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Abercrombie & Fitch Renews Contract With CEO

Activist Investor Engaged Capital Blasts Move

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Abercrombie & Fitch Co. ANF -0.82% entered into a new contract with Chief Executive Michael Jeffries, thumbing its nose at an activist hedge fund that had pressed the company to look for a new leader.

The move comes weeks before Mr. Jeffries's current contract was due to expire Feb. 1. The board's lead independent director, Craig Stapleton, said Monday the new contract will tie Mr. Jeffries's pay more closely to the teen retailer's performance.

In his new contract, Mr. Jeffries's annual base pay will remain unchanged from the current contract, at $1.5 million. Mr. Jeffries owned 4.1% of shares of Abercrombie stock as of May 1, 2013, according to a proxy statement filed that month.

Abercrombie shares have slumped and an activist investor had sought to replace the retailer's chief. Bloomberg News

Mr. Stapleton said the decision to renew the CEO's contract reflects an extensive review by the board and detailed discussions with shareholders. He credited Mr. Jeffries with the company's growth and added the board thinks he is the right person to proceed with the company's plans for dealing with current challenges.

Activist investor Engaged Capital LLC reacted negatively to the decision. The fund had sought to replace Mr. Jeffries, arguing that he had continued to pull in high pay despite poor performance and was an obstacle to a sale of the company to a private equity buyer.

The fund said it was "disturbed" to learn of the decision and said it would consider all its options for holding the board accountable. Activists sometimes mount proxy fights against companies by seeking to replace directors nominated by management with their own candidates.

"This decision appears to be made without any substantive discussion with shareholders," Glenn Welling of Engaged wrote in an emailed statement. "We consider this an outright dereliction of the Board's fiduciary duties."

Mr. Welling made his argument for replacing Mr. Jeffries and exploring finding a private equity buyer in a letter to the board last week. Abercrombie said that Monday's announcement was the result of several months of discussions, "both internally and with shareholders."

Mr. Jeffries's compensation package fell to $8.2 million in the last fiscal year from $48.1 million a year earlier, according to a proxy filed with the Securities and Exchange Commission.

Mr. Jeffries became CEO in February 1992 and chairman in May 1998, after the company was spun off from its former parent, Limited Inc., which is now L Brands Inc. LB -0.61% He is considered by the board to be the "founder" of the modern-day Abercrombie & Fitch, according to a company filing.

Abercrombie once dominated the teen retail market, but has been slow to adapt as teens have shifted to "fast-fashion" retailers such as Forever 21 that offer cheaper prices and none of the now less popular logos. Its shares have lost 29% of their value so far this year.

On Monday, Abercrombie said merchandise planning, inventory management and brand executive Leslee Herro plans to retire in the spring. She will remain in an advisory role for an unspecified period.

The company also said it hired Herbert Mines Associates to assist in a search for candidates for newly created leadership positions for its Abercrombie & Fitch, abercrombie kids, and the Hollister brand as part of its effort to build internal candidates for succession planning.

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