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MarketWatch

Brett Arends's ROI

Opinion: Verizon retirees take aim at CEO Vestberg's $40 million 'golden parachute'

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By Brett Arends

Hans Vestberg in NYC, 2019

Jack Cohen retired from Verizon **VZ, -1.71%** nearly 20 years ago. Since then he's taken on a new role: Fighting on behalf of company retirees and ordinary stockholders, sometimes in open battle with the current board of directors.

He's at it again.

Cohen, who leads the Association of BellTel Retirees, is fighting the board at this week's annual stockholder meeting over fat cat pay, including the $40 million 'golden parachute' offered to current Chief Executive Hans Vestberg.

"It is obnoxious," he says of Vestberg's potential windfall. "The optics are terrible, and as a shareholder I'm frankly embarrassed." A payout of that scale, he says, constitutes boardroom misconduct.

This is not a socialist rebellion against Verizon capitalism, he emphasizes. This is a rebellion on behalf of retired workers, many of whom own stock in the company themselves. "It doesn't do us any good if the company doesn't do well," Cohen says.

A golden parachute is what an executive gets if they are fired without cause. (And as any Wall Street veteran knows, when a CEO is fired, it is almost always "without cause.")

Cohen's group, which has somewhere up to 200,000 members, has submitted two measures. One would restore the rule limiting executive golden parachutes to three times their annual pay. The other would give the company better powers to cancel or recoup bonuses and equity goodies for any executives who get fired for good reason. Both measures would strengthen the hand of the stockholders, who actually own the company, in relation to the board, who don't.

This is more than a quixotic venture. The motions are being backed by Institutional Shareholder Services, a powerful body that advises big institutional investors on how to vote at meetings. The motions enhance disclosure and shareholder rights and would be in line with good corporate governance, the body says

Verizon's board opposes both measures. Giving the company more power to recoup executive bonuses "would allow for a clawback of compensation without taking into account an executive's personal culpability," it says in the proxy statement. New limits on executive pay could put the company at a competitive disadvantage, discourage the use of equity-based incentives, and increase risks for stockholders, it adds. The company wouldn't comment further.

It was 18 years ago that the Association first defeated the board over this issue. At the 2003 annual meeting, stockholders approved by 59% a motion capping CEO golden parachutes at "2.99 times" their annual salary and bonus.

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But Cohen says Verizon honchos have used "financial and accounting gymnastics" to get around the rule, loading CEOs with "performance stock units" and "restricted stock units" which evade the cap.

As a result, the Association of BellTel Retirees estimates former CEO Lowell McAdam walked away with about five times his annual pay when he retired in 2018. And it says current CEO Vestberg would get up to seven times his annual pay.

To be fair, how you define pay and bonuses for these honchos is anyone's guess.

The details of Verizon executives' pay takes up 15 dense pages in the proxy statement. Vestberg's already received $60 million in his first three years on the job. Last year he got a $1.5 million salary, $13.3 million in "stock awards," $3.6 million in "non-equity incentive plan compensation," and $660,000 in other compensation.

The company's filings say Vestberg would get between $29.7 million and $39.4 million on termination without cause (depending on whether or not there was also a change of control of the company). The company also discloses that the 11 nonemployee members of the board were paid an average of $336,000 each in 2020, during which there were 21 board meetings. By my, pre-Common Core math that works out at $16,000 per meeting.

In the compensation committee's report to stockholders, the board explains that before setting Vestberg's pay levels they looked at a "peer group" of 24 comparable companies. Those companies range from direct competitors like T Mobile US **TMUS, +1.49%** and AT&T **T, -1.23%** to Apple **AAPL, -0.76%**, Goldman Sachs **GS, -2.15%**, Walt Disney **DIS, -1.47%** and Walmart **WMT, -1.10%**.
Well.

I ran the numbers using FactSet. Over one, two, five and 10 years, Verizon's total shareholder returns have lagged behind the group's average and badly. Since Vestberg took over as CEO on Aug. 1, 2018, Verizon has done worse for its stockholders than two-thirds of the peer group and lagged behind the average by a staggering 24 percentage points.

Vestberg, who is Swedish, ran Sweden's technology giant Ericsson **ERIC, -2.46%** from 2010 until he was ousted in 2016. During his six years at the helm, the stock went absolutely nowhere, even when you included reinvested dividends. If you'd invested during that time in the iShares Global Technology ETF **IXN, -0.67%** instead you'd have doubled your money.

You can see why he might be concerned about his severance pay. If you'd invested in Verizon on the day Vestberg took the helm in 2018, you'd be sitting on a 27% return on your money. If you'd invested in rival T Mobile US over that same period, you'd have made almost 130%—or nearly five times as much.

Ouch.

https://www.marketwatch.com/story/verizon-retirees-take-aim-at-ceo-vestbergs-40-million-golden-parachute-11620757898?mod=brett-arends