

# exexchange news

We determine the Push-out Score™

4.2018

## Pressure on CEOs stays high for fifth month in a row

- **CEO Push-out Index reached 5.8 in March compared with 6.8 in February**
- **Activist investors force change**
- **Ambiguous departure: Dover CEO Bob Livingston retires**
- **Perfect move: 3M CEO Inge Thulin leaves post**
- **Rough exit: Lattice CEO Darin Billerbeck steps down**
- **In-depth analysis of more than 200 CEO departures in the U.S.**

(exexchange) -- April 2, 2018 -- Dover Corp., 3M Co. and Lattice Semiconductor Corp. are among the companies that announced a major leadership change in March 2018. Obviously, not all of the top managers leave the position entirely on their own initiative. Research shows that pressure on CEOs remains high. In many cases, activist investors force change.

Every management change is different. The retirement of Dover CEO Bob Livingston is ambiguous, the move of 3M CEO Inge Thulin seems perfect, and the exit of Lattice CEO Darin Billerbeck is extremely rough.

A more detailed insight is provided by research firm exexchange, which has analyzed more than 500 changes in top management of publicly traded companies from around the world and from the past 12 months, including more than 200 CEO departures in the U.S. (see Exhibit 1).

exexchange uses a scoring system with a scale of 0 to 10 to measure the pressure on the departing executive and to determine the likelihood of a forced executive change. A Push-out Score™ of 0 indicates a completely voluntary management change, and a score of 10 indicates an overtly forced departure. Push-out Scores above 5 suggest strong pressure.

The Push-out Score incorporates facts from company announcements and other publicly available data. The system also interprets the sometimes-cryptic language in corporate communications, using a proprietary algorithm (see Exhibit 2).

In March 2018, the pressure on CEOs remained high. The CEO Push-out Index™, which reflects the average Push-out Score for CEO departures in the U.S., reached 5.8 in March compared with 6.8 in February (see Exhibit 3). For the fifth month in a row it was above the critical value of 5.

Events with Push-out Scores in the upper range of the scale included the CEO departures at **Gogo Inc.**, **EQT Corp.** and **Lowe's Cos.** Lowe's is under pressure from activist investor D.E. Shaw & Co.

The average Push-out Score for CEO departures in the 12-month period from April 2017 to March 2018 was 4.9.

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Around 42 percent of the Push-out Scores of CEO departures in the U.S. from the past 12 months reached values between 6 and 10, which suggest strong pressure on the outgoing CEO (see Exhibit 4). Four in ten CEOs stepped down under pressure.

A Push-out Score of 6 means that six of the following nine criteria are fulfilled: unusual age, short notice, short tenure, poor share price performance, non-transparent reason, critical time, succession issues, formal anomalies and linguistic peculiarities in the announcement. When the manager is openly pushed out (e.g., "terminated for cause"), then 10 points are given.

With a Push-out Score of 5, the CEO change at **Dover Corp.** seems ambiguous.

As announced on March 20, Robert A. (Bob) Livingston, age 64, leaves his post as CEO at the conglomerate manufacturer of industrial products after around nine years in the position.

In the announcement from Downers Grove, Illinois-based Dover, Livingston receives accolades, praise and thanks.

The share price reached a record high in January.

Dover says: "Following a 35-year career, including a successful 9-year tenure as its president and chief executive officer, Robert A. Livingston will retire on April 30, 2018."

Livingston leaves his post at short notice (41 days after the announcement date). That's the first point for the Push-out Score.

His duties will be taken over by Richard J. (Rich) Tobin, age 54, who most recently served as the CEO of CNH Industrial, N.V. and who serves as a member of Dover's board of directors.

That's the second point. Directors-turned-executives represent a blend of outsider and insider. They don't have the constraints of a pure insider when it comes to leading painful changes or making unpopular decisions, and they have more company knowledge than a pure outsider.

Livingston steps aside at a critical time. That's point number 3.

His move comes as Dover works to spin off its "Wellsite" upstream energy businesses into a new publicly traded company, now known as Apergy, which makes drill bits and other oilfield equipment.

Activist investor Daniel Loeb disclosed a stake in Dover in October 2017 and urged Dover to separate its energy business. Loeb's hedge fund Third Point said that Dover's shares underperformed the industrial peer group due to a significant earnings decline in its energy business.

In the announcement from Dover, a comprehensible reason for Livingston's impending departure is not explicitly given. Point number 4.

The language in the announcement provides point number 5. The incoming CEO Rich Tobin says: "I believe Dover's portfolio of companies has sustainable growth opportunities and margin improvement potential." Tobin's statement can be seen as indirect criticism of Livingston.

Michael F. Johnston, chairman of Dover's board of directors, says: "Bob and the board believe this is the appropriate time for a transition given the anticipated early May completion of the Apergy spin."

Why exactly is this the appropriate time? Does the company need a CEO with a different skill set? Did the CEO's quality fall below that expected of a replacement? Does Livingston feel that it is the right time to go because he wants to leave on his own terms? Dover leaves a lot of room for speculation.

With a Push-out Score of 0, the CEO change at **3M Co.** seems perfect. It follows the pattern typical of well-prepared management changes: Form, language, age, notice period, tenure, share price development, official reason given, circumstances and the succession plan are consistent, reasonable and free of red flags.

As announced on March 5, Inge G. Thulin, age 64, leaves his post as CEO at the maker of Post-it notes and food safety products after about six and a half years in the position, effective July 1.

The lead time is 118 days.

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Thulin will hand over the baton to Michael F. (Mike) Roman, age 58 and currently chief operating officer of 3M Co.

Thulin is appointed to a newly created position, executive chairman of the board, also effective July 1.

His departure from the CEO post is explained as follows. Thulin said: "After a thorough and thoughtful succession planning process, Mike is the clear choice to lead 3M into the future as CEO."

Thoughtful succession planning process? That sounds perfectly plausible. Mike Roman has served as chief operating officer and executive vice president since July 2017, with direct responsibility for 3M's five business groups, along with the company's international operations. Roman has held several other key leadership roles throughout his 30-year career at 3M.

The CEO change is exactly what investors like to see. The share is now trading close to its record high, and profits are booming. The shares have surged 165 percent since Thulin was named CEO in February 2012, outpacing the 102 percent gain in Standard & Poor's 500 Index.

Form and language of the announcement provide the cherry on the top of the cake. The outgoing CEO praises his successor, whom he attests to be "an accomplished, results-oriented and high-integrity leader, with an excellent track record of growing sales, improving operational efficiency and increasing value across a wide range of global businesses."

In the announcement from St. Paul, Minnesota-based 3M, Inge Thulin receives praise from his successor. Roman said: "Inge's leadership has taken 3M to new heights."

With a Push-out Score of 8, the CEO change at **Lattice Semiconductor Corp.** is in the upper range of the scale and seems extremely rough.

As announced on March 12, Darin G. Billerbeck, president and CEO, "has decided to retire" and will also step down from the company's board of directors on March 16.

A variety of factors indicates that the manager was under strong pressure.

Among the red flags are the outgoing CEO's low age (57 years as of the date of the latest proxy filing), the fact that Billerbeck leaves his post at short notice (four days after the announcement date) and the fact that a permanent successor is still to be found while his duties will be taken over in the interim by Glen Hawk, currently chief operating officer of Lattice. That makes the first three points on the scale.

In addition, a reason for the surprising change was not explicitly given, leaving room for speculation. That's point number 4.

Billerbeck steps aside at a critical time. Point number 5.

Billerbeck's departure comes just five days after Lattice expanded its board of directors from eight to 11. The board added three directors in an agreement with activist investor Lion Point Capital. In February, Lion Point revealed that it had acquired a 6.2 percent stake in Lattice, a figure that has since grown to 7.6 percent. Global attention focused on Lattice in 2016 and 2017 as Chinese-backed investors bid \$1.3 billion for the company. U.S. President Donald Trump ultimately blocked the transaction, citing national security concerns.

Billerbeck's separation agreement provides for a \$1.0 million cash severance payment, consistent with his termination benefits. Billerbeck will remain with Lattice until May 31, 2018 to help ensure a smooth transition. The board will conduct a search for a permanent CEO, including both internal and external candidates and has retained executive search firm Egon Zehnder.

Lattice's share price rose 32 percent during Billerbeck's tenure; during the same period, an index of 30 other chip stocks (not including Lattice) rose nearly 240 percent. Lattice's share price has declined since April 2014. That's point number 6.

The form and language of the announcement provide further warning signals and two additional points.

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In the announcement from Portland, Oregon-based Lattice, the departing chief executive receives accolades, praise and thanks, but no word of regret and no good wishes. Billerbeck points to accomplishments during his tenure and addresses weak spots of Lattice.

Billerbeck said: "I am proud of all that we have accomplished during my tenure, and look forward to working with Glen to ensure a seamless transition as Lattice continues to drive a return to revenue and profitability growth, improve its cost structure, and build shareholder value."

Conclusion: Low age, short notice period, succession issues, non-transparent reason, critical time, poor share price development, formal anomalies and linguistic peculiarities in the announcement are eight red flags. Billerbeck's move follows the pattern typical of bumpy CEO changes.

Only Billerbeck's tenure of seven years and four months and the fact that he was not openly pushed out prevented a greater increase in the score.

In the U.S., the average tenure of departing CEOs in the 12-month period from April 2017 to March 2018 was 9.4 years (see Exhibit 5). The average CEO retirement age in the U.S. was 61.8 (see Exhibit 6).

These results were calculated from 242 individual CEO departures of companies listed in the Russell 3000 index, which provide a homogenous and wide data pool for the analysis of CEO departures. The Russell 3000 seeks to be a benchmark of the entire U.S. stock market and encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S.

In the past 12 months, the Technology sector showed the highest average Push-out Scores in the U.S. with 5.9. The lowest Push-out Scores were determined in the Financial sector with 2.9 and the Industrial Goods sector with 3.3.

In the Basic Materials sector, the average Push-out Score was 5.4, in the Consumer Goods sector it was 5.0, in the Services sector it was 5.2, and in the Healthcare sector it was 5.7.

Corporate governance experts from Stanford University have investigated exchange's analysis model and found that Push-out Scores are positively correlated with stock market volatility (see Gow, Ian D., Larcker, David F. and Tayan, Brian, "Retired or Fired: How Can Investors Tell If a CEO Was Pressured to Leave?" (May 25, 2017). Rock Center for Corporate Governance at Stanford University Closer Look Series: Topics, Issues and Controversies in Corporate Governance No. CGRP-66; Stanford University Graduate School of Business Research Paper No. 17-40. Available at SSRN: <https://ssrn.com/abstract=2975805>).

### **About exchange**

exchange is an independent research provider widely recognized as an important voice on executive changes. exchange determines the Push-out Score and was featured by *The Wall Street Journal*, *Harvard Business Review* and *Stanford University*. For more information, visit [exchange.com](http://exchange.com).

Exhibit 1

<b>Selected CEO departures</b>				
<b>Announced</b>	<b>Company</b>	<b>Name</b>	<b>Push-out Score *</b>	<b>Sector</b>
26-Mar-18	Lowe's Cos.	Robert Niblock	7	Services
22-Mar-18	Alexandria Real Estate Inc.	Joel Marcus	3	Financial
20-Mar-18	Dover Corp.	Bob Livingston	5	Industrial Goods
15-Mar-18	EQT Corp.	Steve Schlotterbeck	9	Basic Materials
12-Mar-18	Lattice Semiconductor Corp.	Darin Billerbeck	8	Technology
12-Mar-18	Sempra Energy	Debbie Reed	3	Utilities
8-Mar-18	Cooper Cos.	Bob Weiss	2	Healthcare
5-Mar-18	Gogo Inc.	Michael Small	7	Technology
5-Mar-18	3M Co.	Inge Thulin	0	Industrial Goods
27-Feb-18	SeaWorld Entertainment Inc.	Joel Manby	10	Services
21-Feb-18	Tupperware Brands Corp.	Rick Goings	4	Consumer Goods
12-Feb-18	Dun & Bradstreet Corp.	Bob Carrigan	10	Technology
06-Feb-18	Wynn Resorts Ltd.	Steve Wynn	10	Services
05-Feb-18	Lululemon Athletica Inc.	Laurent Potdevin	10	Consumer Goods
01-Feb-18	Altria Group Inc.	Marty Barrington	4	Consumer Goods
18-Jan-18	Texas Instruments Inc.	Rich Templeton	0	Technology
9-Jan-18	Domino's Pizza Inc.	Patrick Doyle	2	Services
4-Jan-18	Xilinx Inc.	Moshe Gavrielov	4	Technology
5-Dec-17	Dish Network Corp.	Charlie Ergen	5	Services
29-Nov-17	Chipotle Mexican Grill Inc.	Steve Ells	7	Services
21-Nov-17	Hewlett Packard Enterprise Co.	Meg Whitman	5	Technology
6-Nov-17	Cardinal Health Inc.	George Barrett	6	Services
18-Oct-17	American Express Co.	Ken Chenault	0	Financial
28-Sep-17	Kellogg Co.	John Bryant	8	Consumer Goods
26-Sep-17	Equifax Inc.	Rick Smith	8	Financial
30-Aug-17	Expedia Inc.	Dara Khosrowshahi	0	Services
17-Jul-17	Bank of New York Mellon Corp.	Gerald Hassell	2	Financial
12-Jun-17	General Electric Co.	Jeff Immelt	4	Industrial Goods
22-May-17	Ford Motor Co.	Mark Fields	9	Consumer Goods
17-Apr-17	Snyder's-Lance Inc.	Carl Lee	8	Consumer Goods

\* The Push-out Score on a scale of 0 to 10 is a measure of the pressure on the departing CEO. Push-out Scores above 5 suggest strong pressure. Source: exchange

Exhibit 2

**Push-out Score: Examples of factors considered**

<b>Dimension</b>	<b>Selected factors</b>
Form	Dedicated press release (yes or no) Placement (top of release or buried in other news, such as earnings release) Length of disclosure (e.g., excessively short or long, omissions)
Language	Tone of announcement (warm, neutral, cold) Language used in quotations (e.g., poisoned praise, hidden criticism) Clarity of language
Age	Age of departing executive relative to typical retirement age
Notice period	Length of time between announcement and last day
Tenure	Length of time in post (reasonable or excessively short)
Share price	Recent share price performance Significant positive or negative relative performance
Official reason	Official reason given (yes or no) Clarity of official reason (ambiguous or understandable) Stated post-employment activity
Circumstances	Industry performance Peer group performance Governance factors (controversy, restatements, lawsuits) Severance payments made (yes or no)
Succession	Signs of continuity Successor identified (yes or no) Internal vs. external successor Interim or permanent replacement Successor added to corporate website (yes or no)

Source: exchange

Exhibit 3

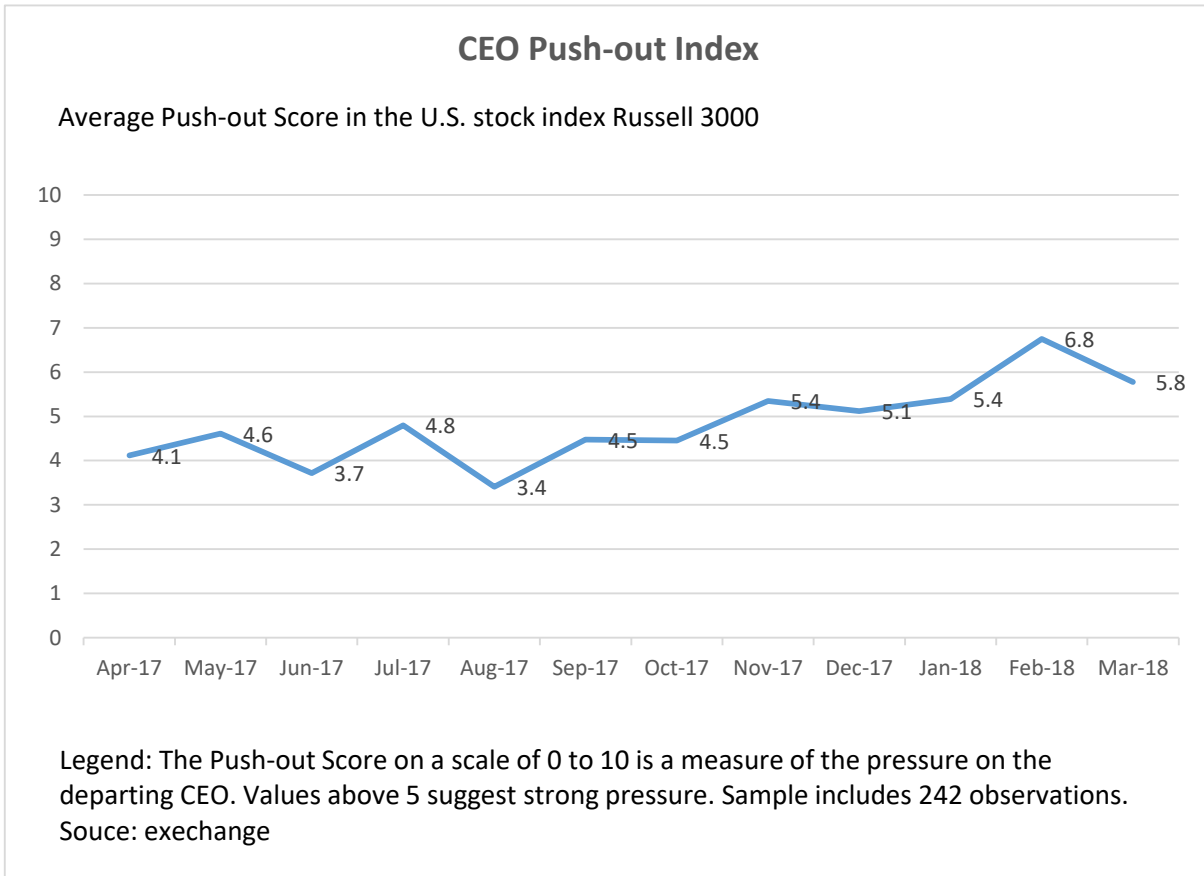
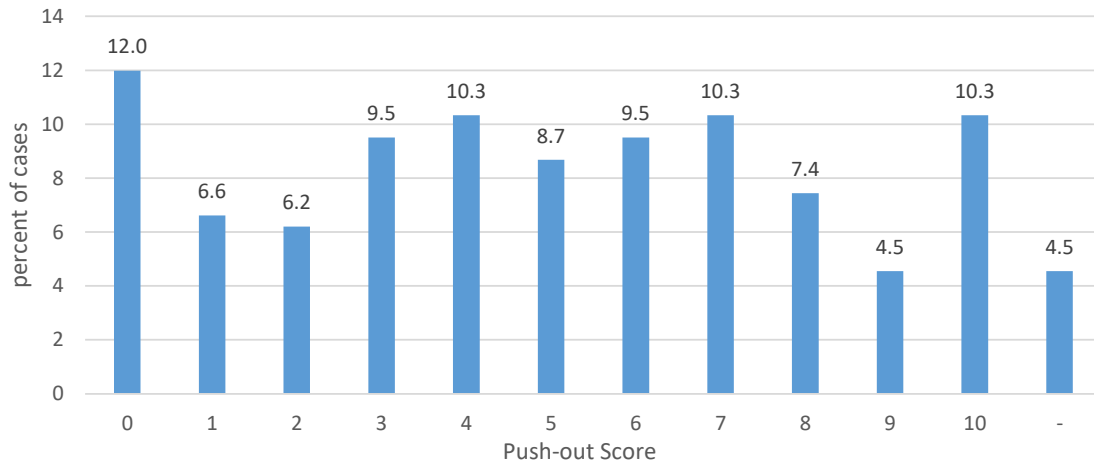


Exhibit 4

### Many CEOs leave the position under pressure

Percentage distribution of Push-out Scores in the 12-month period from April 2017 to March 2018 in the U.S. stock index Russell 3000



Legend: Around 12 percent of the departing CEOs received a Push-out Score of 0. A Push-out Score of 0 indicates a completely voluntary change, and a value of 10 indicates an overtly forced departure. Cases in which a Push-out Score is not determined (e.g., death or health reasons) are summarized under "-". Sample includes 242 observations. Figures may not total to 100 due to rounding. Source: exexchange



Exhibit 5

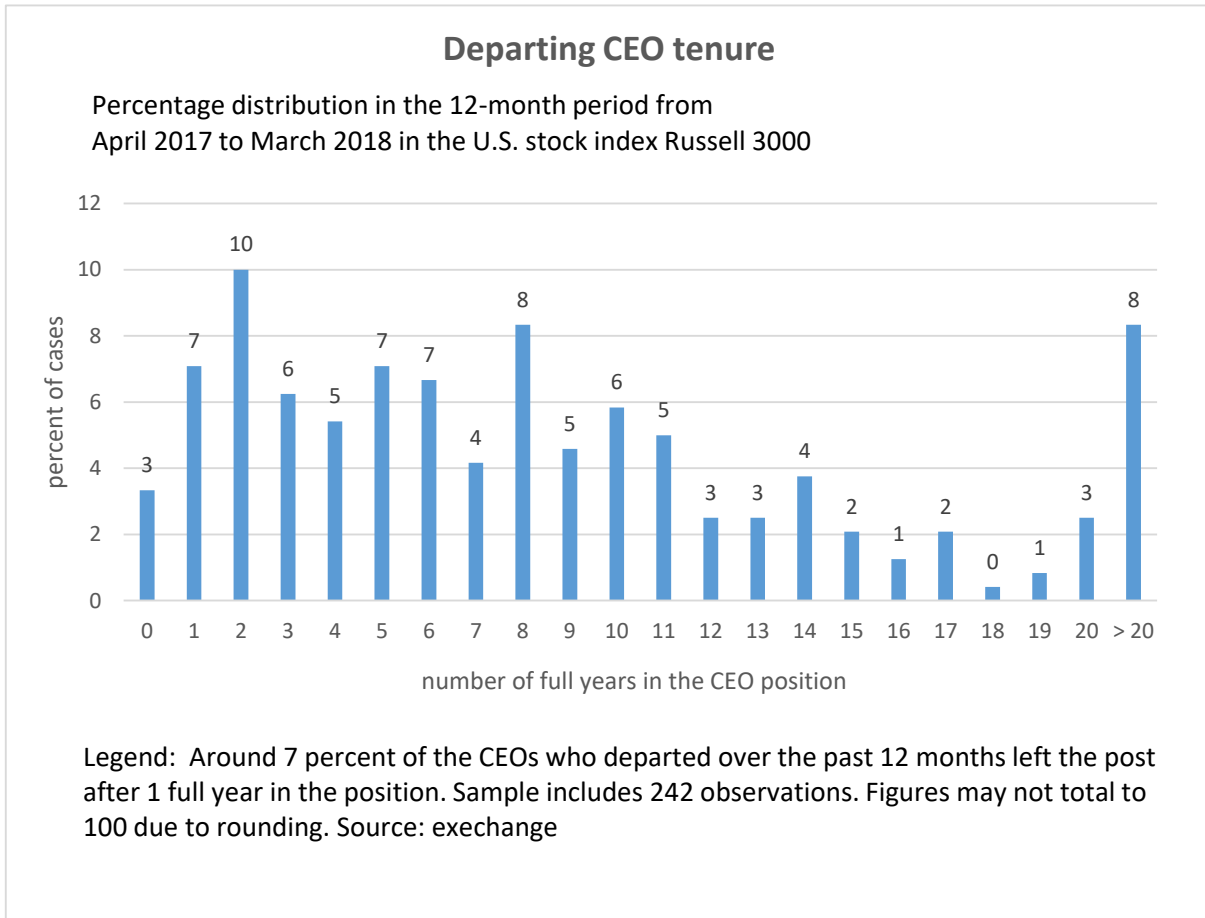
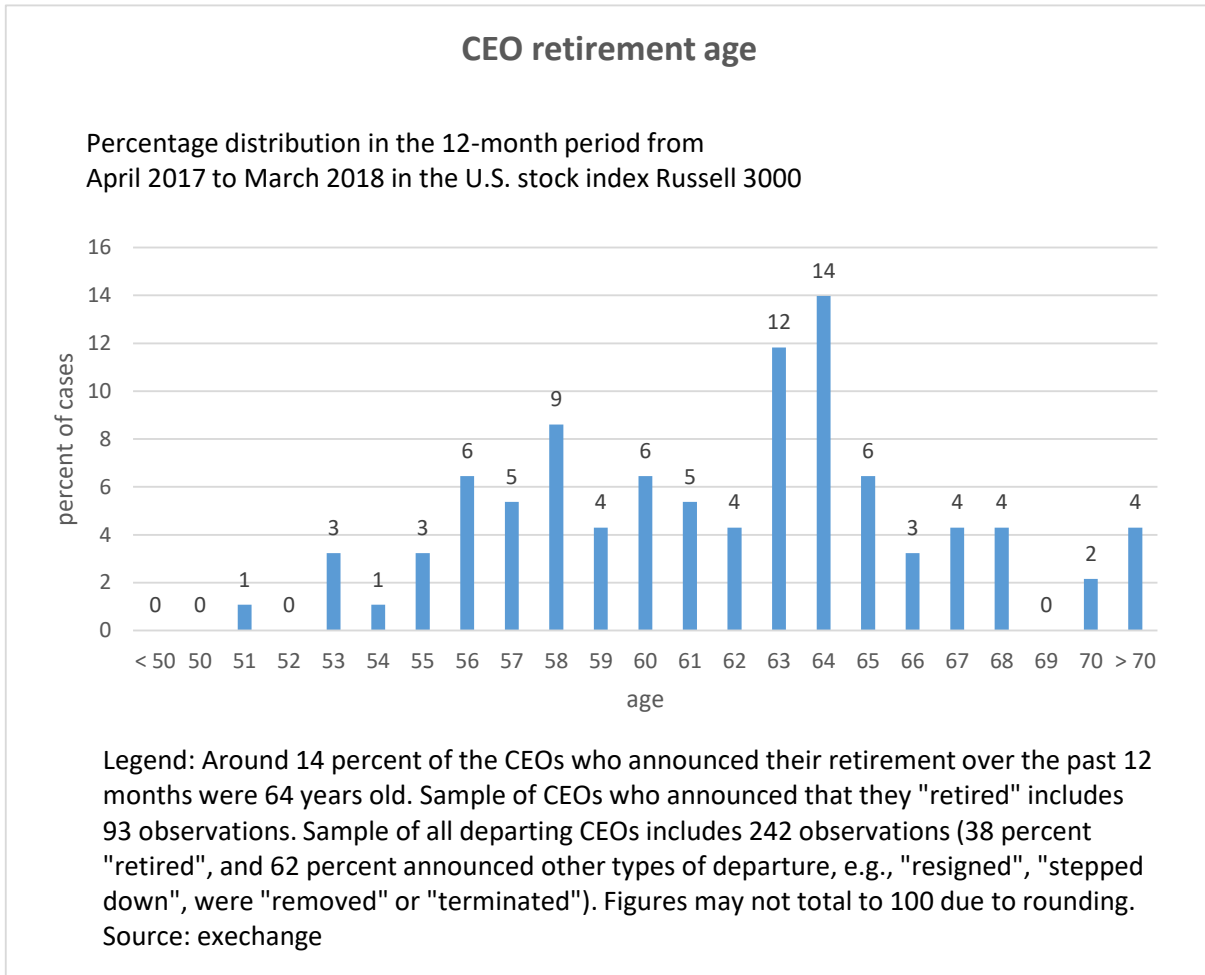


Exhibit 6

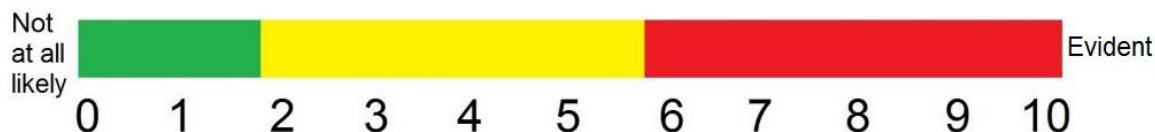


## **Push-out Score™: The number you need to know**

*Forced or voluntary departure?* The Push-out Score is the number you need to know.

# Push-out Score™

How likely is it the manager was pushed out or felt pressure to leave the post?



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### **How the scoring works**

The Push-out Score is a measure of the pressure on the departing executive.

exexchange's Push-out Scoring System™ is based on the assumption that management changes are triggered by pull-out forces and push-out forces.

The higher the score, the more likely the manager was pushed out or felt pressure to leave the position.

When the manager is openly pushed out (e.g., "terminated for cause") or when there is absolutely no doubt that the manager left the position due to pressure, then 10 points are given.

If the manager was not openly pushed out and the reason for the departure is not health-related, one point is given for each of the following parameters (proxy variables) when certain criteria are fulfilled.

1. Form of the announcement
2. Language in the announcement
3. Age
4. Notice period
5. Tenure
6. Share price development
7. Official reason given
8. Circumstances of the management change
9. Succession

A Push-out Score of **0 to 1** suggests no significant signs for push-out forces.

A Push-out Score of **2 to 5** suggests significant signs for push-out forces.

A Push-out Score of **6 to 9** suggests strong signs for push-out forces.

Who comes. Who leaves.  
Who wants to go. Who has to go.  
Who is praised. Who is blamed.  
Who wins. Who loses.  
Who's in. Who's out.  
Who is good. Who is well.  
Who recovers. Who is bad.  
Who advises. Who is well advised.  
Who steps back. Who kicks back.  
Who is appointed. Who is disappointed.  
Who signs. Who resigns.  
Who separates amicably. Who separates mutually.  
Who escapes. Who is a scapegoat.  
Who fits. Who quits.  
Who's old. Who's obsolete.  
Who's number 1. Who's number 2.  
Who goes ahead. Who goes behind.  
Who is there. Who is gone.  
Who is right. Who is left.  
Who fights for honor. Who fights for money.  
Who is selected. Who is sorted out.  
Who is honored. Who is humbled.  
Who benefits. Who suffers.  
Who goes through hell. Who keeps going.  
Who gets a golden hello. Who gets a golden handshake.  
Who bows. Who bows out.  
Who is host. Who is hostile.  
Who is goodman. Who is badman.  
Who is a friend. Who is an enemy.  
Who is hired. Who is fired.  
Who steps up. Who steps down.  
Who chairs. Who presides.  
Who is over. Who is under.  
Who gives in. Who gives up.  
Who says thanks. Who says No thanks.  
Who wishes all the best. Who wishes the best of luck.  
Who prompts. Who repeats.  
Who leaves early. Who leaves late.  
Who designs. Who resigns.  
Who excites. Who exits.  
Who is first. Who is last.  
Who throws his hat. Who throws in the towel.  
Who ranks first. Who is the first available.  
Who is successful. Who is successor.  
Who congratulates. Who wishes luck.  
Who packs in. Who packs out.  
Who reigns. Who serves.  
Who retires from office. Who retires from the world.  
Who is in seventh heaven. Who is on cloud nine.

Who speaks. Who is silent.  
Who sits. Who lies.  
Who heals. Who hurts.  
Who sees green. Who sees red.  
Who soothes. Who scolds.  
Who is sorry. Who is sad.  
Who is thrilled. Who mourns.  
Who is up. Who is down.  
Who helps. Who betrays.  
Who is not named. Who is shamed.  
Who is missed. Who is dismissed.  
Who commands. Who obeys.  
Who is a leader. Who is a follower.  
Who accepts. Who regrets.  
Who is at C-level. Who is at eye level.  
Who feels pity. Who feels schadenfreude.  
Who shows grace. Who falls from grace.  
Who tells the story. Whose fate is unknown.  
Who is hero. Who is zero.  
Who is welcomed. Who is ousted.  
Who is severe. Who gets severance.  
Who quits at the right time. Who says the time is right.  
Who decides. Who departs.  
Who is groomed. Who is doomed.  
Who is major. Who is minor.  
Who assists. Who stands by.  
Who is refunded. Who is replaced.  
Who contributes. Who distributes.  
Who is family. Who is familiar.  
Who is confident. Who is confidant.  
Who has tailwind. Who has headwind.  
Who makes a big deal. Who makes a big fuss.  
Who is in quest. Who is at rest.  
Who does well. Who means well.  
Who will be back. Who leaves for good.  
Who stumbles. Who crumbles.  
Who topples. Who tumbles.  
Who is victor. Who is victim.  
Who pays. Who pays back.  
Who earns it. Who deserves it.  
Who is vested. Who is invested.  
Who gives the last shirt. Who gives the last penny.  
Who is personal. Who takes it personally.  
Who is a big wheel. Who is a bigwig.  
Who is chief. Who is big kahuna.  
Who is a personality. Who is a person.  
Who is Who. Who says what.  
Who has a vote. Who has a say.  
Who has the last word. Who can say it?

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# exexchange

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