Medical Device Industry in Puerto Rico

Medical Device Cluster Leaders
Agenda:

• Introduction
• Overview of the Medical Device Industry – U.S. & Puerto Rico
• Top competitiveness concerns
• Top competitive advantages
• Site Selection Factors
• Path Forward
• Facts
  – US is the world leader with > 50%
  – Revenue drivers – aging population, increased medical care, and innovation
  – R&D spend – 9% average
Overview of the Medical Device Industry – U.S.

• Biggest challenges
  – 2.3 % excise tax on revenues – Jan 1, 2013
  – Regulatory environment
  – Government cost cutting is putting pressure on GP%
Overview of the Medical Device Industry – Puerto Rico

• **Facts**
  – Started with Baxter in 1950’s
  – Spread throughout 21 cities around the island.
  – Total of 30 medical devices companies
    • Includes Top medical devices companies in Ortho, Cardio, Neuro, etc.
    • Diversity - From bandages to insulin pumps, hernia patches implants, Combo devices
    • Rich - Technology, knowledge
    • Vibrant – Constant stream of new products and innovations.

**Companies:**
- Edwards Lifesciences
- Abbott Medical Optics (AMO)
- Baxter
- Cardinal Health Care
- St. Jude Medical
- Fresenius KABI
- Stryker
- Boston Scientific
- RD Medical
- Zimmer
- Becton Dickinson
- Bard
- Integra Neurosciences
- Johnson & Johnson
- Pall Biomedical
- NP Medical
- Ethicon
- Coopervision
- Roche Diagnostics
- Sartorius
- Covidien
- Lifescan
- Medtronic
- Essilor
- Angiotech
- C-Axis
- MedTech
- Classic
- Heraus
- ProMed
- Biomet
Life Sciences in Puerto Rico

PRIDCO
Government of Puerto Rico
Puerto Rico Industrial Development Company
www.pridco.com

Medical devices manufacturing plants
Overview of the Medical Device Industry – Puerto Rico

- Contribution to Puerto Rican Economy
  - Roughly 13% of manufacturing jobs
  - Average compensation = $33,780
- Knowledge Base
  - UPR graduates
  - Technology Transfer - Diversity
  - R&D activities
  - Talent mine to Corporate network
Overview of the Medical Device Industry – Puerto Rico

Total Salaries ($ millions)

Average Annual Salary ($)
Overview of the Medical Device Industry – Puerto Rico

- Contribution to Puerto Rican Economy
  - Medical Device companies account for 2.4% GDP and 6.1% of Exports
  - Positive growth during past 5 years
- Current Expansions at BD, Bard, Edwards, etc.

Exports (years – millions $)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (millions $)</th>
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<tbody>
<tr>
<td>2002</td>
<td>2,068.5</td>
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<tr>
<td>2003</td>
<td>2,250.7</td>
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<tr>
<td>2004</td>
<td>3,165.6</td>
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<tr>
<td>2005</td>
<td>3,913.2</td>
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<tr>
<td>2006</td>
<td>4,983.8</td>
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<tr>
<td>2007</td>
<td>4,675.2</td>
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<tr>
<td>2008</td>
<td>3,732.6</td>
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<tr>
<td>2009</td>
<td>3,649.6</td>
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<tr>
<td>2010</td>
<td>4,053.1</td>
</tr>
<tr>
<td>2011</td>
<td>4,539.9</td>
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</tbody>
</table>
Overview of the Medical Device Industry – Puerto Rico

• Who are our competitors?
  ▪ Costa Rica
  ▪ Mexico
  ▪ Ireland
  ▪ Dominican Republic
  ▪ Southeast Asia (Singapore, Thailand)
  ▪ United States of America
Site Selection Factors

- Experienced pool of skilled manufacturing associates that adapt well in a regulated industry, mastering complicated processes, science and engineering.
- Geographic location to support domestic and global markets.
- Competitive tax structure and best total landed cost.
- Having the same U.S. structure promotes simplified business transactions.
Site Selection Factors

• University programs/curriculum aligned with industry needs.
• Strong and diverse network of suppliers to sustain and complement manufacturing operations.
• Experience and skilled personnel to meet the ever increasing regulatory requirements.
• Utility costs (i.e. electricity)
• Labor rates including fringes and site specific government requirements (i.e. housing need to be provided to operators in China)
• Transportation Costs
Top Competitiveness Concerns

- Stable & Predictable business environment
  - Excise Tax of Law 154 (What, How, Ambiguity)
- Energy Cost
- Transportation
- Agile Permit Process
- Non robust incentive and business development support packages at a disadvantage with other countries (i.e. Singapore)
Top Competitive Advantages

- R&D Tax Credit
- Tax Credit on Purchases for products manufactures in Puerto Rico
- Industry know how and talent
- Synergies with the Pharmaceutical and Biotech Industry
- Our People
- Infrastructure
- The quality of our education
- PRIDCO’s flexibility to tailor solutions
Path Forward

• Short Term
  • Re-establish the relationship government and industry.
  • Stabilize tax structure. NO SURPRISES!!
  • Keep the good things that we already have and not compromise the long term.
  • Building a task force inclusive of all economic sectors to tackle the government financial crisis.

• Mid to Long Term
  • Reengineer and strengthen “Fomento” as an effective engine to growth external investment and develop and growth internal worth.
  • Make Puerto Rico the best location for our industry. The end result is of mutual benefit. i.e. job creation and economic growth.