OPINION

With Galen Weston leaving as Loblaw CEO, what was his million-dollar pay raise for?

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INCLUDES CORRECTION

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Galen G. Weston, now outgoing chairman and president of Loblaw Companies Limited, waited to appear as a witness at the Standing Committee on Agriculture and Agri-Food (AGRI) investigating food price inflation in Ottawa, on March 8.

SPENCER COLBY/THE CANADIAN PRESS

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Outgoing Loblaw L-T (/investing/markets/stocks/L-T/) -0.15% ▼ president Galen Weston has been making headlines for all the wrong reasons – $37 chicken, parliamentary hearings on profiteering, and now, an eye-popping pay raise as he heads for the checkout counter, after self-hired consultants determined he was underpaid.

With news on Tuesday that Mr. Weston is preparing to step down and that the search for his replacement began *last summer*, shareholders should ask why they were spending additional millions to retain an executive on his way out. Even if the compensation package was designed to attract Mr. Weston's successor, the Danish executive Per Bank – a generously hypothetical theory, considering he is an as-yet unknown and untested player in Canada – this was certainly not disclosed to shareholders.

Mr. Weston's pay is split between Loblaw Cos. Ltd and its largest shareholder/affiliate, his family-controlled company, George Weston Ltd. Ringing in at $11.8-million in total compensation, up from $10.6-million in 2021, the package brings Mr. Weston's pay to 340 times that of a front-line grocery worker and 222 times the yearly median income of employees in Canada. Mr. Weston received 35 per cent more in total compensation than direct Canadian competitors Michael Medline, CEO of Empire Co. Ltd. ($8.7-million), and more than twice that of Metro Inc. CEO Eric La Flèche ($5.4-million).

But the higher cost for Loblaw shareholders may have come from damage to the company's reputation.

Loblaw has been at the centre of public resentment since the company cut "hero pay" for its front-line workers in 2020, introduced during the early days of the pandemic to recognize their role as essential workers. Allegations of a price-fixing scheme and widening profit margins bolstered a social-media campaign that was already roasting the company for its pricey chicken breasts. That eventually led to parliamentary committee hearings. The news that Mr. Weston's pay was set to increase added to the public ire.

The company's 2022 proxy circular lays out the rationale for increasing his compensation, but does not pass muster. Mr. Weston's pay increase was primarily driven by increased long-term incentive payments, designed to help companies retain executive talent and align executive and shareholder interests. However, Mr. Weston arguably should already be tightly aligned with shareholders as the controlling shareholder of parent company George Weston Ltd.

To be sure, the timing of the announcement of a new president can be seen as an effort to respond to concerns about executive pay decisions. But several questions remain about the compensation plan Mr. Weston's successor will inherit, which is similarly questionable and generous.

Short-term incentive payments for Loblaw's CEO remain heavily determined by growth in consolidated revenues. Consolidated revenues may be influenced by price hikes as well as growth in sales volumes or numbers of stores. The number of stores at its Loblaw's and Shoppers Drug Mart chains remained roughly constant in 2022, lending credence to public concerns that executives may have been incentivized to inflate prices.

More than half of Loblaw's long-term incentive plan is based on stock options without performance-based conditions, which is not a healthy way to compensate company leadership. Stock options give executives an incentive to focus on share price, rather than on other measures that are of benefit to the business. Share prices can also be affected by decisions that having nothing to do with operations, such as stock buybacks. In 2022, Loblaw repurchased approximately $1.3-billion in shares.

Loblaw rightly points out that it has few Canadian peers against which to benchmark its compensation. Yet its internal comparison group is arguably skewed toward companies with high CEO pay. Sixteen of the 18 Canadian companies used in an internal benchmark to set Mr. Weston's pay made the list of the 100 most highly paid Canadian CEOs in 2021 – a group that did not at the time include Loblaw. While the company's executive compensation program was reviewed and approved by two compensation consultants, neither were independent of the company.

The move to increase retention pay for a departing principal executive officer is a bitter pill for the thousands of retail workers who saw their hero pay cancelled after the first wave of COVID-19 subsided in 2021. As it also should be for shareholders wondering what value they are getting out of this. The company's long-term interests may be better served by diverting funds no longer needed to retain its departing executive to help retain long-term front-line workers on whom the company's success also depends.

Editor's note: Cuts were made to "hero pay" in 2020, not 2021. This version has been corrected.

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L-T **-0.15%**

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