

# PHILIPS

## Medical Systems North America Market Review



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May 31<sup>st</sup>, 2007

# Agenda

- **North America Objectives**
- North America Market Drivers
- Market Driven Organizational Changes
- Summary

# North American Objectives Summary

- Become the 1<sup>st</sup> technology and services choice of healthcare providers enabling them to confidently deliver exceptional patient care

## We will do this by:

- Improving customer loyalty as measured by NPS
- Being recognized as the #1 care cycle provider through focused initiatives
- Leadership position in the markets and segments we serve



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# Healthcare in North America

## U.S.

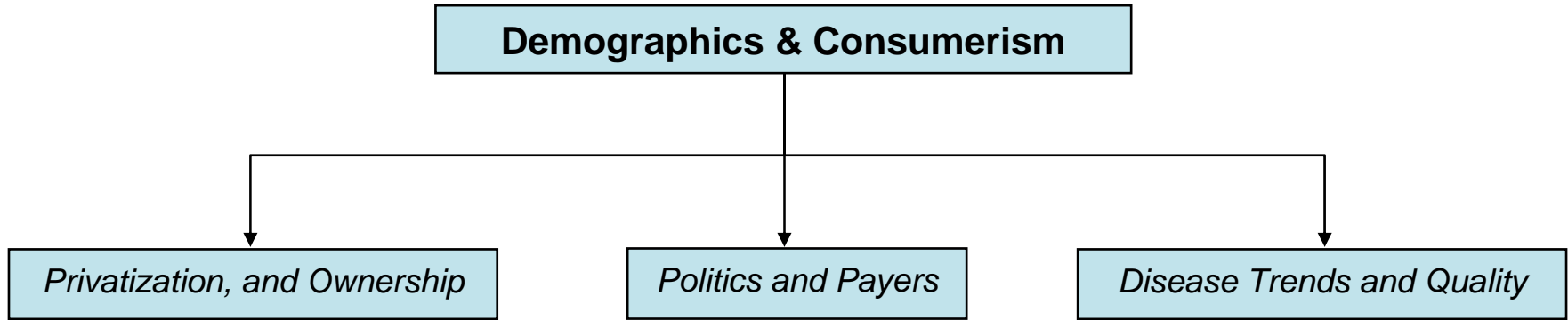
- Population
  - 325 million
- Number of Hospitals
  - 5756
  - One hospital per 56,462 population
- Hospitals Ownership
  - Public, Private and Government
- Payers
  - Employers, Government, and Private
- Healthcare Coverage
  - By insurance, government or private pay only
- Funding for Healthcare
  - Taxes, For Profit Business Model, Government
- Availability of Imaging Technology
  - Wide
  - Number of MR systems 1850
  - One MR unit for 175,675 population
- Healthcare costs as a % of GDP
  - 16.5%

## Canada

- Population
  - 32.7 million
- Number of Hospitals
  - 874
  - One hospital per 37,414 population
- Hospitals Ownership
  - Government
- Payers
  - Government
- Healthcare Coverage
  - All Canadian Citizens
- Funding for Healthcare
  - Taxes
- Availability of Imaging Technology
  - Limited
  - Number of MR systems 98
  - One MR unit for 333,000 population
- Healthcare costs as a % of GDP
  - 11.0%

# U.S. Healthcare

## *Industry Drivers*



### Market Drivers

***Change in healthcare structure:***

- Pubic / Private Partnerships, Private Financed Initiatives
- Group purchasing organizations growing
- Hospital consolidating into IDN's
- Healthcare construction \$ 23B USD annually

***Change in healthcare financing:***

- Distribution of funds in care cycle toward prevention
- Reimbursement based on outcomes
- Private insurance adopting P4P
- Reimbursement lowered for out of hospital segment

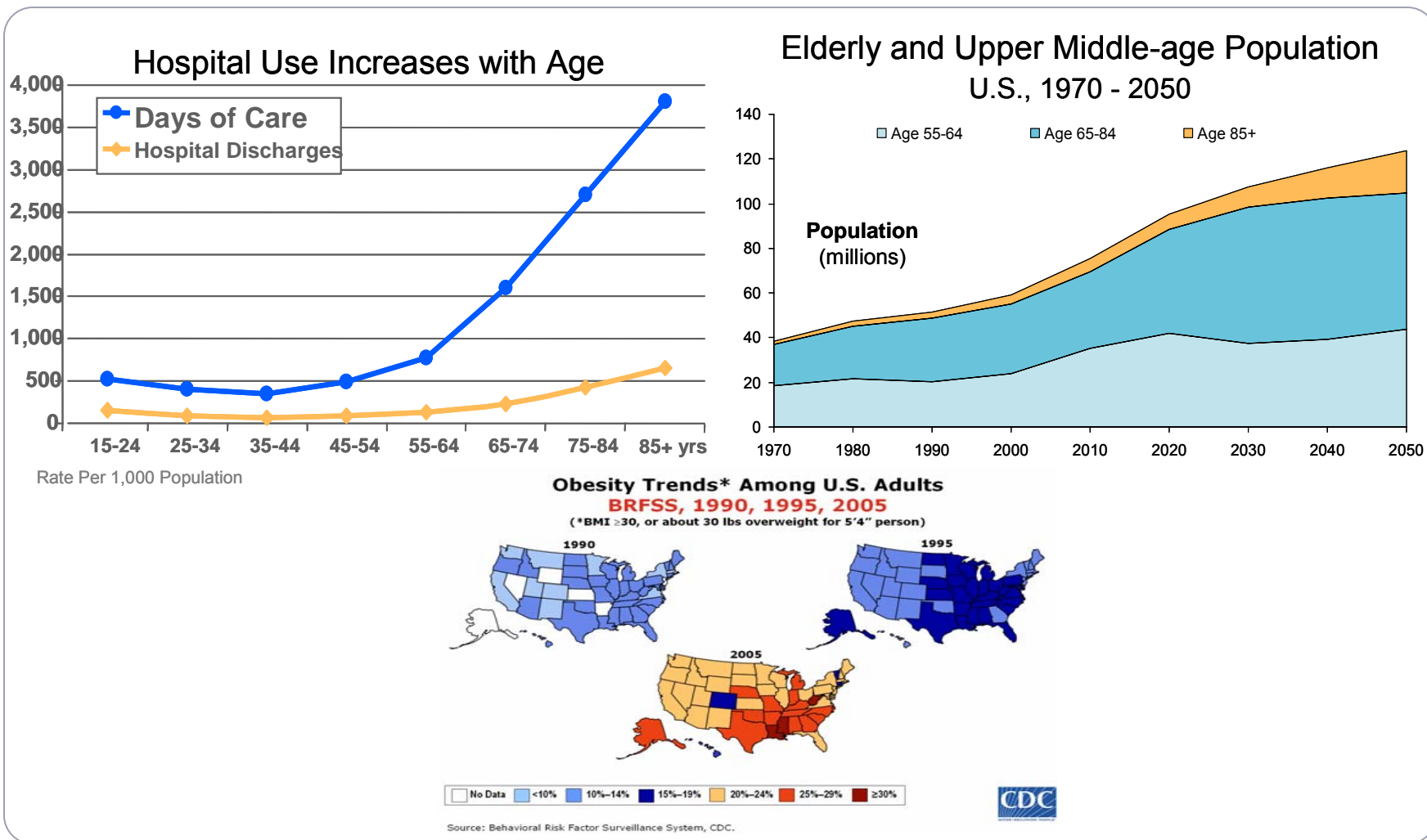
***Change in clinical applications***

- Chronic disease management growing
- Cardiology, oncology, CV, obesity, orthopedics focus
- Shift of focus to centers of excellence
- Outcomes driving technology decisions

**Strong Future Demand**

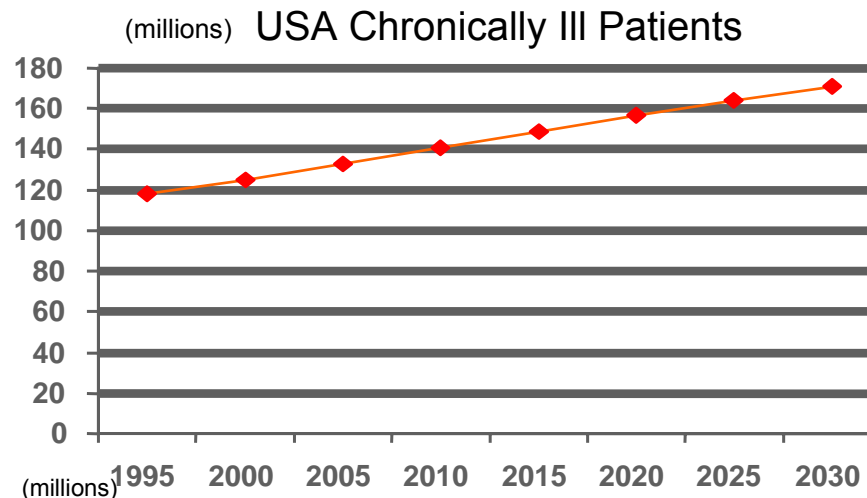
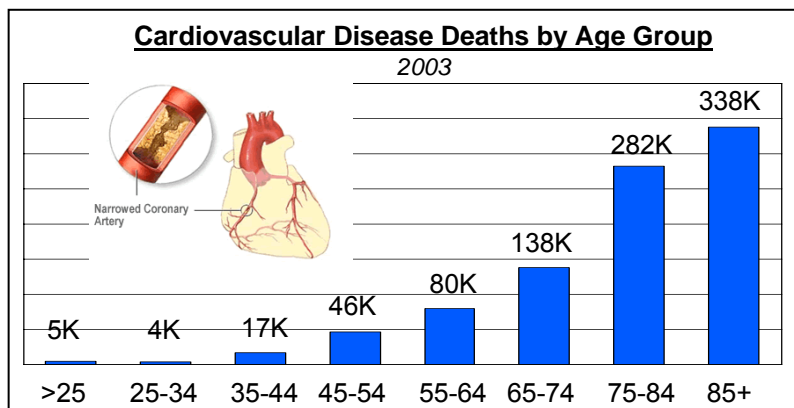
# Population and Life Style

*Strong market drivers of future demand*



# Disease Management

*Strong cost drivers society must address*



**Estimated Direct and Indirect Costs (in Billions of Dollars) of Cardiovascular Diseases and Stroke**  
United States: 2006

	Heart Diseases**	Coronary Heart Disease	Stroke	Hypertensive Disease	Heart Failure	Total Cardiovascular Disease*
<b>Direct Costs</b>						
Hospital	\$81.3	\$41.8	\$15.5	\$6.2	\$15.4	\$114.8
Nursing Home	20.7	10.9	14.3	4.2	3.9	42.6
Physicians/Other Professionals	19.7	11.1	3.1	11.0	2.0	38.3
Drugs/Other						
Medical Durables	21.2	9.8	1.3	24.4	3.1	50.1
Home Health Care	5.2	1.6	3.1	1.7	2.4	11.8
<b>Total Expenditures*</b>	<b>\$148.1</b>	<b>\$75.2</b>	<b>\$37.3</b>	<b>\$47.5*</b>	<b>\$26.8</b>	<b>\$257.6</b>
<b>Indirect Costs</b>						
Lost Productivity/Morbidity	21.9	9.6	6.4	7.7	—	35.6
Lost Productivity/Mortality##	88.5	57.7	14.2	8.3	2.8	109.9
<b>Grand Totals*</b>	<b>\$258.5</b>	<b>\$142.5</b>	<b>\$57.9</b>	<b>\$63.5</b>	<b>\$29.6</b>	<b>\$403.1</b>

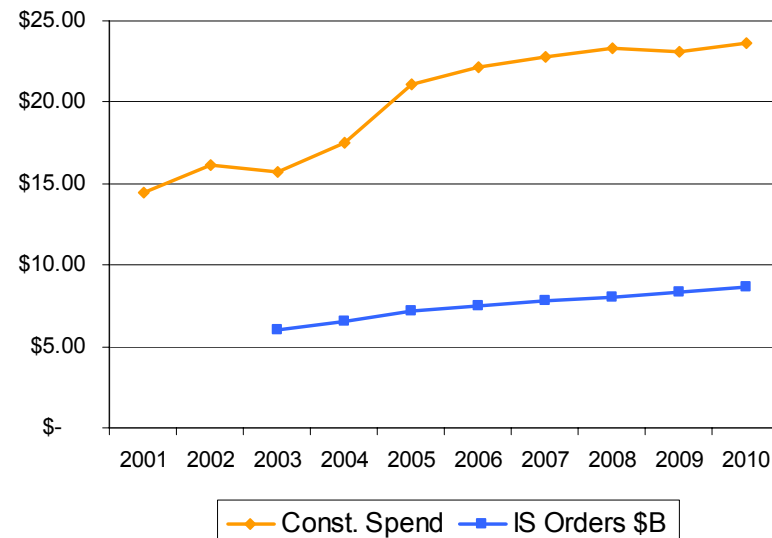
Increasing number of chronically ill continues to drive up healthcare costs at the same time driving future demand for imaging and monitoring services

# Healthcare Building Boom Continues

*Demand continues for our technology as critical infrastructure*

Year	Annual Expenditures (\$B)
2001	\$14.4
2002	\$16.1
2003	\$15.7
2004	\$17.5
2005	\$21.1
2006	\$22.2
2007f	\$22.8
2008f	\$23.3
2009f	\$23.1

\*Source: Dodge Healthcare Construction Report, 2007



- ↑ Aging healthcare facilities
- ↑ Admissions growing
- ↑ Demographics
- ↑ Competition / Marketing
- ↓ Declining profitability / increasing expenses
- ↓ Professional Staff

Healthcare construction growth continues to be a driver of growth in our markets

# Macro Healthcare Trends

## *Anticipated Market Impact 2007-2010*

<i>Healthcare Trend</i>	<i>Impact on Imaging Volumes 2006 to 2010</i>	<i>Impact on Philips Addressable Markets 2006 to 2010</i>	<i>Δ '06-'10</i>
Population Demographics			Neutral
Disease Demographics			Neutral
Healthcare "Outmigration"			Slowing
Imaging In The Mainstream			Growing
Hospital Building Boom			Slowing
Consumerism			Growing Strong
Government and Payer Utilization and Outcomes			Greater Oversight
Reimbursements ( lower)	Neutral		Lower by Segment
Hospital Profits (lower)	Neutral		Reduced

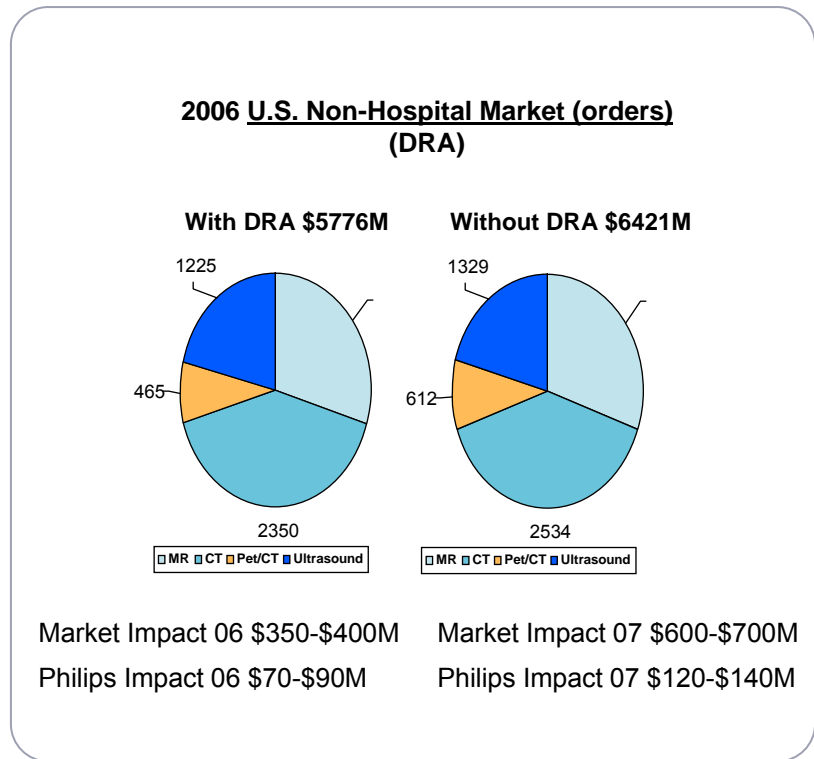
Source: Sg2, Healthcare Advisory Board,, Dodge Report, Vital Statistics

While demand grows in the healthcare market, government and commercial payer oversight applies pressure to control costs

# Reimbursement Trends

## *Deficit Reduction Act of 2005*

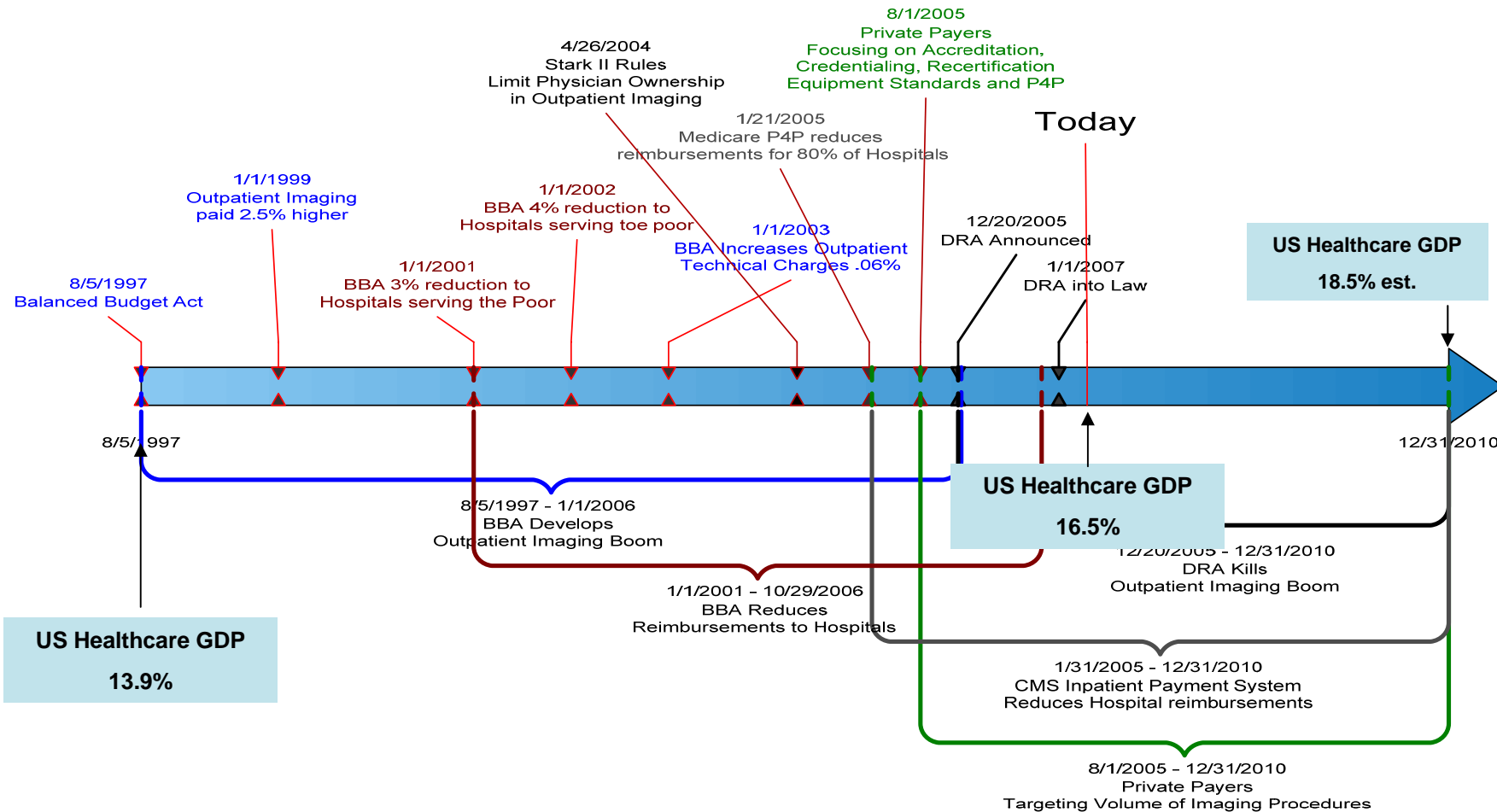
- DRA targeted at reimbursements for imaging procedures in the non hospital segment (36% of the U.S. market)
- High-end imaging procedure reimbursements under extreme pressure
  - Percentage of procedures effected by modality
    - CT: 49%
    - MR: 19%
    - US: 10%
    - PET: 25%
- Additionally targets concurrent exam reimbursement (multiple procedures occurring during one patient visit) to be reduced by 25% in 2006 and an additional 25% in 2007



**Congressional action targeted at \$ 3B non-hospital segment to curb the rate of growth and over utilization**

# Reimbursement Legislation

*A strong market driver*

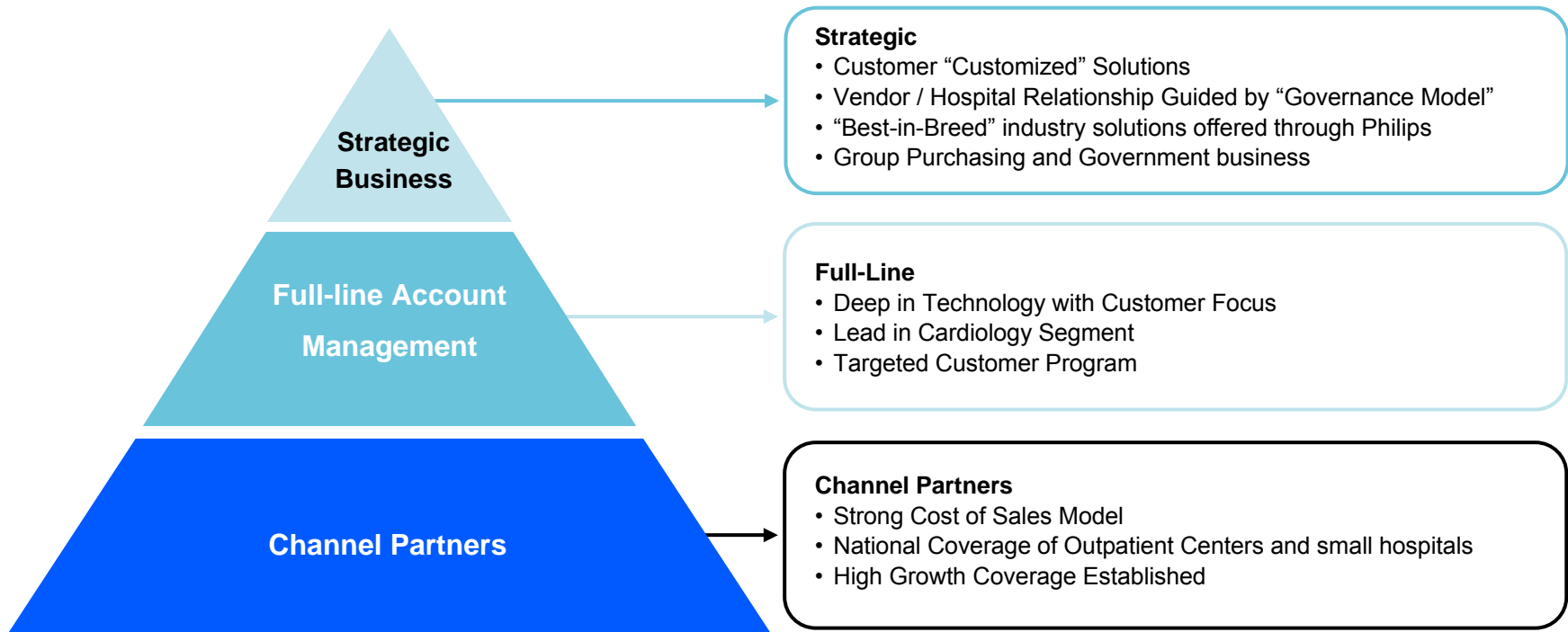


Government and commercial payers continue on long-term strategy to control the cost of healthcare as demand for services increase

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# North American Segmentation / Distribution Model



Three channel approach to growth in North America

# Reorganized in 2007

## *Simplified Organization*

- Consolidation of IS and UM sales zones (reduce from 5 to 3)
  - Alignment with global business model and channels
  - Reorganized Channel Partner Program
  - Commercial Operations and Sales Operations Consolidation
    - Center of Competency for order management
- 
- Strengthen key leadership positions, accountability focused

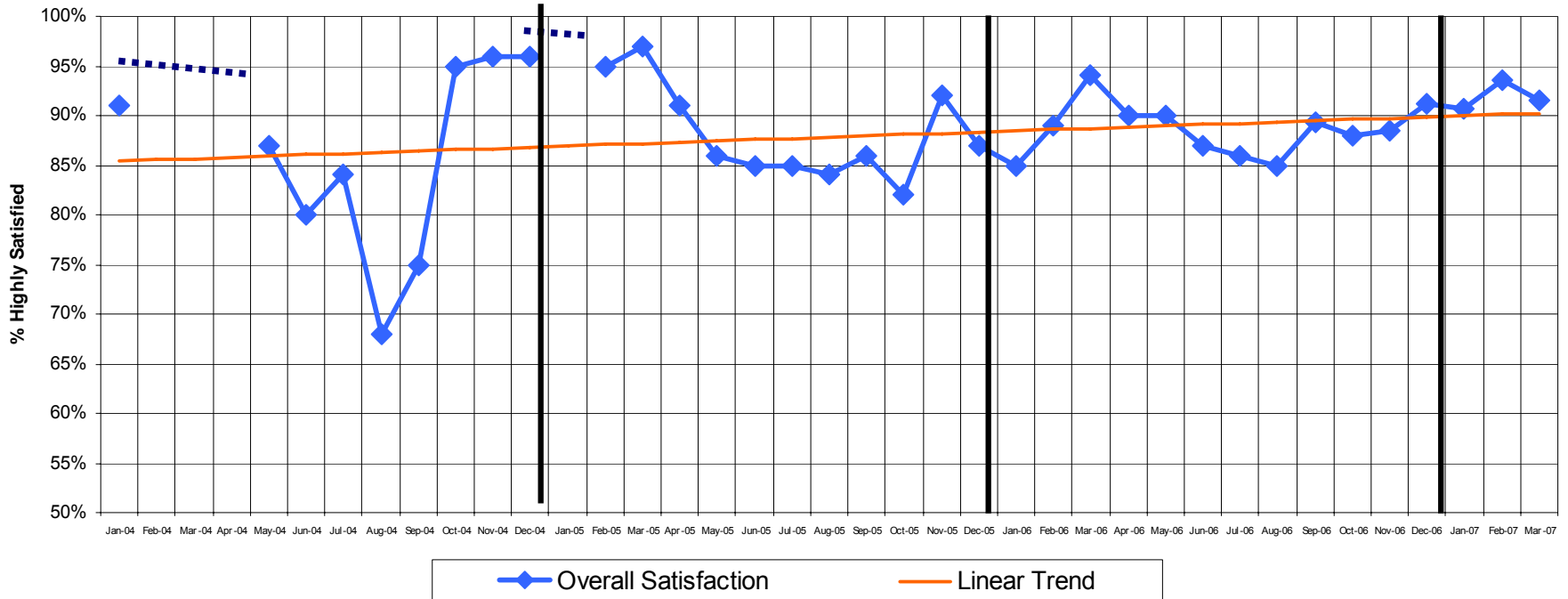
Reorganized to drive productivity, line of sight responsibility and accountability

# Strong Focus Operational Excellence



# Customer Satisfaction Trending

**CQ Overall Satisfaction: Trend from January 2004 to March 2007**



Customer satisfaction continues to support our growth

## Focusing on Care Cycles

*At the patients and care provider level*



### **Focused care cycle solutions based on customer insight will:**

- Align our go-to-market strategy with providers
- Focusing on the care provider / patient
- Provide more information for all care providers along the care cycle
- Minimize delays and mistakes in disease based care cycle
- Improved utilization and productivity of human and capital resources
- Measure and develop solutions that support improvement in patient outcomes
- **Position Philips as the # 1 care cycle solutions vendor**

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# Summary

- Strong market drivers exist for long-term market growth
  - Chronic Disease
  - Demographics
  - Innovative technology
  - Investments in healthcare infrastructure
  - Consumer demand for outpatient services
- Reimbursements in transition
- Legislative oversight increasing
- Quality incentives focusing on outcomes
- Hospitals are organizing around care cycles

Philips is positioned well to win in the evolving  
healthcare market in North America

