

# [Chipotle investors propose ousting founder as chairman](https://assignbuster.com/chipotle-investors-propose-ousting-founder-as-chairman/)

[Business](https://assignbuster.com/essay-subjects/business/), [Company](https://assignbuster.com/essay-subjects/business/company/)

Two union-affiliated shareholders in ChipotleMexicanGrill on Tuesday said they would propose replacing the company's chairman, Steve Ells, who founded Chipotle, with an independent director, piling on pressure after well-known activist Bill Ackman took a large stake in the company.

Amalgamated Bank and CtW Investment Group, both of which have previously sparred with Chipotle, filed a shareholder resolution on Tuesday to strip boardleadershipfrom Ells, who is also co-chief executive, by instituting an independent chair.

The non-binding proposal marks escalating pressure from investors who have previously challenged the formerly high-flying restaurant chain over corporate governance and executive compensation. Chipotle shares have plummeted to around $360, less than half their level in summer 2015, when they flirted with $750 before a series offood-borne illnesses at company restaurants.

Chipotle did not immediately respond to requests for comment. Any vote on the latest shareholder proposal would not occur until Chipotle's 2017 annual meeting.

New York City Comptroller Scott Stringer, who oversees a pension fund that owns Chipotle shares, immediately backed the new proposal. Billionaire Ackman, whose hedge fund Pershing Square Capital Management unveiled a 9. 9 percent stake in Chipotle in September, declined to comment.

The California Public Employees' Retirement System, which holds 90, 771 Chipotle shares, indicated the proposal is in line with its governance principles.

" As a matter of practice and in principle we support separating chairman and CEO roles consistent with the CalPERS Global Governance Principles," a spokeswoman said.

Pershing Square has met with Chipotle, sources familiar with the matter said, but it has not publicly discussed its demands. A spokesman for the hedge fund declined to comment on the new proposal.

CtW, which led a successful shareholder referendum on lavish CEO pay in 2014, failed to get enough support to remove two longtime board members at the company's annual meeting in May.

A New York City Pension Funds resolution making it easier for shareholders to nominate directors passed at this year's annual meeting with the backing of activist investors, including CalPERS.

Since then, investors have grown more worried about Chipotle's ability to rehabilitate its brand.

" Chipotle's closed-off and limited governance structure is unsustainable and counterproductive, posing a direct risk to shareholders and the public at large," Amalgamated Bank CEO Keith Mestrich said in a statement. The bank owns about 5, 500 Chipotle shares. CtW works with funds that own about 55, 000 shares.

People familiar with Ackman's thinking suggest he also is taking aim at the board, demanding a substantial number of directors be replaced with people who have expertise in food safety, marketing, and digital engagement.

Troy Alstead, the former Starbucks Corp. chief operating officer who was instrumental in the coffee chain’s turnaround, could be a Chipotle board nominee, several people with ties to activist investors said. Alstead, who now sits on the board at apparel company Levi Strauss & Co., did not immediately respond to a request for comment.

Chipotle has hired investment banks Goldman Sachs Group Inc. and Morgan Stanley, as well as law firm Wachtell, Lipton, Rosen & Katz LLP and crisis public relations firm Joele Frank to defend against Ackman, people close to the matter have said.

CtW analyst Derrick Wortes said his group will begin reaching out to the company's biggest shareholders, including Fidelity and Vanguard, to make its case for change. " It is time to steer the strategic changes that will help pull the company back from the edge," Wortes said.

(Reporting by Svea Herbst-Bayliss in Boston and Lisa Baertlein in Los Angeles; Editing by David Gregorio and Leslie Adler)