

Executive Compensation and Drug Pricing Risks – Feasibility Report

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

Supporting Statement

To reward the creation of long-term value, incentive compensation arrangements for senior executives of branded pharmaceutical companies should promote responsible risk management. A key strategic risk 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 continue to keep drug prices in the public spotlight.

An October 2019 report by the Institute for Clinical and Economic Review (“ICER”) identified the top 10 drugs, from among the 100 drugs with highest 2018 revenues, whose price increases in 2017 and 2018 caused the greatest increase in U.S. drug spending. AbbVie’s Humira ranked first on that list, and ICER found that its price increases were “unsupported by new clinical evidence.” As part of an investigation into drug pricing, the House Committee on Oversight stated in September 2020 that it planned to issue a subpoena to AbbVie for documents on Humira and another drug, including documents on strategies to preserve market share and pricing power. AbbVie has been criticized for its aggressive use of patents to forestall U.S. competition and keep prices high.

We are concerned that AbbVie’s senior executive incentive compensation arrangements may not encourage consideration of risks created by high prices. AbbVie’s new Reputation/Sustainability metric does not mandate consideration of drug prices or public perceptions regarding AbbVie’s pricing practices, and 80% of CEO Richard Gonzalez’s annual bonus is determined by one-year financial metrics, including net revenue and income before taxes. (2020 Proxy Statement, at 41) Excessive dependence on drug price increases and tactics like high rebates that limit competition create significant risks, which may be exacerbated when price hikes drive large senior executive payouts.

Accordingly, we believe it is advisable for the Compensation 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 compensation 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.