CAP REPORT

CAP Compensation Advisory Partners INDUSTRY REPORT | AUGUST 2016

PHARMACEUTICALS

2015/2016 INDUSTRY REPORT

CAP is a leading independent consulting firm specializing in executive and director compensation and related corporate governance matters. Our consultants have served as independent adviser to Boards and senior management at many leading companies in the areas of compensation strategy, program design and in promoting sound corporate governance principles.

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CAP's Pharmaceutical Industry Report analyzes the executive compensation practices of 19 large pharmaceutical and biotechnology companies. As of December 31, 2015, the companies in our sample had median revenues of $23B and median market cap of $113B. In addition to reviewing the entire sample, we assessed U.S. companies (n=12) and non-U.S. companies (n=7) separately to discern trends in pay, performance and practices.

2015 Financial Results: Pharmaceutical companies experienced strong stock price appreciation and revenue growth relative to the broader market

Overall, 2015 performance for the pharmaceutical industry was generally strong:

- Revenue growth was 4.3% in 2015 vs 2.9% in 2014
- GAAP EPS declined by 3.9% after showing very strong growth in 2014 (+17.5%).
- Operating Margin improved to 26.2% from 25.1% in 2014
- Total Shareholder Return ("TSR") was 5.7% compared to 28.0% in 2014

U.S pharmaceutical and biotechnology companies had significant growth in revenue in 2015 (+9.5%), through product sales and/or acquisitions, while revenue growth for the non-U.S. pharmaceutical companies was more modest. 1-year TSR performance for the pharmaceutical industry as a whole outperformed the S&P 500.

The pharmaceutical industry, however, saw weaker GAAP EPS performance than the S&P 500. 1-year GAAP EPS growth for U.S. and non-U.S. companies was down 4% and 5%, respectively, while companies in the S&P 500 increased by 3%. Even with weaker GAAP EPS performance year over year, Operating Margin improved in the industry overall, with U.S. companies having more significant improvement than non-U.S. companies.

INDUSTRY GROUP	MEDIAN PERFORMANCE IN 2015		
	REVENUE GROWTH	EPS GROWTH	TSR
All Pharma Cos	↑ 4.3%	-3.9% ↓	↑ 5.7%
U.S. Pharma Cos	↑ 9.5%	-3.9% ↓	↑ 5.5%
Non-U.S. Pharma Cos	↑ 1.1%	-4.9% ↓	↑ 5.7%
S&P 500 Cos	0.9%	↑ 3.1%	0.6%

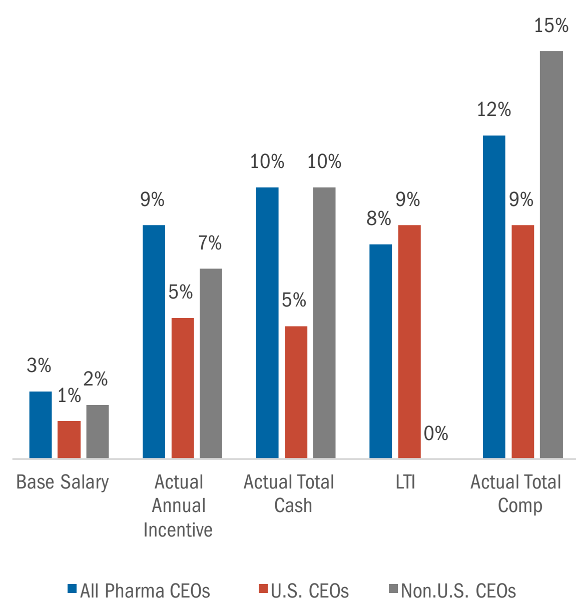
Financial Data Source: Standard and Poor's Capital IQ Database.

2015 CEO Pay-for-Performance: Total compensation increased for CEOs in the pharmaceutical industry, supported by higher annual incentive payouts which were significantly above target for 2015

Pharmaceutical CEO bonus payouts were generally above target for most, reflective of overall strong company and individual performance in 2015.

2015 actual total compensation for CEOs in the pharmaceutical industry increased by 12% year over year. Pay increases for U.S. CEOs were delivered mostly in the form of long-term incentives while non-U.S. CEOs received more significant increases through the annual incentive payout.

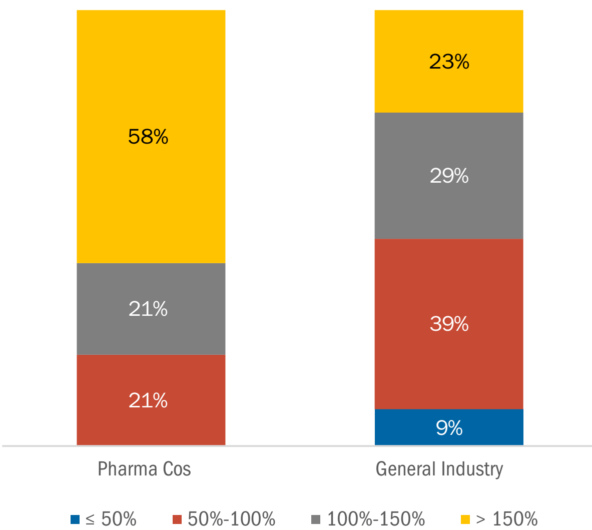
1-Year Change in Median Actual CEO Pay



Nearly 60% of pharmaceutical CEOs received a bonus payout greater than 150% of target compared to approximately 25% of companies in general industry (CAP's research of 100 large cap cross-industry companies). Median bonus payout for pharmaceutical CEOs was an impressive 156% of target (compared to median bonus payout of 103% of target for general industry) which is reflective of overall strong company and individual performance.

The annual incentive programs for many companies in the pharmaceutical industry incorporate strategic, non-financial metrics (such as Pipeline and R&D) to align annual incentive payouts for the most senior executives with the core objectives of the business. Additionally, companies often adjust incentive plan financial metrics to exclude the impact of currency fluctuation, mergers and acquisitions and other significant one-time events to reward executives for performance that is within their control. Given these factors, measures used in the incentive calculation may not always align with GAAP performance.

2015 Annual Incentive Payout as a Percentage of Target



SUMMARY STATISTICS	2015 ANNUAL INCENTIVE PAYOUT AS A % OF TARGET	
	PHARMACEUTICAL INDUSTRY	GENERAL INDUSTRY
75th Percentile	170%	144%
Median	156%	103%
25th Percentile	105%	86%

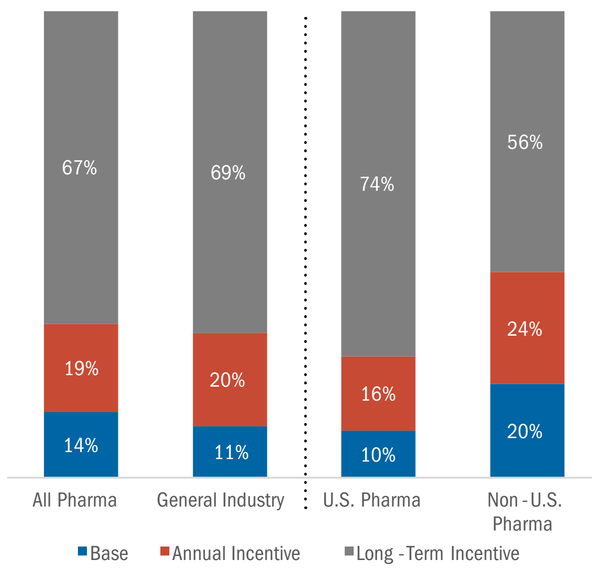
Incentive Plan Design: Companies in the Pharmaceutical industry place a significant emphasis on performance-based compensation, primarily through the long-term plan

Pay Mix

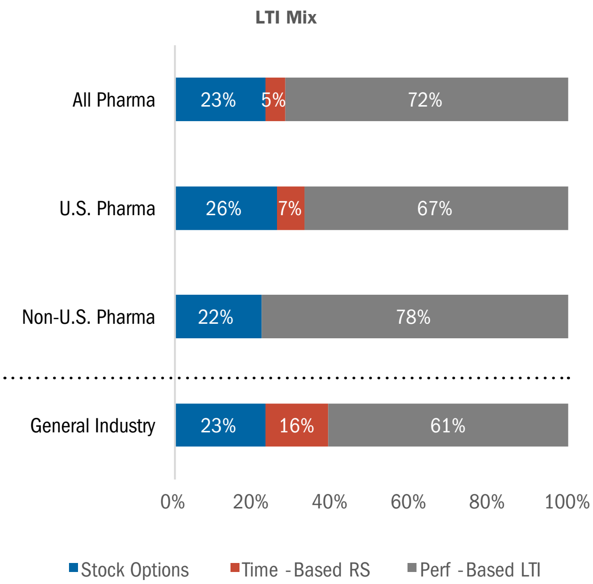
Overall, pay mix for pharmaceutical CEOs is consistent with general industry practice; however, the pay mix for U.S. and non-U.S. companies somewhat varies from the broader market. While performance-based compensation reflects 90% of total pay for both U.S. pharmaceutical CEOs and general industry CEOs, a somewhat larger portion of pay is delivered in the form of LTI at U.S. pharmaceutical companies. For non-U.S. pharmaceutical companies, fixed compensation (i.e., base salary) reflects a larger portion of total pay.

The pharmaceutical industry as a whole places a greater emphasis on performance-based long-term incentive plans than the broader market.

CEO Pay Mix



The annual incentive opportunity reflects 15 – 25% of total compensation for CEOs in the pharmaceutical industry and long-term incentive awards comprise the biggest portion of total pay (approximately 75% for U.S. CEOs and 55% for non-U.S. CEOs). However, U.S. pharmaceutical companies place a slightly greater emphasis on performance-based equity (nearly 70% of total LTI) than general industry (approximately 60%). Overall, the pharmaceutical industry places less focus on time-based restricted stock than general industry. The industry's emphasis on long-term compensation, and performance-based equity in particular, provides greater alignment of executive rewards with the length of product life-cycles, from drug development to product sale.



Annual and Long-term Incentive Plan Metrics

Companies in the pharmaceutical industry commonly use top-line growth, profits and R&D efforts as metrics in the annual incentive plan to align executive pay with multiple aspects of the product life-cycle. While non-financial metrics are used in the broader market, the specific use of Pipeline and R&D is mostly limited to the pharmaceutical industry which demonstrates that these companies are trying to link incentive pay to strategic business performance. A strong pipeline leads to long-term success and including it in the annual incentive plan ensures executives are continually focused on the strength of the pipeline instead of relying solely on current product sales where patent expiration is a concern.

Similar to annual incentives, top-line growth and profits are commonly used as long-term incentive metrics. These metrics focus executives on both long-term growth (either organically through the pipeline or through acquisitions and joint ventures) and bottom-line results. In addition, most pharmaceutical companies incorporate TSR as a long-term incentive metric to align executive pay with the market's view of the strength of the pipeline.

Conclusion

Overall, 2015 performance for the pharmaceutical industry was strong and increases in total pay were generally aligned. While the pay mix for the industry is similar to the broader market, U.S. pharmaceutical CEOs receive a greater percentage of their total pay in the form of performance-based compensation than non-U.S. CEOs. The pharmaceutical industry as a whole also places a greater emphasis on performance-based LTI plans than general industry.

While 2015 was generally a good year for the pharmaceutical companies, there will continue to be challenges unique to the industry (including patent expirations, competition from biosimilars and the race to be first to develop commercially valuable drug therapies) as well as uncertainties around the global economy. Companies continue to explore the best approach for being first to market, including acquiring drugs through M&A activity and/or joint ventures. The strength of a company's pipeline has been viewed as an indicator of expected performance and long-term success although the actual value may take years to be realized. As such, we expect the focus on profitable, sustainable growth to continue to be reflected in the annual and long-term incentive plan designs.

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Exhibit 1.

PHARMACEUTICAL/BIOTECHNOLOGY COMPANIES

AbbVie Inc.
Allergan plc
Amgen Inc.
AstraZeneca plc
Biogen Inc.
Bristol-Myers Squibb Co
Celgene Corp
Eli Lilly and Co
Gilead Sciences Inc.
GlaxoSmithKline plc
Johnson & Johnson
Merck & Co Inc.
Mylan N.V.
Novartis AG
Pfizer Inc.
Roche Holdings AG
Sanofi S.A.
Shire plc
Teva Pharmaceutical Industries Ltd