Utilize Spine to Improve Profitability of Underperforming Surgery Centers

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Surgery Center Industry Challenges

• 2010 volume decline (VMG Intellimarker 2010)
• Flat facility reimbursements
  (Medicare increase of 1.6% in 2012... 0.2% in 2011)
• ½ of ASC’s are marginally profitable or worse
• Physician Medicare reimbursement cut by 30% in 2012 or 2013?
• Sizeable % of MD’s employed by the hospital

Why Spinal Surgery?

• More than 65 million Americans experience low back pain every year, and 80% of adults experience low back pain sometime during their lifetimes.
• The medical costs for treating back pain in the US approach $25 billion each year. The cost to the economy is about $85 billion each year, including medical care and loss of productivity.
• Spine surgeons have not yet invested in ASC’s!

Minimally Invasive Spine Surgery (MIS)

• With the minimally invasive approach, the procedure has become less traumatic and leads to less pain, shorter hospital stays and recovery times.
• The potential for minimally invasive spinal surgery can be seen in how the number of spine fusion procedures in the US exceed 500,000 per year.
Spine is “Hot”

- 300% growth of outpatient spine volumes

[Graph showing growth of outpatient spine volumes from 2005 (532,189) to 2015 (633,000).]

Note: Inpatient Spine Procedures defined on historical base of DRGs 4, 496-500, 319-520. Source: Solucient (Traditional) and NeuroSource/NeuStrategy, 2005.

Spinal Surgeon Breakdown by Specialty

There are approximately 5,800 spine surgeons in the US.

Trends & Drivers – Clinical
Trends & Drivers – Demographic

- Baby-boom bubble:
  - Overweight = increased potential of spine problems
  - Desire for “active” lifestyles
- Growing acceptance of outpatient surgeries
- Spine surgeon population remains relatively flat

Trends & Drivers - Financial

- Declining physician reimbursement
- MRI and CT facility reimbursements falling
- Surgical Hospital development is dead
- Minimal regulatory risk - large number of ASC operating rooms across the country difficult to replace and ... Medicare supports transition to ASCs
- ASC cost effective vs. hospital
- Solid profit margins on spine procedures

Surgical Costs is 30-60% Less

<table>
<thead>
<tr>
<th>Lumbar Microdiscectomy</th>
<th>Inpatient</th>
<th>Outpatient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedure Cost</td>
<td>$7,000 - $24,000</td>
<td>$3,500 - $11,500</td>
</tr>
<tr>
<td>Length of Stay</td>
<td>2 days</td>
<td>3 Hours</td>
</tr>
<tr>
<td>Infection Rate</td>
<td>1%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Patient Satisfaction</td>
<td>88-94%</td>
<td>98%</td>
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Managed Care Spine Trends

- Eager to push lower acuity spine cases out of the more expensive hospital setting to ASC
- “Progressive” Insurers have been reimbursing specific ASC spine codes for 3-5 years
- Targeting high cost hospitals performing spine to stimulate development of ASC’s
- Procedural reimbursement to include implants shifts risk to ASC
- Bundled payments?

Attracting Physician Interest

Performing spine in a surgical center offers physicians opportunity to achieve important objectives

- Increased practice volume.
- Improved professional experience / efficiency.
- Attractive ROI.
- Important recruiting chit for attracting prospective surgeons.
- A tool for professional collaboration – clinical and business.
- Managed Care will drive spine to lower cost setting.

Integrate Spine in 5 Steps

1. Financial assessment & ROI model
2. Thorough review of Clinical Practice
   - Do surgeons have the cases?
   - Are relevant procedures being performed as outpatient in hospital?
3. Consider payer & benefit plan mix
   - Medicare, Workers Comp., HMO, PPO
4. Capital start-up costs: equipment, instrumentation
5. Case costing: average reimbursement per procedure
1. ROI Analysis – Business

- Financial model adding roughly 75 spine cases per spine surgeon to existing orthopedic ASC
  - Capture pain procedures... legally
- Figure an average of 200k in capital equipment investment to add spine specialty to existing orthopedic ASC
- Build 2nd model adding neurosurgeons
- Overnight stays allowed?

2. Clinical Practice

- Identify cases appropriate for ASC setting
- Does MD perform outpatient spine at hospital currently?
- Does patient need to remain overnight at hospital or does MD simply use this option due to ease?
- Anesthesia
- Start slowly and ramp up volume considerably
- 7:30 a.m. spine start
  - ACDFs always go first
3. Contracting

- Concerns?
  - No groupers (not Medicare ASC approved)
  - Hospitals set the community pricing standards
    - Understand hospital reimbursements
  - In network vs. out of network
    - In network presents problem
    - Out of network increases leverage
  - Implants, Stimulators

- Opportunities?
  - Substantial procedural savings (Implants?)
  - Lower infection rates
  - No overnight stay
  - Bundled Payments?
Questions?

Surgery centers with backbone.

Blue Chip Partners develops and manages successful, physician-led spine surgery centers.

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