# Philips Medical Systems: Beyond 14%

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Analysts' Meeting
June 15th, 2005

# Philips Medical
# Beyond 14%

- Improvement – Metric of Success
- Building the future – Innovation
- Building the future – Customers
- Where do we go from here

# Deliver on Commitments, Focused on Growth

## In June 2004

- Seven consecutive quarters of improvement
- Will continue on this path to 14 % and beyond
  - significant & quantified opportunities still ahead
- Next step expansion is also a path
  - focus on improving care cycle, build on existing strengths and differentiate

## In June 2005

- Eleven consecutive quarters of improvement
- Will continue on this path beyond 14.4 % of 2004
  - significant & quantified opportunities still ahead
- Next step expansion is also a path
  - focus on improving care cycle, build on existing strengths and differentiate
- Growth opportunities mapped – discussions on going
- Value creation driven, not just top line – our time table

# The Medical Systems & Device Market

**Main categories**

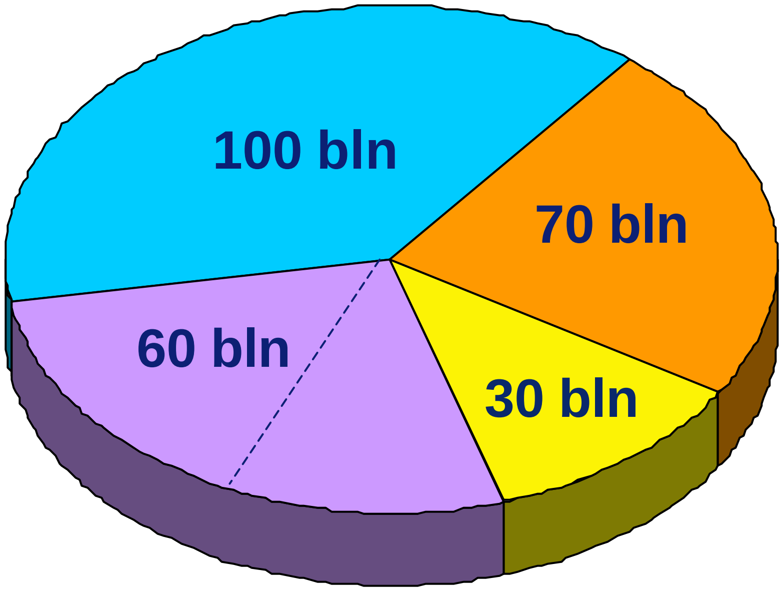
- Medical equipment, services, devices and supplies € 260  bln worldwide

Surgical instruments, devices and supplies

IT in Healthcare

Diagnostic imaging and monitoring

Other equipment & services




Sources: Medistat, PMS internal analysis

# Business by Segment 2004

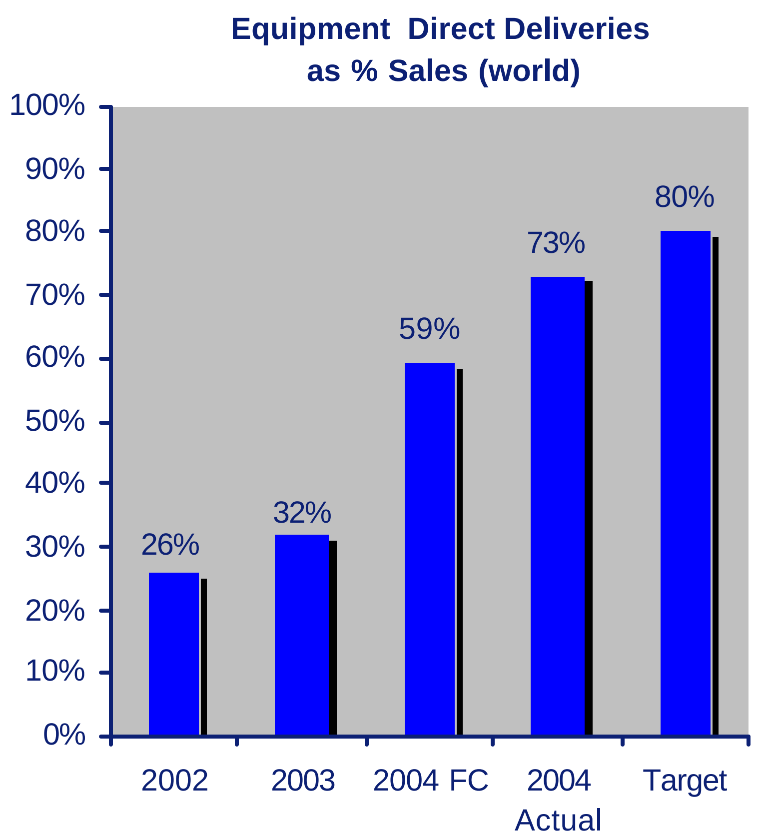
| Imaging Systems<br>EUR 2.8 bln | Customer Services<br>EUR 1.6 bln | Information and Monitoring Solutions<br>EUR 1.5 bln |
|---|---|---|
| Nuclear Medicine | Consultancy | Medical IT |
| CT | Clinical services | Patient Monitoring and Cardiac Devices |
| MR | Asset management | Document services |
| PET | Maintenance & Repair | |
| Ultrasound | | |
| X-Ray | | |

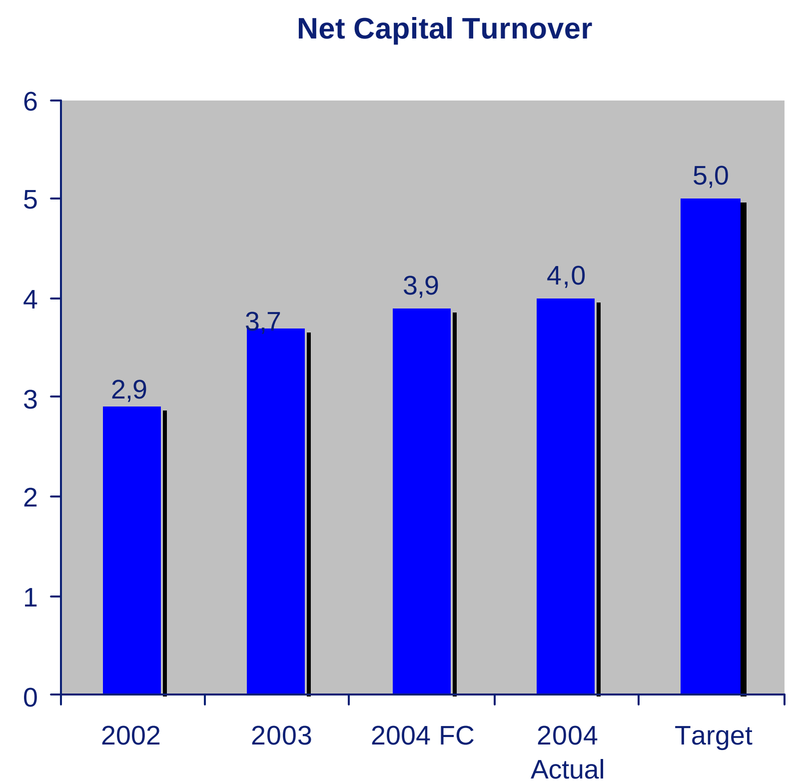
# Improvement is the Metric of Success

| Year-on-Year Improvement | 2004 to 2003 | Q1 05 to Q1 04 Achievements |
|---|---|---|
| Comparable Orders Growth | + 16% | + 9% |
| Comparable Sales Growth | + 4% | + 5% |
| EBIT Growth* | + 23% | + 9% |
| EBIT margin* Improvement | + 2.6 pts | +0.5 pts |

*excl. non-recurring items

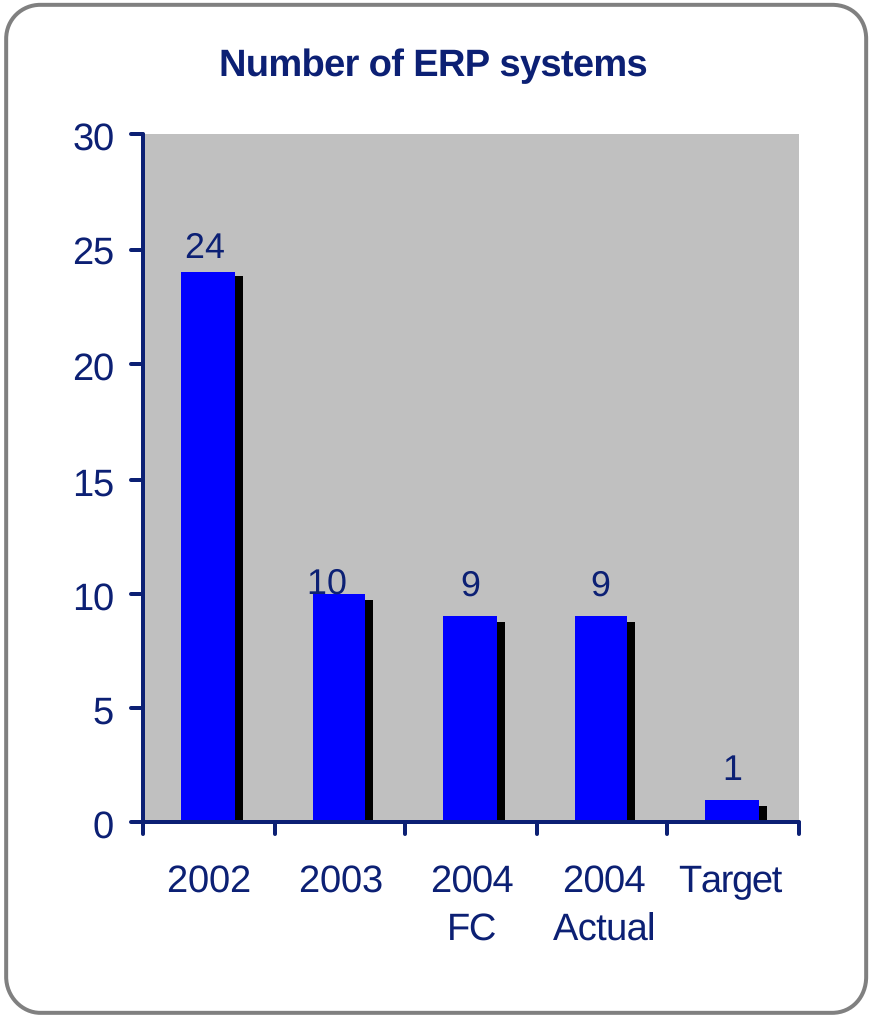
# A Faster, More Efficient Supply Chain

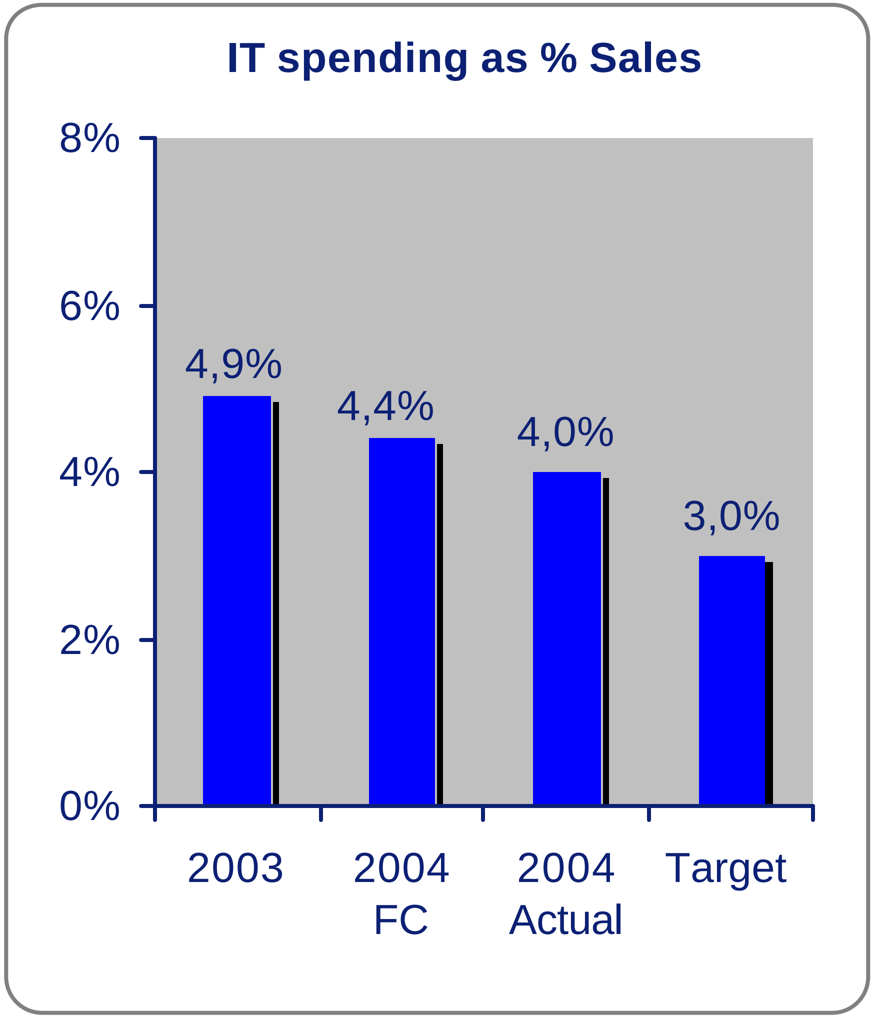



Net Capital = Capital excluding Goodwill

# Information Technology Improvements



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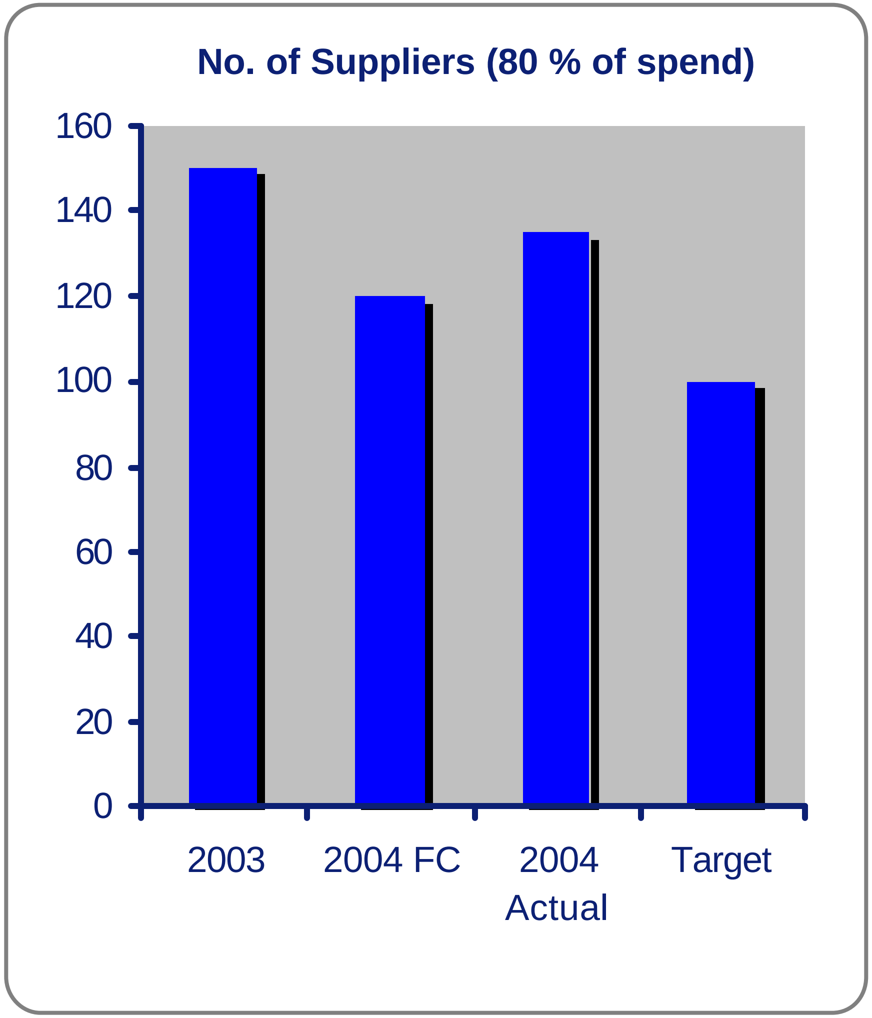
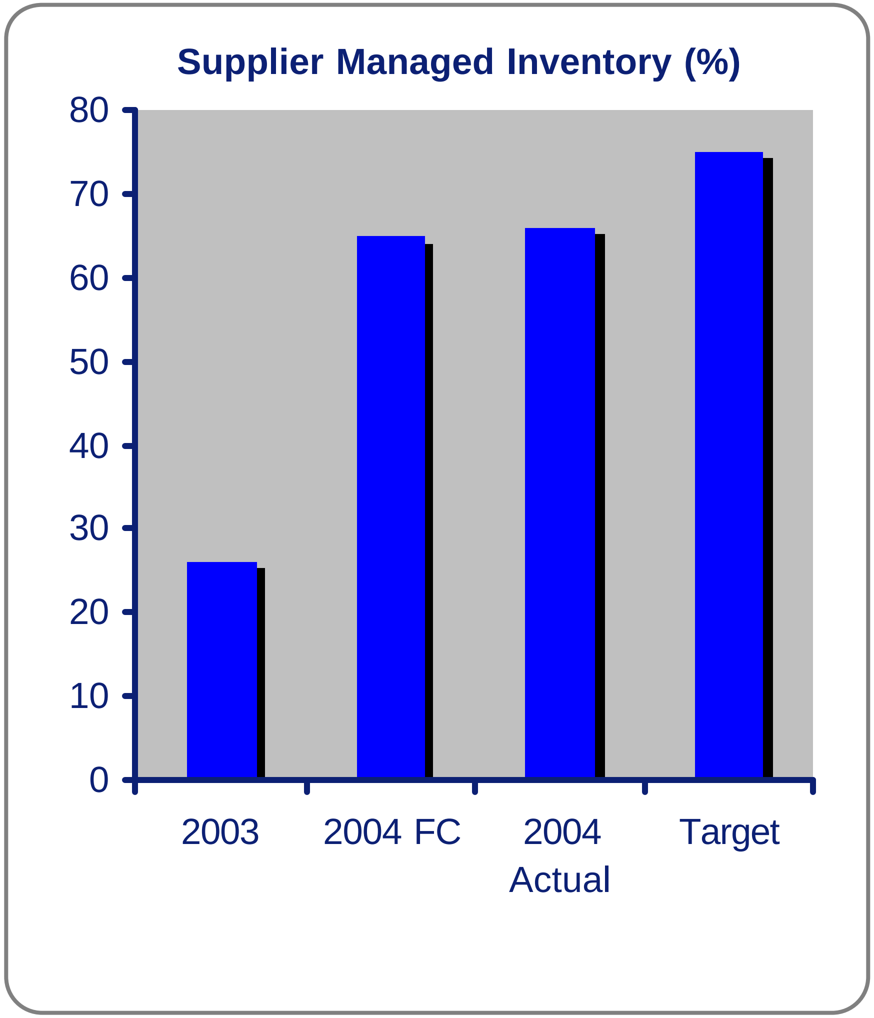
# Building an Integrated Supply Base



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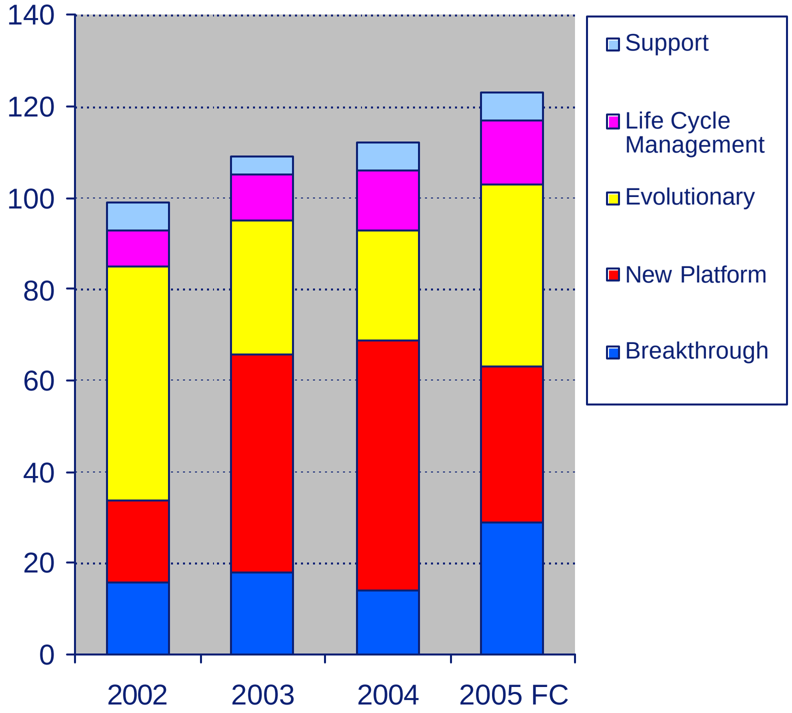
# PMS – Renewing Product Portfolio

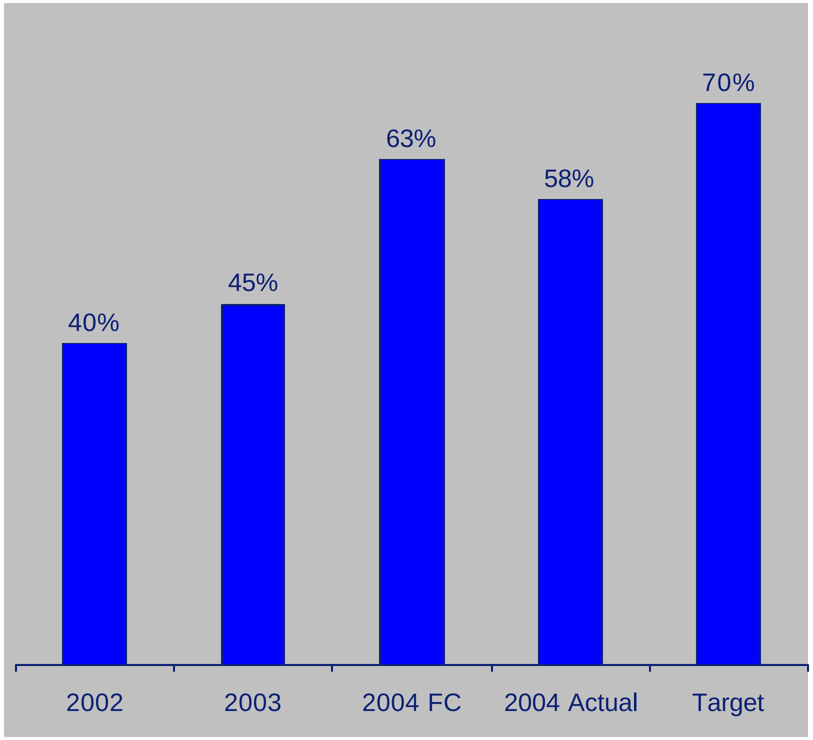
## Balanced Investment

R&D spending at comparable currency (indexed: 2002=100)

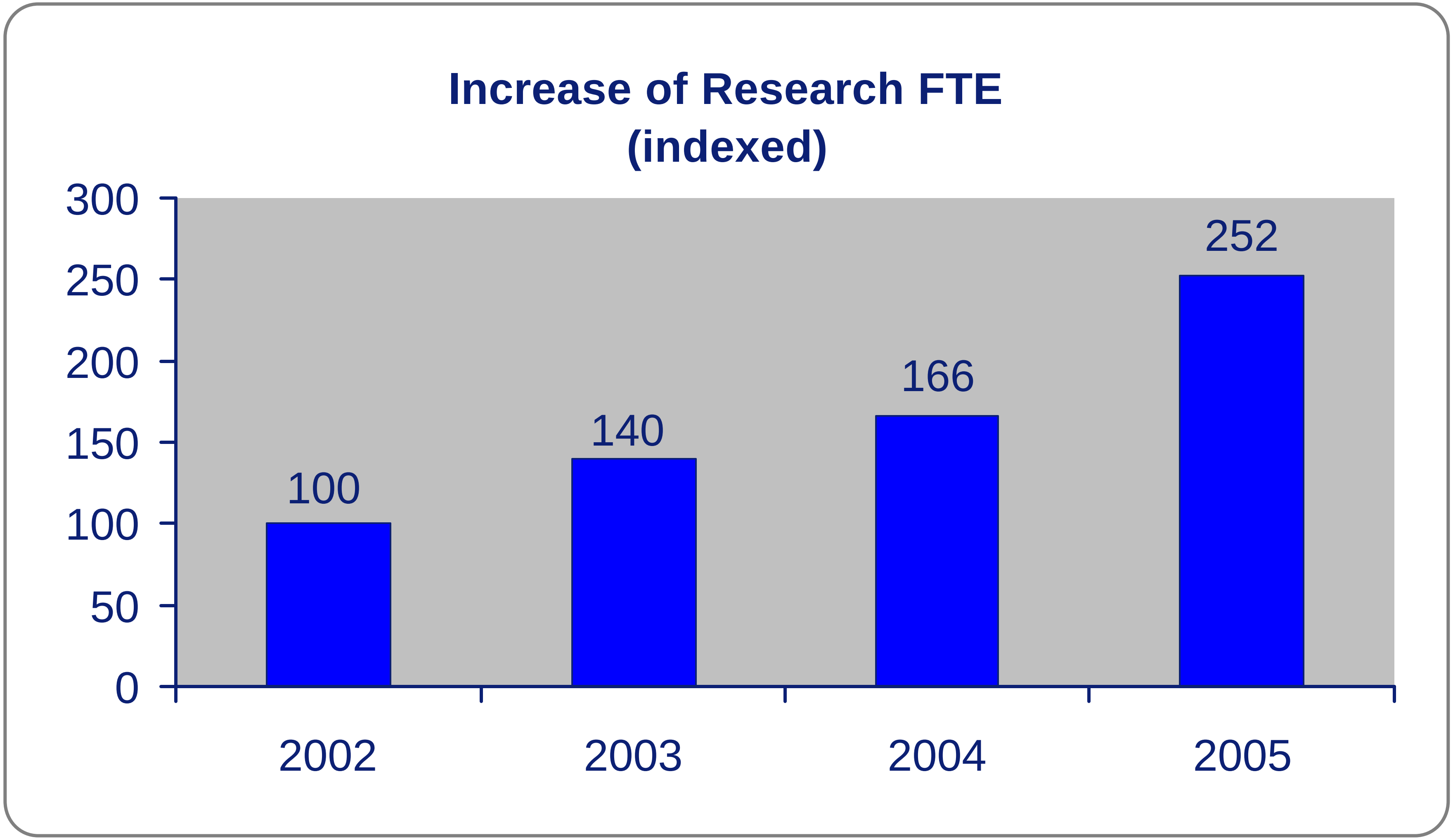



## Accelerated Product Renewal

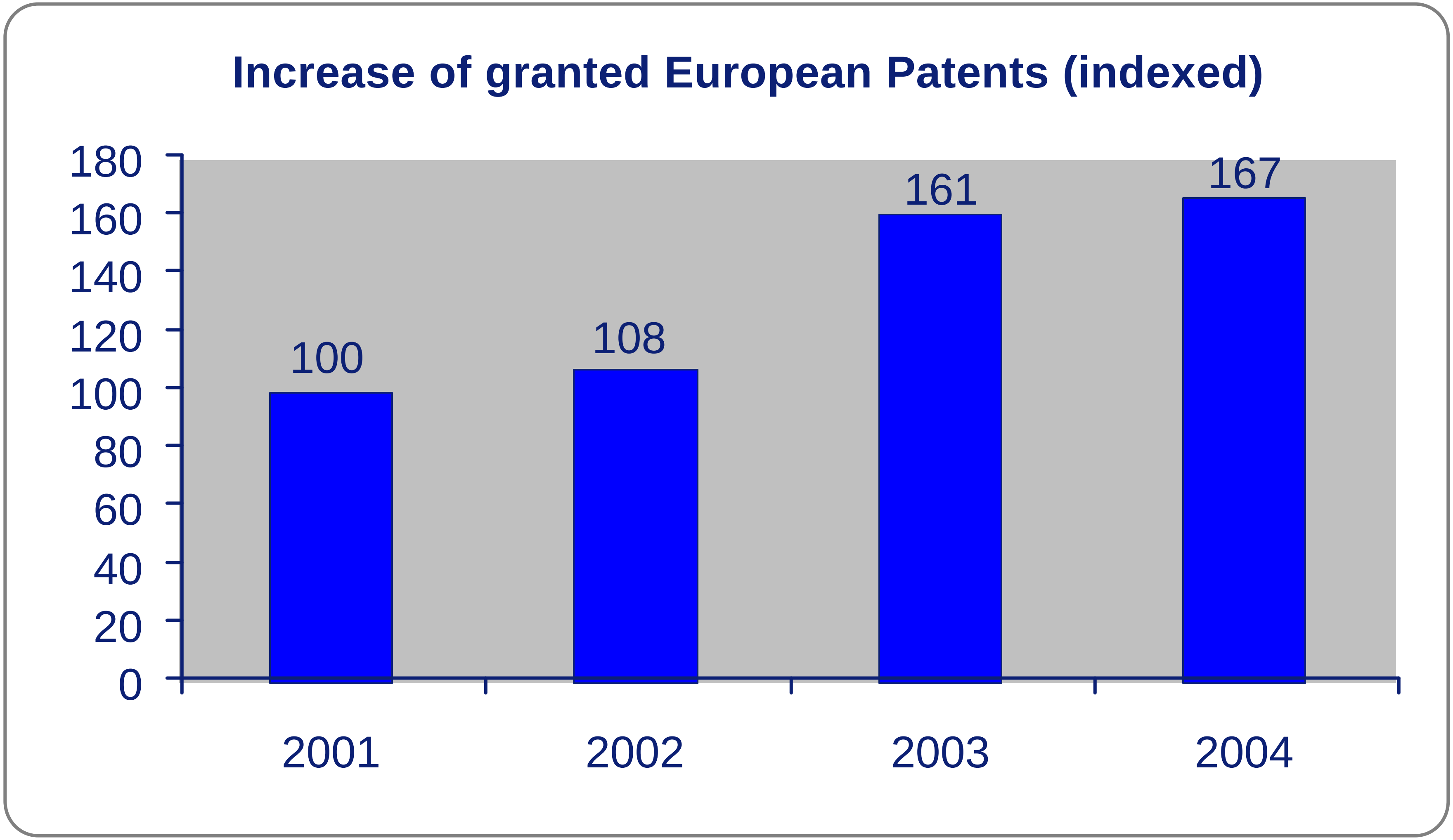
% Revenues based on products < 2 yrs old



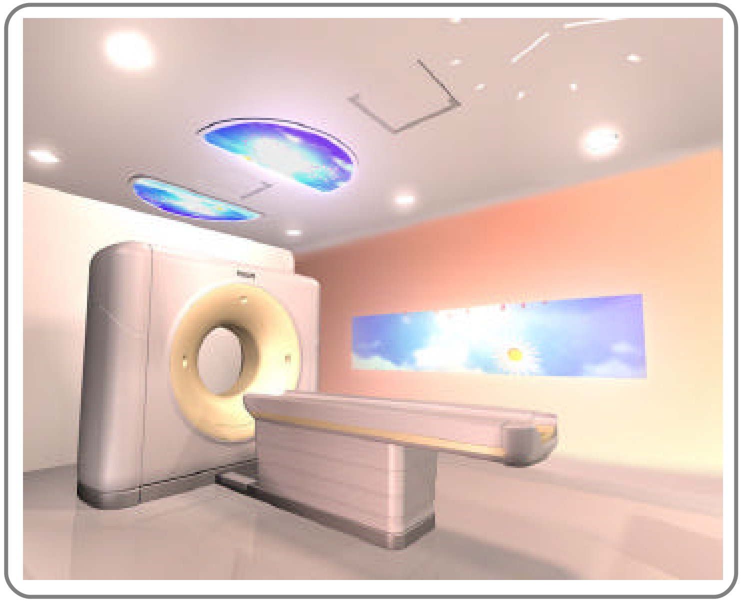
# Expanding in Research . . .



# . . . And increasing the patent portfolio



# Ambient Experience offers strong differentiation

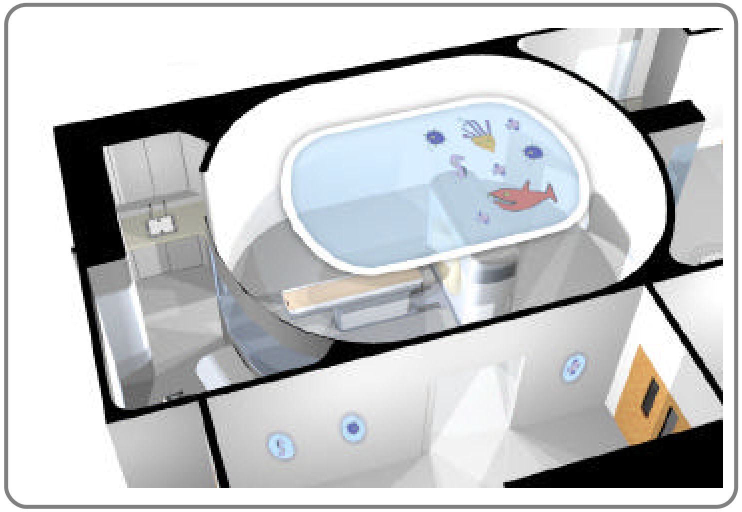


First install: Lutheran Children's Hospital

- **Designed Around You:**
  Addresses the unmet need of a supportive environment for patients and staff a like.

- **Easy To Experience:**
  Focus on patient's emotional experience and comfort as well as operator and hospital workflow considerations.

- **Advanced**:
  A truly "One Philips" concept:
  Medical, Lighting, CE and Semiconductor technology



# Dr Anastaos, Lutheran Hospital Chicago

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# This what we told you last year: We are winning ….

## Best Hospitals

Rankings Index • Honor Roll • Methodology • Glossary • Search

### Honor Roll

These medical centers all ranked high in at least six of the 17 Best Hospitals specialties, demonstrating unusual breadth of excellence. Their rank in the Honor Roll is based on a point system in which hospitals received 2 points for ranking at or near the top in a specialty and 1 point if slightly below that.

1 Johns Hopkins Hospital, Baltimore
32 points in 16 specialties — MR systems, R/D

2 Mayo Clinic, Rochester, Minn.
28 points in 14 specialties

3 UCLA Medical Center, Los Angeles
24 points in 14 specialties

4 Massachusetts General Hospital, Boston
24 points in 12 specialties — S — SBA

5 Cleveland Clinic
23 points in 12 specialties — C — LOU

6 Duke University Medical Center, Durham, N.C.
22 points in 13 specialties

7 University of California, San Francisco Medical Center
21 points in 12 specialties

8 Barnes-Jewish Hospital, St. Louis
18 points in 12 specialties

9 University of Michigan Medical Center, Ann Arbor
16 points in 11 specialties — S — 4 MR systems, R/D LOU

10 University of Washington Medical Center, Seattle
15 points in 10 specialties

11 New York Presbyterian Hospital
15 points in 9 specialties

12 Brigham and Women's Hospital, Boston
14 points in 8 specialties

## US News Best Hospitals 2003

Strategic Alliance Agreements and LOU's

Strategic wins are significant "N.A.'s Best" hospital accounts Positioning Philips brand like never before at five of N.A.'s best health care institutions

13 Hospital of the University of Pennsylvania, Philadelphia
13 points in 9 specialties

14 University of Chicago Hospitals
10 points in 7 specialties — S — SBA

15 (tie) Stanford Hospital and Clinics, Stanford, Calif.
9 points in 7 specialties — Current Discussions

(tie) University of Pittsburgh Medical Center
9 points in 7 specialties

17 Vanderbilt University Medical Center, Nashville
8 points in 6 specialties — S — LOU

Note: 2 points were awarded if a hospital ranked 3 or more standard deviations (S.D.) above the mean score and 1 point if it ranked from just below the 3 S.D. threshold down to 2 S.D. above the mean. Where possible, ties were broken by number of specialties.

- Strategic Business Alliance (red)
- Strategic Technology Alliance (yellow)
- Strategic Cardiac Alliance (blue)

Source US News and World Report 2003

# Now quickly expanding our Strategic Alliances Customer Base


24 strategic deals
in one year

in 2 years USD >1 bln
in contract backlog

# Continuous expansion of market share and orders

## World by Region

| Region | 2003 share trend | 2004 share trend | YTD Orders trend |
|---|---|---|---|
| Americas | | | |
| Europe, ME & Africa | | | |
| Asia Pacific | | | |
| Total | | | |

Sources – NEMA, various European studies and estimates

## Global Product Lines

| Product Line | 2003 share trend | 2004 share trend | YTD Orders trend |
|---|---|---|---|
| X-ray | | | |
| CT | | | |
| MR | | | |
| NM | | | |
| US | | | |
| MIT | | | |
| Monitoring | | | |
| Total | | | |

**Market share gain across geographies and modalities**

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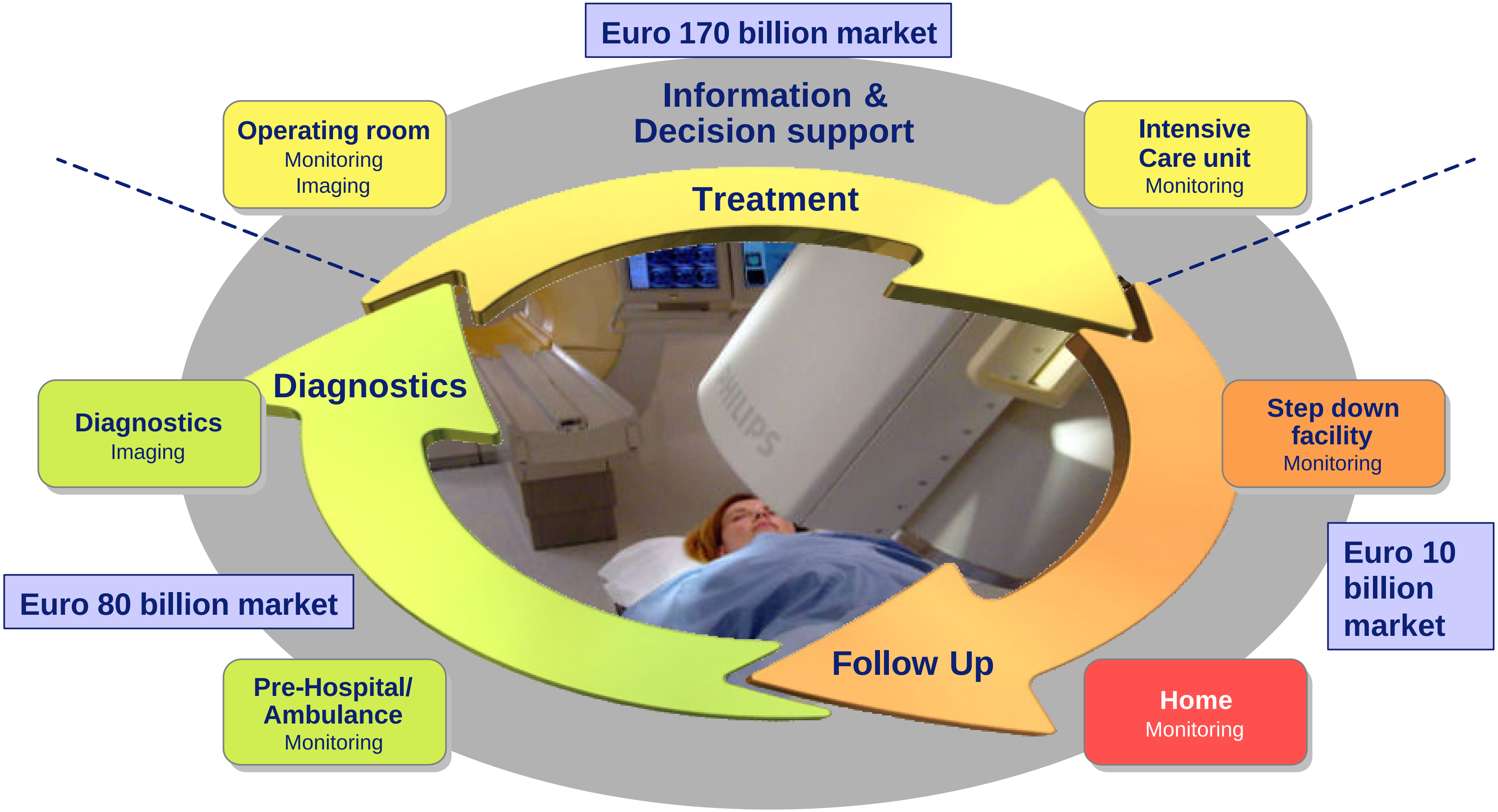
# Focus on the Care Cycle – Space to grow




Market size for medical devices and equipment

# Our Mission in Healthcare

To improve people's lives with advanced technology that is easy to experience and designed around you

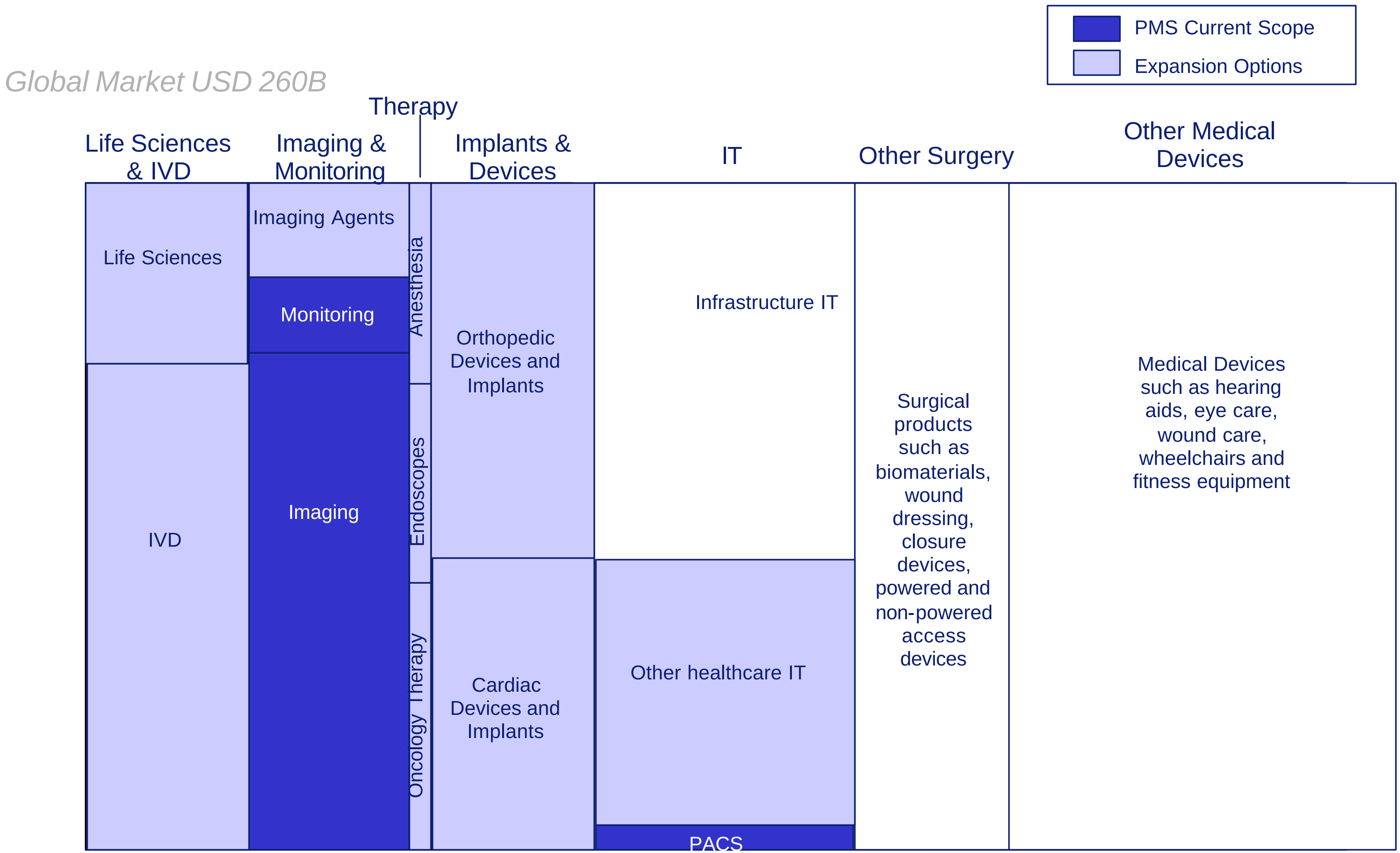
# Our Vision:
# Healthcare without Boundaries

**Remove barriers to the best care**

Not having to:

- see the doctor to be seen
- wait for an ambulance to save a life
- be in the hospital to see the patient
- delay a decision waiting for information
- wait to be sick to be healed
- compromise Clinical Excellence
  to save costs

# Philips Medical Growth beyond Present Scope



# Priorities

**EXPAND THE BUSINESS**

**STRENGTHEN CURRENT PORTFOLIO**

**SECURE PREVIOUS INVESTMENTS**

**Maximize Value Creation**

**Grow with Improving Margins**

# Do it right is more important than do it now
# Acquisition Approach

1. Growth opportunities
2. No or time-limited margin dilution
3. Clear commercial, clinical, and technology synergies
4. Complementary position
5. Strong market position
6. Integration strategy part of acquisition decision
7. Walk-away price set at discussion start
8. A good alliance is an alternative to acquisition

**Value Creation**

# Conclusions

**In the past three years we have**

- built a strong team
- built a track record of improvement
- built a track record of innovation

**For the coming few years we have**

- many quantified improvement opportunities
- a few additional margin points to gain
- a clear set of priorities for further expansion