Who are Cochlear? — Global Footprint

- Direct operations in 20 countries
- Manufacturing in Australia and Sweden
- 2,500+ employees
- Listed on Australian Securities Exchange in 1995 - today top 100
- Market cap over AU$3bn

- Division of Cochlear Ltd
  - Baha bone conduction solutions
  - Vistafix facial prosthesis
- R&D, marketing, regulatory, manufacturing, quality, distribution, finance and admin support
- Over 140 employees
Cochlear Mission

We help people hear and be heard. We empower people to connect with others and live a full life.

We transform the way people understand and treat hearing loss.

We innovate and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.
“Cochlear ear implants are the only devices that can restore one of the human senses.”

Jonathon: 8 month old hears for the first time
Sarah: 29 year old brought to tears
More than a quarter of a million recipients and counting
Cochlear Objectives

Customer Experience
Provide customers throughout their hearing journey with a convenient, seamless and consistent experience, delivering a lifetime of positive hearing outcomes.

Operational Excellence
Establish a dynamic agile operation with scalable, compliant and performance focussed processes, designed to deliver a positive experience for professionals and customers.

Product Innovation
Create and bring to market a segmented portfolio of innovative and quality products that combine leading technology with a strong focus on the context and needs of the professional and the customer to advance hearing outcomes.

People Engagement
Establish an organisation that attracts and retains the best people and engages and empowers them to take initiative and be accountable to deliver a positive experience for professionals and customers.

Value Creation
Create sustainable shareholder value, delivering high growth and strong returns today and into the future, while making a significant contribution to social good.
Cochlear Objectives - Measures

- **Customer Experience** – Double the customer base over the next 5 years, growing at a rate greater than 15% per annum.
- **Product Innovation** – Release a new (meaningful) product or service to market in each Category (Nucleus, Baha, Acoustic Implants) once every 12 months.
- **Operational Excellence** – Increase productivity, quality and outcomes of all business processes to achieve an EBIT margin of at least 30% of revenue.
- **People Engagement** – Build our capabilities to execute the strategies and achieve our objectives, increasing engagement capital to be at the 75th percentile of top performing global businesses.
- **Value Creation** – Double annual revenue over the next 5 years, growing at a rate greater than 15% per annum and generating approximately AUD 1 billion in free cash flow.

Procurement’s circle of concern / sphere of influence
What is Risk

• A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action.

• Risk is different things to different organisations / and often it has multiple streams
  – Strategic
  – Compliance
  – Financial
  – Operational
Cochlear’s Risk Profile

- 85% Singly sourced
- Proprietary
- Highly regulated
- Technologically constrained
- Low volume / spend
- High mix (externals / accessories)
- Material Obsolescence

85% of Supply base!
How Does Cochlear Manage Risk

1. Identify potential risk
   1. Supplier identification, selection & evaluation
   2. Supplier Operational Risk assessment
   3. BOM Re-use, Make, Buy assessment
   4. Supplier performance reviews
   5. Supplier Management (SCAR, CCC, SCN)
   6. PIP - Procurement & Logistics readiness assessment

2. Categorize and select

3. Plan

4. Monitor / Measure
   1. Supplier identification, selection & evaluation

3. Implement
Case Study – Implantable IC proposed process flow

PRODUCTION PROCESS FLOW DIAGRAM

- **Wafer production**
  - OnSemi Conductors (Belgium)
  - PVM Good Wafers

- **IMEC (Belgium)**
  - Delivery to sub-contractors

- **Electrical Wafer Sort**
  - Microtest (Italy)
  - KGD (wafer maps + inked)

- **Back grinding wafers**
  - DISCO (Germany)
  - Back grinded wafers

- **Sawing, Assembly**
  - HCM (France)
  - Devices for LAT

- **SEM inspection**
  - Mascr (The Netherlands)
  - Sem inspection report

- **LAT**
  - Microtest (Italy)
  - Release of production lot

- **VISP, Pick & Place**
  - HCM (France)
  - Bare dies in chip trays

- **Safety stock**
  - Microtest (Italy)
  - Nitrogen storage

- **Cochlear (Australia)**
  - Goods delivered

- **IMEC (Belgium)**
  - Delivery of devices

- **IMEC shipment and liability**

- **FCA-IMEC, Cochlear picks up goods at imec**
Risks Identified

- 10 year contract – 25M EUR
- IMEC - distributor who could not provide evidence or demonstrate efficient and effective supply chain management practices
- 7 Supply chain partners
- 3 small private / independent organisations
- 11 shipments airfreighted across 6 countries
- 9 months lead time
- 12 months shelf life
- Variable yield: 40-60% at best
- Cost model structure
- Supply chain title and risk not clearly defined
- Development deliverable, timelines or transition to supply not clearly defined
Outcome

• Exit from Distributor – move supply chain to Manufacturer
  – Removes 4 supply chain partners: MFG in house capability
  – Known supply partner, leverage portfolio spend and reduce cost
  – Action plan to remove other supply chain partners
  – Number of transits minimised – reduces risk of damage in transit / exposure to moisture
  – Consequence: 500K EUR compensation for loss of revenue opportunity agreed

• Identified Process / technology issues to be resolved in development phase
  – Improve product yield
  – Robust and repeatable process
  – Scalable and sustainable supply chain
Lesson Learnt

• Project was started >6 years ago, no procurement involvement upfront = questions not asked risks not identified

• Be careful about what commitments are implied within a development phase

• Processes implemented to support projects will flesh out issues earlier

• Supplier relationship management – Distributor still supplies product for our external device. Handled effectively and no impact realised

• Business realised procurements value proposition = raised awareness and increased collaboration inside and outside business frameworks
Questions or experiences you’d like to share
Hear now. And always