October 2024

CASE STUDY:

AstraZeneca

Background

AstraZeneca is one of Europe's leading pharmaceutical companies, primarily focused on oncology, biopharmaceuticals, and rare disease. In 2014, as part of its defence against the Pfizer takeover bid, the company announced an ambitious revenue target.

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EOS identified robust succession planning for both the CEO and the chair as integral to the achievement of a long-term strategy, as well as the alignment of incentives with long-term revenue targets.

We subsequently engaged on the robustness and quality of the succession and compensation processes. In April 2024, AstraZeneca became the UK's largest public company by market capitalisation.

Engagement objectives:

Strategy, risk and communication:
Long-term sustainability strategy

Governance:
CEO succession planning;
Successful chair succession

Top three successes:

- Company achieved ambitious $45bn revenue goal in 2023, set a decade ago
- In 2023, the company appointed its new chair, Michel Demaré, an experienced board chair who had been appointed to the board in 2019
- CEO succession plan in place, focused on experienced internal candidates

Timeline

- **2014**: AstraZeneca announces 10-year target to almost double revenue to $45bn
- **2015**: Discussed pipeline recovery strategy with the CEO. Discussed the long-term strategic alignment of compensation with the CFOz
- **2016**: Reviewed progress towards the $45bn revenue target with the chair
- **2019**: Met with the senior independent director and welcomed the alignment of pay incentives with the long-term strategy
- **2020**: Discussed pipeline commercialisation and associated litigation risk and started dialogue on CEO succession planning
- **2021**: Discussed internal pipeline for CEO succession with chair
- **2023**: Experienced board chair appointed
- **2024**: Met with the new chair to explore readiness of CEO candidate pipeline

Our engagement

In 2014, we initiated engagement on the company's ambitious long-term revenue target, which was the basis of its defence against Pfizer's takeover bid. We signalled the importance of shareholders holding the board to account on its commitment to these long-term targets and heard of the chair's intention to tie management incentives to long-term targets.

The CEO emphasised the success of the long-term strategy and revenue generation would be underpinned by a highly collaborative, and thus innovative, atmosphere that would increase the size of the pipeline.

We also explored how compensation would be structured to ensure management incentives were aligned with long-term shareholder value creation.

We held regular meetings with the company between 2015 and 2024, including with the chair, to ensure progress was being made. We were given assurances over the commitment to tie remuneration to the long-term strategy. We pushed the company to disclose performance against confidential metrics in the long-term incentive plan (LTIP), noting that it would provide transparency and accountability while protecting commercial interests.

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We also took this opportunity to discuss succession planning for the CEO, whose tenure made this likely in the medium term. With the chair also likely coming to the end of his tenure, however, we raised concerns over the senior independent director's capacity to effectively support the CEO succession given his additional role as chair of the remuneration committee and as CEO of another company.

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The senior independent director (SID) remained responsible for CEO succession planning, so we questioned how this process would be designed to support the achievement of long-term revenue targets.

However, we learned that CEO succession was not now expected for several years (and after a new chair had been appointed) and as the SID would also likely soon step down the new chair would instead be responsible for overseeing the CEO change.

While a few years away, we raised concerns over the risk of a vacuum after a strong CEO departs, affecting long-term strategic delivery, but heard that the company was confident in its internal talent pool and the CEO was focused on ensuring business performance post-departure.

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We met with the outgoing chair in 2021 and reviewed progress on CEO succession planning, again hearing that the company was confident in its internal pipeline given the CEO had managed to retain a strong executive team around him. We found this encouraging, but through to 2023 we raised concerns over visibility of the process.

In 2023, we requested greater clarity over progress including how far the company had gone to identify and develop internal candidates, especially with the CEO's 11-year tenure coming under the media spotlight.

Changes at the company

In April 2023, we welcomed the appointment to chair of one of the current board directors, who also had previous experiences of chairing other companies. We were also pleased to learn that the company had in April 2023 ultimately achieved its target, announcing annual revenues of $45.8bn in 2023. In April 2024, AstraZeneca became the UK's largest public company by market capitalisation.

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Early in 2024, we met with the new chair to better understand the strength of the internal pipeline now that CEO succession is very likely under his tenure. We were pleased to hear that the chair is working to ensure candidates for CEO have experience across the business in time for a formal selection process. We obtained reassurance over the diversity of this pipeline and that the company is also looking at external candidates.

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Throughout our engagement on CEO succession planning, we have raised concerns over the high level of variable pay, which again increased significantly as recently as the 2024 AGM. The company has consistently justified pay to retain a high-performing incumbent in a competitive global environment. We recognise global competition for talent, but we are not convinced that delivering such significant pay increases are warranted, especially if a robust internal CEO pipeline is available, as the company claims.

This led to us recommending votes against the proposed remuneration policy at the 2024 AGM. After the AGM, we met with the chair and obtained reassurance that a future CEO would not necessarily be remunerated under as generous a performance plan.

Next steps

Earlier this year, we probed the chair on how the company would approach its next phase of growth. The chair expressed a strong continuity message, which was followed up by the setting of another stretching revenue target of $80bn for 2030.

We will continue to engage on how the board governs this level of ambition while ensuring the company's risk management practices remain grounded by a well-articulated culture and a robust approach to ethics. Additionally, while we have obtained reassurance over the ongoing work on CEO succession, EOS will continue to engage on this.

This case study has been fact-checked by AstraZeneca to ensure a fair representation of EOS work carried out and changes made at the company.

Will Farrell
Engagement
EOS

Federated Hermes

EOS

Federated Hermes

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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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