

exexchange news

We determine the Push-out Score™

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Germany's most mysterious CEO change

- **SAP CEO Bill McDermott leaves with a Push-out Score of 8**
- **Nine of the 30 Dax CEOs have announced their departure in the past 24 months**
- **Jennifer Morgan is the first woman ever to lead a company in Germany's blue-chip index**

(exexchange) -- October 11, 2019 -- Corporate Germany is in turmoil. A wind of change is blowing for CEOs in Germany's blue-chip index Dax. No fewer than nine of the 30 Dax CEOs have announced their departure in the past 24 months. Most of them were apparently under pressure to go.

BMW AG, HeidelbergCement AG, Daimler AG, Beiersdorf AG, Volkswagen AG, Deutsche Bank AG, BASF SE and Deutsche Börse AG have announced CEO changes since October 2017.

Here comes number 9: SAP SE announced on Thursday, October 10, 2019, that William R. (Bill) McDermott is stepping down from his position as chief executive officer at the software company.

Was he under pressure to leave his post?

The Push-out Score of the research firm exexchange, which gauges the pressure on outgoing CEOs on a scale of 0 to 10, shows a value of 8 for McDermott's move, indicating strong pressure.

His departure is the most mysterious CEO change of a German blue chip in the past two years.

Almost all criteria of the analysis model suggest that McDermott was under intense pressure to leave his post as CEO.

The age of McDermott of 58 years is relatively low, and precise information regarding his future plans was not immediately available. That's the first point for the Push-out Score.

The change is effective immediately. Point number 2.

The stock price performance leaves room for improvement. The announcement follows a decline in SAP's share price of 16% since July 2019. Point 3.

The reason for the leadership change is not completely understandable. Point 4.

A reason for Bill McDermott's departure from the CEO post was not explicitly provided. SAP said: "Bill McDermott has decided not to renew his contract and is stepping down from his position as chief executive officer. In activating the company's long-term succession plan, SAP Executive Board Members Jennifer Morgan and Christian Klein have been appointed co-chief executive officers, effective immediately, with the approval of the supervisory board of SAP SE."

Jennifer Morgan becomes the first woman ever to lead a company on Germany's Dax.

McDermott will remain in an advisory capacity until the end of the year to ensure a smooth transition.

The circumstances of the management change are challenging. Point 5.

McDermott's departure follows the entry this year of activist investor Elliott Management Corp.

SAP earlier this year announced a nearly \$1 billion restructuring program, including plans to cut about 4,000 jobs.

McDermott's departure comes almost exactly a month after Oracle Corp. announced that one of its two CEOs, Mark Hurd, is taking a leave of absence for health reasons.

SAP on Thursday also pre-announced third-quarter results and beat expectations, providing strong arguments for the fact that there are no acute operational problems behind the abrupt leadership change.

At the same time, the succession plan raises questions. Point 6.

The duties of Bill McDermott will be taken over by Jennifer Morgan and Christian Klein as co-chief executive officers, effective immediately.

It remains to be seen whether this is a sign of continuity.

Investors don't know what changes Morgan, 48, and Klein, 39, might push for.

While SAP has had a co-CEO structure before, power-sharing arrangements like that can lead to conflict.

The form and language of the announcement provide points 7 and 8.

In the announcement from SAP, which is based in Walldorf, Germany, Bill McDermott receives accolades, praise and thanks, but no word of regret and no good wishes.

Hasso Plattner, chairman of the supervisory board of SAP, did not say many words regarding the long-standing chief executive Bill McDermott: "SAP would not be what it is today without Bill McDermott. Bill made invaluable contributions to this company and he was a main driver of SAP's transition to the cloud, which will fuel our growth for many years to come. We thank him for everything he has done for SAP."

McDermott said 127 words, but his statement did not reveal what exactly triggered his sudden and surprising move. He said: "Every CEO dreams of being able to transition a company to its next generation from a position of significant strength. When you look at where we were and where we are, I simply could not be prouder of what this company has achieved over the past decade. I am thankful for the opportunity to lead one of the world's finest companies. Now is the moment for everyone to begin an exciting new chapter, and I am confident that Jennifer and Christian will do an outstanding job. I look forward to supporting them as they finish 2019 and lay the foundation for 2020 and beyond. To every customer, partner, shareholder and colleague who invested their trust in SAP, I can only relay my heartfelt gratitude and enduring respect."

Conclusion: Age, notice period, share price development, official reason, circumstances, succession plan, form of the announcement and language in the communication raise eight red flags. Only McDermott's sufficiently long term of office as CEO of nine years and eight months (as of October 10, 2019) prevented the score from climbing higher.

SAP did not immediately respond to a message seeking comment on the score.

SAP did not provide any plausible explanations for the abrupt change and thus opened the door to speculation.

Occam's razor invites us to choose the simpler of two explanations for a phenomenon.

On the one hand, the notion that the leadership transition is the result of a long-term succession plan is implausible in eight different ways.

On the other hand, the constellation of facts surrounding McDermott's departure is much easier to reconcile with the hypothesis that, for compelling reasons, he could not remain at the helm of the company for as long as originally planned, and that he subsequently stepped down from his post with immediate effect, prompting the board to activate the company's long-term succession plan much earlier than originally intended.

It is unclear whether McDermott surprised the board, whether the board surprised McDermott, or whether both surprised each other.

However, it is obvious that not only investors were surprised by the abrupt leadership change, but also McDermott's successors.

In comparison with the eight other CEO changes in the Dax, McDermott's departure stands out.

Matthias Müller of Volkswagen AG, John Cryan of Deutsche Bank AG and Carsten Kengeter of Deutsche Börse AG had to leave under extreme pressure, each leading to Push-out Scores of 10.

Kurt Bock's departure from BASF SE (Push-out Score: 2) seemed smooth, while Dieter Zetsche's resignation from Daimler AG (Push-out Score: 4) and Stefan Heidenreich's exit from Beiersdorf AG (Push-out Score: 6) appeared ambivalent. Harald Krüger of BMW AG (Push-out Score: 7) was obviously forced to go.

Bernd Scheifele's planned departure from HeidelbergCement AG (Push-out Score: 0) seemed perfect.

This and other reports are available at <https://exexchange.com/news>

About exexchange

exexchange is the independent, privately held research provider that tracks executive changes and determines the Push-out Score™, a measure of pressure on departing CEOs on a scale of 0 to 10. The Push-out Score was featured by *The Wall Street Journal*, *Harvard Business Review* and *Stanford University*. For more information, visit exexchange.com.

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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