Omar Ishrak on CNBC's Street Signs

Omar Ishrak, Medtronic's Chairman and CEO
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BRIAN SULLIVAN: The massive J.P. Morgan Healthcare Conference is happening right now in San Fran. And the medical device maker's certainly getting a lot of attention this year, with investors focused on product pipelines, the internal product approval process and that new 2.3 percent tax that was slapped on the group under "Obamacare." So let's take the pulse of three of the biggest medical device makers. Joining us are: Omar Ishrak, he is the CEO of Medtronic; Michael Mussallem, he is the CEO of Edwards Lifesciences and Stephen MacMillan, he is the CEO of Stryker.

Now that we got the introductions out of the way, we have 30 seconds left for the interview. We'll jump right into it. Omar, I want to begin with you. Everybody predicted this industry's going to be struggling following the passage of the health care reform law. Is it? How has that – even though it hasn't been enacted largely – how has the idea that it's coming impacted Medtronic?

OMAR ISHRAK: I think the uncertainty around its implementation has definitely impacted this industry, and has definitely impacted us. In addition, there's great scrutiny – some of it is good – into our hospital customers. And that's also caused a bit of a slowdown in the industry. So it's definitely impacted our marketplace.

AMANDA DRURY: Michael, I was very interested when I reading through the notes, and I noticed that you had FDA approval recently, to market a new heart valve repair system. However, this was approved four years later here in the United States than it was in Europe. And that is just incredible. And I do believe that this is not an isolated case. How much do you feel that regulation here in the States is just holding back the medical device industry?

MICHAEL MUSSALLEM: You know, there's a very different standard in the U.S. than is applied in Europe. And I think our technology introduction was a vivid example of exactly that. Having said that, we're finally pleased to be here. And, you know, it is a different climate. I think many companies decide that they actually introduce in Europe first before they come to the U.S.

MS. DRURY: But do you see the situation changing at all? Do you feel the regulation will speed up here and is there any real reason for the FDA to be so slow, Michael?

MR. MUSSALLEM: I think the FDA responds to the climate. There is a level of conservatism. And FDA is very diligent to try and do the right thing, to be responsive to all of us as Americans and to the Congress and to the media. And I think we're trying to find this balancing act. How aggressively do they introduce new technologies (via ?) public but also protect them from a safety perspective.

MR. SULLIVAN: You know, Mike, you're being very, very kind. Maybe too kind, right?

MS. DRURY: Diplomatic.

MR. SULLIVAN: Yeah, diplomatic is the word.

Stephen, I want to get more on this to you, right, because –

MR. MUSSALLEM: Well, we work very closely with them.

MR. SULLIVAN: I understand. You got to be nice to the men and women who are going to approve your products. I get it.

Stephen, you're the same way, but listen, we got Larry Summers coming up later on the program. He actually wrote about the life sciences industry back in 2006. And he basically said that if we do not support the industry, the industry is going to move overseas, that salary levels will help us be less competitive. We need to protect the one industry that we've got that we lead in, which is life sciences. Are we at risk as a nation of losing our lead and jobs in life sciences?

MR. MACMILLAN: Wonderful question, Brian. I think we totally are in violent agreement with Larry Summers, that he is right. He's identified one of the great growth engines for, frankly, this century. And he identified this as the century of life sciences. To us, there's two big issues. And I think the reason Mike and Omar were being kind is I think we are seeing signs at the FDA that they really are trying to work to a better regulatory approval process, more funding and working with industry to get better there.

The flip side, I'll tell you, that leads to the uncertainty that Omar referenced, is that medical device excise tax that did get passed that kicks in in 2013. And that's a 2.3 percent additional tax. That's probably potentially the biggest killer of this crown jewel, an industry that frankly right now is producing manufacturing, high-paying manufacturing jobs, in this country; has been a huge innovator for this country; and improving health care in this country. And that's a huge uncertainty and cloud hanging over us – frankly far more, I think, than FDA.

MS. DRURY: Right, and Stephen, you had to lay off, what, 5 percent of your workforce last year, ahead of the implementation of that tax? Is there any possibility that before the implementation in 2013 that it could still be repealed?

MR. MACMILLAN: You know, there – it's back to Omar's comment earlier. There's so much uncertainty, and the investment community doesn't like uncertainty. It's what we as business leaders are facing; the uncertainty of not knowing is far harder than the certainty. So we have to assume as if it's not going to. We do hope that ultimately there will be corporate tax reform. But let's face it, Mandy (sp), it'll – probably won't happen until after the 2012 election, which puts us already into 2013, so we have to plan for that.

MR. SULLIVAN: Omar, I want to get a little more specific and granular on your business specifically. I know a lot of analysts that we've talked to and the reports we've read reference concerns about (spine ?). They're concerned about some of the weakness in that part of your business. Do you see the landscape – as the economy gets better, will the landscape for medical devices get better, or are they totally separate?

MR. ISHRAK: No, I think there is a correlation between the two. I think there's different factors. But one factor certainly is the overall economic sensitivity. You know, there is much more patient control over the choices that they make today, simply because of the changes in the health care plans. The deductibles are greater; patients have a greater choice; and in an uncertain economic environment, if there's anything even close to being elective, patients will decide not to do them. And so it has a direct impact on our marketplace. It's one factor; it's not the only factor; it's definitely a factor, and as the economy improves, and hopefully unemployment gets better, I think it'll have a positive – that'll be a positive trend in our industry. It'll help us.

MR. GREENBERG: Hey, Michael, this is for – and one day I may need a valve job, so I'm obviously very concerned about where you are in the process of going from the first level you're at, with the – with the – with the valves, you know, for the – for the very ill people who can't go – undergo open-heart surgery, to possibly moving it upstream a little bit.

MR. MUSSALLEM: Yeah, Herb, this is something that is likely to happen in the future. There's very – there's tremendous potential for this technology, which allows you to have a heart valve replacement without open-heart surgery, to continue to evolve. Right now the regulators have asked us to focus on the sickest patients, those that are not good candidates for surgery. But we've begun clinical trials already on patients that aren't at such a high risk. And so I would say, if you fast-forward a few years, you'll start to –

MR. GREENBERG: A few years.

MR. MUSSALLEM: – see this come into being.

MR. GREENBERG: A few years? Well, Michael – and one thing – and actually, Omar, where are you guys in the process with this – with this – with this type of a valve?

MR. ISHRAK: No, we're also – we're also producing a valve like this. It's in – it's in – it's for sale in Europe; it's been approved in Europe. And it's undergoing clinical trials in the U.S. We're very excited about the prospects. Right now, we – no, we're sharing the market with Mike. So, you know, we're both in there trying to create patient awareness, understand the true benefits of this, truly understand the clinical implications and the – and the subtleties around its deployment, and we're actively investing in this area. Very exciting market for us; we're really – it's going to be one of our growth engines going forward.

MR. SULLIVAN: Stephen, I'm sure you're a big fan of Street Signs. If you are, you know one of our themes has been the difficulty in finding skilled workers, and that as the job markets get better, companies may have trouble finding people to fill some of the more skilled jobs. Now, without getting into some stories that came out about Stryker, maybe sort of going after the sales forces of other companies that came out at the end of last year – as you grow, if you do and the economy improves, are you going to be able to find enough people? Or are we going to see massive wage inflation, as everybody just goes after the same small pool of qualified candidates?

MR. MACMILLAN: We think we can still find that pool, Brian. You know, we're primarily looking for engineers, because back to being the innovators, and so electrical engineers, software engineers, you know, all kinds of engineers. Unfortunately, the U.S. is not producing nearly as many of those as we would like. So we are finding some of those abroad. And that is a – it's a challenge as we all balance our global R&D.

MR. SULLIVAN: But are you – Stephen, two things on that. Are you recruiting at Virginia Tech? Great engineers, by the way. Number two, if you're finding these – my college, sorry – if you're recruiting abroad, are you keeping them there, or are you bringing them back here?

MR. MACMILLAN: You know, it's both. Obviously, since 9/11, some of the changes to visas – we've had actually people who've been working for us here who've had to return, for example, to India. And we've at least take out a place that they can land over there. So –

MR. SULLIVAN: Are you -- Stephen, tell me you're kidding.

MR. MACMILLAN: -- it's gotten more complicated for us.

MR. SULLIVAN: Tell me you're kidding about that. You've had to send workers out – qualified, good men and women who are, you know, contributing to GDP and sales tax, whatever – you had to boot them out?

MR. MACMILLAN: We didn't have to boot them out. But they needed to leave the country, and we didn't want to lose them from the company. So that has happened over time, Brian.

MS. DRURY: That's terrible. OK.

MR. MACMILLAN: It's why – this industry, back to being a crown jewel, we are creating jobs, and these are high-paying, high innovation jobs. If you can design an industry from scratch, this is what this country wants and needs –

MS. DRURY: Yeah.

MR. MACMILLAN: -- but our policies are creating some of these challenges that we're all dealing with, not just Stryker.

MR. SULLIVAN: Omar. Omar. Are you finding the same thing?

MR. ISHRAK: Well, you know, we haven't had to do quite that to that level yet. But clearly, you know, a lot of the engineers that we hire do have visa issues. And if those were eased, it would certainly help us. There's no question about that.

MR. SULLIVAN: Any chance they're going to be eased? Because what you guys are telling our viewers is that America is going to fall behind, because smart people that would like to live here and come here can't stay here.

MR. ISHRAK: Well, you know, you've heard this discussion before, and it's something that I think is being addressed. At the same time, you know, the emphasis on science education at a – at a secondary school level, at the college level – encouragement of that also needs to happen. And more science graduates are important. More engineering graduates are important. And we, as industry, have to do our part in encouraging universities and students to go into that track – provide internships. And so we can also play an active role in driving that. But you know, as you've heard my colleagues here say, today the importance of creating technical jobs and having technical talent available in the United States is very important –

MS. DRURY: It certainly is.

MR. ISHRAK: – and it's very important for our industry.

MS. DRURY: Just very quickly, Omar, you've been on the record as saying that you will seek acquisitions in emerging markets. Very quickly, tell us where, which emerging markets, and what kind of acquisitions.

MR. ISHRAK: Well, a number of things. First of all, our main focus right now is in China and in India, and growing in Latin America. Those are the three main areas that we're focused in. So those are areas that we look at in the very short-term for acquisitions. Although there are opportunities –

MS. DRURY: Because you feel you have to? Because your – the areas that you're in are in decline here in the United States?

MR. ISHRAK: No. And that's not the point. The point is that the areas – the emerging markets are growing very rapidly, and we have to have a very strong presence there. And one of the things that I've found in my – in my experience is, to establish a quick footprint, is to do an acquisition. But you know, we're looking for acquisitions for which we can get talent, we can get entry into a market because of licenses, and we can have local expertise being built up. And this will be a platform from which we can further extend our technology presence in these countries.

MS. DRURY: OK. To all three of you, thank you so much for joining us today. Thank you for your candid responses, as well, and good luck with those challenges.

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