

PHILIPS

sense **and** simplicity

Developed Markets Overview *North America*

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Agenda

- Executive Summary
- North America Market Drivers
- Moving Forward

Executive Summary

Extremely Dynamic Market

- **Economic** - Key market indicators point toward lengthening recession.
- **Demographic** - Sustainable demand drivers work to offset reimbursement and profitability pressures.
- **Legislative** – ARRA stimulus and push for universal coverage will drive healthcare recovery and partially offset reimbursement and healthcare reform pressures.

Philips – Positioned for success in North America

- Strong momentum in market share, customer satisfaction, and employee engagement.
- Diversification of business (Home Healthcare) continues to be a positive driver.

FROST & SULLIVAN

- Market Leadership Award-Multi-parameter Monitoring
- Customer Value Enhancement - DRF Solution



- Innovation Award Oncology & Cardiology
- # 1 in overall Ultrasound service performance
- Patient Monitoring regained #1 position



- Named #1 ECG management solution
- CRS ranked #1 in customer satisfaction



- Large Manufacturer Award: overall support and growth; over 20% growth for two consecutive years



- Philips Allura Xper FD20 ranked #1
- 100% of customers indicated they would buy again

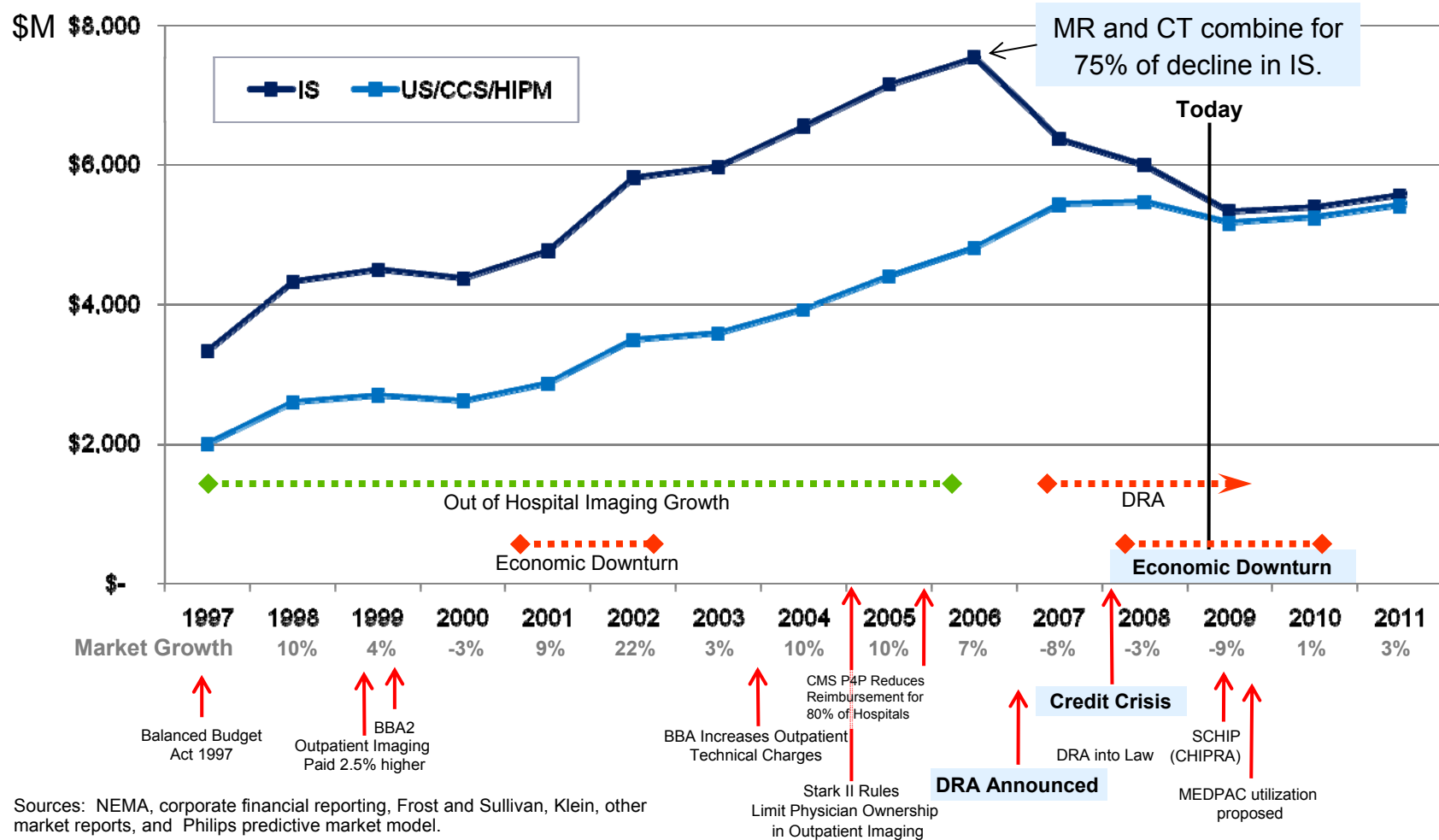
Equipment orders continue to be adversely impacted by market downturn;
growth in Customer Services.
Cautiously optimistic that ARRA stimulus will help drive healthcare recovery.

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Historical Perspective

US Market Size/Growth and Legislative Impacts (Excluding services and home healthcare)











Sources: NEMA, corporate financial reporting, Frost and Sullivan, Klein, other market reports, and Philips predictive market model.

Very dynamic environment

American Recovery & Reinvestment Act (ARRA)

Key Healthcare Components of Stimulus

Healthcare Components of ARRA	Market Impact	Comments
National Institute of Health (NIH): \$10B		For new research and/or new construction at NIH campuses.
Healthcare IT: \$19B		“Certified EMR” and “Meaningful Use” not yet defined.
Medicaid (State Funding): \$87B		Potential to increase patient volume and reduce charitable care.
Cobra (Health coverage for unemployed): \$25B		Potential to increase patient volume and reduce charitable care.
Prevention and Wellness: \$1B		Includes \$650M for strategies that deliver specific, measurable health outcomes.
Comparative Effectiveness Research (CER): \$1.1B		Not yet defined.
Community Health Centers: \$1.5B		For construction, renovation and equipment for community health centers.
Veteran’s Health Administration: \$1B		For non-reoccurring maintenance of facilities.

Short-term: Stimulus will help drive healthcare recovery. Timing?
 Long-term: ARRA funding will provide direct and indirect benefits to Philips.

Healthcare Reform

Impact of Obama Administration

Legislative Items	Market Impact	Comments
Healthcare coverage for all Americans.	↑	Increased coverage of the 45M uninsured will fuel procedural growth.
Bundle payments for hospitals and post-acute services. Enhanced payments for care coordination	↑	Alignment with Care Cycle strategy.
Hospital quality incentive payments.	↑	Opportunity for HIT solutions to assist customers in meeting quality goals.
Reimbursement: 6 new reimbursement codes proposed for PET/CT.	↑	Help to PET/CT equipment sales.
**MedPAC: Imaging equipment utilization change from 50% to 90% under consideration.	↓	Out of hospital only. Implementation 2010.
Imaging Pre-authorization: Approvals may be required from RBMs before payment by Medicare.	↓	Estimated \$260M over 10 yrs – likely to pass. Most commercial payers use pre-auth process today.
Changes in physician payment formula.	↓	Placing imaging in a separate payment category.
“In-office exemption” (i.e. self-referral) eliminated.	↓	Reduction in imaging procedures.

Short-term: Very fluid and dynamic situation.
 Long-term: Represents both opportunity and risk for Philips.

**MedPAC = Medicare Payment Advisory Commission

Customer Viewpoint

Economic Trends – Short Term

Economic Trends (Short-term)	Market Impact	Comments
Patient Volume	↓	1% decline in patient volume. <i>Source = HFMA</i>
Uninsured Patients	↓	Rising unemployment rates. 62% reported negative impact due to charity care and bad debt. <i>Source = HFMA</i>
Margins	↓	“Extreme decline” in operating margins. “With the largest health systems being the most vocal” <i>Source = HFMA</i>
Cost of Debt	↓	38% reported substantial increase in cost of debt. <i>Source = HFMA</i>
Endowments	↓	Decrease in charitable donations.
New Construction	↓	56% of hospitals reconsidering or postponing capital expenditures for new construction. <i>Source = AHA</i>
Purchase of Clinical Equipment	↓	45% of hospitals reconsidering or postponing capital expenditures for equipment. <i>Source = AHA</i>
Purchase of Medical Technology	↓	79% of hospitals either cutting or putting medical technology expenditures on hold. <i>Source = Wachovia</i>













Short-term: Uncertainty and delays.




Long-term: Trends should reverse as economy recovers.

Customer Viewpoint

Market Trends – Long Term

Description	Procedure Impact	Market Impact
Population Demographics		
Chronic Disease		
Workflow & Productivity		
Clinical Service Line Growth		
Emphasis on Medical IT and integration		
Staffing Shortages		

 Long-term demographic trends, ARRA stimulus, and healthcare reform will drive Hospital Market growth moving forward.

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Moving Forward Challenges, Opportunities & Focus

Challenges

- Short-term economic trends.
- Legislative pressure on the rise.
- Uncertain dynamics of healthcare reform.

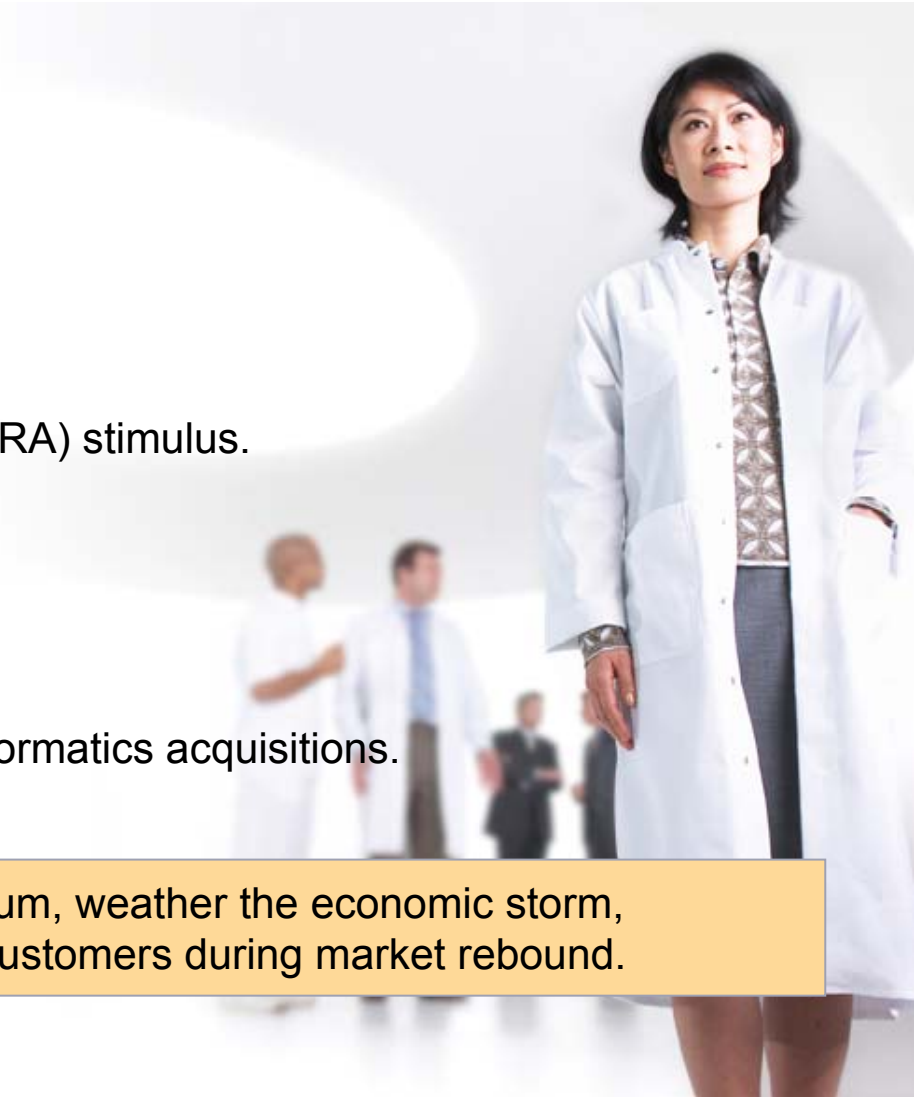
Opportunities

- Long-term demographic trends.
- American Recovery and Reinvestment Act (ARRA) stimulus.
- Healthcare coverage for all Americans.

Focus

- Manage costs in line with sales.
- Continue to drive growth in market share.
- Leverage Home Healthcare and Healthcare Informatics acquisitions.

Plans in place to sustain momentum, weather the economic storm, and be well positioned to serve customers during market rebound.





Sources: Sg2, Healthcare Advisory Board, Vital Statistics, NEMA, and corporate financial reporting. Frost and Sullivan, IMV, KLAS, MDBuyline and other market reports. Philips employee engagement survey. Philips predictive market model.