

Whole Foods Faces Specter of Long Investor Fight

By Heather Haddon and David Benoit
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Whole Foods Market Inc. sought to head off a shareholder fight by naming new board members equipped to handle activist investors and provide advice on making potential acquisitions.

But the grocery retailer may nonetheless find itself in a protracted fight in coming months with activist investors who question whether the additions will create the change they have demanded.

Whole Foods, which has been struggling with the longest sales slump since the natural grocer went public in 1992, said a slate of new board members with deep experience in retail or finance will take their seats on Wednesday.

Activist hedge fund Jana Partners LLC, now the company's second-largest shareholder, and mutual-fund giant Neuberger Berman, which owns 2.7% of the stock, are viewing the changes cautiously. The investors have been pressing Whole Foods to consider a sale and add directors with experience in retail operations, technology, finance and real estate.

The new board members should provide Whole Foods with hands-on expertise in keeping shareholders pleased in retail's hypercompetitive environment, said Douglas Ehrenkranz, an executive recruiter for Boyden. "They've all been there and done that," said Mr. Ehrenkranz, who specializes in food retail.

Whole Foods' stock, which has lost nearly half its value since peaking in 2013, rose 2.1% on Thursday, as Wall Street analysts largely responded favorably to the changes, which were announced late Wednesday.

One of Whole Foods' incoming board members, Panera Chief Executive Ron Shaich, can offer recent experience in handling shareholders who protested the fast-casual chain's hefty investments to upgrade its technology. When an activist investor stepped up, Mr. Shaich quickly agreed to cut costs and take on debt to buy back more shares, but didn't back down from his technology upgrades. The company and investors say his quick action helped to avoid a proxy fight.

Joe Mansueto, the billionaire founder of Chicago investment-research firm Morningstar Inc., brings his experience with acquisitions to Whole Foods' board. Those deals, including private market-data firm PitchBook Data Inc. and financial-wellness planning company HelloWallet Holdings Inc., helped Morningstar grow incrementally in line with its mission. The other board selections are former executives at footwear retailer Foot Locker, electronics retailer Best Buy Co. and trust bank State Street Corp.

Charles Kantor, a portfolio manager at Neuberger, said the board additions make the company stronger. "No stone should be left unturned in their comprehensive review of all opportunities to create value," he said after Whole Foods unveiled its selections on Wednesday.

Some activists are questioning why no grocery experience is being added, people familiar with the matter said. Jana raised the possibility of seeking a shareholder vote on more board changes as soon as this summer.

Jana had advanced its own slate of board members, and Whole Foods accepted two of its picks on the condition that the hedge fund agreed to hold fire for two years, according to people familiar with the matter. However, Jana declined the offer, and there is no settlement between the two sides.

The new board members supplant Whole Foods loyalists, who had served on the board for more than 15 years on average. The five on the way out include Chairman Dr. John B. Elstrott, the co-founder of grocery, environmental and technology companies, according to spokeswoman Brooke Buchanan. Also leaving the board next week are Morris "Mo" Siegel, co-founder of the Celestial Seasonings Inc. tea company; Jonathan D. Sokoloff, manager partner of the Leonard Green & Partners LP private-equity firm; Ralph "Bud" Sorenson, managing general partner of the Sorenson Limited Partnership venture capital fund; and William "Kip" Tindell, the recently departed chief executive of Container Store Group Inc.

Investors will be looking for the company's performance to improve in the coming quarters, said Chris Mandeville, a food and convenience retail analyst for Jefferies LLC. "If they don't make progress in the coming quarters, investors will grow concerned and they could shift their interests to Jana," Mr. Mandeville said.

Whole Foods on Wednesday reported another quarter of weak sales, with another in same-store sales. The key retailer metric fell 2.8% for the April-ended fiscal quarter, following on a 2.4% decline in the previous quarter.

Whole Foods officials said its discussions with Jana continue, and that it expects to see its sales turn positive next year.

—Julie Jargon and Sarah Krouse contributed to this article.

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