

Chief Financial Officer Insights

Perspective's Study of 2018 CFO Trends in Healthcare

Introduction

Over the past few years, Perspective's CFO practice has conducted nearly 40 senior-level finance projects across CFO, senior finance executives, and audit chair and board searches. We have a tremendous track record of placing top leaders across private, public and IPO-ready CFO searches, focusing on providing market counsel to our clients, and aligning placements to the objectives and culture each company requires.

In 2017 and 2018 we evaluated CFO attributes and trends across 400+ CFOs at public US-based healthcare products companies above \$100M market cap to assess the major trends impacting our clients as well as the experiences and qualities portrayed by CFOs in today's healthcare climate.

Dynamics Impacting the CFO Market



Demand: The pace of innovation across the biopharma and healthcare markets creates constant demand for accomplished C-level candidates, in particular CFO roles; competition includes companies, investors and Board members. The IPO market has been robust in 2017/2018, and new company creation has also contributed to this demand. Mass BIO reported that 48% of the IPOs in 2017 were for MA-based companies. Companies are also going public with earlier stage clinical programs than in years past.



Competition: Most desirable candidates have multiple opportunities and chances for career advancement (ex. successful CBO/CFO to CEO); successful leaders are more reluctant to accept a lateral position if well-positioned in a public company. There is at times a disconnect in the market around what is required of CFOs in an evolved healthcare environment and the availability and attributes needed in an effective CFO. A review of what strategic issues the company is trying to solve with this hire, as well as education at the CEO and board level, is important.



Differentiation: Companies that will compete effectively will be precise, engaged and decisive in the recruitment of finance executives at the operating and board level; influence is created by rapid access to senior leadership (ELT, Board of Directors), often defining the outcome in a competitive situation. Engagement from the CEO is critical in a CFO process and can be a determining factor in success. Caliber and reputation of board and management team (i.e., seasoned CEO and Board) are also critical.



Impact on Compensation: Due to the above factors, CFO compensation has risen at a significant rate in order to attract and retain CFOs, with total cash comp continuing to rise and allocation of significant new hire equity. Many organizations are working to retain CFOs by adding increased responsibility and expanding role scope – i.e. CFO/COO.

Route Up to CFO

- In terms of primary route up to the public CFO role, we saw CFOs fit into five main functional categories (outlined in the diagram at right).
- Corporate and divisional finance experience is the most common background for sitting public CFOs among larger companies, whereas smaller companies can favor more technical/accounting-focused backgrounds.
- Of course, a broad and well-rounded background with a strategic mindset, leadership and intellectual agility are important for anyone aspiring to the CFO seat.

Functional Route Up to CFO	>\$5bn	\$5bn-\$500m	<\$500m	All Companies
Accounting, Controller, Audit	18%	27%	44%	33%
Banker	8%	14%	13%	13%
BD and Strategy	8%	7%	4%	6%
Corporate & Division Finance	64%	60%	36%	46%
Lawyer	2%	2%	3%	2%

■ Indicates highest represented value

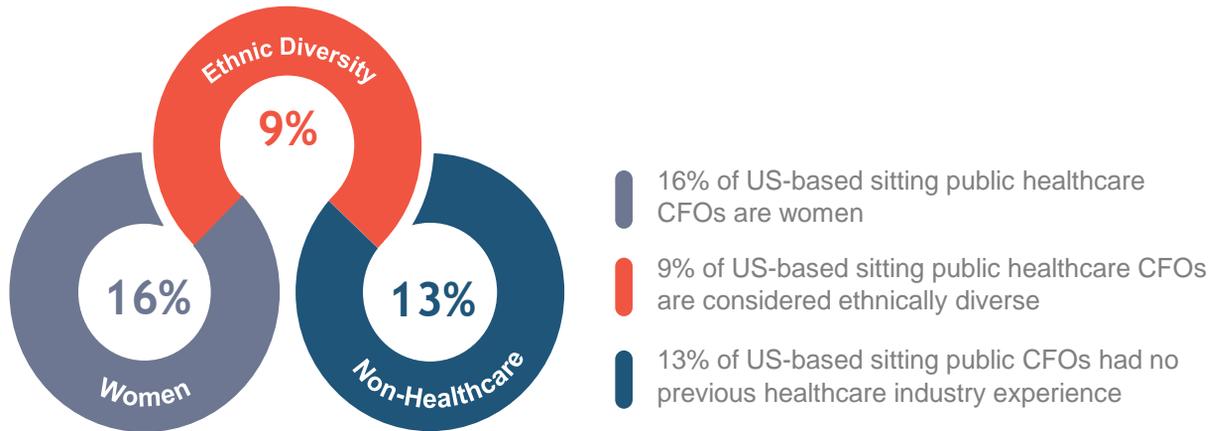
First-Time Chief Financial Officers



62% of US-based sitting public healthcare Chief Financial Officers are first-time public CFOs.

More than ever before, companies are hiring high-potential leaders to take the helm, which speaks to the competitive nature of the market for finance talent. 62% of US-based sitting public healthcare Chief Financial Officers are first-time public CFOs; only 31% of these first-time public CFOs have prior private company CFO experience, and 43% of US-based sitting public healthcare CFOs have no prior public or private CFO experience.

Diversity in Finance Leadership



Diversity of thought is also important for executive teams and the boards. Chief Financial Officers who have experience at non-healthcare companies can also help to bring different perspectives to the table.

Perspective's Commitment to Diversity

- We help our clients commit to building diverse teams in the C-suite and boardroom, and in every search we endeavor to bring forward a broad candidate slate that emphasizes our understanding of diversity.
- From our unique vantage point, we are able to forge connections across the healthcare ecosystem, tapping into talent from a range of backgrounds and broadening the pipeline to support our diverse search process.
- We partner with our clients to make sure they are well-positioned to offer inclusive and supportive environments to attract leaders, as well as to ensure that diverse viewpoints are encouraged and supported within the organization.

2018 General CFO Trends

CFOs Hired in the Last Year

23%

Small Companies

23% turnover for companies with a capitalization of less than \$500m

19%

Medium Companies

19% turnover for companies with a capitalization between \$5bn and \$500m

15%

Large Companies

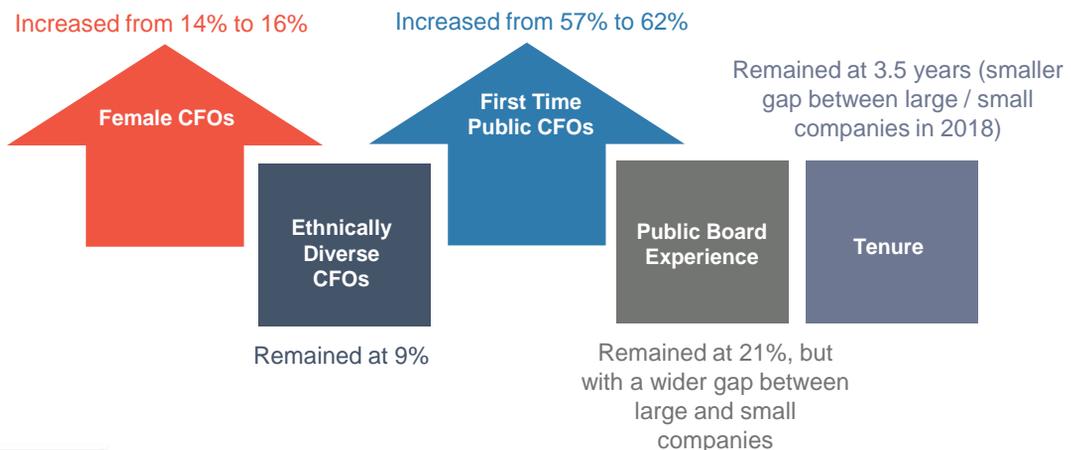
15% turnover for companies with a capitalization greater than \$5bn

- Overall, 20% of all US-based public healthcare companies have hired a new CFO in the last year.
- Small companies experience more turnover, likely because many are preparing for an IPO or are working to hire their first finance executive.

Comparing Healthcare CFOs: 2017 to 2018

In comparing 2017 data to 2018 data:

- Female representation increased slightly, as did the number of first-time public CFOs.
- The representation of ethnically diverse CFOs, the number of CFOs with public board experience, and the average tenure all remained stable from 2017 to 2018.



CFOs in the Boardroom

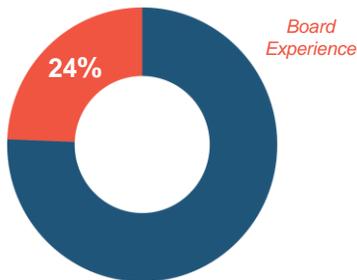
Trend: CFOs and Public Boards



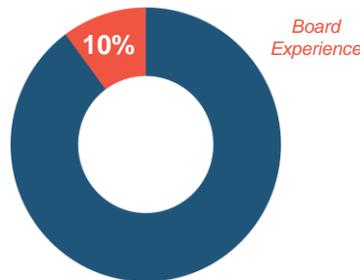
Only **21%** of US-based sitting public healthcare CFOs have any experience sitting on a public board.

CFO Board Experience by Market Cap

CFOs of Companies of Market Capitalization \$1B or Greater



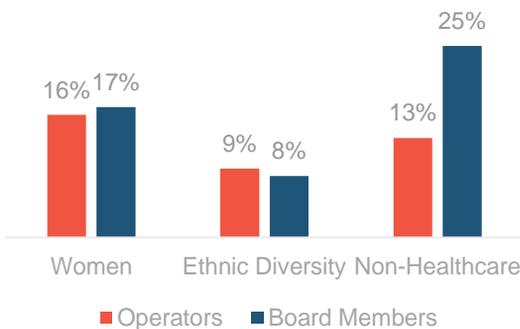
CFOs of Companies of Market Capitalization Less than \$1B



The larger the company, the more likely it is that the sitting CFO has current or past public board experience

Diversity Within Finance Representation On Boards Compared To Executive Teams

Finance Board Members: Diversity Metrics



Representation across gender and ethnic diversity is nearly identical between finance operators and finance board members in life sciences.

Life sciences companies are far more likely to accept ex-industry finance expertise onto their board than onto their management team.

Based on our CFO study, 11% of CFOs in companies with market cap <\$1B have public board experience, whereas 32% of those in companies with market cap >\$1B have public company board experience.

About Perspective

Perspective is a leader in human capital advisory services, connecting innovative healthcare companies and leaders to the latest thinking, methods and resources to inform an organization's most important asset... human capital.

At Perspective, we believe that the best vehicle for the continued evolution of healthcare is people. The right leaders and teams have the power to transform the way we approach health and serve patients. As talent advisors sitting at the intersection of healthcare and human capital, we are in the business of improving healthcare by solving the industry's toughest leadership challenges. It is our primary goal, and this deeply rooted purpose informs all our decisions.

Perspective's CFO Practice



Noël Auguston
Partner



Thomas Carey
Founder, Chief
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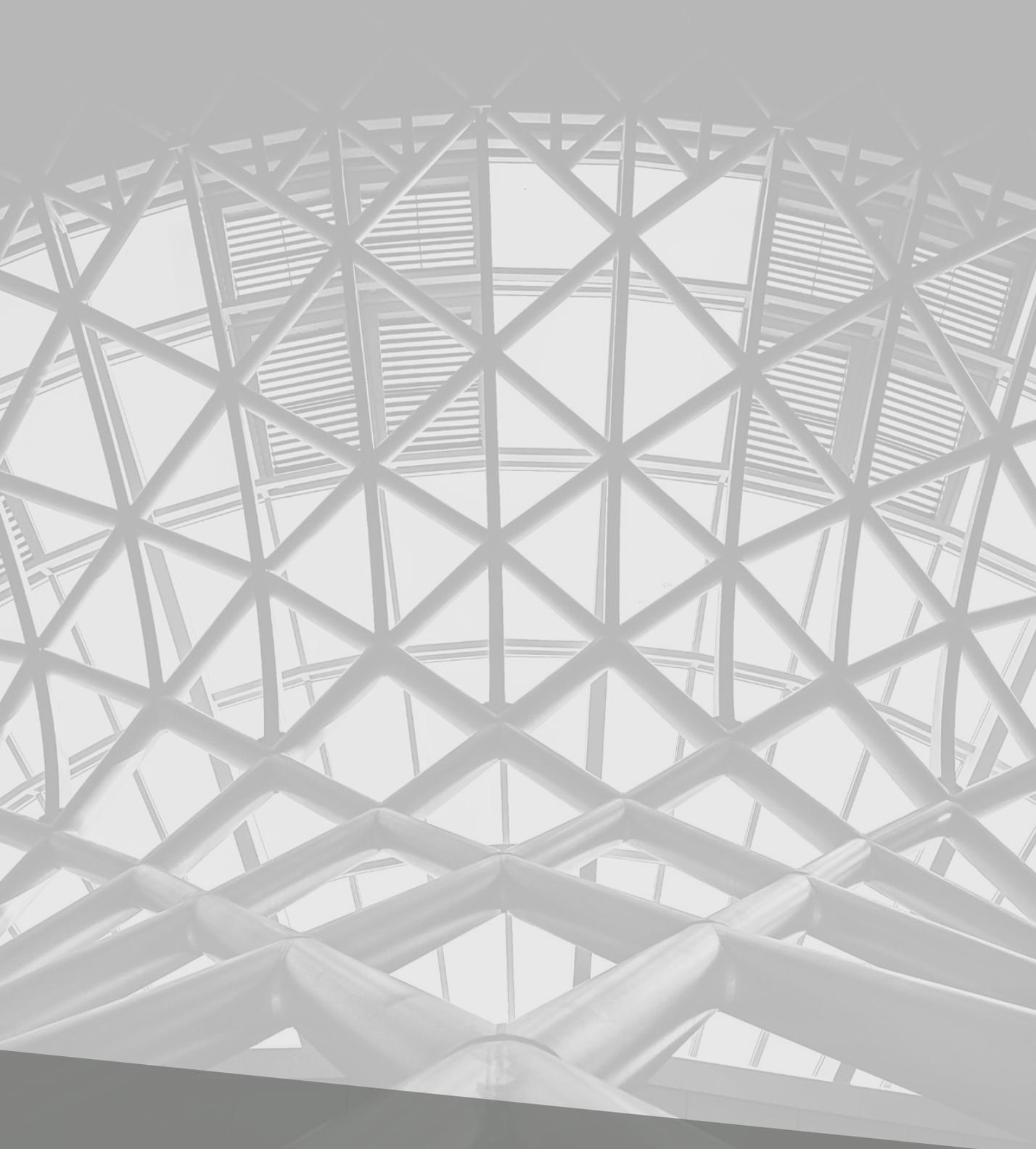
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