Implant Costs: Why ASC-Physician Collaboration Makes Sense

• Karen Barrow, Senior Vice President, Business Development
Our Discussion Today

- Discuss how political and economic changes will continue to increase reporting and financial pressure on ASC providers - Consumer, Political and Financial Challenges

- ASC Administrators working with Physicians to Achieve Excellence in ASC Supply Chain through high dollar supply projects - New Implant Technology and Benchmarks

- Physician engagement opportunities to improve quality and reduce operational cost - Physician Collaborative Incentives
Consumer, Political and Financial Challenges

Overview ASC Market Challenges

• Patient volumes, acuity and procedure complexity are rising.
• Patient and payer have ever-higher expectations for quality, safety, convenience and patient-centric services.
• While costs are rising, reimbursement for many common procedures is stagnant or declining.
• Capitalizing on new procedure opportunities will require rational adoption of new technology and infrastructure.
• Expect regulators to turn a close eye to ASC quality standards, as well as competition with incumbent hospitals.

Source: Sg2 Analysis 2008
Consumer, Political and Financial Challenges

Regulator Scrutiny is Increasing

- Recent quality “scares” have increased calls for more frequent inspections and greater ASC accountability for patient safety.
- The National Quality Forum has endorsed 5 quality measures for ASCs developed by the ASC Quality Collaboration.
  - These measures are for:
    - Patient burn
    - Prophylactic intravenous antibiotic timing
    - Patient fall within the ASC
    - Wrong site, wrong side, wrong patient, wrong procedure, wrong implant errors
    - Hospital transfer/admission
- Expect CMS, state governments and accreditation bodies to push for ever-higher quality and transparency standards.

Source: Sg2 Analysis 2008
Consumer, Political and Financial Challenges

**Medicare Changing From**

“...a passive payer of claims to an active purchaser of quality care.”
Almost daily we hear a news report about another state’s discussion of requiring its hospitals to post data online;

- Quality
- Cost
- Patient satisfaction, etc.

With consumer-directed health plans on the rise this movement is probably one that is here to stay.

Posted data must be presented in a way the patient can understand, and how it will affect them.

- Out-of-pocket cost estimator
- Not all data will paint a pretty picture but it will help the push for improvements.

Consumer, Political and Financial Challenges

Outpatient Consumer Expectations

Patient as Partner:

• My expectations are higher.
• I shop for the best value and price.
• I interact as an educated consumer of wellness services.
• I expect to be treated as a valued guest.

Source: Sg2 Analysis 2008
**Shrinking Margins for ASCs**

- The new Medicare rates for surgery centers are generally more negative than positive.
- For 2008 ASCs were paid only 63% of what HOPDs received for providing the exact same services. For 2009, it is estimated that ASC reimbursement will only be 59% of HOPD reimbursement for the same services.
- Under the rates, of the top 20 procedures performed in surgery centers, approximately 17 will suffer a decrease in reimbursement.
  - Reimbursement for many gastroenterology and pain management procedures will decrease nearly 20 percent to 30 percent. Many ophthalmology procedures will experience a 5 percent to 10 percent reduction in reimbursement.
- In contrast, many higher acuity procedures, such as orthopedic procedures, will receive improved reimbursement under the new rates.
## Revenue Per Case by Specialty in ASCs

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Gross Charges</th>
<th>Net Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orthopedics</td>
<td>$6,222</td>
<td>$2,192</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>$4,789</td>
<td>$1,558</td>
</tr>
<tr>
<td>ENT</td>
<td>$5,251</td>
<td>$1,538</td>
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<tr>
<td>Other</td>
<td>$3,560</td>
<td>$1,233</td>
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<tr>
<td>Podiatry</td>
<td>$5,249</td>
<td>$1,424</td>
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<tr>
<td>Plastic</td>
<td>$3,990</td>
<td>$1,384</td>
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<tr>
<td>General surgery</td>
<td>$4,150</td>
<td>$1,328</td>
</tr>
<tr>
<td>Urology</td>
<td>$3,777</td>
<td>$1,196</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>$4,350</td>
<td>$1,153</td>
</tr>
<tr>
<td>Oral surgery</td>
<td>$2,655</td>
<td>$1,044</td>
</tr>
<tr>
<td>Pain management</td>
<td>$2,609</td>
<td>$868</td>
</tr>
<tr>
<td>GI/Endoscopy</td>
<td>$2,572</td>
<td>$780</td>
</tr>
</tbody>
</table>

Source: Need the Source for this slide
Consumer, Political and Financial Challenges

ASC Opportunities - Orthopedics

- Orthopedics is a lucrative field with favorable reimbursement and high, increasing demand.

- Orthopedic ASCs can cater to a wide range of patients (young to old, insured to self-pay).

- Orthopedic ASCs can capture elder patients seeking restorative procedures to maintain active lifestyles, but expect higher patient acuity to impact OR and post-op recovery times.

Source: Sg2 Analysis 2008
New Implant Technology and Benchmarks

Medical Devices & Implants Represent a Larger, Growing Market

- Disposable Surgical
- Cardio-vascular
- Ortho
- Wound Closure

Source: Frost & Sullivan – U.S. Medical Device Outlook 2007 A662-54
### Chasing Pennies…

The Misdirected Efforts of cost savings

<table>
<thead>
<tr>
<th>Time Spent</th>
<th>Area of Focus</th>
<th>Savings / Avoid Opportunity</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>Price</td>
<td>3% - 18%</td>
<td>• Suture</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Gloves</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Med/Surg</td>
</tr>
<tr>
<td>10%</td>
<td>Volume</td>
<td>0% - 5%</td>
<td>• Service line expansion, new physician</td>
</tr>
<tr>
<td>10%</td>
<td>Utilization</td>
<td>25% - 50%</td>
<td>• Tubing Lengths</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• SCD Lengths</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Drape Technique</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Generics</td>
</tr>
<tr>
<td>5%</td>
<td>Technology Adoption</td>
<td>100% - 500% (Cost Avoidance)</td>
<td>• CRM</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Spine</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Ortho</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Pharma</td>
</tr>
</tbody>
</table>

**Areas of Focus**
Technology Will Enable Outpatient Shift of Increasingly Complex Case Types

- Ambulatory Surgery Center
- Kyphoplasty & Vertebroplasty
- Laparoscopic Fundoplication
- Endoscopic Fundoplication
- RF for BPH
- HIFU for BPH
- Laparoscopic Myomectomy
- Uterine Artery Embolization
- Bronchoscopic LVRS
- VATS LVRS
- CT Colonography
- HIFU for Fibroids

BPH = benign prostatic hyperplasia; CT = computed tomography; HIFU = high-intensity focused ultrasound; LVRS = lung volume reduction surgery; RF = radiofrequency; VATS = video-assisted thoracic surgery.

Source: Sg2 Analysis 2008

New Implant Technology and Benchmarks

Source: Orthopedic Network News Volume 19, Number 2, April 2008
## A Look at the Device Industry

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Hips</th>
<th>Knees</th>
<th>Spine</th>
<th>Trauma</th>
<th>Sales ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stryker</td>
<td>22.5%</td>
<td>20.6%</td>
<td>7.2%</td>
<td>15.7%</td>
<td>5,331</td>
</tr>
<tr>
<td>Zimmer</td>
<td>28.1%</td>
<td>29.5%</td>
<td>2.9%</td>
<td>5.0%</td>
<td>4,191</td>
</tr>
<tr>
<td>DePuy (J&amp;J)</td>
<td>22.2%</td>
<td>21.9%</td>
<td>13.3%</td>
<td>5.5%</td>
<td>3,727</td>
</tr>
<tr>
<td>Biomet</td>
<td>10.4%</td>
<td>12.0%</td>
<td>2.9%</td>
<td>5.4%</td>
<td>2,372</td>
</tr>
<tr>
<td>Smith &amp; Nephew</td>
<td>12.0%</td>
<td>13.0%</td>
<td>1.1%</td>
<td>10.1%</td>
<td>1,491</td>
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<tr>
<td>Wright Medical</td>
<td>3.0%</td>
<td>1.9%</td>
<td>-</td>
<td>-</td>
<td>399</td>
</tr>
<tr>
<td>Synthes</td>
<td>-</td>
<td>-</td>
<td>11.1%</td>
<td>45.8%</td>
<td>2,720</td>
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<tr>
<td>Sofamor Danek</td>
<td>-</td>
<td>-</td>
<td>51.3%</td>
<td>-</td>
<td>3,636</td>
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<tr>
<td>Nuvasive</td>
<td>-</td>
<td>-</td>
<td>2.9%</td>
<td>-</td>
<td>204</td>
</tr>
<tr>
<td>Other</td>
<td>1.8%</td>
<td>1.2%</td>
<td>7.3%</td>
<td>12.5%</td>
<td></td>
</tr>
<tr>
<td><strong>US Market Size (M)</strong></td>
<td><strong>$4,885.00</strong></td>
<td><strong>$6,058.00</strong></td>
<td><strong>$7,082.00</strong></td>
<td><strong>$4,016.00</strong></td>
<td></td>
</tr>
</tbody>
</table>

New Implant Technology and Benchmarks

The “Others”

- Acumed
- Orthofix
- Arthrex
- Mitek
- Various Podiatry Implant Suppliers
Fracture Management Screws
Wrist Fracture Plate and Result
What is New in Spine

- Motion Preservation - Artificial Discs
- New Approaches to the Spine - XLIF
- MIS
- Explosion in the number of spine companies – Nuvasive, Globus, etc. etc.
- Cervical Fusion Procedures in the OP Setting
- Kyphoplasty Procedures
- X-Stop Procedures
Cervical Locking Plates
New Implant Technology and Benchmarks

Kyphoplasty
New Implant Technology and Benchmarks

X-Stop Interspinous Spacer
Sample Hospital
Average Implant Cost per 1 Level Anterior Cervical Fusion by Surgeon
7 Months Actual (July 2008 - January 2009)

Surgeon E (2)
- $2,066 (Hardware)
- $1,200 (Bone Interbody Fusion)
- $3,266 (Total) (1 Blackstone, 1 Medical Int.)

Surgeon D (1)
- $1,600 (Hardware)
- $1,000 (Bone Interbody Fusion)
- $176 (Non-Bone Interbody Fusion)
- $2,776 (Total) (Allez)

Surgeon C (1)
- $2,957 (Hardware)
- $1,055 (Bone Interbody Fusion)
- $4,012 (Total) (MSD)

Surgeon B (8)
- $2,944 (Hardware)
- $1,055 (Bone Interbody Fusion)
- $4,019 (Total) (MSD)

Surgeon A (8)
- $3,248 (Hardware)
- $1,160 (Bone Interbody Fusion)
- $213 (Non-Bone Product)
- $4,621 (Total) (Zimmer)
Physician Collaborative Incentives

Surgeon Attitudes toward Cost Containment

- Survey of 35 Spine Surgeons at NASS
- 76% felt that prices were fair or underpriced
- 26% have been involved
- 64% would assist in negotiations if incentivized
- 65% believe that savings invested in ORs, or staffing is ethical

How to take advantage of this change in attitude?

Present data that shows procedure costs by Surgeon and Procedure
Physician Collaborative Incentives

Physician Owned GPO

Surgical Implant Services

• Is solely owned by the implanting physicians or their practice groups and is used as a vehicle to invest into a Surgery Specific National Specialty GPO.

• Each LLC becomes an equity participant in the appropriate SIS GPO, at an aggregate of not more than 40%.

• Enables surgeons in the Local LLC to form a clinical Advisory Board and clinically qualify vendors for SIS to negotiate pricing on behalf of those participating hospitals.

• Provides physician owners with ancillary income.

• Can be utilized independently or in conjunction with other physician agreements.
Physician Collaborative Incentives

SIS Results

“Our affiliation with SIS has allowed me to maintain control over the quality and diversity of spinal implants that I can use while saving my hospital money over the pre-contract prices. The process has been completely seamless and transparent.”

- Herschel Becker, M.D.

- OSIS of Atlanta, LLC. saved their participating hospitals approximately 12% off their current product pricing.
- Generated approximately $131,200 the first year in dividend distributions, while increasing market-share for participating manufacturers.
Key Takeaways

- Physicians will continue to move surgical volumes to ASCs because of operational, financial and governance factors.
- Establish mutual goals with physicians, nursing and clinical staff to maintain and improve the patient experience.
- Remember that the patient experience is central to ASC success.

The most successful initiatives we have result in highly positive outcomes because physicians drive the process.

ASCs need to be able to fully customize a program to meet their specific needs.

Physicians choose which devices to target and develop the strategy – whether that be quality improvement, standardization or cost savings through data and collaboration.
In Conclusion

- The most successful initiatives we have result in highly positive outcomes because physicians drive the process.
- ASCs need to be able to fully customize a program to meet their specific needs.
- Physicians choose which devices to target and develop the strategy – whether that be quality improvement, standardization or cost savings through data and collaboration.