Executive Compensation and Drug Pricing Risks—Feasibility Report

Resolved: Pfizer Inc. (“Pfizer”) shareholders request that the Compensation 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 Pfizer’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 rises 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) Pointed criticism of Pfizer caused it to hold off on planned price rises in 2018, but January 2019 brought increases on approximately 10% of Pfizer’s portfolio. (https://www.nbc12.com/2018/11/19/pfizer-raising-drug-prices/) A recent study by the Institute for Clinical and Economic Review (ICER) found that price hikes on Pfizer’s Lyrica between 2016 and 2018, which imposed an additional $688 million in drug costs, were “unsupported by new clinical evidence.” (ICER, “Unsupported Price Increase Report 2019 Assessment,” at 12-13)

We are concerned that Pfizer’s senior executive incentive compensation arrangements may not encourage consideration of risks created by high prices. For example, bonus plan funding is based on three one-year financial metrics—revenue, earnings per share (EPS) and cash flow from operations--though the proxy statement suggests that the Committee may adjust that funding after considering “other factors, including progress on the product pipeline.” Adjusted net income (formerly operating income) is a metric in the Performance Share Awards. (2019 Proxy Statement, at 68, 72-73) Income/EPS and especially revenue are sensitive to price increases. 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.