

## Executive Compensation and Drug Pricing Risks—Feasibility Report

Resolved: Eli Lilly and Company (“Lilly”) shareholders request that the Compensation Committee of the board of directors (the “Committee”) publish a report (at reasonable expense, within a reasonable time, and omitting confidential or proprietary information) assessing the feasibility of incorporating public concern over high drug prices into the senior executive compensation arrangements described in Lilly’s annual proxy materials.

### Supporting Statement

To reward the creation of long-term value, incentive compensation arrangements for senior executives of pharmaceutical companies should promote responsible risk management. A key strategic risk now facing pharmaceutical firms is backlash against the high price of medicines. The effects of high drug prices on patient access, government payer budgets and the broader health care system have kept drug prices in the public spotlight, especially as campaigning for 2020 presidential and congressional elections intensifies. A 2019 Credit Suisse analyst report stated that US drug price rises contributed 33% of industry net income growth in 2018 and noted “strong political pressure to reduce absolute drug prices.” (Global Pharmaceuticals, “Future of US Drug Rebates Under Review,” Apr. 29, 2019, at 4)

Lilly has faced intense scrutiny over pricing of its insulin: The Senate Finance Committee launched an investigation in early 2019, requesting extensive information on pricing, marketing costs and research and development,<sup>1</sup> and Attorneys General from eight states and the District of Columbia have formally or informally sought information from Lilly about insulin pricing.<sup>2</sup> Media reports regularly highlight increases in the cost of Lilly’s Humalog alongside stories of patients rationing or going without insulin due to cost.<sup>3</sup>

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<sup>1</sup> See [https://www.finance.senate.gov/imo/media/doc/2019-02-22%20CEG%20RW%20to%20Eli%20Lilly%20\(Insulin%20Prices\).pdf](https://www.finance.senate.gov/imo/media/doc/2019-02-22%20CEG%20RW%20to%20Eli%20Lilly%20(Insulin%20Prices).pdf)

<sup>2</sup> <https://www.cnbc.com/2019/08/02/eli-lilly-subpoenaed-by-new-yorks-ag-over-insulin-prices.html>

<sup>3</sup> See, e.g., <https://www.desmoinesregister.com/story/opinion/editorials/2019/01/31/high-price-insulin-killing-americans-diabetes/2695313002/>;  
<https://www.washingtonpost.com/news/magazine/wp/2019/01/07/feature/insulin-is-a-lifesaving-drug-but-it-has-become-intolerably-expensive-and-the-consequences-can-be-tragic/>

We are concerned that Lilly's senior executive incentive compensation arrangements may not encourage consideration of risks created by high prices. For example, Lilly uses revenue and earnings per share (EPS) as metrics for the annual bonus, and EPS growth as the metric for performance awards. (2019 Proxy Statement, at 43-46) Income/EPS and especially revenue are sensitive to price increases: In 2016, price increases accounted for at least 100% of Lilly's EPS growth, according to Credit Suisse. (*Global Pharma and Biotech Sector Review: Exploring Future US Pricing Pressure*, Apr. 18, 2017, at 1) Dependence on drug price increases create significant risks, which may be exacerbated when price hikes drive large senior executive payouts.

Accordingly, we believe it is advisable for the Committee to explore incorporating measures that relate to the financial and strategic risks created by high drug prices into senior executive compensation arrangements. This Proposal gives the Committee total discretion in selecting potential measures and in analyzing the feasibility of incorporating them. By way of illustration, though, such measures could reward executives for increasing access or limit the extent to which price increases can be used to meet revenue and income targets.

We urge shareholders to vote for this Proposal.