Executive Compensation and Drug Pricing Risks—Feasibility Report

Resolved: Amgen Inc. (“Amgen”) shareholders request that the Compensation and Management Development Committee of the board of directors (the “Committee”) publish a report (at reasonable expense, within a reasonable time, and omitting confidential or propriety information) assessing the feasibility of incorporating public concern over high drug prices into the senior executive compensation arrangements described in Amgen’s annual proxy materials.

Supporting Statement

To reward the creation of long-term value, incentive compensation arrangements for senior executives of branded pharmaceutical companies should promote responsible risk management. A key strategic risk now facing pharmaceutical firms is backlash against the high price of medicines. The effects of high drug prices on patient access, government payer budgets and the broader health care system have kept drug prices in the public spotlight, especially as campaigning for 2020 presidential and congressional elections intensifies.

A 2019 Credit Suisse analyst report stated that US drug price increases contributed 33% of industry net income growth in 2018 and noted “strong political pressure to reduce absolute drug prices.” (Global Pharmaceuticals, “Future of US Drug Rebates Under Review,” Apr. 29, 2019, at 4) In 2019, hearings on rising prescription drug prices were held by the House Committee on Oversight and Reform,1 which is investigating the actions of 12 companies, including Amgen; Senate Aging Committee;2 Senate Judiciary Committee;3 Senate Finance Committee;4 and the House Committee on Energy and Commerce.5 A recent study by the Institute for Clinical and Economic Review (ICER) found that price hikes on Amgen’s Neulasta between 2016 and 2018, which imposed an additional $489 million in drug costs, were “unsupported by new clinical evidence.” (ICER, “Unsupported Price Increase Report 2019 Assessment,” at 17-18)

5 https://energycommerce.house.gov/committee-activity/hearings/hearing-on-lowering-prescription-drug-prices-deconstructing-the-drug
We are concerned that Amgen’s senior executive incentive compensation arrangements may not encourage consideration of risks created by high prices. Sixty percent of the annual bonus payout is based on revenue and net income. Earnings per share (EPS) growth is a metric used to determine payout on long-term performance units. (2019 Proxy Statement, at 36, 39-40) Income/EPS and especially revenue are sensitive to price increases. In 2016, price increases accounted for at least 100% of Amgen’s EPS growth, according to Credit Suisse.6 Dependence on drug price increases create significant risks, which may be exacerbated when price hikes drive large senior executive payouts.

Accordingly, we believe it is advisable for the Committee to explore incorporating measures that relate to the financial and strategic risks created by high drug prices into senior executive compensation arrangements. This Proposal gives the Committee total discretion in selecting potential measures and in analyzing the feasibility of incorporating them. By way of illustration, though, such measures could reward executives for increasing access or limit the extent to which price increases can be used to meet revenue and income targets.

We urge shareholders to vote for this Proposal.

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