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Philips Targets Bolt-On Deals That Meet Demand At The Point Of Care

by Ashley Yeo

Philips, a giant of the medical systems and software industry, maintains its strategic direction with organic and external growth. That was illustrated in one recent four-month period in which the group made seven acquisitions, adding to its non-invasive diagnostics portfolio Electrical Geodesics and bolstering its steps in therapeutic medical devices with the acquisition of Spectranetics. But whatever the target, the same ground rules apply.

- Philips has frequently made industry commentators sit up and take note of its M&A ambitions and ability to net well-targeted acquisitions. Mid-2017 was its most recent period of prolific deal-making, resulting in several companies coming into the group, including image-guided therapy specialist Spectranetics.
- These deals must fulfill precise criteria, and the €1.9 billion enterprise-value Spectranetics purchase, along with that of Volcano Therapeutics two years ago, have given Philips a leadership position in image-guided therapy devices.
- *So what?* Investing in consumer health and patient treatment is Philips' stated business, and to achieve growth, that means moving into technology sectors that are adjacent to current areas of expertise. As care delivery moves incrementally outside the hospital, the group is keeping apace of the changes – be that on a global or national scale.

Better than many perhaps, *Royal Philips Electronics NV* knows how to develop to meet demand for health care as it evolves and shifts from costly secondary care to a balance of in- and outpatient, community and home care. Recent years have also illustrated its ability to respect past group achievements while moving on when necessary and setting new goals that maximize core competencies and innovation potential, in a bid to meet the expectations of all its stakeholders.

The origins of the current *Philips Healthcare* business strategy go back to April 2011, when Frans van Houten was appointed CEO of the Royal Philips group. Van Houten had been with Philips in various senior roles for 25 almost unbroken years (in 2006 he left to lead the spun-off semiconductor unit, and subsequently formed his own consultancy but returned in 2010). From that vantage point, he had seen the development of both the group and the market with a unique insider's *and* outsider's view.

Once in the role of group CEO (he also holds roles as chairman of the board of management and the executive committee), he identified the businesses that had strong fundamentals for future growth. But he also wanted the company to stay relevant in the market place – something that now requires much more adaptability and flexibility than when he started out on his Philips career path. So van Houten and his team had a look at what would be needed, and in 2011 launched *Accelerate!*, a global program to adapt the portfolio and drive innovation to improve customer focus. The former involved several structural elements and also included finding a new home for the television business (2012) and divesting the audio and video businesses (2014). Philips carved out its €7 billion ($8.4 billion) (2016 sales) lighting business into Philips Lighting, which went public on the Amsterdam Euronext exchange in May 2016.

It consolidated its remaining operations into the HealthTech group, which is active in diagnosis and treatment, connected care and informatics, and personal health and consumer care. It now plays in an addressable health technology market of €145 billion ($170 billion) in 2015, rising to €185 billion to €190 billion by 2019, according to Philips estimates. (*See Exhibit 1*.) In 2016, the Philips HealthTech portfolio made sales of €17.4 billion ($20.9 billion), a 4% reported rise and a 5% increase on a comparable basis.That is expected to increase to €20 billion by 2019, with a CAGR of 4% to 6% per year.

Exhibit 1

Source:

Philips Healthcare

Segment	2015	2019
Diagnosis and treatment	52	60–61
Connected care and health informatics	47	70–72
Personal health and consumer care	47	55–57
Total	145	185–190

The recurring theme running through Philips' strategic decision-making has been the trend toward more and more health care being delivered outside the hospital. (*See box*.) In view of this,

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the group took the conscious decision to bring its consumer health business (sleep apnea, tooth brushes, etc.) within its HealthTech portfolio, and thus merge it with the professional use scanners and patient monitoring business.

"We had looked at the infrastructure and adapted our business models in the health services and software businesses and moved more towards informatics for modern-day needs," Philips group communications director Steve Klink explains.

M&A Deals – Big Or Small – Are "Bolt-ons"

The strategic platform is based very much on organic growth – Philips' R&D in 2016 was almost 10% of sales, at €1.7 billion. Its stated policy is to complement that organic growth with "bolt-ons" – defined by Klink as acquisitions that strengthen the existing business – not transformative M&A that will change the business or push Philips into completely new markets.

Tracking The Trends To Stay Competitive

Over the years, Philips has been tracking the shift in the market and the spend away from inpatient and toward community/primary care. Although certain procedures will always need to be carried out in the hospital setting, the group sees more of a balance going forward, and this is the rationale for the overarching *Hospital to Home* concept. (Also see "*Philips Healthcare: Building Bridges From The Hospital To The Home*" - In Vivo, 23 Jul, 2014.) This focuses around efficient hospital discharge, treating chronic disease at home and doing secondary prevention to avoid worsening of the condition.

Philips has a notable track record in M&A, and this year's deal activity reached an interim peak in June and July. Within a four-month spring-summer period, it made seven acquisitions, all of them meeting strict criteria. (*See Exhibit* 2.) The standout deal has been the €1.9 billion offer (enterprise value, inclusive of cash and debt) for *Spectranetics Corp.*, which makes image-guided therapy (IGT) devices for heart disease. *[See Deal]* This was swiftly followed by the smaller – and related – purchase of CardioProlific Inc.

To see the rationale for the Spectranetics deal we can go back two years to Philips' €1 billion purchase of *Volcano Corp.*, the developer of catheters for minimally invasive treatments. (Also see "*Philips Eyes M&A, Touts Informatics To Support HealthTech Ambition*" - Medtech Insight, 17 Sep, 2015.) Philips already had the cath labs and had been looking at building up this activity from the capital equipment point of view. Spectranetics brings further single-use consumables into Philips, and a business model that includes offering customers recurring sales in a competitive package.

"It made business model sense. Now we have the devices *and* the cath labs, whereas some of our competitors such as Boston [*Boston Scientific Corp.*] or Siemens [*Siemens AG*], would have either one or the other," says Klink.

He adds, "The combination is unique. And where Volcano's catheters are for diagnosis, Spectranetics specializes in therapy catheters, so we move into an adjacent territory – drug-coated balloons." Volcano and Spectranetics are Philips' biggest acquisitions since the $4.9 billion acquisition of Respironics in 2007, but they are still classified as "bolt-ons." *[See Deal]*The other, smaller purchases are intended to strengthen and expand the business generally or even just within a single market – but they all have one thing in common: they are complementary: "We will not start something from scratch," says Klink.

The impact from Volcano was two-fold: it was previously incurring losses on static sales of $400 million, but under Philips' wing, it has become profitable on accelerated growth and productivity gains after just one year. This has been able to happen fast, as Philips identified channel synergies and has been able to use customer bases for cross-selling.

Exhibit 2

Company	Date	Consideration	Rationale	Comments
Australia Pharmacy Sleep Services (Australia)	March 27	Undisclosed	Patient monitoring – pharmacy sleep testing services	Expands the home sleep testing activity through the pharmacy channel in Australia
RespirTech (US)	May 22	Undisclosed	Respiratory care	Airway clearance therapy vests for chronic patients
Electrical Geodesics Inc. (US)	June 22	$36.7m	EEG-based neurodiagnostics and therapy tools	Non-invasive monitoring and interpreting of brain activity
Spectranetics (US)	June 28	Roughly €1.9bn (inclusive of cash and debt) on a $38.50 per share offer	Catheters for PAD and CAD treatment and ICD lead removal	Represents Philips' entry into disposable devices with drug-coated balloon
CardioProlific (US)	June 30	Undisclosed	PAD catheter-based thrombectomy devices	Complementary to Philips' and Spectranetics' image-guided

				therapy devices
Health & Parenting Ltd. (UK)	July 4	Undisclosed	Mobile tool for expectant and new parents	Will become part of Philips' uGrow (medical device) digital parenting platform
TomTec Imaging Systems (Germany)	July 18	Undisclosed	Image analysis software for diagnostic ultrasound	Aimed at clinical applications in cardiology, radiology and OB/GYN

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The offer for Spectranetics ran for 20 days from July 20, required regulatory clearance in the US, Germany and Austria, and was completed on August 9. It consolidates Philips' strength and leadership position in image-guided therapy, with overall sales of some €1.9 billion in an addressable market of over €6 billion. "In interventional cardiology, one in every two cath labs in the world are ours," Klink observes. (*For more on the augmentation of Philips' IGT strengths with the Spectranetics buy, see sidebar, "Spectranetics Gives Philips Adjacent Territory On The Map Of Image-Guided Therapy."*)

While cardio/cardiovascular are the big IGT focuses of both Volcano and Spectranetics, Philips is also pushing hard in interventional neurology and oncology R&D, which are smaller, but fast-growing parts of the market. With origins in cardiovascular going back over 60 years, Philips had one of the first X-ray-guided therapies, but it has diversified into interventional oncology software with navigational software and set up a collaboration in transarterial chemoembolization with UK company *BTG PLC*, for which Philips has devised an imaging protocol that visualizes BTG's beads. Philips also has R&D programs in minimally invasive spine surgery. (Also

Spectranetics Gives Philips Adjacent Territory In Image-Guided Therapy

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The plum in the middle of Philips' intense period of M&A this summer was the €1.9 billion purchase of Spectranetics, which, combined with Philips Volcano, should create a $1 billion+ devices business within the image-guided therapy group by 2020. IGT senior vice president and general manager Bert van Meurs explains the rationale behind see "BTG Deals Its Way Into Interventional Medicine" - In Vivo, 12 Sep, 2016.)

the deal, and what's next for Philips.

Read the full article here

More M&A Ahead For Philips In IGT

The immediate priorities in IGT now are to integrate Spectranetics and focus on maturing the technology acquired with the CardioProlific purchase. Although Philips is first and foremost an organic growth company, "we don't exclude future acquisitions," says Klink. But they need to make sense, and the group won't acquire programs in which it already has R&D pipelines.

All the recent acquisitions have been based on in-depth scouting and analysis that has taken place over the past two years. Uniquely, everything came together in a very short time frame, Klink observes. The deal for the EEG specialist Electrical Geodesics Inc.was being finalized as its COO and co-founder Ann Bunnenberg, PhD, addressed a global compliance meeting in May. (*See sidebar, "Philips Puts Its Money on Electrical Geodesics – The Universal Brain Flashlight."*)

Deals To Exploit Local Market Opportunities

Philips' first deal this year was for a small Australian company, Australia Pharmacy Sleep Services (APSS), that provides services to enable sleep apnea to be diagnosed at the pharmacy. It is a fairly under-diagnosed condition, the symptoms of which are not very well recognized. The acquired company offers both diagnostic services and training, and does follow-ups with patients. This deal is strictly targeted at strengthening the business in Australia and made sense for Philips because of the local reimbursement policy.

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The new-found interest in – and diagnostic and therapeutic potential of – EEG was described to *In Vivo* by Electrical Geodesics co-founder Ann Bunnenberg during the 2017 GMTCC in May. Not two months later, Philips had made the Oregon company another of its 2017 M&A conquests.

Read the full article here

Usually, Philips takes the bigger picture view in strategic M&A, but with APSS, it was more flexible. According to Klink, "This is a relatively new trend, as M&A is usually done with a truly global perspective. But more and more we are seeing a focus on individual, local markets. It may be a Philips thing, but it's a trend that we've observed."

Philips' deal strategy follow-through involves the retention and use of local talent and leveraging local management expertise. This is another element of the van Houten legacy. Since 2011, the CEO and his team have enhanced the seniority of local teams and increased the volume of locally focused projects. "We need local eyes and ears and expertise on the ground, so we started to strengthen local leadership teams," says Klink.

Software And Services … But Mainly Hardware

Philips is increasingly perceived as a software and service-based company, and it acknowledges that it has altered the way it views its overall business. "But we are not moving away from hardware, which is a very important element," says Klink. "Where we differentiate ourselves from other companies that come from, say, the IT world, is that we combine hardware systems and devices, and strive to improve our software devices and services. Philips is a traditional hardware and services health care company that has stepped up its IT capability, but not at the expense of systems capability."

Of Philips' R&D personnel, 60% are involved in software, including those working in the embedded software that is used in MRI machines.

Compared with the Googles and IBMs, Philips also provides the medical tools that are used on patients. "At the end of the day, to do population health management and manage the health of an entire population, you need to be able touch the individual patient – and that is where our strength is," says Klink.

But Philips also adds analytics to devices like its *Philips Lifeline* pendant that assesses the average movements of patients. Its cloud-based *CareSage* data analytics engine, enabled by Philips' open *HealthSuite Digital Platform*, goes a step further in monitoring elderly patients. Providing analysis of real-time and historical data from health care providers and Philips Lifeline, it uses wearable technology to identify patients most likely to have health issues, allowing clinicians to intervene early and reduce hospitalizations.

Azurion Launch And Braun Deal

Among all the M&A activity, two other noteworthy events this year have been the launch of the next-generation image-guided therapy *Azurion* – one of Philips' largest global product launches in recent years – and its multi-year strategic alliance with regional anesthesia and pain management company B. Braun Melsungen AG.

Azurion is a next-generation IGT platform that offers integrated solutions comprising interventional imaging technologies and planning and navigation software combined with interventional devices – including catheters for diagnosis and therapy – and a broad range of services. The partnership with B. Braun has led to the development of the *Xperius* ultrasound-guided regional anesthesia, comprising decision support software, echogenic needles and a suite of services.

More innovations are planned from that partnership, says Philips, which, having transformed into a health technology group, has made innovation the driver of its deals strategy. And in IGT in particular, Philips' deals have given it significant tailwind as it penetrates the markets globally.