Long-term Incentives in Biopharma

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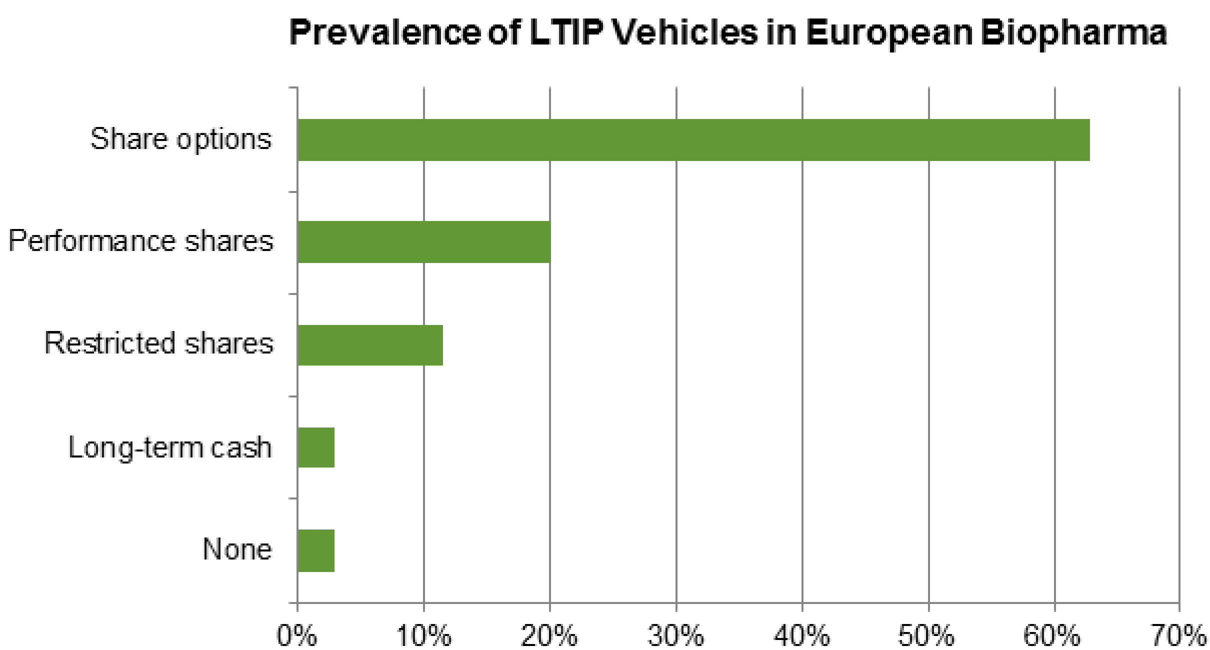
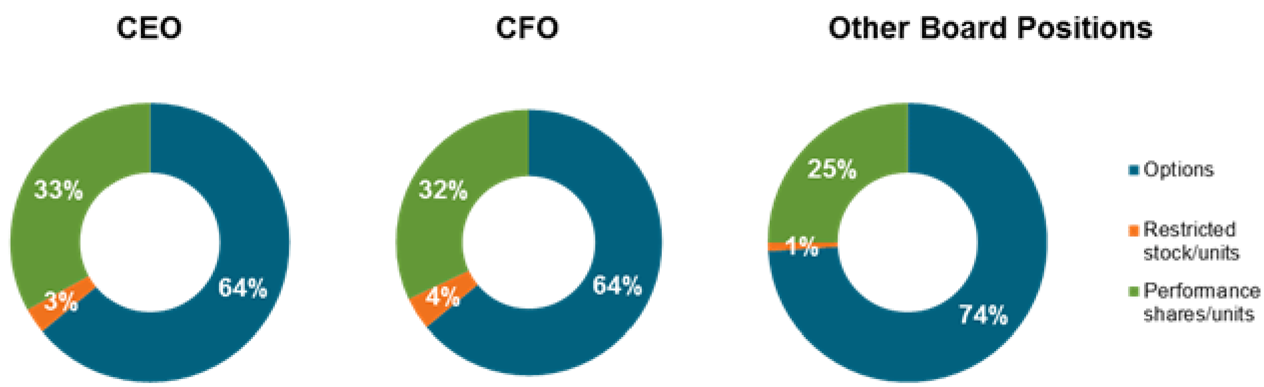
As European biotech continues its revival, more companies are focusing on getting their "compensation house in order" and looking at their equity plans. This applies to private companies contemplating an IPO as well as unlisted early-stage commercial companies. In a sample of 30 small to mid-size biopharmas across Europe, 79% use only one vehicle whereas 21% use two or three. The chart below outlines practice in respect of plan types.



The life sciences sector as a whole has remained wedded to the use of share options relative to other sectors. This practice changes, however, as companies grow in size and become subject to concerns around dilution, and pressure from governance bodies agitating for more performance-contingent equity. This has led to distinct differences in equity practices among small to mid-sized pharma companies versus big pharma.

For those companies operating performance share/unit plans in our sample, around a 1/5th to a 1/3rd of the total equity value is delivered through performance shares/units.



This contrasts with big pharma practice in Europe where we are seeing upwards of 60% of value delivered via performance shares.

The right mix of plans needs to take account of your company's growth profile, product pipeline and dilution limits. Also, pre-commercial companies will not necessarily have visibility over long-term performance: as such three year cliff vesting periods may be harder to incorporate into the normal running of the company. In this respect, while performance share/units may be 'shareholder friendly', they need to be adopted in a way that makes sense for the company: this may bring organisations' into conflict with governance bodies, and will require careful negotiation.

Our Global Life Sciences Survey provides context around market practices – vital when evaluating which mix of plans is right for you.

To learn more about participating in a Radford survey, please contact our team. To speak with a member of our compensation consulting group, please write to consulting@radford.com.

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