

PAPA JOHNS INTERNATIONAL INC

Form 10-Q

May 08, 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 April 1, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 May 1, 2018, there were outstanding 32,193,319 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

| (In thousands, except per share amounts) | April 1, 2018 (Unaudited) | December 31, 2017 |
|--|---------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 31,935 | \$ 22,345 |
| Accounts receivable, net | 62,949 | 64,644 |
| Notes receivable, net | 4,662 | 4,333 |
| Income tax receivable | — | 3,903 |
| Inventories | 28,285 | 30,620 |
| Prepaid expenses | 27,990 | 28,522 |
| Other current assets | 17,529 | 9,494 |
| Assets held for sale | 5,900 | 6,133 |
| Total current assets | 179,250 | 169,994 |
| Property and equipment, net | 229,576 | 234,331 |
| Notes receivable, less current portion, net | 16,084 | 15,568 |
| Goodwill | 86,746 | 86,892 |
| Deferred income taxes, net | 614 | 585 |
| Other assets | 67,547 | 48,183 |
| Total assets | \$ 579,817 | \$ 555,553 |
| Liabilities and stockholders' equity (deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 31,072 | \$ 32,006 |
| Income and other taxes payable | 10,094 | 10,561 |
| Accrued expenses and other current liabilities | 92,890 | 70,293 |
| Deferred revenue current | 2,400 | — |
| Current portion of long-term debt | 20,000 | 20,000 |
| Total current liabilities | 156,456 | 132,860 |
| Deferred revenue | 13,671 | 2,652 |
| Long-term debt, less current portion, net | 568,770 | 446,565 |
| Deferred income taxes, net | 6,125 | 12,546 |
| Other long-term liabilities | 76,993 | 60,146 |
| Total liabilities | 822,015 | 654,769 |

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| | | |
|---|------------|------------|
| Redeemable noncontrolling interests | 7,037 | 6,738 |
| Stockholders' equity (deficit): | | |
| Preferred stock (\$0.01 par value per share; no shares issued) | — | — |
| Common stock (\$0.01 par value per share; issued 44,268 at April 1, 2018 and 44,221 at December 31, 2017) | 443 | 442 |
| Additional paid-in capital | 163,198 | 184,785 |
| Accumulated other comprehensive income (loss) | 4,110 | (2,117) |
| Retained earnings | 280,853 | 292,251 |
| Treasury stock (12,245 shares at April 1, 2018 and 10,290 shares at December 31, 2017, at cost) | (714,097) | (597,072) |
| Total stockholders' equity (deficit), net of noncontrolling interests | (265,493) | (121,711) |
| Noncontrolling interests in subsidiaries | 16,258 | 15,757 |
| Total stockholders' equity (deficit) | (249,235) | (105,954) |
| Total liabilities, redeemable noncontrolling interests and stockholders' equity (deficit) | \$ 579,817 | \$ 555,553 |

See accompanying notes.

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Papa John's International, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(Unaudited)

| (In thousands, except per share amounts) | Three Months Ended | |
|---|--------------------|-------------------|
| | April 1, 2018 | March 26, 2017 |
| Revenues: | | |
| Domestic Company-owned restaurant sales | \$ 190,242 | \$ 206,896 |
| North America franchise royalties and fees | 24,806 | 27,607 |
| North America commissary | 161,713 | 171,340 |
| International | 30,114 | 25,622 |
| Other revenues | 20,494 | 17,801 |
| Total revenues | 427,369 | 449,266 |
| Costs and expenses: | | |
| Operating costs (excluding depreciation and amortization shown separately below): | | |
| Domestic Company-owned restaurant expenses | 157,319 | 165,419 |
| North America commissary | 151,681 | 159,957 |
| International expenses | 19,030 | 15,791 |
| Other expenses | 20,958 | 17,547 |
| General and administrative expenses | 39,729 | 36,414 |
| Depreciation and amortization | 11,539 | 10,457 |
| Total costs and expenses | 400,256 | 405,585 |
| Refranchising gain, net | 204 | — |
| Operating income | 27,317 | 43,681 |
| Net Interest expense | (4,955) | (1,810) |
| Income before income taxes | 22,362 | 41,871 |
| Income tax expense | 4,982 | 11,972 |
| Net income before attribution to noncontrolling interests | 17,380 | 29,899 |
| Income attributable to noncontrolling interests | (643) | (1,471) |
| Net income attributable to the Company | \$ 16,737 | \$ 28,428 |
| Calculation of income for earnings per share: | | |
| Net income attributable to the Company | \$ 16,737 | \$ 28,428 |
| Change in noncontrolling interest redemption value | — | 520 |
| Net income attributable to participating securities | (75) | (117) |
| Net income attributable to common shareholders | \$ 16,662 | \$ 28,831 |
| Basic earnings per common share | \$ 0.50 | \$ 0.78 |
| Diluted earnings per common share | \$ 0.50 | \$ 0.77 |
| Basic weighted average common shares outstanding | 33,279 | 36,810 |
| Diluted weighted average common shares outstanding | 33,552 | 37,350 |

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| Dividends declared per common share | \$ 0.225 | \$ 0.200 |
|-------------------------------------|----------|----------|

See accompanying notes.

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Papa John's International, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

| (In thousands) | Three Months Ended | |
|---|--------------------|-------------------|
| | April 1, 2018 | March 26, 2017 |
| Net income before attribution to noncontrolling interests | \$ 17,380 | \$ 29,899 |
| Other comprehensive income (loss), before tax: | | |
| Foreign currency translation adjustments | 1,983 | 613 |
| Interest rate swaps (1) | 6,718 | (468) |
| Other comprehensive income (loss), before tax | 8,701 | 145 |
| Income tax effect: | | |
| Foreign currency translation adjustments | (473) | (227) |
| Interest rate swaps (2) | (1,545) | 173 |
| Income tax effect (3) | (2,018) | (54) |
| Other comprehensive income (loss), net of tax | 6,683 | 91 |
| Comprehensive income before attribution to noncontrolling interests | 24,063 | 29,990 |
| Less: comprehensive income, redeemable noncontrolling interests | 344 | (794) |
| Less: comprehensive income, nonredeemable noncontrolling interests | 299 | (677) |
| Comprehensive income attributable to the Company | \$ 24,706 | \$ 28,519 |

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- (1) Amounts reclassified out of accumulated other comprehensive income (loss) into net interest expense included \$108 and \$198 for the three months ended April 1, 2018 and March 26, 2017, respectively.
- (2) The income tax effects of amounts reclassified out of accumulated other comprehensive income (loss) into net interest expense were \$25 and \$73 for the three months ended April 1, 2018 and March 26, 2017, respectively.
- (3) 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. 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) | Three Months Ended | |
|---|--------------------|-------------------|
| | April 1, 2018 | March 26, 2017 |
| Operating activities | | |
| Net income before attribution to noncontrolling interests | \$ 17,380 | \$ 29,899 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for uncollectible accounts and notes receivable | 1,539 | (417) |
| Depreciation and amortization | 11,539 | 10,457 |
| Deferred income taxes | (2,004) | 1,015 |
| Stock-based compensation expense | 2,475 | 2,736 |
| Gain on refranchising | (204) | — |
| Other | 1,903 | 769 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 86 | (1,048) |
| Income tax receivable | 3,903 | 2,372 |
| Inventories | 2,193 | 2,425 |
| Prepaid expenses | (217) | 3,574 |
| Other current assets | 5,097 | (134) |
| Other assets and liabilities | (514) | (1,577) |
| Accounts payable | 1,209 | (5,239) |
| Income and other taxes payable | (466) | 7,817 |
| Accrued expenses and other current liabilities | (3,103) | (5,164) |
| Deferred revenue | 220 | (156) |
| Net cash provided by operating activities | 41,036 | 47,329 |
| Investing activities | | |
| Purchases of property and equipment | (9,320) | (15,064) |
| Loans issued | (563) | (715) |
| Repayments of loans issued | 1,636 | 863 |
| Acquisitions, net of cash acquired | — | (21) |
| Proceeds from divestitures of restaurants | 3,690 | — |
| Other | 114 | 7 |
| Net cash used in investing activities | (4,443) | (14,930) |
| Financing activities | | |
| Repayments of term loan | (5,000) | — |
| Net proceeds (repayments) of revolving credit facility | 127,000 | (5,575) |
| Cash dividends paid | (7,565) | (7,354) |
| Tax payments for equity award issuances | (1,342) | (2,259) |
| Proceeds from exercise of stock options | 1,770 | 3,248 |
| Acquisition of Company common stock | (141,736) | (13,075) |
| Distributions to noncontrolling interest holders | (432) | (702) |
| Other | 183 | 396 |

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| | | |
|--|-----------|-----------|
| Net cash used in financing activities | (27,122) | (25,321) |
| Effect of exchange rate changes on cash and cash equivalents | 119 | 74 |
| Change in cash and cash equivalents | 9,590 | 7,152 |
| Cash and cash equivalents at beginning of period | 22,345 | 15,563 |
| Cash and cash equivalents at end of period | \$ 31,935 | \$ 22,715 |
| See accompanying notes. | | |

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Papa John's International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

April 1, 2018

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete annual financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended April 1, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2018. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K for Papa John's International, Inc. (referred to as the “Company”, “Papa John's” or in the first-person notations of “we”, “us” and “our”) for the year ended December 31, 2017.

2. Significant Accounting Policies

Noncontrolling Interests

Papa John's has four joint venture arrangements in which there are noncontrolling interests held by third parties after the divestiture of one joint venture in the first quarter of 2018. See Note 7 for more information on this divestiture. These joint ventures include 216 restaurants at April 1, 2018. We are required to report the consolidated net income at amounts attributable to the Company and the noncontrolling interests. Additionally, disclosures are required to clearly identify and distinguish between the interests of the Company and the interests of the noncontrolling owners, including a disclosure on the face of the Condensed Consolidated Statements of Income attributable to the noncontrolling interest holders.

The income before income taxes attributable to these joint ventures for the three months ended April 1, 2018 and March 26, 2017 was as follows (in thousands):

| | Three Months Ended | |
|----------------------------------|--------------------|-------------------|
| | April 1, 2018 | March 26, 2017 |
| Papa John's International, Inc. | \$ 1,295 | \$ 2,362 |
| Noncontrolling interests | 643 | 1,471 |
| Total income before income taxes | \$ 1,938 | \$ 3,833 |

The following summarizes the redemption feature, location and related accounting within the condensed consolidated balance sheets for these joint venture arrangements: