Medical Device Tax Overview

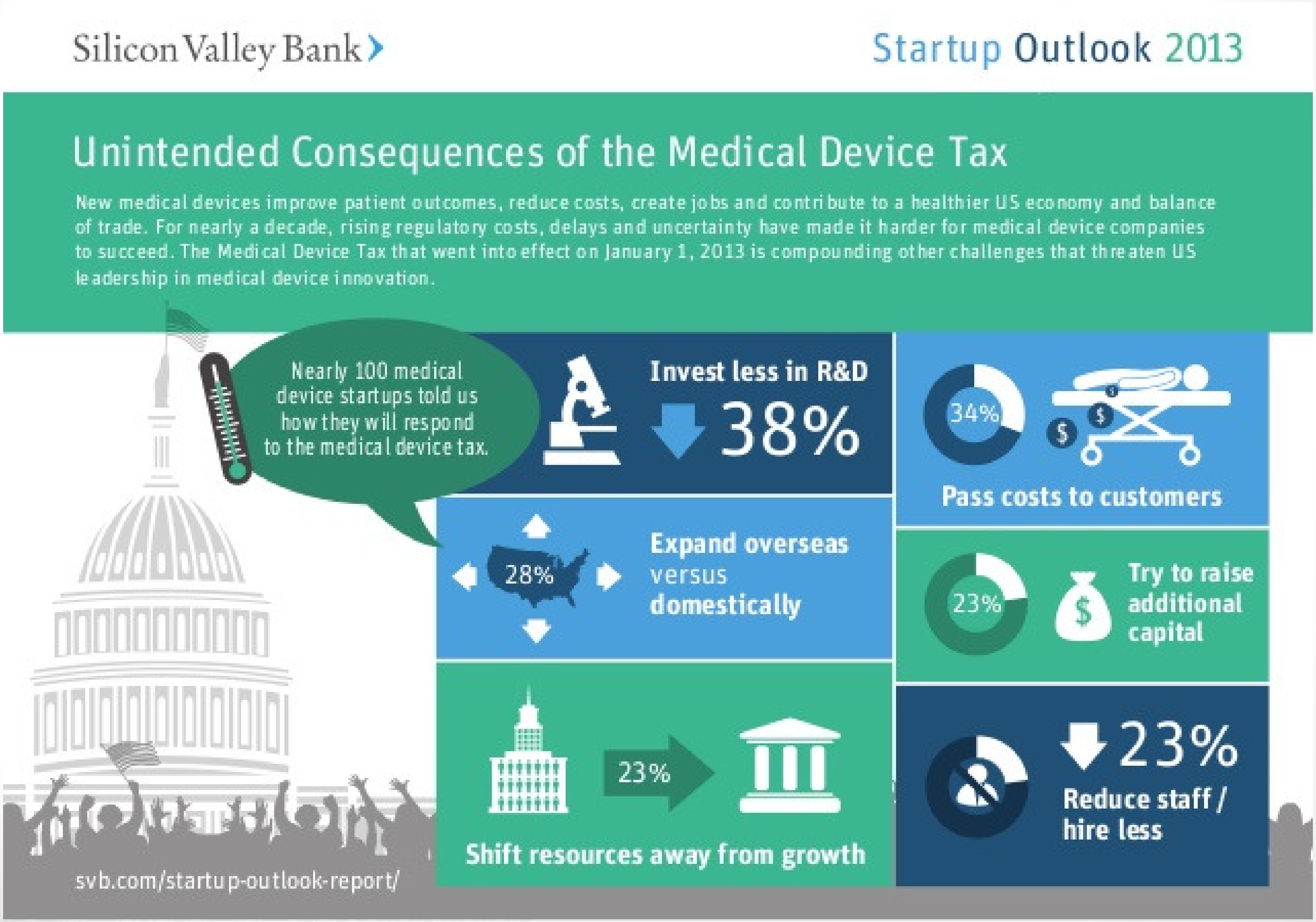
- **What is it:** Starting Jan 1, 2013, all device companies must pay a 2.3% tax on their total US sales
- **Who it applies to:** All manufactures (producer or importer) generating revenue (pre or post profitability)
- **How it is measured:** Depending on the type of channel, the tax is measured in the interim between 75-90% of the salable cost.
- **Exemptions:** Eye glasses, contact lenses, and hearing aids. *Retail exemption – regularly available devices for consumers who are not medical professionals*

Key Findings: 98 device executives share their story

Who We Sampled

- 70% of the companies had fewer than 25 employees. 98% had fewer than 100
- 61% aren't yet earning revenues. Of those earning revenue, 56% earned less than $5 million in 2012, 95% earned less than $25 million in 2012
- Most of the respondents were either CEO (63%) or CFO (28%)

How Executives Responded



Medical Device Excise Tax: *Not Curing What Ails Us*

Small Device Companies Create Lots of Jobs

20%

Average Job Growth in Small Medical Device Companies 2011-2012 (a,b)

Tax Takes Scarce Cash from Growing Companies

80%

Of Small Medical Device Companies Were Not Yet Profitable in 2012 (c)

Even Profitable Small Businesses Feel the Pain

Corporate Tax Rate		Excise Tax Hit (d) (The Real Impact)		Effective Tax Rate
35%	+	14%	=	49%

Minimal Revenue + Severe Consequences = Bad Deal for US

$121 M

Estimated Total Annual Tax Revenue from Small Medical Device Companies is Insignificant (g)

US Economy is Hurt in the Long Run

- Less R&D = Fewer Life-Saving Treatments

- Fewer New Jobs
- Business Shifts Overseas

- Investors Shy Away from Device Companies
- Another Hurdle for Device Companies Already Facing Regulatory & Funding Challenges

Sources/Assumptions:

a) Small medical device companies are defined as companies that generated less than $100M in revenue in 2012. Large device companies are defined as companies that generated more than $100M in revenue in 2012.
b) SVB analysis, based on employee counts from small medical device companies that are Silicon Valley Bank's clients.
c) SVB analysis, based on small medical device companies generating revenue that are SVB clients.
d) SVB estimates that the 2.3% tax on top line revenues on average is equal to a 14% tax on earnings before the deduction of interest, tax, depreciation and amortization expenses (EBITDA) for small medical device companies that are profitable, based on an analysis of financial data from EBITDA positive small device companies that are SVB clients.
e) Christopher Flavelle, "*Medical Device Industry Overstates Tax Impact*," Bloomberg Government Study (Feb. 9, 2012).
f) MassDevice Staff, "*Medical Device Tax Would Mostly Hit the Biggest Firms*" (Mar. 24, 2010).
g) SVB analysis, based on financial data from small medical device companies that are SVB clients, assuming that SVB's clients represent 50% of the total revenue generated from small US medical device companies.

svb

Medical Device Business Outlook