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ARTICLE | JUN 2026

Looking Beyond Gross Burn Rate in Life Sciences Equity Programs

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For public life sciences companies, an annual review of equity strategy should be as routine as reviewing executive compensation levels or incentive plan outcomes. Equity programs need to evolve alongside the business. When revenue is limited, clinical milestones are years away, and competition for scientific talent is intense, equity becomes one of the few tools available to attract and retain employees. Managing equity spend should be a strategic imperative—not just a governance exercise.

Changes in a company's stage of development, talent needs, shareholder base, and competitive landscape often necessitate adjustments to equity program design. Organizations regularly revisit the mix of equity vehicles they use, the weighting between vehicles and vesting types (e.g., time-based, performance-based), award-sizing methodologies, new-hire grant practices, promotion awards, and participation levels throughout the organization. What works for a newly public precommercial biotech company may not be appropriate several years later as the company matures, commercializes products, or shifts its portfolio strategy. Strategies that were effective during periods of rapid growth may require recalibration as business priorities shift.

Compensation committees are tasked with managing this evolution responsibly. They must preserve the equity pool and manage dilution prudently, while ensuring that equity awards continue to serve their intended purpose: motivating employees, retaining critical talent, rewarding value creation, and attracting new hires.

As part of this process, companies routinely assess their equity spend. While there are several ways to measure equity usage, many organizations focus on a single metric—typically gross share burn rate. That measure remains important, particularly given its prominence in investor and proxy advisor reviews, but it tells only part of the story.

Why Gross Share Burn Rate Isn't the Whole Story

Gross burn rate captures all equity grants made during the year, and its inputs are disclosed in public filings. Under this approach, every share granted is counted equally regardless of award type. A stock option, restricted stock unit (RSU), performance share,

or other equity vehicle each counts as one share. The calculation sums grants made to executives, employees, directors, and consultants, including those made from non-shareholder-approved plans.

In biotech, where experienced scientific and clinical talent is frequently recruited from competitors, inducement awards have become an increasingly common hiring tool. These equity grants are made to newly hired employees outside of a shareholder-approved plan under stock exchange inducement exemptions. They are especially common among development- and commercial-stage life sciences companies expanding after positive clinical data or financing events.

Gross burn rate is easy to calculate and is often the primary metric reviewed by compensation committees, investors, and proxy advisory firms. However, it has limitations. Relying on gross burn rate alone can cause boards to overestimate how quickly they are consuming equity, or misinterpret differences between peer companies that stem from award design rather than compensation philosophy.

In periods of rapid hiring—like those following a successful Phase 2 trial, commercial launch, or acquisition of a promising pipeline asset—particularly when companies make significant use of inducement awards, gross share usage can exceed the annual replenishment provided by an evergreen provision. At the same time, the metric does not account for shares that return to the plan and become available for reissuance. As a result, it can overstate the long-term impact of equity activity on the available share pool.

Gross burn rate is also heavily influenced by a company’s choice of equity vehicles. Consequently, two companies with similar compensation philosophies and comparable levels of equity compensation may report very different burn rates simply because they use different award types.

Looking Through an Option-Equivalent Lens

Imagine two commercial-stage biotech companies each delivering $20 million of annual equity value. One company primarily grants stock options, while the other relies heavily on RSUs. Even though employees receive comparable value, their reported gross burn rates may look dramatically different. The company using stock options will issue a greater number of shares because a single RSU is inherently more valuable than a single stock option. An option holder must first pay the exercise price to realize value, while an RSU delivers value upon vesting regardless of future exercise decisions. Without looking beyond gross burn rate, investors and directors could draw the wrong conclusion.

To account for this difference, companies commonly establish conversion ratios when granting different equity vehicles. For example, a company may exchange two stock options for one RSU or use a different ratio that reflects the relative value of the awards.

These conversion ratios create meaningful share savings and can substantially reduce gross burn rate. Consequently, two companies with identical compensation philosophies

and similar aggregate equity values may report very different gross share usage simply because they utilize different equity vehicles.

One way to normalize for these differences is to evaluate equity grants on an option-equivalent basis. This approach reverses the conversion factors used to determine RSU grant levels and converts awards into a common unit of measure. The result is a vehicle-agnostic view of equity usage that better reflects the intended value being delivered across the workforce.

For companies benchmarking equity practices against peers, the option-equivalent burn rate often provides a cleaner comparison than gross share burn rate alone, because it reduces the impact of differing vehicle choices and focuses more directly on the value being delivered.

Measuring Actual Share Consumption

Even after accounting for differences in award design, one question remains: how many shares is the company actually using?

Both gross burn rate and option-equivalent burn rate focus on awards granted during the year. Neither measure reflects the reality that a portion of those shares may ultimately return to the available pool. For companies seeking to understand the longevity of their equity reserve, net share burn rate often provides a more informative perspective.

Unlike gross burn rate, net burn rate focuses on actual share consumption by accounting for the shares that will eventually return to the available pool. Forfeitures, cancellations, and certain share recycling provisions can replenish plan reserves. Shares withheld to satisfy tax obligations or to pay option exercise prices may also return to the pool, depending on plan design.

Net share burn rate subtracts the shares returned from annual grants, providing a more accurate picture of how quickly a company is consuming its equity resources. This measure is particularly useful when projecting an equity plan’s remaining life. It also offers a more realistic view of the ongoing drain on share reserves than gross burn rate alone. In many cases, net burn rate can be estimated using publicly available disclosures, making it a useful benchmarking tool when evaluating peer practices.

The Most Important Measure: Net Burn Rate Within the Shareholder-Approved Plan

While net burn rate provides valuable insight into overall share consumption, compensation committees should ultimately focus on managing the reserve that matters most: the shareholder-approved equity plan. This is typically the plan that contains the evergreen provision or the share pool that the board must preserve over time.

While a company may grant awards from multiple sources—including inducement plans—the shareholder-approved plan remains the foundation of the long-term equity strategy. Understanding how quickly that specific pool is being depleted is critical.

Unfortunately, this measure is not always readily available when reviewing peer companies because public disclosures do not provide a streamlined way to capture the requisite details. Internally, however, companies should monitor this metric carefully and regularly model expected future share usage.

These projections show management teams and compensation committees how long the current reserve is likely to last under various hiring, retention, and grant scenarios. They also provide visibility into whether future shareholder action may be necessary.

For companies operating under an evergreen plan, preserving plan duration is often a key objective. Extending the life of the plan allows organizations to avoid the administrative burden, expense, and uncertainty associated with seeking shareholder approval for a new share reserve. For companies without an evergreen provision, monitoring plan depletion is even more important, as it informs the timing and strategy for future proxy proposals to increase the share pool or adopt a new plan.

Taking a More Comprehensive View

No single metric fully captures the effectiveness or sustainability of an equity program because each metric answers a different question. Gross burn rate measures annual grant activity. Option-equivalent burn rate helps normalize differences in award design. Net burn rate sheds light on actual share consumption, while net burn rate within the shareholder-approved plan focuses attention on the reserve that compensation committees must steward.

Looking at these measures together provides a more nuanced understanding of equity usage and helps separate changes driven by award design from those driven by true consumption of the share pool. More importantly, they support better forecasting, more informed governance decisions, and a longer-term approach to managing equity resources.

For life sciences companies, where equity often represents one of the largest investments in attracting and retaining talent, managing burn rate isn't simply about preserving shares; it's about preserving strategic flexibility. Boards that understand what each metric reveals are better positioned to balance shareholder interests with talent objectives, preserve flexibility in their equity programs, and avoid unexpected pressure on future share reserves.

About the Author

Matt advises life sciences and technology companies on executive compensation, specializing in benchmarking, incentive design, pay-for-performance alignment, security arrangements, and CD&A disclosure.

About Pearl Meyer

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