

Medical Devices Industry: Growth Opportunities and Cost Pressure

November 2006

The \$250B+ medical devices segment is one of the fastest growing sectors within the life sciences. With a five-year revenue CAGR in the 9% range, and 2006 growth rates in many sub-sectors of 15% or more, this industry is benefiting from important long-term trends worldwide. However, several obstacles are preventing even faster growth, causing numerous manufacturers to remain undervalued in the stock market. Here is why, and what Capgemini can offer to overcome the challenge.

Hardly Any Other Industry is Enjoying as Many Growth Prospects

Ageing baby-boomers with active lifestyles, emerging middle classes in

emerging markets, and the (unfortunate) spread of the “Western diet” are some of the key factors creating the tremendous pull in this industry. Particularly, cardio and orthopedic devices, but also high-tech supplies and certain lab equipment contribute to double-digit growth in many sectors of this industry. With market penetration as low as 20% in several areas (e.g., ICD), the race is on for the leading firms to grow significantly — while smaller firms are protecting their crown jewels, exploring valuable niches, or preparing to be acquired.



Offerings Specific to the Medical Device Industry

Capgemini practitioners are partnering with medical device players as well as with clients in related industries to resolve some of the industry's most pressing issues.

Examples include:

- Cost reduction
- Product Launch
- Growth Strategy
- Merger integration
- R&D Transformation
- Portfolio Management
- Product Lifecycle Management
- Sales & Marketing Effectiveness
- Organization Change Management
- Pricing and Reimbursement Strategies

Technology Strategy

Our teams collaborate with you to build and implement the right technology strategy — in national or global programs, through incremental or “turn-key” solutions, involving technology alliance partners as needed.

- ERP
- Systems architecture
- Custom development
- IT Strategy development
- Business systems validation

Cost Pressures are Emerging as a Major Challenge to Medical Device Firms

While growth prospects are the predominant theme, numerous distractions are clouding the bright future of this industry. Prominent product recalls, visible subpoenas, and first cracks in the public's positive image have distorted the perfect picture which was emerging only until recently. However, while these irritations are serious obstacles now, they're only short-term tests in a long-run game. What's increasingly becoming a significant challenge is the confluence of tightening healthcare budgets in key developed markets, lagging reimbursement schedules in the U.S., and a lack of consumer willingness to invest top dollars in personal health. In short, medical device firms may soon be facing what big pharma has come to live with for several years now — less cash to spend, and ultimately fewer dollars to invest in essential R&D.

Back to Basics of Strategy: Differentiate and Optimize

So, what does this mean? At the core, the industry must renew its efforts to create differentiated products and services while optimizing portfolios in order to achieve better returns. Any perception of commoditization needs to be countered by more sophisticated efforts to differentiate against the competition. Such differentiation will come from innovation, customization, and acceleration for both, products and services. Related, many firms still have an opportunity to perform rigorous portfolio assessments in order to build and defend value-generating franchises while cutting down on ageing and costly product lines, services, and R&D programs.

Traditional innovation will not suffice anymore

With less money to spend on R&D, with increasingly sophisticated

customers, and with an ever shorter product life cycle, traditional innovation is no longer sufficient to win in this competitive game. New approaches are needed in order to consider the impact on R&D of a more differentiated customer base, of changes in the payer environment, and of advances in related life science sectors. Such advances, for example, come in the form of convergence of diagnostic devices, pharmaceuticals, and biologics in a number of development areas. As a consequence, many executives feel the need to bridge important knowledge gaps (regulatory, reimbursement, etc.) as new development paths are being explored. Going forward, early-on market intelligence will be even more important to success than today. Higher per-innovation costs will require more carefully placed innovation bets — and ultimately higher realized prices. Importantly, once innovative products are ready to market, the right capabilities need to be in place for rapid launch and market uptake. After all, physicians may still be digesting the last wave of innovation when the latest wave hits the ER!

The Time to Streamline Operations is Now

Even though the predominant industry focus is still on external



growth, now is the time to start thinking about how to streamline operations. Such streamlining can take several forms: process effectiveness and efficiency improvements; organizational design, governance, and decision-making alignments; removal of operational bottlenecks; tightening of manufacturing schedules; etc. With big pharma caught by surprise when growth started slowing and pressure on margins increased five years ago, players in the medical device sector have an opportunity right now to initiate hands-on efforts to identify and remove unnecessary operational cost.

Importantly, Build an Adaptable Technology Platform

In this era of growth opportunities and cost pressure, enterprise technology platforms are confronted with an entire host of new challenges: New market segments are being targeted, new products launched, new customers served, acquisitions are implemented, international expansion supported, and new systems brought online. What it comes down to: Technology is at the centerpiece of the enterprise, enabling and facilitating responses to a plethora of market-induced challenges. Some of the key success factors include well conceived technology architecture, an efficient IT process and organization model, and seamless systems integration.

Last But Not Least: Find Smart Ways to Understand and Implement Tough Regulatory Requirements

With regulators, the public, and the media focusing more and more attention on the medical device industry, long-term sustainable solutions are needed to control risk and ease regulatory management. Effective business processes, smart electronic records, and continuous vigilance are essential building blocks in creating the state-of-the-art regulatory organization.



“This is the best consulting engagement I have ever been involved with!” — VP Commercial Operations (North America), leading diversified European life sciences company

M&A in Medical Devices

An average of over 60 M&A deals per year, over the past decade, demonstrate the attractiveness of non-organic growth in the medical device industry. This M&A trend is driven by the need for favorable product development and commercial product performance. Acquirees benefit from access to cash for costly R&D, from strong global marketing capabilities of the bigger partner, and from improved clout vis-à-vis payers — while acquirers gain valuable complements to their existing portfolio, augment their product pipelines, and add R&D capability. However, just like in any other industry, only the quick realization of intended benefits will yield the payout company boards urgently demand.

“I felt like we got a lot of good work done and I thoroughly enjoyed both you and the journey along the way.” — Director Global Marketing, major U.S. life sciences company

“Best compliments to you and your team.” — Director, Contract Administration, mid-size global pharmaceutical company

Supply Chain Challenges

As the volume of product and supply shipments is increasing, as supply chains are becoming more and more global, as the distribution of high-cost high-risk products is proliferating, many executives are confronted with a new set of challenges: How can processes be better integrated, advantages of specific locations leveraged, and products more closely tracked? Capgemini has a leading practice assisting clients with effective approaches to optimize distribution networks, to manage the supply chain, and to implement RFID systems — proven in the medical device sector.

Who We Are

Capgemini's Life Science Practice is a leading global provider of management consulting, technology, and outsourcing services to the pharmaceutical, biotechnology, and medical devices industries. Established in 1993, we are known for the talent and dedication of our people, the value we deliver to our customers, and for how we work collaboratively with our clients. Our clients include the majority of the leading pharmaceuticals, biotechnology, and medical device companies.

What We Do

Management Consulting: High-end, issue-based consulting, to enhance the top line or to optimize the bottom line.

Our sweet spots include: Strategic and brand planning, marketing and sales effectiveness (includes product launch and reimbursement/managed care), R&D transformation (includes trials effectiveness), and operations excellence (includes supply chain and shared services).

Technology Services and Outsourcing Services: Package-based implementation services (SAP, Document Management, Oracle, etc.) as well as custom-based development (on-, or off-shore). We also provide run services (BPO and IT services out of our Rightshore™ Centers located in: India, China, Canada, and Poland).

Through leadership: Vision & Reality, our annual thought-provoking research primer zooms in on some of the industry's most pressing topics. The 2006 topic is entitled, "Early Commercialization." Topics from previous years include: Health Outcomes and Lifecycle Management.

We also provide to our customers access to Capgemini's Accelerated Solutions Environment (ASE) to drive senior management teams and large groups of participants (30 to 150) to collaboratively address critical issues and resolve vital challenges.



About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and collaboration-

focused methods and tools. Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

Capgemini employs approximately 68,000 people worldwide and reported 2006 global revenues of 6,954 million euros.

More information about our services, offices and research is available at www.capgemini.com.

Contact:

US East

Peter Barschdorff

Phone: (646) 269 0154

peter.barschdorff@capgemini.com

US Midwest

Michael Dankwerth

Phone: (312) 395-5762

michael.dankwerth@capgemini.com

US West

Frederic Gentet

Phone: (415) 318 9674

frederic.gentet@capgemini.com

Central & Southern Europe

Guenther Illert

Phone: +49 69 9515 1605

guenther.illert@capgemini.com