Pulse of the industry
Differentiating differently
Medical technology report 2015
Headlines
Financial performance: Holding steady

► 2014 financial performance showed modest growth in revenues and R&D spend

► A warming financial climate for the med tech industry resulted in a 22% increase in market capitalization compared to 2013

► Highest capital raise in the past decade, due to big debt offerings and strong IPO markets

► Funding gap tightening between the industry’s commercial leaders and early-stage companies

► M&As up 173% year-over-year to US$99.1b; adjusting for “megadeals”, M&A increased 35% to US$30.7b

► Deal activity centered around adding scope in disease areas or geographies
Re-investing
More cash to shareholders, less to R&D

Source: EY, Capital IQ and company financial statement data.
IPOs: A major bright spot
Best year since 2007

US and European medical technology IPOs by year

Capital raised
Number of deals

Source: EY, Capital IQ, BioCentury and VentureSource.
Differentiating differently
From innovation to commoditization
The trends in health care affecting medtech

Value & outcomes

PI technologies

New approaches to succeed
Measure health outcomes
Expand traditional offerings

Commoditization
Commoditization
How does it play out in medtech?

Shifting customer perception

Lower barriers to market entry

Full-on price competition

Strategies against commoditization
► Move downstream or upstream
► Create stickiness by rebranding
What do medtech purchasers value?

**Procurement**
- Hospital managers and administrators – not physicians – are key influencers
- Centralized procurement models

**Research & Development**
- Real-world data, beyond-the-product services important to purchasers
- Iterative innovations matter less

**Contracting models**
- Value-based purchasing, pay-for-performance are more important
- Simple cost-cutting is less important

**Pharmacoeconomic outcomes**
- Total cost of care the most important outcome
- Reduced hospital stays, improved surgical efficiency less important
What’s on medtech purchasers’ minds?
Pressure points are shifting

### Declining: simple cost-cutting

- **Today**
  - Cost-cutting: 44%
  - Cost of upgrading/maintaining IT systems: 41%
  - High-end medical technology costs (non-imaging): 37%
  - Rising drug costs: 33%
- **In three years**
  - Imaging costs: 22%
  - Healthcare reform initiatives (e.g. value-based purchasing, pay-for-performance): 21%

### Increasing: value/outcomes

- **Today**
  - Cost-cutting: 37%
  - Cost of upgrading/maintaining IT systems: 40%
  - High-end medical technology costs (non-imaging): 38%
  - Rising drug costs: 27%
- **In three years**
  - Imaging costs: 12%
  - Healthcare reform initiatives (e.g. value-based purchasing, pay-for-performance): 34%

Source: EY Hospital survey 2014.
What’s on medtech purchasers’ minds? Medtech’s customer base is changing

Physicians are becoming less important as influencers of purchasing decisions

Source: EY Hospital survey 2014. Higher scores indicate influencers who are more influential in hospital purchasing decisions.
What’s on medtech purchasers’ minds? The old rules count for less

**Price remains the top factor**

- **Price of device**
  - Today: 77%
  - In three years: 77%

**Old ways of differentiation are losing relevance**

- **Physician preference for specific device**
  - Today: 27%
  - In three years: 35%
- **User-friendly design**
  - Today: 22%
  - In three years: 25%
- **Training in use**
  - Today: 32%
  - In three years: 62%

**Differentiation will have to be based on data and value**

- **Data demonstrating clinical outcomes**
  - Today: 51%
  - In three years: 62%
- **Data demonstrating value**
  - Today: 27%
  - In three years: 35%
- **“Beyond the product” services (e.g. patient support)**
  - Today: 35%
  - In three years: 6%
- **Risk-sharing agreement**
  - Today: 6%
  - In three years: 25%

*Source: EY Hospital survey 2014.*
## Implications for medtech
### New basis for competition

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<th>Achieve superior outcomes via technological advances</th>
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<td>- Buyers care less about iterative innovations</td>
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<td>- New product R&amp;D can catalyze new standards of care</td>
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<th>Increase scope through services and solutions</th>
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<td>- Medtechs can “own” more of the bundle</td>
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<td>- Solutions must focus on health care buyers’ needs</td>
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<th>Increase scope by adding product offerings</th>
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<td>- End-to-end solutions have an edge in value-driven care</td>
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<td>- Opportunity for contracts around total cost of care</td>
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<th>Take costs out of the health care system</th>
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<td>- Demonstrate that products result in cost offsets that reduce total cost of care</td>
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Moving forward
Key questions for medtech companies

How do you develop truly customer-centric solutions?

How do you think about your contracting and commercial capabilities?

How can you boost your data/analytics capabilities to better prove value to health care buyers?

How do you allocate your R&D spending to create products that will have value in the marketplace?

How do you create a brand that extends beyond the product?
Thank you!

Stay tuned!

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