



Medical Device Roundtable Executive Summary – March 2, 2011 Smith & Nephew Endoscopy, 150 Minuteman Road, Andover

Anchors:

Name	Position	Representing
Tom Sommer	President	MassMEDIC
Michael Frazzette	President	Smith & Nephew Endoscopy
Lori Lazzara	General Manager of Next Generation Systems	Philips Healthcare
Caleb Winder	Director	Excel Venture Management

Anchors Opening Remarks:

Tom Sommer began the session by thanking MassEcon and Smith & Nephew Endoscopy for holding the event, and noting previous collaboration efforts with MassEcon in helping companies make the site location decision. MassMEDIC is the state's trade organization focused on the medical device industry. MassMEDIC does lobby for the medical device sector and also promotes the benefits of Massachusetts as a home for medical device companies.

- Massachusetts is one of the top tier medical device states in the nation – the second largest – **with 250 OEMs** (original equipment manufacturers) located within its borders and \$6Billion in annual sales.
- Other top tier medical device states include Minnesota, Utah, California, Florida, New York
- Medical devices are the **#1 exported commodity out of Massachusetts with an \$8B impact** on the state (including the multiplier effect).

Medical Device companies considering Massachusetts find value in the proximity to research occurring at the colleges and universities in Massachusetts, the access to capital with so many VC firms located in the state (although current VC investing in the sector is at a low), and a reasonably receptive and welcoming government sector. There are some drawbacks to Massachusetts as a location. Issues such as an aging manufacturing population and a high cost of living are determining factors for companies but are outside of MassMEDIC's control. In addition, FDA changes and a Federal excise tax to be imposed in 2013 for medical devices are common problems across all states. However, Massachusetts has a restrictive "gift ban" law that does not allow close interaction between businesses and physicians. For medical device companies that require input from physicians to enhance their products, the law hinders the process. Even coffee offered to visitors at a Medical Device company's facility is outlawed. This issue came up throughout the roundtable discussion and provided great debate between the attendees. Tom then introduced Michael Frazzette, President, Smith & Nephew Endoscopy.

Mike Frazzette welcomed all the attendees to Smith & Nephew Endoscopy's global headquarters. The Endoscopy business unit offers surgeons all the arthroscopic technologies needed for successful surgery including instruments for access to joints, cameras to help allow visualization inside the joint, state-of-the-art blades for resecting tissue and specialized devices to repair damaged tissue. In addition to its Andover headquarters with 400 employees, Smith & Nephew has an instrument manufacturing facility in Mansfield with 350 employees. Smith & Nephew is a global company that decided to stay in Massachusetts for multiple reasons including the state's

- Access to world-class teaching hospitals and medical institutions and education

- vibrant arts and sports culture that makes living here enjoyable;
- educated and skilled workforce - an important fact to a company like Smith & Nephew that deals in such a high-tech industry;
- great access to the world through direct flights from Logan International Airport.

Mike noted that Smith & Nephew's manufacturing location in Mansfield benefited from the southeastern Massachusetts labor force skills derived from experience in the jewelry industry, especially where hand-finishing is important. In addition, there is a world-class surgeon pool in Massachusetts.

But even with all these benefits there are some challenges to setting up operations in Massachusetts, namely a high cost of living and industry specific regulations [the Massachusetts "gift ban" law]. In contrast to the pharmaceutical field where Research and Development works to create a solution to a problem, Michael views that "**surgery is an art more than science,**" and that each surgeon's interaction with medical devices will evolve with each user, and therefore the "gift ban" law needs to be revisited. The medical device industry is always advocating for improved patient care and physicians help provide guidance for medical device companies.

Lori Lazzara agreed with Michael's points about why Massachusetts was a good location for Philips Healthcare. Philips is based in the Netherlands and employs over 2,000 in Andover, occupying 5 buildings in Minuteman Park, including their worldwide corporate headquarters for Healthcare. The company has plans to continue growing and sees great benefit to having its manufacturing in Andover immediately adjacent to its Research and Development.

Echoing Michael's point about the **great Massachusetts talent pool of workers**, there are a couple of other reasons why Philips thought Massachusetts was the place to locate. First, Philips has access to many **teaching hospitals** throughout the state, and the proximity of these various hospitals is beneficial for the alpha and beta studies of products. In addition to the teaching hospitals, the **research coming out of Massachusetts colleges and universities** allows Philips to innovate quickly. The research and talent from the universities has helped Philips develop medical device solutions to accommodate the transition from hospital-based to home-based health care, which will be the focus of care giving in the future. As a result, caregivers will need to be particularly well-equipped with technology that supports social media and mobility.

Caleb Winder of Excel Venture Management shed light on the medical device industry from the venture capital perspective, and although there is a lot of capital in Massachusetts, the medical device industry is a risky industry to invest in from a VC perspective. The normal process is to invest in the early stages and then pick a time to exit and "harvest" an investment. The FDA risks and the long-term timeline to bring a product to market, makes VC firms gun-shy about investing in medical device companies. In fact, since 2006 his firm has not made a single substantial investment in a medical device company. Caleb stated that Massachusetts does have benefits for Medical Device companies - **the access to industry experts, the existing companies, and the academic centers** - however, the companies that are based in Massachusetts are running their trials overseas (China, India, Brazil) where the regulations are not as stringent. The uncertainty of FDA decisions and the resulting pressure on startup companies makes medical device a complicated industry to gauge.

Selected Q&A:

Q – What is the status of the "gift ban" legislation, and as an impediment, and what is being done to change it?

[Overarching question posed by the attendees in multiple questions. The answers to those questions have been collected as one answer below]

A – The "gift ban" law was signed on the last day of the Massachusetts legislative session - July 30, 2008 without full debate or input from the industries affected by the law. MassMEDIC is working on revisiting the legislation to see what can be done to change the laws. Tom Sommer has meetings scheduled with key legislators to discuss the law and urged people interested in seeing change, to also advocate for it with their local legislators. Attendees Bob Bradford and Peter Brown advocated

for a grassroots campaign to help. Michael Frazzette gave the example of a skill center that Smith & Nephew was thinking of building in Massachusetts. The facility, which would have brought in doctors to learn skills for working with Smith & Nephew products, was ultimately built in the UK because of concerns over the “gift ban” law.

Q – [To Caleb] Where do you see investment being made if you’re not investing in medical device startups?

A – The healthcare industry is still poised for investment, but companies with a single product might find it difficult to raise start-up funds; medical device companies typically fall into that category. Thus, if the product is not approved for commercial application, the investment is lost. Those companies whose product can be applied to multiple problems (such as antibiotics) should be the area that VC firms focus their attention to now. There needs to be broad applications, and the bio and pharma companies tend to fall into that category.

Q – Can Massachusetts have a positive outlook for the industry and can you summarize the benefits to being in Massachusetts?

A – [All] The industry is strongly positioned in Massachusetts and there are myriad reasons for companies to be here: workforce, education opportunities, partnerships with colleges and universities, access to previous research, and an overall great quality of life.

Attendees

Carol Adey *CoreNet Global New England Chapter*
Sharon Ault *MetLife*
Allan Benowitz *Right Management*
Robert Bradford *North Shore Chamber of Commerce*
Peter Brown *Campanelli Companies*
Michelle Cammarata *KPMG LLP*
Brendan Daly *NAI Hunneman*
Michael Edward *Grubb & Ellis*
Penny Garver *Sovereign Bank*
Jon Goplerud *Citibank Commercial Banking Group*
Matt Harvey *CresaPartners*
Lynn King *Coldwell Banker Relocation and Moving Services*
Linda Lukas *Symmes Maini & McKee Associates*
Michael McCarthy *NAI Hunneman*
Fred Mulligan *Cutler Associates*
David Nackley *RBS Citizens Bank*
Joseph Perry *IBM*
Kevin Quinn *Dacon Corporation*
Geoff Sawyer *AbelWomack*
Martina Toponarski *Boston Redevelopment Authority*
Ryan Weber *Newmark Knight Frank*

MassEcon Staff

Susan Houston
Rob Anderson

Smith & Nephew Staff

Joe Metzger
David Snyder

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