

Advanced Logistics: *From a Provider Perspective*

Mark Van Sumeren
Senior Vice President

April 16, 2007

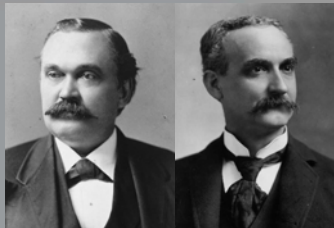


A bit about your presenter:

- Senior Vice President, Owens & Minor; responsible for:
 - IT - Marketing - Business Development - Program Development
- 28 years in the industry
 - 5 years – provider side
 - 20 years – provider-side consulting
 - 4th year – logistics & distribution
- Education
 - MBA, University of Michigan
 - BS Industrial Engineering, University of Michigan
 - Lecturer, graduate healthcare finance program, University of Wisconsin

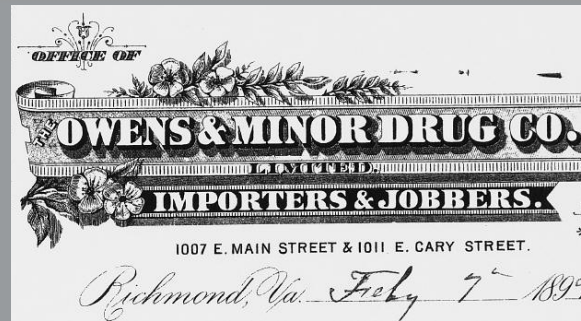
Owens & Minor: A Heritage of Re-Invention

1882



Otho Otis Owens and George Gilmer Minor become partners in wholesale drug industry

1892



Owens & Minor territories include Richmond, southern Virginia, eastern North Carolina and West Virginia

1913



Moved to expanded office and 40,000 sq ft warehouse space

1945



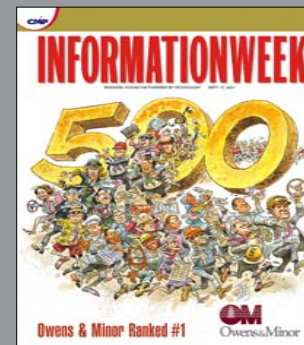
Sales reach \$2.5 million

1966



A&J Hospital Supply purchased

2001



Recognized by Information Week as the most innovative user of technology in its field

2006



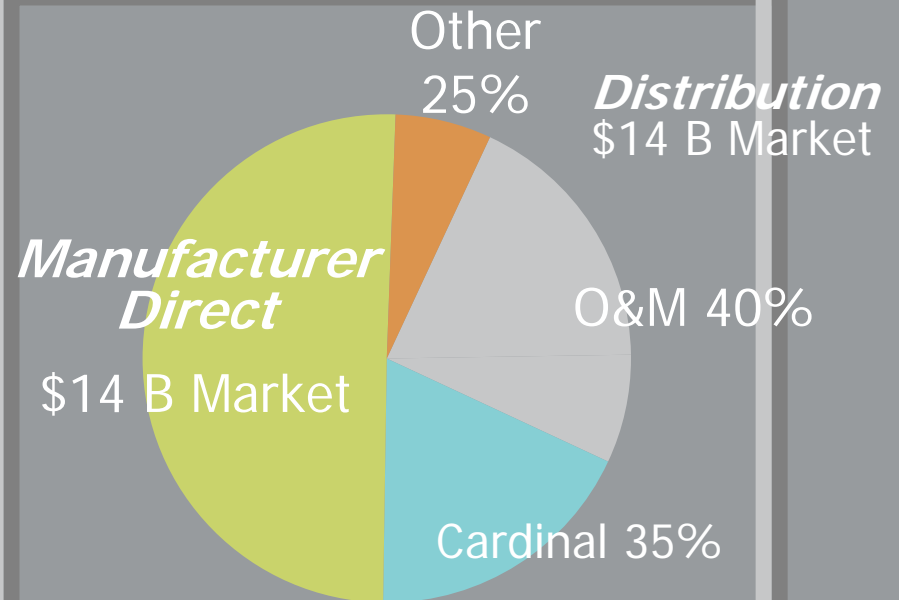
McKesson's acute-care medical and surgical supply business purchased

O&M – Market Leader

Owens & Minor Today

- Market-leading distributor of medical/surgical supplies in acute-care market
- 125 years in healthcare
- \$5.5 billion in 2006 revenue
- 40% share of acute-care distribution market*

Medical Surgical Supply Market
\$28 to \$30 Billion
Opportunity



* HIDA Acute Care Market Report, analyst estimates

Healthcare Market Dynamics

Financial Pressure

- Expense exceeds reimbursement growth
- Shortage of Labor and Capital
- Indigent Care

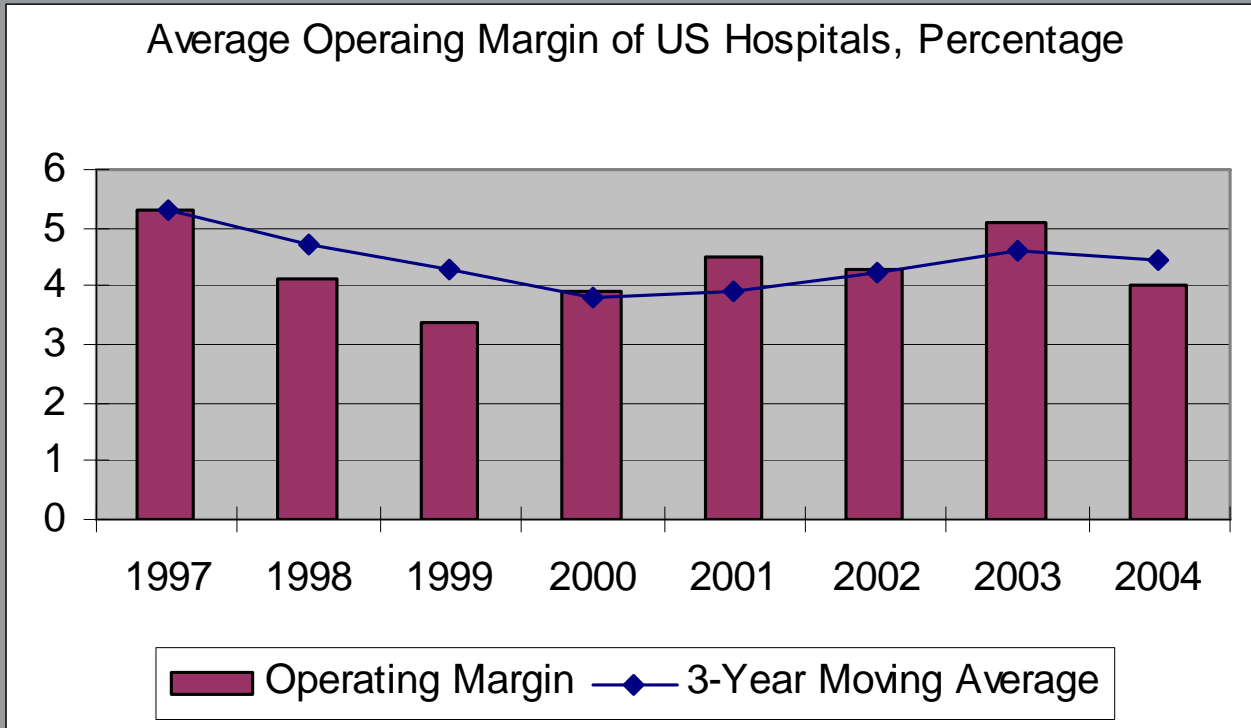
Increased Demand

- Aging Population
- Chronic Disease States

Market Response

- Care migrating from the hospital
- Consumer driven healthcare growth
- IT spending mandated healthcare

Hospital Operating Margins are Trending **Downward**



“Supplies costs remained high because of orthopedic implants, but were slightly better than the previous year, as the company continues to work closely with physicians in an effort to encourage more efficient supplies utilization”

Credit Suisse First Boston Corporation on Triad Hospitals, June 2005

The Perfect Storm

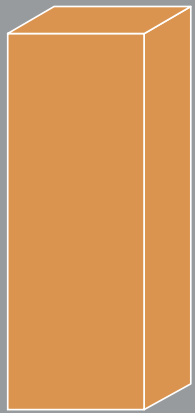
Declining Reimbursement/Rising Expenses/
Proliferation of New Technology



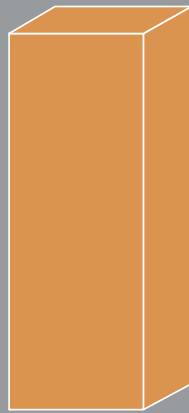
Supplies have overtaken labor as the fastest growing line item.

Expense Growth Rates 2002-2004

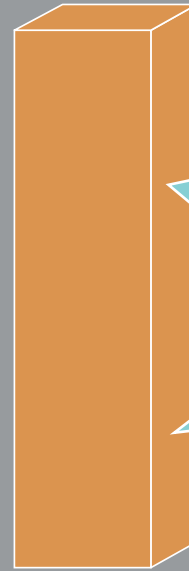
Total
Operating Cost



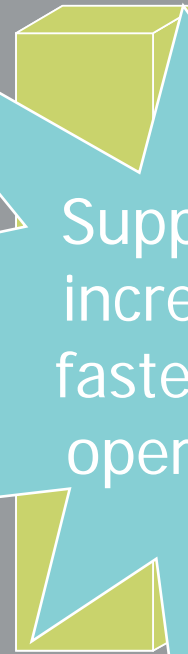
Benefits
Expense



Salary
Expense



Supply
Expense

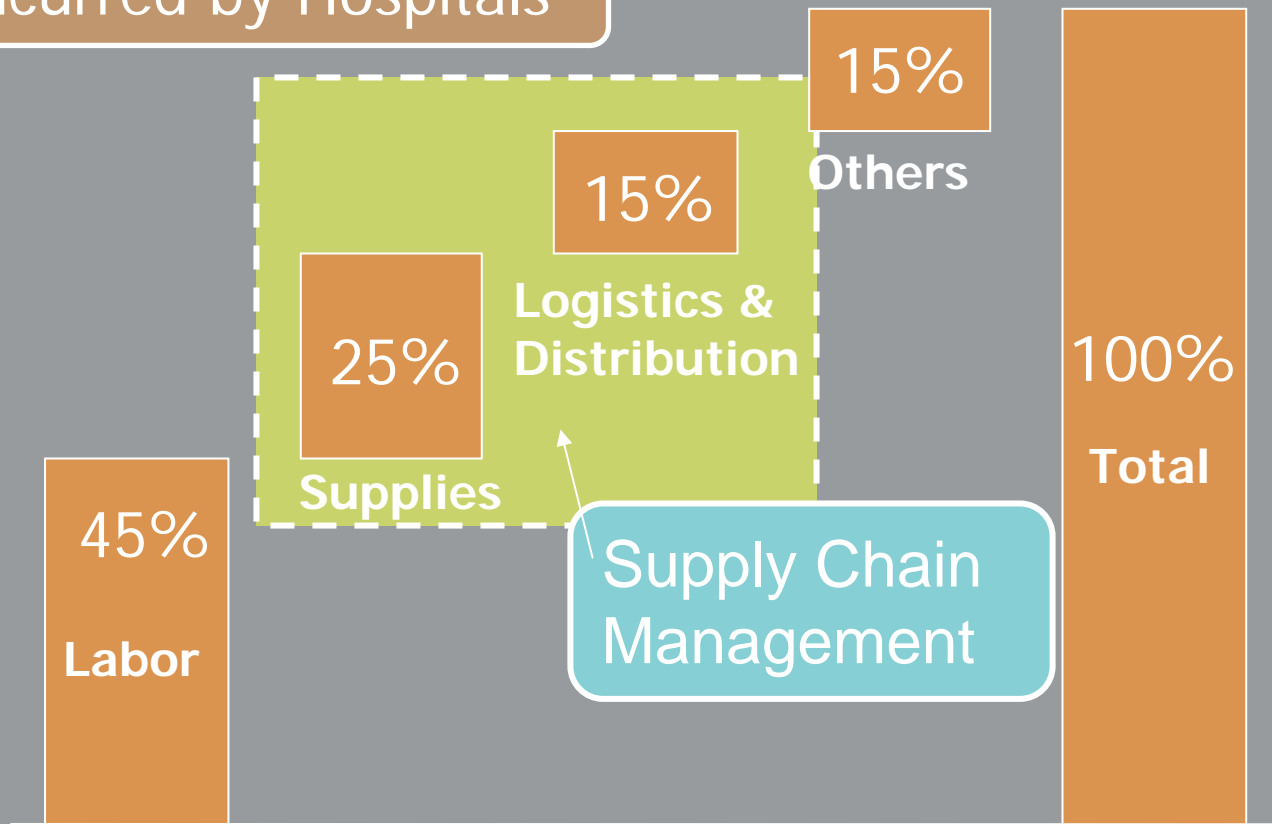


Supply expense
increasing *64%*
faster than total
operating costs

Source: The Advisory Board Company 2005

Supply chain management expenditures will reach 45% of total cost.

Total Cost Incurred by Hospitals

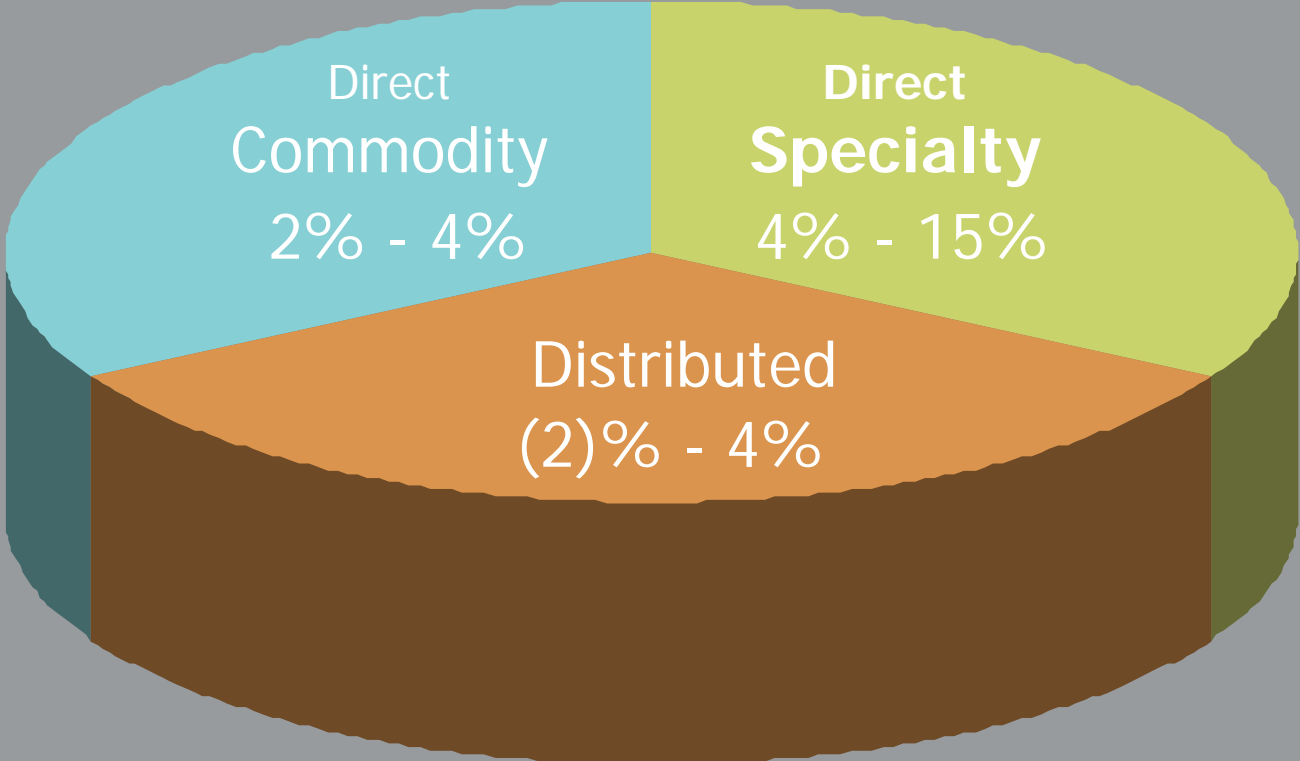


* Figures based on HFMA estimates. Labor cost includes salaries, wages and benefits based on average of leading hospitals in the U.S. and Others is inclusive of profits to the hospitals

Source: S&P Industry Surveys: Healthcare Facilities; HFMA; industry reporting; Pipal Research analysis

Supply cost increases are most pronounced in clinical preference categories

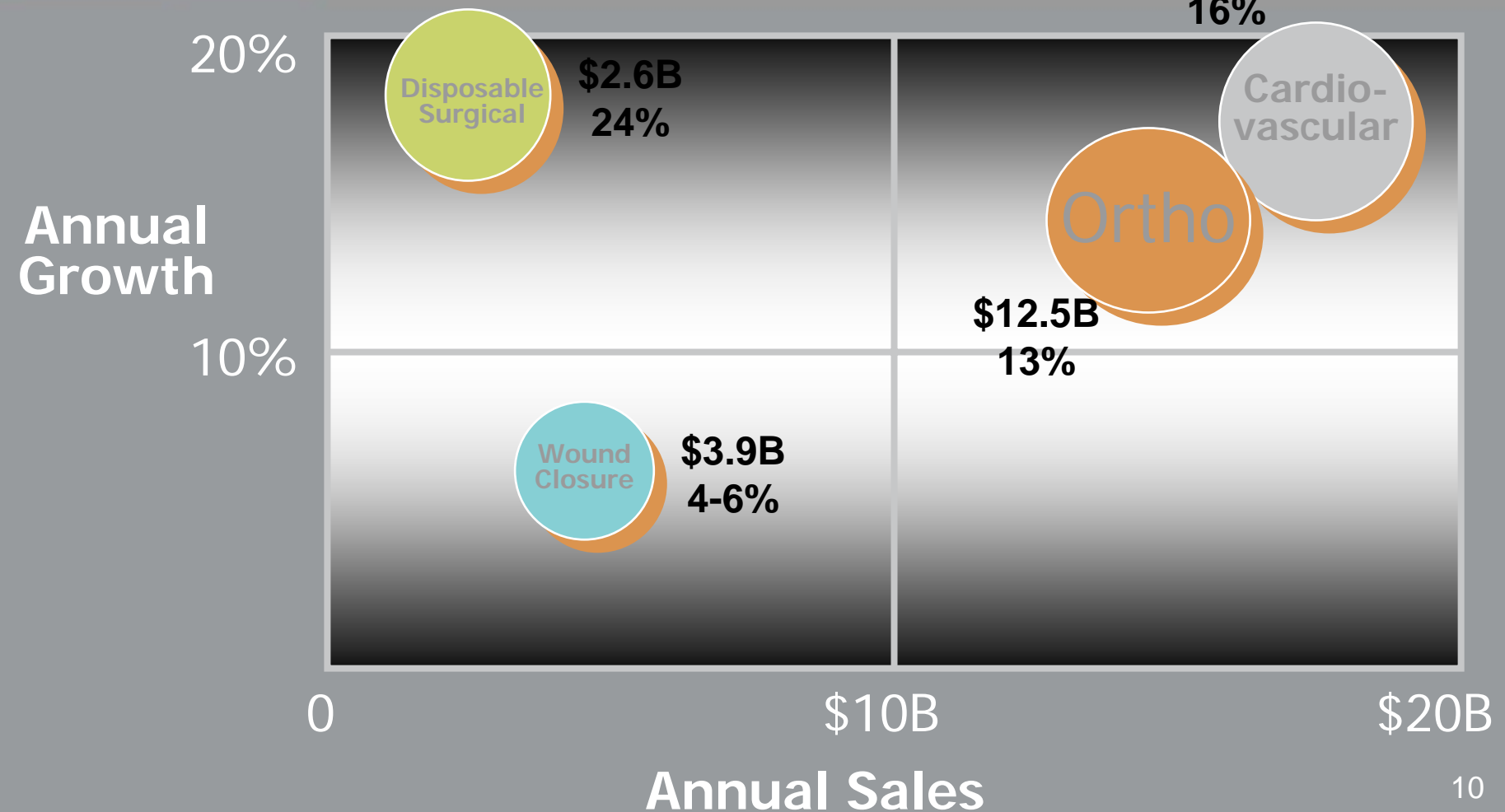
Annual Rates of Spending Increase



Medical Devices & Implants (MD&I) represent a larger, growing market...

\$14.9B

16%



Specialty/Direct supply chain is 4 to 5 times **less efficient** than commodity chain.

	COMMODITY	SPECIALTY
Inventory Turns	18	4
Cost Per P.O.	\$12	\$60
Nursing Cost Per P.O.	\$0.70	\$3
Delivery Cost Per Order Line	\$2	\$9
Electronic Order Fulfillment	75%	25%

What matters to you?

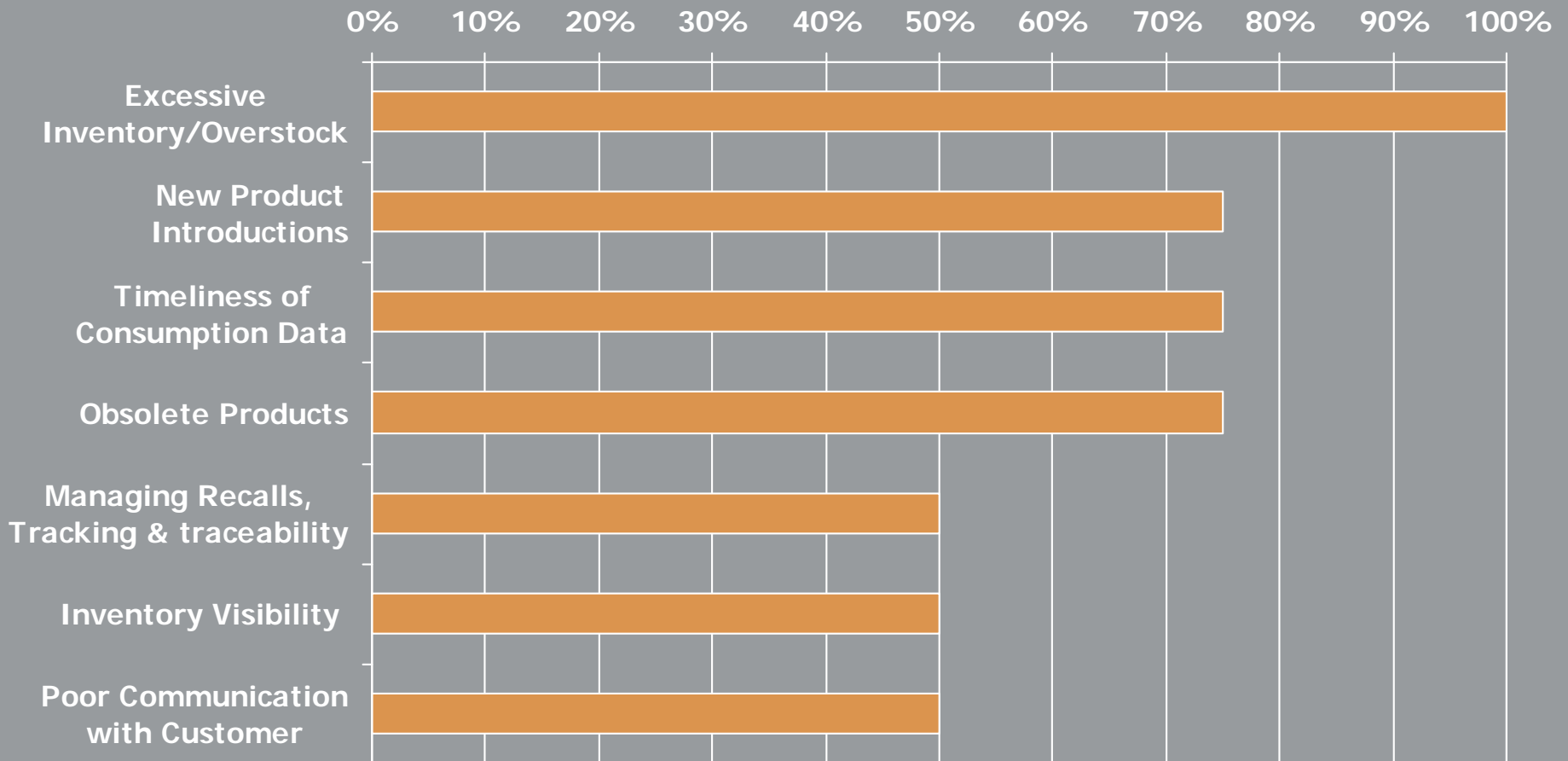
- The current model supports a high degree of customer intimacy and keeps the product from being commoditized.
- Suppliers are under pressure, but with gross margins at 60%-80%, there is little incentive to drive supply chain efficiencies.

MD&I suppliers experience certain challenges in servicing this market...

- Poor sales visibility (avg. reporting delay of 3-6 months)
- Small order size – avg. 1-2 lines per order
- High order frequency – avg. 1.5 orders per day per facility
- High freight charges
- High front-office cost: order mgmt., invoice processing, etc.
- Manual order process (phone/fax)

Suppliers have issues with consignment...

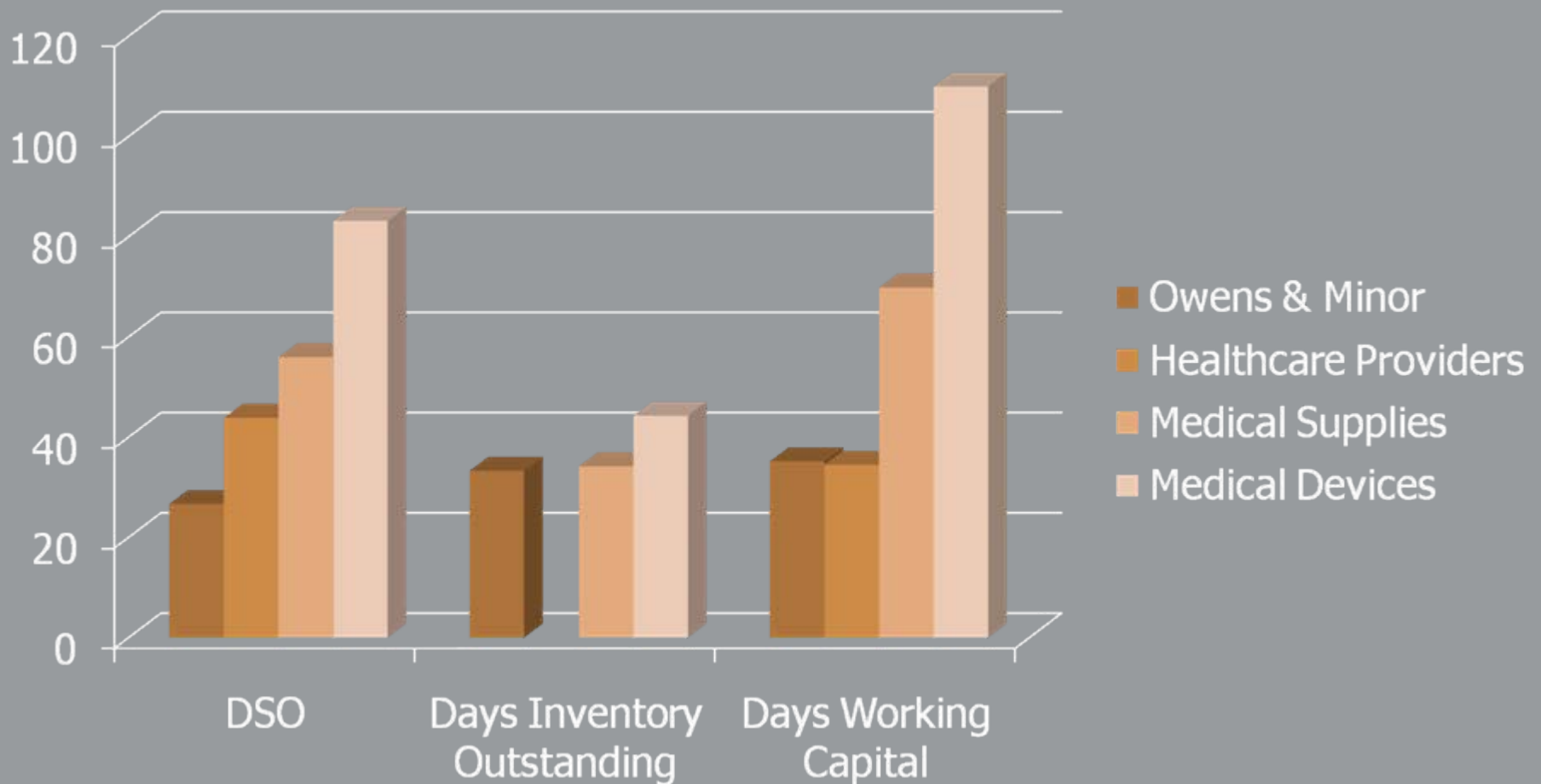
% of respondents citing issue as significant or highly significant



While customers want consignment, Suppliers have a different perspective

- Competitive advantage
- SOX exposure
- Inventory visibility & timeliness
- Proliferation of systems & processes
- Working capital
- Returns/expired product
- Manual reconciliation

Medical device manufacturers cash cycle is 4x slower than O&M



*Note: Lower numbers are better

Source: CFO Magazine 2006 Working Capital Survey

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1882 125 YEARS 2007

Customers expect us to collaborate to drive supply chain efficiencies and make doing business easier for them.



supply chain
efficiency
this way>>>>



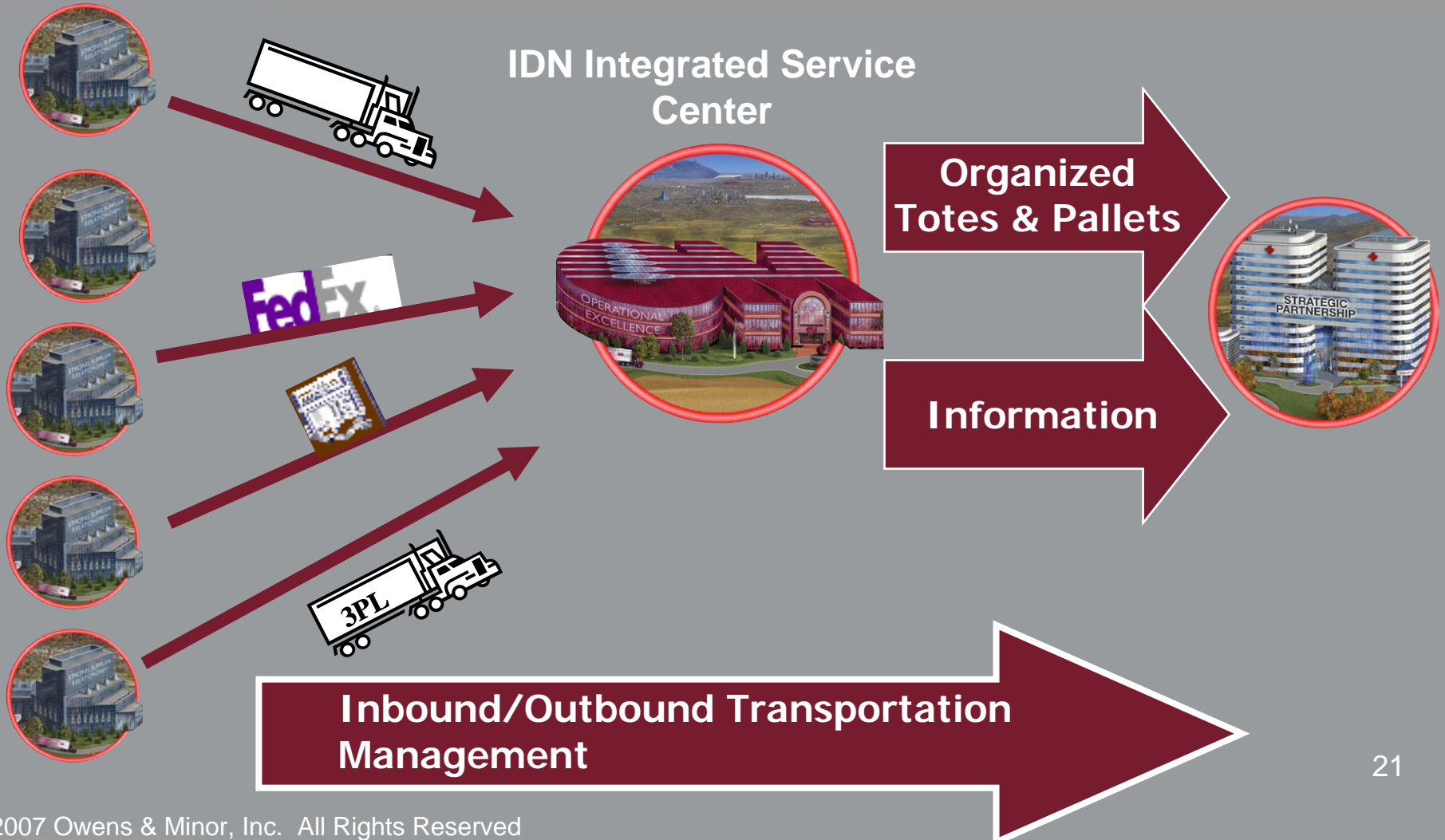
What do strategic healthcare providers want from us?

- Consolidate deliveries
- Streamline purchasing, receiving & payables to a single vendor
- Deliver 100% fill rates in < 24hrs
- Purchase at time of use – essentially zero inventory ownership

A collaborative solution for
end-to-end efficiency

Extend the efficiencies
of the current distributed supply chain
into clinical areas to increase
channel efficiency and reduce costs

The Integrated Delivery Model is a way to address customer needs.



Supply Chain Management Modes

Inventoried

Non-Inventoried

Buy-Sell

Cross Dock

3PL

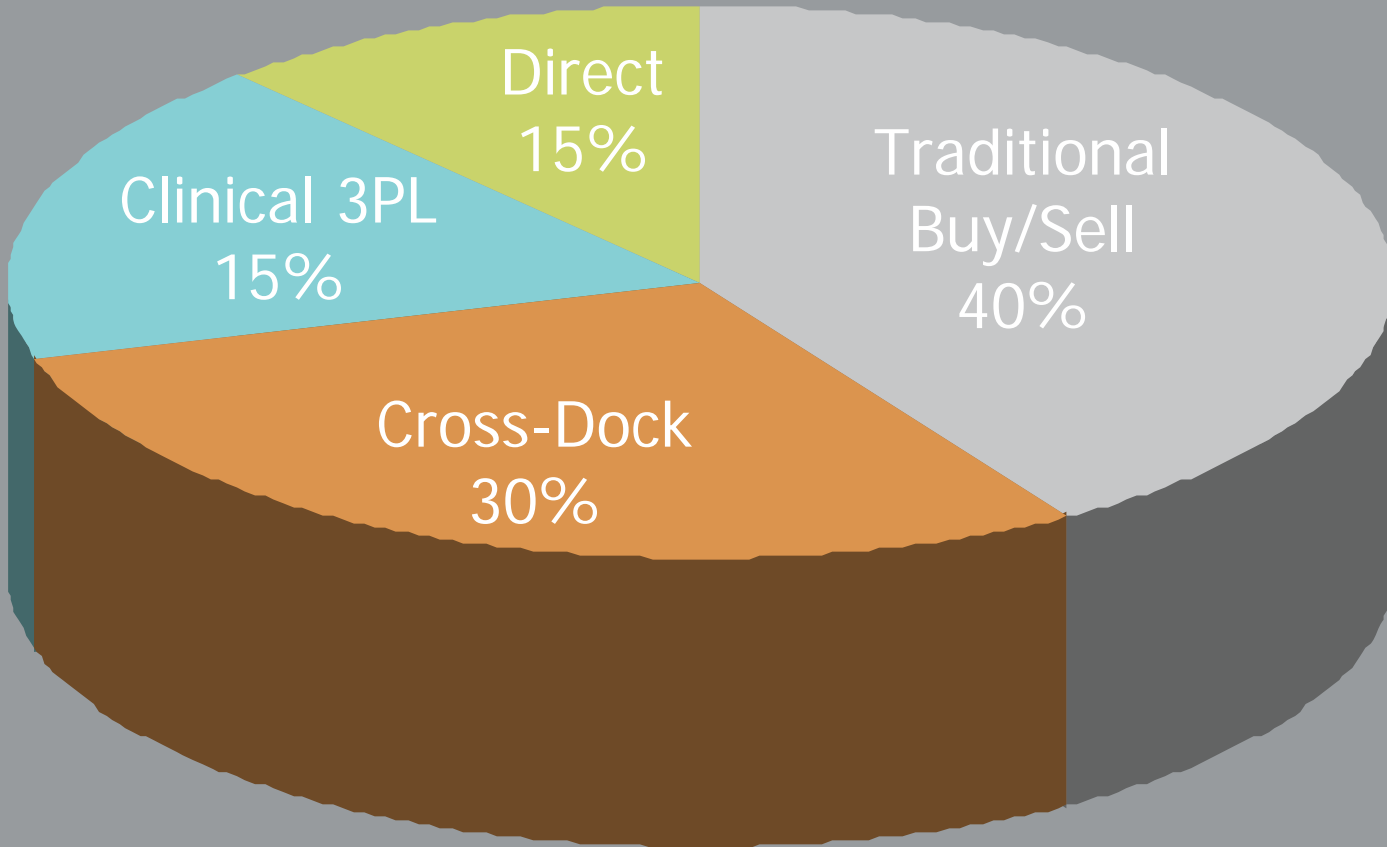
Direct

What's happening with our customers now?

The Key Driver and appeal of O&M's Enterprise/ISC solution set is the desire to Standardize Supply Chain Activities

- Currently
5 ISCs - \$1.2 Billion
- 2007
\$2.0-\$2.5 Billion
- 2010
\$4-6 Billion

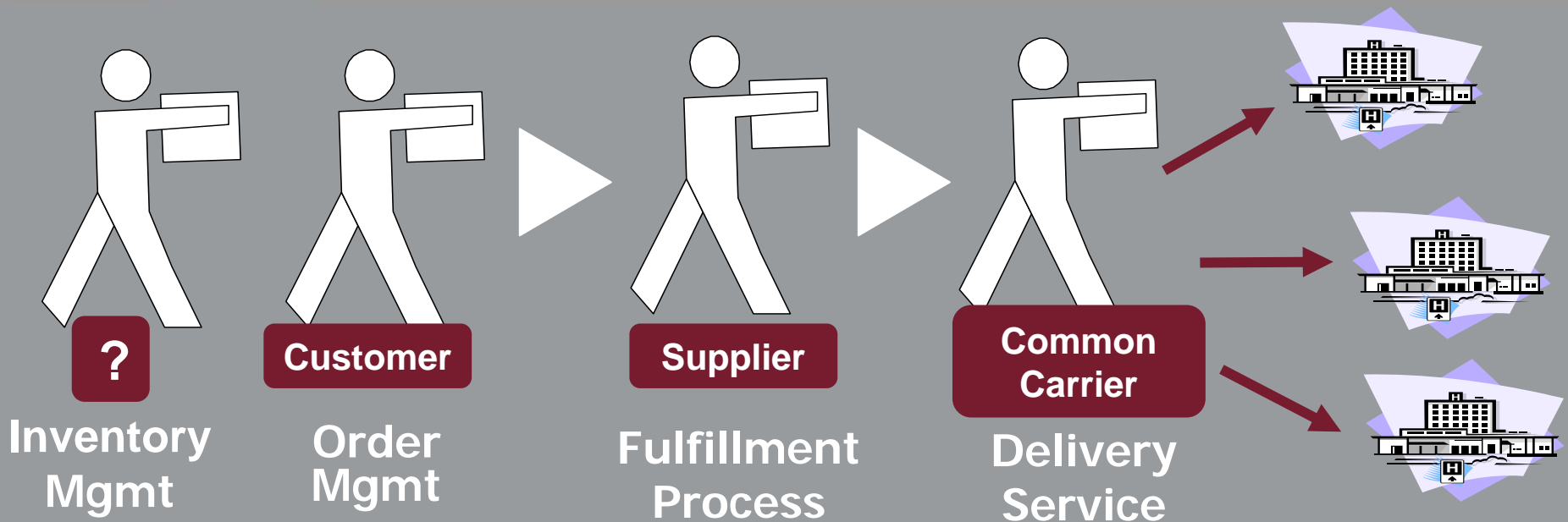
In 3 years we expect to have achieved the most efficient, effective Supply Chain model for the IDN.





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Current State of Clinical Supply Chain: "Not My Responsibility!"



Key issues:

- Abdication of responsibility
- No strategy/vision for improvement
- Lack of visibility
- Intensive resource need

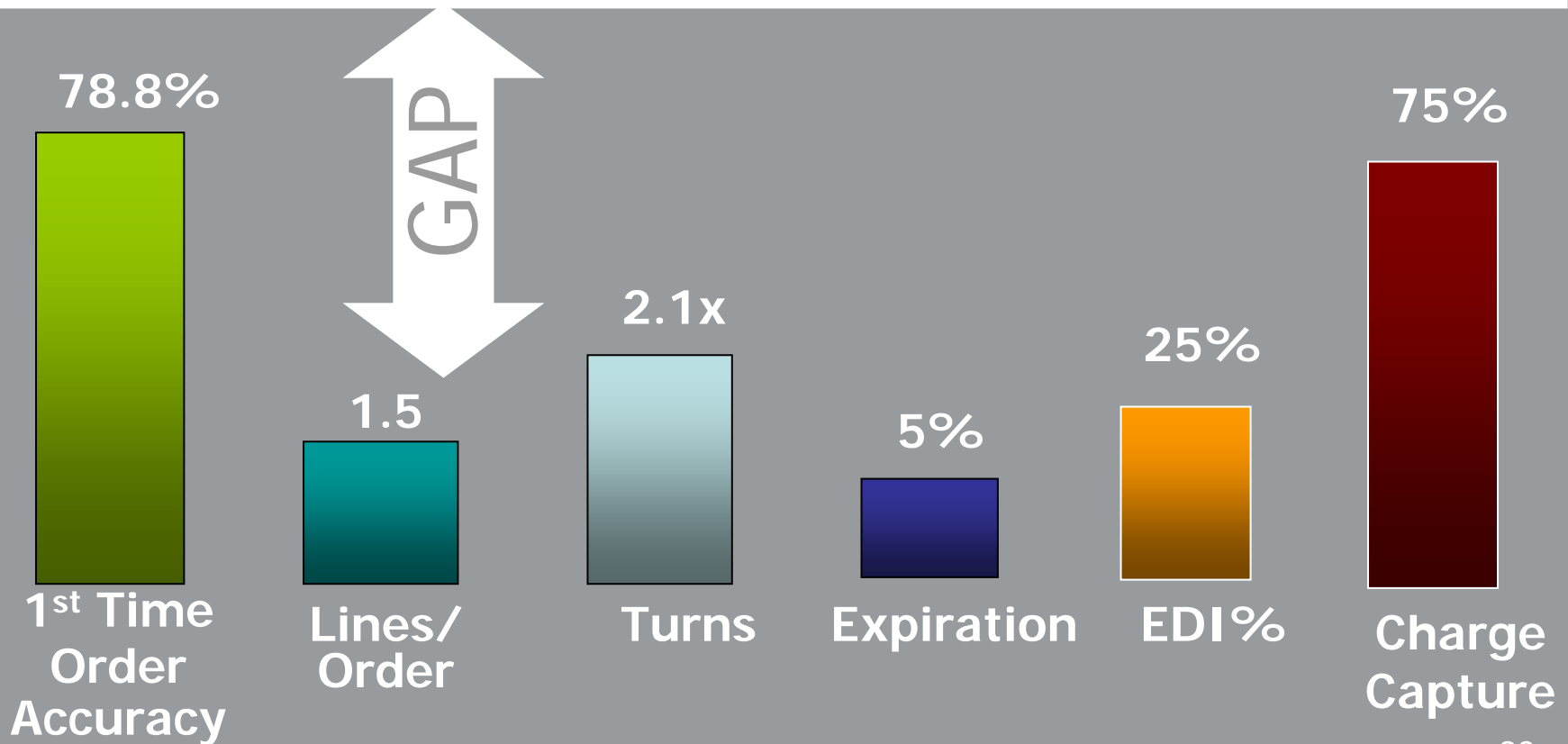
“Having RNs and techs manage product databases, manipulate inventories to avoid expiration, cross level stock, analyze physician utilization patterns, etc. is **at best a profound distraction from their clinical value.**”

Thad MacKrell, O&M,
as quoted in Healthcare Purchasing News, December 2006



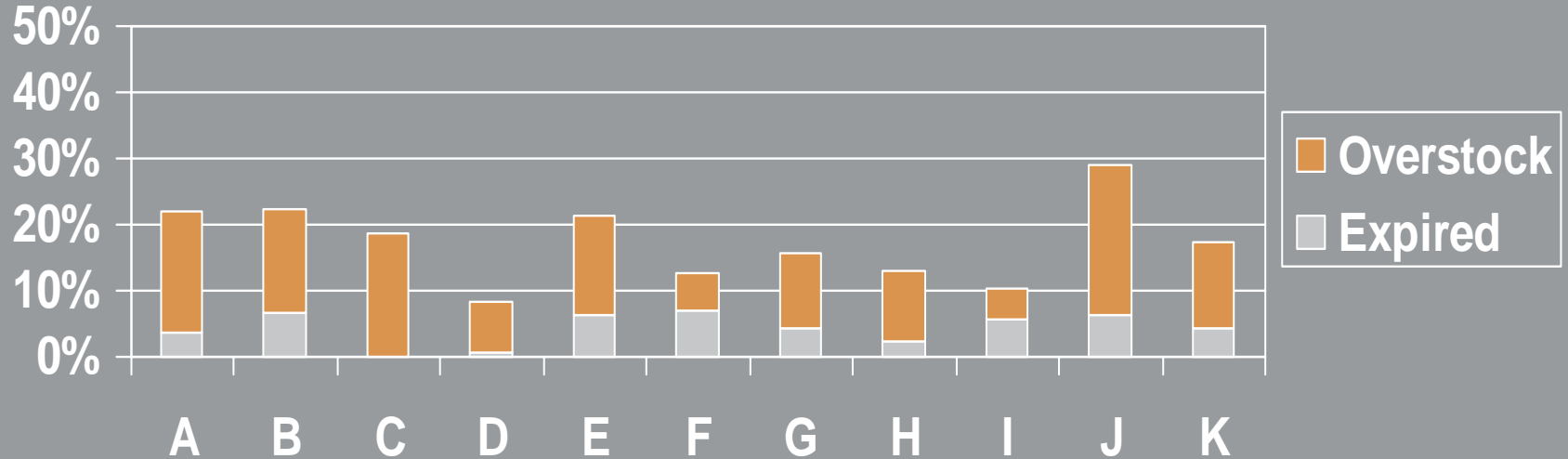
...and, customers experience **substantial supply chain costs** with MD&I.

Target Performance



Expired Product & Excess Inventory Represents a Significant Issue For Providers

Provider-Based Cath Labs

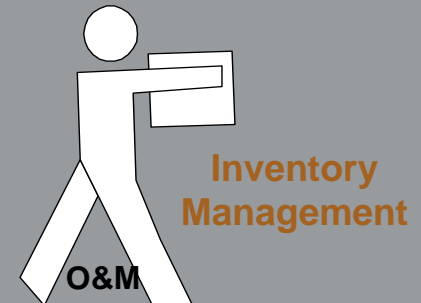


Source: O&M Customer Data

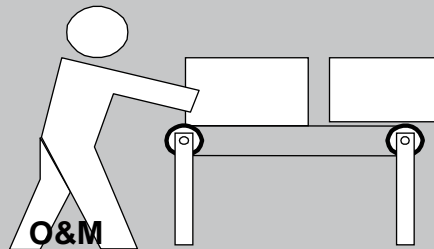
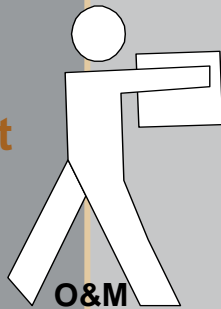
Future State Model



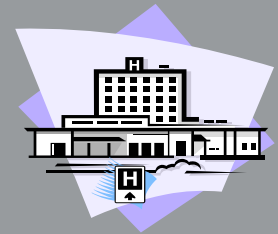
Owning/ Maintaining Assets



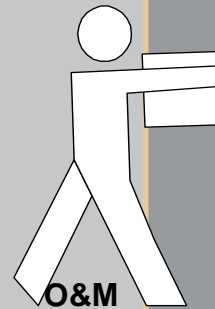
Order Management



Delivery Service



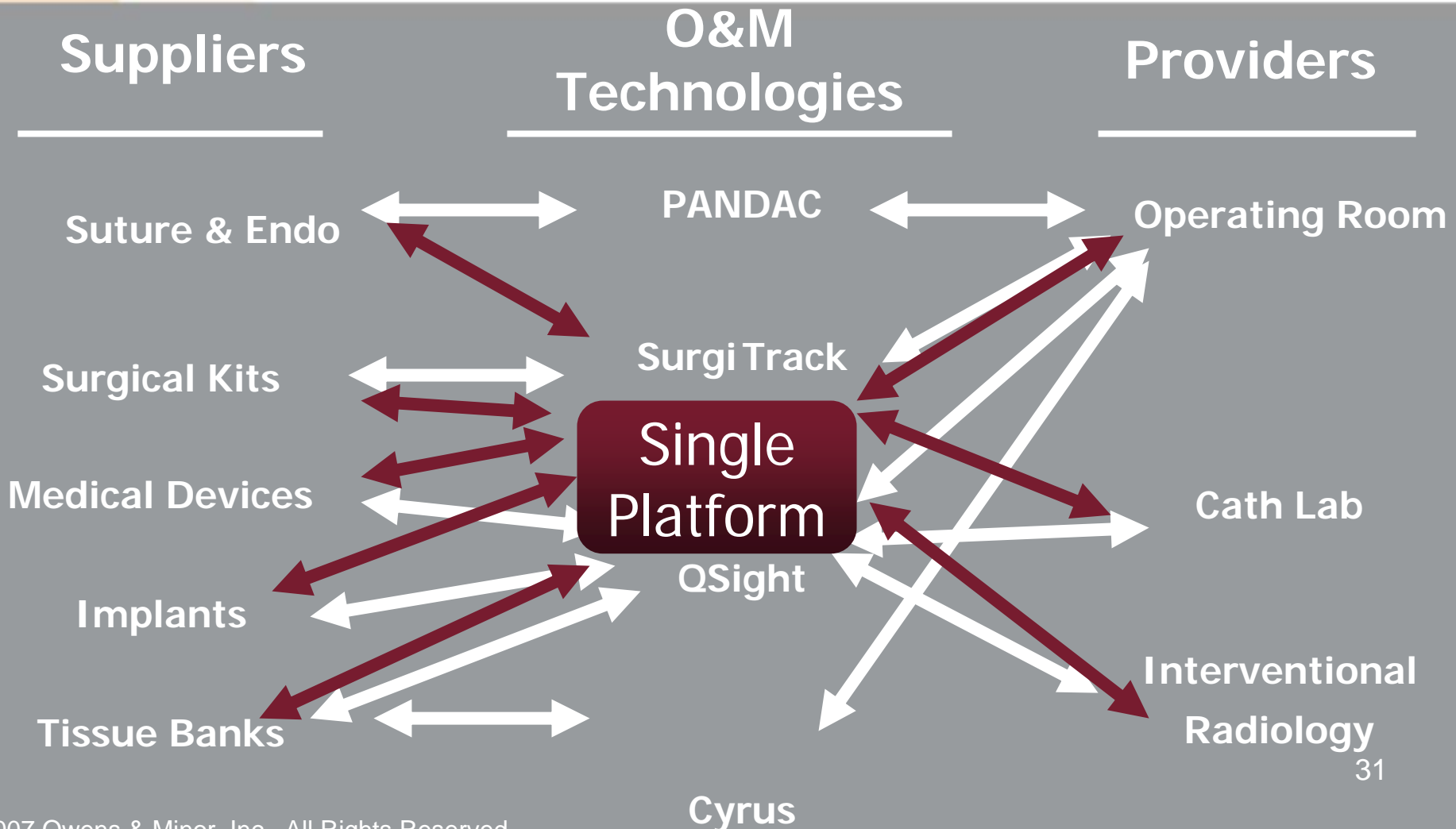
O&M Advanced Logistics Center



Receiving, Accounting, Tracking and Charging



The foundation of the model is a **single platform**.



QSight™

Customer Inventory My Trunk Stock Contact Manager Ord

Alerts Overview

Highlights and Bulletins

Dec 8, 2006

Items for immediate attention:

- 59 product(s) in customer inventory are expiring soon, based on your
- 2 product(s) are at a stock level that's less than 20% of your par level
- 2 product(s) are at a stock level that's more than 20% of your par level.
- 3 product(s) are out on barter and need to be retrieved from customers.
- 6 product(s) are on trade and need to be replaced.

Customer Inventory Nearing Expiration

The following products in customer inventory are within 3 months of expiration.

Hospital	Department	Catalog No	Description	Exp Date	Qty
Cleveland Clinic Foundation	Catheterization Lab	422-6530X	AVIATOR PTA BLN CATH, 135 CM, 6.5 X 3, .014" GUIDE	03/01/2007	2
Cleveland Clinic Foundation	Catheterization Lab	535DLM014	7mm x 180 cm, Steer-It Deflecting Tip Guidewire, 0	03/01/2007	5
Cleveland Clinic Foundation	Catheterization Lab	535DLX014	7mm x 300 cm, Steer-It Deflecting Tip Guidewire, 0	03/01/2007	1
Cleveland Clinic Foundation	Catheterization Lab	419-0040L	10mm x 4cm balloon, 110cm shaft, Opta Pro PTA Dila	03/01/2007	1

- On-hand balances
- Consignment
- Lot numbers, expiration dates
- Departments, locations
- Transaction history – buy, return, destroy, trade, borrow
- Truck stock
- Point of use transaction capture (walk-in items)
- Product on order, order history
- Management view – aggregate multiple locations, reps
- Marketing view^(*) – who uses what, comments, outcomes, etc.

Value Proposition

- **Customer**
 - Eliminate risk of expiration
 - Reduce inventory investment
 - Reduce clinician involvement in supply process
 - Electronic order process
 - Ability to leverage bulk/power buys
 - Eliminate or reduce consignment
- **Supplier**
 - Greatly improved visibility and timely data
 - Efficient orders (1 every week or 2) v. 1.5 per hospital per day
 - Replace consignment
 - Reduction in freight/shipping costs
 - Electronic order process

Preserving what works...

Supplier retains customer relationship



Transactional; logistical
Forward deployment
Terms
Supply chain efficiency
Product visibility



Thank You!

