Growth Geographies and Healthcare footprint in China

Ronald de Jong
EVP and GM Global Sales and Service Emerging Markets

Desmond Thio
SVP and GM Healthcare Greater China
Contents

• The market reality & our unique approach

• Looking back: How have we been doing so far?

• China: Cornerstone of our strategy

• Key takeaways
The world population is increasing rapidly

In 2050, growth geographies will make up most of the world’s 9 billion people
Changing lifestyles introduce new challenges

Chronic disease increases the burden on struggling health care systems
Preparing for the rising tide

Three key challenges for growth geographies

• Increasing access to care
• Preparing for the increase in chronic disease
• Partnering to create solutions
People focused

Care cycle driven

Care anywhere

Meaningful innovation

Local acquisitions, close cooperation, and partnerships with local health organizations enable us to best meet needs.

We focus on the specific needs of caregivers and patients throughout the cycle of care.

The need for care isn’t limited to the hospital, so we strive to make care accessible anywhere.

We design and develop solutions based on relevant and local clinical and business needs.
Contents

• The market reality & our unique approach

• Looking back: How have we been doing so far?

• China: Cornerstone of our strategy

• Key takeaways
From 2006 until 2010, we delivered 5 consecutive years of double digit growth in orders* and are on track to realize our market share ambitions in 2015

Philips market share development in addressable market 2006-2010

* Key growth geographies: Greater China, Greater Russia, Latam, Greater India
..and continued to expand our growth geographies footprint…

- Meditronics (2008)
- Dixtal Biomedica e Tecnologia (2008)
- VMI-Sistemas Medicos (2007)
- TECSO Informatica (2010)
- Wheb Sistemas (2010)
- CDP Medical (2010)
- Alpha X-ray Technologies (2008)
- Meditronics (2008)
- Medel (2009)
- Respironics (2007)
- Imaging Systems Campus (2009)
- Shanghai Apex Electronics (2010)
- Shenzhen Goldway Industrial (2008)
- Neusoft (2004)
- Medel (2009)
- Bangalore Innovation Campus
- Pune IS Campus (2010)

Legend:
- = Joint Venture
- = Acquisition
- = Partnership
- = Organic expansion

2010 Transactions
In 2010, we entered into a partnership with Electron for the Russian market…

• Fast growing demand for latest technology, as part of modernization drive in Russia

• Announced stimulus of €11.5 B will accelerate more market growth in Russia

• In 2010, established partnership with Electron and produced first CTs in Russia for Russia

• We are expanding market penetration in regions

Russian health care equipment market development 2008-2015 M EUR

Official forecast of Ministry of Industry and Trade on medical equipment market in Russia. 2006-2010” issued 28.02.11
…and further strengthened commercial footprint and increased customer satisfaction

- Strengthened our direct sales channel and got closer to our key customers. Increased NPS
- Since 2007, we more than doubled our customer-facing workforce
- Expanded our indirect sales channel network with ~15% and customer service coverage with 20% to penetrate into lower tier hospitals and regions
- Achieved strong double-digit growth in Customer Service (CS) enabled by increased customer satisfaction
…and made great progress in bringing care to the home…

- Over 1 billion people worldwide suffer from chronic respiratory diseases, ~200 million people in growth geographies
- In 2010, we trained more than 6000 physicians in growth geographies
- Philips supported the start of ~200 sleep labs in growth geographies from which 130 were installed in India in 2010
- Driven by our strong consumer brand and most complete portfolio, we achieved strong double-digit growth in 2010
…. in Brazil, we have now the broadest Clinical IT portfolio in the market, with 340 installations at Brazilian health institutions.

• With increasing number of patients in growth geographies, doctors need information systems to manage their work in an efficient way.

• In 2010, acquired Tecso Informatica and Wheb Sistemas in Brazil and CDP Medical in Israel.

• Today, 340 health care institutions in Brazil have our HIS and RIS solutions implemented.

• Strong progress on strategy to expand our clinical informatics portfolio with cost-effective solutions.
Contents

• The market reality & our unique approach

• Looking back: How have we been doing so far?

• China: Cornerstone of our strategy

• Key takeaways
Some health facts …

• China has 1/3 of the world’s smokers

• 80% of deaths in China are due to non-communicable diseases. Productivity losses ~ US$550 billion 2005-2015

• Tremendous need for trained medical professionals

• Between 2009 and 2011, China plans to upgrade 2,000 city hospitals and 29,000 health stations in rural areas

Source: WHO, Hospitalmanagement.net
China’s New Healthcare Reform brings opportunities...

Prime Minister Wen and Health Minister Chen:

- Improve public hospital management and explore pricing mechanism for health care services
- Prevent, control and manage major infectious diseases and chronic diseases
- Strengthen health care services for women and children and promote free exams for cervical and breast cancers
- Encourage private investment in health care
- Breakthrough in county hospital reform

The government has announced an increase its funding for New Healthcare Reform (2009~2011) from originally RMB 850 Billion to > RMB 1 Trillion
Philips has a long history in China …

Philips Healthcare has been present in China for over 80 years

In the early 1900s, Philips portable 'Metalix' x-ray device was already used in the Forbidden City
Prioritizing care
Women’s cancer screening and cervical cancer

- 190k breast cancer cases and 100k new cervical cancer cases diagnosed every year
- Partnership with Chinese Ministry of Health
- In 2010, 1060 Chinese ultrasound physicians from 530 hospitals participated the program
Clarity of insight
*Chest Pain Center, China*

- Partnership with the **Chinese Cardiac Society** of the China Medical Association

- In 2010, more than **30 cardiologists** and **120 KOLs participated** in the CPC expert consensus formulation

- 3 Pilot Chest Pain Centers in progress
Managing chronic disease

Partnership with HOPE Foundation

- 80% of deaths in China are due to non-communicable diseases. (WHO)

- Improving patient care outcomes and reducing the overall burden on China’s health care system.

- HOPE RAD-AID
  - Helps medical facilities in rural China (and India) become “radiology ready”
Hospital Leadership Program

*CEO education program*

- In China hospitals are short of qualified medical staff and management capability
- China Healthcare Reform aims to increase management capability for Chinese hospital administrators and presidents
- In partnership, Philips-Fudan and Philips-Beida ~700 hospital CEOs or VPs were trained
Strong position in the premium segment…

• Since 2009, we sold more premium 256 slices CT scanners “iCT” in China than anywhere in the world …

• Leadership in cardiology

• State of the art “Clinical Sites” to demonstrate innovation leadership

• Partner with leading Tsinghua University to build a local research center
... and penetrating further in the value segment.

- Fast growing portfolio of value products - >100 products in growth geographies >30 in China
- Designed in China to meet the needs of China patients and caregivers
  - Suzhou innovation campus driving China imaging needs
  - Joint venture with Neusoft
  - Shanghai Apex Electronics
  - Design center Shanghai
  - Successfully acquired and integrated Goldway
- Leverage Goldway platform to further penetrate into lower tier cities/hospitals
  - Goldway founder became our executive leader for the value segment
  - Dedicated value team established.
We have invested significantly in our China footprint, making China another global home…

**Industrial Footprint**

- Neusoft (2004)
- Philips Research
- Shanghai Apex Electronics (2010)
- Suzhou site (2009)
- Respironics (2007)
- Medel (2009)
- Shenzhen Goldway Industrial (2008)

**Commercial Footprint**

- Since 2007, tripled our workforce and China now represents ~10% of our global Healthcare workforce
- 27 offices throughout China
- Go West expansion strategy in place
- In 2010, we increased our sales channel network with 20% increasing penetration into lower tier hospitals and regions

**Strong local-for-local and local-for-global R&D competence**
...and achieved key leadership positions in China

We are #1 in:

- Critical care in Level III hospitals
- Resuscitation defibrillator
- #1 in Interventional Cardiology and co-leader in Interventional Radiology
- Premium MR & CT
- Colposcopy cervical cancer detection
- Oncology simulation and planning
- Digital radiography
- Home Healthcare “Sleep & Respiratory”
- Cardiac ultrasound
- People's Liberation Army segment

...and acknowledged as:

- “The most exciting brand in 2010” by health care professionals (Heartbeat Research)
- Customer focused: In Product NPS, China is now leader in 7 out of 8 business areas
- Providing great service: Golden Service Award by China Hospital CEO Summit 2010. Best Service Award for US /IS&PM by the China Biomed Engineering Association.
- For 5 consecutive years, Philips Research selected as one of the “top R&D centers” in China

* Source: Global Entrepreneur, a leading business magazine in China
China market share development

Philips market share development in China addressable market 2006-2010

- 2006: 16%
- 2010: 19%
China Executive summary

Looking back: How have we been doing so far?
• Consistently outgrowing the market and key leadership positions in the China Healthcare Market
• “The most exciting brand in 2010” by Healthcare professionals (Heartbeat Research).
• Customer focused: In NPS, China is now leader in 7 out of 8 business areas
• Strong progress in strategic marketing initiatives and government relations

Market Development and Trends:
• The China market will double towards 2015, driven by healthcare spending and insurance coverage
• The government has announced to increase its funding for New Healthcare Reform (2009~2011) from originally RMB 850 Billion to > RMB 1 Trillion

Strategy in Action
• Strengthen leadership in the premium segment and penetrate further in the fast growing mid-end segment
• Accelerate stakeholder management to ensure we are part of the solution in addressing the healthcare challenges faced in China
• Continue rapid expansion of industrial and commercial footprint in China
Contents

• The market reality & our unique approach

• Looking back: How have we been doing so far?

• China: Cornerstone of our strategy

• Key takeaways
Key takeaways

We established a solid track record
• From 2006 until 2010, we delivered 5 consecutive years of double-digit growth in orders and are on track to realize our market share ambitions in 2015

Market continues to offer opportunity
• The key growth geographies will continue to have double-digit growth towards 2015
• Other growth geographies will follow the growth spurt of BRICs. Philips is very well positioned for growth in these upcoming growth geographies

We stay the course on our strategic choices
• We plan to continue to grow faster than the market in these growth geographies