



PRIDCO

COMMONWEALTH OF PUERTO RICO
Puerto Rico Industrial Development Company

Service Sector: Puerto Rico as a Knowledge-Exporting Economy



**PUERTO RICO
CONFERENCE**
Entrepreneurship for Growth

2010

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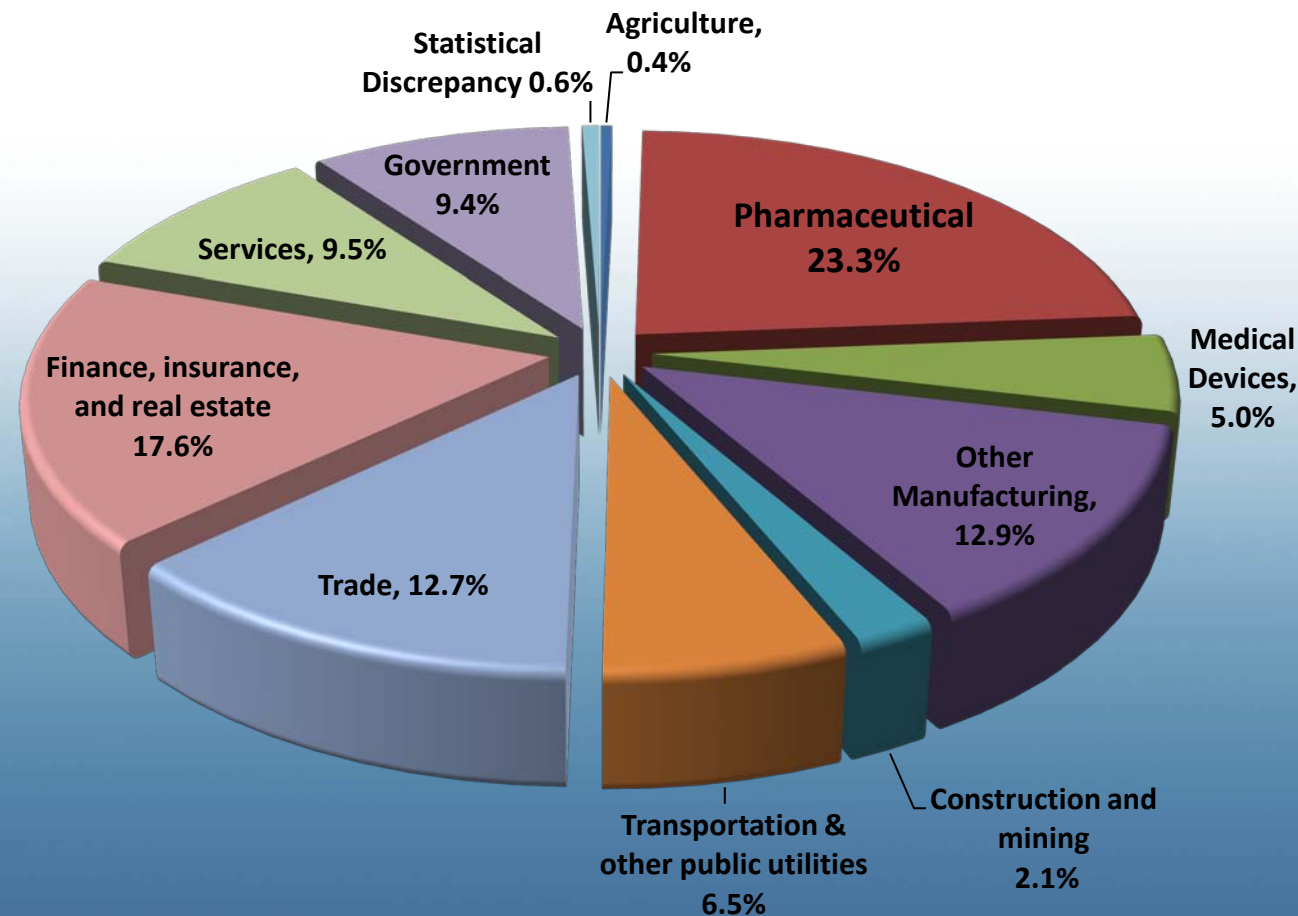
Puerto Rico Industrial Development Company

P u e r t o R i c o C h a m b e r o f C o m m e r c e

Manufacturing: Key Component of Puerto Rico's Economy for Decades

Puerto Rico's Gross Domestic Product, 2008

\$93,262.9 MM

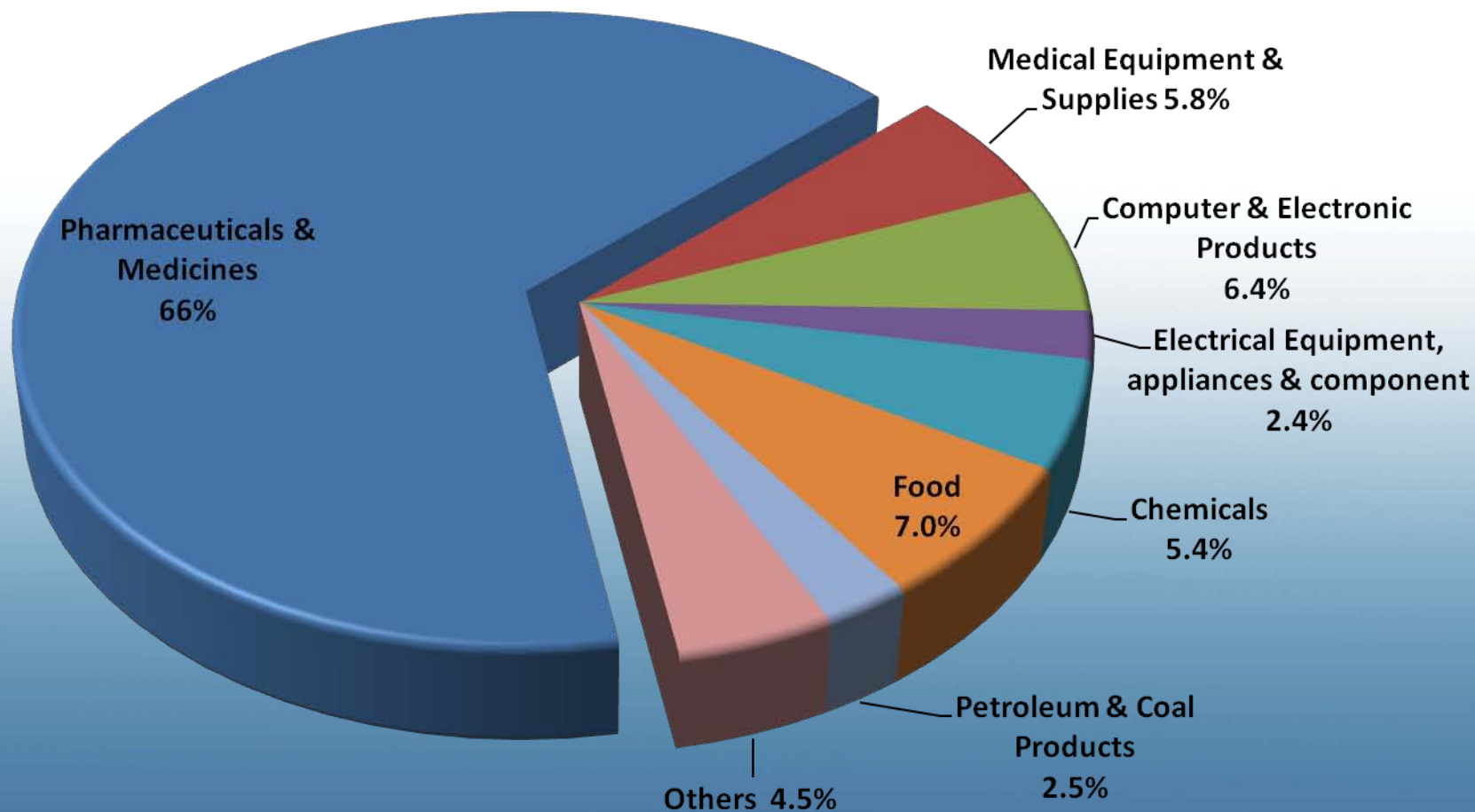


Manufacturing

- 41% of PR's GDP
- 10% of direct workforce
- 99% of exports
- Largest multiplier effect:
 - ✓ 3.3 in jobs;
 - ✓ \$1.73 investment

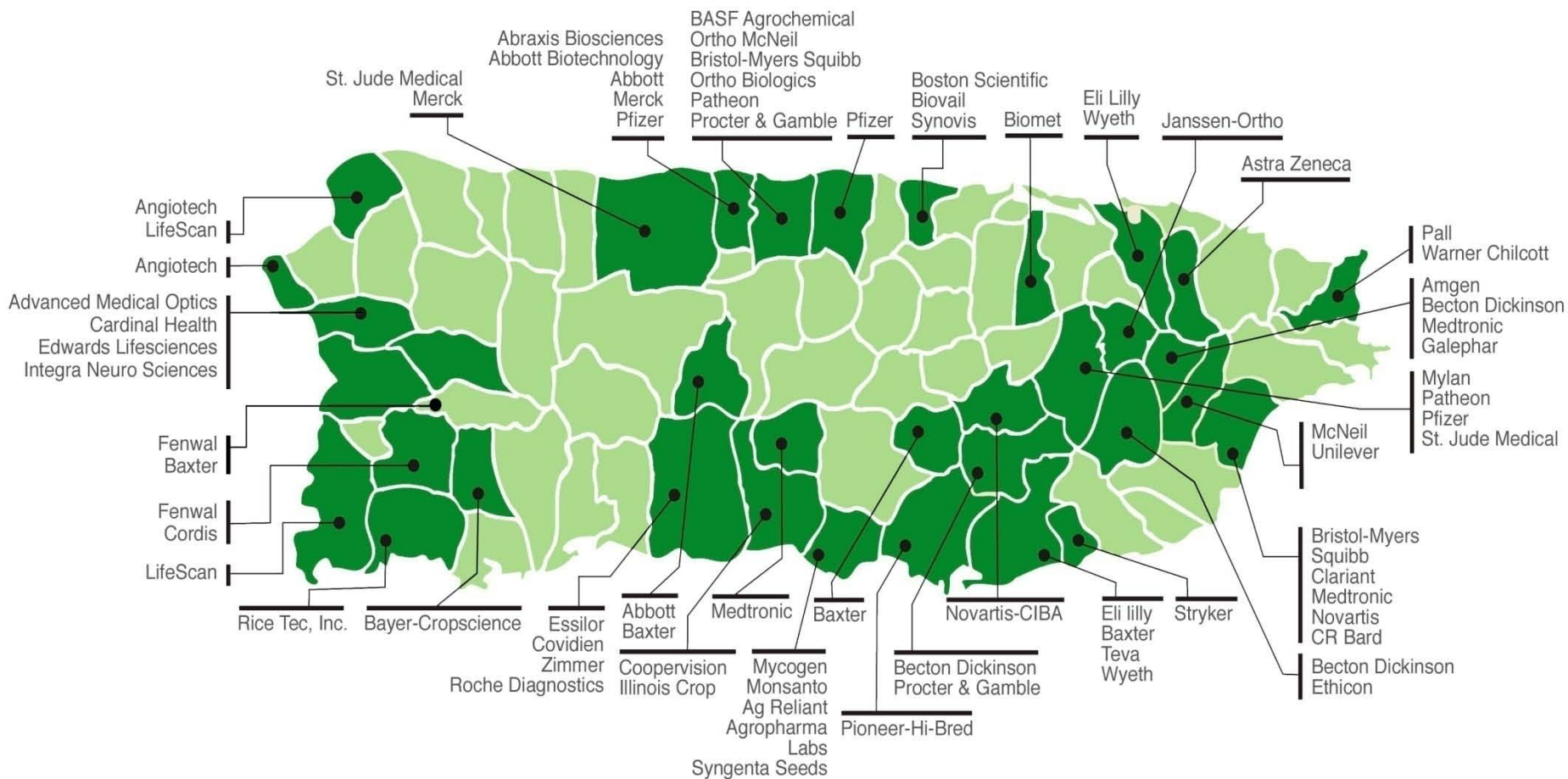
Source: Puerto Rico Planning Board

Puerto Rico's Exports: FY-2008



Source: Puerto Rico Planning Board

Puerto Rico's Significant Life Sciences Presence



Manufacturing Sector Facing Many Challenges

- Competition by lower cost jurisdictions
- Companies entering into cost-cutting and operational efficiency strategies
- Significant reductions in foreign direct investments
- Major mergers and acquisitions by key players in pharma and telecomm industries
- Expiration of patented drugs manufactured in Puerto Rico within the next 5 years

Challenges Require a New Transformation of our Economy

- Our challenges require further diversification of our economy; leveraging on our highly skilled and experienced workforce and industrial base
- Development of the supply chain and export service industries as an engine for growth
- Puerto Rico as a service center for Caribbean basin

Mene Plan: Identifies Export Service Sector as High Priority

Strategic Model for a New Economy ("MENE"), promotes a strong ecosystem in order to further diversify and transform our economy into one based on knowledge and export services

- Foster Puerto Rico's integration into the global economy
- World-class infrastructure to reduce costs of doing business
- Reform Puerto Rico's institutional and regulatory framework
- Retain, expand and diversify our industrial base and attract manufacturing of high-value products based on R&D and high technology
- Promote Puerto Rico as a logistics and transportation hub
- Promote Puerto Rico as an innovation and R&D hub
- Emphasize on the services sector and on the industry base aimed at exports

PRIDCO leading promotional efforts for development of export service and supply chain sectors

- Outsourcing has become a global trend in manufacturing during the last decade as companies struggle to reduce operational costs while improving efficiencies
- PRIDCO leading initiative to promote a stronger supply chain and services sector to enable Puerto Rico to better compete in the global economy
- Emphasis in Supply Chain to complement industrial base
- **Puerto Rico is in a favorable position to take advantage of its expertise in high technology manufacturing and become a major player in exporting knowledge**

Economic Incentives Law (Law 73): Promotional Tool for Export Service Sector

- Law 73 provides unique tax and economic incentives geared towards the promotion of key supply chain and export service sectors.
- This new tool recognizes the new business trends, thus, offering for the first time very competitive tax benefits to *key suppliers* of our local exempted businesses.
- *Key supplier*: companies that provide materials or services, which are costs directly related to manufacturing activities of an exempted business.

Key Supplier: Eligible Activities (Law 73)

- Specialized storage
- Inventory management and logistics;
- project engineering;
- product manufacturing and exporting services logistics;
- instruments, equipment and room sterilization;
- laboratory animal breeding.
- quality control and equipment validation;
- qualifying equipment and buildings and equipment maintenance and calibration;
- product repair and remanufacture; intellectual property licensing;

Export Services: Eligible Activities (Law 73)

- Software development
- Education and training
- Healthcare services
- Strategic & logistics
- Data processing
- Ports facilities
- Repair & overhaul
- Const. engineering
- Marketing centers
- Headquarters
- Distribution
- Offshore banking
- Advertising & PR
- Consulting
- Art & graphics
- Assembly, bottling, packaging



Puerto Rico Open For Business

**Promotion of Puerto Rico as an
Ideal Investment Destination**

**Puerto Rico has all the attributes to
become a leading regional
export service center, information
technology, logistics and
transportation hub.**

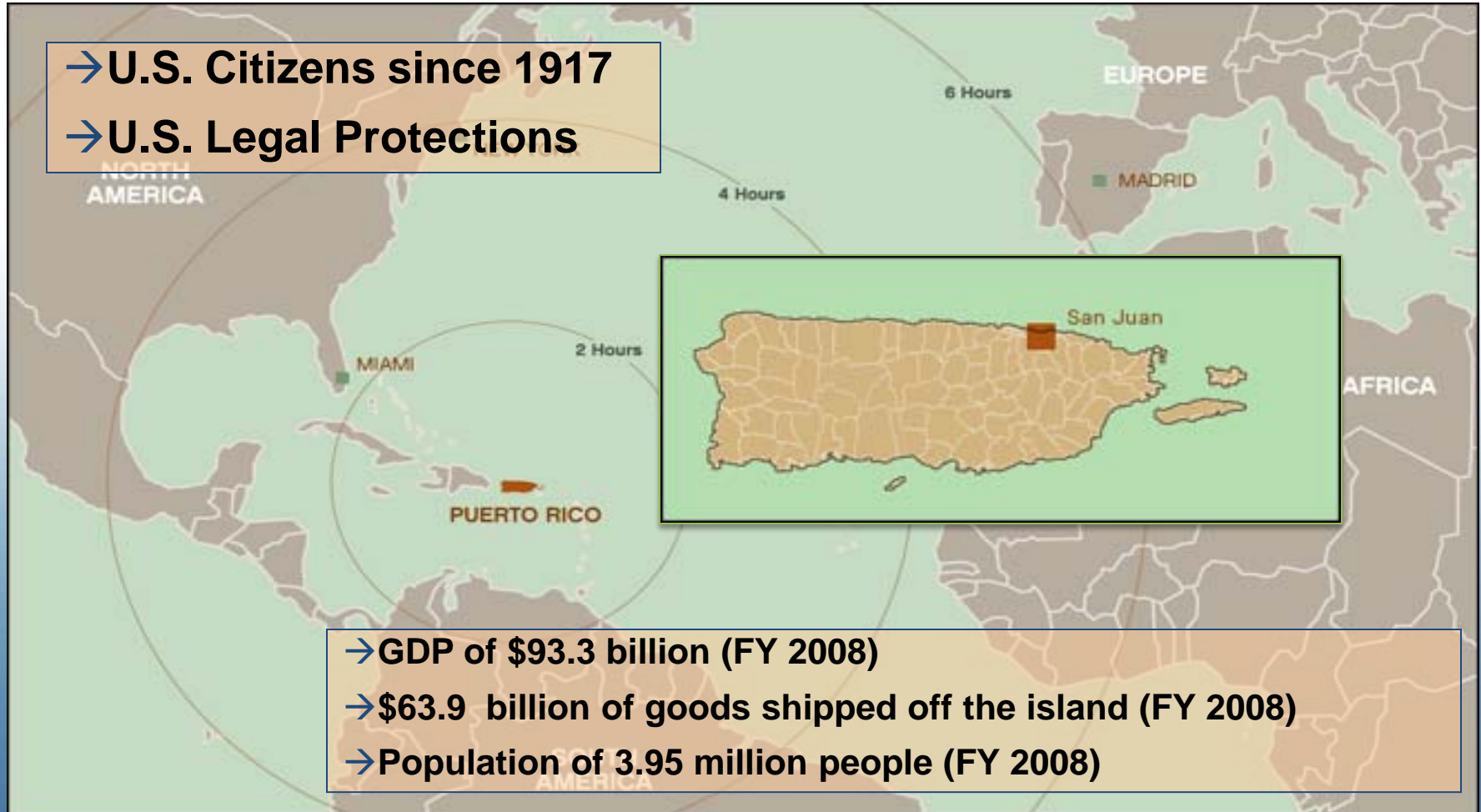
Puerto Rico:

Value Proposition

1. Strategic Location

Puerto Rico Fast Facts

- U.S. Citizens since 1917
- U.S. Legal Protections



Puerto Rico:

Value Proposition

2. U.S. Legal Framework and Protection

U.S. Legal Framework and Protection

- U.S. free trade zones and customs; goods enter the U.S. market duty-free
- U.S. legal framework and intellectual property protection
- U.S. currency and banking system
- Homeland Security Act protection
- No passport required for U.S. citizens traveling to Puerto Rico
- Major federal offices in Puerto Rico (FDA, FAA, etc)

Puerto Rico:

Value Proposition

3. Labor Force:

Highly Educated, Skilled, Bilingual & Productive

Labor Force:

Highly Educated, Skilled, Bilingual & Productive

65 years of experience in manufacturing

- Our workforce is characterized by high productivity and quality of labor
- Workforce with significant expertise in cGMP's, process development, automation, quality control/assurance, FDA and EMEA regulatory compliance, packaging, warehousing, and others
- Lowest labor costs of any region under U.S. jurisdiction - hourly earnings in manufacturing averaging 65% to 80% of the U.S. average
- Over 90% of managerial and executive positions in the pharmaceutical industry are occupied by Puerto Ricans



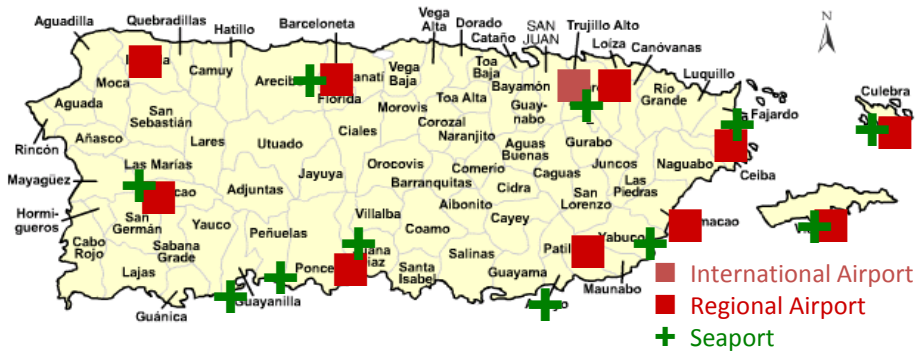
Puerto Rico:

Value Proposition

4. Infrastructure: Modern & World-class

Puerto Rico Infrastructure: the best in the Caribbean *

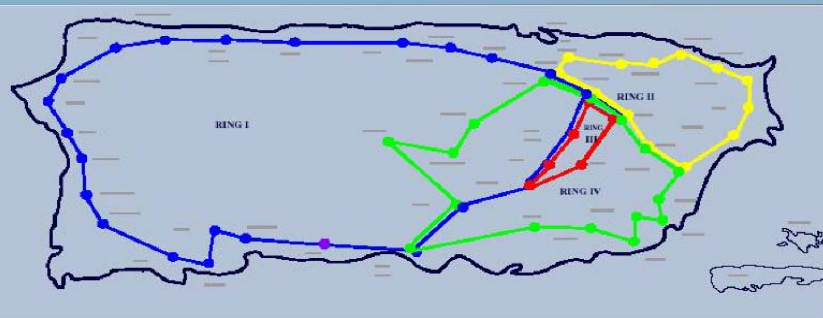
11 Airports and 11 Sea Ports



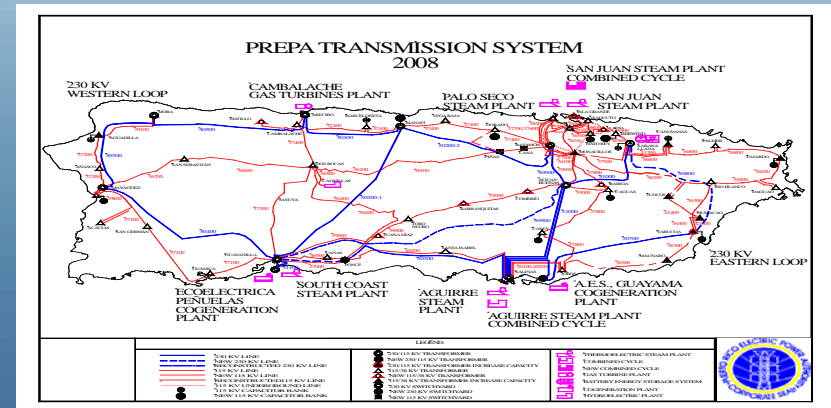
Extensive Highway System



Island Broadband Interconnection



Electric System Interconnectivity (5,000MW)



Infrastructure: modern and world class

- **Ports of the Americas** - Ponce, PR:
Under Construction in Ponce as a value-added and transshipment seaport with post-Panamax vessel capability
- **UPS Healthcare Logistics Hub** - Caguas, PR: recently inaugurated with a \$23 million investment, serves the local life sciences industry



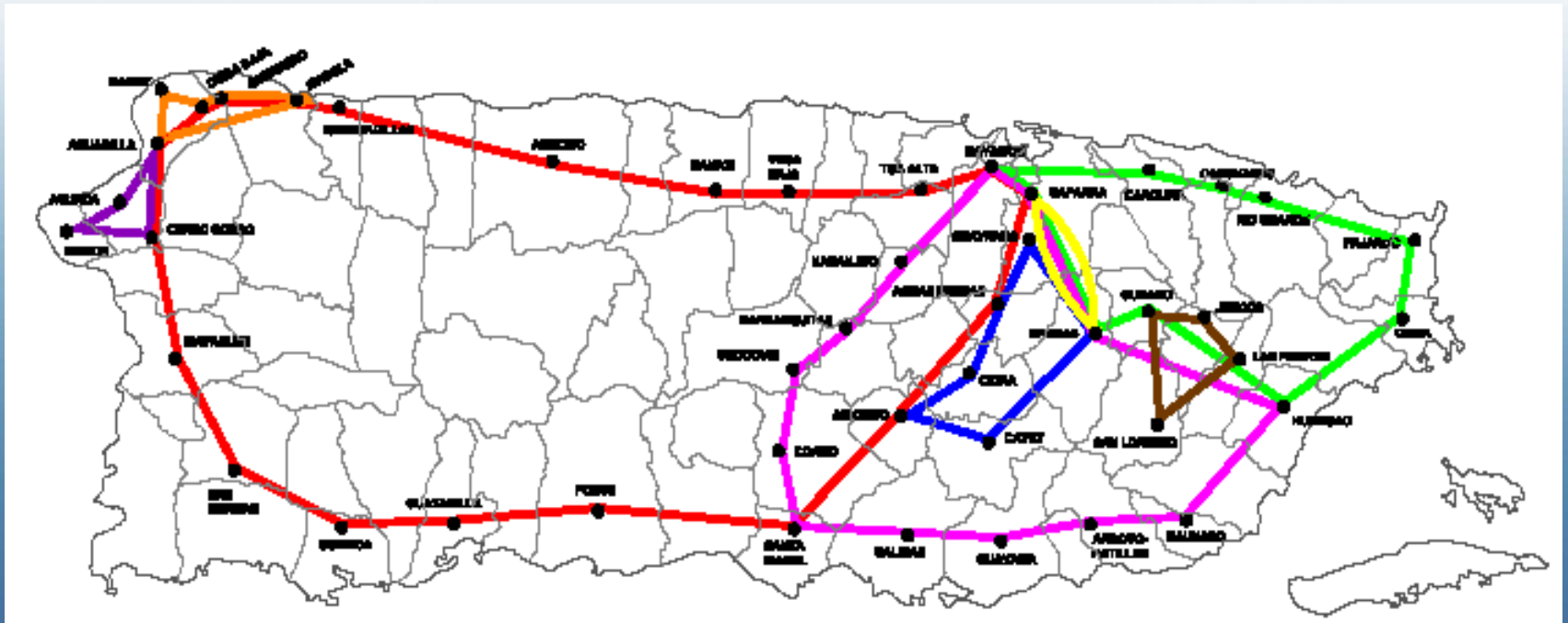
Communications

The Puerto Rico undersea fiber-optic cable of the American Region Caribbean Optical-ring System links our island to the world providing broadband internet accessibility



Communications

- Puerto Rico has all necessary infrastructures for VoIP and broadband data connectivity to supply the Industry needs in landline services, wireless service and Ethernet



Puerto Rico:

Value Proposition

5. Our Supply Chain and Strong Business Ecosystem

Strong Business Ecosystem and Service Provider Sector

- Extensive and highly experienced supply chain and world-class professional service providers
- Construction, project management, validations and commissioning, packaging, raw materials, financial, legal services, and others
- Experienced validation firms – technology transfers, process development, validations commissioning and qualifications, automation professionals and computer systems validation

Strong Business Ecosystem and Service Provider Sector

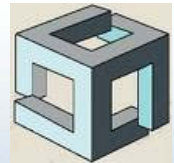
Banking Sector



Logistics



Key Suppliers



Puerto Rico:

Value Proposition

6. Our Attractive Tax and Economic Incentives

New Economic Incentives Act of Puerto Rico: Act No. 73 Of July 1, 2008

OBJECTIVES:

- Attract investment and expansion opportunities in the areas of manufacturing, science and technology and research and development
- Strengthen supply chain, boost local industry, reduce energy costs, increase municipal collections and reduce government bureaucracy
- Promotion of renewable energy projects and green jobs

ELIGIBLE BUSINESS:

- Manufacturing
- Export services
- Service to conglomerates
- Services to key suppliers
- R&D
- Energy creation

New Economic Incentives Act of Puerto Rico: Act No. 73 Of July 1, 2008

Our Tax and Economic Incentives

- 4% fixed income tax rate (12% withholding on royalties)
- Pioneer industries rate 0% to 1% income tax
- Special deductions for investment in structures, machinery and equipment
- 90% personal and property tax exemption
- 60% municipal license tax exemption

Puerto Rico:

Selected Service Industry Case Studies

7. Life Science and Aerospace Case Studies

Life Science Capabilities

- More than 38,000 direct jobs in the Life Sciences Industry, accounting for 8% of total U.S. employment in this sector
- Over 100,000 indirect jobs serving the Life Sciences community in such areas as construction, project management, validations and commissioning, packaging, raw materials, financial and legal services, and others
- Workforce with significant expertise in cGMP's, process development, automation, quality control/assurance, FDA and EMEA regulatory compliance, packaging, warehousing, and others
- One of only four U.S. jurisdictions considered specialized in three bioscience subsectors (Drugs and Pharmaceuticals, Medical Devices and Equipments, and Research)

Source: *Growing the Nation's Bioscience Sector: State Bioscience Initiatives 2008*, Battelle Technology Partnership Practice and STTI. <http://www.bio.org/local/battelle2008/>

Aerospace Capabilities

- Attractiveness to federal contractors who come to the Island to benefit from the engineering talent
- Suitable for Overseas outsourcing because of U.S. policy for U.S. made products
- Potential for airplane maintenance, repair and overhaul operations, training and other related services
- Provide aerospace industry with landing sites, business incubators and turn-key solutions and facilities for immediate access
- Puerto Rico's industrial and tax incentives offer with unique benefits to aerospace companies which continues to be a major driver of business expansion

Company A: Aerospace Services

Company Help Desk

- 61 professionals with computer development skills that operates a help desk to assist all its divisions worldwide in the use and operation of sensitive software
- Bilingual operators
- Proximity to the UPR engineering college and computer science
- U.S. citizens due to Defense contract
- Began at a landing site / moved to final site

Company B: Aerospace Services Ctr SAP Development

- 300 high tech jobs to be created in next 24 months
- Providing services from Puerto Rico to global defense and aerospace companies
- ITAR compliance data processing center for SAP development and technical support for the aerospace and defense industry
- 33,000 SF PRIDCO facility

Company C: Aerospace Services Ctr IT, engineering and supply chain

- IT, engineering and supply chain services to its aerospace division
- 973 new jobs to be created in five years
- Investment \$16,750,000

Axon Puerto Rico: Aerospace Service Center Expansion in 2010



HOME FINANCE TECHNOLOGY INNOVATION

THE ASSOCIATED PRESS March 18, 2010, 5:11PM ET text size: T | T

Aerospace industry company opens center in PRico

SAN JUAN, PUERTO RICO

An aerospace industry company has opened a service center in Puerto Rico.

AXON Puerto Rico Inc. is a partnership between aircraft and engine manufacturer Pratt & Whitney and consulting firm HCL AXON.

It expects to hire up to 300 workers initially, and ultimately as many as 1,000 in this island territory where unemployment is higher than any U.S. state.

Gov. Luis Fortuno says the center will provide services to defense companies and governments based in Latin America.

Fortuno said Thursday that the government offered the company an \$8.5 million incentive.

The center is based in the northwest coastal town of Isabela.

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Governor cuts ribbon on new AXON facility

By CB Online Staff
cbnews@caribbeanbusinesspr.com

ISABELA – Gov. Luis Fortuño inaugurated on Thursday the new modern installations of AXON Puerto Rico, Inc., which he said was an important development in the expansion of the aerospace industry in Puerto Rico.

The governor said the company, which currently employs about 100 workers, will increase employment to nearly 300 next year.



"With the investment of this multinational company in Isabela, Puerto Rico received a vote of confidence as a business and specialized manufacturing destination," Fortuño said. "Our talent and human resources capacity offers growth opportunities for the aerospace industry sector."

Puerto Rico Industrial Development Co. Executive Director Javier Vázquez-Morales said that since 2008, the aerospace industry has invested \$18 million in Puerto Rico and created 500 direct jobs. "Our

commitment at Fomento is to continue expanding the presence of the aerospace sector so that we diversify our industrial base and create highly technical and well-paid jobs," Vázquez-Morales said.

The AXON expansion required the remodeling of a 33,000 square foot facility at the Mora Guerrero Industrial Park, which is owned by Pridco. The renovations were done with the aim of winning the LEEDS international certification as a "green building." Together with the Labor Department, Pridco offered the company an incentives package worth \$8.5 million.

AXON Puerto Rico, Inc. was created through a partnership between Pratt & Whitney and HCL AXON. It will provide business and software solutions to Latin American area aerospace companies and governments.

"Pratt & Whitney is committed to Puerto Rico. Our effort with Infotech Aerospace Services, Inc. currently employs 660 people, and AXON now has 100 employees. After we reach our objective of creating 300 jobs in the high-tech area in AXON Puerto Rico, there will exist close to 1,000 workers in our Isabela operations. That fills us with pride," said Rita Peralta, president of AXON Puerto Rico, Inc.

Reasons for Investing Here

- Enthusiastically and flexible workforce
- Strategic partners (universities, regional economic development, trade and business organizations)
- Incubators and landing sites for quick ramp-up
- Long-standing manufacturing suppliers with an ethical, passionate and committed workforce
- Innovation and engineering centers in aerospace-related, composite and nanotechnology



THANK YOU.

For more information visit us at www.pridco.com
or contact us at (787) 754-9481

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Executive Director

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