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PEABODY ENERGY:

Management Is Rewarded as Investors Lose and Workers Are at Risk

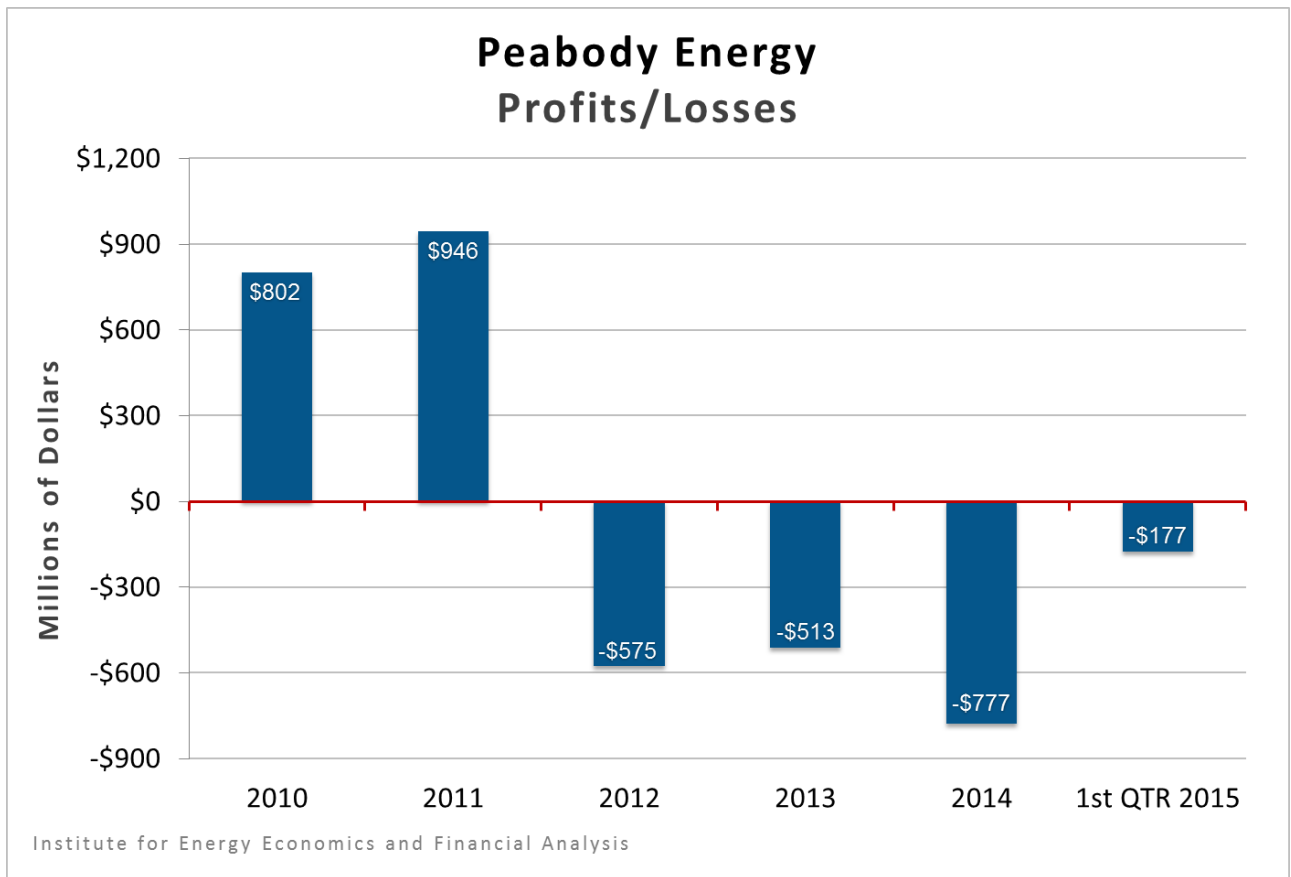
By David Schlissel, Director of Resource Planning Analysis, IEEFA

Investors in Peabody Energy have lost over \$16 billion of their stock value since the end of 2010, as the stock price has plunged from \$64 per share to \$4.50 per share. The company reports it has cut over 20% of its work force, and more layoffs seem likely as the company seeks ways to cut costs.

Despite these catastrophic losses, Peabody's top management has continued to be rewarded handsomely, and has been paid even more than they earned in 2010 before the stock downturn began. Only in the last few weeks have the outgoing and the incoming Chief Executive Officers announced small and temporary reductions in their base salaries, saying they would share the pain of cost cutting. However, as will be discussed below, these CEO salary reductions are merely public relations moves that are far smaller than they have been made to appear.

Peabody Has Experienced Substantial Losses in Recent Years

Peabody made significant profits in 2010 and 2011, but has experienced over \$2 billion dollars in net losses since then. These losses are mostly attributable to falling coal prices in both the U.S. and seaborne markets and rising production costs in some areas. Domestically, coal prices have been hurt by competition as natural gas prices continue to be low and, therefore, in many regions of the country, gas-fired electric generators continue to displace coal-fired power plants. Flat, or even declining power demands, and competition from renewable resources (most significantly, wind and solar) also have put downward pressure on coal prices.



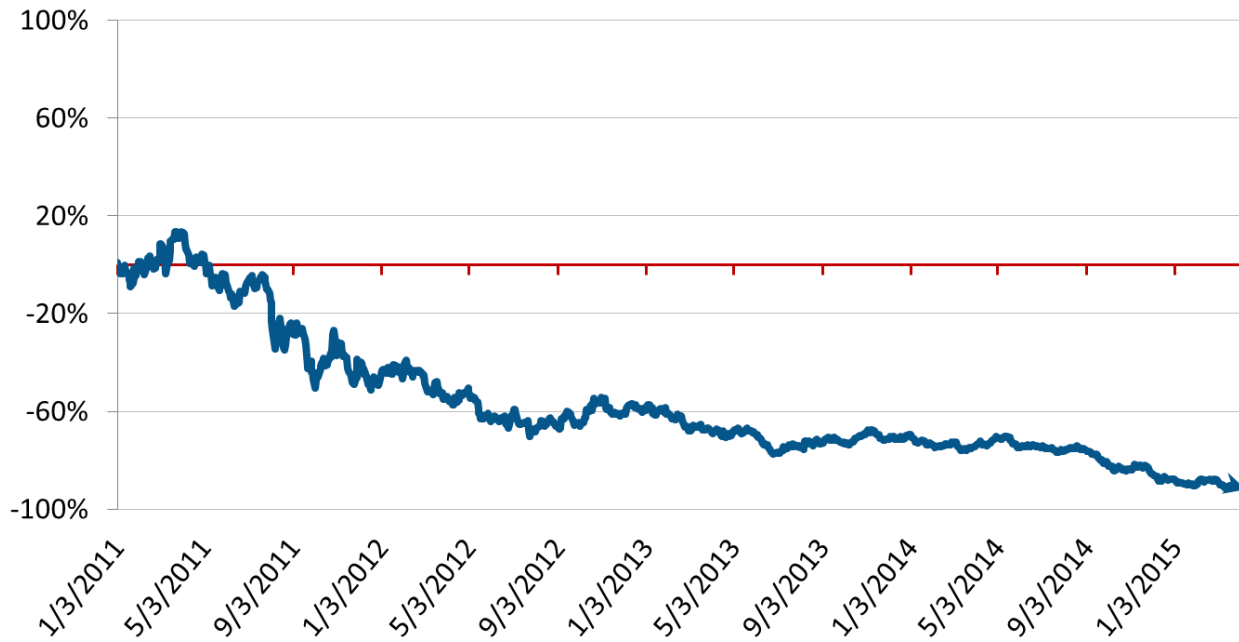
Peabody's \$176.6 million loss in the first quarter of 2015 was significantly higher than the \$48.5 million loss it experienced in the same quarter in 2014.

It is unlikely that Peabody will again see the strong coal revenues and profits it earned through 2011. Natural gas prices are expected to continue to remain low for the foreseeable future, and the boom in adding new wind and solar capacity to the grid, along with increased energy efficiency efforts in many areas, will create even more competition for coal as time goes on.

The Value of Investments in Peabody Has Evaporated

Investors in Peabody have seen the value of their stock fall by more than \$16 billion since the end of 2010. As shown below, the price of the company's stock has dropped by 93%, from \$63.98 per share on December 31, 2010, to \$4.49 per share on April 24, 2015.

Percentage Changes in the Price of Peabody Energy Stock Since December 31, 2010



Institute for Energy Economics and Financial Analysis

There is little or no reason to expect that Peabody's shareholders will be able to regain any of their lost share value given the structural changes that have been happening in the energy industry and global markets.

Company Employees Are at Risk for Their Jobs and for Postretirement Health and Insurance Benefits

Current Peabody employees are at risk for continued employment, and both current employees and retirees are at risk for their postretirement health and insurance benefits.

In April 23, 2015, material submitted to the Securities and Exchange Commission as part of an 8-K filing, Peabody reported it has reduced its global workforce more than 20% over the last three years. It also said it will continue to drive down operating costs continue in an effort to increase productivity. These efforts could lead to further layoffs, especially in light of Peabody's projection that its U.S. domestic coal sales will now be 10 million tons lower than it had previously forecast.

Peabody also said in the same 8-K filing that it is targeting a leaner structure through office closures, process rationalization and overhead reductions. These could lead to further employee layoffs.

Moreover, the funds that Peabody currently uses to provide health care and life insurance benefits to qualifying salaried and hourly retirees and their dependents are entirely unfunded.

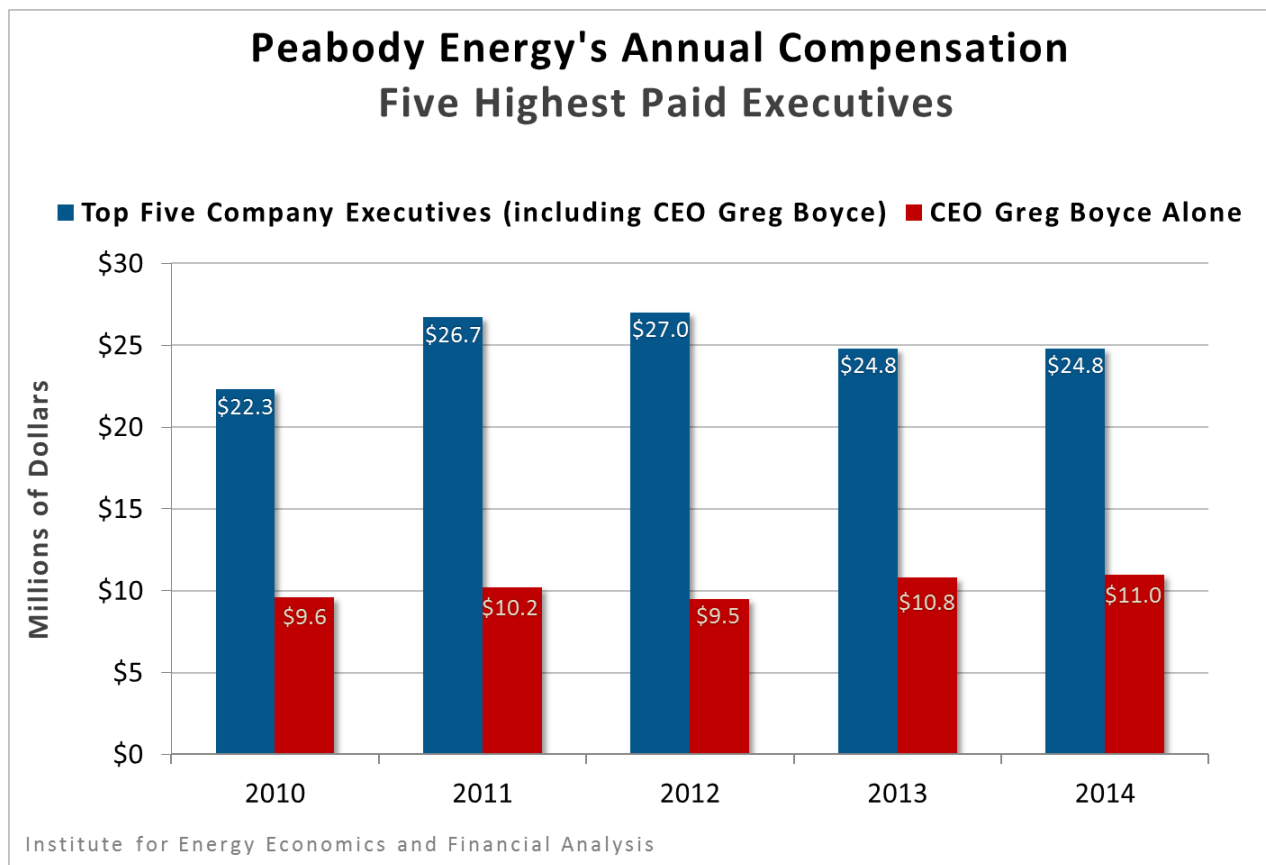
This means that the company has not set aside the money to pay for the \$839.1 million of postretirement benefit obligations that had been accumulated at the end of 2014.¹

One of Peabody's subsidiaries, Peabody Investment Corp., (PIC) also sponsors a defined benefit pension plan covering certain U.S. salaried employees and eligible hourly employees at certain PIC subsidiaries. The total projected benefit obligation under this benefit plan as of the end of 2014 was \$1.0025 billion, of which \$839.8 million was funded. This left \$167.7 million, or 16.7%, of the obligation unfunded.

The risk to employees, of course, is that Peabody either will itself go bankrupt at some point, thereby avoiding having to pay for these unfunded obligations, or that the company will offload the obligations to a new corporate entity that will seek to avoid paying for the transferred postretirement health, insurance and pension obligations. This is exactly what Peabody did when it spun off the Patriot coal company in 2007.

Yet Management Continues to be Handsomely Rewarded

Even though the company's investors have seen the value of their equity investment evaporate, Peabody's management has continued to be rewarded with extremely high compensation. The chart below, based on SEC filings, shows the compensation for the top five company executives as a whole and CEO Greg Boyce individually from 2010 through 2014.



¹ The unfunded accumulated postretirement benefit obligation was \$735.4 million at the end of 2013.

This spring, the proxy advisory firm Glass Lewis & Co gave Peabody an “F” grade on its 2014 pay-for-performance compensation plan. The advisory firm is recommending that shareholders vote no on the company’s advisory vote on executive compensation at its annual meeting on May 4, 2015, due to the “pay and performance disconnect.” As reported by SNL Financial, Glass Lewis & Co. said that Peabody’s CEO has been paid more than the median CEO compensation of peer companies despite the company performing worse.²

Peabody has recently announced that its outgoing and incoming chief executive officers (Greg Boyce and Glenn Kellow) will temporarily reduce their base salaries by 10% through the end of 2015 as part of the company’s cost cutting efforts. However, this is really just a public relations move, since the savings amount to only \$218,000, and the cuts affect only a small fraction of their executive compensation.

Other components of their annual compensation – which are not subject to the 10% cut -- include stock awards and stock option awards, cash-equivalent compensation, compensation that has been earned but deferred, and non-equity incentive plan compensation.

CEO Greg Boyce’s 2014 base salary of \$1,225,660 was only 11% of his total reported compensation for the year, which added up to \$10,994,083. His \$123,000 reduction in base salary for three or four months of 2015 will amount to less than 1% of what his total compensation was in 2014.

The bottom line, then, is that both Mr. Boyce and Mr. Kellow, the incoming CEO, are foregoing much less than 10% of their total compensation for the remainder of 2015.

Interestingly, the letter agreements with Boyce and Kellow temporarily reducing their base salaries by 10% stated that all opportunities for earning bonuses would be based on their original base salaries and would not reflect the 10% reduction.³

Conclusion

At a time when shareholders have seen a 93% drop in share value and employees are at risk of losing their jobs and pensions, Peabody Energy’s top management should not continue to be rewarded with the same high levels of compensation as they have in the past. Peabody also should not try to fool shareholders, the U.S. Securities & Exchange Commission and the public by trying to make it appear as if the incoming and the outgoing chief executive officers are reducing their annual compensation, even temporarily, by 10% when they are actually foregoing a significantly lower percentage of their pay.

² SNL Update: *Peabody future and current CEOs reduce pay to share pain of cost cutting*, April 21, 2015.

³ Peabody Energy April 21, 2015 8-K submission to the U.S. Securities & Exchange Commission, Exhibits 10.1 and 10.2.