Registration No: 02569801

Papa John's (GB) Limited

Report and Financial Statements

For the year ended 30 December 2018

Company information

Directors
J H Smith
J H Swaysland
E Williams

Auditors
KPMG LLP
Altius House
One North Fourth Street
Milton Keynes
Buckinghamshire
MK9 1NE

Registered Office
UK & European Campus
11 Northfield Drive
Northfield
Milton Keynes
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MK15 0DQ

Strategic report

Company No: 02569801

For the year ended 30 December 2018

Papa John's

Better ingredients. Better pizza.

The principal activity of the company during the year was the franchising of pizza home delivery and take-away stores in the United Kingdom ("UK") and Ireland and the related wholesale supply of product ingredients and packaging to the store network. The company receives a royalty from each franchisee as well as a marketing fee which contributes to the national spends on advertising and promotion that benefit the franchisees at scale.

Strategic Focus

Early in 2018, we outlined certain strategic priorities to improve upon the execution of the Company's strategy, including:

- **People:** Focus on making people a priority with advanced career opportunities and more efficient store procedures to support improved recruitment and retention.
- **Brand differentiation messaging:** Develop improved marketing messaging that highlights our quality products and ingredients. Value perception: Provide everyday accessible value to consumers.
- **Technological advancements:** Promote technological advancements with enhanced data and analytics capabilities.
- **Store unit economics:** Invest further in our stores to operate more efficiently while improving the customer experience.

We believe investments in these areas will provide the enhanced focus and support necessary to achieve our goal to build brand loyalty over the long-term by delivering on our **"BETTER INGREDIENTS. BETTER PIZZA."** promise. Despite recent competitive challenges, we believe we are recognised as a trusted brand and quality leader in the UK pizza category, and we believe focusing on these areas will enable us to build our brand and increase sales and stores.

High-Quality Menu Offerings

Our menu strategy focuses on the quality of our ingredients. UK Papa John's stores offer high-quality pizza along with side items, including wedges, chicken poppers and wings, dessert items and bottled beverages. Papa John's original crust pizza is prepared using fresh dough (never frozen). Papa John's pizzas are made from a proprietary blend of wheat flour; real cheese made from mozzarella; fresh-packed pizza sauce made from vine-ripened tomatoes (not from concentrate) and a proprietary mix of savoury spices; and a choice of high-quality meat and vegetable toppings. Our original dough crust pizza is delivered with a container of our special garlic sauce and a pepperoncini pepper. We have a continuing "clean label" initiative to remove unwanted ingredients from our product offerings over the next few years, such as synthetic colours, artificial flavours and preservatives. We also offer limited-time pizzas on a regular basis and expect to expand these offerings in 2019. We also test new product offerings; these new products can become a part of the permanent menu if they meet certain internally established guidelines.

All ingredients and toppings are purchased by our franchised stores from our UK Quality Control Centre ("QC Centre") system, which delivers to individual stores twice per week. To ensure consistent food quality, each franchisee is required to purchase dough, pizza sauce and all other supplies from our QC Centre. The UK QC Centre is required to meet food safety and quality standards and to be in compliance with all applicable laws.

Strategic report (continued)

Company No: 02569801

For the year ended 30 December 2018

Efficient Operating System

We believe our operating and distribution systems, store layout and designated delivery areas result in improved food quality and customer service as well as lower store operating costs. Our QC Centre system takes advantage of volume purchasing of food and supplies, which benefits our franchisees by keeping down costs. The QC Centre system also provides consistency and efficiencies of scale in fresh dough production. This eliminates the need for each store to order food from multiple vendors and commit substantial labour and other resources to dough preparation.

Commitment to Team Member Training and Development

We are committed to the development and motivation of our team members through training programs, including our development programs, Diversity, Equity and Inclusion initiatives and offering opportunities for advancement, as well as a fun environment to operate in.

Marketing

Our branding efforts seek to showcase the values of the Company and its team members. We evaluate marketing investments with respect to their ability to activate and accelerate positive consumer sentiment, utilising campaigns that spotlight the Company's differentiated focus on quality, better ingredients and better pizza. Our UK marketing strategy consists of both national and local components. Our national strategy includes national advertising via television, print, direct mail, digital, mobile marketing and social media channels. Our digital marketing activities have increased significantly over the past several years in response to increasing customer use of online and mobile web technology. Local advertising programs include television, radio, print, direct mail, store-to-door flyers, digital, mobile marketing and local social media channels.

Technology

We use technology to deliver a better customer experience, focusing on key strategies that offer benefits to the customer as well as advancing our objectives of higher customer lifetime value and deeper brand affinity. Our technology initiatives build on our past milestones. Such investments have been enhancing our digital ordering and expanded mobile app capabilities. As we continue to enhance our digital capabilities, we have focused on technology investments that allow us to use data in compliance with GDPR and all other applicable regulations to target marketing programs to individual customers as well as customer segments.

Franchise System

We are committed to developing and maintaining a strong franchise system by attracting experienced operators, supporting them to expand and grow their business and monitoring their compliance with our high standards. We seek to attract and retain franchisees with experience in store or retail operations and with the financial resources and management capability to open single or multiple locations. While each Papa John's franchisee manages and operates its own stores and business, we devote significant resources to providing franchisees with assistance in store operations, training, marketing, and site selection.

Leadership Team

In July 2018, Elizabeth Williams was appointed as the new Managing Director replacing Gareth Davies. Liz, who has more than 20 years' experience in the food industry, is now responsible for UK operations including overseeing the success of the Company's network of more than 400 franchised stores throughout the country. Before joining Papa John's, Liz was a restaurant consultant and prior to that, director general manager of Greene King PLC's Loch Fyne Restaurants for six years. Her extensive experience also includes time as managing director for Clapham House Group's The Real Greek and operations, marketing, supply chain and QA roles at Pizza Hut (UK) Ltd.

Strategic report (continued)

Company No: 02569801

For the year ended 30 December 2018

Leadership Team (continued)

Following this appointment, in Q4 2018 a new Finance Director, Marketing Director and Operations Director were appointed, with further leadership appointments expected to take place in early 2019 in Supply Chain & R&D as the company continues to strengthen the leadership team. These changes are designed to improve our marketing and operational performance, accelerate the execution of the strategy and to strengthen our ability to deliver a strong financial performance, drive operational improvements and service delivery which will benefit our customers, along with driving cost savings for our franchisees.

Financial Results

For the first time in twelve years, underlying comparable sales growth of the UK stores declined by (4.5)% mainly as a result of heightened competition and the long hot summer. The pizza market remains intensely competitive with significant promotional discounting continuing to take place in 2018 as in prior years.

The company continued to open stores during the year and finished the year with 415 Papa John's stores in the UK (2017: 385 stores) all operated by franchisees.

Rising food and labour costs also affected franchisee profitability and store openings. In order to assist the franchisees with these rising costs. the company invested back into the system £2.0m of exceptional costs in the second half of the year. This investment related to:

- Replacement or write-off of certain branded assets,
- Franchisee royalty reductions,
- Franchisee food rebates schemes
- Additional contributions to the national marketing fund to increase marketing and promotional activities in Q4.

The company's operating profit from trading activities during the year was £2.85m (2017: £6.29m). Adjusting for exceptional costs of £2.0m which impact profitability comparability, the underlying result was £4.85m (2017: £6.29m)

	2018	2017	Change
	£000	£000	%
Turnover	68,369	67,256	1.7%
Operating profit	2,853	6,291	(54.6)%
Profit after tax	2,308	5,041	(54.2)%
Total equity	25,398	26,182	(3.0)%
Current assets as % of current liabilities ('quick ratio')	289%	319%	(9.4)%
Average number of employees	126	105	4.0%

Principal Risks and Uncertainties

A major risk facing the company in the next few years will be the performance of the macro economy in the UK. With the UK continuing to negotiate an exit from the EU there is some uncertainty of the future strength of the UK economy. With the weakening of the GBP and most of our food ingredients being sourced outside the UK, we are seeing increases in our food input prices which has affected our profitability as we have not passed these costs on to the customer. The vagaries of the British weather, and the timing of major sporting tournaments, can impact overall sales performance as consumers adjust their eating habits accordingly. In 2018 we had the World Cup that had a positive impact, whereas the long period of hot and dry weather in the summer months negatively impacted sales.

Strategic report (continued)

Company No: 02569801

For the year ended 30 December 2018

Principal Risks and Uncertainties (continued)

As a franchisor business there are risks with running the estate in both credit terms (with franchisees) and in managing the leases on the properties on which the company owns the head lease. The credit risk is managed by the weekly monitoring and action on credit agreements and terms with provisions made for non-recovery. The leases are managed by the internal estates department to ensure the estate is maintained and lease issues addressed promptly. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets and through support from its ultimate parent company Papa John's International Inc.

Papa John's (GB) Limited's ultimate parent company, Papa John's International Inc. provides managerial and financial support. Also, measures are in place to mitigate currency and interest rate risk at a group level. The directors therefore believe, that at a company level, the currency and interest rate risks are minimal and thus no specific hedging currently takes place to offset any currency movements or interest rate risk.

On behalf of the Board

E Williams
Director

23 September 2019

Directors' report

Company No: 02569801

For the year ended 30 December 2018

The Directors present their report for the year ended 30 December 2018.

Directors

The directors who held office during the year and up to the date of this report were as follows:

L F Tucker	(Resigned:	2 March 2018)
G B Davies	(Resigned:	1 June 2018)
J H Smith	(Appointed:	2 March 2018)
E Williams	(Appointed:	1 October 2018)
J H Swaysland		

Results and dividends

During the year, the company made a profit of £2,308,000 (2017 – £5,041,000). The directors have not recommended the payment of a final ordinary share dividend (2017 – £3,254,000 recommended; 2018 - £3,254,000 declared and paid).

Future developments

The company's commitment to the Papa John's brand, with its focus on superior product quality and innovation remains. The focus for the forthcoming year is to continue our strong growth in the underlying outlets and significantly grow the number of outlets trading under the Papa John's brand, thus increasing geographical coverage.

A significant and on-going area of growth for both Papa John's and the industry as a whole continues to be internet / online sales.

The company continues to invest heavily in marketing activities to further build on the brand recognition, and in 2018 has continued to advertise in national media, leading to increased brand recognition by consumers, also leading to an increase in the number of enquiries from potential franchisees considering joining the brand and opening Papa John's sites.

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposure to price, credit, liquidity and cash flow risk are described within the review of the business and principal risk and uncertainties sections contained within the Strategic Report.

The company has considerable financial resources, and well-established relationships with a wide distribution of customers and suppliers. As a consequence, the directors believe that the company is well placed to manage its business and financial risks successfully.

After making enquiries, the directors have a reasonable expectation that the company has access to adequate resources to continue in operational existence for at least twelve months from the date of signing the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

Directors' report (continued)

Company No: 02569801

For the year ended 30 December 2018

Directors' qualifying third party indemnity provision

Papa John's International Inc., the company's ultimate parent company, has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

As filed in the Form 8-K dated 10 June 2019, the company's ultimate parent, Papa John's International, Inc reported that, on 12 June 2019, they had engaged EY as their auditors for the next financial year. The impact of this will be considered in the Annual General Meeting and a resolution put to the members over the appointment of next year's auditors.

On behalf of the Board

E Williams
Director

23 September 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report

to the members of Papa John's (GB) Limited

Opinion

We have audited the financial statements of Papa John's (GB) Limited for the year ended 30 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, and Statement of changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analyzed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report (continued)

to the members of Papa John's (GB) Limited

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report (continued)

to the members of Papa John's (GB) Limited

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Aimie Keki

Almic Keki (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Altius House,
One North Fourth St,
Milton Keynes
MK9 1NE

Date: 25 September 2019

Statement of Comprehensive Income

For the year ended 30 December 2018

	Note	2018 £000	2017 £000
Turnover	2	68,369	67,256
Cost of sales		(49,524)	(47,866)
Gross profit		18,845	19,390
Administrative expenses		(15,992)	(13,099)
Operating profit	3	2,853	6,291
Interest receivable and similar income	5	163	132
Interest payable and similar expenses	6	(27)	–
Profit on ordinary activities before taxation		2,989	6,423
Taxation charge	7	(681)	(1,382)
Profit for the financial year and total comprehensive income for the year		2,308	5,041

The company's results are derived entirely from continuing activities.

Statement of Changes in Equity

As at 30 December 2018

	Called-up Share capital £000	*Share premium £000*	*Capital contribution £000*	*Profit and loss account £000*	*Total £000*
At 25 December 2016	–	4,285	5,000	3,019	12,304
Profit for the year	–	–	–	5,041	5,041
Share-based payment charge (note 20)	–	–	–	300	300
Parent company loan forgiveness	–	–	8,537	–	8,537
At 31 December 2017	–	4,285	13,537	8,360	26,182
Profit for the year	–	–	–	2,308	2,308
Share-based payment charge (note 20)	–	–	–	383	383
Dividends	–	–	–	(3,475)	(3,475)
At 30 December 2018	–	4,285	13,537	7,576	25,398

Statement of Financial Position

Company No: 02569801

As at 30 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	9	743	361
Tangible assets	10	5,186	5,880
		5,929	6,241
Current assets			
Stocks	11	1,484	1,203
Debtors:	12		
- amounts due within one year		21,475	20,229
- amounts due greater than one year		7,313	6,937
		28,788	27,166
Cash at bank and in hand		2,338	2,915
		32,610	31,284
Creditors: amounts falling due within one year	13	(11,274)	(9,803)
Net current assets		21,336	21,481
Total assets less current liabilities		27,265	27,722
Creditors: amounts falling due after more than one year	14	(1,807)	(1,507)
Provision for liabilities and charges			
Other provisions	16	(60)	(33)
Net assets		25,398	26,182
Capital and reserves			
Called up share capital	17	–	–
Share premium	18	4,285	4,285
Capital contribution	18	13,537	13,537
Profit and loss account	18	7,576	8,360
Total equity		25,398	26,182

On behalf of the Board

Liz Williams

E Williams
Director

23 September 2019

Notes to the financial statements

For the year ended 30 December 2018

1. Accounting policies

Statement of compliance

Papa John's (GB) Limited is a limited liability company incorporated in England. The registered office is UK & European Campus, 11 Northfield Drive, Northfield, Milton Keynes, Buckinghamshire, MK15 0DQ.

The company's financial statements have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' as it applies to the financial statements of the Company for the year ended 30 December 2018, and in accordance with Companies Act 2006.

The financial statements of Papa John's (GB) Limited were authorised for issue by the Board of Directors on 23 September 2019.

Basis of preparation and change in accounting policy

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies.

The financial statements have been prepared in accordance with applicable accounting standards and on a going concern basis. The directors have assessed the company's ability to continue as a going concern and documented their rationale within the Directors' report on page 6.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000.

The company has taken advantage of the following available exemptions permitted under section 1.12 on the grounds that the company is a wholly-owned subsidiary of Papa John's International Inc:

- statement of cash flows;
- related party transactions;
- share-based payments;
- financial instruments;
- key management personnel compensation

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Operating lease commitments

For the Papa John's franchise stores, the company has entered into commercial leases, taking the headlease and then subletting the properties to the franchisees. The classification of such leases as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

The following are the company's key sources of estimation uncertainty:

Notes to the financial statements (continued)

For the year ended 30 December 2018

1. Accounting policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the company performs an impairment test based on fair value less costs to sell. This calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset.

Judgement is required by management in respect of the impairment provision for short term debtors and loans receivable. This calculation is based on management's knowledge of the individual store and franchisee performance and their assessment of the capability of that franchisee to repay the debt.

Dilapidations

Where the company enters into a commercial lease with a provision to return the building in its original condition, the company may be required to pay a lump sum at the end of the lease. Management have made an estimate based on their knowledge of the industry and previous valuations.

Taxation

The company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 6.

Significant accounting policies

Intangible assets – Computer software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Amortisation is provided on all computer software at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life of three to five years.

Computer software written down to zero net book value during the year are 'retired' and written out of the accounting records.

The carrying values of intangible assets are reviewed annually for impairment or when events or changes in circumstances indicate the carrying value may not be recoverable.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Freehold land	-	not depreciated
Short leasehold land and buildings	-	5 to 20 years
Furniture and equipment	-	5 to 11 years
Computer equipment	-	3 to 5 years
Motor Vehicles – Fork Lifts	-	2 to 5 years

Furniture and equipment written down to zero net book value during the year are 'retired' and written out of the accounting records.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements (continued)

For the year ended 30 December 2018

1. Accounting policies *(continued)*

Significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised.

Franchise fees

Franchise fees are recognised when a franchised store begins operations, at which time the company has performed its obligations related to such fees. Franchise fees are non-refundable.

Royalties

Franchise royalties, which are based on a percentage of franchised store sales, are recognised as revenue when the products are delivered to or carried out by customers.

Sale of goods

Revenue from sales of food, equipment, promotional items and supplies to franchised stores are recognised as revenue upon delivery of the related products to the franchisees.

Store fit out fees

Revenue from recharges of store fit out costs where we are not acting as agent are recognised when a franchised store begins operations, at which time the company has performed its obligations.

Rental income

Revenue from the rental of stores under operating lease agreements are recognised on a straight line basis in accordance with the lease terms.

Finance income

Interest income is recognised as the interest accrues.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Present obligations arising under onerous lease contracts are recognised and measured as provisions. An onerous contract is considered to exist when the company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not yet reversed at the Statement of Financial Position date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, or a right to receive more, tax with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Statement of Financial Position date.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and in hand.

Notes to the financial statements (continued)

For the year ended 30 December 2018

1. Accounting policies *(continued)*

Significant accounting policies (continued)

Loans receivable

Loan notes which are basic financial instruments are initially recorded at cost. Subsequently they are measured at amortised cost using the effective interest method.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price, and are subsequently measured at amortized cost using the effective interest method. Any losses arising from impairment are recognised in the income statement in administrative expenses.

Lease commitments

Rentals payable under operating leases are charged to income on a straight line basis over the term of the lease. Lease incentives are recognised over the lease term on a straight line basis.

Pensions

The company operates a personal defined contribution pension scheme for eligible employees. Contributions are charged in the Statement of Comprehensive Income as they become payable in accordance with the rules of the scheme.

Share-based payments

The company participates in the Papa John's International Inc. stock option plan. Under the plan options are granted in Papa John's International Inc.

FRS102 requires the fair value of options and share awards, which ultimately vest to be charged to the company's Statement of Comprehensive Income over the vesting or performance period.

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting periods, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using the appropriate pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where the vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each Statement of Financial Position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and managements best estimate of the achievement or otherwise of the non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in the cumulative expense since the last Statement of Financial Position date is recognised in the Statement of Comprehensive Income account with a corresponding entry in equity.

No contribution is made directly by this entity as a result of the share options in the parent. As a result, there is a deemed capital contribution in equity.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any cost not yet recognised in the Statement of Comprehensive Income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Statement of Comprehensive Income.

Notes to the financial statements (continued)

For the year ended 30 December 2018

2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax. The company operates in one principal area of activity, that of the franchising of pizza home delivery and takeaway stores, including the wholesale supply of product ingredients and packaging to its store network.

The company operates in two principal markets, the UK and Europe and is categorised as follows:

	2018	*2017*
	£000	*£000*
Continuing operations:		
UK turnover	65,938	64,887
Overseas turnover	2,431	2,369
	68,369	67,256

3. Operating profit

This is stated after charging:

		2018	*2017*
		£000	*£000*
Directors' remuneration		579	639
Auditors' remuneration	- audit services	70	70
	- non-audit services	3	3
Amortisation of intangible fixed assets		211	154
Depreciation of tangible fixed assets		801	788
Operating lease rental charges	- property	6,163	5,514
	- office equipment	7	10
	- plant and machinery	354	360

Notes to the financial statements (continued)

For the year ended 30 December 2018

4. Staff costs

(a) Staff costs

	2018 £000	2017 £000
Wages and salaries	5,295	5,040
Social security costs	947	541
Other pension costs	165	142
Share-based payment charge (Note 20)	383	300
	6,790	6,023

The monthly average number of employees during the year was as follows:

	2018 No.	2017 No.
Head office and management	84	79
Commissary	42	26
	126	105

Notes to the financial statements (continued)

For the year ended 30 December 2018

4. Staff costs *(continued)*

(b) Directors' remuneration

	2018 *£000*	*2017* *£000*
Emoluments	579	639
Company contributions paid to money purchase pension schemes	24	39

	2018 *No.*	*2017* *No.*
Members of money purchase pension schemes (note 19)	2	2

	2018 *No.*	*2017* *No.*
Number of directors' exercising stock options (note 20)	–	2

The amounts payable in respect of the highest paid director are as follows:

	2018 *£000*	*2017* *£000*
Emoluments (excluding company pension contributions)	295	368
Company contributions paid to money purchase pension schemes	7	23
The highest paid director exercised stock options during the year	–	230

Notes to the financial statements (continued)

For the year ended 30 December 2018

5. Interest receivable and similar income

	2018 *£000*	*2017* *£000*
Bank interest receivable	7	13
Other interest receivable	156	119
	163	132

6. Interest payable and similar expenses

	2018 *£000*	*2017* *£000*
Other interest payable	27	–
	27	–

7. Taxation

The tax charge is made up as follows:

	2018 *£000*	*2017* *£000*
Current tax:		
UK taxation at 19% (2017 – 19.25%) – current year	704	1,063
Adjustments in respect of prior periods	(5)	–
Total current tax	699	1,063
Deferred tax:		
Origination and reversal of timing differences	(18)	216
Adjustments in respect of prior periods	–	103
Effect of tax rate change on opening balances	–	–
Total tax charge	681	1,382

Factors affecting tax charge

The tax charge assessed on the profit on ordinary activities for the year is different from the effective standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are reconciled below:

Notes to the financial statements (continued)

For the year ended 30 December 2018

7. Taxation *(continued)*

	2018 *£000*	*2017* *£000*
Profit on ordinary activities before taxation	2,989	6,423
Profit on ordinary activities before taxation multiplied by the effective standard rate of corporation tax in the UK of 19.00% (2017 – 19.2.5%)	568	1,236
Effect of:		
Expenses not deductible for tax purposes	1,271	1,134
Income not taxable for tax purposes	(1,171)	(1,051)
Depreciation in excess of capital allowances	5	85
Adjustments to tax charge in respect of previous period	(4)	103
Adjust closing deferred tax to average rate of 19.00%	–	1
Adjust opening deferred tax to average rate of 19.00%	–	(5)
Other permanent differences	(22)	(32)
Deferred tax not recognised	–	(14)
Deferred tax on share options	34	(75)
Total tax charge	681	1,382

Changes in tax rates and factors affecting the future tax changes

The Finance (No.2) Act 2015 reduced the rate of Corporation tax from 1 April 2017 to 19% and by a further 1% to 18% from 1 April 2020. In the 2016 Budget, it was announced that the rate of Corporation tax from 1 April 2020 will be reduced further to 17%. This rate received Royal Assent on 15 September 2016.

8. Deferred taxation

Deferred taxation at 19% (2017 - 19%) is recognised on the Statement of Financial Position as follows:

	2018 Unrecognised £000	*2018 Recognised £000*	*2017 Unrecognised £000*	*2017 Recognised £000*
Accelerated capital allowances	–	89	–	151
Short term timing differences	–	(164)	–	(87)
Deferred tax on share options	–	(41)	–	(75)
Tax losses (non-trade)	–	(87)	–	(173)
Total undiscounted net deferred tax asset	–	(203)	–	(184)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised, based on tax rates that have been enacted or substantively enacted at the Statement of Financial Position date.

Given the company has a period of sustained profits and continues to forecast profits, the company has recognised the deferred tax asset. The company has trading losses to carry forward as at 30 December 2018 of £nil (2017 – £nil).

Notes to the financial statements (continued)

For the year ended 30 December 2018

9. Intangible assets

	Computer software *£000*	*Total* *£000*
Cost:		
At 31 December 2017	775	775
Additions during the year	477	477
Disposals during the year	–	–
Reclassifications	116	116
At 30 December 2018	1,368	1,368
Depreciation:		
At 31 December 2017	414	414
Charge for the year	211	211
Disposals in the year	–	–
At 30 December 2018	625	625
Net book value:		
At 30 December 2018	743	743
At 31 December 2017	361	361

Notes to the financial statements (continued)

For the year ended 30 December 2018

10. Tangible fixed assets

	Construction in progress £000	*Freehold land and buildings £000*	*Furniture equipment and motor vehicles £000*	*Total £000*
Cost:				
At 31 December 2017	116	3,532	5,769	9,417
Additions during the year	–	–	238	238
Disposals during the year	–	–	(16)	(16)
Reclassifications	(116)	–	–	(116)
At 30 December 2018	–	3,532	5,991	9,523
Depreciation:				
At 31 December 2017	–	572	2,965	3,537
Charge for the year	–	133	668	801
Disposals in the year	–	–	(1)	(1)
At 30 December 2018	–	705	3,632	4,337
Net book value:				
At 30 December 2018	–	2,827	2,359	5,186
At 31 December 2017	116	2,960	2,804	5,880

11. Stocks

	2018 £000	*2017 £000*
Raw materials	1,484	1,203

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stocks recognised as an expense in the period were £33,977,000 (2016 - £32,901,000).

Notes to the financial statements (continued)

For the year ended 30 December 2018

12. Debtors

	2018 £000	2017 £000
Trade debtors	14,124	11,597
Loans to franchisees	2,987	2,476
Prepayments and accrued income	4,161	3,525
Amounts due from ultimate parent company	–	2,447
Deferred tax (note 8)	203	184
	21,475	20,229

The amounts due from the ultimate parent company are repayable on demand.

Amounts falling due after more than one year not included above are:

	2017 £000	2016 £000
Loans to franchisees	6,160	6,042
Prepayments and accrued income	1,153	835
Other debtors	–	60
	7,313	6,937

13. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	3,658	2,149
Other taxes and social security costs	811	1,706
Accruals and other creditors	4,838	5,948
Amounts owed to ultimate parent company	1,967	-
	11,274	9,803

The amounts due to the immediate and ultimate parent company are repayable on demand.

Notes to the financial statements (continued)

For the year ended 30 December 2018

14. Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Accruals and other creditors	1,807	1,507

15. Obligations under leases

Operating lease commitments where the company is lessee

For the Papa John's franchise stores, the company has entered into commercial leases, taking the headlease and then subletting the properties to the franchisees. The leases have an average duration of between 10 and 25 years. Under the terms of the franchise agreement the franchisee is granted an initial period of 10 years to operate. Under the agreement, the franchisee also has the option to renew for a further 5 years at the end of the initial period provided at the time of the renewal the franchisee is not in default of any material provision of the franchise agreement. In addition, the company has entered into commercial leases on items of plant and equipment. These leases have an average duration of between 3 and 5 years. Only the property lease agreements contain an option for renewal, with such options being exercisable six months before the expiry of the lease term at rentals based on market prices at the time of exercise.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
- within one year	6,049	360	5,814	327
- within two to five years	23,410	336	21,762	1,111
- in over five years	33,484	1	30,742	-
	62,943	697	58,318	1,438

Operating lease commitments where the company is lessor

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
- within one year	6,604	-	5,740	-
- within two to five years	23,659	-	20,108	-
- in over five years	12,294	-	9,420	-
	42,556	-	35,268	-

Notes to the financial statements (continued)

For the year ended 30 December 2018

16. Provision for liabilities and charges

	2018	2017
	£000	*£000*
Provisions for vacant property commitments		
At 31 December 2017 and 25 December 2016	33	–
Increase of vacant property provision during the year	27	33
At 30 December 2018 and 31 December 2017	60	33

The provision for vacant property commitments of £60,000 (2017 - £33,000) is estimated as at the end of each financial year in order to provide for future obligations arising on property operating leases where the property is either vacant at the end of the year or is let to a tenant at a rent which is less than that paid by the company to its landlord, in addition there is an element in these provisions for possible dilapidations at the end of the lease.

17. Share capital

	2018	*2017*
	£	*£*
Allotted, issued and fully paid:		
14 Ordinary shares of £1 each	14	14

18. Reserves

Share premium account
This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital contribution reserve
This reserve records the nominal value of shares repurchased by the company.

19. Pension costs

Group personal pension plan

The company operates a group personal pension scheme for the benefit of certain employees. The assets of the scheme are administered by trustees in funds independent of those of the company.

The total contributions charged in the year amounted to £165,000 (2017 - £142,000), of which £24,000 related to contributions paid on behalf of directors (2017 - £39,000). At 30 December 2018, contributions totalling £43,000 were outstanding (2017 - £67,000).

Notes to the financial statements (continued)

For the year ended 30 December 2018

20. Share-based payments

Papa John's International Inc. ("Papa John's") awards stock options and restricted stock from time to time under the Papa John's International, Inc. 2011 Omnibus Incentive Plan ("the Plan") and other such agreements as may arise, including awarding shares to PJUK employees under this Plan. Stock Option and restricted stock awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Options outstanding as of 30 December 2018 generally expire ten years from the date of grant and vest over a three year period. Restricted stock awards generally vest over a three year period.

The expense recognised in the Statement of Comprehensive Income account under FRS102– Section 26 'Share-based Payments' in respect of employee services received during the prior periods for all share options granted is £382,752 (2017 - £300,000).

Stock Options

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, stock options during the year:

	Options	WAEP	Contractual Term
Existing options at 31 December 2017	31,304	$66.27	
Granted	26,787	$59.30	
Exercised	–	$ 0.00	
Cancelled	(6,926)	$66.19	
Outstanding at 30 December 2018	51,165	$62.64	8.38 years
Exercisable at 30 December 2018	15,203	$60.83	7.22 years

Notes to the financial statements (continued)

For the year ended 30 December 2018

20. Share-based payments *(continued)*

The following is a summary of the significant assumptions used in estimating the fair value of options granted in 2018, using the Black-Scholes model:

	2018
Assumptions (weighted average):	
Risk-free interest rate	2.73%
Expected dividend yield	1.52%
Expected volatility	27.56%
Expected term (in years)	5.62

The risk-free interest rate for the periods within the contractual life of an option is based on the U.S. Treasury yield curve in effect at the time of grant. The estimated volatility is based on the historical volatility of our stock and other factors. The expected term of options represents the period of time that options granted are expected to be outstanding.

The weighted average fair value of outstanding options as at 30 December 2018 was $62.64. Stock options outstanding as at 30 December 2018, had exercise prices ranging from $18.46 to $78.77.

Restricted Stock

During the year Papa John's granted shares of restricted stock that were 100% time-based and have a three-year graded vesting schedule. These restricted shares are intended to focus participants on our long-range objectives, while at the same time serving as a retention mechanism. The fair value of the restricted stock is based on the market price of the Company's shares on the grant date.

Information pertaining to restricted stock activity during 2018 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Total as of 31 December 2017	7,053	$71.00
Granted	23,443	$57.08
Forfeited	(2,838)	$57.20
Vested	(1,710)	$64.28
Total as of 30 December 2018	25,948	$59.21

Notes to the financial statements (continued)

For the year ended 30 December 2018

21. Ultimate parent undertaking and controlling party

This section contains details of the immediate and ultimate parent undertaking subsequent to the group re-organisation – see note 22.

The company's immediate parent company is Papa John's Pizza Limited. Copies of Papa John's Pizza Limited's financial statements can be obtained from UK & European Campus, 11 Northfield Drive, Northfield, Milton Keynes MK15 0DQ.

The company's ultimate parent company and controlling party is Papa John's International Inc., a company incorporated in Delaware, USA. Copies of Papa John's International Inc.'s financial statements can be obtained from Papa John's International Inc., 2002 Papa John's Boulevard, Louisville, Kentucky, KY40299-2367, USA.

22. Events after the end of the reporting period

During May 2019, a re-organisation of the Company's group occurred by transferring the entire issued share capital of the Company to Papa John's Pizza Limited. This re-organisation was enacted in 4 main transactions as follows:

1) A cash dividend of £11 was paid to Papa John's (GB) Holdings Limited
2) A capital reduction was made in Papa John's (GB) Holdings Limited by cancelling all but 100 of its Ordinary Shares, and cancelling the Share Premium account and Capital Redemption Reserve to £nil
3) A dividend in specie of the Company's shares was transferred from Papa John's (GB) Holdings Limited to Papa John's Pizza Limited
4) Papa John's (GB) Holdings Limited was struck off

As a result of this re-organisation, the entire issued share capital of Papa John's (GB) Limited is held by Papa John's Pizza Limited.