

# CEO's value built on how well he chops

By Sunil Vidyarthi

**R**ecord-high prices for CEOs and the ratio of their salaries to the minions in the company are well-known.

What I want to examine is the popular opinion that change in this top job does in fact have an impact on the company. There is little doubt that stock prices react quite violently at such moves. Take my current stock pick, **NCR Corp.** (NCR-NYSE, \$33.43, 937-445-5000, [www.ncr.com](http://www.ncr.com)).

Recently, NCR's CEO decided to take the top job at Hewlett Packard, the troubled computer company. That resulted in a steep selloff in NCR, from over \$38 down to \$31. Another example of the entrenched view that these modern-day heroes are well worth their pay package.

First a bit about NCR, a venerable institution founded back in 1884 as National Cash Register. I can't think of anyone who would



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not have been served by one of its products.

NCR has been a pioneer for over a century, getting into the computer business back in 1952 and launching the first supermicrocomputer in 1984. It was such a hit back in the 1980s that the

then-goliath, AT&T, used its stash of long-distance call revenue to buy it in 1991. Of course, that was engineered by another highly paid CEO of the time, only to turn out to be disaster. In a short four years, NCR was split off as a separate company again.

Currently, NCR's principal activity is to provide technology and services that help businesses interact, connect and relate with their customers. This has not changed in over 100 years.

## Five divisions

It operates through five segments. The Financial Self Service segment provides services to retail banking. The Data Warehousing

segment provides hardware, software, professional consulting, customer support services and products from leading technology firms.

The Retail Store Automation segment provides solutions such as traditional point-of-sale, self-checkout, web-enabled kiosk and electronic shelf-labelled solutions for the retailing industry.

The Systemedia segment develops, produces and sells consumable media products. The Payment and Imaging segment provides solutions to financial services industry.

For the fiscal year ended Dec. 31, revenues rose seven per cent to \$5.98 billion. Net income rose from \$58 million to \$290 million. Revenues reflect the continued growth in updates, replacements and purchases of automated banking machines. Net income also reflects cost and expense improvements. As it stands, the company has little debt and a return on equity of 15 per cent. It is a high beta stock (1.77) which means in a selloff, it will do worse than the market.

Since its split from AT&T, the stock floundered for over five years, not participating at all in the late-'90s technology bubble, dropping to under \$10 in early 2003, coincident with everything else.

The following two years saw the stock price skyrocket to nearly \$40 earlier this year. Obviously, all who bet on the departing CEO made out well.

There is no clear answer as to the effect the CEO had on the fortunes of the company, as opposed to the general economy and rebounding stock market help. Over the last three years (since 2001), NCR's revenue is up a minor one per cent, gross profit is down by over 10 per cent but net earnings are up by 30 per cent.

This CEO delivered results by saving over \$200 million in costs. Those who lost their jobs to make the investors rich should be the ones receiving the extra income. But we tend to reward the generals, not the soldiers.

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