



## **The BioWorld Executive Compensation Report 2005**

### **Looking For Raise Via Bonus? Work In Business Development**

By Brady Huggett, Managing Editor

It wasn't a tremendous year for public firms in 2004, as witnessed by a mere 2.5 percent average gain in stock price, as shown by BioWorld's stock tracker, which is not market weighted.

But biotech executives in general saw sizable gains, with four of the top five management positions recording compensation increases that outpaced the percentage growth of biotech stocks.

Using Aon's eComp Data Services with financial data provided by Standard & Poors, BioWorld's team examined the compensation records of 264 public biotech firms – 92.6 percent of the 285 companies listed in BioWorld's stock tracker. We found that while the average market cap for a biotech firm was \$1.2 billion, the same as in 2003, most management positions saw better-than-inflation increases in pay, including CEOs.

Jim Lanzalotto, vice president of strategy and marketing at Yoh, a talent and outsourcing services firm in Philadelphia, said his group measures "the biotech space quite closely."

"It's a big driver of what happens in and around all the outlying parts of the biotech and pharma and medical device markets, and what most people are seeing is that it still is a dynamic, engaging field for folks to enter," he said. "Everyone wants to go to work for the next Genentech."

#### **Biotech CEOs Base Salary Jumps 6 Percent**

Of the 264 companies, 237 CEOs received a full-year salary. The average salary in 2004 was \$415,000, compared to last year's average of \$391,000 – an increase of 6.1 percent.

Looking at all 237 full-year CEOs in 2004, the average bonus was \$209,000, which compares to \$176,000 a year earlier. But in reality, only 186 of those 237 full-year CEOs actually received a bonus, or 78.5 percent of them. Of those who did, the average was \$266,000.

Here come the big numbers. The average total annual compensation, which is base pay plus bonus, was \$596,000 in 2004, a 4.9 percent increase in total compensation over 2003's \$567,000 average.

Walking the maze of executive pay can be numbing, but the key percent increases – average salary and average total annual compensation – say a lot about the biotech industry. It's still relatively young, and it seems that the start-ups just keep on coming. That's creating a need – every company wants a seasoned CEO, and there aren't enough to go around.

"There's never enough high-talent executives in the [biotech] field," Lanzalotto said.

Brandon Cherry, a principal and consultant with Presidio Pay Advisors Inc., agreed with that sentiment.

“What could be triggering [the compensation increase] is the demand for senior talent at this point,” he said.

Cherry’s firm conducted a study of the initial public offering market, and found that the biotech industry had more founder CEOs than any other industry. Considering that most firms are still considered young when they go public, there is a desire as the companies mature to replace that founder CEO – often the scientist behind the original technology – with someone perhaps more capable of running a company with a \$1.2 billion market cap. And they’re willing to pay for it.

San Francisco-based Presidio Pay Advisors, which offers advice and support on a range of compensation issues, has found that in general, “base pay is more comparable to revenue, rather than market cap,” and the historical lack of a revenue stream at biotech firms is well documented. Compared to more liquid sectors, such as the auto industry, biotech CEOs might make less, but executives in other areas “might not own as much of the company as you might find in the biotech industry.”

Indeed, *BioWorld’s Executive Compensation Report 2006* shows that the average number of shares owned by CEOs was 1.7 million in 2004, with a median of 891,000 shares.

Cherry said that “a lot of biotech companies rely heavily on long-term equity as a source of payment for their CEOs,” and BioWorld found that average potential realizable value of stock options for full-year CEOs was \$1.2 million in 2004, compared to \$1.1 million the prior year, and the average value of long-term compensation rose to \$742,000, up from \$467,000 in 2003.

Still, the average base salary for biotech CEOs in 2004 increased more than senior management in other areas, such as the semiconductor industry, which saw a 3.5 percent base salary increase in 2004, Cherry said.

### **CFOs Also Saw Pay Increase**

Although CEOs watched their pay go up in 2004, chief financial officers did, too. Of the 264 companies in BioWorld’s survey, 197 reported full-year compensation for a finance executive, with an average base salary of \$251,000, up 3.7 percent over the average base of \$242,000 in 2003.

Looking at all 197 companies, the average bonus was \$84,000, but only 157 companies actually paid a bonus – that’s 79.7 percent. Of those, the average was \$105,000.

The average total annual compensation in 2004 for finance executives was \$335,000. The figure for 2003 was \$311,000, showing a 7.7 percent increase in total annual compensation.

“We think the demand for financial roles is driven by a number of factors,” Lanzalotto said, “including increased specialization for [Sarbanes-Oxley] requirements.” That has resulted in “a tightening supply of highly qualified talent,” he added, and when supply is thinned but demand has not, pay increases.

### **R&D Execs Received Double-Digit Percent Increase**

One hundred forty-six companies reported full-year compensation for an R&D executive. The average base salary was \$276,000 – up 6.1 percent from \$260,000 in 2003 – and the average bonus was \$90,000. However, only 118 of the 146 R&D execs received a bonus (80.8 percent), and for those, the average bonus was \$111,000.

The average total annual compensation in 2004 was \$366,000, up 12.2 percent from \$326,000 in 2003.

“For the R&D folks, they are the ones that are going to create new revenue streams for the company” through new pipeline products and expanding indications for approved drugs, Presidio’s Cherry said. “I think [their pay increase] is shown as an investment in the people that are going to” eventually bring a return to the bottom line.

Lanzalotto felt the same.

“We’ve seen it across a lot of [high-tech] markets,” he said. “In the R&D world, the pipelines need to be thicker and deeper and more robust,” in part to “offset FDA issues, because not everything gets approved.”

Stronger pipelines “make sure that you’re creating enough products to differentiate in the market place,” he added.

### **Business/Corporate Development Saw Biggest Percent Gain**

Sixty-five companies reported full-year compensation for business and/or corporate development executives. The average base salary was \$243,000, a 3.4 percent increase over the 2003 average base salary of \$235,000. The average bonus was \$55,000 in 2004. But of the 65 executives on record, only 53 received a bonus – about 81.5 percent. Of those, the average was \$68,000.

The average total annual compensation was \$298,000, up 25.2 percent from 2003’s \$238,000 average.

For the business development people, it was about the bonuses in 2004, and Lanzalotto said, “I think there’s a general trend around a more [upside] risk-based compensation.”

That’s a positive, he said, because “those bonuses are being tied to performance and the achievement of objectives. Two things happen then: The company gets those objectives met and the employee is able to work toward hitting those objectives. It’s a win-win environment for everyone.”

### **Legal Officers Pay Decreased**

There were 75 companies that had full-year compensated legal professionals. Of those, the average base salary was \$242,000, a 2 percent decrease from the average base salary of \$247,000 in 2003. The average bonus was \$69,000. Of the 75 legal reps, 60 received bonuses – about 80 percent. Of those, the average bonus was \$86,000.

That works out to an average total annual compensation of \$312,000, down about 3.8 percent from a 2003 average of \$324,000.

The backsliding seen in legal representation pay is somewhat surprising in the biotech industry, because “there’s always a need for patent defense,” Cherry said. “But pay fluctuations can be influenced by a number of things and can be determined by longevity or turnover.”

Cherry also pointed to a “hierarchy of importance” for compensation. So while no one would argue against the importance of patent defense, without the mind that originally produced that patentable discovery, or the person who signs off on the quarterly reports, the company does not exist.