AGENDA

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Facing Investors After Abrupt CEO Changes

By Lindsay Frost June 18, 2018

Retailer J.C. Penney announced the surprise resignation of Chairman and CEO Marvin Ellison last month, just three days before the company's annual meeting on May 25. Ellison left his post to take the CEO role at Lowe's, and the move surprised investors and analysts alike, partially due to the timing.

This comes as several other companies, including Campbell Soup and privately held MGM Holdings, have dealt with similar abrupt CEO changes prior to or during important investor meetings, calls and earnings releases in recent months. Proper succession planning is an important part of preparing for these situations, but strong communication to investors at such times is a key part of the board's role as well, experts say.

"A surprising CEO change shortly before the annual meeting is an enormous challenge for any company," writes Daniel Schauber, owner of the research firm exechange, which provides data and analysis on executive movements, in an e-mail. "A surprising CEO change always raises many questions among investors, especially when a permanent successor is still to be found."

Recent Examples

At J.C. Penney, the company immediately sent a press release announcing the change as well as the formation of an "Office of the CEO" to take on the CEO's responsibilities while a search committee finds a replacement. The office of the CEO includes CFO Jeff Davis, Chief Customer Officer Joe McFarland, CIO and Chief Digital Officer Therace Risch and executive vice president of supply chain Mike Robbins. The company also named lead independent director Ronald Tysoe chairman of the board, and Tysoe ran the annual meeting.

At Campbell Soup, former CEO Denise Morrison retired on May 18, the same day the company reported its third-quarter earnings. The company representatives on the call included Ken Gosnell , vice president of strategy and investor relations; Keith McLoughlin, independent director and interim CEO for the company; and Anthony DiSilvestro, senior vice president and CFO.

McLoughlin acknowledged Morrison's departure and announced a new strategic plan and business review, but would not go into details. A few analysts asked about what the company was looking for in the next CEO, which McLoughlin later discussed, hinting at internal candidates.

At MGM, former CEO Gary Barber was fired just a week before the company's first-quarter earnings call in March. Like J.C. Penney, the company also formed a temporary office of the CEO, consisting of senior leaders and division heads. Though *Variety* reports that Barber was "blindsided" by the board's firing, the company did not comment further on the news to analysts on the earnings call.

Communications During Transitions

There isn't a one-size-fits-all approach to handling a CEO change just before important investor events. However, experts share a few factors boards should consider in these situations.

The best course of action is to have a game plan for emergency and planned successions, and convey the existence of these plans ahead of time to ease investor concerns. Proper succession planning can avoid any difficult questions from inside executives or shareholders on who is going to fill the chief executive's shoes.

"You need to get out in front, deal with the situation swiftly and focus on the future," says Eden Gillott Bowe, president of communications, crisis and reputation management firm Gillott Communications. "Make it clear you're in control. Gossip and speculation will only become stronger and more fanciful the longer you wait, and keeping mum also makes it appear that you're hiding something."

Investors generally demand comprehensive information about the reason for the CEO change, as it may influence investment decisions.

Sally Curley, CEO of **Curley Global IR, LLC**, and a member of the **National Investor Relations Institute**, writes in an e-mail that at the annual meeting after a CEO departure, investors may also ask about the timing of the CEO search, the cause of the CEO's departure, board oversight of CEO hiring, the search firm being used, the skill set required and the anticipated compensation of the next CEO. Investors may also want to know if the board is looking for a CEO to stay on the same strategic path, or if the board is looking to change strategy.

Meanwhile, the board will need to decide who will be speaking on the company's behalf and performing the CEO's duties as interim CEO or office of the CEO. Sources say the most common choice is an interim CEO, who is usually the board chair.

Recently, in addition to J.C. Penney and MGM, several companies have chosen to have a group of executives perform the operational duties of the CEO as the company searches for a replacement, rather than appointing an interim CEO. These include Banc of California, Weight Watchers International and Cypress Semiconductor.

"The creation of an 'office of the CEO' is often a pragmatic decision and may give the board extra time to find a successor," Schauber says. "It may also create uncertainty. Would-be successors may jockey for attention and employees and investors may wonder who is actually in charge."

Ultimately, it's the board's job to communicate during the CEO transition period, no matter what the timing is, sources say.

"A chairman of the board or lead independent director should be part of the governance outreach program in advance of an annual shareholder meeting, such that the largest shareholders understand directly from the board that they have the company's best interests in mind with respect to CEO succession planning and a CEO search," Curley writes. "It is a sign that the board, as a whole, is taking its fiduciary responsibility seriously … and is listening to its shareholders."