

the medical devices business, there has been heightened acquisition activity within the mainstream medical device segments by the marketers during the past 10 years at domestic level and global.

Contract manufacturers that improve their value added products and services that complement core business activities such as offloading of a chain of product design, engineering, development and manufacturing responsibilities to a trusted party. This would be viewed favorably with the large global corporate marketers that are adverse to risk. It brings comfort with potential partnerships leading to be the preferred supplier of choice, with the key to either type of relationship is a proven track record of high performance and trustworthiness.

### **Poised For Growth**

The medical device industry today is similar to the electronics industry was positioned 20 years ago, when around XX% of the cost of manufacturing was outsourced. This has now elevated to and estimated XX%. In the medical device industry across the mainstream XX market segments, the level of outsourcing of manufacturing costs is currently around XX%, so there is considerable room for growth and manufacturing efficiencies to be gained during the next 5 –10 years.

The electronics industry is far less conservative than the medical device due to risks associated with potential litigation in healthcare, however, it is estimated that we might see up to XX% of medical device manufacturing outsourced. For some devices, such as those that are implanted in the body, there are very strict regulations, and medical device companies may want to keep closer control over their manufacture.

However, this may change as the level of sophistication and the capacity of CMOs continues to grow. There are already some large CMOs that have quality systems in place to rival those of their clients. In some cases, you see medical device companies selling plants to a CMO, which will then invest in it and update it. However, the level of outsourcing that we see will depend on the mental attitude of the global and dominant medical device marketers.

## **OFFSHORING AND PARTNERING**

There is a wide choice in potential partners for outsourcing, which has placed considerable commercial pressures on CMO's to deliver improved cost savings and

**Europe OEM Electronic and Advanced Systems Revenues**

Exhibits 9-12 shows the estimated medical devices O.E.M. revenues totals for Europe encompassing the nine key segments. The non-commodity O.E.M. medical devices business in the nine segments is an estimated \$XX xxxx in 2006 growing at XX% to reach an estimated \$XX xxxx by 2011.

**Exhibit 6-12**

**Europe Non Commodity OEM Revenues 2006 – 2011  
(Cardiovascular, General Surgery, Imaging, IV Diagnostics,  
Ophthalmology, Orthopedics, Respiratory, Neurology, Urology)**

	2006	2007	2008	2009	2010	2011	CAGR
<b>Totals</b>							

Note : Revenues estimated in \$billions

High clinical impact innovative technologies that are described as non-commodity products and draw physician demand and physicians will begin requesting and prescribe these technologies for use within their facilities. Once technologies attract physician demand, they begin to attract the interest of the large multinational corporate players within that segment that are also servicing their own domestic market. The large corporate players will acquire the innovative technologies and build brands that will eventually become the standard of care. The large corporate players are experts at selling and marketing physician preference devices to clinicians. They have the financial resources to market to a vast audience.

As typically large public companies, they need high margin products to support their earnings expectations. As the technologies mature, they may come off patent, and / or they may face increasing competition or pricing pressure. Eventually, the products are