

Seeing Red Over a Golden Parachute

Home Depot's CEO Resigns, And His Hefty Payout Raises Ire

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Robert L. Nardelli has abruptly resigned as chairman and chief executive of [Home Depot](#), pocketing a lavish severance package and leaving shareholders with a stock that has languished even as sales have nearly doubled during his six-year tenure.

In a statement released yesterday, Home Depot's board of directors and Nardelli said they "mutually agreed" to the resignation, which took effect Tuesday. Under the terms of a separation agreement negotiated when he joined the company in 2000, Nardelli, 58, is to receive about \$210 million in cash and stock options, including a \$20 million severance payment and retirement benefits of \$32 million.

Frank Blake, 57, vice chairman and executive vice president, succeeds Nardelli as chairman and chief executive. Blake, like Nardelli, previously worked for [General Electric](#) and also was a former deputy secretary of the Energy Department.

Critics took aim yesterday at the size of Nardelli's payout, the latest in a string of extravagant executive bonuses and awards. Paul Hodgson, a senior research associate at the Corporate Library, an executive-compensation research firm, ranked the severance package among the largest he had ever seen, earning Nardelli a spot on his list of the 12 highest-paid chief executives of the worst-performing companies. Shareholder Evelyn Y. Davis called it "unbelievable." Incoming House Financial Services Committee Chairman Barney Frank (D-Mass.) criticized the package as a sign that executive pay had gotten "out of control."

"Mr. Nardelli's contribution to raising Home Depot's stock value consists of quitting and receiving hundreds of millions of dollars to do so," said Frank, who has vowed to study the issue of executive compensation this year.

The stock of the Atlanta home-improvement company closed yesterday at \$41.07, up 91 cents, or 2.3 percent.

Nardelli has been subject to criticism since he took over the company in December 2000, promising to increase sales and profit and to centralize management in a chain once known for its freewheeling culture.

He has succeeded on many fronts, even as he fell short on others, and in recent years found himself defending his hefty salary. Revenue has nearly doubled, to \$81.5 billion in 2005 from \$45.7 billion in 2000, though that figure fell short of his goal of \$100 billion. During that time, profit rose to \$5.8 billion from \$2.6 billion.

Nardelli replaced several top executives with former GE colleagues and implemented top-down management. At the same time, he expanded Home Depot's wholesale business to attract professional contractors. He also expanded the company outside the United States.

Yet Nardelli failed to have much effect on Home Depot's stock price, plagued by slowed store expansion, a cooling housing market and increased competition from rival Lowe's, several analysts said. On Dec. 4, 2000, the day before he was named chief executive, shares of the company closed at \$40.75. On Friday, the last day of trading before Nardelli announced his resignation, the stock closed at \$40.16. Last year, the stock's price ranged from a low of \$32.85 to a high of \$43.95, finishing down 0.8 percent.

"I think the financial results he delivered have been exceptional," said Stephanie Hoff, senior retail analyst at the investment firm Edward Jones. "The stock price just hasn't kept pace."

That has prompted some shareholders to question the size of Nardelli's compensation. Last year, he received more than \$30 million in compensation and stock options. During his six years at the company, he earned about \$125.57 million in annual salary, bonuses, stocks and other payments, according to Equilar, a compensation research firm in San Mateo, Calif.

At the company's annual shareholders meeting last spring, Nardelli was the only board member present. He did not give a speech and refused to answer questions, frustrating the 50 or so shareholders who showed up. Last month, activist shareholders Relational Investors sent a letter to Home Depot urging it to reevaluate its strategy and the performance of the management team.

The company's board of directors at the time issued a statement saying it "unanimously supports" Nardelli. The about-face yesterday took many investors and industry experts by surprise.

"I think that there were numerous different public relations fiascos of 2006 that ultimately took its toll on Mr. Nardelli and the board," said Michael Cox, an analyst at the investment firm Piper Jaffray. "I think a fresh change is most likely good for the company right now."

Several analysts viewed Nardelli's replacement as an indication that Home Depot was not looking for a major overhaul, however. Hoff said she thought Blake would be more of a consensus-builder than Nardelli, who had a reputation for gruffness.

"This is not the board's response relative to the need for a strategic change in the company," Hoff said. "It's more about him."

Staff researcher Richard Drezen contributed to this report.

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