



This Iconic Canadian Company Might Grab a Slice of Papa John's Int'l, Inc.

## Description

One can't help but notice the ridiculous amount of controversy that's plagued the fast-food industry of late. Whether we're talking about **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) with its disgruntled franchisees, **McDonald's Corporation** with its parasite-ridden salads, **Starbucks Corporation** with its venti-sized arrest controversy, or **Papa John's Int'l Inc.** ([NASDAQ:PZZA](#)) with John Schnatter (Papa John himself) and his use of a racial slur in a conference call.

This isn't even a comprehensive list, but I'm sure you get the point. Many fast-food giants have been serving up a double-double, super-size order of controversy over the last year, and in all cases, each respective stock has pulled back by a substantial amount—some more than others.

The most controversial of controversies has been revolving around Papa John and his resignation from the board following his use of a racial slur in a conference call designed to prevent more PR hiccups.

Although Schnatter was ousted from the board, he reportedly noted that stepping down as chairman was a “mistake” and hired high-profile trial lawyer Patricia Glaser to fight back against the board that recently evicted him from company headquarters.

What a mess!

Earlier in the year, rumours were swirling that Restaurant Brands was hungry for a pizza play. I suggested that Restaurant Brands may want to [scoop up Papa John's](#) when its market cap was north of \$2 billion. After the recent controversy, a significant amount of goodwill has been destroyed.

Papa John's stock is now down 40% from all-time highs with a mere \$1.7 billion market cap, and as the battle between Schnatter and the board takes it to the next level, we could see shares get crushed further, especially if Schnatter finds his way back to the chair.

Moreover, many Papa John's customers may have a bad taste in their mouths following the recent scandal, so it's not too far-fetched to think that many loyal customers may jump ship to a competitor like **Domino's Pizza, Inc.** There's no question that Domino's has been taking Papa John's slice of market share for over the last year and a half. And after the latest incident, I wouldn't be surprised to

see more share-taking moving forward.

Restaurant Brands' controversy pales in comparison to the crisis at Papa John's for many reasons. Although the company ousted Schnatter from the board, it's going to be hard for the company to distance itself from Papa John as that's the company's name! It's been so tarnished such that the removal of Schnatter's image from the box will do next to nothing to reverse the damage that's already been done.

### **Is Papa John's still a worthy takeover target for Restaurant Brands?**

I think it is.

A pizza chain is arguably the missing piece of the puzzle for Restaurant Brands. There's burgers, fried chicken, coffee and doughnuts (and now poutine!) Pizza would complement these other fast-food items perfectly and allow Restaurant Brands to expand without cannibalizing itself.

The Papa John's brand is ailing right now and isn't worth nearly as much as it was before Schnatter's use of "inappropriate and hurtful" language, but this loss of goodwill is going to be reflected in the discounted takeover price. At these levels, a takeout price would be substantially lower than the price paid at all-time highs. What a bargain!

One may argue that if such a deal happened, Restaurant Brands may as well just rename itself Controversial Restaurant Brands, as the company is still in the process of [repairing the slightly tarnished Tim Hortons' brand](#) after the never-ending series of negative developments that has since quieted down.

While Papa John's is full of problems right now, I'd argue it makes far more sense to pay \$2 billion (or less) for a new brand than to raise an exorbitant amount of debt to finance the purchase of a Domino's for over \$12 billion. Restaurant Brands has enough debt as is, but there's enough dry powder on the balance sheet to finance a Papa John's deal, which would be much easier for Restaurant Brands to digest.

Stay hungry. Stay Foolish.

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2. NYSE:QSR (Restaurant Brands International Inc.)
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