Is Clarocity Corporation's (CVE:CLY) CEO Paid Enough To Stay Motivated?

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Shane Copeland took the helm as Clarocity Corporation's (CVE:CLY) CEO and grew market cap to CA$5.98m recently. Recognizing whether CEO incentives are aligned with shareholders is a crucial part of investing. This is because, if incentives are aligned, more value is created for shareholders which directly impacts your returns as an investor. Today we will assess Copeland's pay and compare this to the company's performance over the same period, as well as measure it against other Canadian CEOs leading companies of similar size and profitability.

See our latest analysis for Clarocity

Did Copeland create value?

Profitability of a company is a strong indication of CLY's ability to generate returns on shareholders' funds through corporate activities. In this exercise, I will use profits as a proxy for Copeland's performance. Recently, CLY delivered negative earnings of -CA$15.70m , which is a further decline from prior year's loss of -CA$9.83m. Moreover, on average, CLY has been loss-making in the past, with a 5-year average EPS of -CA$0.088. In the situation of negative earnings, the company may be incurring a period of reinvestment and growth, or it can be an indication of some headwind. In any case, CEO compensation should represent the current condition of the business. In the most recent financial statments, Copeland's total remuneration grew by 45.07% to CA$439.33k. In addition to this, Copeland's pay is also made up of 43.66% non-cash elements, which means that fluxes in CLY's share price can impact the real level of what the CEO actually takes home at the end of the day. TSXV:CLY Income Statement Export August 15th 18 TSXV:CLY Income Statement Export August 15th 18

What's a reasonable CEO compensation?

While one size does not fit all, as remuneration should be tailored to the specific company and market, we can estimate a high-level yardstick to see if CLY deviates substantially from its peers. This outcome can help shareholders ask the right question about Copeland's incentive alignment. On average, a Canadian small-cap is worth around $345M, generates earnings of $24M, and remunerates its CEO at roughly $770,000 per year. Typically I would use earnings and market cap to account for variations in performance, however, CLY's negative earnings lower the effectiveness of this method. Looking at the range of compensation for small-cap executives, it seems like Copeland is remunerated sensibly relative to peers. On the whole, although CLY is unprofitable, it seems like the CEO's pay is reflective of the appropriate level.

Next Steps:

CEO pay is one of those topics of high controversy. Nonetheless, it should be talked about with full transparency from the board to shareholders. Is Copeland remunerated appropriately based on other factors we have not covered today? Is this justified? As a shareholder, you should be aware of how those that represent you (i.e. the board of directors) make decisions on CEO pay and whether their incentives are aligned with yours. If you have not done so already, I highly recommend you to complete your research by taking a look at the following:

1. Governance: To find out more about CLY's governance, look through our infographic report of the company's board and management.
2. Financial Health: Does it have a healthy balance sheet? Take a look at our free balance sheet analysis with six simple checks on key factors like leverage and risk.
3. Other High-Growth Alternatives: Are there other high-growth stocks you could be holding instead of CLY? Explore our interactive list of stocks with large growth potential to get an idea of what else is out there you may be missing!

To help readers see past the short term volatility of the financial market, we aim to bring you a long-term focused research analysis purely driven by fundamental data. Note that our analysis does not factor in the latest price-sensitive company announcements.

The author is an independent contributor and at the time of publication had no position in the stocks mentioned. For errors that warrant correction please contact the editor at editorial-team@simplywallst.com.

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