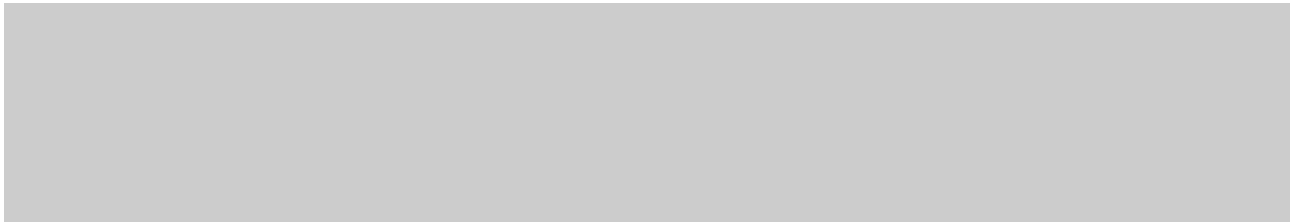




20 May 2009

Managing Operations in Challenging Times

**SUPPLY CHAIN RISK & INVENTORY
MANAGEMENT TRENDS – MDISCC MEETING**



The 2009 MDISCC / PRTM Survey: Operational Risk Trends In Turbulent Times

Survey of both large and small Medical Device companies to explore trends in managing operations and supply chain in the current financial climate

Provides insight on changing priorities in this new business climate

Emphasis on:

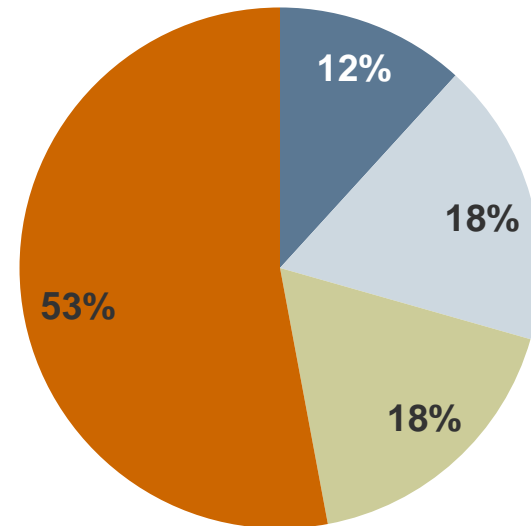
- Operational and supply chain priorities for 2009
- How economic conditions have impacted operational activities and working capital positions
- How companies are addressing increased risk to their supply base related to sudden credit and demand uncertainty

MDISCC Survey Participants

Participating Companies:

- ev3
- ConMed Corp
- AMO
- Edwards Lifesciences
- Welch Allyn
- BD
- Thoratec Corporation
- Hollister Incorporated
- J&J
- Aspect Medical Systems, Inc.
- CIBA VISION Corporation
- American Medical Systems
- Abbott
- Affymetrix
- OrbusNeich
- Boston Scientific

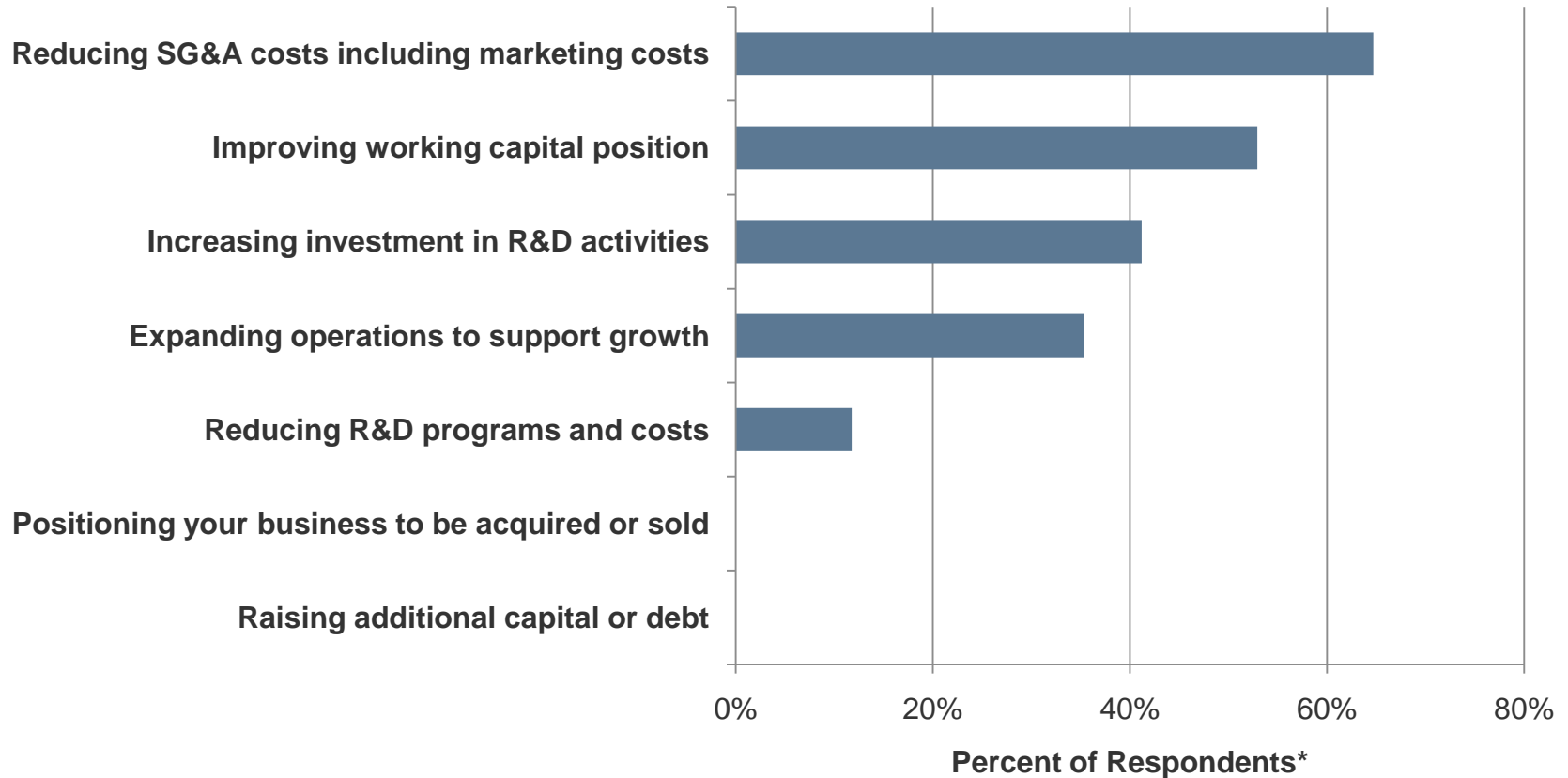
Company Size



- < \$100M
- > \$100M but < \$500M
- > \$500M but < \$1B
- > \$1B

Optimizing working capital and reducing overhead costs are key business priorities for 2009

Indicate key business strategy priorities for 2009:

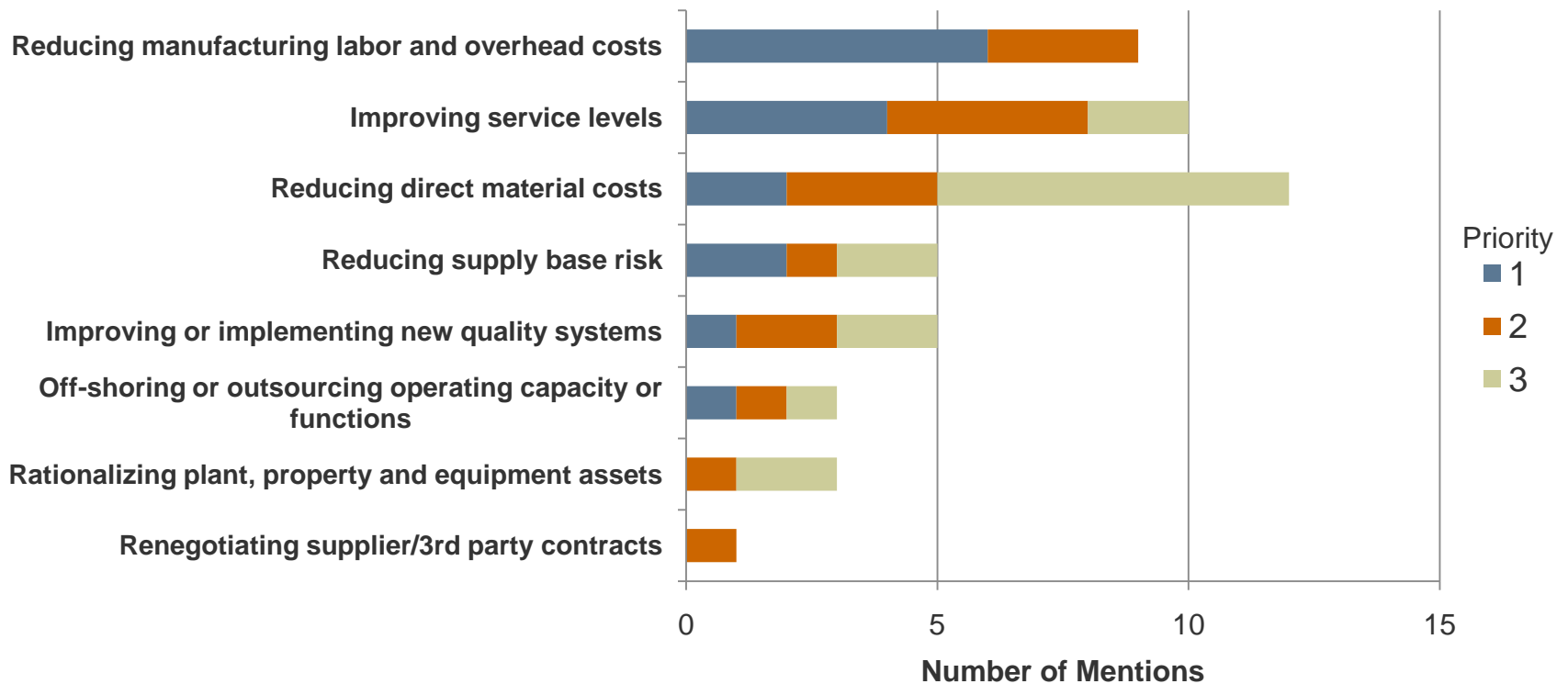


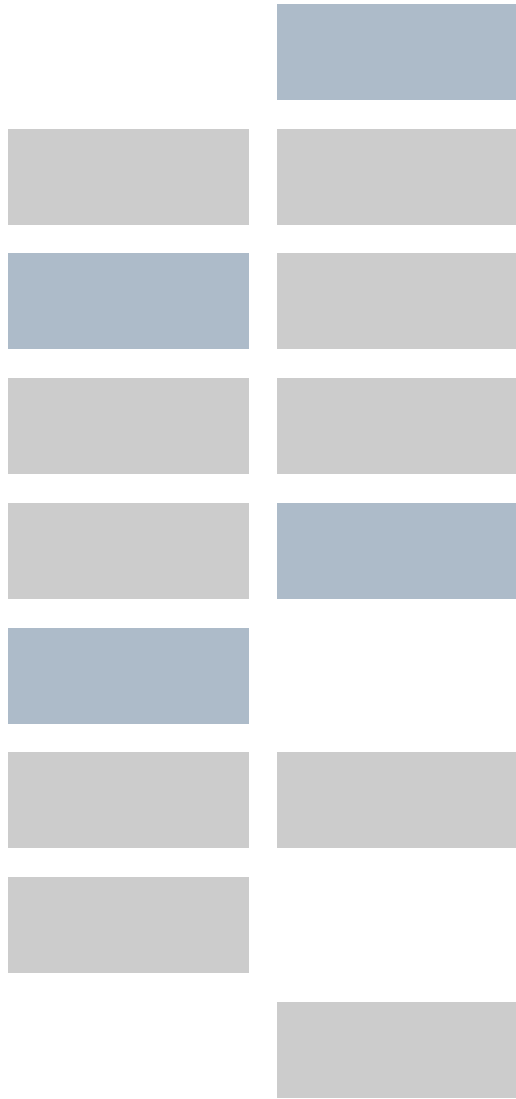
* More than one response allowed

Reducing near term variable costs is a primary operational objective for 2009...

...but many companies are also balancing the need to improve service levels

Rank your top three operational or supply chain priorities for 2009:





Monitoring and De-Risking the Supply Base

As supply chains have evolved, the vulnerability to supplier risk has grown

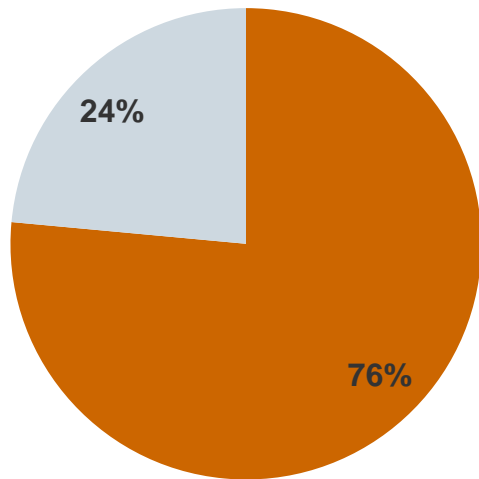
- Outsourcing and off shoring have increased sourcing and distribution complexity and risk
- Lean and JIT have taken away traditional buffers against supply chain risk
- Supplier reduction waves have increased exposure to single source suppliers
- Financial market turmoil and uncertain demand have strained the viability of some suppliers and further increased the potential for supply disruption

Even in stable economic times statistics show that a crisis will hit companies every 4-5 years and 73% of companies that suffer a key supply disruption of 10 or more days will shut down or experience considerable, long term effects

In today's economy, the rate and severity of disruptions is certain to increase

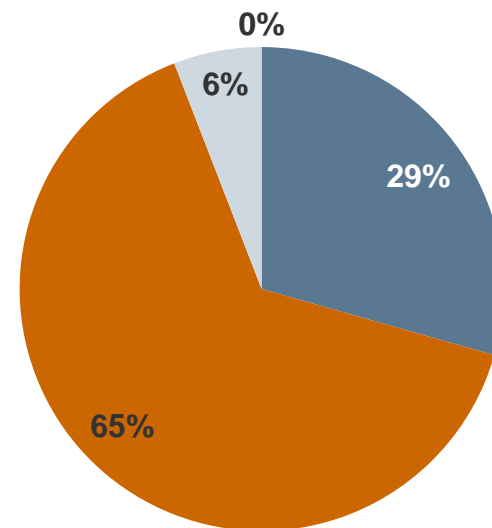
Over 75% of respondents expressed concerned about supply base risk and 29% have experienced impacts

How concerned are you about the financial risk of your supply base?



- Very concerned
- Moderately more concerned than normal
- No more concerned than normal
- Not concerned

Have you experienced any early indicators of increased supplier risk such as declining service levels or quality?

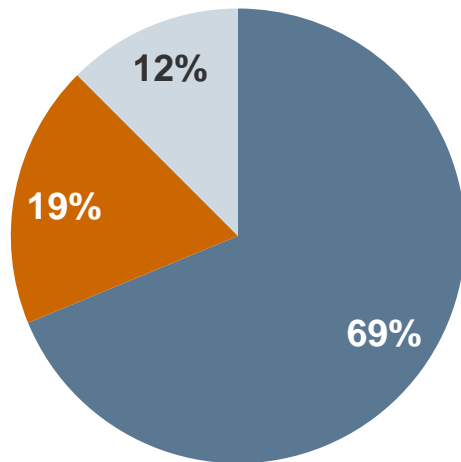


- Have experienced with minor impact to operations
- Have not experienced but am concerned about future problems
- Have not experienced and not concerned about future problems

Nearly 70% report having already stepped up efforts to assess supplier risk...

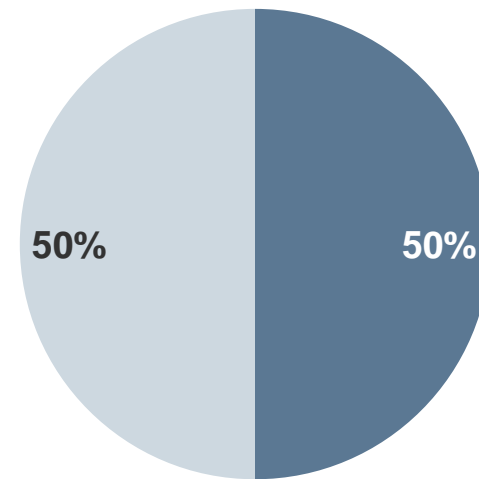
...with 50% having a formal process for identifying suppliers experiencing risk

Have you implemented or increased focus on supplier risk assessment activities in the past six months?



■ Yes ■ No but plan to in 2009 ■ No

Do you have a formal process to identify suppliers experiencing increased financial risk?



■ Yes ■ No

Having a plan of attack for identifying and addressing risk will maximize the benefit of mitigation efforts

Risk: Supplier

- Financial health
- Delivery performance
- Dependency
- Physical location

Risk: Materials

- Sole/single/multi sourced
- Demand increase
- Shelf life / storage constraints
- Supplier's sole sourced

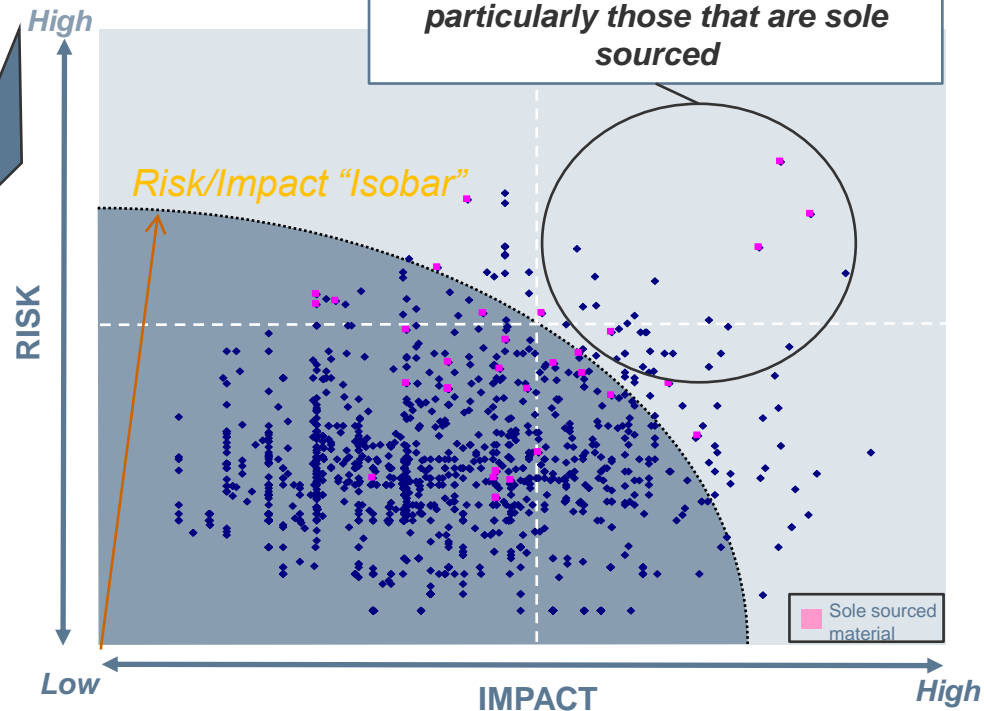
Impact specific attributes

- Where used (product & process)
- Lead time
- Available alternatives
- New supplier ramp up time
- Inventory
- Supply governance

- 1) Be specific about what contributes sourcing risks to your company and identify the unique Risk and Impact attributes
- 2) Quantify the risks and their potential impact on the business

- 3) Move from studying risks to mitigating them – Pinpoint the risks that will have the most severe impact on the business, focus on those and define efforts to mitigate them
- 4) Understand what resources are required to mitigate risk and prioritize efforts based on resource constraints
- 5) Develop actionable implementation plans with clear roles and responsibilities

Prioritize mitigation efforts on high risk, high impact items, particularly those that are sole sourced



Key Points for supplier risk management

Data load will be significant – Focus on a few high priority areas for risk mitigation

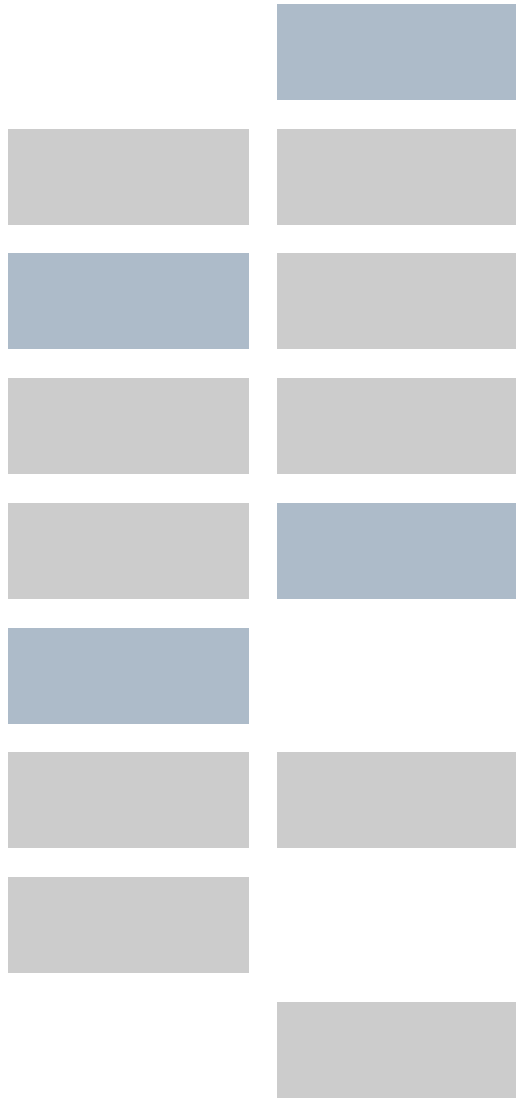
Treat as an ongoing process – continue to monitor supply base risk on a regular basis and track progress

Remember to screen new suppliers with the same criteria used to assess the existing supply base

Supplier risk mitigation is cross-functional and requires broad support – not solely driven by Sourcing or Procurement

Use this opportunity to improve communication and collaboration with key suppliers – Be prepared to assist strategic suppliers through any current financial stresses

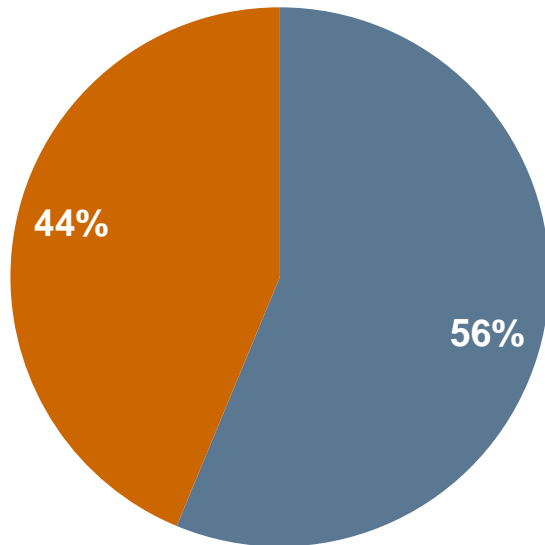
Beware of generally increasing Days Payable Outstanding as a way to improve working capital position – you may significantly impact the fluidity of critical suppliers in the process



Optimizing Working Capital

Well over half of respondents report efforts to reduce working capital

Have you launched or intensified efforts to reduce working capital over the past six months?



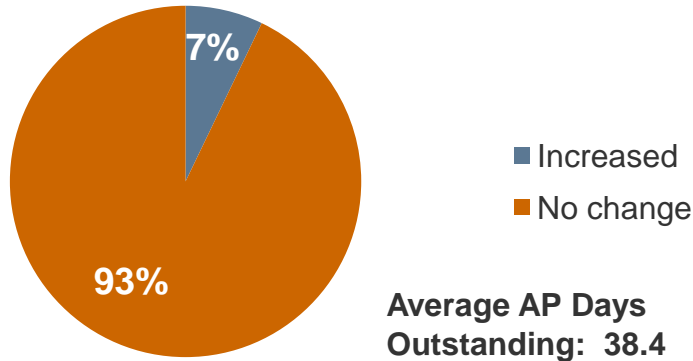
■ Yes ■ No

But, in today's economic climate, successfully executing working capital improvement projects has become more challenging

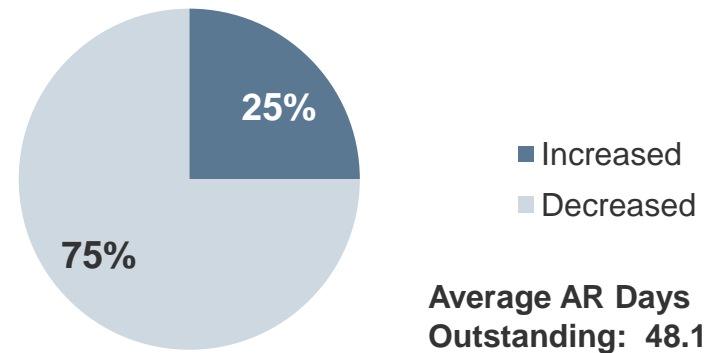
- Customers pushing to extend payment terms or struggling to meet payment obligations
- Suppliers looking for faster payment to solidify their own cash position
- Greater uncertainty in demand adding to the challenges of inventory management and increasing exposure to excess & obsolete write-offs

Respondents report only modest progress in increasing payables and inventory turns

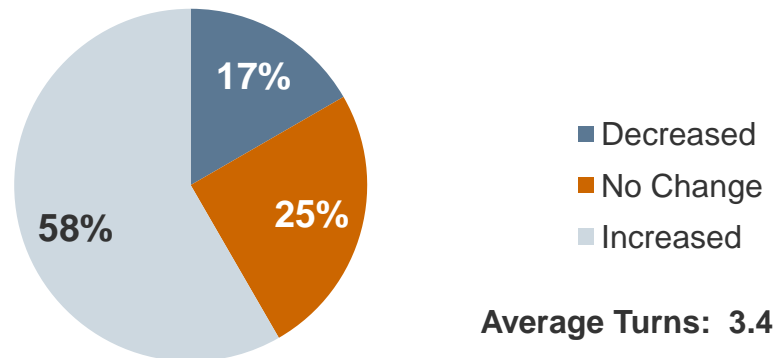
Have your AP days outstanding changed over the past six months?



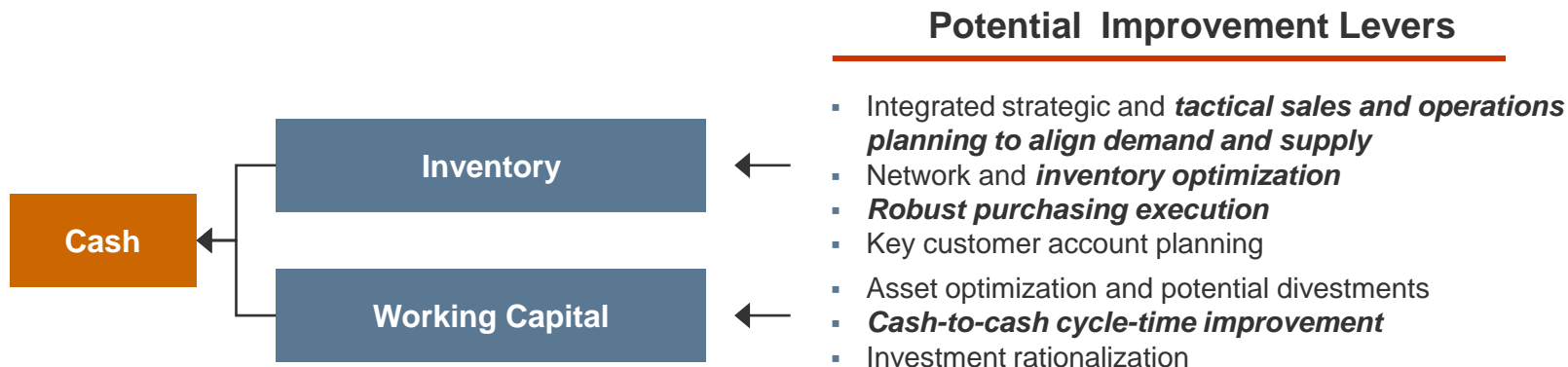
Have your AR days outstanding changed over the past 6 months?



Have your inventory turns changed over the past six months?



Rapid improvements in working capital require focus on levers with most immediate impact



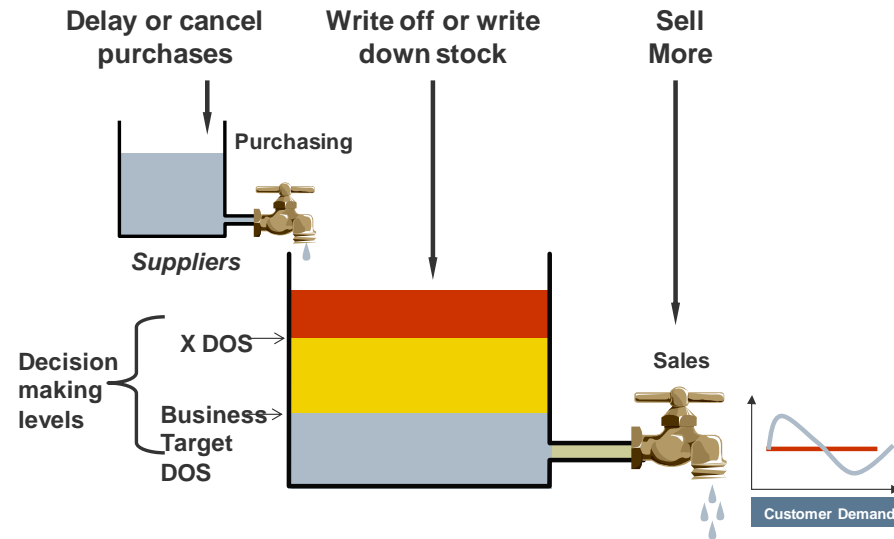
...and a structured approach for driving short term gains



Potential initiatives for driving short term working capital improvements in AP and AR

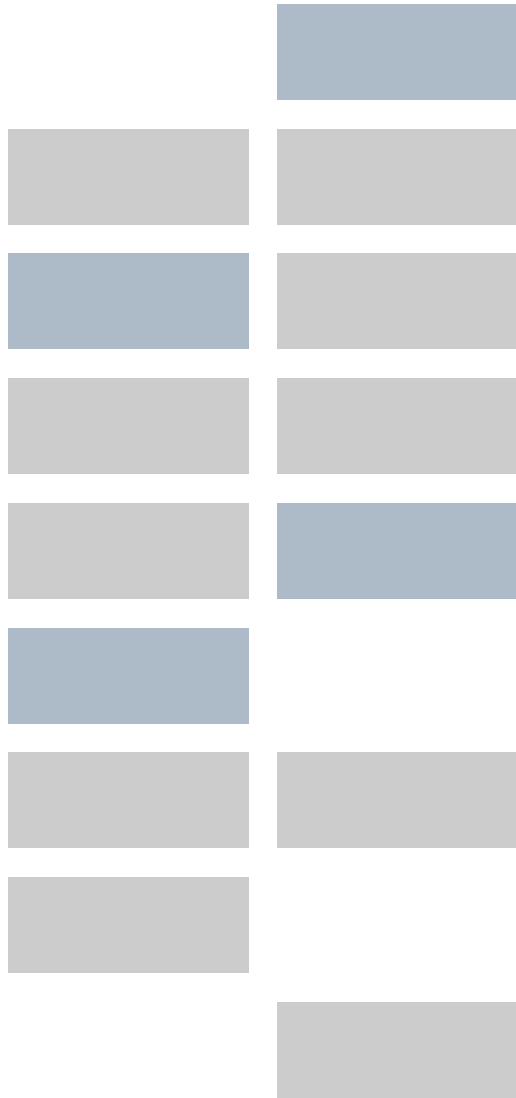
Accounts Payable	Accounts Receivable
<ul style="list-style-type: none">• Ensure proper level of authority signs off on all purchases and payments within clearly defined approval bands• Verify all purchases are approved and in the budget - NO cash-out without explicit approval of gatekeepers• Critically reconcile all invoices prior to payment; verify purchases/ services were adequately received prior to payment• Eliminate any over/ double payments• Hold all payments as long as possible• Extend payment terms with largest or key suppliers	<ul style="list-style-type: none">• Institute special discounts for immediate payment• Offer special bonus program for timely collections• Link bonus of sales managers to cash in from customers not sales booked• Employ more strict payment terms for new, weak or delinquent customer• Reduce payment variations to few standard options• Create a standard legal escalation process

Potential initiatives for driving short term working capital improvements through inventory performance



Inventory Turns

- Stop/reschedule/ cancel all excess in-feed of inventory that has no demand and track daily
- Implement inventory excess review process, including disposition
- Create projections model and review weekly
- If needed de-couple Materials planning from MPS and manually manage
- Review and improve system settings for standard lead-times and safety stocks
- Control all strategic/risk buys; manual sign off
- Closely monitor end of life; create incentive plan for additional sales, pricing strategy for current and future E&O



Questions?

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