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Profits are down at ExxonMobil, but don't cry for CEO Rex Tillerson

Steven Mufson l April 29, 2016

After 10 years at the helm of the world's biggest publicly owned oil company, Exxon Mobil chief executive Rex W. Tillerson has had mostly gloomy news for shareholders lately. Profits were down by half last year, and down 63 percent in the first-quarter financial results announced Friday.

Buffeted by low petroleum prices, the oil giant has tightened its spending belt, slashing capital outlays by 33 percent in the first quarter. And it has been forced to borrow money to meet dividend payments, mortgaging a bit of tomorrow to pay shareholders today.

This week Standard & Poor's downgraded the stock's gold-plated triple A credit rating to double A plus, the first time Exxon lost its triple A rating since Harry Truman was president, the communists took over China, and the advent of color television.

The executive that the politician Sarah Palin called "T. Rex" even took a well-publicized 18 percent pay cut – to $27.3 million — to keep shareholders whose stock price has barely changed in five years from getting too restless.

But don't cry for Tillerson, who is scheduled to retire next March. The 64-year-old Exxon veteran, who joined the company as a production engineer in 1975 and never worked anyplace else, has built a nest egg with about $218 million in Exxon stock plus a pension plan worth about $69.5 million, according to an April 13 proxy statement and a form filed Dec. 9 with the Securities and Exchange Commission.

This has been a year where political candidates have taken aim at highly paid corporate executives and inequality in American society. One sign of popular unrest: BP shareholders, in a rare rebellion earlier this month, voted against a proposed 20 percent raise for BP chief executive Bob Dudley, though the vote was only advisory.

Thanks to a rule from the Securities and Exchange Commission, big companies will have to disclose how much greater their top executives' pay is than the average employee. The rule won't apply to Exxon Mobil until the 2018 proxy. But Tillerson's salary this year will be about 500 times the median U.S. household income.

"It's outrageous. This is a man who has helped drive not only a company but maybe the world over a cliff," said Rosanna Landis Weaver, an executive compensation specialist with **As You Sow**, a group that promotes social and environmental corporate responsibility and who believes Exxon should move into renewable energy. She said his compensation cut was "a largely symbolic reduction on a package that was exorbitant."

Yet Tillerson's compensation package almost seems tame in an era of excess. Blackstone Group CEO Stephen Schwarzman, head of a investment firm in another industry taking its lumps lately, received $89.5 million in compensation in 2015—not counting $644.8 million in dividends from his Blackstone shares, $65.6 million for his investments in Blackstone funds, and $10.8 million for tax benefits. (Tillerson's dividends amount to about $7.5 million a year.)

The Exxon Mobil stock and pension package Tillerson has accumulated over the course of his 41-year career also falls short of the nearly $350 million his predecessor Lee Raymond had in stock and pension when he left Exxon Mobil amid public uproar a decade ago.

Tillerson's nearly 2.5 million Exxon Mobil shares — reported Dec. 9 in a Securities and Exchange Commission filing — could still jump in value if oil prices rebound before he is expected to retire next March.

Tillerson's nest egg, said Exxon Mobil spokesman Alan Jeffers, was produced "over a career, in which he came right out of school and started working here. And the end point is not when he walks out the door on retirement."

Jeffers said that about 1.8 million of Tillerson's Exxon shares are not vested — meaning they cannot be sold now — but more and more will become vested every year over the next decade. That structure was designed to give Tillerson an incentive to do things that are in Exxon Mobil's long-term interest and tie his holdings to the outcome of long-term exploration and development projects. It also defers tax payments.

One sign of the delayed impact of decisions: Even as oil prices have fallen, Exxon Mobil Friday reported higher oil production, the result of investments made in earlier years.

Last year, Tillerson took a bigger pay reduction than the median energy company in the Standard & Poor's list of the 500 largest U.S. companies, according to Institutional Shareholder Services. Excluding pensions, the median of the 26 S&P 500 energy chief executives took pay cuts of 0.9 percent from 2014 to 2015; by contrast, Tillerson had a reduction of 14.6 percent.

The company says he's been worth it. In drawing up his pay package, the company compared Tillerson's compensation to those of chief executives at a dozen other major corporations — only one of them, Chevron, in the oil industry. It said that he ranked in the 39th percentile when calculated over his 10-year tenure as CEO.

Institutional Shareholder Services, however, said just counting his total compensation for 2015 put him above the 90th percentile of those same dozen corporate giants — including General Electric, Boeing, Verizon, Ford Motor, and Pfizer.

In many ways the jury is still out on how Tillerson has handled the rollercoaster of crude oil prices and blockbuster development of shale oil and gas in the United States. During his tenure, crude prices went from about $60 a barrel up to $148, then down and up and back down as low at $28. The company's capital spending — including new exploration and production spending — rose from $17.7 billion the year Raymond left to $42.5 billion in 2012 before sliding to $23 billion this year.

Exxon Mobil tried to catch up with smaller independents thriving in U.S. shale exploration and in 2010 ended up making an ill-timed purchase of XTO Energy, a company with extensive domestic holdings, when prices were relatively high.

In its downgrade of Exxon's credit rating, S&P pointed to lower revenues because of falling crude oil prices, high-cost investment required to replenish reserves and maintain oil and gas production, and large dividend payments. Nonetheless, Exxon Mobil raised its dividend even higher the day after S&P's downgrade.

S&P also said Exxon Mobil had doubled its debt level, while keeping up massive share buybacks. Although Exxon Mobil suspended buybacks earlier this year, over the Tillerson decade the company reduced the number of outstanding shares from 6.2 billion to 4.1 billion at a cost of $54 billion since 2012 and more than $200 billion over the past decade. The company says it is a way to return money to shareholders, and at the same time boost the stock price.

"Nothing has changed in terms of the company's financial philosophy or prudent management of its balance sheet," Exxon Mobil said in a statement after the downgrade. "ExxonMobil's access to financial markets on attractive terms remains strong and is a competitive advantage relative to industry peers."

The slightly lower credit rating isn't expected to hurt the company, analysts agreed, but it still mattered.

"A double A plus rating is not a terrible thing, but there is a symbolic effect here. The biggest company in the industry has lost its gold-plated triple A," said Pavel Molchanov, an energy analyst at the investment firm Raymond James.

Molchanov said the company was continuing to spend about $12 billion a year paying dividends to shareholders "because this company prides itself on being a dividend aristocrat. It has grown its dividend year in and year out for decades. It is preserving that history."

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