer interest and appeal
  - Recently launched our new garlic parmesan crust
  - Introduced 6 new handcrafted specialty pizzas to our menu: Meatball Pepperoni, Super Hawaiian, Ultimate Pepperoni, Zesty Italian Trio, Fiery Buffalo Chicken and Philly Cheesesteak
  - Testing products as an avenue to increase our dayparts (sandwiches and Papadias)

- **Balance perceived value with profitability**

- Deliver a superior quality product at a compelling price
- Set price points that drive healthy unit economics



# Implementing Technological Advancements – Our Base Platform



➤ Growing **digital sales mix** – over 60% of sales with many markets exceeding 70% for sustained periods

- Mobile represents approximately 2/3 of total digital sales

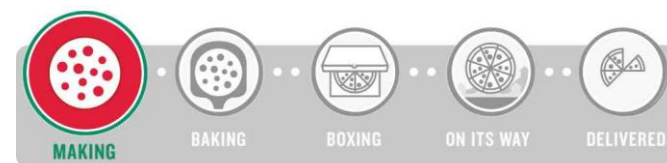
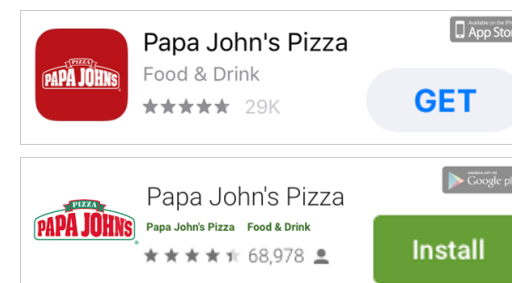
➤ Technology strategy and investments centered around improving the customer experience

- Papa Track allows customers to track a pizza from the oven to the door
- Papa Rewards increasing loyalty in a value-driven category

➤ Investing across all digital channels, including **iOS app upgrade**, as well as **RWD website**, **Apple TV** and **Facebook ordering** capabilities

➤ Recognized for success

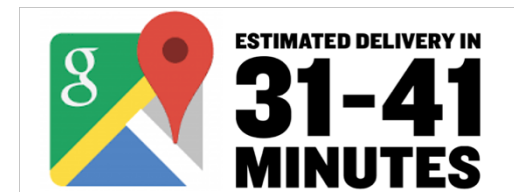
- Highest rating in The Search Agency Report “The Mobile Experience Scorecard - Restaurants & Catering”
- **Rated #1** by consumers in the “2017 Consumers’ Choice Awards for Chain Restaurants” for “Use of Technology Improves the Experience” category



# Implementing Technological Advancements – Next Level of Innovation



- Increasing investment across the enterprise with commitment to accelerate our **competitive advantage**



- Completed mapping transformation (Google Maps)
- Re-launched Papa Rewards loyalty program to unlock more value from expansive customer base

- Transformational innovations are streamlining operations, **optimizing customer experience** and expanding brand reach with new initiatives that include:

- Voice ordering by  amazon alexa
- Delivery expansion using  **DOORDASH** technology
-  **Pay** and  **Pay**



- Actionable advanced analytics across all store and customer data, providing opportunities for higher revenue and profitability
- Overall strategy will leapfrog legacy and emerging trends with efficient, smart use of focused spend



# A Global Business Today...

## North America - 3,296

United States - 3,154  
Canada - 142

## Latin America / Caribbean - 488

Bahamas - 3	El Salvador - 25
Bolivia - 5	Guatemala - 13
Cayman Islands - 2	Mexico - 99
Chile - 98	Nicaragua - 4
Colombia - 48	Panama - 12
Costa Rica - 25	Peru - 43
Dominican Republic - 19	Puerto Rico - 27
Ecuador - 18	Trinidad and Tobago - 8
	Venezuela - 39

## Europe - 916

Azerbaijan - 8  
Belarus - 17  
Cyprus - 8  
France - 4  
Ireland - 80  
Israel - 3  
Netherlands - 26  
Poland - 6  
Portugal - 1  
Russia - 201  
Spain - 64  
Turkey - 66  
United Kingdom - 432

## Middle East / Africa - 255

Bahrain - 20  
Egypt - 53  
Iraq - 1  
Kuwait - 42  
Morocco - 6  
Oman - 9  
Pakistan - 2  
Qatar - 24  
Saudi Arabia - 45  
Tunisia - 7  
UAE - 46

## Asia - 388



China - 199  
Guam - 3  
Kazakhstan - 6  
Kyrgyzstan - 3  
Philippines - 18  
S. Korea - 159

## Global Store Count

End Q3 Numbers

North America Store Count - 3,296  
International Store Count - 2,047  
Global Store Count - 5,343

As of 9/29/19

 Countries with Open Stores (49)  
 Countries with no open stores



# ... With Significant International Runway



- International is 100% franchised
- Income before income taxes of \$14.4 million in 2018; \$14.9 million in first nine months of 2019
- **Significant growth opportunity** for many years to come; profits expected to grow several million dollars annually (excluding currency translation) for foreseeable future
- Majority of infrastructure in place, strong flow through on royalties from incremental franchise units
  - Expect growth of 150+ net units per year for next several years
  - Entered into 13 new countries since 2016, including Israel, France, Spain, Tunisia, Iraq, the Netherlands, Morocco, Kazakhstan, Kyrgyzstan, Poland, Bahamas, Pakistan and Portugal
  - Significant growth in 2018 in the UK, Russia and Spain
  - Opened our 2,000<sup>th</sup> restaurant in April 2019
  - Significant growth opportunities both within and outside of current footprint; major competitors have 9,000+ units each

# Generating Solid Cash Flow



## ➤ Strong Historical Free Cash Flow (FCF)\*

- Full year 2018 was \$30.8 million vs. \$82.4 million for full year 2017, prior to consolidation of the Papa John's Marketing Fund, Inc.
- 2018 includes lower net income from special items of \$41.6 million (primarily reimaging costs, incentives to franchisees, incremental marketing contributions, and legal and advisory costs initiated by the Special Committee of our Board of Directors) vs. a benefit of \$7.6 million in 2017

## ➤ Significant cash flow historically generated from:

- Company-owned restaurants
- Domestic royalties
- PJ Food Service income
- International royalties and fees

## ➤ Dividends declared at \$0.225 per quarter for common shareholders

## ➤ Series B preferred dividends of 3.6% per annum plus common dividend

\*Net cash provided by operating activities less purchase of property and equipment and preferred stock dividends

# 2019 Outlook (as of November 6, 2019)

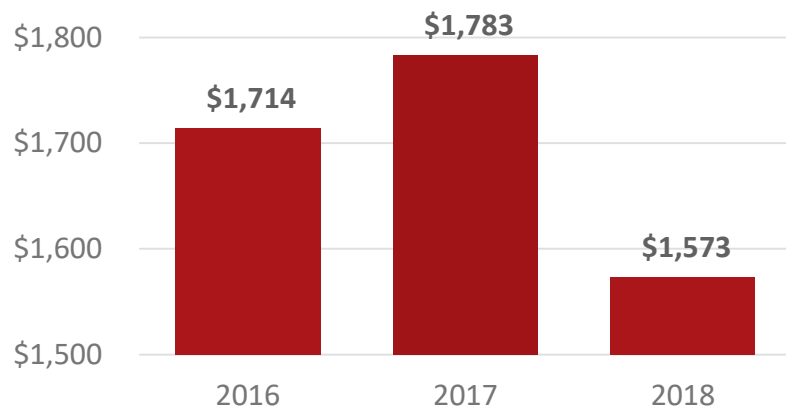


- **Adjusted Earnings Per Share** **\$1.00 to \$1.20**
  - Excludes special charges of \$50-\$60 million (\$1.20 to \$1.40 of EPS) for North American franchisee support, marketing contributions, and legal and advisory costs associate with a strategic review that led to the investment by Starboard
- **North America Comparable Sales** **-1.5% to -3.5%**
- **International Comparable Sales** **0% to +2%**
- **Net Global Unit Growth** **85 to 115 net units**
- **Capital Expenditures** **\$45-\$50 million**
- **Block cheese prices** **mid to upper \$1.70's**

# 2016-2018 Highlights



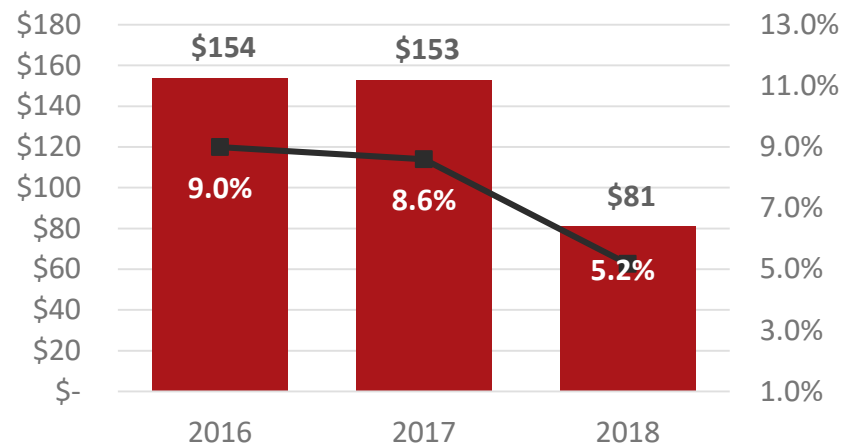
## Revenues (millions)



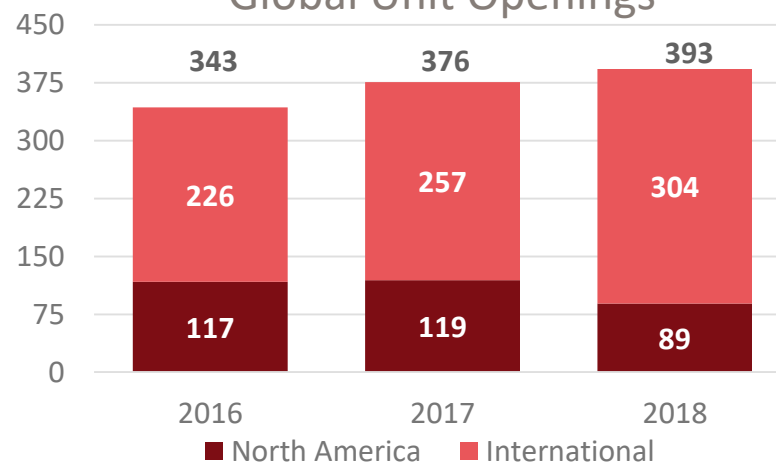
## EPS



## Operating Income (millions) / Margin



## Global Unit Openings



Operating income and EPS are shown on a non-GAAP basis. See the reconciliation of GAAP to non-GAAP measures, which follows. 2017 includes a 53<sup>rd</sup> week of operations, which resulted in the following increases: revenues \$31 million, operating income \$6.2 million, and EPS \$0.11. Revenues, operating income and EPS have not been restated to consolidate the Papa John's Marketing Fund, Inc. (see the first and second quarter 2019 Forms 10-Q for additional information).



# Special Charges



## ➤ 2018

### ■ **\$50.7 million in special charges including:**

- ❑ Re-imaging costs at nearly all domestic restaurants and costs to replace or write-off certain branded assets
- ❑ Financial assistance to domestic franchisees in an effort to mitigate closings, including royalty relief, and marketing contributions
- ❑ Additional costs for branding initiatives, including launching a new advertising and marketing campaign and promotional activities to mitigate negative consumer sentiment and negative sales trends
- ❑ Costs associated with a third-party audit of the culture at Papa John's commissioned by the Special Committee of the Board
- ❑ Additional legal and advisory costs, including costs associated with the activities of the Special Committee
- ❑ Other support to North American franchisees included a reduction in food pricing and no increase in online fees

## ➤ 2019

### ■ **\$50 to \$60 million projected in special charges (\$35.4 million incurred for the nine months ended September 2019), including:**

- ❑ Financial assistance to the North America franchise system, including contributions to the National Marketing Fund and royalty relief
- ❑ Advisory and legal costs primarily associated with the review of a wide range of strategic opportunities that culminated in Starboard's strategic investment in the company
- ❑ One-time mark-to-market adjustment of \$5.9 million related to the Starboard and franchisees options to purchase Series B preferred stock
- ❑ Severance costs for our former CEO
- ❑ Costs related to the termination of a license agreement for intellectual property no longer being utilized

# Reconciliation of Non-GAAP Measures



(In thousands, except per share amounts)

	Full Year Ended		
	Dec. 25, 2016	Dec. 31, 2017	Dec. 30, 2018
Operating income, as reported	\$164,523	\$151,017	\$ 30,380
Special Charges	-	-	50,732
Refranchising (gain)/loss	(11,572)	-	289
Impairment loss on assets held for sale	1,350	1,674	-
Operating income, as adjusted	154,301	152,691	81,401
53rd week	-	(6,200)	-
Operating income, as adjusted (52 weeks)	\$154,301	\$146,491	\$ 81,401
Diluted earnings per share, as reported	\$ 2.74	\$ 2.83	\$ 0.05
Special Charges	-	-	1.21
Refranchising (gain)/loss	(0.19)	-	0.01
Impairment loss on assets held for sale	0.02	0.04	-
Tax impact of China refranchising	-	-	0.07
Legal settlement	(0.02)	-	-
U.S. tax legislation effect on deferred taxes	-	(0.20)	-
Equity compensation tax benefit	-	(0.05)	-
Diluted earnings per share, as adjusted	2.55	2.62	1.34
53rd week	-	(0.11)	-
Diluted earnings per share, as adjusted (52 weeks)	\$ 2.55	\$ 2.51	\$ 1.34



BETTER INGREDIENTS.  
BETTER PIZZA.

