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A Comparison of Executive Compensation Practices at Nordic and US Biotech Companies

The biotech industry is experiencing its own renaissance in the Nordic region, but differences in executive compensation practices compared to the US could present recruiting challenges.

The biopharmaceutical industry has stolen headlines in the United States (US) for robust levels of private financing— and, in the case of pre-commercial, publicly-traded firms— extended periods of high stock valuations. On a smaller scale, we're seeing these same economics play out among the biotech industry in the Nordic region. Venture capital is building back to pre-recession levels, with around a dozen recent IPOs in a continent that has about 150 public biotech companies in total.

As the industry in the Nordic countries grows and matures, many organizations are looking to expand the pool from which they draw executive talent to include biotech hubs in the US. But differences between the two regions' executive compensation practices could make recruiting top talent more challenging. Naturally, certain cultural differences in pay philosophy will prevail. However, the European biotech industry needs to be aware of these chasms and consider closing the gap between some of these practices in order to effectively recruit executive talent.

Diversity in Plan Design

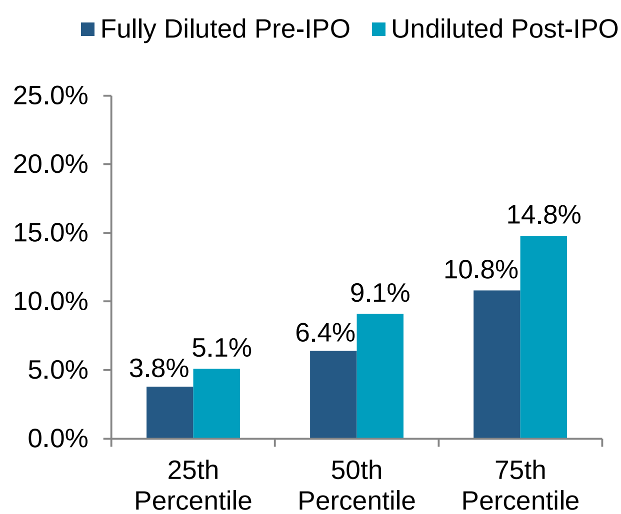
Plan design differences between the US and Europe occur on several fronts: from the types of equity used, the amount of performance-based equity granted, and the proportion of executives' short- and long-term equity compared to cash.

Some of the major differences between the US and the Nordic region are around both total pay and pay mix. For CEOs and other executives, long-term incentives (LTI) account for a smaller proportion of pay mix in the Nordic countries. While target bonus pay is smaller overall for Nordic executives, the mix of short-term incentives to other pay components is relatively the same in both regions.

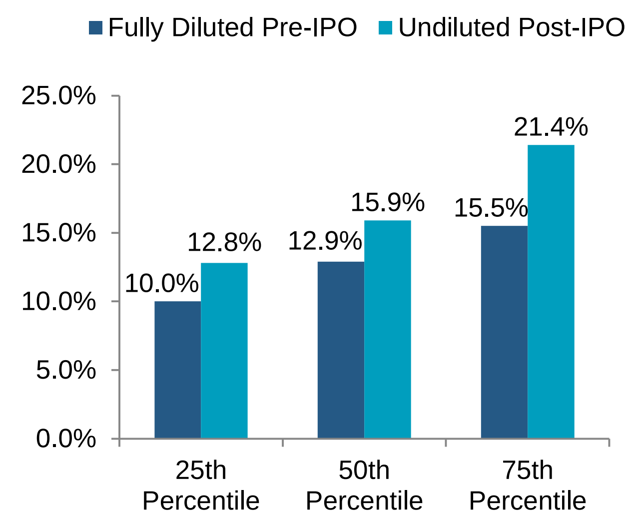
The European pay model is characterized by less aggressive long-term incentive levels— which is in direct contrast to US practices where a larger proportion of the package is performance-based. This reflects diversity between investors' and proxy advisors' sentiments in both regions as well as market norms around the level of shares granted to employees. The same trend is true for all employee levels at pre-IPO and public companies.

Ownership levels are lower in Europe, as we would expect, while employee ownership (undiluted) increases post-IPO as companies typically have a larger workforce.

Europe Ownership Levels

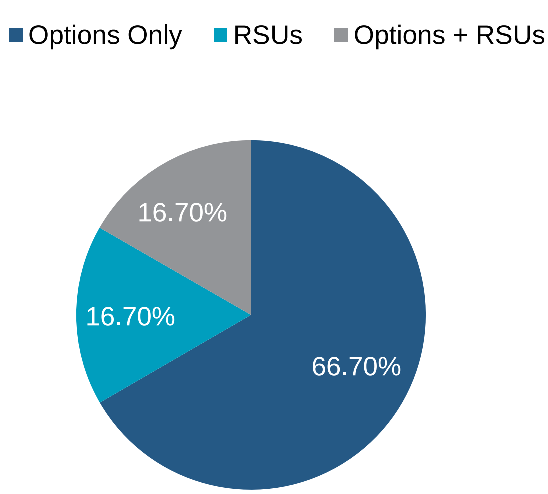


United States Ownership Levels

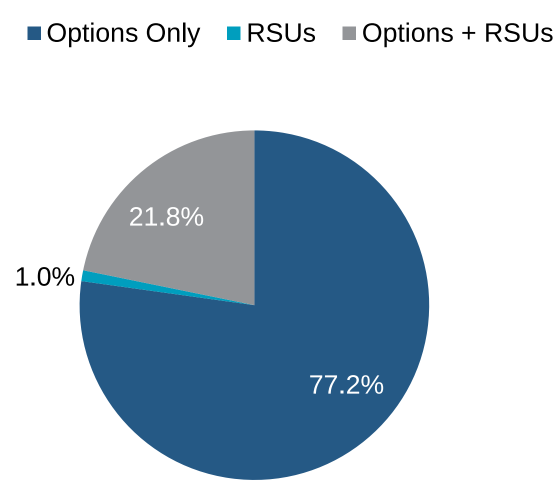


Next, we turn to differences within types of equity granted. While stock options are still the preferred vehicle for companies that have just gone public in Europe and the US, restricted stock or restricted stock units (RSUs) are used more frequently among all types of European companies.

Europe: Equity Mix at Time of IPO



United States: Equity Mix at Time of IPO



If we look specifically at biotech companies headquartered in Nordic countries, equity mix is also consistent with broader Europe.

Company Name	HQ Country	Time-Based Options	Time-Based Shares/Units	Performance-Based Shares/Units	No LTI Plan
ALK-Abello	Denmark	Yes	--	Yes	--
Bavarian Nordic	Denmark	Yes	--	--	--
Egalet	Denmark	--	Yes	--	--
Genmab	Denmark	Yes	--	--	--
Lundbeck	Denmark	--	--	Yes	--
Novozymes	Denmark	Yes	--	Yes	--
Veloxis	Denmark	Yes	--	--	--
Zealand Pharma	Denmark	Yes	--	--	--
Biotie Therapies	Finland	Yes	Yes	--	--
Orion	Finland	--	Yes	--	--
Algeta	Norway	Yes	--	--	--
Binor Pharma	Norway	Yes	--	--	--
Hofseth BioCare	Norway	Yes	--	--	--
Photocure	Norway	Yes	--	--	--
Active Biotech	Sweden	--	--	--	Yes
BioGaia	Sweden	Yes	--	--	--
Meda	Sweden	--	--	Yes	--
Medivir	Sweden	--	--	Yes	--
Oasmia Pharmaceutical	Sweden	--	--	--	Yes
Recipharm	Sweden	--	--	--	Yes

Next Steps

To attract biotech talent from abroad, Nordic firms may need to consider granting additional short- and long-term equity awards. These types of changes are already coming from external sources. A growing number of shareholders— including vocal institutional investors investing in international markets— are demanding executive compensation plans include more performance-based equity.

There are challenges for the industry in not only shifting to a larger portion of equity incentives, but developing the right metrics around performance-based shares. The growing consensus among investors is that total shareholder return (TSR) is the most effective financial metric for performance-based equity. However, TSR is not always the right measurement for biotech, which is characterized by a high-risk/high-reward business model. The best performance metrics will need to take into account a company's growth profile, product pipeline and dilution limits. However, introducing alternative metrics to TSR have to be balanced with investor and proxy advisor expectations.

The disparity between US and Nordic pay practices is a challenge for European companies trading on a US exchange and, therefore, influenced by US-based shareholders, and for Nordic companies that are looking to recruit senior talent from US companies. One area within companies' control is their careful selection and refinement of peer groups. Choosing the right competitors will evolve as your business and industry changes, but taking into account the cultural compensation practices of the companies in your peer group will ensure a healthy balance of exposure, but not over exposure, to the different regional norms of incentive plans design.

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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