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The 10 Minute Mentor Podcast
Our ongoing series on leadership in the age of disruption.

Episode 4: Activist Shareholders and the CEO: Disruption in the Boardroom

Guest: Dave Goebel, former President & CEO, Applebee's International
Host: David Reimer, CEO, Merryck & Co Americas

TRANSCRIPT

David Reimer: Welcome to Merryck & Co's 10 Minute Mentor podcast, part of our ongoing series on leadership in the age of disruption. I'm your host, David Reimer, CEO of Merryck & Co Americas. Today's topic is the challenge a CEO faces when dealing with an activist shareholder. I'm pleased to have Dave Goebel as our guest today. Dave is an accomplished Fortune 250 CEO, board director, and serial entrepreneur. And in terms of CEO scale, Dave's largest role was president and CEO of Applebee's International, where he helped lead the company to $4.5 billion in revenues across 2,000 restaurants.

And then an activist came calling. When disruption comes to you in the guise of one or more board seats, what's a leader to do? Dave, welcome to the podcast.

Dave Goebel: Thank you, David. It's good to be here.

DR: So Dave, shareholder activism isn't new but it's also not a solved problem. Tell us your story so we can understand the context you bring to this.

DG: As we closed 2005, Applebee's had put up 30 consecutive quarters of positive same store sales growth. We had completed 13 consecutive years of adding 100 new restaurants a year and we were tapping on the underside of 15%, five year compounded annual growth rate. In the back half of 2005, economic headwinds, rising gas prices, consumer uncertainty, some oversaturation in the casual dining segment, and the initial impact of the growth of this category we now know as fast casual, they all started to rear their heads. And things began to turn fairly quickly.

Our first calls were from an activist that came in June of 2006, from a gentleman named Richard Breeden of Breeden Capital. He was a former SEC chair and a very high profile personality. And although our 2005 annual dividend represented over a 200% increase in the prior year, our board had just announced an additional $175 million in share buyback, and we had announced our succession plans splitting the roles of the CEO and the chairman. Despite all that, we remained a target for Mr. Breeden, as sales performance continued to decline in the first three quarters of '06.

DR: So, where was Mr. Breeden coming from?

DG: Sell company restaurants, seize cap X to open new restaurants, slash overhead, reduce insiders on the board, clean up other government practices. And although all these initiatives were in our plan, execution was not gonna be fast enough.

On April 26, 2007, the proxy contest that was to occur at the annual meeting of the shareholders ended when our board agreed to add Richard Breeden and Lawrence Harris to the board.

DR: And the outcome?

DG: The board voted to sell the company to a strategic buyer, International House of Pancakes, for $2.1 billion in cash in July of 2007 and the deal closed in December 2007.

DR: I think that what activists have tended to be good at is pattern recognition and then going after it hard and maybe harder than those who are immersed in it. Is that fair?

DG: Oh, absolutely. Absolutely.

DR: Let's build on that because you described a very health business. You described a set of milestones and accomplishments that I think anyone would envy. Were there sign posts that you missed, that might have helped you build a moat?

DG: A lot of what we had teed up in our three to five year plan looked and sounded a lot like some of the issues raised by our activist shareholder. Prior to oversaturation, prior to the introduction of fast casual, the economic model in the casual dining space was very strong.

As the world changed and as we saw disruption in the restaurant industry, there seemed to be a strong propensity from the street to say, "Why do you own all these company restaurants? Let's talk more about asset light. Let's talk about re-franchising and eliminate the volatility that comes from owning restaurants and go to a more predictable, almost annuity stream, that comes from the royalty payments from franchisees."

If I were to say, "Is there a lesson as I look back?" I would've had us move with a much greater sense of urgency.

DR: 'Cause you said you had it all in your plan, right? It's just that you weren't moving there at the cadence that...

DG: Exactly. There's a little bit of, "It's gonna get better." There's a little bit of, "This is just a hiccup." And so, I think it's a matter of facing reality and saying, "Is in fact the space being disrupted and are we being honest about what's in front of us?"

DR: At the end of the day, did the activist help you create greater shareholder value or not?

DG: Did we create value for the shareholder? Yes. We did. In a 25-50 share price, it was about a 4.5% premium. And was a 4.5% premium enough? Could it have been more? Possibly. The space in that part of the restaurant industry did not get any easier as we now know.

DR: Right. So, you're a Lead Director now at Jack, you're a Director of QuickChek and you sit on the board at Children's Mercy Hospital…frankly all three of those are industries that continue to undergo tremendous change. What do you bring to those boards having lived through this?

DG: I think I bring a much more proactive attitude to looking at the environment, benchmarking in the industry, listening to trends and reading the best of the best there is in terms of where any of those spaces are headed and what the headwinds and challenges may be. And then constantly asking the board and the leadership team to come forward with that exact question. "If we were our own activist, what might we be paying more attention to with a greater sense of urgency?"

There's probably one more piece that would come to mind, David, and that is that I think part of this understanding the landscape also has to do with staying very close to your investors and shareholder base and have open communication with them and listen to them. If you are consistently getting questions around a particular topic, there should be a flag there and that should be an item that the board talks more seriously about.

DR: There is an external indicator that you perhaps have a blind spot.

DG: And that's also a matter of not getting clouded by history.

DR: We've seen this with public companies all the time that have executed some tremendous turnarounds over the last four or five years, but they keep referring to those turnarounds. At some point, and at some point pretty fast, analysts don't care anymore.

[chuckle]

DG: I would say, I would say *very* fast.

DR: Right, right.

DG: What have you done for me today?

DR: Right. Once you've got an activist, you have the choice of going on offense or defense. Given what you've lived through and what you observed, what have you seen work best?

DG: Once you've got an activist there are some fundamental behaviors that can't be ignored and they're around be a good listener, be respectful, don't be afraid to share a little tough love to be sure your point of view is heard well. But for goodness sakes don't shut down and stop listening and never antagonize. I see that is bad juju.

If you were privy to the many conversations that we'd had prior to the first invitation for me to meet Mr. Breeden in a hotel room at LaGuardia. The conversations were...

DR: Which, by the way, is ominous in and of itself.

[laughter]

DG: Well said. A lot of that conversation centered around, "What are the pluses and minuses of beginning this engagement and who all should be present? How do we go about this?" I will not forget that day, that first day. That was one of several where this potentially could have gone, had we taken a different tact around antagonizing or just shutting down, I think would've yielded a much less productive outcome.

DR: Dave, look. We've been talking a little bit about technically how do you build a moat, how do you engage or not engage? How did this feel as a CEO when this started for you?

DG: Wow, David I would tell you there were a myriad of emotions, frustration, anger, certainly a sense of isolation along the way. Some real blurring and confusion over what was the right thing to do and boy, I would be remiss if I didn't say exhaustion.

I had planned to visit my second oldest daughter in San Diego and so I went forward with the trip and when she took me to the airport at the end of that two and a half days and we said goodbye, I was reflecting on the fact that I spent about 93% of my time on the telephone calling through every one of my board members, my leadership team, attorneys, and when I say exhaustion, I mean so concerned about wanting to drive the right outcome for the organization and for the shareholders, you kind of lose sight of the rest of the world. I did by the way have an opportunity to make that trip up to her later.

DR: That's good. Today, Dave, you mentor CEOs and other top executives. You've had a variety of experiences in your career beyond this but we're focused on this activist investor slice of life right now. Are there takeaways from that, that you find are relevant in working with leaders?

DG: One would certainly be a caution to never become so attached or so close to a position that you forget the perspective of the shareholder or you fail to stand in the shoes of the shareholder. the second one would be as we've discussed earlier, it's often very, very helpful at times just to stand above the fray and try to stand in the shoes of the activist shareholder and ask the questions that an activist shareholder may be asking and be proactive, stay out in front of the curve.

Activists are attracted to easy targets. Be thoughtful, be proactive, and try not to put yourself in the position of being an easy target.

DR: Dave, thank you for this conversation.

DG: Thank you for your time as well, David, I've enjoyed it.