



Radford Review:

2013 Say-on-Pay Results and Trends for the US Life Sciences Sector

2013 Say-on-Pay Snapshot

■ Overall Russell 3000 Index Results

- Among Russell 3000 companies with Say-on-Pay votes occurring between September 1, 2012 and June 15, 2013, 2.1% failed to achieve shareholder support levels of 50% or higher
- These results remain relatively unchanged from Say-on-Pay failure rates in 2012, when 2.4% of Russell 3000 companies failed over the same timeframe
- The prevalence of companies passing their Say-on-Pay proposals with shareholder support levels below the Institutional Shareholder Services (ISS) threshold of 70% also dipped lower, with only 5.8% of companies affected over the September 1, 2012 to June 15, 2013 timeframe
- While investor and media interest in Say-on-Pay proposals increased significantly from 2011 to 2012, and remained high in 2013, the vast majority of companies received very high marks from shareholders, with average support levels remaining unchanged from 2012 to 2013 at 90.1%

■ Life Sciences Sector Results

- Among Russell 3000 life sciences sector companies with Say-on-Pay votes occurring between September 1, 2012 and June 15, 2013, 3.4% failed to achieve shareholder support levels of 50% or higher
- These results represent a decrease in failure rates vs. 2012, when 4.9% of life sciences sector companies failed over the same timeframe
- The prevalence of life sciences sector companies passing their Say-on-Pay proposals with shareholder support levels below the ISS threshold of 70% was 6.7%, which is higher than the overall Russell 3000 rate of 5.8%
- In general, life sciences sector results are weaker than for general industry companies: average shareholder support in the sector totaled 89.7%, which is lower than the overall Russell 3000 index, and failure rates within the two groups were at 3.4% and 2.1% respectively



Key Say-on-Pay Influencers

▪ Institutional Shareholder Services

- Nearly all (97.6%) Russell 3000 companies, and 88.9% of life sciences sector companies with failed Say-on-Pay proposals received a negative recommendation from ISS, highlighting the significant influence ISS reports continue to have on many institutional shareholders
- However, a large majority (76.5%) of life sciences sector companies with negative recommendations from ISS managed to pass their Say-on-Pay votes, but usually not without significant downward pressure on shareholder support levels, which could lead to continued scrutiny in future years

▪ Glass Lewis

- Drawing specific conclusions on the impact of Glass Lewis voting recommendations is difficult given the firm's overall lack of transparency, and requires waiting until the firm releases year-end results
- Glass Lewis' Say-on-Pay shareholder support threshold is set at 75%, and 10.1% of life sciences sector companies passed their Say-on-Pay proposal while falling below the threshold
- Although Glass Lewis policies and voting practices are generally less transparent than ISS, the firm announced key revisions to its peer group development and pay-for-performance modeling in July 2012 and November 2012, which could serve to raise the overall profile of Glass Lewis recommendations

▪ Pay-and-Performance

- Both ISS and Glass Lewis continue to point to perceived disconnects between pay-and-performance as their primary driver for making negative Say-on-Pay recommendations
- Companies with positive TSR performance on an absolute basis are often still targeted, either due to weaker relative performance vs. peers or the continued use of "poor pay practices" (as defined by ISS or Glass Lewis)



Key Say-on-Pay Voting Metrics

- Although scrutiny of life sciences sector companies remains high when compared to the typical Russell 3000 index company, average and median shareholder support levels were up for life sciences firms in 2013 vs. 2012, suggesting a degree of relief for the sector
- In keeping with the positive trend, the prevalence of life sciences companies receiving negative ISS recommendations, falling below the ISS 70% threshold, and losing Say-on-Pay votes outright were all lower in 2013 compared to 2012
- For example, the prevalence of ISS “Against” recommendations for life sciences firms dropped from 19.3% in 2012 to 14.3% in 2013
- Still, results in the life sciences companies generally compare negatively with the overall Russell 3000 index despite strong 1-year and 3-year total shareholder returns

Industry Groupings	TSR Performance		2013 Voting Results		Prevalence of Poor Outcomes		
	Median 1-Year TSR	Median 3-Year TSR	Average % For	Median % For	ISS Rec. Against	Pass Below 70% Threshold	Below 50% Threshold
Pharmaceuticals & Biotechnology	+18.9%	+33.4%	89.5%	94.1%	17.8%	8.4%	2.8%
Health Care Equipment & Services	+10.1%	+32.7%	89.9%	96.1%	11.5%	9.2%	3.8%
Life Sciences Sector	+18.3%	+32.8%	89.7%	95.6%	14.3%	6.7%	3.4%
Overall Russell 3000	+11.9%	+41.4%	90.1%	96.0%	12.2%	5.8%	2.0%

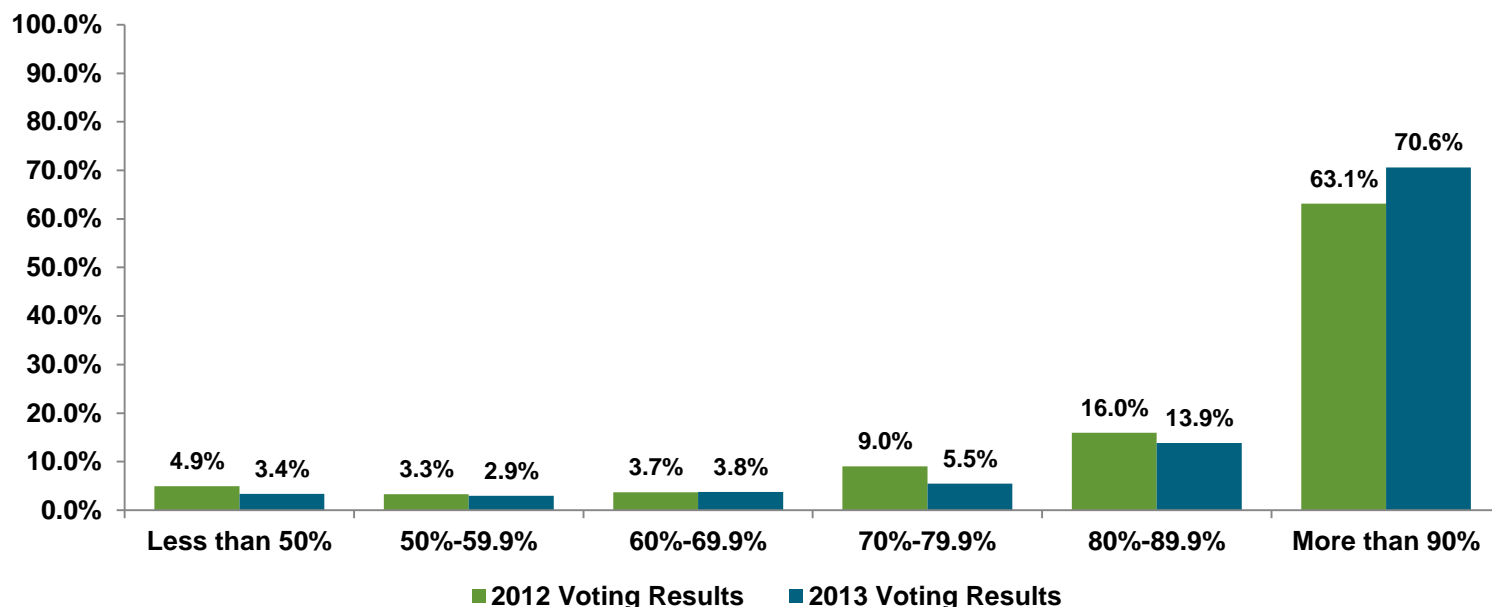
Source: Radford analysis of ISS voting results data.



Year-Over-Year Shareholder Support Levels

- The following chart displays the year-over-year distribution of shareholder support levels for Say-on-Pay proposals at life sciences sector companies
- Average and median shareholder support levels are strong on an overall basis (89.7% and 95.6% respectively) for 2013, and this view of Say-on-Pay outcomes illustrates the rising prevalence of proposals receiving shareholder support levels above 90%
- In total, less than 30% of life sciences sector companies received shareholder approval rates under 90% in 2013, down from over 35% of companies in 2012

Distribution of Shareholder Support Levels, 2012 vs. 2013



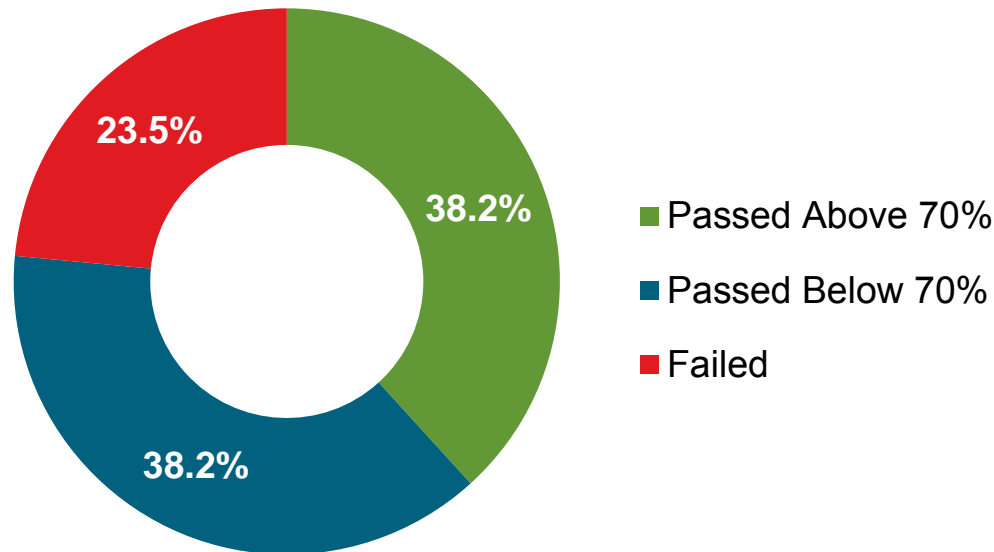
Source: Radford analysis of ISS voting results data.



Evaluating the Impact of ISS in 2013

- Across the entire life sciences sector, the impact of negative recommendations from ISS was substantial, forcing outright failure of Say-on-Pay proposals in 23.5% of cases
- Another 38.2% of companies with negative recommendations from ISS passed their Say-on-Pay vote, but with less than 70% shareholder support, up from 29.8% of companies who passed below 70% in 2012
- Although full Glass Lewis data for 2013 is not yet available, the impact of Glass Lewis recommendations in 2012 was similar to the above findings— the 10% of firms earning an “F” grade from Glass Lewis received average shareholder support levels of 73%, which is below the Glass Lewis threshold of 75%

Impact of ISS Negative Recommendations

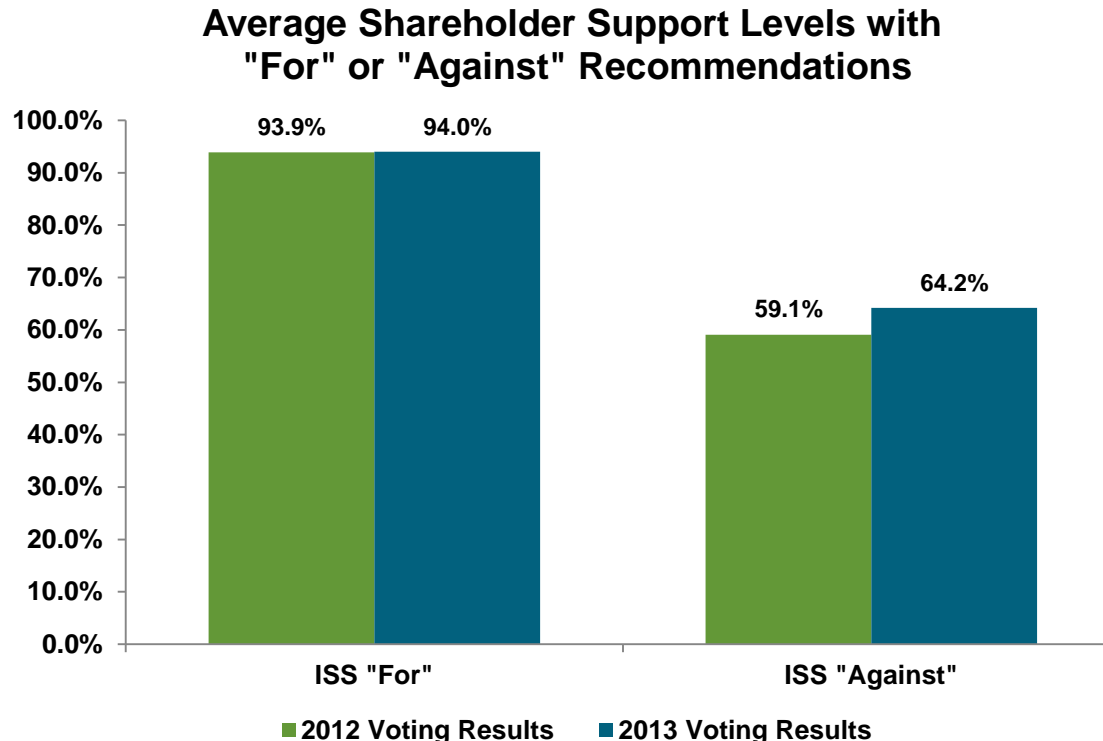


Source: Radford analysis of ISS voting results data.



ISS Impact Stabilizes Year-Over-Year

- ISS adopted revised corporate governance policies at the end of 2011 that introduced a new shareholder support threshold of at least 70% support for Say-on-Pay votes; proposals receiving support below 70% will undergo additional examination from ISS in subsequent years
- On average, life sciences companies receiving an "Against" recommendation from ISS fall below the 70% threshold, which means these companies will most likely receive extra scrutiny from ISS and shareholders in 2014

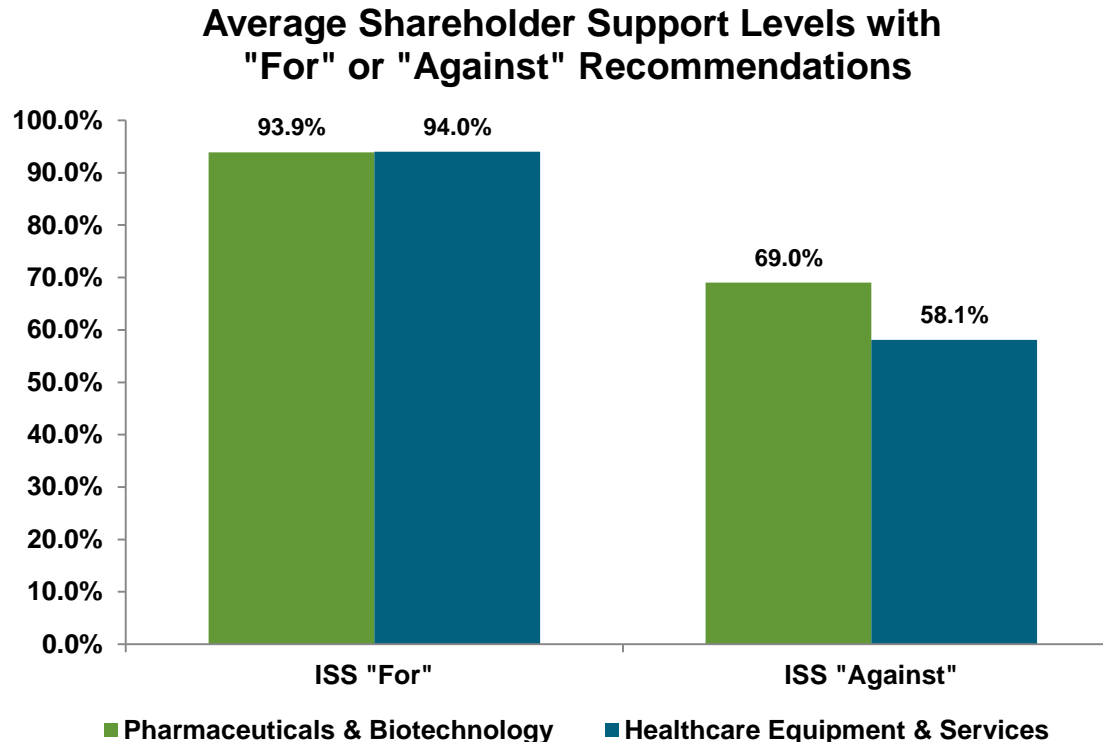


Source: Radford analysis of ISS voting results data.



2013 ISS Impact by Sub-Industry

- When examining the Pharmaceuticals & Biotechnology and Healthcare Equipment & Services sub-industries, the impact of ISS "Against" recommendations is still notable, and drives average support levels below the 70% threshold
- However, Pharmaceuticals & Biotechnology companies with negative recommendations performed better than their counterparts in the Healthcare Equipment & Services sub-industry, and nearly ticked over the 70% threshold



Source: Radford analysis of ISS voting results data.



About Radford

- Radford, an Aon Hewitt company, is the leading global provider of compensation intelligence and consulting services to the technology and life sciences sectors. Our market-leading surveys, strategic consulting and equity valuation expertise help Compensation Committees and human resources leaders address their toughest challenge: attracting, engaging and retaining talent in innovation-based industries.

Radford offers clients a comprehensive suite of solutions, integrating unmatched global data capabilities with high-powered analytics and deep consulting expertise to deliver market-leading guidance to more than 2,500 organizations annually— from Fortune 10 companies to start-ups.

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