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Evolution of Compensation Programs in Pre-Commercial Biopharma: Scaling for Growth

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Pre-commercial biopharma companies need to attract and retain executives capable of advancing clinical, regulatory, manufacturing, financing, and commercialization priorities, while also managing cash constraints and dilution. The right compensation framework is rarely a one-time decision. It typically evolves as the company scales, raises capital, builds out leadership, and moves closer to commercialization.

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For many pre-commercial biopharma companies, equity is the primary compensation driver. Cash compensation may be below market, annual incentives may remain milestone-based, and governance practices may still be maturing. However, equity compensation decisions have immediate and long-term implications for retention, recruiting, dilution, share reserve needs, and investor perception.

Start with a Practical Compensation Framework

Pre-commercial companies often begin with individually negotiated compensation arrangements, particularly for founders and early executives. As the company matures or approaches entering the public markets, those arrangements generally need to evolve into a more consistent compensation philosophy and decision-making framework.

The framework does not need to be overly complex. At a minimum, it should help the Board or Compensation Committee answer several key questions:

- What market for talent is the company competing in?
- How should company stage, financing status, and role criticality influence pay positioning?
- How should the company balance cash compensation, annual incentives, and long-term equity?
- How should equity, dilution and retention be balanced over time?

For pre-commercial biopharma companies, compensation benchmarking is often more complex than simply selecting a peer group and applying percentile data. Companies at this stage can vary significantly in market capitalization, financing history, pipeline maturity, leadership structure, and expected path to commercialization. As a result, compensation decisions often require a combination of market data, company-specific context, internal pay considerations, and Committee judgment.

> *Benchmarking should not be applied mechanically; for early-stage companies, market data is a reference point, not a formula.*

Recognize That Equity Is Often the Core Compensation Currency

Equity is typically the most important compensation element for pre-commercial biopharma companies. Early-stage companies often use larger, front-loaded equity awards to create meaningful ownership and retention for executives taking on significant company-building risk.

These grants may be expressed as a percentage of common shares outstanding rather than a dollar value, particularly when valuation is low, or share price is not yet established. Over time, as the company becomes more established, grant sizing often shifts toward a more standardized framework that considers market value, role-based ranges, annual grant cadence, dilution, and share reserve impact.

This transition requires judgment. A company with a small leadership team and limited near-term hiring needs may require a different equity strategy than a company preparing for rapid clinical, regulatory, or commercial buildout. Similarly, a company with large founder or pre-public grants may need to consider whether additional near-term annual grants are necessary immediately or whether a more measured approach is appropriate.

Equity decisions should be evaluated through several lenses:

- What level of equity is needed to attract, retain, and motivate critical talent?
- How much equity has already been granted to the executive team?
- Are prior awards intended to provide multi-year retention?
- What level of share usage is reasonable given available plan capacity and expected hiring needs?

Companies should monitor share usage, overhang, and remaining plan capacity over time, particularly as annual grant practices become more regular and hiring needs increase.

> *Equity programs should be designed to support talent needs while maintaining a disciplined view of share usage and dilution.*

Manage the Transition from Front-Loaded Grants to Annual Equity Practices

Many early-stage companies use front-loaded grants to establish meaningful ownership at the time an executive joins. These grants may be intended to cover multiple years, particularly when the company has limited cash resources or is still operating with a private-company compensation model.

As companies mature, they often begin to develop a more regular annual equity grant practice. This transition can create important questions:

- Were prior grants intended to serve as multi-year awards?
- Should annual grants begin immediately after listing or after a specific milestone, or fiscal year-end cycle?
- Should the company size grants based on dollar value, percentage of shares outstanding, or both?
- How should the Committee consider existing ownership, unvested value, and retention risk?

There is no single answer that applies to all pre-commercial biopharma companies. The right approach depends on business stage, grant history, executive expectations, share reserve availability, investor optics, and the company's go-forward compensation philosophy.

Committees should also be careful not to let annual grant practices evolve informally. Even where annual grants are modest at first, the company should establish a disciplined process for reviewing participation, grant timing, award sizing, and share usage.

> *The shift from front-loaded equity to annual grants is one of the most important compensation transitions for early-stage public biopharma companies.*

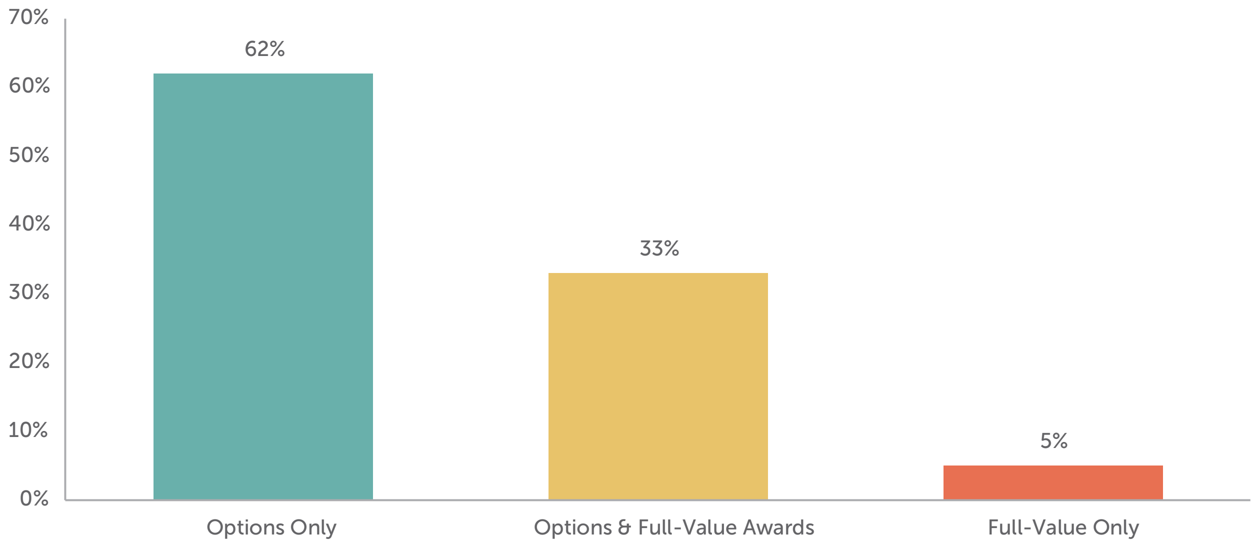
Select Equity Vehicles That Match the Company's Stage and Objectives

Equity vehicle mix is another important design decision. Stock options have historically been common among early-stage biopharma companies because they reinforce upside alignment and only deliver value if the stock price appreciates. This structure can be attractive for companies whose value creation depends on major clinical, regulatory, financing, or commercialization milestones.

However, options also have limitations. In volatile sectors, options can become deeply underwater, reducing their perceived retention value. This can create pressure for additional grants, repricing discussions, or broader retention actions.

Restricted stock and RSUs provide more stable retention value because they retain value even if the stock price declines. They can be useful for attraction and retention, though they are less leveraged than stock options and they deliver value regardless of stock price appreciation.

CEO Equity Grant Vehicle Prevalence



Note: Based on most recently disclosed CEO equity awards

Among the 33% of companies using both vehicles, the average CEO LTI value mix was approximately 60% options and 40% full-value awards, suggesting that full-value awards are often used as a meaningful complement to options rather than a nominal component.

These findings suggest that options remain central to CEO equity design in pre-commercial biopharma, but many companies also incorporate full-value awards to support retention and balance the limitations of options in a volatile sector. Performance-based equity is generally less common at earlier stages because long-term performance goals can be difficult to set with sufficient precision at this stage. The right mix will depend on company stage, share reserve, stock price volatility, retention needs, investor expectations, and the Committee's compensation philosophy.

> *Options support upside alignment, while RSUs support retention. Many pre-commercial companies use both, but the right mix depends on stage, volatility, dilution, and talent needs.*

Conclusion

For pre-commercial biopharma companies, compensation program evolution is a staged process. Equity is often the central design issue, but the right approach depends on company stage, financing profile, leadership needs, grant history, share reserve capacity, and expected path to commercialization.

As companies scale, Compensation Committees should be thoughtful about how equity awards are sized, when annual grant practices are introduced, and which vehicles best support retention, alignment, and responsible share usage. The goal is not to replicate mature-company practices before the business is ready, but to build a compensation framework that can evolve as the company grows.

Because these decisions involve judgment across market practice, retention, dilution, and company-specific context, Compensation Committees benefit from a framework that is both data-informed and tailored to the company's business reality.

Sample Methodology: Market observations are based on a sample of 164 U.S.-listed biotechnology and pharmaceutical companies on major U.S. exchanges with revenue below $5 million and market capitalization above $50 million.

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