After the merger with Biovail in September 2010, VRX approved compensation packages that are closely tied to absolute TSR performance. In 2011, CEO pay increased to nearly $45m, compared to an average total pay of under $5m before the merger. Much of this increase was a result of payments related to the merger. As a result, we have not yet had the chance to observe pay/performance alignment under the new compensation philosophy without the influence of the merger transaction. Although 2011's pay increase significantly impacted pay/performance alignment, CEO pay change and performance were still positive in all of our observation periods, resulting in a Pay for Performance Score of 12/24.
For 2012, the Clarkson Centre for Board Effectiveness (CCBE), prepared a Pay for Performance report for each firm currently listed on the TSX 60 Index that has at least 8 years of historical compensation or share price data available. The CCBE’s Performance Score measures how closely CEO pay and TSR are aligned over four different time horizons. Compensation data is gathered from the firm’s public filings, and valued at the time of grant. Options are valued using the binomial tree fair value method, and PSUs are valued at the grant date value of the target payout. TSR is calculated using a 30-day average start and end date share price, and assumes the reinvestment of dividends.

CCBE collected pay and performance data for up to ten peer companies for each TSX 60 constituent. Peer companies were selected from each TSX 60 constituent’s performance benchmarking peer group, as disclosed in its most recent Management Information Circular. If a performance peer group was not disclosed, the CCBE collected information on the disclosed constituents of the total pay benchmarking peer group. If a peer group had more than 10 constituents, we randomly selected ten from among the disclosed list.

Our Pay for Performance Score takes into account alignment between change in CEO pay and TSR in 1-, 4-, 6- and 8-year observations. CEO pay change is ‘smoothed’ to account for outlying years. For example, in our 8-year observation we calculate CEO pay change as the percent change of the sum of total CEO pay from 2004-2007 against the sum of total CEO pay from 2008-2011. This helps to normalize our longer observations for unusual events like CEO turnover and large one-time payouts. The Pay for Performance Score gives significantly more weight to longer-term observations than shorter ones.