



Papa Johns Bears Pile in at 200-day MA

Ticker/Price: PZZA \$47.20

Analysis:

Papa John's (PZZA) another 2,855 January \$50 puts bought this morning from \$9.10 to \$9.40, spot where 7,450 have been bought recently in a nearly \$7M buy. PZZA has also seen bearish flow into the October \$42.50 puts, April \$50 puts, and January \$47.50 puts, the latter \$4M bought and in open interest. Shares have been in a long downtrend and rallying recently with the overall market back to the 200-day MA today. A move lower would target the high-volume node at \$43 while under \$39 support has room back to \$30. The \$1.45B company trades 29X earnings, 0.92X sales, and 25.5X FCF with a 2% yield, rich for a name expecting a 5% drop in sales this year and 3% growth next year. PZZA sees EPS down 17% in 2019. The company is struggling with comps and menu innovation at a time when peers like Dominos are gaining share and already have a long head start in tech and mobile. PZZA faces risks to margins in the near-term as they enter a multi-year refresh cycle after receiving a \$200M investment from activist Starboard. Analysts have an average target for shares of \$53 with 5 buy ratings and 1 sell rating. Short interest is 25.6% and jumped in late February from 12.5%, adding almost 4.1M shares. It is now at its highest level since 2004. Stifel cut to Sell on 2/19 noting that 2020/2021 estimates assume a much faster than likely recovery of EBITDA and cash flows. The firm thinks it could remain below historical levels for years and they will need to continue providing financial support to franchisees. Institutional ownership fell 10.5% last quarter. Founder John Schnatter owns 9.9M shares and recently stepped down from the Board. Starboard owns 4.99M shares.

Hawk Vision:



Trading Strategy: PZZA has some event-risk with Starboard involved but going the renovation route vs a sale lessens that slightly. I would be watching for a move under the 8-EMA and out of this uptrend but can be a nice R/R vs the 200-day

Confidence Ranking: \$\$