

Imperial's royal pay hikes irk investors

If Imperial's shareholders have had a horrid few years, it has been only gravy for its executives

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One of the MAN trucks with its branded Imperial Cargo trailer.

Shareholders at transport and logistics group Imperial are clearly unimpressed by the hefty increases awarded executives as part of the restructuring of the group into two entities, Motus and Imperial Logistics. At the company's AGM two weeks ago, an unprecedented 48% of investors made their displeasure felt by voting against the remuneration policy.

Perhaps Imperial should have expected this opposition, given that shareholders have received almost no return from it for several years, so it's clear that the interests of executives aren't exactly aligned with those of shareholders.

Over the past year, Imperial's share price fell 23%, and it hasn't grown earnings or dividends for the past five years. Yet last year, three of its executives scored R80.1m a 54% increase on the R51m of the year before.

The substantial pay hikes came at a challenging time for the group. For a start, it is on the verge of spinning off a separate listing for its motoring-related operation (Motus) in a bid to boost its fortunes.

Second, there have been sweeping changes in the executive suite, after Mark Lamberti resigned as CEO when the Pretoria high court found him guilty of "impairing the dignity" of a former employee by referring to her as a "female employment equity" candidate. Lamberti, appointed CEO in March 2014, was due to retire in February 2019.

Motus CEO Osman Arbee was appointed to replace Lamberti as CEO of Imperial, but he was forced to take extended medical leave shortly after his appointment. Mohammed Akoojee, Imperial's CFO, was then appointed acting CEO.

He will stay in that role until Motus lists on the JSE on November 22.

All these unsettling changes took place while Imperial was putting the final touches to a restructuring that Lamberti had been driving for some time. The top management structure was overhauled, and scores of new executives were appointed to senior positions.

After the Motus listing, the CEO position previously held by Lamberti will fall away, as the second leg of Imperial, its logistics division, will be headed by its own CEO, Marius Swanepoel.

The shareholders have yet to see any benefit from this overhaul. Imperial's executives were far luckier, however. Last year, Arbee's "total taxable remuneration" shot up 50% to from R20m the year before.

Imperial's remuneration committee says Arbee's package was hiked to bring it in line with his appointment as Motus CEO from March 2017 and Imperial CEO from May 1 2018. But Arbee is also in the running to pick up a R30m share-based incentive "upon implementation of the proposed unbundling of Motus", subject to performance criteria, which will vest between 2020 and 2021.

Besides that, he can also expect a R 10m share-based "retention bonus".

Akoojee's 2018 package of R22.8m was almost double the R 11.8m he got in 2017, which the company says was "in line with his new responsibilities as group CFO". But he, too, got a R30m share-based bonus linked to the unbundling of Motus, and a 119.25m share-based "retention payment".

Swanepoel was appointed CEO of the logistics division in July 2017. His remuneration soared 52% to 107.2m because of the "significant increases in his responsibilities". He will also receive a share-based award upon implementation of the Motus unbundling.

The Active Shareholder organisation, which advises NGOs on how to vote at AGMs, is unhappy about these payments.

After crunching several years' numbers with the assistance of information from the Labour Research Services, Active Shareholder's Mike Martin says Imperial's remuneration was inappropriately generous, given its long-term performance. Though profits improved until 2013, they have dropped off since, whereas directors' pay has marched steadily upwards.

"The increases in 2018 are seriously out of line with the company's performance," Martin says. He says the executives appear to have taken the opportunity of the unbundling to award themselves "rather spectacular increases".

Investors who voted against Imperial's remuneration policy probably wanted to see some return from the restructuring before heaping such largesse upon the executives. They have sat patiently as headline earnings slid from R14.98 a share in 2014 to a low of R12.40 last year. Though Imperial's earnings rose to R15.70 this year, it's unclear whether this is a sustainable trajectory.

It's the same story with the share price. While it spiked to R266 earlier this year, it has since slumped to R163.57 — 18% below the level it was trading at five years ago.

This rather dismal performance makes Lamberti's high-profile claim some years back that his remuneration should be aligned with the interests of the shareholders — seem a little hollow.

As he headed out the door this year, Lamberti took home R34.8m, including fixed compensation of R11m, R7.3m as a payout for the rest of his contract, and R16.5m in short-term bonuses. His "short-term based rewards" were worth over R40m when he left.

In all, Active Shareholder voted against 11 of the 15 resolutions that Imperial put to its shareholders. This included voting against the re-appointment of directors who looked to be overcommitted. Active Shareholder's website provides an extremely useful analysis of the reasons for all its voting decisions.

What a shame, then, that it is not a sufficiently large shareholder to be considered "material" by Imperial, and so has not been included in the engagement process required by the JSE when companies receive a vote of more than 25% against the remuneration policy.