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BUSINESS

Activist Urges Papa John's to Focus on Pizza

Legion Partners wants chain to stop feuding publicly with founder



Shares in Papa John's, down nearly 11% this year, have risen nearly 2% since Legion Partners Asset Management's investment was disclosed in a filing on Monday. PHOTO: LUKE SHARRETT/BLOOMBERG NEWS

By *Cara Lombardo and Julie Jargon*

Oct. 3, 2018 8:56 a.m. ET

The activist investor in Papa John's International Inc. [PZZA -0.28% ▼](#) wants the pizza chain's leaders to stop feuding with its founder.

“We want to get back to the business of selling pizza and away from the business of dealing with controversy,” Ted White, a managing director of Legion Partners Asset Management LLC, said in an interview.

Legion and the California State Teachers' Retirement System on Monday disclosed a 5.5% stake in Papa John's. Mr. White and a person familiar with the company said Legion has talked with the company in recent weeks about adding board members with restaurant experience, restoring the morale of franchisees and employees and cutting costs.

Legion also wants Papa John's leaders to avoid remaining embroiled in controversy with founder John Schnatter, who remains on the board and owns a 29% stake in the company. Some people close to the company say the business can't improve until that fight is settled.

Mr. Schnatter's relations with the board and management began to unravel last fall, when he blamed the chain's poor sales on the NFL's handling of its players' protests during the national anthem. The ensuing criticism resulted in his resigning as CEO in December. He sparked new outrage in July when news of his using a racial slur on a company marketing call was leaked.

Mr. Schnatter apologized and said his use of the slur "n—" was taken out of context. He agreed to step down as chairman of the board.

But he has since filed two lawsuits against the company and created a website, savepapajohns.com, to publicize his claims that the board kept documents from him to hide "devious motives" related to his ouster. The company has denied those assertions.

Papa John's board in July adopted a "poison pill" provision to prevent him from regaining control of the company. Legion investors aren't working with Mr. Schnatter and haven't spoken to him directly, Mr. White said, but plan to consider his perspective as they would that of any major shareholder. Mr. Schnatter, through a spokesman, declined to comment on Legion.

Legion's investment in Papa John's comes as the company is conducting a strategic review that could end in a sale. A person familiar with the company said a sale isn't the only option and that the company could also decide to join with or seek investment from another company.

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Mr. White said Legion would rather devote some time to rehabilitating Papa John's business before considering a sale. Papa John's in August reported its third consecutive quarterly decline in same-store sales at its North American restaurants.

Legion has told the board it wants a say in who joins a board that Papa John's existing directors want to expand, people familiar with their discussions said. The investment firm and the board are expected to meet in the coming days.

Since W. Kent Taylor, founder of Texas Roadhouse Inc., left the board in May, Papa John's has had five independent directors, none of whom have experience running restaurants. The board is looking to appoint new members with expertise in the restaurant business as well as technology and corporate governance, according to one person familiar with the search who said five or six candidates have expressed interest.

Mr. White said the new board members should also have international experience and expertise in franchising, marketing, and crisis and brand management.

Write to Cara Lombardo at cara.lombardo@wsj.com and Julie Jargon at julie.jargon@wsj.com

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