Profiting from the unkindest cut of all; 14 firms that cut jobs yearly for 5 years see stock rise

Matt Krantz, @mattkrantz, USA TODAY

Companies looking to boost stock performance through cost-cutting have found success in one specific category: workers.

There are 14 companies in the Standard & Poor's 500, including office equipment maker Pitney Bowes, defense contractor Lockheed Martin and grocer Safeway, that have methodically cut jobs every year the past five fiscal years. These stocks are outperforming the market both in the short term and long term.

The Wall Street mantra typically is about growing and investing, yet companies now are rewarded for doing the opposite when it comes to their workforces. "This is what shareholders expect management to do," says Jack Ablin of BMO Private Bank. "Do more with fewer people."

Some job cuts may not necessarily be firing workers, but rather restructuring and divestitures. But a more powerful force yet is the productivity gain caused by companies replacing people with technology, Ablin says.

The biggest stock gainer from reducing jobs this year is Pitney Bowes. It slashed its workforce almost in half, to 16,100, in the most recent annual report, from 35,140 five years ago. Most of the big cuts came in 2013, when the workforce was cut by 41%. But in the past 12 months, shares of the company are up 73%.

Defense contractors Lockheed Martin and Northrop Grumman have also been persistent job cutters. Lockheed Martin, for instance, has taken its workforce down 21% in the past five years, including a 4.2% cut in the latest fiscal year. But investors have pushed shares up 60% in the past 12 months.

It's not just a theory. Shares of struggling office supplier Office Depot soared 16% Tuesday after announcing plans to shutter 400 stores, having an untold negative effect on jobs.

Shares of these chronic job cutters, on average, are up 18.8% in the past 12 months. That tops the 15.5% gain by the Standard & Poor's 500 during the same period. The past five years, job cutters are beating the market by a wider margin, gaining an average 269%, while the S&P 500 is up 103%.

Cutting jobs is a good way to boost stock price. But it looks like it's also a way to help boost CEO pay. All five CEOs at companies that cut workforces the most the past five years, who reduced the headcount each of the past five years, got big raises in their most recent fiscal years, a USA TODAY analysis shows.
The biggest raise went to Sandeep Mathrani, CEO of General Growth Properties, a real estate investment trust. The company paid Mathrani $22.1 million in fiscal 2013, up 424% from the previous year, says the company's proxy filing. That's despite cutting the workforce by more than half from levels five years ago.

Arthur Coppola, CEO of REIT Macerich saw his pay rise 57% in the most recent fiscal year to $13.1 million.

This reflects the trend in the broader economy, Abling says. Profit has outpaced sales for years, largely due to cost cutting. Many companies that were once labor intensive are now technology intensive. Many of the tasks done by armies of workers can be handled by computers, and larger companies continue to see job growth stall to drive profits.

It's a reminder of how it's not existing companies that are the engines of job growth, Abling says, but new ones. Large companies "continue to shrink their workforces," he says. "Perhaps we just need more companies."

May 8, 2014
SLICING THEIR WAY TO THE TOP
How the S&P 500 companies that reported a lower number of employees in each of the past five fiscal years have performed in the past 12 months:

<table>
<thead>
<tr>
<th>EMPLOYEE % CHANGE LATEST YEAR</th>
<th>STOCK PRICE % CHANGE PAST 12 MONTHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pitney Bowes</td>
<td>-41.2%</td>
</tr>
<tr>
<td>Lockheed Martin</td>
<td>-4.2%</td>
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<tr>
<td>Northrop Grumman</td>
<td>-4.1%</td>
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<tr>
<td>Safeway</td>
<td>-19.3%</td>
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<tr>
<td>NextEra Energy</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Hartford Financial</td>
<td>-16.4%</td>
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<tr>
<td>Motorola Solutions</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Wisconsin Energy</td>
<td>-4.5%</td>
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1 – through May 6, 2014; Source S&P Capital IQ

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WASHINGTON Twelve of the country’s 47 largest airports are vulnerable to storm surges that are expected to increase from climate change, according to a White House report released earlier this week.

The U.S. National Climate Assessment released Tuesday warned that coastal airports with at least one runway 12 feet or less above sea level could suffer flooding during moderate to high storm surges.

The report noted that metro

Feeling the heat
Cities that’ll be hardest hit, 3A

New York’s big three airports—John F. Kennedy, LaGuardia and Newark—already flooded in October 2012 during the 14-foot tidal surge from Hurricane Sandy. LaGuardia closed for three days.

LaGuardia already maintains a dike and pumps for floodwaters, according to a 2002 Transportation Department report cited by the White House. “Many coastal airports are vulnerable to flooding,” the report noted. “Extreme high tides, coupled with flood conditions, can reach close to the existing levels.”

Sea levels are projected to rise 1 to 4 feet this century, and more frequent storms from climate change could flood runways or force construction of expensive barriers, the report said.

The damage from Hurricane Sandy served as a wake-up call for airports, said Chris Oswald, vice president of safety and regulatory affairs for Airports Council International-North America.

New York Gov. Andrew Cuomo has announced $875 million in improvements for LaGuardia...