

## Senior Executive Incentives - Integrate Drug Pricing Risk 2018 – Amgen Inc.

**RESOLVED**, that shareholders of Amgen Inc. (“Amgen”) 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 Amgen’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 drug companies is potential backlash against high prices. Public outrage over drug prices and their impact on patient access may force price rollbacks and harm corporate reputation. 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>) Amgen has been criticized for price hikes on Enbrel, often timed close to increases by AbbVie on competing drug Humira. ([https://www.washingtonpost.com/news/wonk/wp/2016/11/07/the-bizarre-reason-two-competing-drug-prices-rose-in-tandem/?utm\\_term=.987248414e13](https://www.washingtonpost.com/news/wonk/wp/2016/11/07/the-bizarre-reason-two-competing-drug-prices-rose-in-tandem/?utm_term=.987248414e13))

We are encouraged by Amgen’s willingness to experiment with outcomes-based pricing for Repatha, its new cholesterol-lowering drug. (<http://www.wbur.org/commonhealth/2017/05/03/amgen-repatha-refund-promise-harvard-pilgrim>) We are concerned, however, that the incentive compensation arrangements applicable to Amgen’s senior executives may not encourage them to take actions that result in lower short-term financial performance even when those actions may be in Amgen’s best long-term financial interests.

Amgen uses revenue and non-GAAP net income, along with product-related goals, as metrics for the annual bonus, and earnings per share as one of the metrics for long-term incentive awards. (2017 Proxy Statement, at 58, 62) 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 Amgen as a company where net price increases accounted for at least 100% of net income growth in 2016. (*Global Pharma and Biotech Sector Review: Exploring Future US Pricing Pressure*, Apr. 18, 2017, at 5)

In our view, excessive dependence on drug price increases is a risky and unsustainable strategy, especially when price hikes drive large senior executive compensation payouts. For example, 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-ousize-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.