



05 March 2009

Leading a MedTech Company Through Turbulent Economic Times

Managing Operations in Challenging Times: Trends, Risks and Response



*Management
Consultants*

Where Innovation Operates

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

The survey explored trends in managing operations and supply chain in the current financial climate and provides insight on changing priorities in this new reality

- Operational and supply chain priorities for addressing financial realities in 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

MassMEDIC Survey Participants

*Hood
Laboratories*

*PLC Medical
Systems*

*Crescent
Innovations Inc.*

TDC Medical

Creganna

*Proven Process
Medical Devices,
Inc.*

*Valentine Tool &
Stamping, Inc.*

*Vision-Sciences,
Inc.*

*Surface
Solutions Labs
Inc*

ZOLL Medical

*Haemonetics
Bionostics, Inc.*

*Tomophase
Corp.*

*ONI Medical
Systems*

*Optasia Medical,
Inc.*

ExtruMed LLC

HydroCision

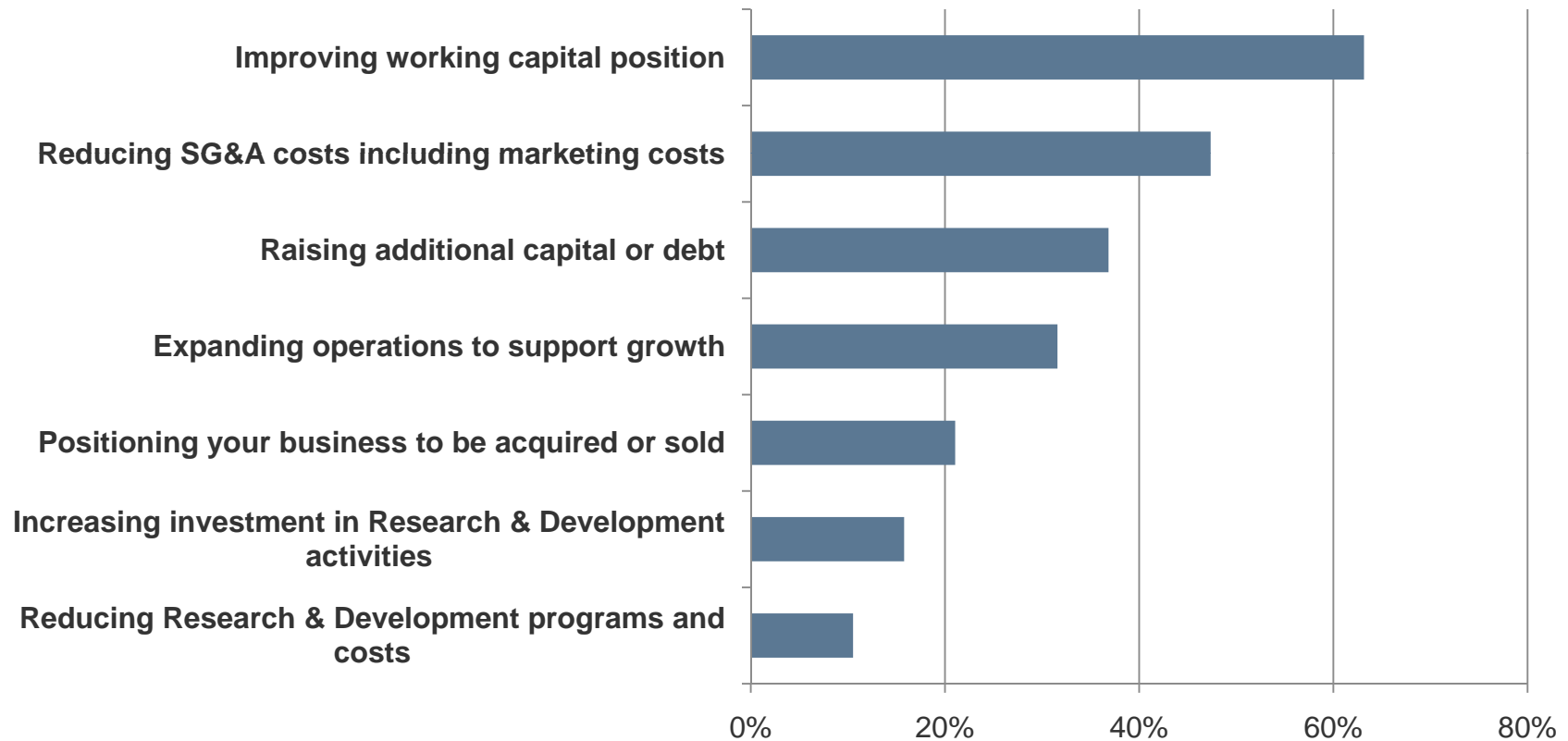
Eleme Medical

*Helbling
Precision
Engineering*

Financial imperatives of optimizing working capital and reducing costs are key business priorities for 2009

...with far less emphasis on R&D and growth

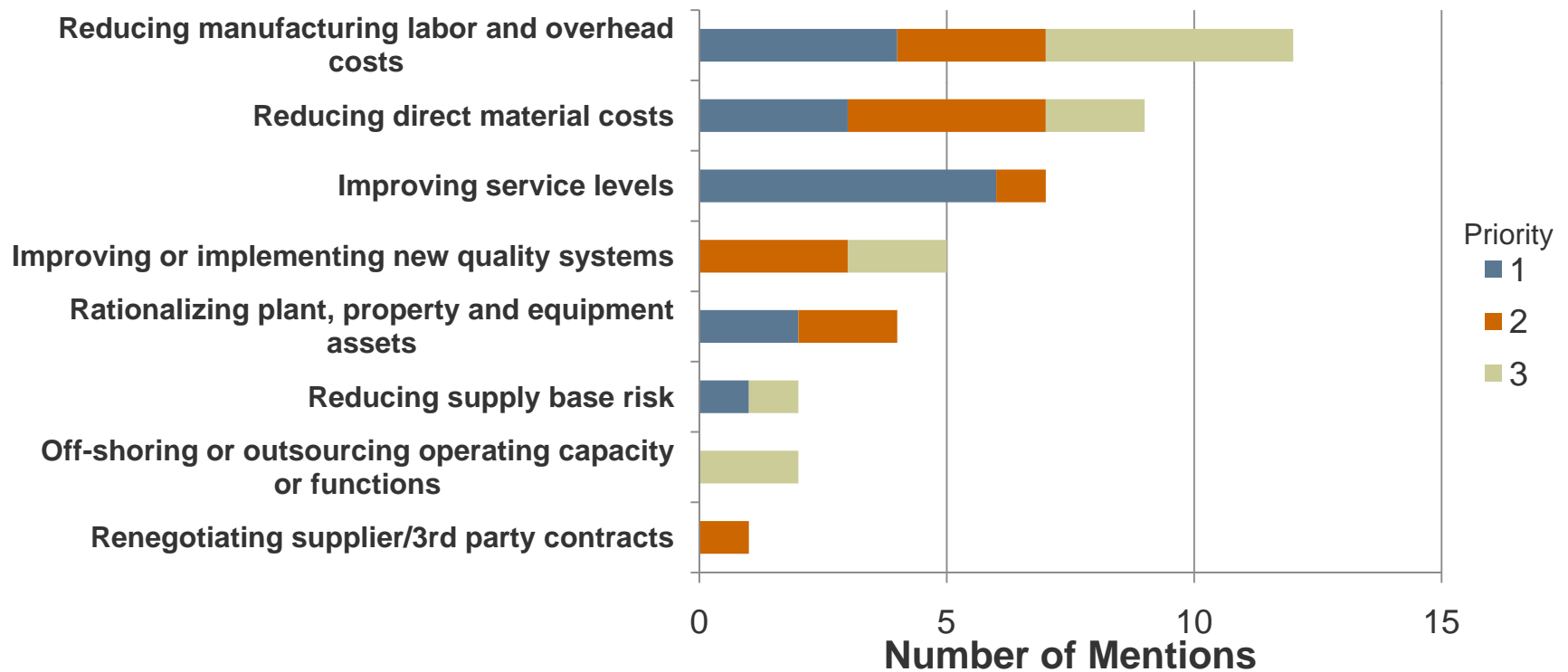
Indicate key business strategy priorities for 2009:

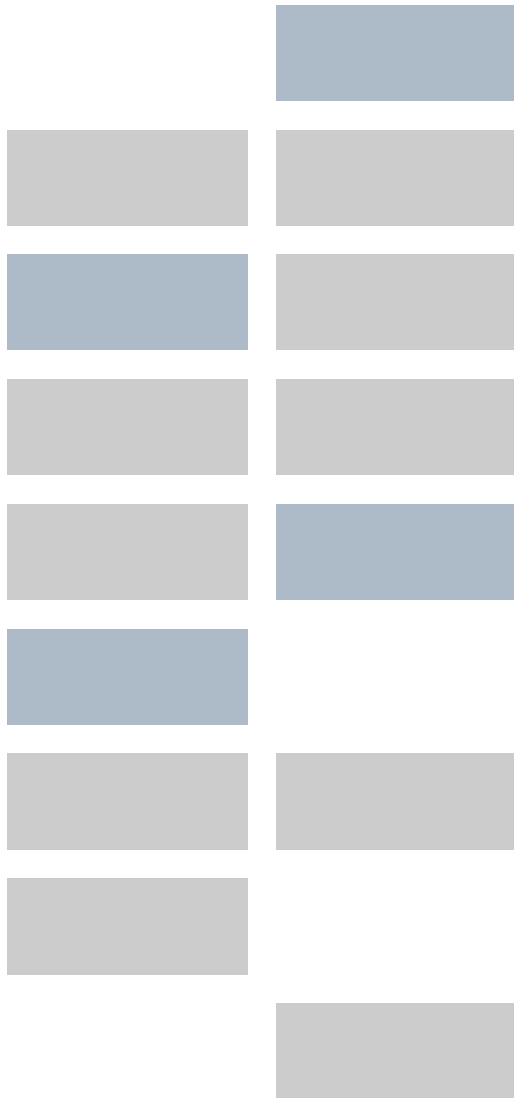


Reducing near term variable costs is a primary operational objective for 2009...

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

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

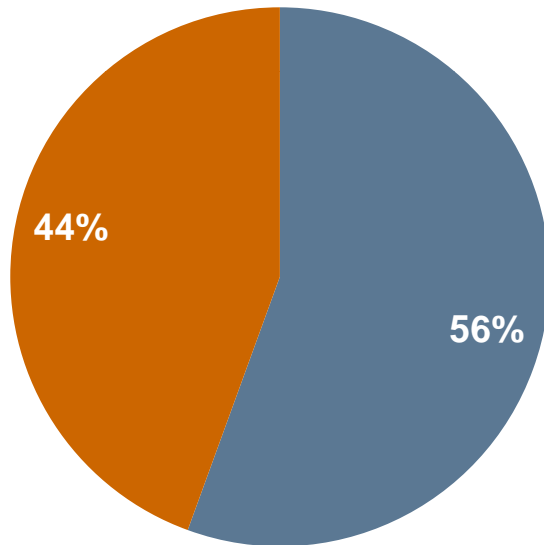




Optimizing Working Capital

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?



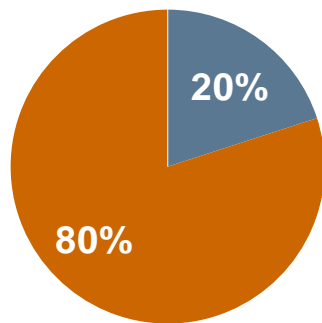
■ Yes ■ No

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

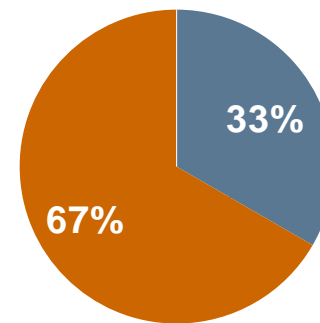
Respondents report only modest progress in increasing payables and inventory turns

Has your actual AP days outstanding changed over the past six months?



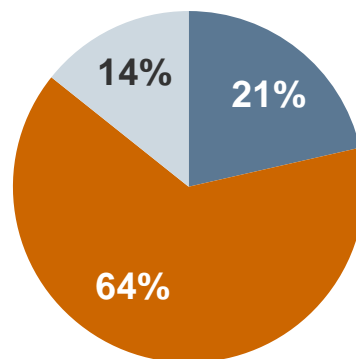
■ Increased
■ No Change
Average AP Days Outstanding: 41.4

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



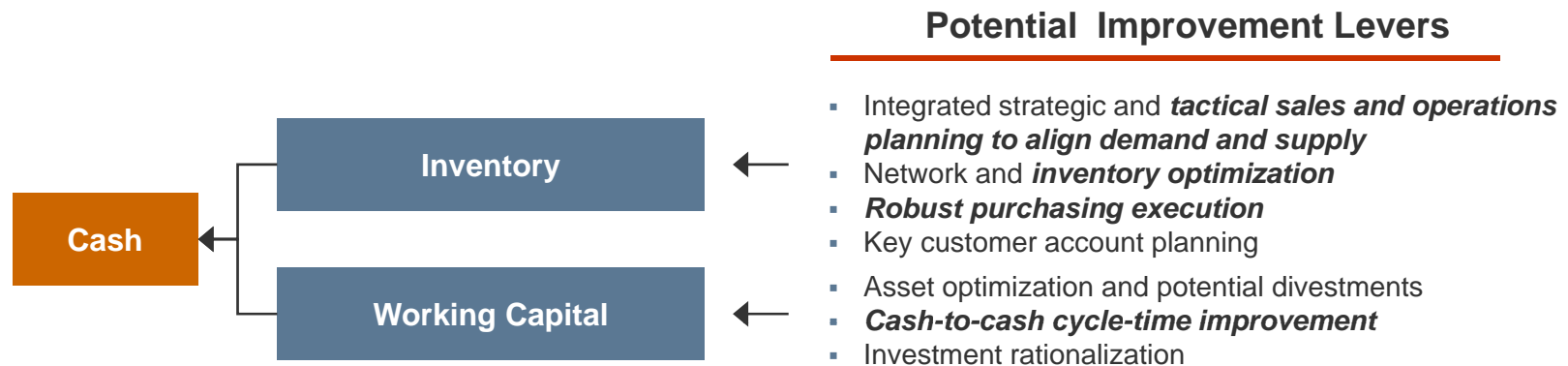
■ Increased
■ No Change
Average AR Days Outstanding: 56.5

Have your inventory turns changed over the past six months?



■ Decreased
■ No Change
■ Increased
Average Turns: 4.0

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



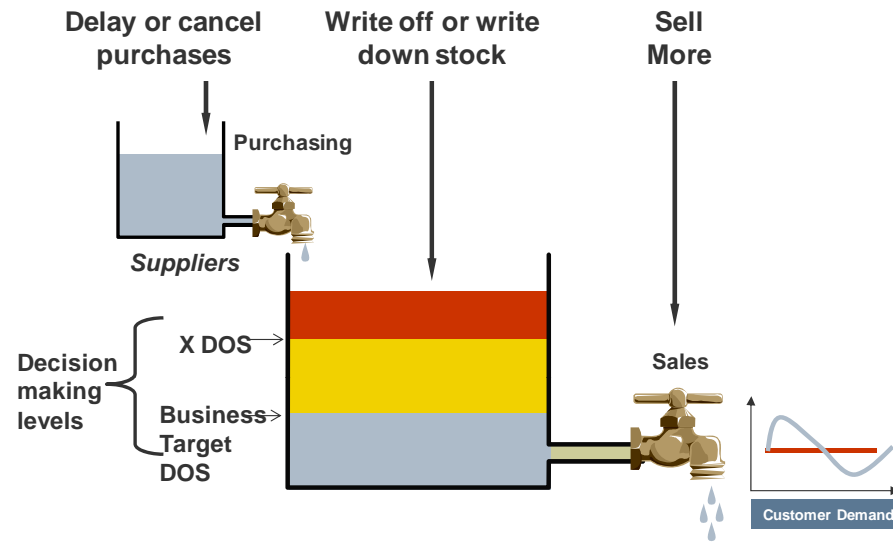
...and a structured approach for driving short term gains

Step 1	Step 2	Step 3	Step 4
Baseline Performance and Identify Improvement Opportunities	Drive Immediate Next-Quarter Working Capital and Flexibility Improvements	Define 2009 Operational Goals Based on Strategic Plans and Potential Market Risks	Develop Quarterly Improvement Roadmap and Monitor Progress

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

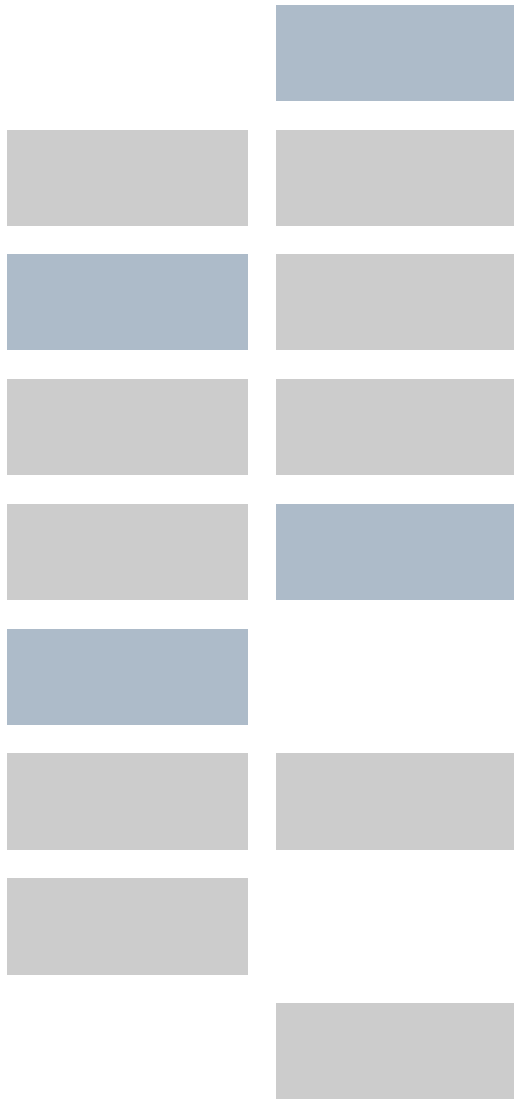
Accounts Payable	Accounts Receivable
<ul style="list-style-type: none">• Ensure proper level of authority signs off on all purchases and payments within clearly defined approval bands• Verify all purchases are approved and in the budget - NO cash-out without explicit approval of gatekeepers• Critically 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



Monitoring and De-Risking the Supply Base

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

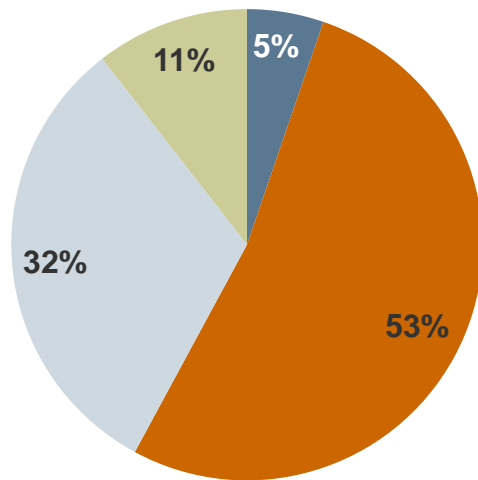
- Outsourcing and off shoring have increased sourcing and distribution complexity and risk
- Lean and JIT have taken away traditional buffers against supply chain risk
- Supplier reduction waves have increased exposure to single source suppliers
- Financial market turmoil and uncertain demand have strained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

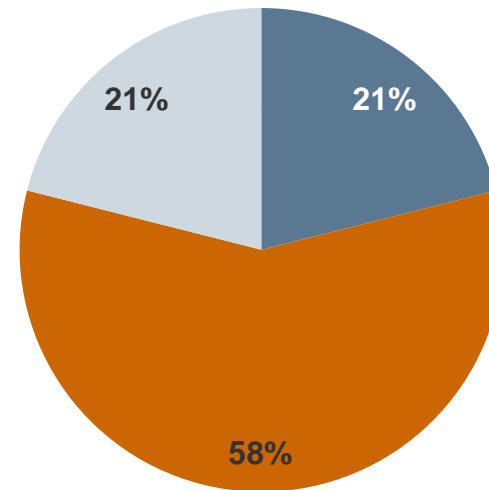
Nearly 60% of respondents are concerned about supply based risk and 21% having already experienced impacts

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?

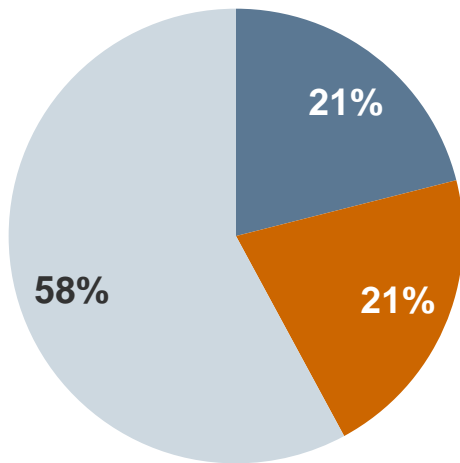


- Have experienced with minor impact to operations
- Have not experienced but am concerned about future problems
- Have not experienced and not concerned about future problems

However, only 42% report that they have or will increase focus on assessing supplier risk

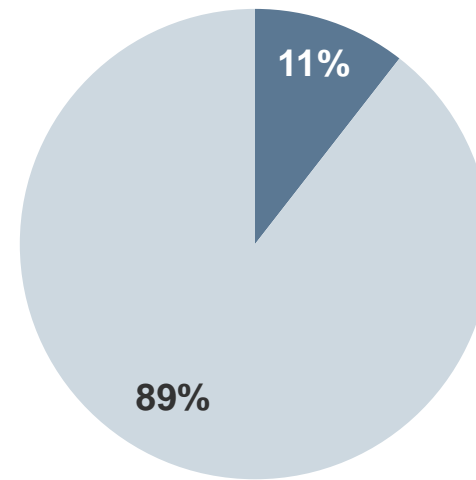
...and only 11% have a formal process for identifying suppliers experiencing risk

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?



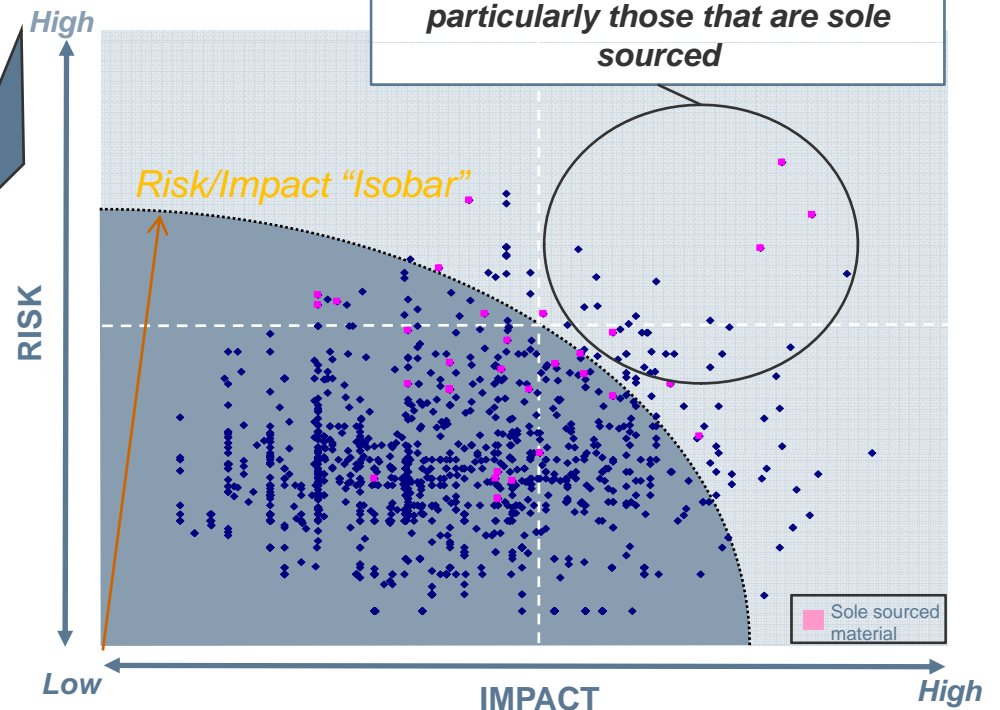
■ Yes ■ No

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

<p>Risk: Supplier</p> <ul style="list-style-type: none"> • Financial health • Delivery performance • Dependency • Physical location 	<p>Impact specific attributes</p> <ul style="list-style-type: none"> • Where used (product & process) • Lead time • Available alternatives • New supplier ramp up time • Inventory • Supply governance
<p>Risk: Materials</p> <ul style="list-style-type: none"> • Sole/single/multi sourced • Demand increase • Shelf life / storage constraints • Supplier's sole sourced 	

- 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

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



- 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

Key Points to remember when assessing and dealing with supply base risk

Beware of “analysis paralysis” – Focus on a few high priority areas for risk mitigation

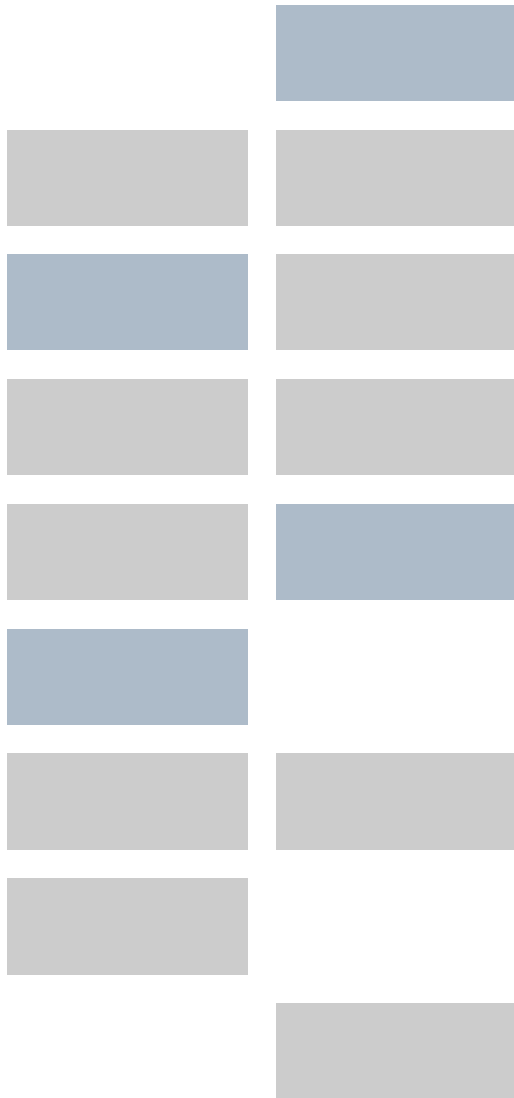
Continue to monitor supply base risk on a regular basis and track progress

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 – this is not solely a Sourcing or Procurement issue

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



Questions?

Contact Information

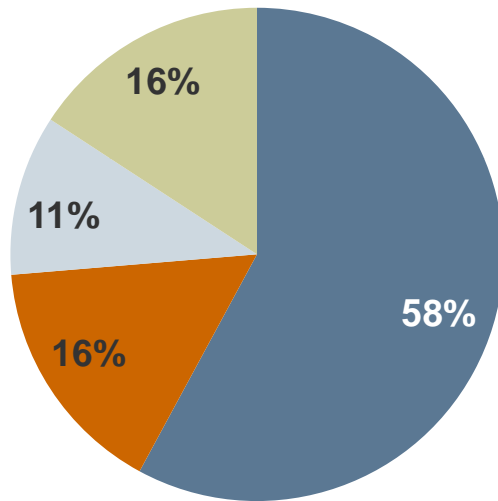
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Appendix

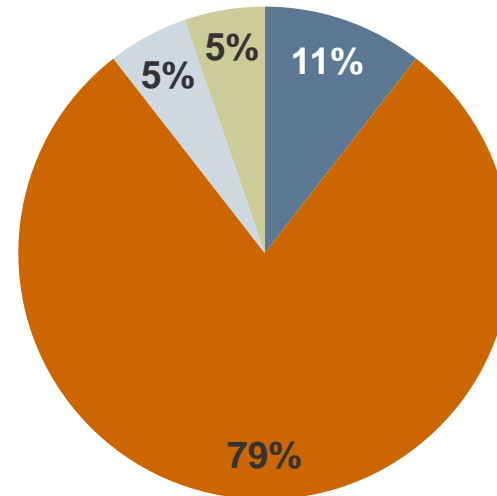
MassMEDIC Survey Respondent Characteristics

Primary product or service of respondent companies



- Equipment or Device Manufacturer
- Component, Sub-Assembly or Material Supplier
- Service Provider: Manufacturing
- Service Provider: Product Development

Company Size



- \$0 - Pre-commercial
- < \$100M
- > \$100M but < \$500M
- > \$500M but < \$1B

Who We Are

PRTM is the premier operational strategy consulting firm, focusing on operational innovations that drive growth and boost profitability

- Marketplace realities have created new operational requirements
- Without the right operational strategy, even strong business strategies fail



We focus on the critical link between business strategy and execution

- Operational strategy structures your business operations and economics for competitive advantage
- We help you establish a winning operational strategy...and realize it

Our Global Experience

- 32 years of operational strategy and innovation
- More than 600 consultants worldwide
- 17 offices worldwide
- Over 1,200 clients and 6,000 projects
- 90% level of repeat business

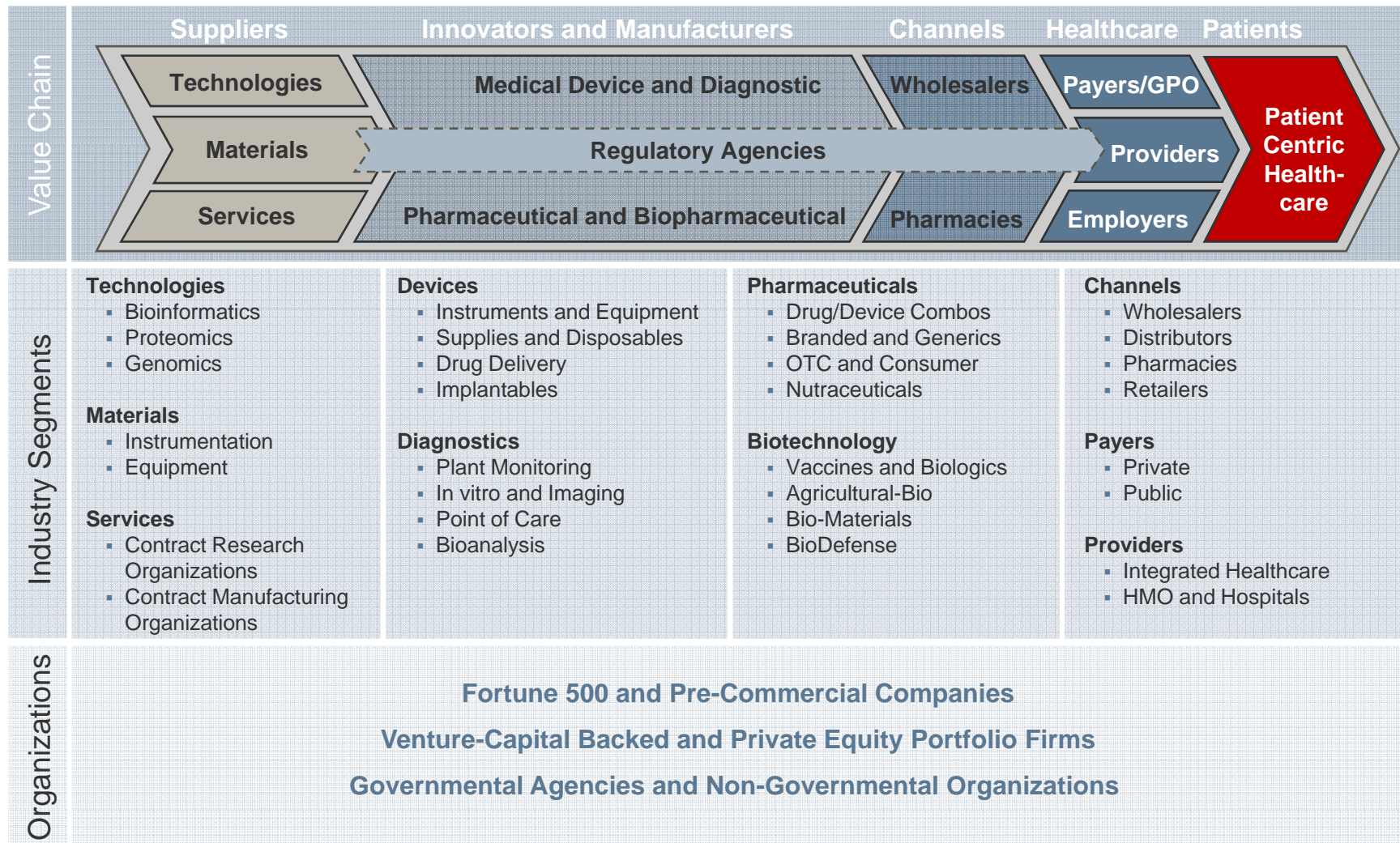


- Major commercial and government sectors:

- Life Sciences and Healthcare
- Chemicals and Process Industries
- Consumer Goods
- Electronics and Computing
- Energy
- Industrial Products
- Automotive
- Communications and Media
- Financial Services
- Government
- Aerospace and Defense
- Software

**35% of our
global
business**

PRTM Has Experience Across the Entire Value Chain, Industry Segments and Spectrum of Companies



PRTM has a Broad Range of Expertise within Each Industry Segment

Corporate	Commercial	Development	Operations
<p>Corporate Strategy</p> <p>Functional Strategies</p> <ul style="list-style-type: none"> Organizational Effectiveness IT Strategy <p>Corporate Restructuring</p> <p>Internal Operations and Shared Services</p> <ul style="list-style-type: none"> Finance, Legal, HR, etc. <p>Mergers and Acquisitions</p> <ul style="list-style-type: none"> Alliance Management Due Diligence Integration Value Creation 	<p>Commercial Strategy</p> <p>Marketing Strategy</p> <ul style="list-style-type: none"> Competitive Analysis Global Marketing Platform Planning Product Positioning Therapeutic Area Management <p>Marketing Operations</p> <ul style="list-style-type: none"> Customer Service & Support Sales & Operations Planning Strategic Forecasting 	<p>R&D Strategy</p> <p>Product Innovation</p> <ul style="list-style-type: none"> Drug Discovery Portfolio & Resource Management Technology Strategy <p>Functional Excellence</p> <ul style="list-style-type: none"> Clinical Research & Operations Non-Clinical Research Post-Market Surveillance Process/CMC Development Regulatory Affairs 	<p>Operations Strategy</p> <p>Network Planning</p> <ul style="list-style-type: none"> Capacity Planning Capital Asset Management Off Shoring <p>Commercial Readiness</p> <ul style="list-style-type: none"> Quality Systems Tech Transfer/Scale-Up <p>Operational Excellence</p> <ul style="list-style-type: none"> Lean Operations (cost, cycle time, quality, yield) Strategic Sourcing Supply Chain Management

Strategy, Design and Implementation

Transformational Change Management

Program, Project and Interim Management