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Life Sciences Compensation in 2025: Five Key Lessons

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The 2025 compensation year brought several familiar issues back into focus while also introducing a few new ones, highlighting the importance of planning and judgment in the life sciences sector. Market volatility, evolving equity practices, heightened disclosure expectations, and a less predictable shareholder voting environment all added complexity to decision-making. The key takeaway: plan earlier and more deliberately. Below are five key learnings from the 2025 compensation season.

1. Volatility Continues to Complicate Pay Decisions

Volatility remained a defining feature of the 2025 compensation year. Biotech valuations generally rose in the second half of the year and have remained relatively steady into 2026. Medtech valuations also increased, in part driven by AI-related enthusiasm, but moderated toward year-end.

These kinds of swings can complicate the annual equity award process, particularly for companies that grant equity on a percent-of-company basis. In those cases, pay levels that looked reasonable in the fall can feel outsized by the time decisions are finalized due to higher grant-date values.

Similar challenges can arise for companies that use value-based equity awards. In a declining share price environment, value-based grants can result in higher share usage and increased pressure on the equity pool. If companies respond by reducing the number of shares granted to manage dilution or conserve the share reserve, that can create communication challenges with employees.

The takeaway for compensation committees: The equity grant process needs enough flexibility to accommodate different outcomes.

Early in the planning cycle, it is useful to pressure-test how the granting methodology performs under a range of scenarios—with particular attention to potential value inflection points. Committees should also be prepared to adjust as conditions evolve. In this kind of environment, a well-defined process and clear communication are just as important as the final numbers.

2. Small Governance Details Still Matter

2025 served as a reminder to ensure you take care of the "little things" in compensation governance so that they do not become bigger problems later. A good example is the evergreen provision in equity plans. For many companies, annual share replenishments have become routine, but they should not be purely automatic.

These provisions are typically structured as the "lesser of" a stated percentage of common shares outstanding *or an amount determined by the board.* That structure creates an opportunity, and arguably an obligation, for the compensation committee and board to evaluate whether additional shares are really needed, rather than simply accepting the default formula.

The same principle applies to director compensation. Companies that review board pay in the fourth quarter may want to either defer final decisions until the second quarter or, at a minimum, reserve time on the committee calendar to revisit and confirm annual director equity grants before the actual grant date, which is often tied to the annual shareholder meeting.

This is particularly important in instances where equity plan limits cap total non-employee director compensation. A fixed-share approach can create unintended issues if stock price changes meaningfully between when awards are discussed and when they are granted. A fixed-dollar approach tends to reduce that risk, but it does not eliminate the need for careful monitoring.

In short, strong governance is often less about major redesigns and more about consistent attention to the details.

3. Recent IPOs Are Entering a More Demanding Disclosure Environment

For many biotechs that went public in 2020, the 2025 proxy cycle marked their last year as an Emerging Growth Company. They will, for the first time, be subject to say-on-pay, say-on-frequency, and pay versus performance disclosure requirements in the 2026 proxy statement. That change raises the stakes for compensation committees and management teams that have not yet gone through a full shareholder-facing executive compensation process.

Smaller Reporting Companies will continue to have some relief, since they are not required to provide a full Compensation Discussion & Analysis (CD&A). However, disclosure minimums and effective communication are not the same thing. In some cases, even where a full CD&A is not required, it may be worth providing more robust narrative disclosure if the program includes unique features, recent changes, or decisions that could otherwise be misunderstood by investors or proxy advisors during the say-on-pay process.

The broader takeaway is that these votes and disclosures should not be treated as an administrative exercise, and that advance planning matters.

Deciding how to frame compensation decisions in the proxy statement, identifying issues that may attract scrutiny, and preparing a shareholder engagement plan in case support levels come in lower than expected are important exercises. Companies that went public in 2021 and 2022—and there were quite a few in the life sciences sector—will be facing a similar situation in 2026 and 2027.

4. RSUs Are Becoming an Enduring Aspect of Biotech Compensation

Restricted stock units (RSUs) remain a major topic of discussion, even among precommercial companies. What once felt like a niche or transitional practice is increasingly becoming an expected part of the equity award toolkit. Retention needs, driven in part by underwater options—along with competitive hiring pressures, higher perceived value, and concerns around burn rate optics—continue to drive interest in RSUs.

That said, the decision to adopt RSUs should not be taken lightly, nor be informed simply by market prevalence—it is fundamentally a philosophy question. While RSUs can reduce headline burn rate and provide more assured value, they do not necessarily represent a lower dilution cost to shareholders. They also change the nature of the pay-for-performance relationship. Compared with stock options, RSUs are generally less sensitive to shareholder value creation because they retain value even in more modest stock price performance environments.

This is why committees continue to wrestle with a familiar set of questions:

- At what stage is it appropriate to introduce RSUs?
- What level of company size or maturity supports the change?
- How does volatility factor into the decision to shift away from options

There is no universal answer, but 2025 made clear that companies continue to actively consider RSUs at relatively early points in their lifecycle.

5. AI May Make the Shareholder Voting Environment Less Predictable

The arrival of AI-powered proxy vote recommendation models was an interesting, but almost inevitable, development during the 2025 cycle. Whether these tools quickly become broadly influential or evolve more gradually, they point towards a voting environment that could become less tied to the traditional, relatively standardized frameworks long associated with ISS and Glass Lewis.

It does not mean proxy advisors will become irrelevant. But it does suggest that companies may need to prepare for a world in which voting outcomes are shaped by a broader set of analytical models, inputs, and investor-specific decision rules. In that environment, prior assumptions about what will or will not trigger support may become less reliable.

For boards and management teams, this only increases the value of regular shareholder engagement and clear communication. Companies that understand their investors, articulate the rationale for their compensation decisions, and avoid overreliance on formulaic design choices will likely be better positioned than those that continue to optimize solely for proxy advisor policies. The era of one-size-fits-all compensation design was already under pressure; this development may accelerate its decline.

Looking Ahead to 2026

The 2025 compensation cycle did not produce a single defining trend so much as it reinforced the importance of advance planning and sound judgment. Compensation committees are operating in an environment where conditions can shift quickly, disclosure expectations remain high, equity design decisions are more nuanced, and shareholder voting outcomes can be less predictable.

In that sense, the key takeaway from 2025 is not just that the landscape is always changing, but that companies that navigated the environment most effectively were those that planned earlier, revisited assumptions as needed, and stayed focused on core governance fundamentals.

About the Author

Rob James is a managing director with Pearl Meyer with almost 15 years of experience in executive compensation and finance. He serves as a trusted advisor to boards and senior management at public and private firms across North America. He works with companies in all industries, but he has in-depth knowledge and expertise in designing compensations strategies for organizations in life sciences and technology, particularly emerging and high growth companies that are pursuing or have recently completed a M&A transaction or public offering.

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