

How Jimmy John's landed the 2020 deal of the year



Jimmy John Liautaud, founder and chairman of Jimmy John's sandwich chain, attracted Roark Capital as a majority investor, cashed out Weston Presidio at a handsome rate of return, and earned the Franchise Times Deal of the Year award.

Photo by John Kraynak

"Sarah, SARAH," bellows Jimmy John Liautaud, founder and chairman of Jimmy John's Gourmet Sandwiches, leading me on a fast-paced tour around his Champaign, Illinois, headquarters.

"SARAH! Walk with me, and if I go all A.D.D., set me straight."

He's calling for Sarah Mueth, long-time director of marketing who quickly joins us, and referring sort of jokingly to his attention deficit disorder. I'm going by memory here because he doesn't want me recording anything for competitive reasons.

Jimmy, as he prefers to be called ("I'm Jimmy," he says, "Jimmy John is the brand,") is fresh from completing last year's mega-deal in franchising. He grew his sandwich chain from \$300 million in sales to more than \$2.5 billion in the past 10 years, cashed out his original investor, Weston Presidio, for a 16 times return, he says, and attracted more than \$2 billion in capital via a majority investment by Roark Capital, the Atlanta-based private equity firm that is franchising's gold standard.

These are heady times for the newest billionaire in the restaurant business, as he calls himself, who likes to say he graduated second to last in his high school class and started a little sandwich shop in 1983 with a \$25,000 loan from his father that he paid off in two years. ("The guy pissed me off. I had to pay compound interest," he jokes about his late father.)

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Today Jimmy John's has nearly 3,000 stores with ambitions for up to 5,000 and beyond, and a "master strategist" guiding the ship, as he calls Roark's managing director, Neal Aronson. Best of all? "I get to be Jimmy," he says with his trademark enormous grin—he retains the title of chairman, is still the largest individual shareholder, and says he has never felt so energized about his company.

But as our tour continues, what's surprising is how firm a hand he has on the minute details of every department and the roughly 100 people in the Fox Drive headquarters (about 250 employees are field consultants, so they're out in the field as they should be, he declares.) It turns out, being Jimmy means drilling down on the details to make the business run right, with laser-focus on the store level.

"Tina," he shouts, introducing me to his customer service manager, Tina Gilman. "How many complaints do we get each day, low to high?" and she replies roughly 400 customer interactions, with 50 to 100 complaints or praises, that her team of four handles, always responding within 24 hours.

In the IT department, a young woman with a headset watches a giant screen, responding to all the social media interactions, which are spiking up to more than 5,600 at this moment in mid-morning.

In a row of offices, Jimmy loudly introduces his CFO, Jeff Vaughan, as "another one of our newly minted millionaires," because the deal with Roark, closed last October, included distributions of more than \$177 million to about 20 shareholders on the management team, and \$5 million to his long-time secretary, who is now retired and living in Florida.

Then we get to the construction department, and his mastery of details stands out. "How much did you get out of the cost of the box?" he barks to the team, meaning the cost to build a Jimmy John's restaurant, which he challenged them to drastically cut in a one-time competition last year. They shoot back: More than \$100,000 was cut, to under \$315,000, and now the new model is being rolled out to all franchisees. "What did you get for bonuses?" he says, to complete the project. \$25,000 each, with \$50,000 to the person who volunteered as the leader.

I note other features of the office—the gleaming, black marble, fully equipped kitchen where he used to cook lunch when franchisees came to visit and they'd all fit, but today he uses to test new recipes or to cook a charity lunch. (Right now he is testing a Ranch dressing that he calls amazing, which he may roll out in his stores.)

Later he unlocks the wine cellar behind the opulent boardroom with the big round table, and selects a bottle from the vineyard he has invested in, pressing it into my hands and insisting I take it home. "This wine is RIDICULOUS," he says, and calls to one of his staff members to find a box so I can pack it in my luggage. He shows me a cover of Wine Spectator with the bottle featured on the cover, just to prove its bona fides.

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He strides through his enormous living-room-style office, with at least two dozen giant, cushy leather chairs, all with a view of a ho-hum parking lot that stands in stark contrast to the Restoration-Hardware-meets-hunting-lodge room, complete with several hunting trophies from trips around the world.

Jimmy John Liautaud, age 53, has a huge personality and a bombastic style, to be sure, but his business success lies in drilling down to the smallest details so the individual restaurant owner can make the most money possible. "I'm a really good operator," he says. "I'm really good at cleaning a window."

In an email to Franchise Times, he put it this way: "We are exceptional operators, perhaps one of the best on a large scale," he believes. "What we aren't is strategists and that's what Neal Aronson is best at," he says, referring again to Roark Capital's chief. "I'm a micro guy and he's a macro guy," and the combination is promising.

It was 2002, and Jimmy John's was a mess—of about 200 stores, 65 of them were failing, most of the franchised units that had been sold since beginning that effort in 1994. Jimmy Liautaud had to move back to Champaign from Chicago, and start visiting each one to try to turn them around. "It was brutal," he says, and he didn't understand why franchisees couldn't run the stores like he did, throwing his heart and soul into every detail.

"It was my naievete. I couldn't believe that people didn't want to get up at 5 in the morning and bake bread," and make sandwiches all day and into the night. "I was shocked. I didn't know that I was the weirdo."

By 2004, and with James North now established as his president, they started hammering away at the hard truths of running a sandwich shop. "We made the strategic change here, instead of trying to sell somebody a Jimmy John's franchise, we started to try to scare them away," he says. "There's no weddings, no birthdays," they'd tell people. "We don't get national holidays off. We have a checklist on the process that we review with all prospects," and it's a long list of all the tiny and terrible things that go into a restaurant. And Jimmy John's started to get franchisees "that were better prepared."

He also began drawing on the tactics he used starting out. "I did everything C.O.D.," he says, cash on delivery, and built each store using one checkbook, recording every penny in and out, then starting over with a new checkbook for the next restaurant. "It taught me to be surgical," so in staffing, for example, "you don't staff eight people.

You have one at 11, and add another at 11:15, and add another at 11:30."

By about 2005, he says, he had \$17 million in the bank and no debt, something he avoids at all costs. "I'm a nervous, conservative person," he says, because of his father's experience. James Liautaud, who died in 2015, became a successful industrialist and inventor who has a business school at the University of Illinois at Chicago named after the family. (Jimmy contributed to it,

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along with both of his parents.) But James went bankrupt twice, in 1972 and 1976, Jimmy says, when Jimmy wasn't yet in his teens, and it made an impression.

The first time, James had a plastic molding business, and the banker called the loan. Then in 1976, when citizens band radios were big, James designed a CB antenna, and his partner took it and manufactured it on his own, Jimmy says. James went on to create another product for CB radios, and he ended up owning 80 percent of that market. But the bad memories stayed.

"People ask, 'Jimmy, why are you so fearful of debt?' I don't want to be poor again. It's scary," he says. "It stuck on me. And the powdered milk? It's disgusting," he shouts, remembering the lean times of his childhood.

In 2006, he set out in earnest to bring on an investor, and hired an investment banker who wrote the book about the deal, but Jimmy rewrote it. "I wanted it to be less fancy and more direct," he says. He crunched the numbers and decided he wanted to net \$125 million in the bank after taxes, and ended up selling 28 percent of the business.

Weston Presidio was the successful suitor, endearing themselves to Jimmy after one encounter in which another suitor followed him into the restroom and said they could just cut a deal right then and there without all the lawyers around.

"I said if we were talking about the salami business that would work, but this is the money business," he says. "He tried to take advantage of me," and Jimmy marched out, told his president James North they were leaving, and walked out of the discussion.

"As far as I was concerned I was set for life," he says about the deal with Weston Presidio, whom he calls tremendous partners that backed him for a remarkable 10 years. That deal closed January 2, 2007, when Jimmy John's posted \$300 million in systemwide sales—but there were much bigger things to come.

By 2014, Jimmy John's was preparing to go public in a fantastic climate for restaurant IPOs. "The market was so enticing. All the public companies were doing so well," he recalls. But the heightened scrutiny was a bad fit.

"I was being attacked," he recalls, for everything from his big game hunting to his charitable contributions. "I was looking for more peace and more privacy," he says. "I'm incredibly modest. I don't go to every event. People don't know who I am," he says.

"And then I really got scared when I realized my new job was to serve the shareholders," whereas he believes the main function of a CEO is to serve the business, to fulfill its daily needs. "For me, I'm all about the meat, the cheese, the bread," he says, and when asked at the end of the interview what lesson he's learned about growing a company, he replies: "If you serve the business, it will serve you. Serve the business, serve the team"—and Wall Street wasn't part of that mantra.

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"It's not worth it," he told his partners, and said no to an IPO. That left Weston Presidio without an exit, and set up the bidding war from private equity firms that would culminate in Roark's purchase last year.

This time around, Jimmy John's was a rock star, which is the kind of thing that happens when your partners realize a 16 times return on their investment, he says. "The people I surround myself with were getting bombarded" with offers, and Jimmy himself went on 20 or so visits with some of the most glamorous private equity firms around.

"It was cool to see their world. When someone's going to write a billion-dollar-plus equity check they want to know about you." He liked the view, including from the windows high above Central Park in Manhattan when he was visiting with one famed firm. "Holy shit. Life is pretty good," he recalls thinking—and when you write about Jimmy John, you have to accept that there's going to be swearing.

He says there were common threads among the firms. "They were very frank and to the point. No waste of words. Total integrity. No bullshit. Zero. None." He also called them "family guys."

"Every single one had very strong wives, and I have a very strong German wife and she is the boss," he says. (That's Leslie, a playwright, choreographer and dancer whom he met when she was a single mother working at the Blue Bunny ice cream shop at McCormick Place in Chicago. They have three children, with their oldest, Spencer, working at Jimmy John's headquarters, and their two high schoolers at boarding school out East.)

He had known Aronson at Roark for years, and when Roark's bid came in high it was a given. "He and I have chemistry. He gets me," he says about Aronson, who is adding a level of sophistication to the enterprise that Liautaud believes will pay off. The trick will be for Roark Capital to push Jimmy John's to new heights, while still allowing Jimmy to be Jimmy. So far, Jimmy believes, it's working.

For example, the company recently hired Boston Consulting to conduct research on 12,000 people, to find out exactly when and why they buy a sandwich. But while that sounds wonky, Liautaud says Aronson isn't letting the strategy get too rarefied.

He relates this story: "I'm going to Phoenix, and I'm in my little Learjet. I'm going to meet with the lady who designs" his restaurants, he says. The phone rings and it's Aronson. Jimmy asks how the research is going, and then Aronson says: "Whatever your gut ends up with when this is done, that's what we're going to do."

He is in a great place. "I've never been so excited. I've never been so comfortably present," he says, adding he feels there's a weight off his shoulders. "It's mine to wreck, but I certainly don't want to wreck it. I'm the largest single shareholder," with 35 percent of the company.

Liautaud is vague when he talks about the future of Jimmy John's—there will be more technology, more mobile ordering, something about how he admires what Domino's is doing.

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But characteristically, he gets animated when talking about his most important initiative: making the Jimmy John's individual store a lean, mean machine.

The need for a cheaper restaurant became apparent after 2008, especially when mandates like higher minimum wages, Obamacare, overtime rules and many other initiatives that Liautaud and other restaurant operators railed against burdened the owners.

"Here's the deal," he said to his construction team. "The box is too expensive. You've got to get it under \$315,000. You have 90 days to build it, and 90 days to prove it," by replicating it in four places, and the race was on for those nice bonuses we learned about during the tour.

The team called around to vendors in the entire country to find every type of tile and other piece of material and its cost. "They tore it apart and put it back together," he says. "That's going to be the future of Jimmy John's," he says, because more profitable stores will attract more franchisees.

His goal is not to outfit restaurants with clever signs and lots of seating, as Jimmy John's stores currently have, because that model is dead weight. "I don't want to be sit-down restaurants anymore. I want to be little sandwich factories," he declares. "It's evolve or dissolve."

But his competitive streak is as evident as ever, and I ask him why, when he seemingly has it all today. "You've either got it or you don't," he says. "I'm above average in energy, definitely," he says, and Sarah Mueth, his marketing manager who's still sitting in, laughs at the understatement. Then he thinks about it, and reveals he's got a chip on his shoulder.

"I graduated second to last in my class. I was a fat kid. I was bullied by others," he says, including by his neighboring business owners when he opened his first sandwich shops, and people said he was just using daddy's money and wasn't a self-made man.

"I've been bullied my whole life, but I'm the only billionaire in my high school class. I'm the only one who donated a building" to his high school, which he named after himself and an influential dean at the time.

He didn't receive the Horatio Alger award one year when he was a finalist, he believes because one of the judges said his father must have bankrolled him. "I'm always kind of getting these little hen pecks," he muses, and maybe they give him his competitive edge.

Then again, there's not much to heckle him about these days, or at least not much to give a damn about.

"I'm just a modest, very successful guy," he says, and perhaps that's the best part of all about being Jimmy.
