Testimony of
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Hearing on
How Business Tax Reform Can Encourage Job Creation
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Chairman Camp, Ranking Member Levin, and distinguished members of the Committee, thank you for this opportunity to share my views on how business tax reform can encourage job creation. Before doing so, I would first like to provide an overview of Perrigo's business and how we are creating many new jobs today. Then I will address the role that taxes play in our decision-making processes.

Perrigo

Perrigo was founded 124 years ago in the small town of Allegan, Michigan, where we still maintain our global headquarters today. Our mission is to provide "quality, affordable healthcare" and we do so through our unique offering of store brand pharmaceutical and infant nutrition products in the over-the-counter, or "OTC" market. Our products are comparable in quality and effectiveness to nationally advertised brand products, but the cost of our products to the retailers is significantly lower, as is the price the consumer pays. Therefore the retailers are happy and consumers are happy. We estimate that our business model saves consumers approximately $1.5 billion annually in their healthcare spending.

Perrigo is sometimes referred to as "the largest healthcare company you've never heard of," but most Americans have at least some of our products in their medicine cabinet. Each year, we produce over 44 billion tablets and over 350 million liquid doses. Simply stated, this means that every second of every day, 1,400 Perrigo tablets are being taken.

No one has more products requiring FDA approval in the OTC universe than Perrigo. Our more than 450 products are custom labeled and packaged under the names of all the major drug, club and supermarket chains in the US, which means we have a tremendously complex supply chain. And yet, we believe that we are one of the most cost effective healthcare manufacturers in the world. We have benchmarked our labor and plant efficiencies against competitors in so-called "low cost" countries like India and China and still believe that our plants in Michigan, South Carolina, Vermont, Florida, Ohio, New York (and, soon, Minnesota) can compete with anyone, all while maintaining high product quality under American standards. Over 70% of our revenues and earnings before taxes come from U.S. activity, although we are looking to expand into new markets. Although we export some products from the United States, and <u>do</u> import others from international operations, the majority of our products are manufactured in the countries in which they are sold to end consumers.

We have grown from approximately $1 billion in revenue in 2005 to nearly $3B in 2011, an 18% compound annual growth rate. In that time, we invested more than $2 billion in 12 acquisitions (two-thirds US), adding manufacturing footprint and employee headcount along the way. Today, we employ over 8,000 people globally, with more than 5,000 in the US and over 3,500 of them in Michigan. Through the success of our business model and acquisitions, our total U.S. employment has grown 57% over the last 6 years. I'd like to note that Perrigo's growing global footprint has increased the need for many well compensated scientific, managerial and other white collar roles at our global headquarters in Michigan.

Business Taxation

Now, with that brief background on our business, let me switch to the topic at hand – taxes – which is, without question, an important issue for Perrigo. One of the top strategic issues I face as CFO of Perrigo is the increasing disparity of the U.S. corporate tax rate relative to other countries and the impact this disparity has on our long-term decision-making.

Perrigo is currently looking to invest tens, if not hundreds, of millions of dollars in the next few years to build manufacturing capacity to meet the strong demand for our quality, affordable healthcare products. We prefer to invest those dollars in the most optimal place for our supply chain – that is, close to our distribution centers and our customers, which, as I indicated, are mostly in the United States.

When we consider where to make an investment that could be made in either the United States or abroad we model our returns on an after-tax basis. In such an analysis, for a foreign investment, we use the statutory rate imposed by the foreign jurisdiction and assume the earnings will not be repatriated to the United States. When we model the after-tax return for a U.S. investment, we use the statutory federal income tax rate *plus* the applicable state and local tax rates. We add these because they *are* a real cost and impact cash flow, and while Congress cannot change state and local tax rates, any discussion regarding tax reform should take into account the reality of these other increasing tax burdens as well.

These models show that the tax rates we will have to pay on a U.S. investment are now much higher than what we would pay on a foreign investment. In light of this, foreign investments need to be taken ever more seriously even where our first preference would be to invest in the United States. As a CFO, I do not believe that taxes should be a main strategic driver of our next investment dollar.

Given the reality of the current U.S. corporate tax rate structure, in order for us to be able to compete long-term on an after-tax profit margin basis with global players in our industry, we have no choice but to consider diversification of Perrigo's footprint as part of our strategy. In addition, many of our shareholders frequently ask me why Perrigo does not seem to have a lower long-term tax rate, as many of our competitors do.

So what can the United States do to encourage investment and job creation in the United States? First, lower the corporate tax rate. The United States need not have the lowest corporate tax rate in the world, but we should have a rate comparable to those of our trading partners. When lowering the rate, we will likely need to reduce tax expenditures to broaden the tax base. Although certain tax expenditures, such as the section 199 manufacturing incentive and the R&D credit, are important to Perrigo under the current tax code, even these tax expenditures should be on the table in the current tax reform discussions. We would prefer tax reform that lowers the corporate tax rate in a meaningful way, even if certain current tax expenditures are curtailed.

Second, add more certainty to the corporate tax system. As a CFO, I need long-term visibility to make optimal investment decisions. For example, when the United States enacts a temporary tax incentive, I cannot assume that the tax incentive will be available for future U.S. investments. As a result, I may invest where there is greater certainty about the long-term tax burden on that investment.

Third, make U.S. companies more competitive globally. I am aware that some have suggested that we should remove the disparity between foreign and domestic tax burdens by taxing foreign investment returns as fully as we tax domestic investment returns. Although this hearing is not primarily concerned with international taxation, which you have addressed at prior hearings, I should briefly respond that doing so would move the United States in the wrong direction. Moving towards a territorial tax system will better enable U.S. companies like Perrigo to compete with our foreign competitors when we do decide to make investments abroad. Perrigo's goal is to be a strong U.S. company, creating good U.S. jobs that support both our domestic and foreign operations. We believe that the path to this goal is lower, not higher, corporate taxes on both domestic and foreign earnings.

Fourth, allow U.S. companies to access their overseas cash at a lower cost. Because our foreign earnings must be "permanently reinvested" to avoid current tax, we may invest earnings abroad that we would rather invest in the United States. We can facilitate access to overseas cash by adopting a territorial system.

In summary, I am acutely aware of our national budget situation and the need to make difficult choices on revenues and expenditures. Perrigo believes that increased transparency, simplification and certainty are desirable and in fact worth paying something for. We do not need the world's lowest rate to compete -- but our increasingly disparate rate is putting us at a disadvantage. We want our business model to continue to shine on its own accord as it saves U.S. consumers billions of dollars while at the same time providing attractive shareholder returns. We want to continue to compete well in a global economy by being able to bid competitively against foreign players. And, therefore we support a lower overall corporate rate, combined with a territorial model that would enable better use of global capital, thereby ensuring the continued positive effects of investment and job creation in the United States.

On behalf of Perrigo, I would like to thank the Ways and Means Committee for the opportunity to provide our views on the impact of business taxation on job creation. I look forward to working with the Committee and other tax policy makers on this and other related issues, and I would be happy to answer any questions you have.