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Executive Pay and TSR Performance in Commercial Biotech: A Governance Perspective

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When it comes to executive compensation, boards and investors alike are asking two simple questions: does pay really track performance and do pay programs at high-performing companies look different in ways that matter? In the life sciences industry, where volatility is high and shareholder patience can run thin, these questions are particularly pressing.

To explore this issue, we reviewed a group of US-based, commercial-stage biotech companies with market capitalizations above $150 million. We then segmented these companies into two groups: the 12 highest- and 12 lowest-performing companies based on three-year total shareholder return (TSR).

The split between high and low TSR companies is stark. Median three-year TSR for the top group was +34 percent, compared to –54 percent for the bottom performers. Against that backdrop, the contrasts in compensation design come into sharper focus.

Differences in Pay Levels and Equity Design

Compensation levels are the first noticeable contrast. CEOs at high-performing companies had a median total direct compensation of about $10 million, compared to $4.6 million among their low-performing peers. Those figures reflect salary, actual bonuses paid, and the grant date value of long-term incentives (LTIs).

The more telling difference lies in equity. High performers awarded almost $9.4 million in LTIs, while low performers awarded $3.7 million. Importantly, the burn rate—the percentage of common shares granted annually as equity awards—was almost identical (4.5 percent versus 4.2 percent). That consistency suggests strong equity oversight even as program design diverged.

The Equity mix of these groups is also illuminating. In 2023, most high performers relied on stock options and restricted stock units (RSUs), with limited use of performance stock units (PSUs). By 2024, 60 percent of high performers incorporated PSUs into their mix, while low performers did not introduce new PSU designs.

In biotech, where cycles are long and outcomes uncertain, companies are less likely to adopt the standard three-year PSU award design that is more common among mature companies outside the sector. Yet high performers adapted, using tailored PSU designs that better align with their development and commercialization efforts. What emerges from this analysis is a pattern: boards at high-performing companies consistently emphasize equity, often through non-standard PSU designs that reflect their strategy and risk profile, while keeping burn rates and overhang in check.

What This Does—and Doesn't—Mean

It would be tempting to conclude that performance-based equity drives TSR outperformance. But pay design alone doesn't move pipelines or markets. What it does do is send clear signals—to executives, employees, and shareholders—about how the company defines success and over what time horizon.

We found that high performers were more likely to embrace equity-heavy pay, maintain discipline in share usage, and hold leaders accountable through performance-conditioned awards. Low performers, by contrast, leaned toward designs that risked signaling caution or short-termism.

The Governance Dimension

Several themes come through clearly. Mixing cash and equity matters, and so does how equity is structured. The rigor of goal setting and the discipline around equity stewardship determines whether investors see pay practices as credible. And above all, narrative matters. Compensation design is not just an incentive; it's a form of communication that tells employees and investors how the company defines success. In practice, high-performing boards demonstrate three qualities: a long-term orientation toward equity and performance-based pay, a disciplined approach to dilution and share usage, and a willingness to evolve design over time to stay aligned with strategy.

Pay Design Needs to Support and Communicate Strategy

In biotech, where cycles are long and outcomes uncertain, executive pay design will never be a simple formula. Performance-based LTIs may work in some contexts, but they are not a cure-all, and they are often ill-suited to early commercial companies. What this analysis does show is that, across a diverse set of commercial-stage biotech firms, boards at high-performing companies consistently emphasize long-term, equity-driven pay, with greater reliance on PSUs, tighter management of equity usage, and more deliberate evolution of design year over year.

In the end, compensation is as much communication as it is motivation. Through the structure of equity, the balance of performance conditions, and the time horizons they choose, boards convey how they define success and the level of conviction they have in the company's long-term strategy.

For compensation committees, the lesson is less about adopting a particular tool and more about ensuring that pay design supports the company's strategic story. If the goal is sustained value creation, then the structure of CEO pay should clearly communicate that commitment—whether through larger equity opportunity, tighter calibration of metrics, or a disciplined approach to cash compensation. Ultimately, boards at high-performing companies are not just paying more, they are paying differently.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.