Oracle bows to shareholders by cutting Larry Ellison’s pay

Co-founder’s compensation halved and tied to performance after 5-year campaign

Oracle has bowed to years of shareholder unrest by halving the pay of co-founder Larry Ellison, who for years has been at or near the top of rankings of the highest-paid US business leaders.

Beyond the pay cut, Mr Ellison also risks missing out on all but $1 a year in compensation over the next five years, unless the US database software company hits new performance and share price targets.

The concessions mark a victory for the company’s biggest institutional investors, who have agitated against its pay arrangements for years. Oracle lost so-called “say on pay” votes five years running, as a majority of investors rejected its executive compensation arrangements.

While making some changes to reduce pay and add more performance-based elements, it
had not bowed until this year to the non-binding votes — a festering issue with Wall Street.

The changes received a lukewarm reception from corporate governance experts. Charles Elson, a professor of finance at the University of Delaware, questioned why Oracle had resisted its shareholders over the matter.

“The pay of the top three executives at Oracle has been very high over the last few years,” added Kirk Hanson, head of the centre for applied ethics at Santa Clara University. He added that, while “say on pay” votes had been effective at drawing attention to excessive compensation, it was too soon to judge how the new Oracle arrangements would work in practice.

Oracle said in a regulatory filing that unhappiness with executive pay had been the top issue shareholders raised in meetings with its independent directors, but that it had “positive feedback” on the new arrangements.

Following the concessions, Oracle has valued a stock option package it has handed to Mr Ellison for the next five years at $103.7m, or $20.7m a year — a cut of 47 per cent from the stock grant he received before, and representing a 50 per cent fall in his overall pay.

However, the company did not explain how it has valued the 17.5m options included in his package, and the final value of the stock could end up being much higher if Oracle hits the targets in the compensation plan. Oracle has also not guaranteed that Mr Ellison and other top executives will not get more stock awards during the next five years, though it said it did not “expect” any further grants.

Investor unhappiness rose after Mr Ellison, who is currently chief technology officer, received compensation worth $94.6m in 2012. His pay packages were enough to take him to the top of the league table of best-paid executives, earning him about $650m over the past decade.

Even that, though, pales in comparison to his 28 per cent stake in Oracle, which is currently worth $57.2bn and makes him the fifth richest person in the world, according to Forbes.

The fact that Oracle has handed Mr Ellison generous stock incentives, even though he
benefits more than anyone from improvements in its stock price, has been one of the sticking points for opponents. “The question is, do they need to give him any more stock to incent him? The answer is no,” said Prof Elson.

The new pay arrangements also apply to Oracle’s co-chief executives: Safra Catz, a former investment banker, and Mark Hurd, a former head of Hewlett-Packard.

The ultimate value of the pay packages will depend on how far Oracle’s share price advances in the next five years, as well as on the growth and profitability of its cloud business. The full amount will only pay out if Oracle’s shares hit $80, or 64 per cent above their current level.

Details of the new executive pay arrangement were contained in a regulatory filing made last week, but had not previously been reported.