

PAPA JOHNS INTERNATIONAL INC

Form 10-Q

November 06, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-21660

PAPA JOHN'S INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

61-1203323

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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification  
number)

2002 Papa John's Boulevard

Louisville, Kentucky 40299-2367

(Address of principal executive offices)

(502) 261-7272

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically every interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At October 30, 2018, there were outstanding 31,541,761 shares of the registrant's common stock, par value \$0.01 per share.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Papa John's International, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share amounts)	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 24,880	\$ 22,345
Accounts receivable, net	53,157	64,644
Notes receivable, net	6,466	4,333
Income tax receivable	11,051	3,903
Inventories	29,311	30,620
Prepaid expenses	20,106	28,522
Other current assets	7,400	9,494
Assets held for sale	—	6,133
Total current assets	152,371	169,994
Property and equipment, net	224,510	234,331
Notes receivable, less current portion, net	16,097	15,568
Goodwill	84,830	86,892
Deferred income taxes, net	700	585
Other assets	72,654	48,183
Total assets	\$ 551,162	\$ 555,553
Liabilities and stockholders' (deficit)		
Current liabilities:		
Accounts payable	\$ 32,355	\$ 32,006
Income and other taxes payable	8,964	10,561
Accrued expenses and other current liabilities	100,081	70,293
Deferred revenue current	2,389	—
Current portion of long-term debt	20,000	20,000
Total current liabilities	163,789	132,860
Deferred revenue	14,946	2,652
Long-term debt, less current portion, net	555,755	446,565
Deferred income taxes, net	7,812	12,546
Other long-term liabilities	77,604	60,146

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Total liabilities	819,906	654,769
Redeemable noncontrolling interests	5,979	6,738
Stockholders' (deficit):		
Preferred stock (\$0.01 par value per share; no shares issued)	—	—
Common stock (\$0.01 par value per share; issued 44,299 at September 30, 2018 and 44,221 at December 31, 2017)	443	442
Additional paid-in capital	190,135	184,785
Accumulated other comprehensive income (loss)	3,605	(2,117)
Retained earnings	267,580	292,251
Treasury stock (12,933 shares at September 30, 2018 and 10,290 shares at December 31, 2017, at cost)	(751,895)	(597,072)
Total stockholders' (deficit), net of noncontrolling interests	(290,132)	(121,711)
Noncontrolling interests in subsidiaries	15,409	15,757
Total stockholders' (deficit)	(274,723)	(105,954)
Total liabilities, redeemable noncontrolling interests and stockholders' (deficit)	\$ 551,162	\$ 555,553

See accompanying notes.

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Papa John's International, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Revenues:				
Domestic Company-owned restaurant sales	\$ 158,285	\$ 196,267	\$ 529,906	\$ 605,919
North America franchise royalties and fees	12,806	25,567	61,524	79,762
North America commissary	146,240	164,028	461,408	495,427
International	25,653	28,771	84,836	81,638
Other revenues	21,023	17,076	61,661	53,007
Total revenues	364,007	431,709	1,199,335	1,315,753
Costs and expenses:				
Operating costs (excluding depreciation and amortization shown separately below):				
Domestic Company-owned restaurant expenses	135,836	161,867	440,936	489,719
North America commissary	137,928	155,572	432,909	465,001
International expenses	15,184	17,910	52,462	50,973
Other expenses	22,002	15,906	63,658	50,935
General and administrative expenses	55,462	35,758	133,903	112,420
Depreciation and amortization	11,585	11,181	34,855	32,292
Total costs and expenses	377,997	398,194	1,158,723	1,201,340
Refranchising loss, net	—	—	(1,918)	—
Operating (loss) income	(13,990)	33,515	38,694	114,413
Net Interest expense	(5,963)	(2,566)	(16,580)	(6,135)
(Loss) Income before income taxes	(19,953)	30,949	22,114	108,278
Income tax (benefit) expense	(7,359)	8,280	4,663	30,728
Net (loss) income before attribution to noncontrolling interests	(12,594)	22,669	17,451	77,550
Income attributable to noncontrolling interests	(439)	(852)	(1,956)	(3,767)
Net (loss) income attributable to the Company	\$ (13,033)	\$ 21,817	\$ 15,495	\$ 73,783
Calculation of (loss) income for (loss) earnings per share:				
Net (loss) income attributable to the Company	\$ (13,033)	\$ 21,817	\$ 15,495	\$ 73,783
Change in noncontrolling interest redemption value	—	237	—	1,419
Net income attributable to participating securities	—	(89)	(147)	(305)
Net (loss) income attributable to common shareholders	\$ (13,033)	\$ 21,965	\$ 15,348	\$ 74,897
Basic (loss) earnings per common share	\$ (0.41)	\$ 0.61	\$ 0.48	\$ 2.05

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Diluted (loss) earnings per common share	\$ (0.41)	\$ 0.60	\$ 0.47	\$ 2.02
Basic weighted average common shares outstanding	31,573	36,146	32,265	36,563
Diluted weighted average common shares outstanding	31,573	36,581	32,489	37,047
Dividends declared per common share	\$ 0.225	\$ 0.225	\$ 0.675	\$ 0.625

See accompanying notes.



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Papa John's International, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive (Loss) Income

(Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Net (loss) income before attribution to noncontrolling interests	\$ (12,594)	\$ 22,669	\$ 17,451	\$ 77,550
Other comprehensive (loss) income, before tax:				
Foreign currency translation adjustments (1)	(154)	2,894	(3,466)	4,315
Interest rate swaps (2)	1,960	641	11,512	(1,684)
Other comprehensive income, before tax	1,806	3,535	8,046	2,631
Income tax effect:				
Foreign currency translation adjustments (1)	35	(1,071)	780	(1,597)
Interest rate swaps (3)	(477)	(237)	(2,649)	623
Income tax effect (4)	(442)	(1,308)	(1,869)	(974)
Other comprehensive income, net of tax	1,364	2,227	6,177	1,657
Comprehensive (loss) income before attribution to noncontrolling interests	(11,230)	24,896	23,628	79,207
Less: comprehensive loss (income), redeemable noncontrolling interests	378	(352)	(26)	(1,891)
Less: comprehensive income, nonredeemable noncontrolling interests	(817)	(500)	(1,930)	(1,876)
Comprehensive (loss) income attributable to the Company	\$ (11,669)	\$ 24,044	\$ 21,672	\$ 75,440

(1) On June 15, 2018, the Company refranchised 34 Company-owned restaurants and a quality control center located in China. In conjunction with the transaction, approximately \$1,300 of accumulated other comprehensive income and \$300 associated deferred tax related to foreign currency translation were reversed. See "Note 7" of "Notes to Condensed Consolidated Financial Statements" for additional information.

(2) Amounts reclassified out of accumulated other comprehensive income (loss) into net interest expense included \$19 and \$216 for the three and nine months ended September 30, 2018, respectively, and \$54 and \$378 for the three and nine months ended September 24, 2017, respectively.

(3) The income tax effects of amounts reclassified out of accumulated other comprehensive income (loss) were \$4 and \$50 for the three and nine months ended September 30, 2018, respectively, and \$20 and \$140 for the three and nine months ended September 24, 2017, respectively.

- (4) As of January 1, 2018, we adopted ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” and reclassified stranded tax effects of approximately \$450 to retained earnings in the first quarter of 2018. See “Note 2” of “Notes to Condensed Consolidated Financial Statements” for additional information.

See accompanying notes.

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Papa John's International, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	Nine Months Ended	
	September 30, 2018	September 24, 2017
Operating activities		
Net income before attribution to noncontrolling interests	\$ 17,451	\$ 77,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for uncollectible accounts and notes receivable	4,047	(353)
Depreciation and amortization	34,855	32,292
Deferred income taxes	&	