

# exexchange news

We determine the Push-out Score™

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## One in two CEOs steps down under pressure

- **CEO Push-out Index reached 6.8 in May compared with 6.1 in April**
- **Ambiguous departure: J.C. Penney CEO Marvin Ellison leaves for Lowe's**
- **Smooth move: Heartland CEO Butch Fuller hands over the reins**
- **Rocky exit: Campbell CEO Denise Morrison retires**
- **In-depth analysis of more than 200 CEO departures in the U.S.**

(exchange) -- June 1, 2018 -- J.C. Penney Co., Heartland Financial USA Inc. and Campbell Soup Co. are among the U.S. companies that announced a major leadership change in May 2018. Obviously, not all of the top managers leave the position entirely on their own initiative. Research shows that pressure on CEOs continues to rise.

Every management change is different. The departure of J.C. Penney CEO Marvin Ellison is ambiguous, the move of Heartland CEO Butch Fuller seems smooth, and the exit of Campbell CEO Denise Morrison appears rocky.

A more detailed insight is provided by research firm exchange, 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).

exchange 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).

The pressure on CEOs remains high. The CEO Push-out Index™, which reflects the average Push-out Score for CEO departures in the U.S., reached 6.8 in May 2018 compared with 6.1 in April 2018 (see Exhibit 3). For the seventh month in a row it was above the critical value of 5.

The average Push-out Score for CEO departures in the 12-month period from June 2017 to May 2018 was 5.2.

Around 47 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 leader (see Exhibit 4). One in two CEOs stepped down under pressure.

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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 **J.C. Penney Co.** seems ambiguous.

As announced on May 22, Marvin R. Ellison, age 53, has resigned as CEO of J.C. Penney to become CEO of the home improvement chain, Lowe's Cos., effective July 2, 2018.

No question about it: His move is a career advancement.

Ellison is jumping to a much bigger company. Lowe's generates more than five times as much revenue as J.C. Penney, and Lowe's market capitalization of about \$80 billion compares with less than \$1 billion for J.C. Penney. Ellison previously worked at Lowe's rival, Home Depot. While activist investor D.E. Shaw & Co. pushes Lowe's to match growth at Home Depot, Lowe's announced in March that its CEO "plans to retire" when his successor is found. The top job at Lowe's may have been a career goal for Ellison.

In the announcement from Plano, Texas-based J.C. Penney, Ellison receives accolades, praise, thanks and good wishes as a farewell gift.

Nevertheless, his move seems double-edged. There are several indications that push-out forces have contributed to his departure.

According to the Push-out Scoring System, a management change may be triggered by push-out forces (e.g., board, activist shareholders), pull-out forces (e.g., prestigious new job, "an offer that can't be refused") or a combination of push-out forces and pull-out forces (e.g., deteriorating working conditions in the current job and better career opportunities elsewhere).

Pulled or pushed? Ellison, CEO and chairman, is at least in a striking hurry to flee his present position. He surprises investors, the board and employees and leaves J.C. Penney at short notice (10 days after the announcement date). The transition is chaotic. Due to Ellison's surprise exit, a group of four executives including CFO Jeff Davis will take over day-to-day running until a new CEO is appointed. Ellison steps down from his position as chairman immediately. That's the first point for the Push-out Score.

Ellison leaves after less than three years in his role as CEO of J.C. Penney. That's the second point.

The change follows a sharp decline in the share price of J.C. Penney since December 2016. The stock is down 70 percent since Ellison took the helm. Point number 3.

Ellison steps aside at a critical time for J.C. Penney. Point number 4.

Ellison joined J.C. Penney when it was in crisis. He tried many initiatives to revive the retailer, including a focus on beauty and appliances.

His moves failed to dramatically improve results.

Ellison announced his departure shortly after J.C. Penney reported weaker-than-expected results and shortly before the retailer's annual meeting on May 25.

The language in the announcement provides point number 5.

While it seems at first glance that Ellison's departure could not have come at a worse time for J.C. Penney, it is striking that Ronald W. Tysoe, most recently lead independent director and newly appointed chairman, does not cry after him. The departing CEO and former chairman gets no word of regret. The tone of Tysoe's farewell words for Ellison is neither disappointed nor understanding, but strangely cold. He thanks Ellison "for his leadership and dedication" and wishes him "much success in his next endeavor." That smells like a poisoned wish and hidden criticism, as it is in fact too early to call Ellison's efforts at J.C. Penney a success, and the chairman obviously alludes to that -- consciously or unconsciously.

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Is this reading the tea leaves? No, this is data analytics.

According to exexchange research, phrases such as "wish him much success" in management change-announcements frequently appear when the Push-out Score is above 5, while Push-out Scores below 5 tend to be associated with phrases like "wish her the very best in her next endeavor" or "wish him all the very best for the future." The devil is in the details.

Meanwhile, J.C. Penney insists that Ellison's resignation "is not a result of any disagreement with the company or its management." It speaks volumes that the company considers it necessary to emphasize this.

Why is Ellison in such a terrible hurry? Why does he leave after such a short time? Why is he leaving now that the share price has fallen drastically? Why does he quit before his work is done? Why is he abandoning the company in extremely difficult circumstances? All this cannot be explained solely by pull-out forces of a better career opportunity.

A CEO who acts in this way may be an ice-cold careerist who selfishly puts his personal well-being above his responsibility for the company. This should not be assumed in Ellison's case, as such behavior would be extremely damaging to his reputation. It seems more likely that he was under pressure to go.

Does the captain leave a "sinking ship"? Does J.C. Penney need a CEO with a different skill set? Was he in the wrong place at the wrong time? Was the chemistry between the CEO and the board not right? There is obviously more than one reason for his move.

In a video message to J.C. Penney employees posted on the company's website, Ellison said that he seized a "once-in-a-lifetime opportunity that I did not seek out" and that his decision to leave was "gut-wrenching." In the video message, he also said: "As I prayed about my future and where God wants me to be at this point in my life, I think it's appropriate for me to step aside, get back into home improvement retail and allow the board to bring in a new CEO with some fresh ideas."

With a Push-out Score of 1, the CEO change at **Heartland Financial USA Inc.** seems smooth. It follows the pattern typical of well-prepared management changes.

As announced on May 18, Lynn Butch Fuller, age 68, leaves his post as CEO at the bank holding company after 19 years in the position, effective June 1, 2018.

Among the 3,000 largest publicly held companies incorporated in the U.S. based on market capitalization, only 18 percent of the CEOs who departed over the past 12 months left the position after more than 15 years.

Fuller's duties as CEO will be taken over by Bruce K. Lee, age 57 and currently president of Heartland.

Fuller will continue to provide strategic guidance for Heartland in his role as the operating executive chairman.

Fuller explains his move as follows: "Our company has carefully planned for our succession of leadership."

Carefully planned? The evidence certainly seems to support this statement.

Bruce Lee has served as Heartland's president since January 2015 and brings more than 30 years of experience in the banking industry.

The CEO change is orchestrated exactly as investors like it. The share is now trading close to its record high, and profits are booming.

The form and language of the announcement provide the icing on the cake.

In the announcement from Dubuque, Iowa-based Heartland, Fuller does not need to praise himself. Instead, he praises his successor as "an extraordinarily talented banker" with a "proven track record of success" and as "uniquely qualified to carry on Heartland's long legacy of performance."

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Conclusion: Form, language, age, tenure, share price development, official reason given, circumstances and the succession plan are consistent, reasonable and free of red flags.

The Push-out Score is 1 because the lead time is only 14 days. According to the Push-out Scoring System, one sign alone is not significant and can be ignored.

With a Push-out Score of 10, the CEO change at **Campbell Soup Co.** is at the top of the scale and appears rocky.

As announced on May 18, Denise M. Morrison, age 64, "has chosen to retire" as CEO at the producer of canned soups after almost seven years in the position. Morrison's duties will be taken over in the interim by board member Keith R. McLoughlin, a former CEO of appliance maker Electrolux AB.

In the announcement from Camden, New Jersey-based Campbell, Denise Morrison receives accolades, praise, thanks and good wishes.

Nevertheless, there is absolutely no doubt that she was under pressure to leave her post.

Among the instantly visible red flags are her abrupt departure (effective immediately), the recent poor share price development and the fact that a permanent successor is not available.

Morrison steps aside at a critical time.

The news of her departure accompanied Campbell's third-quarter earnings report. Campbell recorded a \$393 million loss compared with a \$176 million profit in the same period a year earlier. Campbell also provided a full-year forecast for adjusted earnings per share that fell short of analysts' estimates.

Under Morrison, Campbell suffered four straight years of sales declines in its core U.S. soups business.

Food companies have been pressured as consumers increasingly move away from processed food toward products perceived as more natural.

Morrison tried to focus on building a healthy fresh food and snack portfolio. Campbell recently bought snacks company Snyder's Lance for \$4.87 billion.

Morrison also acquired Bolthouse Farms, the vegetable and juice brand; Garden Fresh salsa and hummus; Pacific Foods, an organic soup company; and Plum Organics baby and toddler food.

But the moves have not yet helped Campbell.

While a reason for Morrison's surprise exit is not explicitly given in the announcement, Campbell is eager to give broad hints regarding the nature of the CEO change.

Morrison's successor McLoughlin, age 61, who has been a member of the Campbell board since 2016, says: "I am eager to begin working with our talented team as we strive to accelerate our growth strategy, improve our execution and deliver shareholder value."

His statement can be seen as a slap in the face for Morrison. Accelerate growth, improve execution, deliver shareholder value: McLoughlin puts his finger right into the wound.

While Morrison defiantly points to accomplishments during her tenure ("I am proud of Campbell's accomplishments and how we have transformed our portfolio amid changing consumer tastes for food and health and well-being"), McLoughlin says: "Having been a director and observing the company over an extended period of time, I know where Campbell has been and where it's headed."

His statement is echoed by Les C. Vinney, chairman of the board, who says: "Keith is deeply familiar with our strategy, our team and our brands."

According to the Push-out Scoring System, 10 points are given when the manager was openly pushed out or when there is absolutely no doubt that the manager left the position due to pressure.

For the Push-out Score, it is irrelevant whether Morrison was forced to leave or saw herself forced to leave. The circumstantial evidence clearly indicates that her departure was forced, and the Push-out Score is 10.

Formally, her departure is a retirement, and she will receive two years continued payment of base salary.

In the U.S., the average tenure of departing CEOs in the 12-month period from June 2017 to May 2018 was 9.5 years (see Exhibit 5). The average CEO retirement age in the U.S. was 61.3 (see Exhibit 6).

These results were calculated from 238 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 highest average Push-out Scores in the U.S. were determined in the Technology sector with 6.3 and in the Healthcare sector with 6.2. The lowest Push-out Scores were determined in the Financial sector with 3.5 and the Industrial Goods sector with 3.6.

In the Basic Materials sector, the average Push-out Score was 5.5, in the Consumer Goods sector it was 5.6, and in the Services sector it was 5.1.

Corporate governance experts from Stanford University (David Larcker and Brian Tayan) and Harvard University (Ian Gow, now University of Melbourne) have investigated exexchange's analysis model and found that Push-out Scores are positively correlated with stock market volatility. See <https://ssrn.com/abstract=2975805>

### **About exexchange**

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

Exhibit 1

<b>Selected CEO departures</b>			
<b>Announced</b>	<b>Company</b>	<b>Name</b>	<b>Push-out Score *</b>
22-May-18	J.C. Penney Co.	Marvin Ellison	5
18-May-18	Heartland Financial USA Inc.	Butch Fuller	1
18-May-18	Campbell Soup Co.	Denise Morrison	10
19-Apr-18	Mattel Inc.	Margo Georgiadis	9
12-Apr-18	Lennar Corp.	Stuart Miller	5
2-Apr-18	Commerce Bancshares Inc.	David Kemper	0
26-Mar-18	Lowe's Cos.	Robert Niblock	7
20-Mar-18	Dover Corp.	Bob Livingston	5
12-Mar-18	Lattice Semiconductor Corp.	Darin Billerbeck	8
5-Mar-18	3M Co.	Inge Thulin	0
27-Feb-18	SeaWorld Entertainment Inc.	Joel Manby	10
21-Feb-18	Tupperware Brands Corp.	Rick Goings	4
12-Feb-18	Dun & Bradstreet Corp.	Bob Carrigan	10
6-Feb-18	Wynn Resorts Ltd.	Steve Wynn	10
5-Feb-18	Lululemon Athletica Inc.	Laurent Potdevin	10
1-Feb-18	Altria Group Inc.	Marty Barrington	4
18-Jan-18	Texas Instruments Inc.	Rich Templeton	0
9-Jan-18	Domino's Pizza Inc.	Patrick Doyle	2
13-Dec-17	Diebold Nixdorf Inc.	Andy Mattes	10
29-Nov-17	Chipotle Mexican Grill Inc.	Steve Eells	7
21-Nov-17	Hewlett Packard Enterprise Co.	Meg Whitman	5
16-Nov-17	Lear Corp.	Matt Simoncini	1
18-Oct-17	American Express Co.	Ken Chenault	0
28-Sep-17	Kellogg Co.	John Bryant	8
26-Sep-17	Equifax Inc.	Rick Smith	8
30-Aug-17	Expedia Inc.	Dara Khosrowshahi	0
16-Aug-17	UnitedHealth Group Inc.	Steve Hemsley	0
17-Jul-17	Signet Jewelers Ltd.	Mark Light	9
17-Jul-17	Bank of New York Mellon Corp.	Gerald Hassell	2
12-Jun-17	General Electric Co.	Jeff Immelt	4

\* 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

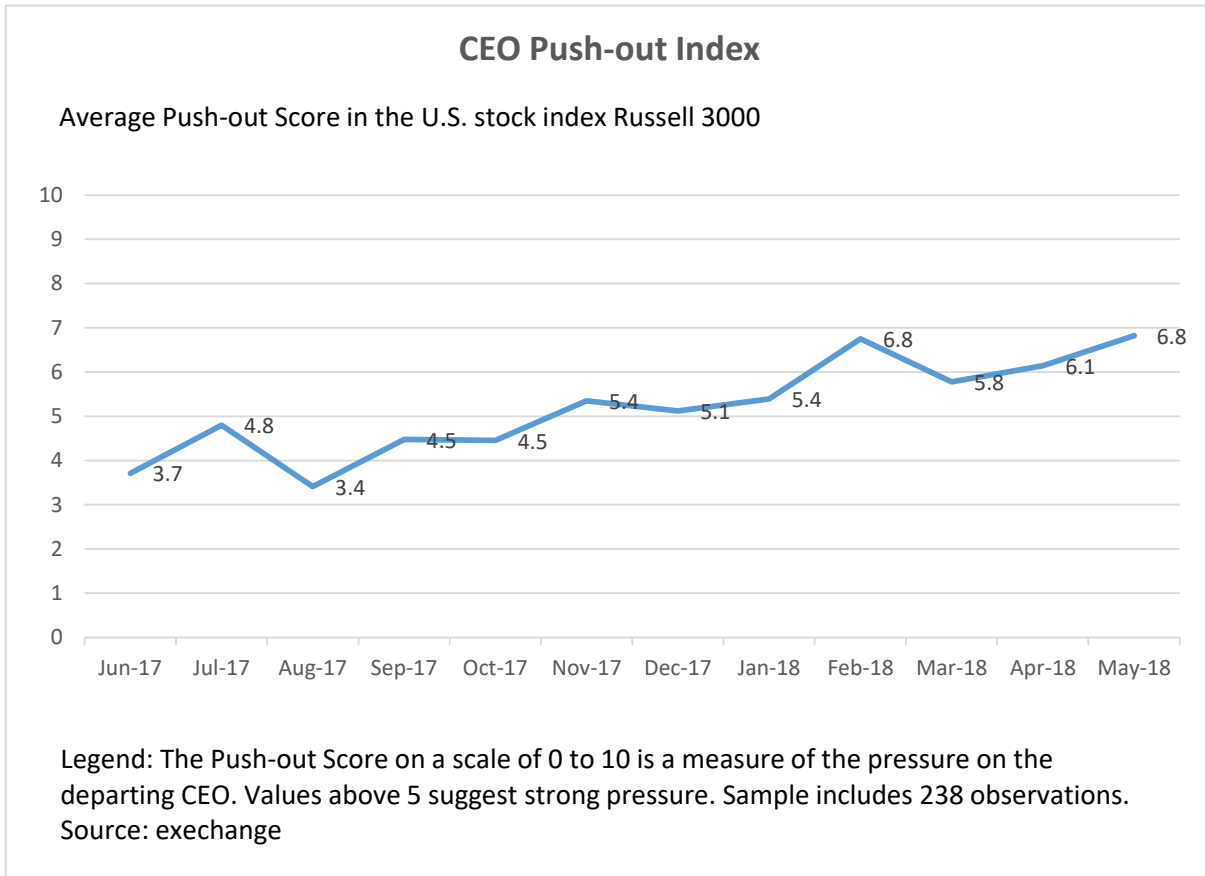
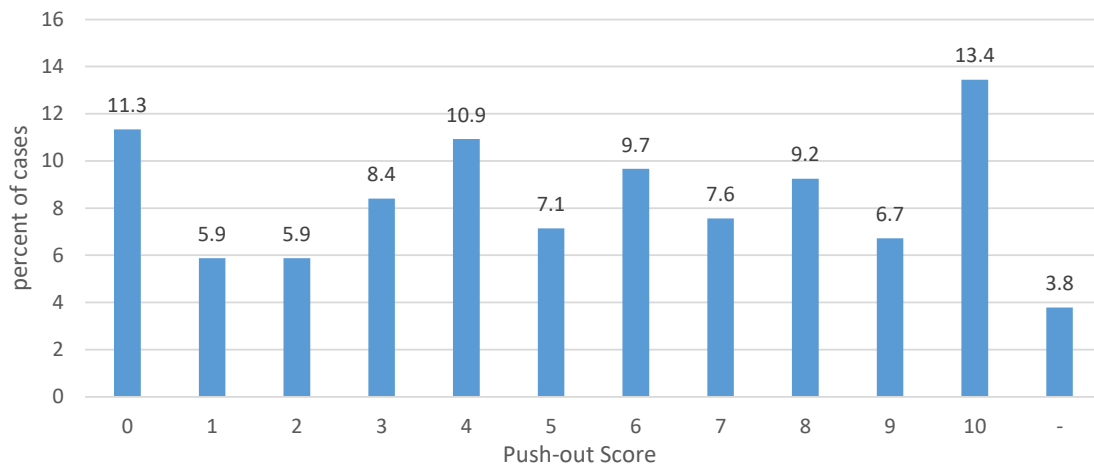




Exhibit 4

### Many CEOs leave the position under pressure

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



Legend: Around 11 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 238 observations. Figures may not total to 100 due to rounding. Source: exchange

Exhibit 5

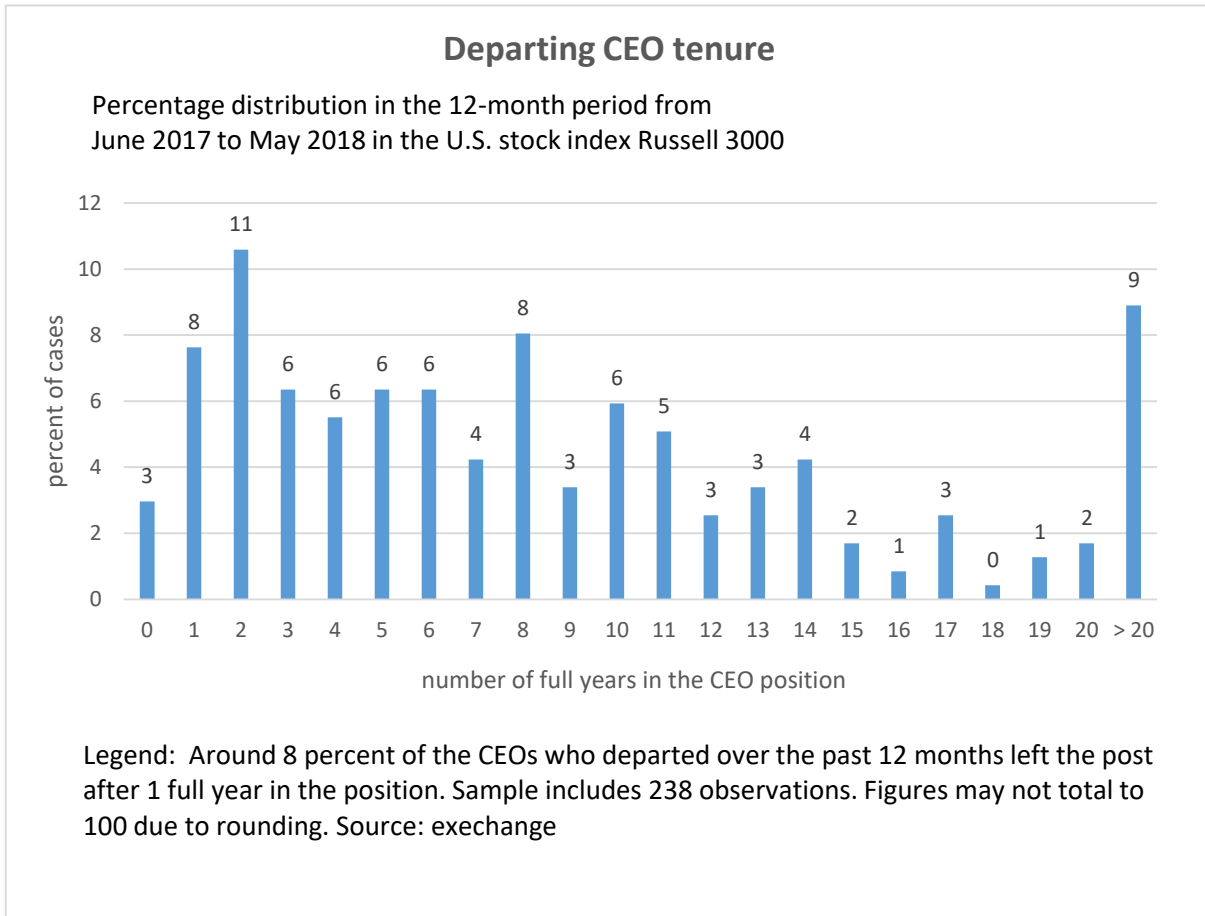
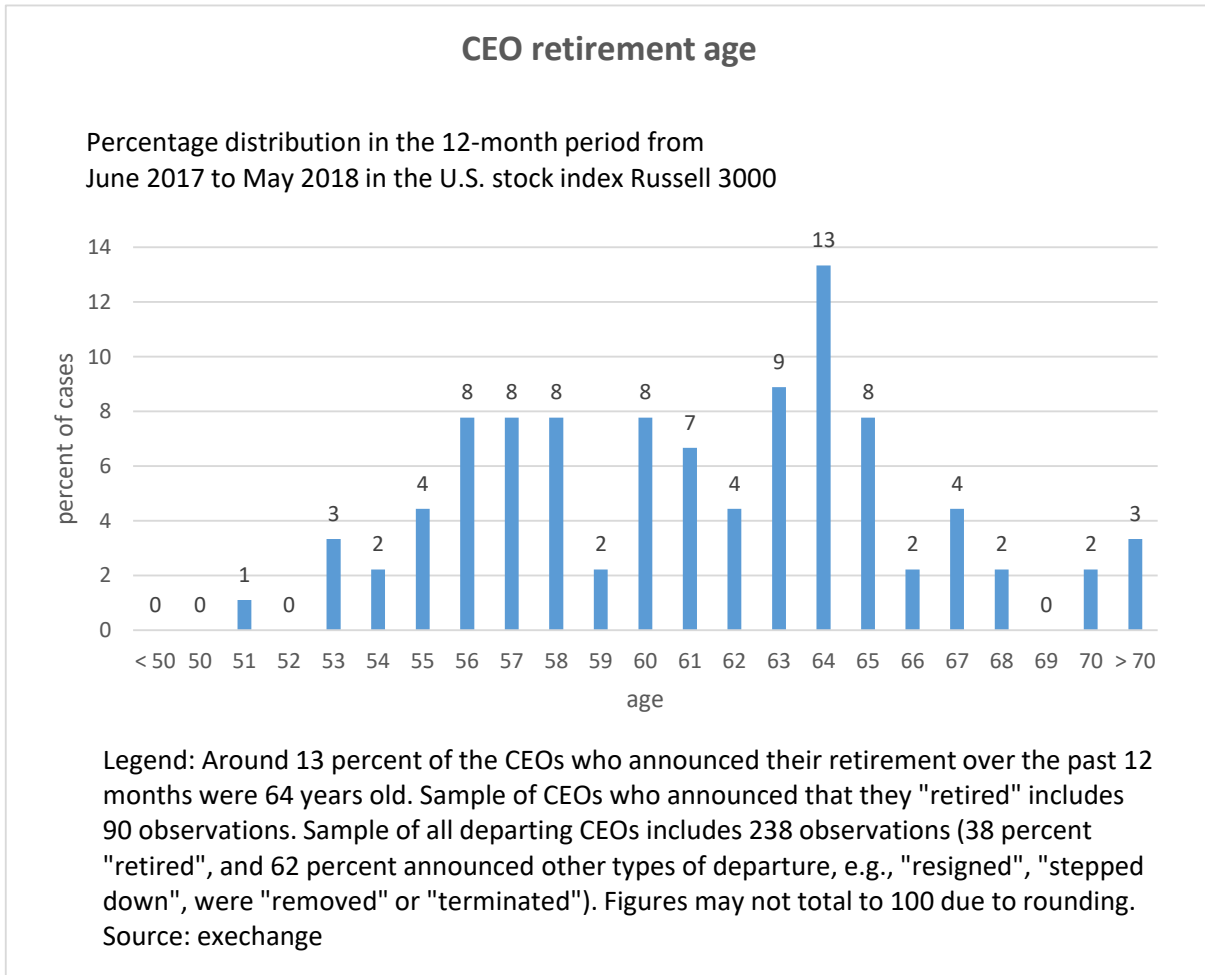


Exhibit 6



## **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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