

# Lumber Liquidators: Overpaying for Underperformance

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- How does Lumber Liquidators' Chairperson compensation compare to its peer group.
- How does the company's stock performance compare to its peer group.
- Who is responsible to the company's poor performance?
- Do you think a change at the top is needed?

I have made some noise recently concerning what I believe to be [excessive management compensation](#) at Lumber Liquidators (LL). The fundamental argument is that while shareholders have seen the value of their investment drop over the years, management continues to receive very healthy paychecks and increasing equity compensation. It all seems a little unfair.

In response, I have formed an ad-hoc group ([Lumber Liquidators Value Committee](#)) composed of several large holders of Lumber Liquidators shares (myself included) and we are actively soliciting large and small shareholders to vote against management's proxy proposals to be tabled at the 2019 Lumber Liquidators Annual Shareholder Meeting. Our goal in rejecting these proposals is to send a message to the company that excessive pay packages (Proposal 3) will not be tolerated, especially for severe underperformance, and that shareholders will not allow their holdings to be further diluted so that management can receive larger equity base compensation (Proposal 4).

In this article, I would like to compare Lumber Liquidators director compensation to the companies within its self-selected peer group. In particular, I would like to focus on the pay package of the company Chair, [Nancy M. Taylor](#).

## How Does Lumber Liquidators Director Compensation Compare to Peers?

The following companies form the "peer group" which Lumber Liquidators uses to compare and base its salary decisions.

The 2017 Compensation Report compared the compensation paid to the Company's top executives to the compensation paid to their counterparts at the peer companies. The peer group included publicly traded discretionary retailers with revenues and market capitalizations that fell both above and below the Company. The following is a list of companies included in the peer group used for the 2017 Compensation Report:

hhgregg, Inc.*	Kirkland's, Inc.
Select Comfort Corp.	Conn's, Inc.
West Marine, Inc.*	The Container Store Group, Inc.
Pier 1 Imports, Inc.	Knoll, Inc.
Hibbett Sports, Inc.	Shoe Carnival, Inc.
Haverty Furniture Companies, Inc.	Zumiez, Inc.
Vitamin Shoppe, Inc.	Ethan Allen Interiors, Inc.
Monro Muffler Brake, Inc.	

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\* Subsequent to the preparation of the 2017 Compensation Report, hhgregg, Inc. and West Marine, Inc. ceased as independent, public companies.

Source: Lumber Liquidators [DEF-14A](#)

The first thing you will notice is that two of the companies from the group are no longer independent or public. hhgregg, Inc filed for bankruptcy in 2018 and West Marine was taken over by a private equity firm.

Secondly you might notice that none of the other companies in the peer group have anything to do with home improvement or flooring. I don't know the reasoning for that, but at least most of the companies in the peer group are retailers.

As mentioned in the [proxy documents](#), all of the companies in the peer group are either larger or smaller than Lumber Liquidators, by market cap and by sales. With this in mind, we would expect that Lumber Liquidators director compensation would also fall somewhere within the average of the director compensation of the group.

## How Does Lumber Liquidators' Chairman Compensation Compare to Its Peers?

The Chairman of Lumber Liquidators is Nancy M. Taylor. By looking at her [executive bio](#), she would seem to be a well rounded and adequate selection for the chairman position, although I do not have many details about her performance. At Lumber Liquidators, in 2018, her total compensation was [valued](#) at \$417 500. How does this

compare to board chairs in the peer group? As we can see from the following chart, her compensation was the highest.

Company	Chairman or Lead Director	Year	Cash	Stock Awards	Other Comp	Total Compensation
Lumber Liquidators	Nancy M. Taylor	2018	\$ 307,513	\$ 109,987		\$ 417,500
Hibbett Sports	Michael J. Newsome	2018	\$ 223,748	\$ 150,000		\$ 373,748
Shoe Carnival	J. Wayne Weaver	2017	\$ 300,000	\$ -		\$ 300,000
Select Comfort	Jean-Michel Valette	2018	\$ 195,000	\$ 77,807	\$ 26,077	\$ 298,884
Pier 1 Imports	Terry London	2017	\$ 211,607	\$ 60,367		\$ 271,974
Monro Muffler Brake, Inc.	Robert E. Mellor	2018	\$ 115,500	\$ 130,000		\$ 245,500
Conn's, Inc.	Bob L. Martin (Lead Independent Director)	2018	\$ 130,000	\$ 100,008		\$ 230,008
The Container Store	Robert E. Jordan (Lead Director)	2017	\$ 94,167	\$ 100,001		\$ 194,168
Zumiez, Inc.	Sarah G. McCoy (lead independent director)	2017	\$ 92,200	\$ 85,300		\$ 177,500
Knoll, Inc.	Jeffrey A. Harris (lead independent director)	2018	\$ 65,000	\$ 90,000		\$ 155,000
Kirkland's, Inc.	R. Wilson Orr, III	2017	\$ 105,000	\$ 35,920		\$ 140,920
The Vitamin Shoppe	Alexander W. Smith	2017	\$ 41,250	\$ 80,683	\$ 12,500	\$ 123,746
Ethan Allen Interiors, Inc.	James W. Schmotter (Lead Independent Director)	2017	\$ 68,000	\$ 22,514		\$ 90,514

Note that some companies do not have an independent Chairman. If the Chairman is also an employee of the company (for example if the person is CEO and Chairman) then in order to maintain an independent Board of Directors, the company elects to have a Lead Independent Director take the position of head of the board.

It is clear from the chart above that Lumber Liquidators pays their Chairperson, Nancy M. Taylor, the most, out of their whole peer group.

Lumber Liquidators stock is trading at the same price as its IPO, 12 years ago. Investors have exactly zero gains to show for their 12 years of holding this stock. It seems inappropriate to me that the company Chairman receives the most compensation out of the whole peer group.

The following links will direct you to the DEF-14A statements for each company listed above, so the information can be easily verified.

[Kirkland's, Inc.](#) [Select Comfort Corp.](#) [Conn's, Inc.](#) [The Container Store Group, Inc.](#)  
[Pier 1 Imports, Inc.](#) [Knoll, Inc.](#) [Hibbett Sports, Inc.](#) [Shoe Carnival, Inc.](#) [Zumiez, Inc.](#)  
[Vitamin Shoppe, Inc.](#) [Ethan Allen Interiors, Inc.](#) [Monro Muffler Brake, Inc](#)

## Helpful Comparisons

The average compensation (arithmetic average) in the Lumber Liquidators peer group for the Chairman or Lead Independent Director position is \$232 000. Nancy M. Taylor makes 80% more than the average peer group Chairman.

Nancy M. Taylor is also a director at a company named TopBuild Corp (BLD). It's a large company which installs and distributes insulation and building products. At that company, she earns compensation of approximately \$173 000 per year. The Independent Director serving as Chairman of the Board at TopBuild, Mr. Alec C. Covington earns only [\\$329 625](#) in compensation for his duties. And you should know that TopBuild has about twice the revenue of Lumber Liquidators and its market cap is over 7 times larger.

Nancy M. Taylor also receives almost 2 times the compensation of Floor and Decor's Chairman, Norman Axelrod, who made [\\$215 000](#). Floor and Decor is one of Lumber Liquidators greatest competitors and is the fastest growing company in the flooring market.

Nancy M. Taylor is paid more than Sherwin Williams Lead Director, John M. Stropki who earns [\\$289,310](#). And Sherwin Williams is a company valued at roughly \$40 billion (more than 130 times larger than Lumber Liquidators), and has revenue of \$17 billion.

I will note that at Lumber Liquidators, since 2015, Nancy M Taylor has been part of a "[Special Committee](#)" which augmented her normal salary.

From the Lumber Liquidators [proxy filings](#) we learn the following. "The compensation to be paid to Ms. Taylor for serving as the chairperson of the Special Committee during 2018 was a monthly payment of \$15,000 for the months of January through November and \$20,000 for the month of December of 2018."

"The Special Committee, which was dissolved in March 2019 after completing the scope of its responsibilities, had oversight responsibilities for certain settled government investigations and related matters. The members of the Special Committee for 2018 and 2019 were Ms. Taylor, who served as the chairperson, Mr. Roper and Mr. Wade."

For 2018, Nancy M. Taylor was compensated "\$185,000 of cash earned in connection with her service on the Special Committee."

Throughout 2018, Lumber Liquidators reached several high profile legal settlements. The company spent many [millions of dollars](#) on legal services.

## Higher Pay = Better Performance?

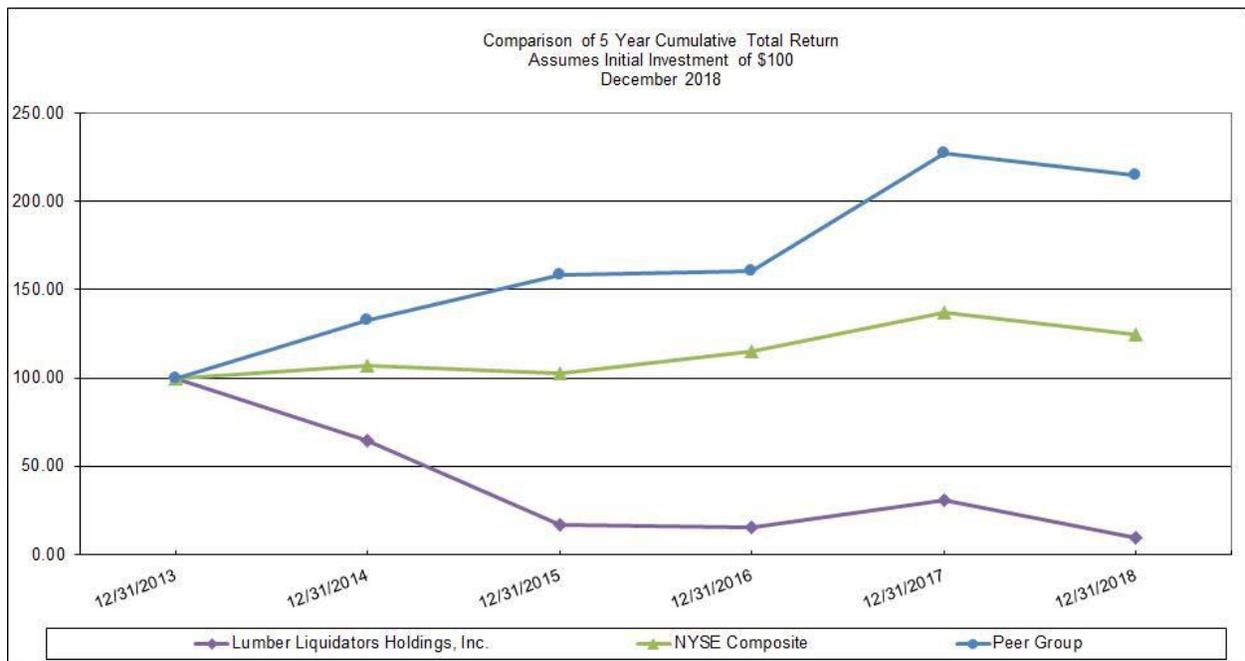
From Lumber Liquidators' proxy filing, the company states that their compensation structure is necessary in order to "attract, motivate and retain highly qualified talent." If

that was truly the case, I would have no issue with the company paying high salaries. It would be a win-win situation for shareholders, management and directors.

Unfortunately, the company has been a chronic underperformer and competitors have taken large amounts of market share. For example, Floor and Decor has an almost "10-year winning streak of double-digit" comparable store sales. In 2018, Floor and Decor generated "23.5% net sales increase and 9.2% comp sales growth." Lumber Liquidators increased net sales by 5.4% and comparable sales grew by only 2.6%.

Lumber Liquidators has underperformed Floor and Decor very significantly. I fully know that Lumber Liquidators has faced a series of extraneous problems for which the current management team is not responsible, but the underperformance at Lumber Liquidators compared to Floor and Decor over the last years is something that does fall on the shoulders of the current management team.

In the 2018 Annual report, Lumber Liquidators includes the following graph to show how their company stock has performed, relative to the peer group. (LL shown in purple)



Source: Lumber Liquidators 2018 [10-K](#)

The following chart further shows that LL has underperformed the NYSE average by over 100% and underperformed the peer group by over 200% since the start of 2014. There is really no good way to spin these numbers.

	12/31/2014	12/31/2015	12/30/2016	12/31/2017	12/31/2018
Lumber Liquidators Holdings, Inc.	64.45	16.87	15.30	30.51	9.25
NYSE Composite	106.87	102.62	115.02	136.76	124.72
Peer Group <sup>1</sup>	132.38	158.26	160.76	227.44	214.61

Source: Lumber Liquidators 2018 [10-K](#)

Note: The peer group used in the LL 10-K is different than the peer group used in the DEF-14A for the compensation report. Quote from the LL 2018 proxy filing "The Peer Group consists of industry competitors and other retailers of a similar size to the Company. They include: The Home Depot, Inc., Lowe's Companies, Inc., Floor & Décor Holdings, Inc., Tile Shop Holdings, Inc., The Sherwin-Williams Company, Pier 1 Imports, Inc., Vitamin Shoppe, Inc., Hibbett Sports, Inc. and Haverty Furniture Companies, Inc. Mattress Firm Holding Corp. ceased trading so they have been omitted from our peer group."

## A Change is Needed

As a shareholder of Lumber Liquidators, it seems clear that change is needed at the company. I am not talking about making small adjustments. The time for incremental improvements is long past. At this point, given the competitive landscape, the tarnished brand and the macro headwinds of the American economy and tariffs, I am convinced that this company needs a major overhaul if it ever wants to get back on track. Shareholders are the company. Shareholders have the power to push for these changes. And we can start today.

I have formed an ad-hoc group, the Lumber Liquidators Value Committee, which is composed of shareholders with a significant equity stake in the company. We have a turnaround plan for Lumber Liquidators and our goal is to rapidly increase growth, profits and the share price. We want to change the management team and the board. Streamline operations. Reestablish the selling culture of the company. In short, we want to Rebuild LL into the prosperous company it once was.

Shareholder support for our proposed changes is growing by the day. If you are a shareholder of Lumber Liquidators, you can show your support for change by voting

against the [Lumber Liquidators proxy proposals](#) to be tabled at the 2019 Lumber Liquidators Annual General Shareholder Meeting. These management proposals do not align with the best interests of shareholders. It is time to send a clear message to management that enough is enough.

Yours truly,

Mario Rizzi

Representing the Lumber Liquidators Value Committee

[ReBuild LL - A Shareholder Proxy Fight to Boost Growth and Profits at Lumber Liquidators](#)