

RESOLVED, that shareholders of Eli Lilly and Company (“Eli Lilly”) urge the Compensation Committee (the “Committee”) to report annually to shareholders on the extent to which risks related to public concern over drug pricing strategies are integrated into Eli Lilly’s incentive compensation policies, plans and programs (together, “arrangements”) for senior executives. The report should include, but need not be limited to, discussion of whether incentive compensation arrangements reward, or not penalize, senior executives for (i) adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding the level or rate of increase in prescription drug prices; and (ii) considering risks related to drug pricing when allocating capital.

SUPPORTING STATEMENT

As long-term investors, we believe that senior executive incentive compensation arrangements should reward the creation of sustainable long-term value. To that end, it is important that those arrangements align with company strategy and encourage responsible risk management.

A key risk facing pharmaceutical companies is potential backlash against high drug prices. Public outrage over high prices and their impact on patient access may force price rollbacks and harm corporate reputation. Legislative or regulatory investigations regarding pricing of prescription medicines may bring about broader changes, with some favoring allowing Medicare to bargain over drug prices. (E.g., <https://democrats-oversight.house.gov/news/press-releases/cummings-and-welch-launch-investigation-of-drug-companies-skyrocketing-prices>; <https://democrats-oversight.house.gov/news/press-releases/cummings-and-welch-propose-medicare-drug-negotiation-bill-in-meeting-with>) An October 2017 report indicated that five states and federal prosecutors are investigating insulin makers, including Eli Lilly, for anticompetitive practices related to pricing. (<https://medcitynews.com/2017/10/insulin-prices-soar/>)

We applaud Eli Lilly for improving transparency on drug pricing and supporting alternative pricing approaches. We are concerned, however, that the incentive compensation arrangements applicable to Eli Lilly’s senior executives may not encourage senior executives to take actions that result in lower short-term financial performance even when those actions may be in Eli Lilly’s best long-term financial interests.

Eli Lilly uses revenue and earnings per share (EPS) as metrics for the annual bonus and EPS growth as the metric for performance awards. (2017 Proxy Statement, at 41-42) A recent Credit Suisse analyst report stated that “US drug price rises contributed 100% of industry EPS growth in 2016” and characterized that fact as “the most important issue for a Pharma investor today.” The report identified Eli Lilly as a company where price increases accounted for at least 100% of EPS growth in 2016. (*Global Pharma and Biotech Sector Review: Exploring Future US Pricing Pressure*, Apr. 18, 2017, at 1)

In our view, excessive dependence on drug price increases is a risky and unsustainable strategy, especially when price hikes drive large senior executive payouts. For example, media coverage of the skyrocketing cost of Mylan’s EpiPen noted that a 600% rise in Mylan’s CEO’s total compensation accompanied the 400% EpiPen price increase. (See, e.g., <https://www.nbcnews.com/business/consumer/mylan-execs-gave-themselves-raises-they-hiked-epipen-prices-n636591>; <https://www.wsj.com/articles/epipen-maker-dispenses-outrageous-pay-1473786288>; <https://www.marketwatch.com/story/mylan-top-executive-pay-was-second-highest-in-industry-just-as-company-raised-epipen-prices-2016-09-13>)

The disclosure we request would allow shareholders to better assess the extent to which compensation arrangements encourage senior executives to responsibly manage risks relating to drug pricing and contribute to long-term value creation. We urge shareholders to vote for this Proposal.