

exexchange news

We determine the Push-out Score™

8.2018

Pressure on CEOs stays high for ninth month in row

- **CEO Push-out Index fell to 5.3 in July from 6.4 in June**
- **Slightly bitter departure: Goldman Sachs CEO Lloyd Blankfein retires**
- **Stale exit: Northrop Grumman CEO Wes Bush steps down**
- **Dignified move: Dunkin' Brands Group CEO Nigel Travis retires**
- **In-depth analysis of 240 CEO departures in the U.S.**

(exexchange) -- August 2, 2018 -- Goldman Sachs Group Inc., Northrop Grumman Corp. and Dunkin' Brands Group Inc. are among the U.S. companies that announced a major leadership change in July 2018.

Obviously, not all of the top managers leave the position entirely on their own initiative.

Research shows that the pressure on CEOs falls while remaining at a high level.

Every management change is different. The departure of Goldman Sachs CEO Lloyd Blankfein is slightly bitter, the exit of Northrop Grumman CEO Wes Bush is stale, and the move of Dunkin' Brands Group CEO Nigel Travis is dignified.

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. It considers not only the official reason given for the departure, but also additional evidence that weighs on the credibility of that reason. The system also interprets the sometimes-cryptic language in corporate communications, using a proprietary algorithm (see Exhibit 2).

The CEO Push-out Index™, which reflects the average Push-out Score for CEO departures in the U.S., fell to 5.3 in July 2018 from 6.4 in June 2018 (see Exhibit 3).

For the ninth month in a row it was above the critical value of 5.

In July, the index was influenced by an above-average number of events with high Push-out Scores, including the announced CEO changes at Texas Instruments Inc., Gilead Sciences Inc., Nielsen Holdings Plc, Electronics For Imaging Inc. and Barnes & Noble Inc.

The average Push-out Score for CEO departures in the 12-month period from August 2017 to July 2018 was 5.5.

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).

Almost one in two 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 3, the CEO change at **Goldman Sachs** Group Inc. is in the lower range of the scale and is considered a slightly bitter departure.

As announced on July 17, Lloyd C. Blankfein, age 63, steps down from his post as CEO at the investment bank after around 12 years in the role, effective September 30. The lead time is 75 days.

Blankfein's duties will be taken over by David M. Solomon, age 56 and currently chief operating officer of Goldman Sachs. Blankfein will retire from the firm and as chairman of the board at the end of the year; he will accept the title of senior chairman after his retirement.

In the announcement from New York-based Goldman Sachs, Blankfein receives praise.

A reason for Blankfein's move is not explicitly given in the announcement. That's the first point for the Push-out Score.

The change follows a decline in the share price of Goldman Sachs since March 2018. Point number 2.

Goldman's shares are down 10.6 percent since the start of the year, significantly underperforming the financial sector.

On the other hand, Goldman's shares have increased 57 percent during Blankfein's tenure, a better performance than all but two major United States banks, JPMorgan Chase and Wells Fargo.

While the long-term development of the share price during his tenure may be important for Blankfein personally, investors tend to focus on the most recent performance.

The circumstances of his departure are somewhat ambiguous. Point number 3.

On July 17, Goldman Sachs also stated that profit surged 40 percent to \$2.57 billion in the second quarter, exceeding analysts' estimates on better-than-expected revenue from every major business with the exception of trading. But equities trading was flat and higher fixed-income trading followed a notably weak year-ago period.

It seems questionable whether the initiative for Blankfein's move came exclusively from him. The facts suggest that he may have decided to accelerate his retirement after some subtle board encouragement.

The writing was on the wall that his time was up. Blankfein may have decided to leave on a high note and jump before being pushed.

On March 9, *The Wall Street Journal* had reported that Blankfein was preparing to step down as Goldman Sachs's Chief Executive as soon as the end of the year.

On March 22, *Reuters* reported that Blankfein said at a luncheon hosted by the Boston College Chief Executives Club: "The Wall Street reported [my retirement], which is more of a wishful thought than anything. [The story] wasn't right, but it may not be wrong forever."

On July 17, the *Financial Times* reported that Blankfein wrote in an internal memo: "It's always been hard for me to imagine leaving. When times are tougher, you can't leave. And, when times are better,

you don't want to leave. Today, I don't want to retire from Goldman Sachs, but by my own perhaps convoluted logic, it feels like the right time."

On July 17, 2018, the *Financial Times* also reported that on a call with analysts, Martin Chavez, Goldman chief financial officer, declined to comment on why Blankfein was not staying on full time until the end of the year, as had been widely expected.

With a Push-out Score of 6, the CEO change at **Northrop Grumman Corp.** is in the upper range of the scale and is considered a stale exit.

As announced on July 12, Wesley G. (Wes) Bush will step down from his post as CEO at the defense contractor after nine years in the role, effective January 1, 2019. The lead time is 173 days.

His duties will be taken over by Kathy J. Warden, currently chief operating officer of Northrop Grumman. Bush will remain chairman through July 2019.

In the announcement from Falls Church, Virginia-based Northrop Grumman, Wes Bush receives praise.

So far there are no red flags visible.

Don Felsing, Northrop Grumman's lead independent director, said that Warden's election as the company's incoming CEO and president "enables us to ensure a seamless transition in this important leadership position for our company."

That is certainly true, but it hardly explains why the CEO change is being initiated right now.

Facts tell their own story. These are the facts: Warden's appointment comes less than a year after she was named chief operating officer and president. At the age of 57, Bush seems a little too young to quit his CEO post. That's the first point for the Push-out Score.

Since Bush became CEO in 2010, Northrop's market value has more than tripled to \$56 billion. However, the share price has fallen sharply since April 2018. Point number 2.

A reason for Bush's planned departure from the CEO post was not explicitly given. Point number 3.

The circumstances of the management change are challenging. Point number 4.

Bush's move comes at a crucial time for Northrop Grumman, making the B-21 long-range bomber and parts of the F-35 fighter jet produced by Lockheed Martin Corp.

Northrop Grumman has in recent months faced concerns about its ability to execute big programs following delays and cost over-runs in projects such as the James Webb Space Telescope.

Furthermore, the change comes weeks after the defense giant closed on its blockbuster \$7.8 billion acquisition of Dulles-based Orbital ATK Inc., creating a \$30 billion behemoth with a new fourth division, Northrop Grumman Innovation Systems.

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

In the terse announcement, the departing chief executive gets no accolades for concrete and quantified successes, no explicit word of thanks, no word of regret and no good wishes.

Lead independent director Don Felsing issued precisely 13 stale words regarding the long-standing CEO Wes Bush: "The board appreciates the tremendous progress the company has made under Wes' leadership."

Bush spoke briefly and said 39 words: "I am delighted that Kathy will become our company's next CEO. She has demonstrated exceptional leadership in her roles leading the operations of our company, and she brings the vision and values to lead Northrop Grumman into the future."

Precise information about Bush's future plans was not immediately available.

Tim Paynter, vice president, strategic communications at Northrop Grumman, said in an emailed response to an exchange inquiry: "Wes has not announced any specific plans."

With a Push-out Score of 2, the CEO change at **Dunkin' Brands** Group Inc. is in the lower range of the scale and is considered a dignified move.

As announced on July 11, Nigel Travis, age 68, is retiring from the role as chief executive officer at the restaurant holding company after almost 10 years in the position.

Travis's duties will be taken over by David L. (Dave) Hoffmann, age 50 and currently president of Dunkin' Donuts U.S. Hoffmann will retain this position in addition to his new CEO job, while Travis will remain as executive chairman at the parent company of Dunkin' Donuts and Baskin-Robbins.

Travis's departure from the CEO post is explained as follows. Travis said: "When we recruited Dave to Dunkin' Brands 18 months ago with the intent that he would succeed me as CEO, we knew that we were getting a world-class leader with extensive restaurant industry expertise, and he has exceeded all of our expectations."

Before joining Dunkin' Brands, Hoffmann spent a total of 22 years with McDonald's Corp., including time as a crew member while in high school.

The share of Dunkin' Brands is now trading close to its record high, and profits are booming.

The circumstances of the change are both positive and challenging. That's the first point for the Push-out Score.

Travis's departure comes at a time competition between restaurant chains has intensified, particularly in the breakfast meal category, with Burger King and McDonald's offering low-priced deals.

On April 26, 2018, Dunkin' Brands Group Inc. reported a first-quarter profit of \$50.2 million, but Dunkin' Brands had little time to celebrate its better-than-expected results as headlines erupted that noted short-seller Jim Chanos had bet against Dunkin' Brands.

Travis leaves his CEO post abruptly (effective immediately). That's the second point.

The form and language of the announcement make it clear that it is a dignified move.

In the announcement from Canton, Massachusetts-based Dunkin' Brands, Travis receives accolades and praise.

Dunkin' Brands stated: "Under Mr. Travis' leadership, Dunkin' Brands completed a successful IPO in 2011 and has delivered consistently strong financial results, enabling it to return nearly \$2.7 billion to shareholders since going public."

In the announcement, Travis does not need to praise himself. Instead, he praises his successor and says that "Dave has demonstrated he is exactly the person to lead the next phase of our global growth."

In the past 12 months, around 35.4 percent of the CEOs in the U.S. left their post with no reason given in the announcement.

Around 6.7 percent departed "to pursue other opportunities" and around 2.1 percent "to spend time with their family," statements that are sometimes taken as code for firings.

Around 2.1 percent left for "personal reasons," and around 3.8 percent have been ousted with a specific reference to misconduct (see Exhibit 5).

In the past 12 months, exexchange recorded the following CEO changes in the Russell 3000 index that were openly linked in the corporate announcement to alleged or actual conduct issues:

- Texas Instruments Inc. CEO Brian Crutcher ("violations of the company's code of conduct," Jul. 2018);
- Barnes & Noble Inc. CEO Demos Parneros ("violations of the company's policies," Jul. 2018);
- Rambus Inc. CEO Ron Black ("conduct fell short of the company's standards," Jun. 2018);
- Intel Corp. CEO Brian Krzanich ("relationship with an Intel employee," Jun. 2018);

- Avid Technology Inc. CEO Louis Hernandez ("violations of company policies related to workplace conduct," Feb. 2018);
- Wynn Resorts Ltd. CEO Steve Wynn ("avalanche of negative publicity," Feb. 2018);
- Lululemon Athletica Inc. CEO Laurent Potdevin ("fell short of ... standards of conduct," Feb. 2018);
- Equinix Inc. Steve Smith ("poor judgment with respect to an employee matter," Jan. 2018);
- Federal Agricultural Mortgage Corp. CEO Tim Buzby ("violations of company policies," Dec. 2017).

In the U.S., the average tenure of departing CEOs in the 12-month period from August 2017 to July 2018 was 9.4 years (see Exhibit 6).

The average CEO retirement age in the U.S. was 61.2 (see Exhibit 7).

In the past 12 months, the highest average Push-out Scores in the U.S. were determined in the Technology sector with 6.9 and in the Healthcare sector with 6.5.

The lowest Push-out Scores were determined in the Financial sector with 3.7 and the Services sector with 4.7.

In the Consumer sector, the average Push-out Score was 5.7, in the Basic Materials sector it was 5.6, and in the Industrial sector it was 4.8.

These results were calculated from 240 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.

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.

Exhibit 1

Selected CEO departures			
Announced	Company	Name	Push-out Score *
17-Jul-18	Goldman Sachs Group Inc.	Lloyd Blankfein	3
12-Jul-18	Northrop Grumman Corp.	Wes Bush	6
11-Jul-18	Dunkin' Brands Group Inc.	Nigel Travis	2
8-Jun-18	Verizon Communications Inc.	Lowell McAdam	4
6-Jun-18	Ameris Bancorp	Ed Hortman	1
6-Jun-18	Athenahealth Inc.	Jonathan Bush	10
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
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
21-Feb-18	Tupperware Brands Corp.	Rick Goings	4
12-Feb-18	Dun & Bradstreet Corp.	Bob Carrigan	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
5-Jan-18	Gentex Corp.	Fred Bauer	5
21-Dec-17	Papa John's International Inc.	John Schnatter	7
13-Dec-17	Diebold Nixdorf Inc.	Andy Mattes	10
5-Dec-17	Dish Network Corp.	Charlie Ergen	5
21-Nov-17	Hewlett Packard Enterprise Co.	Meg Whitman	5
16-Nov-17	Lear Corp.	Matt Simoncini	1
13-Nov-17	Madison Square Garden Co.	Doc O'Connor	7
18-Oct-17	American Express Co.	Ken Chenault	0
17-Oct-17	Northern Trust Corp.	Rick Waddell	0
2-Oct-17	Dentsply Sirona Inc.	Jeff Slovin	10
28-Sep-17	Chevron Corp.	John Watson	3
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
2-Aug-17	Mondelez International Inc.	Irene Rosenfeld	2

* 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

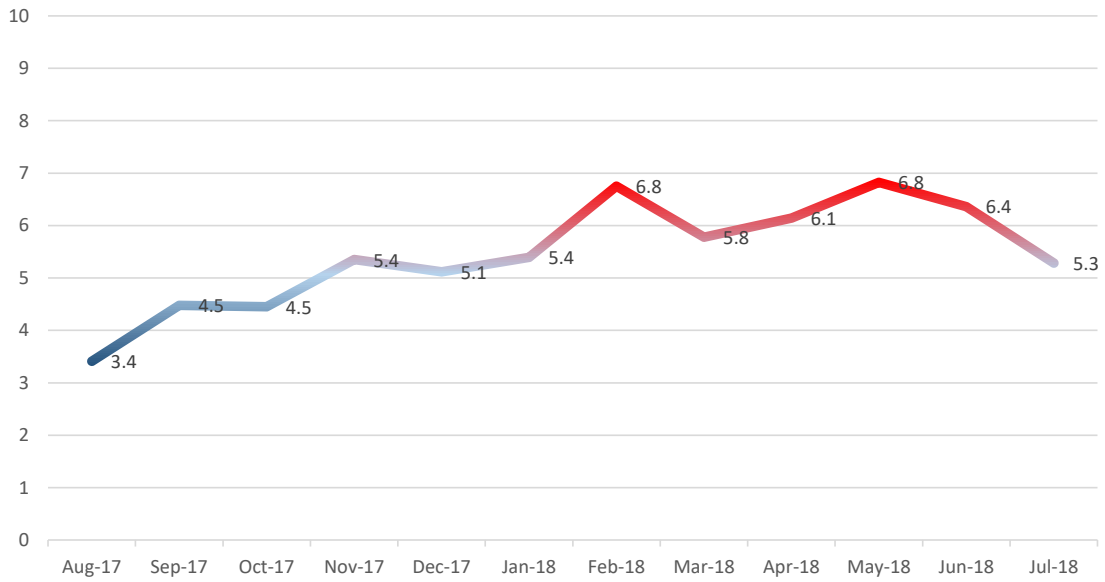
Dimension	Selected factors
Form	Dedicated press release (yes or no) Placement (top of release or buried in other news, such as earnings release) Length of disclosure (e.g., excessively short or long, omissions)
Language	Tone of announcement (warm, neutral, cold) Language used in quotations (e.g., poisoned 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

How strong the pressure is: CEO Push-out Index

Average Push-out Score in the U.S. stock index Russell 3000

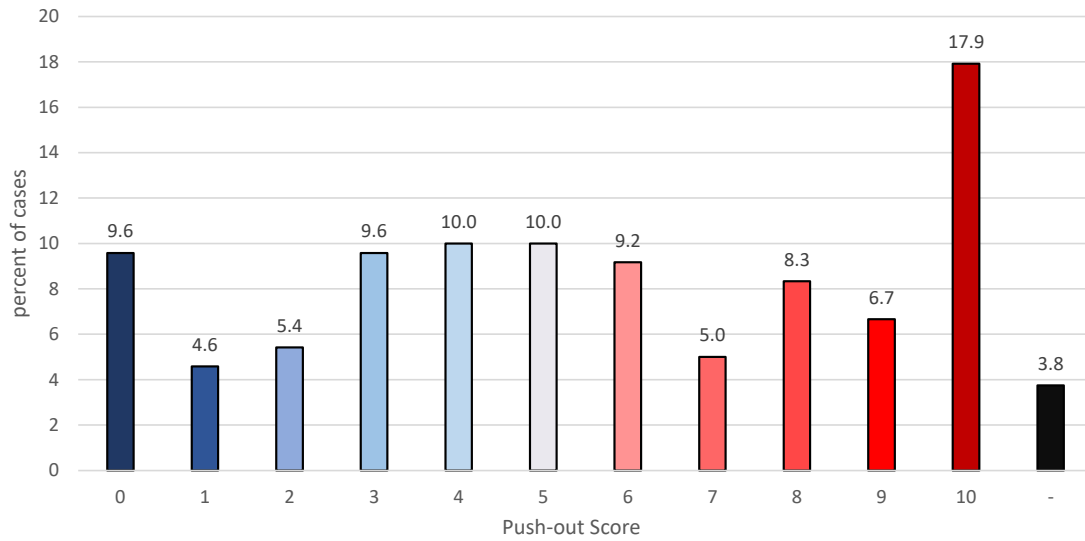


Legend: The Push-out Score on a scale of 0 to 10 is a measure of the pressure on the departing CEO. Values above 5 suggest strong pressure. Sample includes 240 observations. Source: exchange

Exhibit 4

How the pressure on CEOs is distributed

Percentage distribution of Push-out Scores in the 12-month period from August 1, 2017 to July 31, 2018 in the U.S. stock index Russell 3000

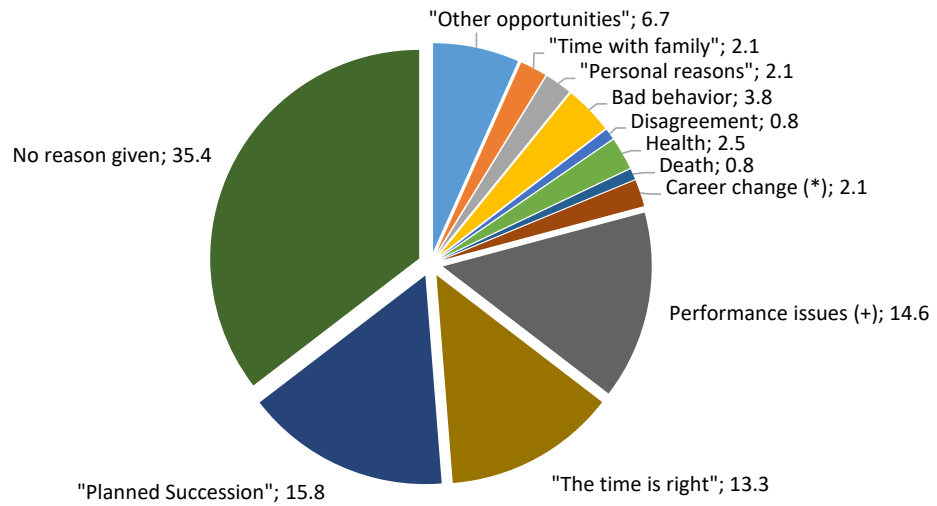


Legend: Around 10 percent of the CEOs received a Push-out Score of 0. Cases in which a score is not determined (e.g., death) are summarized under '-'. Sample includes 240 observations. Figures may not total to 100 due to rounding. Source: exchange

Exhibit 5

Why they leave: CEO departure reasons

Percentage distribution of departure reasons in corporate announcements in the 12-month period from August 1, 2017 to July 31, 2018 in the U.S. stock index Russell 3000

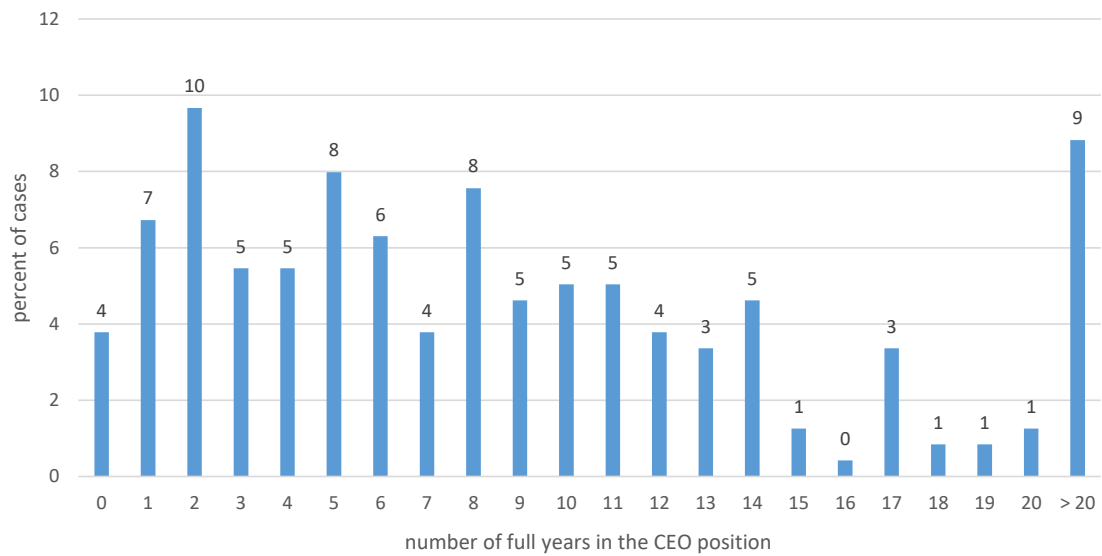


(*) if precise information about the new position is available immediately after the departure announcement; (+) if explicitly mentioned; Sample includes 240 observations. Figures may not total to 100 due to rounding. Source: exexchange

Exhibit 6

How long they stay: Departing CEO tenure

Percentage distribution in the 12-month period from August 1, 2017 to July 31, 2018 in the U.S. stock index Russell 3000

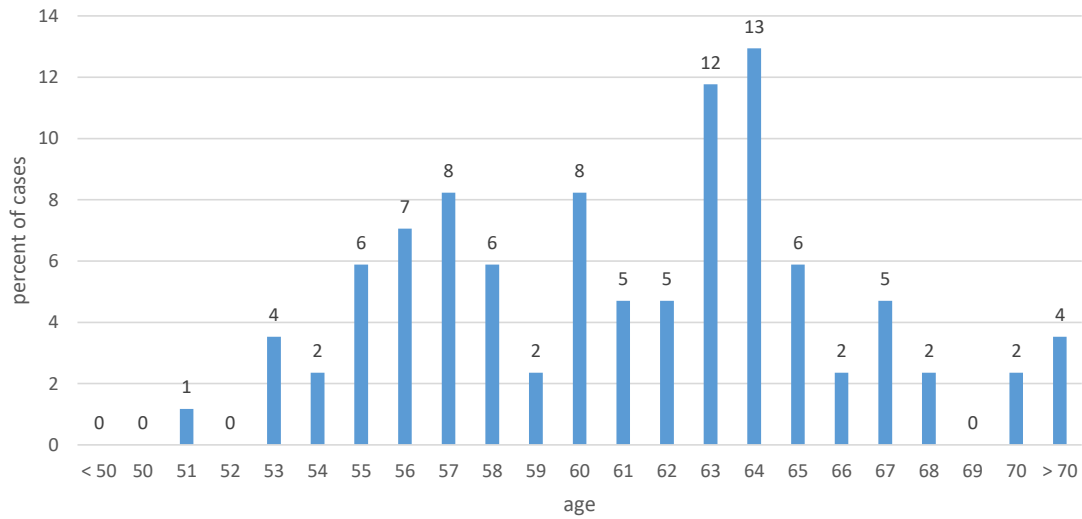


Legend: Around 7 percent of the CEOs who announced their departure within the above mentioned period left their post after 1 full year in the position. Sample includes 240 observations. Figures may not total to 100 due to rounding. Source: exchange

Exhibit 7

When they come to rest: CEO retirement age

Percentage distribution in the 12-month period from August 1, 2017 to July 31, 2018 in the U.S. stock index Russell 3000



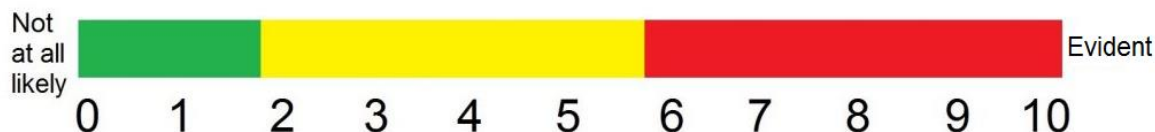
Legend: Around 13 percent of the CEOs who announced their retirement within the above mentioned period were 64 years old. Sample of all departing CEOs includes 240 observations. Figures may not total to 100 due to rounding. Source: exchange

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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