

## Investment Stewardship

# Vote Bulletin: Dollar Tree, Inc.

Company	<b>Dollar Tree, Inc. (NASDAQ: DLTR)</b>
Market and Sector	United States, Consumer Staples
Meeting Date	13 June 2023
Key Resolutions <sup>1</sup>	<p><b>Item 1B:</b> Elect Director Cheryl W. Grisè</p> <p><b>Item 2:</b> Advisory Vote on Executive Compensation of Named Executive Officers</p>
Key Topics	Executive Compensation
Board Recommendation	The board recommended shareholders vote FOR items 1B and 2
BlackRock Vote <sup>2</sup>	BlackRock voted AGAINST items 1B and 2

### Overview

Dollar Tree, Inc. (Dollar Tree) is a U.S.-based company that owns and operates more than 16,000 discount variety stores in the U.S. and Canada across the Dollar Tree and Family Dollar brands.<sup>3</sup>

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like BlackRock’s clients. BIS also engages to provide a long-term investor perspective on corporate governance practices.

BIS has a multi-year engagement history with Dollar Tree, where we have discussed the company’s approach to board composition, among other material business-relevant issues such as human capital management and material sustainability-related risks and opportunities. More recently, we engaged with the company to better understand their approach to executive compensation and corporate strategy.

In March of 2022, Dollar Tree entered into an agreement with activist investor Mantle Ridge, LP (Mantle Ridge), an investment firm which had acquired a 5.8% ownership stake in the company. Mantle Ridge had nominated eleven directors for election at the June 2022 annual general meeting (AGM), including Richard Dreiling, a

<sup>1</sup> Dollar Tree, Inc. “[2022 Proxy Statement](#)”, page 5.

<sup>2</sup> BIS conducts proxy voting for those clients who authorize BIS to vote on their behalf. As part of BlackRock’s Voting Choice program, eligible clients can also retain their voting rights or vote their shares in line with their preferences by selecting one of 14 third-party policies. 47% (\$2.1 trillion of \$4.5 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the \$2.1 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data as of March 31, 2023.

<sup>3</sup> Dollar Tree, Inc. “[2022 Annual Report](#)”, page 21.

former chief executive of Dollar General.<sup>4</sup> Subsequent to the March 2022 agreement resolving the proxy contest, Dollar Tree expanded the board's size to twelve directors, and seated Mr. Dreiling as Executive Chairman. Separately, Dollar Tree entered into a five-year executive agreement with Mr. Dreiling in March 2022 to induce him to "take an active operating leadership role" during his service as Executive Chairman.<sup>5</sup> BIS voted in support of all management recommendations on the election of directors, as well as the advisory vote on compensation at the June 2022 AGM.

In January 2023, Mr. Dreiling assumed the additional role of CEO.<sup>6</sup> In connection with, and to account for, these new responsibilities, Dollar Tree amended his executive agreement to make him eligible for the company's annual cash bonus incentive plan.<sup>7</sup>

Included on the ballot of Dollar Tree's June 2023 AGM were routine items proposed by management on the election of the company's board of directors and an advisory vote by shareholders on the compensation of named executive officers. As we emphasize in the BIS [Global Principles](#), when voting at shareholder meetings on behalf of our clients who authorize us to do so, we apply a case-by-case approach, taking into consideration the context within which a company operates.

## **Rationale for BlackRock's vote**

### **Item 1B: Elect Director Cheryl W. Grisé (AGAINST)**

**Coinciding with our vote not to support management's recommendation on Item 2, BIS did not support management's recommendation on the election of Director Cheryl Grisé, the chair of the compensation committee, who we consider to be responsible for compensation practices.**

As outlined in the BIS [proxy voting guidelines for U.S. securities](#), in instances where we identify a misalignment between a company's compensation practices and shareholder's long-term financial interests, BIS may not support the election of members of the compensation committee.

### **Item 2: Advisory Vote on Executive Compensation of Named Executive Officers (AGAINST)**

**BIS did not support management's recommendation on the advisory vote on executive compensation, due to concerns we have that Mr. Dreiling's compensation structure is excessive, not performance based, and not aligned with long-term financial value creation for shareholders.**

As we note in [our approach to engagement on incentives aligned with financial value creation](#), well-structured executive compensation plans are, in our experience, an important tool used to attract, reward, and retain high caliber executives who are responsible for strategic decision making and delivering long-term financial growth. A poorly structured plan, however, may lead to business and/or reputational risk for a company. We encourage companies to make clear in their disclosures the connection between their compensation policies and outcomes and the financial interests of long-term shareholders. In the U.S. market, BIS has in recent years [noted](#) a rise in front-loaded multi-year grants. When such grants are awarded, we seek to understand how those programs align with our clients' interests as long-term shareholders. In particular, BIS recognizes that the nature of front-loaded grants limits the board's ability to make compensation program course-corrections over a multi-year period, increasing the potential for both windfall gains and retentive risks.

In our view, Mr. Dreiling is well-positioned to serve as CEO and has a demonstrated track record of value creation in the industry, but we are concerned about the size and structure of the compensation package used to secure his services. In particular, we are concerned with the value of the total award in comparison with Dollar Tree's industry peers, and the lack of performance-based metrics. In contextualizing the size of Mr. Dreiling's

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<sup>4</sup> Reuters, "Dollar Tree settles with activist Mantle Ridges, adds Dreiling to board", March 8, 2022.

<sup>5</sup> Dollar Tree, Inc. "2022 Proxy Statement", page 54.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid, page 62.

executive compensation package, the board highlighted feedback from engagement with shareholders that Dollar Tree should “do whatever was necessary to secure Rick Dreiling’s services as the Company’s top executive for a multi-year period.”<sup>8</sup>

Initially, upon Dollar Tree’s appointment of Mr. Dreiling as Executive Chairman in March 2022, the company awarded him a \$1,000,000 annual base salary, and an inducement stock option of 2,252,587 shares of Dollar Tree common stock with a per-share exercise price of \$157.17, the closing trading price of Dollar Tree common stock on March 18, 2022.<sup>9</sup> The stock option award was intended by the company to be a multi-year award, and under its terms, Mr. Dreiling is not eligible to receive additional long-term equity incentive awards for the duration of his employment agreement. The total compensation program equaled approximately \$136,000,000. Following his CEO appointment, Mr. Dreiling’s annual base salary increased to \$1,350,000,<sup>10</sup> but the employment agreement awarding the front-loaded inducement grant was not amended and will continue to apply for the next four years.

In 2022, Dollar Tree’s Compensation Committee reviewed the Company’s executive compensation program, to take effect in 2023. When boards review the design of these programs, we find it helpful when they clearly explain their reasoning and how the adjustments better motivate executives to deliver long-term financial value. The Committee elected to diversify and broaden the metrics for the annual short-term cash bonus incentive. In 2022, the annual cash bonus incentive for executive officers was based 100% on adjusted operating income. For 2023, the Compensation Committee added total revenue (weighted 40%) to adjusted operating income (weighted 60%), to support the company’s strategic focus on profitable growth. The Committee also altered the long-term incentive program, composed in 2022 of 75% performance share units (PSU) and 25% long-term performance plan (LTPP) awards. Further the Committee replaced the LTPP awards for 2023 with a mix of 30% restricted stock units (RSU) and 20% stock options, reducing the ratio of PSU from 75% to 50%.<sup>11</sup> The PSU awards will include three-year cumulative performance metrics consisting of earnings per share and total revenue weighted 60% and 40%, respectively, with a three year 25% +/- relative total shareholder return (TSR) modifier based on a peer group comparison to mitigate the impact of external market factors and focus executives on performance as compared to peers. The PSU awards cliff vest at the end of three years, and the RSUs vest ratably over a three-year period.

Given the high value of the front-loaded award for Mr. Dreiling’s service as Executive Chairman – which remains in effect concurrent with his service as CEO – and despite some responsive measures within the compensation committee’s revised 2023 compensation program, we are concerned that there is, in our analysis, a misalignment between pay and long-term shareholders’ financial interests. Accordingly, BIS did not support this proposal.

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<sup>8</sup> Dollar Tree, Inc. “[2022 Proxy Statement](#)”, page 4.

<sup>9</sup> Ibid, page 62.

<sup>10</sup> Ibid, page 56.

<sup>11</sup> Ibid, page 57.

## About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.<sup>12</sup>

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

**Want to know more?** [blackrock.com/stewardship](https://blackrock.com/stewardship)

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<sup>12</sup> As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.