



Papa Murphy's Holdings, Inc. Reports First Quarter 2018 Results

May 9, 2018

VANCOUVER, Wash., May 09, 2018 (GLOBE NEWSWIRE) -- Papa Murphy's Holdings, Inc. (NASDAQ:FRSH) today announced financial results for its fiscal first quarter ended April 2, 2018.

Key financial highlights for the first quarter of 2018 include the following⁽¹⁾:

- Revenue was \$34.8 million compared to \$40.2 million in the first quarter of 2017.
- Comparable store sales decreased 3.9% compared to the first quarter of 2017, including a 4.0% decrease at global franchise-owned stores and a 2.7% decrease at Company-owned stores.
- Selling, general and administrative expense was \$13.0 million, including \$6.3 million associated with gross expenditures at the Brand Fund, a litigation reserve of approximately \$1.0 million, transition costs related to the Company's e-commerce platform of \$0.3 million, and CEO transition and restructuring costs of \$0.2 million.
- Reported Net Income was \$1.6 million, or \$0.09 per diluted share, compared to a Reported Net Loss of \$5.2 million, or \$0.31 per diluted share in the prior year first quarter.
- Pro-Forma Net income⁽²⁾ in the quarter was \$2.7 million, or \$0.16 per diluted share, compared to a Pro-Forma Net Loss of \$3.9 million, or \$0.23 per diluted share, in the prior year first quarter.
- Adjusted EBITDA⁽²⁾ was \$7.1 million, compared to negative Adjusted EBITDA of \$2.3 million in the prior year first quarter.
- Franchise-owners opened four new stores in the quarter, all in the US market.

(1) Please note that results reflect the first quarter adoption by the Company of two new accounting standards (ASC topic 606 – Revenue from contracts with customers, and ASC topic 842 – Leases). 2017 financial results have been adjusted to reflect the implementation of the standards.

(2) Pro-Forma Net Income and Adjusted EBITDA are non-GAAP measures. For a reconciliation of Pro-Forma Net Income and Adjusted EBITDA to GAAP net income/(loss) and discussion of why the Company considers Pro-Forma Net Income and Adjusted EBITDA to be useful measures, see the financial tables accompanying this release and the paragraph below entitled "Non-GAAP Financial Measures."

Weldon Spangler, Chief Executive Officer of Papa Murphy's Holdings, Inc., stated, "We are pleased with the progression of our strategic initiatives that we believe will stabilize near-term results and return this system to profitable growth. While comparable store sales declined in the quarter, we are encouraged by the sequential improvement of results, and by the positive sales in certain markets that have been early adopters of a set of marketing initiatives designed to improve brand relevance and customer value."

Spangler added, "Subsequent to the end of the first quarter, we entered into a definitive agreement with an existing franchise-owner, Fresh Take, LLC, to rebrand our Company-owned stores in Colorado. We remain committed to return to upward of a 95% franchised system and are in active discussions to secure additional franchising transactions."

Key Operating Metrics

	Three Months Ended	
	April 2, 2018	April 3, 2017
	unaudited	as adjusted*
Comparable store sales:		
Franchised stores	(4.0) %	(4.5) %
Company-owned stores	(2.7) %	(9.9) %
Combined	(3.9) %	(5.0) %
System-wide sales (\$'s in 000s)	\$ 213,757	\$ 225,610
Adjusted EBITDA (\$'s in 000s)	\$ 7,136	\$ (2,345)
Store Count		
Franchised	1,359	1,398
Company-owned	145	168
System-wide	1,504	1,566

* Prior year results have been adjusted to reflect the impact of adopting the new revenue (ASC Topic 606) and lease (ASC Topic 842) accounting standards effective January 2, 2018.

The Company uses a variety of operating and performance metrics to evaluate the performance of the business. Below is a description of certain key operating metrics:

Comparable Store Sales represents the change in year-over-year sales for all comparable stores, including international. A comparable store is a store that has been open for at least 52 full weeks from the comparable date (the Tuesday following the opening date). As of the end of the first quarter of 2018 and 2017, we had 1,469 and 1,472 comparable stores, respectively.

System-wide Sales include net sales by all franchise owned and Company-owned stores.

Adjusted EBITDA is defined as net income/(loss) before interest expense, provision for (benefit from) income taxes and depreciation and amortization, with further adjustments to reflect the elimination of various expenses that the Company considers not indicative of ongoing operations. For a reconciliation of Adjusted EBITDA to net income/(loss), the most directly comparable GAAP measure, see the financial tables accompanying this release.

Subsequent Events

Subsequent to the end of the first quarter, the Company signed an agreement to rebrand the company owned stores across the state of Colorado, with an existing franchise-owner, Fresh Take, LLC. The cash flow generated from rebranding is expected to be used for debt pay-down.

2018 Financial Outlook

Based on current information, and reflective of the adoption of two new accounting standards (ASC topic 606 – Revenue from contracts with customers and ASC topic 842 – Leases) and the rebranding of the Company-owned stores in Colorado, Papa Murphy's Holdings, Inc. is providing the following guidance for full-year outlook for fiscal 2018, which ends on December 31, 2018:

- Full-year system-wide comparable store sales are expected to be about flat for fiscal 2018 as compared to previous guidance of flat to low single digit growth;
- Domestic franchise new store openings of approximately 10 units;
- Full-year selling, general and administrative expenses of approximately \$50 million, including \$23.8 million associated with gross expenditures in the Brand Funds, and excluding expected non-recurring costs totaling around \$4.0 million;
- Adjusted EBITDA, of approximately \$21 million;
- Cash Flow from Operations of around \$7.4 million (net of expected legal settlements totaling approximately \$5.0 million) and Cash provided by Investing Activities of approximately \$6.1 million (which includes \$7.1 million net proceeds from rebranding activities less approximately \$1.0 million in capital expenditures);
- Full-year effective book tax rate of approximately 27.7%; and
- Diluted share-count of approximately 16.9 million.

The Company expects to update the financial outlook for the effects of additional rebranding when it has greater certainty around specific transactions and timing.

Conference Call

Papa Murphy's Holdings, Inc. will host a conference call to discuss the first quarter financial results on Wednesday, May 9, 2018 at 5:00 PM Eastern Time. The conference call can be accessed live over the phone by dialing 877-407-3982 or for international callers by dialing 201-493-6780. A replay will be available after the call and can be accessed by dialing 844-512-2921 or for international callers by dialing 412-317-6671; the passcode is 13678359. The replay will be available until Wednesday, May 16, 2018. The conference call will also be webcast live from the Company's corporate website at investors.papamurphys.com, under the "Events & Presentations" page. An archive of the webcast will be available at this location shortly after the call has concluded.

About Papa Murphy's

Papa Murphy's Holdings, Inc. ("Papa Murphy's" or the "Company") (NASDAQ:FRSH) is a franchisor and operator of the largest Take 'n' Bake pizza brand in the United States, selling hand-crafted fresh pizzas for customers to bake at home. The Company was founded in 1981 and currently operates nearly 1,500 franchised and corporate-owned stores in 38 States, Canada, and United Arab Emirates. Papa Murphy's core purpose is to help anyone with an oven and 15 minutes serve a scratch-made meal. In addition to fresh pizzas, the Company offers hand-crafted salads, sides and desserts to complete the meal. Order online today at www.papamurphys.com for easy pick up everywhere, and find us on your favorite delivery apps in select markets.

Forward-looking Statements

This press release, as well as other information provided from time to time by Papa Murphy's Holdings, Inc. or its employees, may contain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Forward-looking statements give the Company's current expectations and projections relating to the Company's financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "guidance," "anticipate," "estimate," "expect," "forecast," "project," "plan," "intend," "believe," "confident," "may," "should," "can have," "likely," "future" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

Forward-looking statements in this press release include statements relating to the Company's projected comparable stores sales growth or decline,

projected Company-owned store count, projected new store openings, projected selling, general and administrative expenses, including projected non-recurring costs, projected Adjusted EBITDA, projected franchising activities, projected cash used in investing activities, projected cash flow from operations, projected effective tax rate, projected diluted share count, and future financial or operational results and business strategy, including the expected effects of the Company's strategic initiatives.

Any such forward-looking statements are not guarantees of performance or results, and involve risks, uncertainties (some of which are beyond the Company's control) and assumptions. Although the Company believes any forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and cause them to differ materially from those anticipated in any forward-looking statements. Please refer to the risk factors discussed in the Company's annual report on Form 10-K for the fiscal year ended January 1, 2018, (which can be found at the SEC's website www.sec.gov); each such risk factor is specifically incorporated into this press release. Should one or more of these risks or uncertainties materialize, the Company's actual results may vary in material respects from those projected in any forward-looking statements.

Any forward-looking statement made by the Company in this press release speaks only as of the date on which it is made. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise.

Non-GAAP Financial Measures

To supplement its financial information presented in accordance with generally accepted accounting principles (GAAP), the Company is also providing with this press release the non-GAAP financial measures of EBITDA, Adjusted EBITDA and Pro-Forma Net Income. EBITDA, Adjusted EBITDA, and Pro-Forma Net Income are not derived in accordance with GAAP. EBITDA, Adjusted EBITDA and Pro-Forma Net Income should not be considered by the reader as an alternative to net (loss) income (the most comparable GAAP financial measure to EBITDA, Adjusted EBITDA and Pro-Forma Net Income). The Company's management believes that EBITDA, Adjusted EBITDA, and Pro-Forma Net Income are helpful as indicators of the current financial performance of the Company because EBITDA, Adjusted EBITDA, and Pro-Forma Net Income reflect the additions and eliminations of various income statement items that management does not consider indicative of ongoing operating results. We have provided reconciliations of EBITDA, Adjusted EBITDA and Pro-Forma Net Income to GAAP net (loss) income in the financial tables accompanying this release.

The Company is also providing with this press release a forward looking estimate of the non-GAAP financial measure of Adjusted EBITDA. We do not, however, provide a reconciliation of this forward-looking non-GAAP measure to the most comparable GAAP measure because of the inherent difficulty in forecasting and quantifying various adjustments that are necessary for this reconciliation and, accordingly, the reconciling information cannot be obtained without unreasonable effort.

PAPA MURPHY'S HOLDINGS, INC. AND SUBSIDIARIES Condensed Consolidated Statements of Operations (In thousands of dollars, except share and per share data)

	Three Months Ended	
	April 2, 2018	April 3, 2017
	unaudited	unaudited and as adjusted*
Revenues		
Franchise related	\$ 16,190	\$ 19,398
Company-owned stores	18,582	20,775
Total revenues	34,772	40,173
Costs and Expenses		
Store operating costs:		
Cost of food and packaging	6,126	7,215
Compensation and benefits	5,631	6,334
Advertising	1,252	1,712
Occupancy and other store operating costs	3,103	3,701
Selling, general, and administrative	13,013	25,702
Depreciation and amortization	2,141	3,117
Loss on disposal of property and equipment	2	9
Total costs and expenses	31,268	47,790
Operating Income (Loss)	3,504	(7,617)
Interest expense, net	1,292	1,227
Other expense, net	51	43
Income (Loss) Before Income Taxes	2,161	(8,887)
Provision for (benefit from) income taxes	581	(3,680)
Net Income (Loss)	\$ 1,580	\$ (5,207)
Earnings (loss) per share of common stock		
Basic	\$ 0.09	\$ (0.31)

Diluted	\$ 0.09	\$ (0.31)
Weighted average common stock outstanding			
Basic	16,905,738	16,839,244	
Diluted	16,944,894	16,839,244	

PAPA MURPHY'S HOLDINGS, INC. AND SUBSIDIARIES

Selected Balance Sheet Data

(In thousands of dollars)

	April 2, 2018	January 1, 2018
	unaudited	unaudited and as adjusted*
Cash and cash equivalents	\$ 1,519	\$ 2,174
Total current assets	9,450	8,962
Total assets	259,892	262,115
Total current liabilities	30,317	31,117
Long-term debt, net of current portion	84,971	86,994
Total stockholders' equity	95,907	94,142

PAPA MURPHY'S HOLDINGS, INC. AND SUBSIDIARIES

Reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA

(In thousands of dollars)

	Three Months Ended		
	April 2, 2018	April 3, 2017	
	unaudited	unaudited and as adjusted*	
Net Income (Loss) As Reported	\$ 1,580	\$ (5,207)
Depreciation and amortization	2,141	3,117	
Provision for (benefit from) income taxes	581	(3,680)
Interest expense, net	1,292	1,227	
EBITDA	\$ 5,594	\$ (4,543)
Expenses not indicative of future operations:			
CEO transition & restructuring ^(a)	244	2,198	
E-commerce transition costs ^(b)	358	—	
Litigation settlements and reserves ^(c)	940	—	
Adjusted EBITDA	\$ 7,136	\$ (2,345)
Adjusted EBITDA margin ⁽¹⁾	20.5	% (5.8)%

(a) Represents non-recurring management transition and restructuring costs in connection with the recruitment of a new CEO, CFO and other executive positions.

(b) Non-recurring costs incurred to complete the transition to a new e-commerce platform.

(c) Accruals for franchisee litigation settlements.

(1) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by total revenues.

PAPA MURPHY'S HOLDINGS, INC. AND SUBSIDIARIES

Reconciliation of Net Income (Loss) to Pro Forma Net Income (Loss)

(In thousands of dollars, except share and per share data)

	Three Months Ended
	April 2, 2018
	April 3, 2017
	unaudited and

	unaudited	as adjusted*	
Net Income (Loss) As Reported	\$ 1,580	\$ (5,207)
Expenses not indicative of future operations:			
CEO transition & restructuring ^(a)	244	2,198	
E-commerce transition costs ^(b)	358	—	
Litigation settlement and reserves ^(c)	940	—	
Income tax expense on adjustments ^(d)	(393) (845)
Pro Forma Net Income	\$ 2,729	\$ (3,854)
Earnings per share - pro forma:			
Basic	\$ 0.16	\$ (0.23)
Diluted	\$ 0.16	\$ (0.23)
Weighted average shares outstanding - pro forma:			
Basic	16,905,738	16,839,244	
Diluted	16,944,894	16,839,244	

(a) Represents non-recurring management transition and restructuring costs in connection with recruitment of a new CEO, CFO and other executive positions.

(b) Non-recurring costs incurred to complete the transition to a new e-commerce platform.

(c) Accruals for franchisee litigation settlements.

(d) Reflects the tax expense associated with above adjustments at a normalized tax rate of 38.5% (2017) and 25.5% (2018) which represents the estimated long-term effective tax rate in effect in the respective quarter.

Investor Contact:

Alexis Tessier, ICR
papamurphys-ir@icrinc.com
877-747-7272

Media Contact:

Rachael Smith, ICR
Rachael.Smith@icrinc.com
646-277-1261

 [Primary Logo](#)

Source: Papa Murphy's Holdings, Inc.