



## Proxy Alert: CVS Health Corp and XPO Logistics Inc.

May 2, 2017

### Shareholder Proposals on Decent Work

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In the United States, approximately 35 shareholder proposals will be voted on in 2017 addressing different aspects of decent work.<sup>1</sup> This Proxy Alert examines two of these proposals.

#### CVS Health Corp

A resolution filed at **CVS Health Corp** relates to pay inequality and will be voted at the company's upcoming AGM on May 10, 2017.<sup>2</sup>

The resolution asks CVS to report on the gap between senior executive compensation and that of median level employees (the "CEO-to-worker pay gap"), as well as the trend in that figure over time. This issue warrants the board's attention due to the importance of inequality as an economic driver facing American businesses and recent evidence that CVS Health has a particularly large CEO-to-worker pay gap.

The requested report would help the board and investors determine whether CVS Health is using capital to reward executives for short-term performance at the expense of long-term shareholder value.

#### **SHARE recommends votes in favour of this proposal.**

Investors have demonstrated their interest in addressing income inequality over the past few years by filing shareholder proposals that ask companies to disclose the ratios of executive pay to other workers' pay. The pay ratio disclosure requirement in the Dodd Frank Act also reflects concerns about income inequality. That requirement is due to take effect in 2018

According to the Economic Policy Institute, CEO pay at the largest companies in the US has grown by 940% since 1978, outpacing the growth in the cost of living, the productivity of the economy and the stock market.<sup>3</sup>

The CEO of CVS Health was ranked tenth in *As You Sow's 2016 Top 25 Most Overpaid CEOs* report, with a total compensation of \$28,943,054.<sup>4</sup> In a 2015 PayScale report, CVS Health had the largest ratio between CEO and employee pay among all companies studied: approximately 434 to 1.<sup>5</sup> While the CEO's compensation

decreased in 2016, the CEO-to-worker pay gap at CVS Health remains very large.

CVS Health's compensation discussion and analysis says the CEO's pay was based on the company's outstanding financial results in 2016.<sup>6</sup> However, in November 2016 CVS laid off 600 of its employees in the midst of lower than expected front-of-store sales and gross profits as a percentage of net revenue.<sup>7</sup>

In light of this, the shareholder proposal at CVS Health asks the company to review and report on its executive compensation policies:

*RESOLVED Shareholders request the Board's Compensation Committee initiate a review of our company's executive compensation policies and make available upon request a summary report of that review by October 1, 2017 (omitting confidential information and processed at a reasonable cost).<sup>8</sup>*

### **Vote Recommendation Rationale**

Large disparities between the compensation of executives and workers can diminish the value of a company by lowering employee morale and productivity, increasing staff turnover and unrest, and lowering profitability. For example, a recent research report by MSCI found that companies with lower intra-corporate pay gaps performed better in terms of average profit margins across the vast majority of sectors.<sup>9</sup>

In light of the recent layoffs at CVS and the company's high executive compensation, the proposed report would shed light on the company's compensation strategies for all of its employees and provide valuable

insights for investors on its pay philosophy and the goals embedded in the distribution of pay across the company. Additionally, the proposed report will help shareholders understand whether the CEO-to-worker pay gap comes at the expense of the well-being of the company's workforce and whether the gap should be decreased to avoid potential cuts to jobs, wages and/or benefits that might harm the company's performance over the long term.

### **SHARE's Recommendation**

SHARE recommends a vote **FOR** this proposal

## XPO Logistics Inc.

Another proposal filed at **XPO Logistics Inc.** asks the company to issue an annual sustainability report describing the company's responses to the environmental, social and governance (ESG) issues it faces, including its approach to human capital management. **SHARE recommends votes in favour of this proposal.**

XPO provides transportation and logistical services to 63% of Fortune 100 companies, including Nestle, Marks & Spencer, Zara, L'Oréal, Unilever, Kellogg's and IKEA. It is ranked as the largest logistics company in North America.

XPO's business model involves a complex set of processes and relationships within global supply chains. Through a growth strategy focused on mergers and acquisitions, XPO has expanded from an asset-light North American business with 216 employees in 2012 to one of the world's largest logistics companies, with over 87,000 employees and operations in over 34 countries.

XPO faces legal, financial, operational and reputational risks as a result of its **poor record on workplace practices and labour standards**. This record includes:

**Worker misclassification:** There are at least 10 pending class action lawsuits against XPO over misclassification, which entails labeling drivers as independent contractors while treating them as employees. In addition to filing lawsuits, workers have gone on strike, staged pickets and – in one case – gone on hunger strike to oppose their alleged misclassification.

**Poor working conditions:** An ASOS distribution centre operated by XPO in the UK has been the subject of a media firestorm due to alleged flexible working contracts, onerous output targets and extraordinary levels of surveillance and monitoring. A call was issued to the UK House of Commons business select committee to launch an inquiry into the company.

**Anti-union activity:** Ten complaints of unfair labour practices were made against XPO management for violating workers' right to freedom of association. These complaints are pending before the US National Labor Relations Board. XPO spent over \$600,000 on "union avoidance" consultants in 2015.

The shareholder proposal asks the company to issue an annual sustainability report:

*RESOLVED: Shareholders request XPO Logistics, Inc. ("XPO"), issue an annual sustainability report describing the Company's short- and long-term responses to Environmental, Social and Governance ("ESG") related issues affecting the Company. The report should be prepared at a reasonable cost, omit proprietary information, and be available to shareholders by December 2017.<sup>10</sup>*

## Vote Recommendation Rationale

XPO's business model exposes the company to various environmental, social and governance (ESG) risks across its supply chain, including risks associated with its workplace practices. Despite these risks, XPO does not currently provide sufficient disclosure to investors on how it is

managing employee relations across its business. Given the materiality of the company's poor record on workplace practices, XPO should issue an annual sustainability report describing its responses to the labour and other ESG issues it faces.

## SHARE's Recommendation

SHARE recommends a vote **FOR** this proposal

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## Notes

<sup>1</sup> As You Sow notes that 29 proposals have been filed addressing pay inequality, while nine relate to labor standards and working conditions (As You Sow, [Proxy Preview](#) 2017 p.40).

<sup>2</sup> For the full proposal see Item 7 on the CVS Health Proxy Statement here:

<https://www.sec.gov/Archives/edgar/data/64803/000120677417001033/cvs3183461-def14a.htm#item7>.

<sup>3</sup> Mishel, Lawrence and Jessica Schieder. *Stock Market Headwinds meant less generous year for some CEOs*.

Economic Policy Institute. July 12, 2016. Available at: <http://www.epi.org/publication/ceo-and-worker-pay-in-2015/>.

<sup>4</sup> Landis Weaver, Rosanna. *The 100 Most Overpaid CEOs*. As You Sow. February 2017. Available at:

<http://www.asyousow.org/wp-content/uploads/report/The-100-Most-Overpaid-CEOs-2017.pdf>

<sup>5</sup> PayScale. CEO Pay: How much do CEOs make compared to their employees? Available at:

<http://www.payscale.com/data-packages/ceo-pay>.

<sup>6</sup> CVS Health Inc, *Notice of Annual Meeting of Stockholders and Definitive Proxy Statement*, 31 March 2017, pages 32-63. Available at <https://www.sec.gov/Archives/edgar/data/64803/000120677417001033/cvs3183461-def14a.htm>.

<sup>7</sup> Denman, Tim. *Massive Layoffs Planned at CVS Health*. April 11, 2016. Available at: <https://risnews.com/massive-layoffs-planned-cvs-health>.

<sup>8</sup> For the full proposal see Item 7 on the CVS Health Proxy Statement here:

<https://www.sec.gov/Archives/edgar/data/64803/000120677417001033/cvs3183461-def14a.htm#item7>.

<sup>9</sup> MSCI, 2016, *Income Inequality and the Intracorporate Pay Gap*, <https://www.msci.com/www/research-paper/income-inequality-and-the/0337258305>.

<sup>10</sup> For the full proposal see Proposal 4 on the XPO Logistics Proxy Statement here:

<https://www.sec.gov/Archives/edgar/data/1166003/000119312517126219/d364074ddef14a.htm#toc364074> 32.