Ex-Barrick CEO Paid Least Relative to Profit

By Liezel Hill and Ilan Kolet on June 14, 2012

Aaron Regent, who was fired last week as chief executive officer of Barrick Gold Corp. (ABX) after failing to boost the stock price, generated more profit for every dollar of pay last year than any of his peers in Canada and the U.S.

Barrick, the world's largest gold miner, earned $514.98 for every dollar the Toronto-based company paid Regent for 2011, according to data compiled by Bloomberg. That was more than the CEOs of the six other largest North American gold companies. Goldcorp Inc. (G), the second-largest producer by market value, reported $172.09 of net income for every dollar awarded CEO Chuck Jeannes. Yamana Gold Inc. (YRI) CEO Peter Marrone brought in $47.88 in profit for every dollar of pay.

Executive compensation is coming under increasing scrutiny, with gold mining CEOs among the best-paid in Canada last year, even as their companies' shares failed to match gains in gold prices.

"I would like to see the compensation more directly tied to the stock prices," ***Pawel Rajszel***, a Toronto-based analyst at ***Veritas Investment Research***, said in an interview. "Then you'll see these producers be more disciplined in terms of capital allocation."

Stock Disappointed

Peter Munk, Barrick's founder and chairman, replaced Regent on June 6 with former Chief Financial Officer Jamie Sokalsky because the company was "disappointed" by the share performance after a 15 percent decline last year in New York. Gold miners including Barrick and Newmont Mining Corp. (NEM) (NEM), the two biggest by sales, have tried to reverse declining share prices even as gold increased 32 percent in the past 24 months.

Barrick shares fell 5.7 percent through yesterday in Toronto and rose 15 percent in New York since Regent began as CEO on Jan. 16, 2009. That was better than the 50 percent drop in the 16-member Philadelphia Gold & Silver Index of precious metals producers. Over the same period gold futures in New York doubled.

Regent earned $8.71 million last year, excluding pension costs and including all other types of compensation. That was down 0.2 percent from a year earlier. Goldcorp's Jeannes earned $10.93 million in 2011 and Yamana CEO Marrone was the highest-paid gold CEO, receiving $11.45 million in compensation.

Jeannes and Marrone both earned more than the heads of Canada's two largest banks by assets, Royal Bank of Canada and Toronto-Dominion Bank. (TD) Gordon Nixon, CEO of Royal, was awarded total compensation of C$10.1 million ($9.82 million) and Edmund Clark, TD CEO, earned C$11.4 million.

Better Educated

Regent generated more earnings for every dollar paid in 2011 than Nixon, who brought in C$480.40, and less than Clark who earned TD C$517.45 for every dollar paid. The calculations are based on net income and compensation figures in proxy circulars.

"CEO or executive pay in the Canadian gold sector has been one of the highest in Canada for the last several years," said Steve Chan, principal at Hugessen Consulting Inc. in Toronto, which advises boards on compensation. “I think that’s in large part helped along by the strong run up in the price of gold and subsequently the demand for talent in that space.”

Investors are becoming less supportive. This year, 95.6 percent of Barrick’s shareholders at its annual meeting voted to back the company’s executive compensation policy in a non-binding resolution, compared with 97.2 percent last year. Investors in Kinross Gold Corp. (K), Canada’s third-largest producer by sales, voted 78.5 percent in favor at the 2012 meeting, down from 95.7 percent a year ago.

“Shareholders are asking more questions, better questions and becoming generally more educated around compensation,” Luis Navas, vice-chairman of Global Governance Advisors, which advises companies on compensation, said in an interview.

“In my experience, shareholders are not at all against paying higher levels of compensation as long as the justification is there,” he said.

Record Earnings

Barrick reported record earnings last year, as higher gold prices boosted profit margins. Gold has gained more than 400 percent in the last 10 years and rose 10 percent in 2011. Prices this year have increased 3.4 percent.

“That rising tide over the last decade has lifted all boats, so I think investors are more forgiving when the price of gold is going up,” ***Rajszel*** said. “Now that the gold price is kind of flatlining and costs are still going up, investors are scratching their heads and wondering why they are paying these CEOs to do these M&A deals when they could just buy the ETFs.”Gold ETFs are exchange traded funds that track the price of bullion rather than invest in shares of companies.

Gold miners face rising costs for labor, raw-materials and equipment. The average so-called cash production cost for large producers jumped 14 percent to $542 per ounce of gold in 2011 from a year earlier, according to data compiled by Bloomberg Industries.

Highly Cyclical

Barrick said last month it was reviewing cost estimates for its $5 billion Pascua-Lama gold and silver project on the Chile-Argentina border because of wage and raw material inflation. Newmont, based in Greenwood Village, Colorado, may have to raise the $4.8 billion budget for its Conga mine in Peru after political opposition.

Andy Lloyd, a spokesman for Barrick, declined to comment. Omar Jabara, a spokesman for Newmont had no comment on the company’s approach to executive compensation beyond the details provided in its proxy statement. A Yamana spokesman couldn’t immediately be reached for comment.

Steve Mitchell, a spokesman for Kinross, said CEO Tye Burt requested that he not be considered for a cash bonus “in light of our disappointing share price performance in 2011.” Burt’s cash compensation fell by 66 percent as a result, Mitchell said in a phone interview.

David Christensen, CEO of ASA Ltd. in San Mateo, California, which manages $600 million and invests in precious-metals companies, said the industry is highly cyclical.

“You need to motivate a management team to take a job which is higher-risk than they would have in making widgets and you need to incentivize them to stay with that job where they could have opportunities elsewhere,” he said.

Ratio Rose

Regent was the only CEO of a big North American gold producer whose net-income to salary ratio increased. It was up from $410.36 in 2010. In 2009, the year he was hired, he had total compensation of $20.6 million.

CEO compensation shouldn't necessarily depend heavily on the share-price performance, Caesar Bryan, portfolio manager at Gabelli & Co. Inc., said in a telephone interview.

"It seems to me that you can execute as an executive and if your shares are out of fashion, as the gold shares have been in the last few years, I'm not sure you should be extraordinarily punished for that."

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